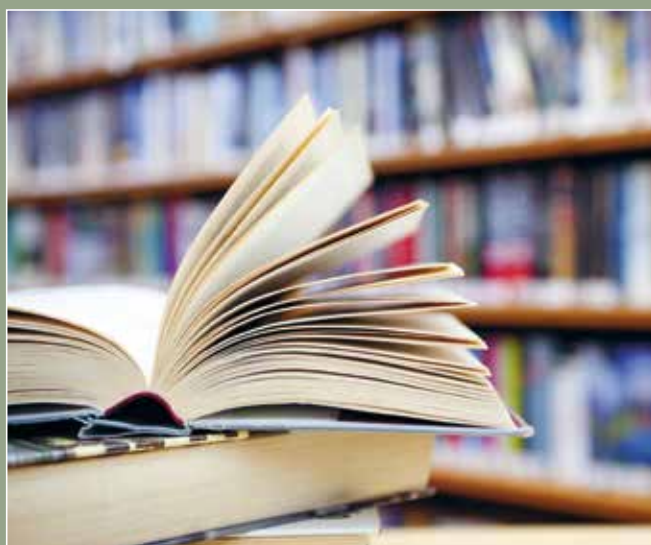


The Social and Economic Platforms of the Political Parties and their Expert Reviews



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Policy, Advocacy, and Civil Society Development in Georgia (G-PAC)

საჯარო პოლიტიკის, ადვოკატირებისა და სამოქალაქო საზოგადოების
განვითარება საქართველოში

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INTRODUCTION

The 2012 elections can be regarded as one of the most important events in the political life of Georgia. More so than at any time during the country's 20 year history of independence, these elections were distinguished by a high level of uncertainty regarding the final results, and fierce competition between the ruling party and its major opponents. Therefore, unlike previous elections, greater importance was given to the accuracy and strength of the action plans and pre-election programs presented by the parties. As a result, the majority of the political parties that qualified to participate managed to present competent and consistent programs that were more feasible and of a better quality than in previous elections. However, the competency with which the election programs were produced was not absolute, since a major problem with the presented programs was their consistency and the likelihood that their election promises could and would be delivered. At the same time, this is not to say that the 2012 October elections were not distinguished by a significant increase in the quality of the programs presented by the political parties compared to previous elections.

The above mentioned facts, as well as unprecedented interest in the election processes from the media, international organizations and society as a whole, resulted in an increase in the quality of the pre-election programs, and presented a need to assess them contextually. With the support of the East-West Management Institute's (EWMI) Policy, Advocacy, and Civil Society Development in Georgia (G-PAC) program, and with funding from United States Agency for International Development (USAID), a project was started in July 2012 to evaluate the party platforms in the social and economic context of Georgia. The following non-governmental organizations took part in the project: the Economic Policy Research Center (EPRC), ISET Political Institute (ISET-PI), Liberal Academy Tbilisi (LAT), and Transparency International - Georgia (TI Georgia). The aim of the project was to assess the social and economic programs of the following political parties participating in 2012 elections: the New Rights Party, the United National Movement, Coalition Georgian Dream, the National-Democratic Party of Georgia, the Labor Party of Georgia and the Christian Democratic Movement.

The following criteria were used to assess the parties' programs: factual correctness, internal consistency, economic reasoning, feasibility and their ideological/political placement. It should be mentioned that out of the given political parties, the Labor Party of Georgia was the only one that did not present a written program. At the same time, only two political parties, the New Rights Party and Coalition Georgian Dream, have presented their programs in a well-organized and well-formulated manner. The programs of other parties were both significantly less well organized, and smaller in size. The categories of education, employment, macroeconomic issues, healthcare, and agriculture were assessed.

In terms of factual correctness, those programs that were well-organized were more or less consistent. In case of other parties, it is hard to speak about their factual correctness due to the small amount of information presented. The level of economic reasoning was above average in the case of the parties which presented well-organized programs. The same is true regarding international consistency. As to the feasibility, all the programs are unrealistic to some degree, which might be explained by fierce political competition and a resulting motivation to promise as much as possible. It is interesting to note the ideological/political placement of the parties. The policies outlined in their written programs depict parties that, except for the labor party, have – left-centrist ideologies, despite the fact that in their public statements they explicitly favor right-centrist ideologies.

Our assessment of the pre-election political party programs suggests that there is a need to improve the economic component of the programs, especially when it comes to the feasibility of their declared promises. Constant monitoring of the political parties' activities will ensure an increase in the quality of program documents in the future, that in turn should increase the political parties' accountability to society.

A web-site was created within the framework of the project that unites the political party platforms, statements made by their representatives, and expert reviews, together with videos of the parties' public discussions (www.econpolicyfact.ge).

SOCIAL AND ECONOMIC PLATFORMS OF THE POLITICAL PARTIES

NEW RIGHTS

EDUCATION

Investment in the Future – More Opportunities for Education, Research and Innovation

Analysis of the Existing Situation

Education system reform had been considered by the governing party to be among its most successful policies. However, several years after its implementation; the government was forced to recognize some mistakes and announced a new phase of reform.

In evaluating the remodeled education system it is necessary to recognize a number of changes that have had a significant positive impact: the definition of the fundamental characteristics of the system at the legislative level, putting schools in a competitive environment by passing to a voucher system of financing, determining national education goals and the modernization of the educational environment, creation of a new scheme for the professional development of teachers, accreditation of schools, and the implementation of unified national examinations, etc.

The main challenges facing the education system is the effective achievement of the government's national goals of education and improving education quality. Schools themselves have the most important role in achieving these objectives; the crucial factor for the successful functioning of schools themselves in decentralized system is the edifice of management.

The post-2004 reforms are considered to be the most significant remodeling of the education system in Georgia's recent history. However, it should be noted that minor changes in this direction were being implemented from the end of the 90's. For example, the 2001 World Bank project "Education System Realignment and Strengthening", introduced a similarly systematic basis of reform. Nevertheless, substantial changes were not experienced until the period after 2005.

Decentralization was named the main direction of the education system reform, though it was not specifically outlined what degree of decentralization would take place its emphasis and at which level it would be carried out.

Education system decentralization is the status quo in many countries of the world. Decentralization in management is defined as the delegation of decision-making authority from the upper levels of an organizational hierarchy to lower the levels.

Global interest in decentralization during the 1970's was conditioned by three main factors. Political, Socio-economic and Technical factors:

- **Political**

The centralized management model was criticized across the globe (particularly in America, Russia and Eastern Europe), which resulted in the reform and significant reduction the role of central government, and an increase in the role of the market.

- **Socio-economic**

The formation of super-national organizations reduced the impact of national governments while market-oriented decisions contributed to the development of local bodies, it was more and more difficult for the central government to mobilize funds for social programs.

At the same time, the global flow of students across the world's education institutions had tripled. In the condition of increasing of number of teachers and pupils the central government could not guarantee the quality, and public dissatisfaction created the demand to move the decision-making process to the local level.

- **Technical**

The development of information and communication technologies facilitated the control of various systems in the conditions of decentralized management. The new management paradigm focused attention on results rather than contributions that increased the importance of participation of local actors in decision-making process.

In different countries the decentralization process has different objectives. However, it is possible to group them in three major categories. The decentralization process is determined by:

- **Political motives:** The ability to involve those groups in the decision-making process who were not either not previously involved or thought that they were not involved.
- **Financial motives:** The central government is either not willing or unable to respond to the financial needs of the system.
- **Efficiency reasons:** based on the argument that local decision-making reduces costs, needed to achieve one specific result.

The goals of decentralization

Improving the Quality of Education:

- Increase the volume of contribution;
- Increase the quality of contributions;
- Increase the relevance of programs or adjust of programs to local interests;
- Increase the innovativeness of programs;
- Give students the opportunity to make choices ;
- Reduce inequalities in terms of access;
- Improve learning outcomes.

Improving the operational effectiveness of the education system:

- Increase the efficiency of resource allocation;
- Increase the efficiency of resource use;
- Adapt programs to the needs of employers.

Increasing the amount and sources of funding for education:

- Increase the amount of money spent on education;
- Relocate funds from one social group to another (and not from one level of government to another.)

Satisfying interests of the central government:

- Avoid external political problems;
- Avoid internal bureaucratic problems;
- Reduce financial problems (for example, the transfer of revenue generation functions to local self-governments); reducing corruption at the national level.

Satisfying the interests of local government:

- Increase revenues designated for education;
- Expand the functions of local self-governments ;
- Form levers of influence over the central government;
- Redistribute political power, weakening actors at the central level.

Despite the problems faced during the implementation of the reform, the decentralization process is aimed at improving the quality and effectiveness of education, and its management and satisfying the different educational needs of Georgia's citizens. Decentralization enables greater efficiency in the decision-making process and education bodies to take into account the specific requirements of their students.

DECENTRALIZATION IN GEORGIA

The first stage of the reform (from 2004 onwards) made some positive steps in the direction of decentralization.

Preceding the General Education Law (2005), Georgia's current decentralization efforts are characterized by devolution of a large proportion of decision making authority to the level of schools and other public legal entities. The central government has primarily reserved for itself just the function of determining education policy, regulations and standards.

However, despite the decentralized system, existing on the legislative level, starting from 2009 a reverse process has begun. Instead of further decentralization we got highly centralized system, where the Ministry of Education and Sciences has significant influence over the internal processes of the system's various otherwise autonomous entities in such matters as the appointment of directors, a school's internal human resources policies, financial management, etc.

However, in accordance with the legislation, schools were established by the Ministry of Education and Science as organizations – legal entities of public laws with wide autonomy, and were thus able to open their own bank accounts and take ownership of school buildings and the land on which they stand, although these powers were given on the basis of open-ended and gratuitous usufruct contracts, and thus their autonomy is limited in practice.

Boards of Trustees, as the supreme representative body of a school, obtained fairly broad powers under the General Education Law, but in practice they cannot contribute to the implementation of these powers. School boards are generally viewed as incompetent and exist only formally, meaning that the Ministry of Education receives wide support for its authoritarian approach to governance. Formal and non-formal school principals are not free from the external pressure.

The role of local self-governments in the education field has not increased. Their main role is to support and encourage schools, and they do not participate in the decision-making process in any practical sense: the local self-government has the right but not the obligation to help, thus making their support provided to the schools unsystematic in its nature.

The same can be said about Education Resource Centers. Their business objectives, functions and tasks are determined on the basis of typical regulations, approved by an order from the Minister of Education and Science. However, they are insufficiently authorized and their functions are limited to the transfer of information from the center to the periphery, and vice versa. Opacity of destination, shortage of finances, lack of personnel, and a malfunctioning material – technical base are among the failings of the resource centers' activities.

Changes also were carried out in education's financing system. The most important step was made in 2004, which saw conventional educational institutions transition to a per-pupil funding model. The same principle was also put to work in higher education institutions, where students who showed the best results in the unified national exams obtained state education grants.

Despite the fact that education funding has increased compared to previous years, the situation is still unfavorable.

While the Government recognizes education to be a priority, education funding is still rather low (approximately 2.5% of the GDP), while the figure is much higher in other post-Soviet states. This indicator puts Georgia in a bad position compared to other countries. Most importantly, however, education reform has failed to provide an increase in the quality and accessibility of education.

Mistakes made in the first stage of the reform caused dissolution of school function. Therefore, we have students placed in school walls, but quality education can still only be found outside the school; the absence of quality education is made up for by private tutorship, which is widespread in Georgia.

Research confirms that 4/5 of those enrolled in high school applied for private tutoring and training. The quality of general education should mean that parents do not need to pay additional fees.

EMPLOYMENT

In the New Rights Party's program, issues concerning employment and unemployment are not given special sections. The problems are instead integrated with the following issues:

The Vital Artery of the Country - Intensive Agriculture

Historically, Georgia is an agrarian country, though only a small selection of the government, business circles or investors seems to think so. The main focus of the country is directed towards turning Georgia into the region's international financial center, fulfilling the function of a transportation and energy corridor between Europe and Asia, and becoming an attractive tourist destination. The final goal is to build a diversified economy with full employment and attractive salaries, which are preconditions for the eradication of poverty.

In reality, neglecting agriculture on the way to economic transformation is the wrong policy. This was clearly demonstrated in the first half of 2011, when a significant growth in food prices (by more than 30%) on the world market aggravated inflation and threatened the financial stability of Georgia.

Despite the economic growth and structural reforms achieved over the past decade, progress has not been properly reflected in the living conditions of the country's population. Poverty and unemployment rates remain high and steady in Georgia. One of the potential remedies to this problem is the development of the agricultural sector, which has great potential. During Soviet rule, the production of agricultural products increased ten-fold. Georgia was one of the best in this field, and before the 1980's the

volume of production grew by 10% annually. Exports of agricultural products exceeded imports by 70%. Approximately 700,000 people were employed in the sector, making up 25% of the total work force. Tens of thousands of people were also employed in the food processing industry.

After independence, civil wars and political instability greatly harmed the agricultural sector:

Agriculture: Economic Data

Year	Cultivated Area (ha)	Live Cattle	% Employed	Added Value in GDP	% of GDP
1990	701 900	4 287 000	25,2	-	29,7
1995	453 100	2 104 300	30,6	2,771 billion	41,7
2000	610 800	2 166 000	52,1	1,448 billion	20,2
2005	539 600	2 539 600	54,3	1,626 billion	16,8
2008	329 300	1 735 600	55,3	1,551 billion	8,1
2010	275 300	1 049 400	55	1,518 billion	7,3

By 1990 exports of food and agricultural produce made only 25% of imports, while in 2005 it reached 70%, and in 1990, 170%. Paradoxically, however, the number of people employed in agriculture has doubled since 2000 when the economy began to diversify and thus the reverse tendency would be expected.

There are a number of factors to be taken into account, because of which the value-added, created in the agricultural sector is less than half of the value-added created 13 years ago. The World Bank estimates that Georgia's, agricultural productivity is U.S. \$ 1872 per year, which is much less than the same indicators, not only in developed countries, but also in most other post-Soviet states.

It is also worth to noting that, according to data provided by the National Statistical Service, – the share of household income, derived from the sale of agricultural products is only 6% - of the total, or 94% of agricultural production is intended for personal consumption. In turn, the total percentage of households in sown areas is 94%. This means that the business interests in the sector are almost equal to zero. In the current situation, low efficiency would be only a part of the problem if in the agricultural sector did not employ more than half of the work force.

According to official statistics, 850,000 persons in Georgia are employed in agriculture. The accuracy of this data can be questioned, but it is a fact that the most of the workforce living in the villages have no alternative employment opportunities. Recent years has revealed a dangerous tendency: in many regions of Georgia, agriculture is so unprofitable that the population refuses to cultivate the ground and is instead better off allowing themselves to sink below the poverty line and becoming eligible for social aid program.

TRAINING 1000 VETERINARIANS AND 1000 AGRONOMISTS

At present, the country is experiencing a shortage of qualified veterinarians and agronomists those who worked at the time of the Soviet Union have either reached retirement age or become disqualified. It is important to develop a 4 years state program which will prepare or retrain existing agronomists and veterinarians to make them highly qualified specialists. There is a need for at least 1000 agronomists and veterinarians; qualified agronomists and veterinarians will be employed in all communities and in all municipalities. Initially, the emphasis will be placed on the retraining of existing agronomists and veterinarians, whilst higher education institutions train young specialists.

Because of the high demand for specialists in these fields, resources should be redistributed from other, lower priority specialties. The allocation of additional budgetary funds is unnecessary.

Agricultural Products Quality Control / Food Safety

In Georgia, the introduction of food quality control systems is a state interest. It is also a requirement of the European Union. The introduction of quality controls will lead to a ban on harmful imported products and allow domestic products to be competitive in a broader market. By introducing food quality controls, demand for Georgian agricultural products increase, which will in turn stimulate the growth in the quantity and quality of production, and will precipitate an increase in revenues and employment indicators accordingly.

An additional allocation of funds from the state budget is not necessary for this purpose. Donor organizations, especially the European Union, provide Georgia with active financial assistance in the field of food safety.

IMPROVING THE ECONOMIC AND BUSINESS ENVIRONMENT

The state should keep intervention in business relations to a minimum. It is the role of business itself, especially small business (small, medium, and small-scale production) to ensure achievement of the following objectives:

- Generate employment;
- Increase of the volume of local production;
- Ensure that the principles of free competition and market pricing;
- Protect the balance of supply and demand;
- Stimulate savings;
- Stimulate consumption.

MACROECONOMIC ISSUES

The Georgian economy has not developed according to the principles of free-market economics. There are monopolies in almost all sectors of the economy and the government merged with the capital. In fact, Georgia has returned to the economics of the age of state control. Business is intimidated and subjected to state rackets; it has not been provided with secure and forecastable environment in which to conduct business. Corruption is fostered in the narrow circles of the elite governing clans. Irrespective of economic growth and growth in the GDP, the population's living standards have not actually improved. Many families have been left without a subsistence income.

The goal of the New Rights Party is to:

- Eliminate currently existing monopolies and create a competitive environment for business development, which implies low prices and new jobs;
- Support the development of small and medium business and stop the state terrorizing people engaged in entrepreneurship, which would result in employment for tens of thousands people;
- Say no to monopolies – the country needs free competition. The government has full control of business and has created monopolies in the country in a number of spheres which undermines the economy, hinders competition and causes a lack of jobs, and high prices for the fuel, medicines, food products and certain services. The creation and protection of monopolies provides huge benefits to the government but harms the population. This makes its prices very expensive, and is directly reflected in the budget of each family.

We declared war on the monopolies and we seek to force the government to cease the creation and protection of monopolies, and hence gaining the huge revenues that result. We will achieve the development of a free competitive environment in the country at the legislative level and each family will benefit from this. Small and medium business is the basis of the economy and their underdevelopment would significantly delay the attainment of high living standards and social protection, and the availability of education and healthcare in Georgia. Moreover, it is only financially independent people that are free in their decisions, only they are able to make free choices and thus ensure democracy in the country. A powerful economy is based on small and medium entrepreneurship. Small and medium businesses comprise 95% of world business and the quantity of goods produced by this sector totals 50% of GDP. Over 90% of the enterprises in USA are small enterprises with up to ten employees and 2/3 of the total number of those employed in the private sector within the EU are employed in small and medium businesses. Money is where there is small business. In addition, there is wit, dignity and readiness of protection of their and others' rights, there is middle class, the guarantee of normal development of the country.

Currently, in Georgia, large business is either in the hands of representatives of high governmental circles, or else exists only with their permission and is subjected to their influence, while small and medium business is heavily burdened by taxes. Until terror against small and medium business is eradicated, until the relevant conditions are developed, the economy will not be able to develop and create new jobs.

- The development of small and medium business would provide welfare to the citizens of our country, allowing them to take care of their health, education, and be secure in their old age.
- A rapid pace of long-term economic growth will be achieved in the country through the broad introduction of free market principles, strict fiscal discipline and the implementation of sound monetary policies;
- Monopolies will no longer exist and free competition will develop resulting in the creation of new jobs, improvements in the income of the population, and fuel, medicines, and food products etc. will become more available.
- A strong middle class will be formed and this will ensure free development of an individual.

Business will be stimulated, stable guarantees will be provided for the development of investments, new markets will be sought and the opportunities of enjoying free trade with European Union and USA should be used. This would allow proportional relations between budget policies, volumes of budgetary expenditures and index of economic growth (GDP).

Therefore the position of New Rights is that the proportion of the budgetary expenditures in relation to GDP to be as follows:

Defense – 2%	instead of the current 2.5%
Education – 5%	instead of the current 2.2%
Ministry of Internal Affairs – 1.8%	instead of the current 2.2%
Health care – 2.5%	instead of the current 1.6%
Social sphere – 6%	instead of the current 5%
Agriculture – 2%	instead of the current 0.5%
Infrastructure projects – 2%	instead of the current 3.6%
Government apparatus – 1.5%	instead of the current 7%

Economic growth in GDP is given as the primary indicator for evaluating the effectiveness of the economic policies from 2004 up to the present. It should be noted that in the recent years, Georgia's economic growth has been dependent upon the following factors:

- Direct foreign investment;
- State expenditure.

Financial flows resulting from the privatization of state property and changes in ownership are regarded as foreign investments. One of the negative aspects of this process is the fact that only an insignificant part of the inflows in the form of investments was reflected in creation of the new assets, including the growth of fixed capital and the improvement of productivity. The main part of the investment is spent in the procurement of state assets.

As for the growth of state expenditure, this is the result of improving the legalization of the economy and the growth of fiscal revenues. If we look at the GDP growth trends for various industries, we can clearly see that aggregate growth of the Georgian economy has been prominently non-homogenous by sectors, and has been principally achieved by the rapid growth of just 3-4 sectors. These are the mining industry, processing industry and the financial sector, and are due to growth trends being maintained for many years.

Almost all spheres of business are currently monopolized and due to this medicines, fuel, transport and almost all food products are very expensive. Monopolies significantly increase the cost of life and generally hinder the development of small and medium business, which in turn is the main reason for the widespread lack of jobs in Georgia. The issues of monopolies and the resulting high price of medicines, fuel, food products and consumer goods, high cost of life and unemployment are equally significant for both rural and urban populations. Currently, problems caused by the monopolies are a problem for the entire population of the country. In sectors where there is no monopoly, businesses develop successfully and prices are low. We should note that consumer prices have very negative trend compared with other categories. A particularly significant price increase has been recorded in food and agricultural products, the health care sector, transport, the utility sector and the fuel & energy fields.

At the same time, the population and households with their incomes have become heavily dependent on the state's spending policies. The average share of household income generated by members of the household themselves has reduced, while the share of state contributions have increased significantly, both in the form of assistance and subsidies, as well as in respect to state orders. The trend has been particularly significant in the socioeconomic conditions of the unemployed and those beyond the poverty, because this section of the society spends the majority of their income and savings or the family budget on the procurement of food products, primary consumer goods, medicines and utility services. It should be noted that in 2004 and 2007 the cost of life and necessary minimal nourishment was reviewed and thus the statistics obtained were quite different. From 2004, the cost of life has been calculated based on a different minimum basket. The alteration of the baskets' composition was called a general methodological change. However, this is a substantial and indeed misleading error, as only the parameters were changed, not the methodology of calculation. The baskets used before and after 2004 are significantly different, both in terms of their calorie values and composition. On the basis of a superficial analysis, it would seem that the apparent reduction in the cost of life was the result of a reduction of the necessary minimum nourishment energy from 2500 to 2300 kilocalories. However, this reduction would not cause changes of the magnitude that are observed in current trends. The main reason for the apparent reduction of the cost of life is the composition of the minimal basket, which, after the 2004 change, consists of the cheaper products, is dominated by bread and cereals, while the share of meat, fish and other relatively expensive high calorie products was reduced. According to an expert's assessment we have obtained, the current basket which is at least 30-40% cheaper than its value in reality.

Inflation bedevils the Georgian economy, causing severe social problems and has been one of the most significant challenges facing the country in recent years. As a result of ineffective monetary and fiscal policies implemented by the Georgian government, inflation has impacted the price of food, medicines, transport and utility services, and in 2010 and first half of 2011 reached a dangerous level. However, it should be noted that as a consequence of strict monetary policies implemented by the National Bank, the increasing inflation rate was suppressed in the 2011-2012 period. By early 2012, the formal statistics indicated that the inflation rate was reduced to 2% and by June 2012 had reversed (-0.2%). Although from the second half of 2011 to June 2012 inclusive, positive trends with respect of inflation management were recorded, there is no guarantee that low inflation rates will be maintained.

The above is conditioned by the fact that the government does not properly understand the socioeconomic results of the inflation and does not feel responsibility to the socially vulnerable portion of the population, i.e. those who are most greatly affected by the inflation processes. What is the most alarming is that there is no unified governmental program for long-term inflation management. We believe that, external factors aside, the critical factors provoking the increase of inflation rates, and growth in the price of food and consumer goods, are the following:

- **The budget deficit and significantly overestimated spending policies.** It is universally known that the budget deficit and the overestimation of government costs are one of the reasons for the increase in inflation rates;
- **The issue of monopolies.** Today it is not a secret that imports of petrol, flour, sugar, vegetable oil, salt, pharmaceutical and other products are provided by businesses closely related to governmental circles, allowing them to artificially set high monopoly prices and limit the free entry of new players into the market;
- **The terrorizing of business and criminal oppression.** Through preliminary detainment measures, the prosecutor's office managed to terrorize the businessmen in Georgia and extort hundreds of millions of GEL from the business sector, which in turn, in a number of cases, caused bankruptcy, and the suspension and/or delay of business activities. On the other hand, the implementation of consumer economic policies artificially strengthened the national currency. Although the improved exchange rate promotes imports, it hinders the growth of exports and significantly damages domestic production.

An example of this is the fact that trade balance has been drastically worsening recently but the budget revenues were heavily depended on the trade sectors and no effective steps were expected. Even against the background of high indices of economic growth and foreign direct investments, the 11% inflation rate experienced in 2007 was not catastrophic for the country's economy. From 2009, a significant rise in state costs and the implementation of ineffective spending policies by the government aggravated the inflation process and the national currency was significantly devalued. According to official statistical information, the inflation rate drastically increased from 3% in 2009 to 11.2% in 2010. From 2010, the trend of devaluation persisted and as of June 2011 inflation reached 14.4%, significantly exceeding the 2007-2008 rates. From June 2012, stricter monetary policy was applied to manage inflation, and as a result a reduction of the inflation rate has been recorded.

The unjustified strengthening of the Georgian GEL, which did not result in the reduction of consumer prices, is a convincing argument that in 2007-2008, so called "Dutch Disease" took hold of the Georgian economy, and no effective steps were taken for its elimination, and are not being made still now. All this further aggravates the crisis concealed in the background, and there still exists a heightened danger of the development of critical risk-factors which will make more difficult for the government to take responsive action in the future. This will be negatively reflected in the effectiveness of any anti-inflation and anti-crisis policies implemented. The application of inflation control and effective monetary instruments should be the key constituents of future inflation policies. Unfortunately, there still is the risk that high-inflation-rate processes will be provoked in the country, due to the following factors:

- Budget spending policies – A budget deficit combined with high levels of budget costs;
- The issue of monopolies – The government's loyal attitude towards the monopolist companies and the state protection afforded them, which is negatively reflected in the prices of food products, primary and strategic goods, utility and transport costs;
- The low level of local production, including agricultural production and export-oriented production and the low possibility of competing with imports by substituting them with local analogues.

On the basis of current statistical data, an in-depth analysis of GDP distribution by various sectors of economy and a comparison with data from previous years, show that the economy has, in the recent years, been subject to significant structural change with

respect of GDP sector patterns. The percentage of agriculture and industry reduced significantly, while the percentage of trade increased. The transport, communications and construction sectors are characterized by some stability.

The current situation in different sectors of economy:

a. The industrial sector: although Georgian industry (in absolute figures) grew in the recent decades, its percentage in terms of GDP decreased from 17.7% in 2003 to 9.5% in 2011.

This trend shows that the country uses only a small portion of its industrial potential. The result is the fact that for many years, scrap has comprised the greatest percentage of Georgian exports. Unfortunately, this is when the country has a comparative advantage in some traditional sectors, such as those related to the natural resources. For example, subsurface natural resources, cheap labor, geographical location etc.

An analysis of the pace of **growth of the processing industry** by sub-sectors shows that growth of food products, beverages and tobacco products was insignificant in recent years. Regarding the inflation rate during this period, the conclusion could be made that this sector of industry has not actually grown. The nominal growth of food and agricultural production is a serious concern and cannot be explained by the Russian embargo imposed on Georgian wine and mineral water. Rather, this is a sign of an in-depth structural crisis within agriculture and the primary processing industry.

b. The banking sector: The banking system's development indicators and pace of growth are quite impressive. The banking sector has played significant role in the growth of the Georgian economy and been as its key driving force.

In the case of Georgia, growth of sectoral economy, as well as economic growth, is proportional to banking activity in all sectors. Industry and agriculture are the only exceptions, with a low percentage of credits issued in the fields. Funding from the banking sector is basically allocated to trade, mortgage operations, construction, and consumer loans. Bank funding and non-state investments are in fact synchronized, and provide funding to the same sectors. There are slight differences; for example, in the real estate sector, most investment is intended to be directly for construction, while large portfolios of bank loans cover mortgages and consumer loans. These factors constitute a substantial portion of the basis for GDP growth. An analysis of banking activities clearly shows a tendency in this sector for rapid and low-risk turnovers. Although it should also be noted that this is the normal mode of operation for the banking sector. This could explain prioritization of finding of sectoral economies, and mostly trade. And this results in the stimulation of import operations, the balancing of domestic demand on the account of foreign markets and leads to increasing funding of the trade sector, which, by the reasons independent from banking sector, serves to further worsening the balance of payment.

The introduction of a free trade system in Georgia is, naturally, welcomed with respect to improving welfare. Though, in addition, it should be taken into consideration that in the long run there are no positive aspects of import stimulation separately, while, policy implemented in Georgia could be identified as import stimulation. Analysis of balance of payment of the country shows that in the recent years the country has not added any new export sector, with the exception of motor cars.

Georgia has obtained great opportunities for exporting of its products to European and US markets. Though, these opportunities and advantages are not fully employed yet. Naturally here we come to certain regulating function of the state, which should be necessarily performed. Legislative environment in Georgia should be dully harmonized with the competitive policies of European Union. Free Trade Agreement (FTA), as well as obligation of Georgia, set out by Partnership and Cooperation Agreement (PCA) and European Neighborhood Policies Action Plan (ENP AP) require that the legislation in the partner countries corresponded to the European system in the spheres of competition and protection of consumers' rights.

FINANCES

Reformation of the tax system, in particular of tax legislation is one of the major reforms implemented in Georgia since 2004. The government tried to use the declared liberal economic course on the existing norms of the tax code. A new tax code was adopted in 2004, which came into force in 2005 and thus canceled the tax code of 1997. The amount of taxes has decreased and several steps have been taken for the purpose of reduction and optimization of the tax rates.

Although, the further practice reveals that the new tax code has failed to meet expectations of the government and the society. This has been caused by three reasons:

- Liberalization of the tax legislation has applied to mechanical reduction of the amount and rate of taxes, and the tax administration (tax control and penalties) has remained unchanged and firm;
- The tax code was still unclear and difficult to understand by the absolute majority of entrepreneurs, and it gave the opportunity of double interpretation of concepts and tax procedures, therefore, the fiscal authorities had to make personal and in most cases harmful decisions for entrepreneurs and for businesses in general;
- Implementation of the liberal tax policy in the new tax code should have caused the reduction of tax burden, but in reality we got an opposite result. For example, if a share of revenues in relation to GDP was 24, 2% in 2005, this index rose to 30, and 4% in 2008. Thus, the new tax code was adopted in 2010, which came into force in 2011. The new tax code has brought the concepts of micro and small business, in certain aspects it has simplified the system of tax registration and the procedures of tax payment (tax declaration), the mechanism of dispute examination, and the institute of tax ombudsman has been established for the first time. Although, the shortcomings and faults existing in the tax code have been partially improved. Despite that the code came into force in January 2011, the government began to talk about making amendments to the newly adopted tax code in the first quarter of 2011 and several changes have been made. Although, the principle of “zero tolerance” existing in the law-enforcement agencies of the country has been transformed into the principle of “zero tolerance” to business. Taking into consideration all this, the following issues still need special attention:
- The issue of inflexible tax administration and the methods of tax control which significantly limit the entrepreneurs to perform their business activity in full (the issues of sealing and ceasing the production process). The number of penalties has been significantly increased comparing with the former tax code, and the sanctions are inadequately high as compared to the tax violations;
- Influence of the increased factor of subjective decision making process among fiscal authorities. i.e., a human factor of the tax official is still high in relation to this or that issue of using the tax legislation, inclusive of the issues of ceasing the enterprise’s functioning, sealing the enterprise and stock resources, imposing fines, determining the market price of goods and/or service, examining and solving of tax disputes;
- Many issues concerning the executive procedures of the tax administration and control mechanisms still remain beyond the regulation by “the tax code” and represent the competence of regulation by numerous normative acts subject to the legislation (orders, instructions, and methodical directions). All this makes the tax legislation more unclear and complicated for the business sector;
- Cash register still has the function of tax pursuit and is the tool of punishing the entrepreneurs by the fiscal authorities;
- Being the constituent part of the executive power, the competence of the tax ombudsman, his legal position and obligations are limited. The existing model of the tax ombudsman’s institute is partial and less effective. Therefore, it fails to completely protect the taxpayers’ rights;
- The status of micro and small business has been applied to the business activity performed only by individuals, and the small and micro sectors (the enterprises of different organizational-legal forms determined by the Georgian law “on entrepreneurs”) have occurred beyond the aforementioned status and the simplified tax regime. The budget policy: the Georgian state budget of 2012 was adopted by the Georgian Parliament in December 2011 and upon making calculations the following predictive parameters of economic development for the state of 2011 have been taken into

account: economic development, change of prices, tax policy and new tax code, improvement of the tax administration and other factors. The risk (deficit) of economic development is balanced by the increase of state obligations, which significantly depends on foreign capital and financial flows. The basic parameters of the state budget of 2012 (revenues, incomes, payments and expenses) have been determined as follows: - revenues of the state budget –8040,0 million GEL, without changes in financial assets –6839,4 million GEL;

- Payments from the state budget –7940, 3 million GEL, without changes in financial assets – 6554, 3 million GEL. In accordance with the changes made in the Georgian law “on the state budget of Georgia” during 2012, the revenues and payments of the state budget are as follows:
- revenues of the state budget – 8016,1 million GEL
- payments from the state budget – 7915,4 million GEL

Incomes of the state budget of 2012 make up 6,839.4 million GEL (2011 – 6,471.5 million GEL). Increase has been conditioned by the growth of the tax plan, the basis whereof is the increase of some tax rates stipulated by the tax code. Expansion of the taxation area, the toughened tax administration and inflation index by means of indirect taxes contribute to the increase of incomes. The part of expenses stipulated by the state budget of 2012 makes up 6,554.2 million GEL (2011 – 6,029.4 million GEL); therefore, the total balance of the state budget of 2012 was 285.1 million GEL. The predicted volume of the budget incomes of 2012 has been increased from 6471, 5 million GEL to 6,839.4 million GEL as compared to 2011 (growth – 6, 3%).

The prognosed taxes of the state budget of Georgia of 2012 have been increased from 5775 million GEL to 6300 million GEL in comparison with the past years (growth – 10, 5%). The growth has been observed almost in all expenses, including: 11 % growth in the part of labor remuneration, and only 6% growth in the part of social security. It means that in the budget of 2012 the coefficient of growth of the officials’ labor remuneration is much higher than the coefficient of growth of the social security expenses. Growth of labor remuneration in the part of expenses of the state budget has been conditioned by adding new positions in the public sector and by the growth of the average rate of the labor remuneration. It is natural that high labor remuneration of the employees in the public sector and the factor of motivation are very significant.

However, taking into account the problematic situation existing in the public finances and the necessity of implementation of so called “fastening the belts” policy, such priorities are unreasonable. According to the data of the Georgian state budget of 2012, the share of taxes in the total revenues makes up 91, 1%. As compared to 89, 6% in 2011, 84, 6% in 2010, 81, 8% in 2008 and 70, 5% in 2005. A great part in the total taxes is made up by indirect taxes (58%), and relatively small – to direct taxes (42%). The greatest part of the indirect taxes belongs to the value added tax and its share as a rule makes up 48% of the total tax incomes. Taking into account that import stably has a high share in the trade balance and the volume of local turnover is relatively unchanged, the major part of the value added tax refers to import operations. In the past years a certain tradition has been formed: 2/3 of VAT refers to import and 1/3 to the supply performed within the country.

STATE DEBT

State budget deficit is the major cause for the state debt of Georgia. When the volume of the country’s budget revenues is smaller than the state’s liabilities and expenses, the state power is enforced to obtain domestic or foreign debts and finance the real budget deficit of the country. From 2005 to 2012 the total foreign debt of Georgia was increased and made up 11 billion 269 thousands USD for the beginning of 2012 and it made up 11 billion 398 thousands USD as of March 2012. Since 2004 the government’s course has been oriented at decreasing the foreign debts of the country and from 2004 to 2006 the amount of the foreign debt was decreased by 7% annually. In 2006-2007 its index was stable. The foreign debt of Georgia has been increasing since 2007. In 2008 the growth of foreign debt made up 61%, in 2009 and 2010 – 23% and 22% respectively. In 2011 -2012 the index of growth was significantly decreased but the tendency of growth remained. As of 2010 the foreign debt of the government in relation to the GDP made up 24, 5%, and the total foreign debt of Georgia in relation to the GDP made up 77%. There is an approach

in the international practice that the limit above which the foreign debt significantly prevents the economic development makes up 50% of the GDP. According to the same approach, the analogical limit, though in relation to the export index, is 100-105%. The total foreign debt of Georgia is 516% of exports. A tendency of repayment (covering) of debt by another debt has been formed in Georgia in the past years, which undoubtedly increases the degree of dependency of the country's economy on the foreign debt.

BALANCE OF PAYMENTS

Even though the country's trade turnover in the past years has an increasing tendency, it should be taken into account that the index of trade balance deficit has an increasing tendency too. From 2004 to 2012, i.e. during the last seven years, we got 4 times increased index of the trade balance deficit. During the past years the economic development in Georgia has been conditioned by significant increase of consumption, which has been conditioned by the growth of imports. The Georgian economy fails to provide with the proper supply and demand. It has been observed that during the past years the basic export goods have not practically changed, no new goods, products or new spheres have been introduced. Like in the past years, vehicles, ferroalloys, scrap, hazelnuts and fertilizers are dominating. This five-item goods group makes up 46% of the entire export, inclusive of vehicles with 22%. Thus, more than half of the whole export potential of the country relates to several enterprises. The analysis has revealed that the country's development actually has not undergone many changes, i.e. the index of use of labor resources has not increased, labor productivity has not increased (which is in direct relation with the capital and equipment), and as a result, the standards of living has not increased. In the economic activity basically encouragement of traditional import-oriented trade segments takes place, and the development of new sectors especially the export-oriented sectors are not exploited.

INVESTMENT

Since 2004 the index of FDI in Georgia has significantly increased, which have been conditioned by the newly declared liberal course, simplification of fiscal regimes and international PR campaigns held by the government. From 2004 to 2007 (inclusive) investment flows to Georgia increased from 499 million USD to 2,015 million USD, i.e. by 404%. In the third quarter of 2008 the investments activity in Georgia, in particular the direct index of investments decreased. In the first and second quarters of 2008 the investments made up 430, 2 and 525, 2 million USD, and in the third quarter it made up 150, 0 million USD. The data of the third quarter of 2008 falls behind the index of the analogical period of 2007 by 339, 1 million dollars and constitutes only 30% thereof. The tendency of decrease in investments is directly related to the decrease and / or outflow of large privatization objects of Georgia, and the small privatization objects have no significant influence on the whole investment portfolio. During the two years since 2008 the volume of FDI decreased threefold and made up 658 million USD as of 2009. It shall also be taken into account that the government fails to properly calculate the investment activity and to plan it effectively. The government's calculations and prognosis concerning the predicted data of FDI for 2009 and 2010 had practically failed. Even an insignificant growth in FDI of 2010 and 2011 is considered as a positive tendency (23% and 20%). Although, growth of capital outflow from the country is being observed parallel to the growth in FDI. The amount of the outflow of the country's capital made up 200 million USD only in 2010, 244 million USD - in 2011 and 116 million USD - in the first quarter of 2012.

Taking into account the planned economic encouragement by the government and the infrastructural investment policy, the share of consumption and state procurements in comparison to GDP is increasing, and the component of FDI is decreasing, which will cause unfavorable distribution and unfavorable results – delay of production will increase a negative balance between export and import, the negative index of pure export will be increased.

General concept for economic development and improvement of the business environment:

The sustainability of the Georgian economy and social-economic situation of the country's population is significantly depended on the external factors, such as the volume of FDI, credit resources attracted from foreign sources (foreign debt), international grants, the volume of remittances and the amount of incomes from the privatization proceeds. Therefore, utilizing the local opportunities and resources in the country's development is significantly limited, and their share is insignificant. Basically, there are several factors negatively affecting the country's economic development, the formation of the flexible social-economic system and establishment of the healthy business environment. In particular:

- Excess consumption – i.e. the private and state consumption has a significantly high share in the GDP. Therefore, the existing level of supply fails to satisfy the consumption and to keep more or less optimal balance between consumption and supply. Actually, the redundant consumption means that the share of private savings in the GDP is very low and the role of local investments in the country's economic processes is nominal;
- Business environment – notwithstanding the implemented changes and acute liberalization of certain business factors, the following issues still remain crucial: ensuring the free competition on the market, sectoral monopolies, liberalization of tax administration, decriminalization (termination of criminal prosecution of business, cancellation of pretrial imprisonment for economic crimes, prohibition of state terror on business, refusal to implement punitive and ambush policy), protection of private property rights and the issues of encouragement of small business development;
- Foreign trade deficit – the second negative side of redundant consumption. According to the data of 2010 the Georgian economy depends on the foreign economy by 76%. It means that the country manages to satisfy the insignificant share of consumption by own production power and the remaining 76% is balanced by import. Actually, instead of increasing the local production power by redundant consumption, it becomes an encouraging factor of import. In such conditions, the benefit belongs only to the importing countries, and the local and export-oriented production suffers losses;
- Low level of employment and migration – no workplaces are being created in the country as the Georgian economy is import-oriented and the level of local production lags behind the level of consumption. And, the migration flow of the country makes up more than one million people, which is equal to losing the active labor resource for such a small country as Georgia.

WHAT IS THE CONCEPT OF DEVELOPMENT BASED ON?

The concept is based on the measures to be taken in the short and long-terms periods oriented at formation of effective business environment and development of the country's economy, which shall be implemented in the next 3 years. Taking into account the existing situation and reality, the country's major priority is the formation of terms ensuring the encouragement of supply and the development, which means the increase of the volume of supply, effective functioning of the country's economy in the autonomous regime, price optimization, increase of the level of employment and the stimulating consumption. The principal task of the long-term strategy is the formation of economic and business environment based on the liberal and free market principles, which shall be based on the following fundamental principles:

- Protection and supremacy of private property;
- Prohibition of terror on business by the state and governmental authorities;
- Minimal public sector and its non-interference in the private sector;
- Real demarcation of the public and private sectors and drawing a clear boundary between them; taking into account all this, two basic directions represent the cornerstone of the program priorities:
- Improvement of the economic and business environment;
- Development of small business and ensuring its access to the financial resources;

IMPROVEMENT OF THE ECONOMIC AND BUSINESS ENVIRONMENT

Improvement of the economic and business environment in Georgia significantly determines the scale and rates of further development of the economy and business processes in the country and the completeness of real growth and development. Major priority of the effective economic policy shall be the encouragement of small business development instead of implementation and development of the state economic principles. The originating principle thereof shall be based on the establishment of constitutional and legislative guarantees of private property, private deals and the competitive environment. The state shall interfere in the business relations on minimal level and the business, especially small business (small, medium and petty industry) shall accomplish the following purposes:

- Employment;
- Growth of the volume of local production;
- Ensuring the free market principles of actually free competition and pricing;
- Ensuring the demand-supply balance and protection thereof
- Stimulating savings
- Stimulating consumption

The measures ensuring the improvement of the business environment, business development and the strategy thereof constitute several basic blocks:

A. Decriminalization (limitation of business prosecution)

The state intervention in the business shall be significantly limited on the legislative level. The competence and authority of the state institution shall be also limited, which directly and/or indirectly controls the business and business deals. It is necessary to decriminalize the business (termination of business prosecution, cancellation of pretrial imprisonment for economic crime, prohibition of state terror on business, refusal to implement punitive and ambush policy). A clear boundary shall be drawn between crime and those actions, which are related to violation of obligations due to incorrect and/or erroneous tax registration-accounting. If the enterprise unintentionally fails to pay taxes and to fulfill the obligations stipulated by the law for the state budget, the enterprise shall be imposed administrative fines stipulated by the law for the purpose of ensuring the payment of due taxes, fines and penalties. Prosecution shall be performed only in special cases stipulated by the law:

1. Repeated nonpayment of the taxes due to the same reason;
2. Great amount of tax indebtedness, i.e. 200,000 GEL and more. The government does not imprison persons, who are suspected in committing an economic crime and/or against whom the proceedings of economic crime are being held;

Implementation of the aforementioned practice shall minimize any kind of pressure or terror on the business by the state, its enforcement and the opportunity of influencing the decisions.

Ensuring the property protection shall be based on the following basic condition – the procedures of property transfer, granting, descent and property expropriation shall become complicated and the list of cases when it is permitted shall be strictly determined on legal (legislative) basis.

B. Protection of competition. Protection of free competition and bringing into effect anti-monopolistic and antitrust legislation in the country are the major components of improving the economic and business environment. The program priorities in such a case are as follows:

- Well-grounded and solid revision of the legislative base regulating free competition and trade, preparing and adopting relevant legislative amendments and/or appendices;
- Functional reorganization of the full-fledged anti-monopolistic and antitrust state institution - "Free trade and competition agency", increasing its competence, authorities and independence. "The Free trade and competition agency" shall not be under the state control and will be accountable exclusively to the Parliament of Georgia. Therefore, the head of the agency shall be appointed by the Georgian Parliament;
- Adopting the active anti-monopolistic and anti-trust policy, through active researches of the target and high risk markets, planning relevant administrative measures and executing the effective monitoring of these processes.

C. Tax legislation. The tax administration in the country still has a punitive function, which affects small, medium and petty industries and service spheres. Formation of correct relations between the state and a citizen, between the state and the business means the formation of the major precondition for a solid ground and success of the statehood. Such grounds do not exist in Georgia and substantial renewal of the tax system is required.

The tax legislation shall be created for supporting the business and not for punishing or intimidating it. At an initial stage, several principal changes shall be made, i.e. formation of effective tax administration system and its further development. This means the orientation of the tax legislation towards small business interests and solving the following issues:

- Formation of the Georgian tax code as an organic law and recording this status in the Georgian constitution. This will minimize a vicious practice of making amendments and additions to the tax legislation frequently and sometimes based on individual motives, will ensure stability in and protection of the business sector and enable it to perform industrial activity in accordance with long-term prognosis and calculations. Changes, additions and amendments in the Georgian tax code shall be made on the basis of one-month public examinations;
- Clear limitation of the powers of state bodies and authorities shall be fulfilled under the legislation;
- The tax legislation shall exclude the provisions with double and complicated interpretations. The Georgian tax code shall contain full spectrum of issues and minimize the normative base under the law (instructions, orders) regulating tax relations and especially the issues of tax control;
- Liberalization of the tax administration component at present means the decrease of tax control mechanisms and simplification of procedures, after the amount of taxes and tax rates have been decreased;
- Bringing into force the selective tax control mechanism of the taxpayers, which shall minimize the fear existing among the entrepreneurs in relation to tax inspection and control; simplification of the taxation regime for significant simplification of calculation and payment of due taxes for small businesses. This will decrease the expenses of administration and accounting service of the entrepreneurs of small and petty industries. The regime of tax incentives considers:

1. Exemption from profit tax in the first year of state registration of small and petty enterprises and from the liability of submitting the tax declarations;

2. Payment of 50% of profit tax in the second and third years of activity by small and petty enterprises. At the same time, such regime of taxation shall apply exclusively on the following activities:

- 1) Primary production of agricultural products;
- 2) Processing of agricultural products;
- 3) Products of food industry;
- 4) Tourism;

5) Export-oriented production

- Simplification of the tax registration and payment forms. Payment forms shall be significantly simplified for SMEs, petty and small industrial and service spheres shall have symbolic payment practice, i.e. the practice of annual tax declaring. It means that taxes will be declared only once per year and by submitting only one combined declaration. This shall decrease the risk and possibility of making mistakes during the industrial and registration-payment processes;
- Prohibition of the practice of preliminary sealing of businesses, especially of small businesses (small, medium and petty enterprises), suspension of current activity and sequestration, except for single exclusions stipulated by the legislation and the so-called special cases. At the same time, all activities related to the implementation of these procedures shall be extremely complicated by the legislation for the tax authorities, and their legal position shall be limited. Sealing, suspension and seizure of businesses shall be fulfilled by the court sanction. This rule also applies to the following cases: high tax crime and correspondingly indebtedness towards the state budget (for example, extremely great amount of tax debt i.e. 200,000 GEL or above);
- Prohibition of the practice of using the cash register as a punitive tool by the tax authorities. The cash register and receipt shall be assisting the business instead of being used as a punitive tool by the tax authorities. The priority of the policy adopted for improving the economic and business environment shall not be the policy of "ambush" and purposeful deceit of the entrepreneur.
- Change of the system of penalties. Penalties shall not be imposed on the entrepreneur if he/she unintentionally fails to calculate and pay due taxes. The amount and rates of penalties shall be adequate to the crime and/or violation and shall bear the risk and be basis for termination or suspension of the business activity. Penalties shall be acceptable if the entrepreneur fails to execute the tax authorities' demand to improve the mistake made unintentionally, or violates the term of eliminating the mistake. This practice shall apply to the existing practice of using the cash registers;
- Refinement of the practice of tax disputes and appeal. Under the existing legislation the tax and/or other administrative authorities are permanently prevailing. They are able to impede and even to terminate the entrepreneur's activity by any reason. The practice of appeal, dispute examination and decision-making shall be based on the principle, where the priority is conferred to the business and not to the tax authority.

D. Business ombudsman. The significant component of the conception is the issue of taxpayers and protection of business rights in general. Improvement of the business environment and its further development significantly depends on the full-fledged formation of the institution of business ombudsman in the country and the efficiency of its activity. The existing institute of tax ombudsman is less effective and it cannot actually influence the current processes. This refers to the issues related to the problems of small business (small, medium and petty enterprises). The following factors condition less orientation and efficiency of the results of this state institution:

Ombudsman's status. Under the Georgian legislation the tax ombudsman represents an addition to the executive power, and its level of independence and legal position are significantly limited;

Conflict of interests. The tax ombudsman actually supervises the activity of the governmental branch the part whereof it represents. Its activity is regulated and the legal competence is determined by the Georgian tax code; the tax ombudsman is appointed and dismissed by the Prime Minister of Georgia. This practice always gives the opportunity of individual decision-making practice and influence on upper levels of the executive power (for example, the president and the prime-minister);

Legal position. The business ombudsman is significantly limited in his competences and rights, and actually cannot influence the facts of violation of tax or other rights. Taking into account all this, the necessary condition of ensuring the effective institution of business ombudsman oriented on the result is a transformation of the existing institution of business ombudsman into a real and effective institution, which considers the following issues:

Law “on business ombudsman” shall be adopted, which shall stipulate and ensure high level of independence and impartiality of the aforementioned governmental institution, legal competence and strictly determined liabilities thereof;

The institution of the business ombudsman shall be independent and will not be influenced by the executive power. It shall be accountable exclusively to the Parliament of Georgia. Therefore, the business ombudsman shall be appointed by the Parliament of Georgia, which also supervises the activity of its apparatus;

The business ombudsman shall influence the violation of rights and/or the processes of limitations of business especially of small business, including tax disputes and shall have the liability thereof. This shall refer not only to tax disputes and the issues of violation of the taxpayers’ rights but also to all aspects of relations between small businesses and the government;

The institution of business ombudsman shall acquire the mediating function between the government, i.e. the executive power and legislative bodies, and small business. For this purpose, “business disputes council” shall be established in the apparatus of the business ombudsman, which shall include the representatives of the apparatus of the business ombudsman, and legislative and executive powers, business unities, including small business unities and civil sectors. “The business disputes council” shall consider any disputable issue arisen between a business and the governmental bodies and give relevant recommendations to the parties;

The apparatus of the business ombudsman shall defend the interest of small business upon considering the cases in the judicial bodies.

D. The Small Business: Small business and small industry are the principle priorities of the country’s development nowadays.

Currently, the most significant is the formation of real partner relations between the government and small businesses. The problems and difficulties characterizing the small business are unfamiliar to large business. Large business has a lobby in its relations with the government, has access to expensive and high-quality legal, audit and other consultation services. Access to credit resources is significantly simple. These “benefits” are actually inaccessible for small businesses. Formation of the business environment favorable for small business and its development is the program priority. Economic development of Georgia significantly depends on the rate and completeness of the development of small business in the country, i.e. small, medium and petty enterprises engaged in industry or service spheres. Small business includes small, medium and petty enterprises playing a dominant role in the economic and business processes in all developed countries. Small businesses are the basic employer of the population and basic social-economic regulator, i.e. the tool for creating basic social guarantees. Nowadays, in the modern world, the major base for the success of the economies of developed countries represent SMEs. The absolute majority of businesses existing in the world (EU – 99, 7%, USA – 99, 8%) are SMEs, and the specific share of the manufactured products and services makes up 50% of GDP. The situation in Georgia is significantly different:

- Specific share of small business in the entire turnover made up 16% in 2010;
- Only 38% i.e. 127, 4 thousand people from the employed 335, 3 thousand people were employed in small businesses in 2010;
- Preferences and priorities of small businesses are characterized by the following factors:
 - Structural flexibility and management efficiency;
 - Simple adaptation capability to market conjuncture, market changes and consumers’ demands;
 - More workplaces / less capital;
 - Stability and risk resistance;
 - Less capital intensity;
 - Principal employer;
 - High level of competition

Vision and policy of the Georgian government in relation to the development of small business does not exist. The country does not have the “concept of small business development” and strategic plan which shall determine the principle priorities of the country and necessary conditions for the development of a small industry. Every new initiative of the government has a sequential, fragmentary and out of context character, which is less result oriented. Even the status of a small business has been stipulated only by the Georgian tax code (chapter XII, “Special taxation regime of income tax”) and only for tax purposes. At the same time, under the existing legislation, small business is considered to be an economic activity of an individual or a real business sector, i.e. enterprises of different organizational-legal forms (e.g. LTD, cooperative) automatically remain beyond the aforementioned status. No special institution and/or regulation exist in the country, which shall regulate the state policy in relation to small businesses. For the purpose of ensuring the priority of small businesses and for creating the favorable environment for its development, several legal and structural reforms shall be implemented in the country, in particular:

- “Small business agency” shall be established, which will be an independent state agency. It will actively participate in working out the state policy related to small businesses in the country, coordinate and monitor all issues related to small businesses in the country and adopt the state policy. Similar institutions and state regulations are functioning successfully in many countries worldwide, e.g., Small Business Administration in the USA, Department for Business, Enterprise and Regulatory Reform in the UK;
- The fund for small business development shall be established, it shall accumulate special credit and investment financial resources for contributing to small business development in the country, and organize the fulfillment of target programs through providing favorable terms for issuing cheap credit resources for small businesses;
- A status of small business shall be adopted, which will determine the real status of small business and regulate all legal issues related to it. In particular, the status of small business shall include small, medium and micro enterprises and this status shall apply not only to the economic activity performed by individuals, but also to any enterprise of any organizational-legal form stipulated by the Georgian law “on entrepreneurs”. And their diversification shall be executed according to the scale of activity and the number of employees: 1. Micro enterprise – the average annual turnover does not exceed GEL 50,000 (maximum daily turnover up to GEL 136, 9) and the number of employees does not exceed 3; 2. Small enterprise - the average annual turnover ranges from GEL 50,000 to GEL 365,000 (maximum daily turnover up to GEL 1000) and the number of employees does not exceed 30; 3. Medium enterprise - the average annual turnover ranges from GEL 365,000 to 1 million GEL (maximum daily turnover up to GEL 2739, 7) and the number of employees does not exceed 100.
- Minimal tax registration and simplified payment regimes shall be established for small businesses. The practice of tax declaration shall consider submitting only one declaration on the financial activity once a year to the fiscal authorities;
- The practice of so called “small business test” shall be adopted, which means the following: any legislative initiative, change and/or administrative reform planned in the country shall pass the so-called “small business test”, i.e. how would this initiative, change or reform refer to the interests of the small businesses and whether they will limit the development of the small businesses in the country. In case of impeding or limiting circumstances, new legislative initiative, change or reform shall be blocked in the automatic regime. This practice is successfully functioning in the countries of the European Union. In particular, the “small business act” was adopted in the EU in 2008, which was worked out under the aforementioned principles (Think first small principle). 5. Access to financial resources. The problem of accessibility to credit and investment resources represents one of the major challenges for improving and developing the business environment.

The small business sector including small, medium and petty enterprises should be the major employer in the country; nevertheless it has limited access to credit and investment resources. This has been caused by three major factors, in particular:

- Expensiveness of credit and investment resources, which gives no opportunity to small businesses to make “expensive” financial resources as well as manufactured products and rendered service more competitive and efficient in the environment of unequal competition;

- The difficulty of the procedures of obtaining loan and investment resources, which is directly related to the complicated procedures of issuing business loans or investments by the investment institutions and existing red tape;
- Unawareness and/or insufficient qualification of attracting and searching for loans and investment resources, which is related to the issues of research of the market, products or consumers, qualifying preparation of loan application and investment projects, and preparation of relevant business and financial calculations or documentations. These difficulties may be overcome by establishing of a special institution and system in the country, which will be oriented towards regulating the problems that arise due to the aforementioned three factors. In particular, legal entity of public law - "fund for small business development" (hereinafter "the fund") shall be established in the country.

This practice has been well approved and successfully used in many developed countries in the West, which contributes to the access of cheap financial resources for small businesses in these countries, simplification of initiating the small business (Start Up) and efficient execution of the activity thereof. Three major goals of the fund are:

- Encouragement of development and increase of the number of small and medium businesses;
- Encouragement of creation of additional workplaces;
- Encouragement of creation of export-oriented enterprises;

The tasks of the fund are as follows:

- Contributing to the development of small business (small, medium and petty enterprises) and initiating the activity (Start Up), organizing the special target programs in order to provide favorable terms of accumulation and granting of cheap credit, investment and financial resources for small business;
- Establishment of special business-incubators for small businesses, for the purpose of advancing business skills, execution of business and legal consulting, qualified preparation of investment and other business projects, financial calculations and documentation, conducting market researches and ensuring access to these researches. The founder of the fund and responsible entity for financial liabilities thereof is the state. The financial resources of the fund are:
- Target transfer of the state budget – the law "on state budget" determines the purposeful transfer of 1% of annual incomes of the state budget for the formation of the current capital of the fund, during the first 5 years of the fund's activity (basically credit capital), which on average counts to 70 million GEL per year, and during 5 years it shall make up 350 million GEL;
- Emission of long-term debentures (obligations) of the fund, strengthened by the state guarantee. Emission shall be fulfilled as annual tranche during 5 years and the volume of annual emissions shall be on average 60 million GEL, and during 5 years it shall constitute 300 million GEL;
- Amounts attracted from the international donors for small business development. Financial resources shall be attracted as annual tranche during 5 years and the volume of the attracted financial resource per year shall be 30 million GEL, which during 5 years shall make up 150 million GEL. As a result, the fund's current capital will be 160 million GEL per year, and during 5 years it shall make up 800 million GEL. The fund shall manage the development and the projects of small businesses. Operational management of the fund's financial resources i.e. issuance of loans or investment amounts shall be fulfilled by banking and other financial institutions winning in relevant state announced tenders under the rules and terms stipulated in advance. In particular: banks, microfinance organizations, investment companies.

The basic characteristics of the credit and investment products to be issued within the project of contribution and development of small business by the funds are as follows:

- Micro loan – from 0 to 3 thousands GEL;
- Small loan – from 3 to 25 thousands GEL;
- Interest rate – up to 6% annually;

- Payment period – from 3 to 24 months; including 3 month grace period of loan repayment for credit contracts with more than one year term;
- Purpose – purchase of fixed capital, filling of current capital, leasing operations, market researches and campaigns;
- Priority – production, service sphere, primary production and processing of agricultural products, export-oriented activity;
- Not financed – manufacturing of tobacco and alcohol beverages, organization of gambling and gambling business, import operations, except for purchasing fixed assets.

Execution of on average 10000 projects per year is possible within the project of development and contribution to small business by the fund, which shall make up 40000 small business projects during 4 years. Taking into account that each small business project executed by the fund may create additional 4 workplaces, it is expected that 40000 workplaces shall be created during one year in small businesses, which shall make up additional 160000 workplaces during 4 years.

Management of the fund:

- The fund's activity is based on the principle of transparency and publicity;
- The fund shall be managed by the supervisory board consisting of 12 members approved by the Parliament;
- Quotas in the fund's supervisory board shall be distributed in the following proportions: representatives of the legislative authority – 2 members; representatives of the executive power – 2 members; small business agency – 1 member; business ombudsman's apparatus – 1 member; Georgian banks association – 1 member; association of microfinance organizations – 1 member; representatives of the business associations – 4 members.
- The fund's supervisory board shall submit annual report to the Parliament of Georgia and shall be subject to obligatory annual publication. For the purpose of development of the entrepreneurial skills and small business development, the fund shall establish regional business incubators, the basic direction of the activity whereof is to render the following services for SMEs:
 - Consultations on the legal issues of business start-ups;
 - Consultations on the issues of tax registration and payment;
 - Consultations on the issues of qualified preparation of financial calculations and documentation required for obtaining loans from the banks and other financial institutions, for investment and other projects;
 - Consultations on the issues of marketing researches of the market, products and consumers.

AGRICULTURE

Population in rural areas of Georgia lives in extremely severe conditions. It is apparent that living standards in rural areas are much worse than in the cities and this heavily impacts everyday life of people. Unfortunately, in the most Georgian villages one cannot feel that the civilized world lives in the 21st century and takes advantage of the new achievements. In Georgian villages there is still 19th century and the population plows the soil with bulls, they have no roads, no natural gas and water supply. For young generation in the rural areas internet is an unavailable luxury. Rural population has no access to health care services; most of them are socially vulnerable and have numerous problems when they demand financial aid or medical insurance.

Such situation in the villages is caused by the fact that the farmers cannot cultivate the land: the fuel is very expensive; the number of tractors is not sufficient. Currently there are only 600 tractors, while the country needs at least 5000. Fertilizers and chemicals are also expensive and unavailable for the population. Rural, grazing, and hay lands are the property of the Ministry of Economy of Georgia and not of the villages and they are sold out so that the villages are unaware of this fact. There are no

enterprises that existed before – farms, poultry factories, or tea factories, greenhouses, sawmills. No political force, at any stage, has made Georgian villages the subject of such a wide scale political campaign.

We managed to make the rural areas the dominating issue of Georgian politics and forced the government and other political forces to take greater efforts in this direction. We have a detailed program for dealing with the crisis situation in the rural areas and for restoring Georgian villages; implementation of this plan, for the next 4 years, will be one of the main objectives. The peasants need support.

- Therefore, initially, we shall establish the “rural bank” to ensure access to finances, where the farmers will be able to take credits at very low interest rates (annual 4%).
- Peasants in the villages should be employed. We should provide support to the farmers, entrepreneurs to build the poultry factories, farms, cheese mini factories, sawmills etc. At least one enterprise should be in each village.
- We should reduce the prices for fuel required by the farmers for cultivating the land. For this purpose the fuel intended for agricultural works shall be exempted from VAT and excise tax. Fuel for the tractors and agricultural machinery shall be marked, i.e. it shall have different color and by this way its use for the vehicles of the other types shall be avoided. In such a case price per liter of diesel would reduce by 50-30 tetri.
- We made a proposal to launch state-owned Kutaisi tractor factory and produce tractors to increase their number in the country up to 5000 pc. Each village should have a tractor.
- The state has to pay part of the cost of fertilizer for the farmers; similar practice works in neighboring Turkey.
- The first law which would be submitted by the New Rights Party to the Parliament will be the law on rural areas, which would allocate hay, grazing and arable lands to the villages.

Development of agriculture and improvement of living standards in the villages should be the priority for the country. Rural population should be able not only to earn subsistence minimum but it should become prosperous. Agriculture is the vital artery of the country. Historically Georgia is an agrarian country, though only small part of the government, business circles or investors thinks so. The main course of the country is directed towards transforming Georgia into the international financial center of the region; towards labeling the country as a transport and energy corridor between Europe and Asia; and transforming it as one of the most attractive places for the tourists. Final goal is formation of the diversified economy with full employment and remuneration attractive for the labor, what is the token for poverty alleviation. Neglecting agriculture on the way of economic transformation of the country is a wrong policy. This was apparently evidenced in the first half of 2011, when significant (30%) growth of the prices on food products has aggravated the inflation processes and endangered financial stability of Georgia. Irrespective of economic growth and structural reforms the progress was not reflected on the country's population.

Poverty and unemployment rates are still stably high in Georgia. One of the potential means for dealing with this problem is development of agriculture, which is distinguished with its high potential.

Under Soviet rule agricultural production increased 10 times. Georgia was one of the leading countries in this sphere, up to 1980-ies annual growth of production in this sphere comprised 10%. Agriculture exports exceeded imports by 70%. About 700.000 people were employed in this sector and this was 25% of the aggregate labor force. In food processing several thousand people were employed. After gaining independence the civil wars and political instability caused great damage to the agriculture sector. By 1990 export of food and agricultural products comprised only 25% of imports, while in 2005 this figure reached 70% and in 1990 – 170%. Paradoxically from 2000 the number of employed in agriculture has doubled while from this period economic diversification had commenced and the opposite trend should have taken place. Due to a number of factors, currently, value added created in the sector of agriculture is less than half of the value added generated 13 years ago. According to the World Bank data, in Georgia, productivity of agriculture is US \$ 1872 per year and this is much lower than the similar figure not only for the developed countries but for most post-soviet countries. It should be also noted that according to the data of the National Statistics Office of Georgia, share of the revenues gained from sale of agricultural products in the incomes of the households comprises

only 6%, i.e. 94% of the agricultural production is intended for self-consumption. Share of the household in aggregate sown areas is 94% and this means that the business interest towards this sector is almost zero. Low effectiveness would be only a part of the problem, if not the situation in the sector, i.e. employment of over half of the labor in force in the agricultural sector. According to official statistical data, 580.000 people are employed in the field of agriculture in Georgia. Someone might debate the accuracy of these data but it is the fact that most rural labor has no alternative employment opportunities.

Recently, a dangerous trend has developed: in number of regions of Georgia agriculture is the sector with such low income that in many cases the population does not cultivate the land and prefers to get the alternative source of subsistence minimum through being below the poverty line – thus getting the social aid. *Below the factors causing such heavy situation in agriculture are listed and analyzed:*

- Investments: no any significant investments were made in agriculture for the last two decades;
- Since 1992 collapse of the system has started. Due to this, the total area of irrigated lands reduced from 552.000 ha to 290.000 ha, while irrigation and melioration comprise the decisive factors for high scale harvests;
- During this period most of the agricultural machinery was destroyed. Amortized soviet machinery does not give the possibility to provide the effect required for production, in addition, the quantity of machinery provided through governmental or donor funding is very limited. After the collapse of the Soviet Union most of the plants and machinery needed for processing agricultural products, as well as the refrigerators for their storage was destroyed or sold out as scrap;
- Likewise, the transportation network, infrastructure and appliances were destroyed, thus increasing the costs of delivery of products to market;

-Russian embargo: which was the traditional market for our products significantly damaged agricultural sector, starting from the second half of 2005 export of fruits and vegetables and from the beginning of 2006 export of wine and mineral waters was prohibited. In 2006 Georgian exports decreased to USD 115 million, 2/3 of these exports were agricultural products. Slight improvement was observed till 2008 but was terminated due to Russian-Georgian war and international financial crisis. Significant problems were caused by the damages incurred by Shida Kartli due to the war. Shida Kartli is one of the most productive regions of Georgia. Informal export to Russia through South Ossetia and Abkhazia was terminated due to strengthening of the military control on the administrative borders. Loss of Russian market will have a long-term impact on this sector;

-Government policies: the government has three fundamental objectives: ensure the country's modernization, carry out privatization of the assets and services and create favorable business environment. Till 2011 agriculture was not the priority for the government. Though the government has made certain but not very successful steps to respond to the problems existing in agriculture: the so-called "cheap credits" and "Boers' settling" programs, distribution of the agricultural machinery, oil products and fertilizers in rural areas were the one-time initiatives intended to achieve populist results and not for bringing any serious changes in this sector. In many cases implementation of such programs increase the budgetary costs, creates inflation expectations while providing in fact zero effect.

Neglecting agriculture by the government could be evidenced from the budgetary data as well. After the Russian embargo funding of this sector was slightly increased. Before increase in prices on international markets, according to the financial projects of the government, by 2013, funding of the Ministry of Agriculture was to be GEL 18.2 million, i.e. only 0.4% of the budget.

Capacities of the Ministry of Agriculture: the Ministry is not able to deal with the challenges in this sector. The institution does not have any strategy or a political document. At the Ministry, similar to the entire government, the ministers are changed frequently resulting in change of visions and reorganization of the apparatus. During the last 5 years redundancies at the Ministry comprised 70% of the staff, and part of the functions was transferred to the private sector (e.g. veterinary and phyto-sanitary services).

- **Education, researches and consultations:** almost nothing is done today in this direction in Georgia. The government's vision is that it is up to the private business and no state intervention is needed. Limited researches conducted in agriculture are not related to the problems in this sphere. The number of vocational schools of agricultural profile was reduced; the Agrarian University has obsolete technical and technological facilities and very scarce funding. Existing centers for professional training and re-training are not able to provide in-depth, sufficient knowledge. It is also unclear, how the professionals trained in this sector would provide assistance to the farmers. Consequently, most farmers are left to deal with the problems with their own forces and knowledge.

- **Diseases:** During the recent years, agricultural sector suffered significant damages due to epidemics, both, in the plants growing and livestock spheres. Abolishment of phyto-sanitary control on the borders, as well as elimination of funding of the veterinary services had affected the sector very significantly. Though avian flu was not widespread in Georgia, it reduced poultry consumption in 2007-2008. At the same time, African hog disease, spread in 2008, significantly reduced the number of pigs and made Georgia dependent on imports for several years. In the plant growing sector rodents, locusts, the so called whiteflies and various parasitic diseases are widely spread and without large-scale measures, one-time interventions of certain farmers are ineffective.

- **Access to credits:** irrespective of high demand for finances, the credits are actually unavailable for agricultural sector. According to the data of the National Bank of Georgia, as of July 2011, during the 6 months period, the commercial banks have granted loans amounting to GEL 812 million to the legal entities with only GEL 3 million allocated to agriculture, i.e. only 0.3% of the total amount. Low interest of commercial banks in the sector could be explained by high risks in agriculture, as well as lack of attractiveness, compared with such sectors as construction and trade or financial mediation. This is further aggravated by the inability of farmers' (particularly small farmers) to develop well-formulated business plans or any other required documentation.

- **Insurance:** even though the insurance sector rapidly develops in Georgia during the recent years, agricultural sector is not attractive for the insurance companies. This is caused by high risks of natural disasters in rural areas and low productivity of the sector.

- **Land:** starting from 1992 the state transfer of the land ownership rights to the rural and urban population took place. Total fund of agricultural land to be transferred comprised 763.000 ha. The rural population received on average 1.25 ha, while the urban population received even less. 464.000 ha of land remained in the state ownership, 299.000 ha of which was transferred to the farmers through lease and remaining 165.000 ha stayed in the state ownership and usage. Finally, by 2005, 1.000.000 ha of agricultural land was in the farmers' usage. In 2005 inventory of the agricultural lands was conducted and the following was established: 726.021 persons own the land of 1.37 ha on average; about 140.000 persons own less than 0.2 ha. Additionally, holdings of 360.000 persons are less than 1 ha; about 16.000 farmers hold 4 ha and more, comprising, in aggregate, 40% of total agricultural lands.

As we can see from the data, agricultural land is fragmented. Small parcels are ineffective, with respect to agricultural production and in addition, part of the land is occupied by the internal roads and paths. Acquisition of agricultural machinery or introduction of agricultural innovations for the small farmers is unprofitable. Due to the above mentioned problems significant part of the arable lands is not cultivated. In addition, according to the Tax Code, owners of the land parcels up to 5 ha are exempted from taxes and this causes lack of motivation to lease their holdings or dispose of it.

Farmers have difficulties in:

- A) Getting credits with reasonable interest rates;
- b) Acquire high quality seeds;
- c) Procure machinery and appliances, use of which, at small parcels is generally unprofitable;
- d) Receive information about new achievements in the agrarian sphere;
- e) Market their products.

One of the ways for dealing with these problems would be creation of the **farmers' cooperatives**. Though, both, in the government and among the farmers, cooperatives are associated with soviet kolkhozes and the attitude towards them is negative. It should be also noted that the Tax Code provides significant exemptions for the individuals employed in agriculture. In addition to property tax exemption for holdings less than 5 ha, persons employed in agriculture are exempted from the profit tax if their aggregate annual income is less than GEL 200.000. Persons employed in agriculture are fully exempted from VAT (with the exclusion of certain products, e.g. eggs).

Unfortunately, tax exemptions in agriculture are not applicable to the legal entities. Hence, establishment of the cooperatives or partnerships by the farmers is not beneficial.

1. Formation of agriculture as a sector attractive for business

a. It would be reasonable to apply *exemptions from the income tax and VAT* both for individuals and legal entities. This would contribute to formation of agriculture as a business sector. In addition, the legal entities investing more than GEL 500.000 into primary agricultural production should be exempted from the profit tax, as well as those, investing in the processing of primary agricultural products. The Government has applied a similar method in the sphere of tourism, in Kobuleti and Batumi touristic zones and this contributed greatly to their development. It should be noted that adoption of the mentioned exemptions would not result in reduction of the tax revenues as the individual farmers producing 95% of agricultural products are already exempted from taxes.

b. Availability of credit resources

To attract the investments in the sector of agriculture, low prices for credit resources is significant. For availability of credit resources for small and medium farmers it would be reasonable to allocate the budget assets to subsidize bank interests partially or entirely. In addition, in our opinion, only cheap credit resources cannot ensure any results for the farmers. Small farmers with the small holdings will not be able to form effective agricultural production. In addition, the costs of cultivation, product storage and transportation will be a significant burden for the small farmers. There is also a high risk of misapplication of the received assets. It will be difficult for the farmers to develop adequate business plans and hence gain funding. Preferential credit resources should be primarily available for the farm associations, which will be established in the forms of cooperatives or partnerships. In addition, at the initial stage, in order to promote establishment of associations, their public registration should be free of charge. Preferential credits should be allocated to the farmer associations with 40 ha and greater holdings, with 40 and more heads of cattle and unifying 2 or more farmers. In the high mountainous regions the requirements may be reduced. Farmer associations will receive preferential loans from the commercial banks, on the basis of properly completed applications or well-formulated business plans. Preferential credits should be granted for the following purposes:

- Conducting of agricultural works, procurement of highly productive seeds, feed, and chemicals;
- Arrangement of farms;
- Arrangement of greenhouses
- Arrangement of products' storage centers (including refrigerators). It should be noted that the government's incentive to create large warehouses for products' storage is ineffective. Primarily, such warehouses will be oriented primarily towards warehousing imported products, as for the farmers, the costs of transportation and storage of their own products will be quite high. It is significant that the farmers are able to store their products in the near and not in several kilometers from their farms. Development of greenhouse farms is of significance for formation of uninterrupted (and not seasonal) agricultural cycle in Georgia.

The sector should be able to satisfy 70-80% of local demand for the entire year. Thermal water can be used as energy for the greenhouses, together with solar and wind energy. With respect of cheap energy sources, Georgia has great potential. In order to support farmers and provide them with preferential credits, the state program should partially or fully subsidize the bank interests. It would be desirable to grant credits of GEL 50-60 million to the farmer unions, as to the interest rate of 30%, in case of 2/3 subsidization of the bank interest by the state for the first 4 years, the state budget will pay GEL 50 million in total, i.e. GEL 12.5 million per year.

c. Insurance

Insurance is widely applied in agriculture in the USA, most countries of Europe, Latin America, Asia and Africa. Even though numerous insurance systems are tested all over the world (harvests, incomes, yields, prices etc.), at the initial stage, in Georgia, it would be reasonable to establish insurance against the natural disasters. We imply hail, flood, hurricane, fire and similar natural phenomena. Statistical data show that in Georgia, the weather impact on yields is 50% or more. As for the livestock, here the main risk is epidemics. To create the insurance system in agriculture, two key conditions should be held. Primarily, insurance should cover significant number of farmers (both, in plant production and livestock) to ensure that insurance payment is not too high. Secondly, the state should undertake active role in formation of the insurance system, particularly at the initial stage. It should be noted that in all countries the state plays an active role in the agricultural insurance systems. Formation of the insurance system in agriculture should be provided based on a voucher system. The insurance vouchers should cover the entire country, at the initial stage – several pilot regions.

Agricultural insurance vouchers should cover at least 50% of insurance costs. The remaining 50% of the costs should be covered with the farmers' participation. To cash the coupons, the farmers should submit them to the insurance companies. The insurance companies would record what kind of production is intended by farmer, the area and proposed harvests. By expert calculations the insurance costs in plant growing may comprise GEL 55 per ha (5.5% of the harvest value) and in livestock – GEL 80 per head (8% of the cattle value). If the state covers half of insurance costs, this would be approximately GEL 81.25 million per year (for 1 million ha of arable lands and 1 million heads of cattle). Launching of insurance system will improve agricultural statistics; make information available on quantities of products of the farmers employed in the sector.

d. Support of the agricultural processing enterprises

Except for the wine sector, currently there are very few agricultural processing enterprises. In many cases the farmers have to sell the excess products at prices lower than production price, as there is no alternative ways for distributing the production. At the same time, markets offer great quantities of canned fruits and vegetables imported from many countries. Governmental policies in this sphere should be based on supporting local processing enterprises. For this purpose, it is desirable that the businessmen, who establish agricultural processing enterprises, are exempt from all taxes for 4 years.

e. Chemicals and pesticides

In Georgia, chemicals and pesticides are unavailable for most of the farmers. This is caused, on the one hand, by high prices, that are due to the existence of monopolies based on imports in this sphere and on the other hand – by absence of the centers of distribution of the chemicals and pesticides in the most municipalities and this further increases prices due to transportation costs. State policies in this segment should be stimulated by the competition. As the most part of the chemicals and pesticides are imported the competitive conditions should be created for import of these products. State should regulate the process through agency to support competition, as well as active monitoring of the wholesale prices on the domestic market. In order

to make chemicals and pesticides available for the farmer, the state should implement the policies to participate in formation of final prices – for those who do not buy products for the purpose of re-export, through state co-financing the prices should be significantly reduced. For the purpose of 30-40% reduction of prices of chemicals and pesticides the state budget should allocate GEL 12.5 million annually. Together with improvement of chemicals and pesticides' availability, quality control is significant to prevent import of the expired or low quality products. The state should strengthen quality control and provide certification of the products distributed by importers and distributors of chemicals and pesticides. For this purpose the state should allocate annually GEL 13.2 million from the state budget.

f. Fuel

Due to high prices of the fuel and particularly diesel, cultivating the arable lands by means of machinery is unaffordable for the small and medium farmers. In order to deal with this problem extensive state intervention is required to introduce benefits for the farmers. We regard that the fuel imported for the agricultural purposes should be exempted from the VAT and excise tax and this will be a significant benefit for the farmers. To avoid misuse of the fuel intended for agriculture, the product should be subjected to special marking. In addition, the marked fuel should be sold in the special network to prevent its misuse. Tax exemptions would increase consumption of fuel in agriculture and would not cause significant losses to the state budget.

2. Improvement of agricultural infrastructure

a. Rehabilitation of melioration systems

Rehabilitation program should set the goal of rehabilitation of the system existing in the period of Soviet Union. The rehabilitated should cover 469.000 ha irrigated and 163.000 ha drained arable lands. Rehabilitation program, supposedly, will last for 4-5 years and include the following components:

- Irrigation system rehabilitation

- Drainage system rehabilitation

- Rehabilitation of the system for strengthening of the river bans and irrigation. In 2001, according to the World Bank evaluation, rehabilitation of this system required USD 30 million. Taking inflation into consideration, now rehabilitation of this system would require USD 50-55 million, i.e. about GEL 80 million. We propose that annually the state budget should allocate GEL 20 million for the rehabilitation purposes.

b. Rehabilitation of roads to gain access to the agricultural lands

For 15-20 years nothing was done in this respect. Together with rehabilitation of the roads of national and local significance, rehabilitation of roads for gaining access to the agricultural lands is of significance as well. In many cases, due to landslides and lack of maintenance these roads are in very poor conditions and the arable lands could not be accessed without machinery with off-road capabilities is excluded. For the purpose of dealing with this problem, it is necessary that for 4 years from the state budget the special transfers were allocated to the municipalities annually to ensure rehabilitation and maintenance of the access roads, i.e. GEL 15 million annually.

c. Mechanization

For the purpose of improvement of food production support of the centers for procurement and servicing of the agricultural machinery and equipment is required. Currently the fleet available in the country includes up to 7 items and 70% of them are obsolete, increasing the costs of their operation and reducing quality and possibility of their use within the agrarian terms. Hence, it is necessary to arrange mechanization service centers and equip them with new agricultural machinery in all municipalities of Georgia. 4-year program for agriculture mechanization should ensure procurement of the agricultural machinery (tractors, combines etc.) and transfer to the mechanization centers established in all municipalities of Georgia through leasing.

Before procurement of the agricultural machinery specific features of each region should be taken into consideration, as different machinery is required, regarding different agricultural zones and annual and perennial crops. Hence, procured agricultural machinery should be tailored to the local needs to maximal possible extent. For procurement of up to 5.000 items of agricultural machinery for 4 years would require about GEL 150 millions, i.e. GEL 37.5 million per year.

3. Farmer services and consultation

Arrangement of farmers' consultation services is essential for restoration of agricultural sector. Creation of such services will contribute, on the one hand, to prevention of infectious diseases and on the other – to proper application of chemicals to ensure high yields. Farmers' consultation centers should be established in all municipalities and they should provide consultations on agricultural issues to the farmers and households for free. With the help of the consultation centers the agronomists and veterinarians will be employed in all communities of the municipalities, and will be provided with permanent professional training and access to information.

a. Dissemination of information about highly productive species and most recent achievements in agriculture.

According to the data of the Ministry of Agriculture 70-75% of the total number of cattle is characterized by low productivity. Similar situation is observed in plant growing. It is significant that the farmers' municipal consultation centers, as well as the veterinarians and agronomists in each community increase farmers' awareness in agriculture. The farmers should be provided with regular consultations about highly productive species in the plant growing and livestock spheres. The farmers should receive explanations on benefits of introduction of innovations. How they could procure the highly productive species and how these species should be maintained. Program of the preferential loans to the farmers should allow them to purchase highly productive species.

b. Dissemination of information about the centers accepting and processing the products, and markets.

It is significant that the farmers, through consultation centers, are provided with information about the centers that accept and process agricultural products in Georgia; in particular, information about location of such centers, their scope, quality criteria for the products. It is also significant that farmers have information about demand for various products at domestic market and their prices. The Ministry of Agriculture should regularly collect such information, process it and forecast expected demand. Providing of such information to the farmers is of great significance for proper planning of agricultural production. In order to form farmers' consultation centers the state budget should annually allocate GEL 7.5 millions

c. Veterinary and agronomical services

Veterinary and agronomical services should be provided in every community of the municipality with the budget funding. A veterinarian should ensure registration of the animals in the community and develop a database. Veterinarian's functions would also include preventive vaccination of animals for free. On the municipal level a reserve fund of bio-preparations should be established to ensure measures for liquidation of epidemics in case of emergency. Agronomist should provide free consultations to the farmers in application of chemicals and pesticides to achieve high yields and pest protection means. Together with high yields the safety of products shall be ensured and therefore, monitoring of the applied chemicals and pesticides should be provided. In this respect, the state should create a system to establish the norms of application of chemicals and pesticides for each variety of plants and to monitor their compliance with the standards provided by the agronomists. It is significant that the system for forecasting spread and development of harmful organisms was formed and the reserve fund for each municipality be formed for liquidation of the emergency situations. Formation of the institutes of agronomists and veterinarians at the community level will require GEL 12.5 million per year from the budget. Agronomists and veterinarians should be regularly supplied with information about innovations from the Ministry of Agriculture as well as with the brochures and booklets. In addition, they should receive periodical trainings at the farmers' consultation centers.

4. Education and knowledge

Regarding significance of the agrarian sector for the country we believe that in Signaghi, Kakheti region, a powerful state-of-art higher education center of agrarian profile should be established. In addition, in the other state universities the relevant programs should be developed with full funding by the state.

a. Educating 1000 veterinarians and 1000 agronomists

Currently there is a deficit for highly qualified veterinarians and agronomists in the country. The staff employed during the soviet period now is of pension age or they are disqualified. It is significant to develop the state program to train or re-train the agronomists and veterinarians to ensure development of highly qualified specialists. The agronomists and veterinarians should be employed in all communities of the municipality, i.e. there is a need of at least 1000 agronomists and veterinarians. At the initial stage the emphasis should be made on re-training of existing professionals and simultaneously, within the scopes of special programs the higher education institutions will educate young professionals as the demand in this sphere grows. The funds should be redistributed from the other specialties with lower priorities. No additional budgetary costs are required for this purpose.

5. Agricultural products' quality control / food safety

Introduction of the food quality control is within the state interests of Georgia. This is the requirement of the European Union as well. Imposition of the quality control will result in prohibition of the low quality and harmful products, which are mostly imported and make domestic products uncompetitive. By imposition of the quality control for food products demand for Georgian agricultural goods will increase, stimulating improvement of the products' quality and quantity and hence growth of the incomes and employment rate. For this purpose no any additional budgetary costs will be required. Donor organizations, particularly the European Union provides extensive financial assistance to Georgia in food safety.

6. Financial calculation of the funds allocated for development of agriculture from the state budget.

In total, for improvement of the agricultural sector the state budget shall allocate approximately GEL 198 million annually, i.e. about 2.8% of the total budget.

SOCIAL CARE

Pension system should comprise 3 components:

- Baseline pension, i.e. minimal fixed state pension standard. The baseline pension should be no less than the subsistence minimum and should be provided to the pensioners, individuals that reached pension age, and persons 40 years or older. At the same time, to those individuals who have never worked and therefore lack the opportunity to take advantage of individual pension accumulation scheme.
- Individual pension fund. Amount of the fund should be determined and be dependent on the amount of sums transferred to the fund by an individual and the payment period. The following system should be regulated by the state, management of the pension savings and pension accounts should be undertaken by the private pension funds. Sums transferred to individual accounts, i.e. the pension saving, should be deducted from the taxes to be paid by individuals and be exempt from the income tax.
- Special pensions. This pension should be provided to persons with disabilities and veterans. The pensions should be 30% above the subsistence minimum. For those persons with disabilities and veterans, who leave alone and cannot get around without some else's help, should receive a doubled pension.

Priorities of the New Rights Party in the direction of social aid:

- A new principle of social aid should be determined: major determinant of the social aid should be the family income at the given period, instead of the currently working ineffective principle that gives a social aid agency worker to interpret results of assessing the social-economic conditions of a family in various ways;
- Social aid should be provided in an organized manner:
 - Discrepancy and inequality should be overcome when appointing scores for entitling an individual for receiving social aid; since these scores differ per regions a countrywide unified rating scores should be determined, i.e. social aid should be provided to those families whose rating scores are less than 100 000;
 - As per article 17 of the law on *social aid for the citizens*, rating scores of families should be made public and in case of citizens' wish they should be able to see how their property was rated.
 - Insurance of the socially disadvantaged should also cover medicine costs.

In terms of establishing favorable living conditions for the internally displaced persons (IDPs), the priorities are as follows:

- The state strategy on IDPs should be revised and they should be provided with housing in the regions of Georgia, where they shall have an opportunity to pursue economic activity in their own households.
- For those IDPs who are unable to provide for themselves (such as individuals with disabilities, elderly people, single mothers and their children, orphans) various types of social and humanitarian aid should be provided;
- Inventory should be done in the housings of IDPs, their needs should be assessed and infrastructural project should be carried out in order to improve their standards of living.
- Protection of IDPs against illegal envisions.
- Supporting IDPs who return to the conflict zones coordinated functioning of the state entities to ensure their security.

The Party priorities towards social and legal protection of the participants of the wars for the territorial unity of Georgia and their families:

- Higher and professional education should be free of charge for the participants of the wars for the territorial unity of Georgia, as well as participants of war operations outside the country;
- Each veteran should be provided with an insurance and medicine on the state expense;

- Creation of a unified legal base for the social protection of the veterans, thus overcoming inequality among them;
- Social aid provided for the veterans should enable them to have dignified standards of living, the aid should not only equal substance minimum, it should create conditions for satisfying such needs as – education, cultural activities, etc;
- Reduction in prices on public transportation should be provided all over the country and not just in the capital;
- The state should ensure psychological rehabilitation of the veterans, in order to fully integrate them in the society;
- Assisting the veterans in medical, prosthesis-orthopedic services, providing them with medicine, within the framework of the state funded healthcare programs;
- Inequality should be overcome in providing assistance to the veterans residing in the capital vs. in the regions. Veterans and their families residing in the regions should be entitled to the same amount and forms of assistance, as to their counterparts residing in the capital.

HEALTHCARE

For improving healthcare of the population, emphasis should be made on spreading insurance system to cover the entire population:

- Medical insurance for children between 0-16 years, and for the elderly citizens above 65, should be carried out according to the same principles as for the socially disadvantaged population, plus providing for the doctor prescribed medicine;
- Those who are employed should be able to by law deduct the expenses needed for insuring themselves and their families from the income tax, within the framework of the minimal baseline insurance package as provided to the socially disadvantaged citizens;
- Sums paid for insuring the employees should be considered as an expense of an organization and should be exempt from the profit tax;
- The insurance companies participating in the state insurance programs should have a liability to maintain the baseline insurance package for the corporate and individual clients within the framework of the contract signed with the government.

In order to protect the rights of doctors and other medical personnel:

- All medical organizations will be responsible to insure professional responsibility of a doctor;
- Labor legislation should be revised, to protect the rights of doctors and medical personnel.

Increase access to medicine:

- A list of essential medicine should be created, financing of which should be provided within the framework of the minimal insurance package;
- In order to regulate prices on the pharmaceutical market, anti-monopolistic mechanisms should be put in place;
- Alternative ways for purchasing pharmaceutical products through international tenders should be found. Prices should be regulated by creating a special self-regulating environment.

The party has declared C hepatitis as a socially dangerous disease and thus a priority in the healthcare sphere. A state program on the disease should be created as soon as possible:

- Diagnosis of C hepatitis should be financed by the state;
- At least 2000 patients should be provided with free treatment per year on the expense of the state budget (the specialists in the sphere should establish the criteria for selecting these patients);

- Generic of interferon should be produced in Georgia, that will essentially decrease the price for treating C hepatitis (as per Doha declaration number 1);
- Liver transplantation program should by all means be established and financed in the country (at the initial stage on the expense of the invited specialists);
- Sterilization procedures should be strictly monitored in the clinics and other institutions that bear high risks of C hepatitis infection (dentistry clinics, beauty salons, etc).

UNITED NATIONAL MOVEMENT

EDUCATION

ACTION PLAN FOR 2012-2016

- Average salaries of the certified teachers will be GEL 600, while salaries of the best 25% will be GEL 1.000;
- 150 new schools will be constructed;
- All public schools will be rehabilitated;
- 3 new state vocational colleges will open;
- Students' summer employment program will continue and will be further expanded;
- 300 future forms will open;
- All successful students will receive scholarships;
- Number recipients of the student state grants in the higher education institutions will double;
- All first form students and successful students (successful graduates of the primary school) will be granted with personal computers;

EQUAL OPPORTUNITIES FOR ALL

Effective education reform is the token of the successful future of our country. Up to now, the greatest achievement of the government is introduction of the preliminary examinations based on the principles of meritocracy and competitiveness. It is time to introduce further innovations. From 2013 the graduates will not pass two similar examination stages (school examinations and unified national examinations). Instead they will be enrolled in the higher education institutions on the basis of final examinations passed at schools.

STUDENT CARD

As per the initiative of the President of Georgia, from 2012, all students of authorized higher education institutions have the opportunity to benefit from the Student Card.

By means of the card students will take advantage of various discounts in the state entities and private companies. Students can receive cards at any territorial office of the Civil Registry. Participation in the project is free of charge for the students of the authorized higher education institutions and use of student cards will be possible from July 1st 2012.

VOCATIONAL EDUCATION PROVIDES WITH THE PROFESSIONALS

Government has created favorable environment and as a result number of students interested in vocational education increased significantly. Colleges exist in all regions of Georgia. Interest towards this type of education is caused by future opportunities of employment. 60% of the graduates are employed. In 2012, each student interested in vocational education will be granted GEL 1000 vouchers. Total budget of this program comprises GEL 7.000.0000.

DEVELOPMENT OF THE PROFESSIONAL SKILLS AND ADDITIONAL EDUCATION FOR THE TEACHERS

Teachers in Georgia have the opportunities of improving their professional skills and receive additional education through various programs. Programs include trainings, seminars, conferences and other educational activities. Just recently the Teachers' House was constructed and completed with modern equipment. GEL 75 will be added to the monthly salaries of the certified teachers. If he/she passes the examinations of English language and computer skills additional amount reaches GEL 200. The best 25% of the certified teachers will receive about GEL 1.000. They also have an opportunity to work as mentors and receive additional GEL 180 per month.

GEORGIAN LANGUAGE FOR FUTURE SUCCESS

As per the President's initiative the program of teaching Georgian language for the ethnic minorities was launched. Hundreds of volunteer teachers are engaged in this program and re-training of these teachers was specially tailored for the program. At this stage the program was launched in three regions only: Samtskhe-Javakheti, Kvemo Kartli and Kakheti, but in 2012-13 it will cover other regions of Georgia as well.

TEACH AND LEARN WITH GEORGIA

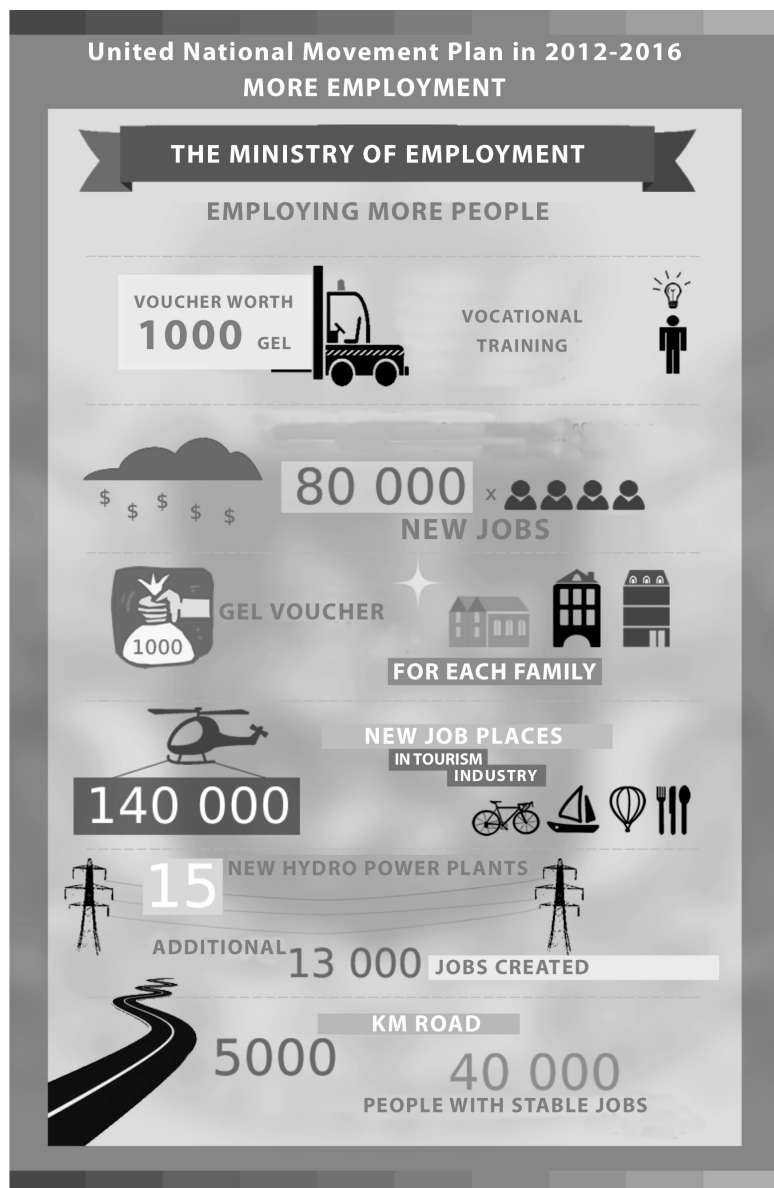
Georgian government implements a new program: Teach and Learn with Georgia. It envisages invitation of about 3.000 native English-speaking teachers to Georgia. Within the scopes of the project development and support of teaching English language is planned. Its successful implementation is of great significance for the future generations since with improvement of knowledge of English language they will actively share western values and culture.

MASTER'S PROGRAMS ABROAD

In 2012-13, any citizen of Georgia younger than forty with the bachelor's degree awarded by local university will have the opportunity to gain funding and continue his/her education in foreign university in engineering, IT, exact science and architecture faculties. By the initiative of the President of Georgia the funding program for gaining master's degree was launched in 2005. Within the scopes of this program 400 students have already received financial support and continued their education at the best universities abroad.

EMPLOYMENT

In the recent years Georgian government has implemented significant economic reforms. The mentioned reforms were intended for creation of new jobs, growth of entrepreneurial activity in all industries and improvement of the population's welfare. Unemployment rate is still high in the country and the government actively works to deal with this problem.



MACROECONOMIC ISSUES

During the recent years Georgian government has implemented significant economic reforms. The mentioned reforms were intended for creation of the new jobs, growth of entrepreneurship activity in all industries and improvement of the population's welfare. Unemployment rate is still high in the country and the government actively works to deal with this problem.

ECONOMIC REFORMS

Customs reform – costs related with the foreign trade were reduced and simplified. Number of import tariffs was reduced for about 90% of the products.

Modernized system of business licenses/permits – procedures of licensing and permit issuance were significantly simplified, introduction of “one window” and “no objections” principles.

Free industrial zone – the government has adopted the law on “Free Industrial Zones”, according to which such zone may be established on 10 ha and greater territory, by the decision of Georgian government – on the basis of investor’s or its own initiative. The zones offer differential tax treatments.

Privatization of the state property – to improve investment environment and for attraction of the private investments, in 2004 the privatization process has started. The main goal of this process included denationalization of the assets remaining in the state property, for stimulation of economic development in the country, growth and development of the private sector, attraction of local and foreign investments and effective use of the resources available in the country.

ACTION PLAN FOR 2012-2016

For the next 4 years rehabilitation of water supply systems will be completed in all large cities and regional centers. Internet access will be provided in all settlements.

Projects of rehabilitation of the cities and villages will continued, providing new employment opportunities, making our country more attractive, with in terms of tourism development and investments.

THE PARLIAMENT

We believe that each region and city shall have equal opportunities, for further stimulation of development and for securing economic stability. Therefore, from October 2012, the Parliament will be dislocated in one of the largest and most important cities of Georgia – Kutaisi. Change of location of the parliament was conditioned by a number of economic and political reasons, in particular:

Entire city infrastructure, roads and airport will be rehabilitated; number of tourists visiting Kutaisi will increase significantly. The city should attract the interest of potential investors with existing investment environment. Higher level of investments will ensure creation of more jobs resulting in reduction of unemployment rate in the region. “We should regain Abkhazia through Kutaisi, just like we have returned Batumi many years ago!” – stated Mikheil Saakashvili.

The new Parliament Building is one of the most significant and impressive examples of contemporary architecture in Georgia and all over Europe. The building is entirely covered with 40-meter glass cupola, transparent for the sunlight and ensuring natural lighting of the building.

Glass cupola is expression of the principles of transparency and democratic governance existing currently in Georgia.

LAZIKA

According to the statement of the President of Georgia, between Anaklia and Kulevi the new city, Lazika will be constructed. According to the plan, Lazika will be the main international commercial, economic and business center in Western Georgia. In 10 years it will be the second large city after Tbilisi, with minimum half a million population. The central part of the city will be located on 1.300 ha area and entire area of Lazika will be about 3.000 ha. "This city is quite realistic, in the situation where 45% of the country's population lives in the rural areas. We shall build new urban centers to settle the people and create new jobs for them" – stated Mikheil Saakashvili.

With the government's incentive, the draft amendment of the Constitution will be submitted to the Parliament of Georgia for consideration, according to which Lazika will be awarded a special status. "For us, this is a strategic issue to award special status to this city for development, as there are very good climatic conditions, it is located close to the railway and to occupied Abkhazia" – said the President.

In Lazika low tax rates and high level of self-governance will exist.

ROADS, TUNNELS, OVERHEAD ROADS

One of the key priorities for Georgian government is improvement of road infrastructure at the national level. The government has already started the "Project on Rehabilitation of the secondary and local roads".

Project goal is rehabilitation of the existing roads and effective distribution of the maintenance and repair costs. Within the project about 350 km of the secondary and local roads were rehabilitated and renovated. Currently rehabilitation works are in progress at about 400 km of secondary roads. In 2006 construction of the new overhead road has started intended for avoidance of delays on the roads connecting Eastern and Western Georgia. The construction process takes place simultaneously, at several segments.

In addition to the main overhead road, construction of Kobuleti – Batumi and Kutaisi – Samtredia bypass roads is planned to connect with the main overhead road. Construction of Svaneti-Ruisi overhead road will be completed. The road includes 800-meter tunnel, the bridges and small cities, where the rest of the stations will be arranged. In addition, Vaziani-Gombori-Telavi road was renewed completely.

In addition to roads rehabilitation, the government of Georgia provides rehabilitation of the tunnels at the national level. Construction of the tunnels is of great significance for the mountainous regions.

Rehabilitation of Rikoti Tunnel corresponding to the international standards was completed. In addition, 2 tunnels were constructed in Ruisi and one new tunnel is planned on Mleta-Stephantsminda section, which would reduce distance from Tbilisi to Larsi. In addition, the government works on the tunnels to connect Lentekhi and Svaneti regions. "We build the tunnels and by this unify Georgia" – stated Mikheil Saakashvili.

ELECTRICITY, WATER AND NATURAL GAS SUPPLY

One of the main goals of the government is providing 24/7 water, gas and electricity supply to the population. Georgian government, together with the European Investment Bank, has started rehabilitation works. The process is coordinated by the Ministry of Regional Development and infrastructure. At the initial stage in 17 cities and villages water supply systems will be completely replaced. In total, 5.000 people will be employed – most of them will be from the local population.

The new Parliament Building is one of the most significant and impressive examples of contemporary architecture in Georgia and all over Europe. The building is entirely covered with 40-meter glass cupola, transparent for the sunlight and ensuring natural lighting of the building.

Within the project everyday water supply will be provided to 63 municipalities/ Water piping will be completely replaced with the new ones and existing water reservoirs and water supply stations will be rehabilitated. Total project value is GEL 40 million. In 2008, by the special Presidential program the project "Natural Gas for All" was initiated. Within the project new gas supply pipelines were installed and the existing pipelines were rehabilitated. After completion of the project 70% of the population will be provided with uninterrupted natural gas supply. At the national scale the electricity system was completely rehabilitated. Some of the goals of this project include: installation of new meters, replacement of the obsolete cables and installation of the new ones, improvement of transformers in the entire system.

AGRICULTURE

The government of Georgia has started an active process of agricultural modernization, within the scope of which the following is planned: growth of exports, production expansion, construction of new factories and enterprises. This would lead to creation of new jobs.

For the purpose of development and support of the rural areas GEL 4 billion will be spent in the following 4 years.

Each village will have water supply system, the program of gasification will be completed in all villages, access to roads for all villages will be ensured. 2000 additional tractors, combines and other machinery will be procured.

Over 500 new agrarian enterprises will be established, irrigation of the additional 90.000 ha area will be provided, drainage system will be arranged on 35.000 ha area.

Result of all these steps will be the following – doubling of Georgian agricultural production, this would strengthen Georgian agriculture, Georgian economy and Georgian state as a whole.

DEVELOPMENT OF THE REFRIGERATION FACILITIES

Within the scopes of state program of agricultural support, at the national level, new refrigerator complexes are being arranged, among them, recently, in Avchala fruit and vegetables storage refrigerator was opened. Avchala storage refrigerator capacity is 8.000 tons. Currently 50 local residents are employed in this facility and employment of additional 150 people is planned. For the last few months, all over Georgia the refrigerators of 40.000 t total capacity similar to the one in Avchala were established. Development of refrigeration infrastructure would contribute to improvement of competitiveness of Georgian products and provide with more jobs.

FARMER SERVICE CENTER

All over Georgia, in 12 municipalities farmers' service centers were established. Through newly opened centers the farmers are able to perform 42 agro technical operations procure plant protection means for low prices, fertilizers and spare parts for machinery. Consultations on various agro technical measures are also available to the farmers.

NEW TRACTORS IN THE REGIONS

All over Georgia 126 new tractors were distributed to 12 service centers. During 2012, import of hundreds of tractors and other agricultural machinery items is planned. Within the scopes of special three-month program training was delivered to 300 technicians. They were trained to operate new machinery.

GEL 30 VOUCHERS TO THE FARMERS

800.000 farmers will receive GEL 30 vouchers each, for financing agricultural works. Vouchers could be exchanged for 35 kg of fertilizers, market value of which comprises GEL 70 and this quantity is sufficient for treating 1000 sq. m. area. Vouchers may be applied from June 2012 to till December 2012.

GEORGIAN WINE

The government of Georgia is planning to increase Georgian wine export globally. In 2012, the so-called newsletters will be published and disseminated in various countries to popularize Georgian wine on the world market. In 2011 Georgian wine exports comprised 14.850.000 bottles. This year exports increased significantly and exceeded 15.000.000 bottles. In 2010, Georgian wine was exported to 42 countries and in the next year the number was 52. According to the statement of the Georgian government, export revenues will reach USD 60.000.000 in 2012 and in the following two years this figure will be increased up to USD 100.000.000.

IRRIGATION SYSTEM

Construction of the headworks of irrigation systems – at the national level: headworks of the obsolete, inoperable irrigation systems were fully repaired and rehabilitated.

In Gori Municipality, in village Nikozi, on Didi Liakhvi River the headworks of Tiriponi-Saltvisi irrigation system were built.

Sioni Channel was reconstructed.

SOCIAL CARE

In order to provide with pensions during the next 4 years, in total 6 million GEL will be allocated, which means that starting from 2013 pension will equal 100 USD and be more than the subsistence minimum. More importantly, healthcare insurance will be an integral part of the pension package and no pensioner will fear of turning to a doctor and receive necessary medical services. Socially disadvantaged will continue using the active health insurance packages, all children from birth till 5 years of age will be insured, as well as all teachers, IDPs, soldiers and policemen will have insurance packages especially tailored to their needs. All the others who do not belong to any of the above-mentioned group will have a baseline health insurance package. The package will cover emergency situations and unexpected illnesses, so that these happenings do not impoverish a family.

For the sake of social aid, 3 million GEL will be allocated during the next 4 years. Our goal is to create jobs and employ those who are currently unemployed and awaiting social aid from the government. But until all families have their own income, the state will

provide them with the social aid. Currently, the state provides for up to half a million people with social aid. Starting from 2013 this assistance will be even more overwhelming and be directed towards the needs of the socially disadvantaged individuals.

HEALTHCARE

For the sake of ensuring healthcare insurance, 3 million GEL will be allocated from the state budget, which means that everyone will be insured!

In 2006 only 40,000 citizens had health insurance. This year, starting from September 1st, 9 million people will be insured by the state. Up to half a million people have a private insurance. In total 2.4 million citizens have health insurance, but our goal is that every family has an opportunity to get insured.

GEORGIAN DREAM

EDUCATION

According to official statements, the education reforms implemented by the government were intended to create a system that met modern requirements. However, due to their rushed execution, a lack of professionalism, a lack of responsibility, and superficial politics based on individual interests, the country's education system still faces significant problems.

- The education system is politicised and it functions in the conditions of police regime. Education institutions have very limited autonomy. Candidates to the key positions of a given education institution are appointed / elected on the basis of political reasonability; education institutions (both, administrative and academic officials) operate under either the direct or indirect influence of the state.
- In number of cases, highly qualified teachers (young teachers among them) were left without positions in education institutions due to their political views.
- After establishment of school security institutions by the ruling party, the schools operate in the conditions of police regime;
- The government has used the directors and teachers of school to falsify elections;
- Student participation in decision making and implementation process is restricted; students' unions are actually the representatives of youth organizations of the ruling party.

THE MANAGEMENT OF THE INEFFECTIVE EDUCATION SYSTEM

- The current education reform does not provide for the country's needs and abilities;
- There are no long-term plans for the development of pre-school, primary, vocational and higher education;
- Instant and frequent changes in legal regulations prevents quality learning, teaching, research and administration;
- The system is excessively centralized;
- Operation of the management bodies of education institution is of formal in nature;
- Competences of local self-government bodies are very limited and not clearly distinguished from the ones of central governmental bodies.

EDUCATION FUNDING IS VERY LIMITED

- Education is not a priority for the government, budget funding is very low;
- Average monthly salaries of the employed in education are very low;
- Existing model of funding of education institutions and regulation of school branding creates unsound competitive environment and unequal opportunities for receiving education.

QUALITY AND ACCESS TO EDUCATION IS VERY LOW

Access to pre-school, vocational and higher education is very limited and unequal, in terms of territorial, and financial, as well as high quality education;

- Many children and young people cannot get access to education;
- In many cases, population has to reduce basic consumption costs to pay for education;
- Educational institutions are not able to provide with proper integration of the disabled;

- There are no necessary conditions for implementation of the education programs – teachers and academic personnel have no proper qualification, the textbooks are of low quality and expensive;
- Scientific activities of the higher education institutions are ineffective;
- The most acute problem is integration of the higher education and science – important mechanism for development of education system; currently this process is chaotic and is not result oriented;
- Mechanisms/programs for supporting scientific researches in the higher education institutions are ineffective and non-transparent.

KEY DIRECTIONS FOR EDUCATION SYSTEM DEVELOPMENT

Education is a priority for us.

DE-POLITICIZATION OF EDUCATION SYSTEM AND ELIMINATION OF POLICE REGIME INFLUENCE

- Education system will be based on the democratic values and will be freed from the principles of oligarch authoritarian governance and administration based on personal loyalty;
- Legislation will guarantee high level of academic, administrative and financial autonomy of education institutions;
- The idea of the school security institution will change; security, as a school staff member will protect schools in accordance with school charters and in agreement with the administration;
- The referral rule, as well as the relevant institutions will be closed, and thus the social groups of problematic children will not be artificially created; all conditions will be provided for educating the problematic children in schools;
- Mechanisms of influencing student unions for realization of narrow political interests will be eradicated; activities of the student unions will take place within the scopes of the law and their charters.

MECHANISMS FOR EFFECTIVE MANAGEMENT OF EDUCATION SYSTEM WILL BE CREATED

- Management of the education system will be based not on the superficial but rather on the systematic and result-oriented short- medium- and long-term strategic planning;
- Reasonable and effective proportion of the rights and obligations of the state authorities (including the Ministry of Education and Science) in the sphere of education will be revised and established;
- Competences of local self-government in the education will be increased and clearly distinguished from the central government authorities;
- As per decentralization process of the management system, establishment of schools as legal entities of public law (hereinafter referred to as LEPL) will be within the competence of local self-governments, together with their funding and control;
- The regions will be empowered in the sphere of vocational education (establishing, funding and control);
- Legislation will ensure that the state and local self-governing entities will be able to establish educational institutions only in a form of LEPL;
- The board of regents will be abolished;
- School branding practice will be abolished;
- Successful functioning of schools, together with permanent improvement of the teachers' qualification will be based on strengthening of the role of local government and active participation of the community;
- The mechanisms for effective collaboration and experience sharing among the schools, as well as the teachers will be established;

- Objective, transparent and effective mechanisms for retaining/attracting of highly qualified professionals, on administrative, as well as academic and other positions will be established;
- Rights of the teachers, professors, and scientists will be protected, so that no one will be able to dismiss or re-elect them on personal or political basis;
- As a result of education strategy implementation the process of the so-called brain drain will be reversed;
- The law will require that the heads of educational institutions will be required to have pedagogical, academic and/or scientific experience;
- School principal will be not only a manager but the teacher at the same school. This will ensure improvement of the teachers' confidence in him/her and their effective cooperation;
- School principals will be elected by the teachers' council;
- Deans of the higher education institutions will be elected by the academic council, among full time professors;
- Parents' effective participation (through parents' council) in development of school plan will be ensured, as well as in revision and evaluation of reports on schools' activities;
- Establishment and effective functioning of parents' committees will be promoted on national, regional and local levels;
- Together with the government, parents will be primary protectors of children's rights (including the right to education);
- Unbiased and reliable statistical data on education system will be maintained, relevant international practices and methodologies will be introduced;
- Program budgeting in education will be developed;
- Unified methodologies for development of the strategical plans and reports on the educational activities will be established;
- Unbiased annual monitoring and evaluation of the education system will be performed;
- Publicity of the relevant documents will be ensured. Monitoring and evaluation will be oriented towards improvement of shortcomings and searching ways of improvement, rather than towards punishment measures in the system;
- The mechanisms of active involvement of all interested parties will be developed and implemented; information about costs allocated for the education and activities of the educational institutions will become transparent and available for the general public.

EFFECTIVE MECHANISMS FOR EDUCATION FUNDING WILL BE CREATED

- Regulating education funding, its forms and quantity will provide socio-economic guarantees of permanent development of human resources, priority of education system, its sustainability, development, effectiveness and realization of the constitutional rights;
- Share of state expenses on education, in relation to GDP will be increased;
- Together with growth of general education expenses, labor remuneration of the employed in educational institutions will be increased significantly, their social status and prestige will improve and the teachers will have higher standards of living;
- "The voucher principle" of education funding (as the basic source of funding) will be revised and it will be supplemented with other components of funding of the educational institutions;
- The government will ensure high standard primary education for all, in the educational institutions at its own expense; finances allocated for pre-school, vocational and higher education will be increased; consequently access to education will increase at all stages;
- The state will provide support (motivation) to the particularly successful PHD candidates of public and private higher educational institutions.

ACCESS TO EDUCATION WILL INCREASE

- Execution of the right to education will provide every citizen with equal opportunities for development, providing possibility of overcoming existing social inequality;
- Relevant standards of access (including territorial access) be developed and approved;
- Establishment / reorganization of the educational institutions will be carried out in accordance with these standards, rather than on individual decisions;
- Within the scopes of general state policies, local self-governments will ensure access to pre-school education in Georgian language;
- For the villages and cities the standards of territorial access to schools will be established;
- In case of non-compliance with these standards, the students shall have discounts for public transport;
- State will particularly take care of small schools located in high mountainous regions;
- High quality textbooks in Georgian language will be developed (and translated) and made available for the students;
- Various mechanisms for financial access to education (together with basic funding of LEPL, long-term crediting for the students of vocational and higher educational institutions, implementation of the effective targeted social assistance and employment programs, providing with housing, etc); rules of granting scholarships will be established;
- Each individual willing to receive vocational education, and later on employment in this profession, will have access to this education;
- Territorial availability and access to vocational education will be provided;
- The system of regular research of labor market and providing general public with this information will be formed;
- Teaching Georgian language for the national minorities will be ensured and, in accordance with the rules, established by the law, the right to education in Georgian language will be provided to the fullest possible extent for them;
- Result-oriented targeted programs will be implemented guaranteeing each person with the special needs access with education (including the people with disabilities and the so-called street children);
- Each citizen of Georgia will have an opportunity to get access to education for his/her entire life;
- Electronic education, improvement of qualification and re-training targeted programs will be supported.

QUALITY OF EDUCATION WILL BE IMPROVED

- Quality of education will be based on Georgian historical, and western standards and experience;
- Legislation will provide the National Center of Education Quality Improvement with independence from the central government;
- A major function of the National center will be external quality evaluation, identification of shortcomings and identification/implementation of the measures for their elimination (in the extreme situations cancellation of authorization/accreditation);
- Existing rules on authorization/accreditation will be substantially reviewed; in authorization/accreditation measurable objective indicators are necessary, as well as evaluation of the discipline and content aspects;
- Development of the education quality will be provided with co-existence of three necessary components:
 - National educational plan/educational programs (discipline characteristics);
 - Relevant qualification of the pedagogical/academic/administrative personnel;
 - High quality textbooks.
- Educational plans and programs will be developed for pre-school institutions; adequate qualification of those employed in kindergartens will be ensured;
- National educational plan will be substantially revised, as well as the key principles of teaching and learning and hourly distribution, as well as the syllabuses;
- Schools will regain the function of upbringing;

- Particular attention will be paid to teaching Georgian language as a separate discipline;
- In order to improve the quality of education, maximum students in classes will be no more than 25;
- Sustainable and effective system for improving qualification will be created; compliance of qualification of teachers/ academic personnel with the requirements of educational programs will be ensured;
- Targeted programs for improving the teachers' qualification will be established;
- Motivation and empowerment of teachers will be supported; they will have the opportunity to care about their own professional development. Scientific potential of the higher education institutions will be improved. Effective legal, institutional and financial mechanisms of integration of the higher educational institutions will be developed;
- Legislative regulation of the important role of higher education institutions in the sphere of science, technologies and innovations will be ensured;
- Relevant programs/measures will be provided in various state strategies;
- Results of the goals and objectives stated in these strategies will be benchmarked against international indicators of teaching and research evaluation;
- The state program for basic funding of the scientific activities of higher education institutions will be implemented;
- Within the scopes of such funding higher education institutions will have the authority to set scientific priorities, remuneration of the scientists will increase;
- Grant funding of the scientific projects for the scientists of higher education institutions from the State Scientific Fund will be provided according to the state priorities, on the basis of unbiased and transparent evaluation and funding;
- Effective mechanisms for scientific research and introduction of modern technologies by the higher education institutions will be provided.

SCIENCE

Georgian science and its development is not a priority the current government. Improper attitude towards science, from the side of the government is not restricted to poor funding only. For many years the scientific and research institutions were closed intentionally, funding of science was reduced significantly. Numerous scientific and research institutions were privatized and followed by loss of jobs by numerous scientists and other staff, thus causing brain drain. Communication among scientists, within the country, as well as abroad is very poor.

Share of young people choosing academic carrier is very low. State has completely rejected responsibility for development of science in the country.

Integrated system of scientific knowledge is destroyed. Without formation of the new system it is impossible to update, share, accumulate and transfer knowledge to future generation. State policies should be implemented for this purpose.

KEY DIRECTIONS OF SCIENTIFIC POLICIES

- State policies in regards to science and activities of the scientific-research institutions will be developed;
- Science will become the basis for knowledge based economy;
- Based on our priorities funding of science will be increased significantly;
- New, European-type system of arrangement and support of the fundamental and applied researches will be formed; in order to ensure scientific researches corresponding to the contemporary requirements, an effective system will be developed to promote full realization of the scientific potential existing in Georgia, as well as permanent development of science and its integration into the common scientific space;
- Development of scientific infrastructure will be ensured, as well as improving quality of researches, involving young

- people into scientific-research activities, integrating the country's science into the international scientific space;
- Result-oriented grant funding system will be established in the field of science;
- The state will support integration of Georgian science and scientific-research institutions into the international scientific and academic space, including joint researches, such as participation in international projects;
- Scientific system should be built on the potential of existing scientific-research institutions. Representatives of these institutions will directly participate in their management;
- One of the most significant objectives of the country will be attracting the most talented young people into the field of science.

EMPLOYMENT

The government, which came into force after the "Rose Revolution", decided to give employment to the population only during the pre-election periods with one-time "programs", however the desired result is not achieved. The government had never had an employment strategy, and, accordingly, the measures, carried out by them, were chaotic. During the last 8 years the employment rate has not improved, on the contrary, - unemployment has increased, and the number of the employed decreased by 170.000 persons. As a result of the Labor Code adjusted for the benefit of an employer, dismissal of people took place massively. In the conditions of great pressure on businesses, new jobs cannot be created. Overwhelming majority of the population, working abroad, do not have an opportunity to be employed as per their professions, and more than 80% of them occupy positions which are inappropriate for their qualifications.

Unlike the government policy, our policy is based on principles of western values – human rights, labor freedom and creation of decent living conditions.

For providing with employment by the means of SME development, support of agriculture, promotion of investments and production, education and professional growth opportunities are reflected in the appropriate strategies, prepared by us. In each direction specific objectives are set.

The desire of the government to control every tetri of the population caused prohibition of using well-known and widely used electronic payment systems. Georgia still belongs to the small group of countries, where the citizens cannot use "PayPal" and other similar electronic payment systems.

Instead, there are a number of companies that offer the population to carry out transactions by the payment system "Pay Pal" - with high intermediary rates. Each person will feel the tangible results of our employment policy:

- He/she will find a job, appropriate to his/her qualification and experience, and will be able to realize her/his own knowledge and skill;
- Will get additional income and improve her/his social condition;
- The mass migration of the population will decrease;
- Number of crimes committed on the grounds of hardship will be reduced;
- Demographic data will improve.

For job creation purposes, real development of economy and attraction of investment, particularly in labor intensive sectors, is of importance. Our vision is oriented towards rising human resource qualification level to making workforce adequate to the needs of modern technological demands and innovative development. The vector of economic development in Georgia, particularly

during the last 8 years, has not served the development of two important areas of economy – agriculture and industry. Economic growth was mainly concentrated in the financial sector, real estate (including construction), services and trade. In addition, these fields were not characterized by an increase in labor demand either. Employment programs implemented by the state turned out to be ineffective because they served only short-term political goals.

Employment oriented policy implies real development of our country. Economic policy shall provide:

- Development of agriculture, together with processing industries, small and medium businesses;
- Continued increase in the number of formally employed individuals;
- Decrease in the share of self-employed in particular sectors (mainly agricultural sector) as a result of cooperation, growth of the level of commercialization and of technological development.

One of our main objectives is formation of efficient and civilized labor market. Harmonization of the labor legislation with the European legislation is an important component of accomplishment of this task. For harmonization of the legislation and formation of a civilized labor market it is necessary:

- To develop and adopt a new labor legislation;
- To reform the labor legislation for efficient placement and use of labor resources in the economy, with strict observance of basic rights of the employed (the right to a fair remuneration of work, the right to appropriate working conditions, the right of protection against unjustified dismissal, the right to strike, etc);
- Creation of database of unemployed, for retainment and job offering;
- Increasing effectiveness of support measures of the unemployed by the state
- Ensuring an efficient system of social dialogue and social partnership.

MACROECONOMIC ISSUES

STATE BUDGET

In adoption of the state budget, the issue of mutual responsibility of the parliament and the government is of importance. In this regard, the government's opinion is of primary significance, while the final decision is up to the parliament. This means that only the government shall have the right to submit a draft budget and without its consent no changes will be made to the draft budget, such as increasing government's expenditures or reducing its revenues. On the other hand, the government shall have no right to receive state loans or undertake any financial obligations, as well as to transfer the sums from one part of the budget to the other. If the parliament fails to adopt the law on state budget, the government shall have the right to bear expenses only for fulfillment of the obligations undertaken by the state earlier on and only in accordance with the previous budget. If, after the budget year starts, in 60-days time, as per the Constitution, the parliament fails to adopt the state budget and to replace the government, the president shall dismiss the parliament. The parliament shall have the right to control lawfulness of the state budget spendings by the government and in case of violations, by the decision of majority, suspend the relevant payments. In case the parliament does not approve the state budget performance report, the government shall retire.

THE CHAMBER OF CONTROL (THE STATE AUDIT SERVICE)

The Parliament controls lawfulness and reasonability of use and spending of the state assets and other material values through the chamber of control. As the government is the main spender of the state assets, which has the support of the parliament majority, in order to ensure unbiased control, when creating a control institution, not only the parliament majority shall have the

decisive voice. Therefore, we believe that the Chamber of Control should be a collegial body composed of 5 members chosen for 5-year term. Its chairman should be elected by the parliament, from the candidates nominated at least by 1/5 of its members. In order to elect a candidate, support by listed composition of the parliament shall be required, provided that he/she shall be supported by the absolute majority of the parliamentary opposition. Such approach ensures political neutrality of the chairman of the chamber of control. As for the members, they should be elected by the parliament from a number of relevant professionals, by the majority of listed members, provided that at least 2 of the members are elected with the support of parliamentary opposition. To ensure independence of the chairman and members of the chamber, their early dismissal should be allowed only through impeachment.

NATIONAL STATISTICS OFFICE

In order to establish state policies, unbiased evaluation of the situation in the country is required. For this purpose, unbiased statistical information is needed, together with the other data. This information is required also for effective parliamentary control of the government's activities. This objective can be fulfilled only by an unbiased statistics office equipped with relevant authorities and independent from the government. Currently this is not the case. Therefore, we believe that the Constitution should state that the National Statistics Office is an independent institution accountable to the parliament, the director of which shall be appointed to this position for 5 years by the majority of listed parliament members, including consent of the majority of parliamentary opposition.

KEY APPROACHES AND CONCEPTUAL ISSUES

KEY PROBLEMS OF THE GOVERNMENTAL POLICIES

Since the collapse of the Soviet Union, the government of Georgia always lacked a well-thoughtout consistent economic policy. In the conditions of permanent "reforms" for the last 20 years we have obtained only one single result – according to the information provided by the World Bank, in 2010, per capita GDP in Georgia is 25% lower than in 1990. And this indicator distinguishes Georgia even among the former soviet states (during the same period, from 1990, growth in Estonia was 63%, in Latvia – 28%, in Lithuania – 24%, in Armenia – 66%, in Azerbaijan – 87%).

GDP of Georgia increased by 70% from 1997 to 2003, and from 2004 to 2010, increased only by 36%. During 2004 elections, when the society faced extremely heavy socio-economic problems, the "United National Movement" won by giving promises of rapid economic growth and by offering significant social assistance. Even though the course was promptly changed and economic experiment with the pseudo-libertarianism motto (which was very far from the real libertarianism) has started, and social responsibility of the government was rejected, a "libertarian miracle" did not take place in Georgia; as a matter of fact, it was clearly impossible from the outset, particularly, regarding that there is no similar precedent in any other country worldwide.

Since 2004 up to date, no proper and consistent economic policy has been implemented. After losing trust among the population, the government started implementation of forceful measures, and in order to justify these actions, in front of the western partners, propaganda has started claiming that the Georgian society is not ready for democracy and reforms. Therefore, the government has to act through autocratic forms of governance (Singapore example). Consequently, it is clear that beyond the declared Euro integration there is a concealed desire of "Singaporization", i.e. aspiration towards autocracy and not towards liberal economic model. Singapore, as a city-state, that has an absolutely different structure of economy and therefore, it can never become the targeted model for development of Georgian economy.

Finally, the government considered that the traditional oligopoly economic model is the most comfortable one for Georgia, as it is easy to control given authoritarian governance and creates a fertile soil for an elite corruption. Each citizen of Georgia feels the

“success” of this model when procuring goods and services of primary consumption – food, fuel, medicine, electricity and various utility services. The Oligopoly model, formed under the aegis of “market fundamentalism” caused impoverishment of the most part of the population. Therefore, for the purpose of reduction of social dissatisfaction, the government had to start “poverty alleviation”, “employment”, “business support” and other populist programs oriented towards pre-election propaganda and not towards results.

Each promise given after the “rose revolution” remained as mere promises: dealing with the unemployment problem; restoration of territorial integrity of Georgia; Georgia without poverty; access to health care; 100 USD pensions; transformation of Georgia into the world financial center etc. During the recent years GDP has been increasing, but without any actual economic development. The per capita GDP is still catastrophically low. Even though numerous credits were taken for the purpose of growth stimulation, the external debts have increased and the state properties of strategic significance were sold out.

Situation in regards to **employment** worsens and unemployment increases, while concealed unemployment is at its critical threshold. According to the official statistics, rural population is self-employed. Therefore, in rural areas the unemployment rate is artificially recorded as 6.5%, while in the cities unemployment rate is up to 27%. According to the statistics, the number of formally employed in Georgia is no higher than 600.000, while the number of the self-employed is over one million and 90% of them are rural population. It is significant that for the last 15 years agriculture does not advance technologically, and new jobs are not created either. In addition, for many years, the dangerous trend of outflow of labor from Georgia is observed. An absolute majority of the labor force that has left for other countries is employed at low qualification and poorly remunerated jobs and only small part thereof is engaged at highly qualified positions.

National savings – one of the most important sources of economic development – dramatically decreases due to import orientation trend. For many years Georgian population had to spend more than it earned – the savings as percentage of GDP decreased every year, from 16% recorded in 2003. In 2010, in the conditions of exhausting resources, it reduced to 2.2%. For the population, particularly for the low-income strata, inflation is a serious problem, which, primarily, was reflected on the prices of the basic consumption goods. State policies, foreign investments and credit funding by the commercial banks were not oriented towards agricultural development. Share of domestic products in the food consumption reduced while share of imported agricultural produce increased significantly.

For the population of Georgia, **the privatization** process implemented during the recent years in Georgia is particularly alarming. The government of Georgia has been disposing of the state property without any transparency and in many cases without informing the population. Majority of large entities, including those of strategic significance, were not privatized transparently, but rather through negotiations with one individual (without auction), while fully neglecting the state interests.

Privatizing properties for the symbolic price (GEL 1) on the basis of the decree of the President of Georgia is particularly “popular” in the government. According to the world experience, this is reasonable only where the buyer is a world famous brand or a company, what actually is not the case in Georgia. Unfortunately, most of such transactions are sources of “elite corruption”, in many cases, with classical signs of nepotism. The government does not monitor terms of agreements with the investors and does not apply any sanctions for non-fulfillment of the undertaken obligations. In general, absence of transparency policies of privatization processes, from the side of the Georgian government, undertaken unreasonable and biased decisions caused significant losses to the society and the strategic interests of the country. Nevertheless, the government still continues carrying out privatization with similar methods oriented towards short-term fiscal effect that serves personal interests of high officials of the government.

The main problem of current economic policies is the fact that the government, under the aegis of “market fundamentalism” has rejected such organic functions oriented towards the public interests as: creation of the sound and competitive business environment; social responsibility; protection of public interests. Such functions of the government as: protection of the consumers’ rights, assurance of quality of food and medicines, free availability of the public resources and many other functions universally

recognized as the functions of government. At the same time, the country could not fundamentally transform the economy, on the contrary, now it faces the danger of finding itself in the “poverty trap”. To avoid this danger and recover the current situation the urgent and drastic measures are required. The results of politics implemented by the government for 9 years clearly show that they are unable to change the situation substantially. Elections block “Bidzina Ivanishvili – Georgian Dream” is ready to undertake responsibility for the drastically new course of development ensuring implementation of the politics oriented towards public interests and true European Integration.

ADVANTAGES OF THE ELECTIONS BLOCK “BIDZINA IVANISHVILI – GEORGIAN DREAM”

Economic policies developed by the election block “Bidzina Ivanishvili – Georgian Dream” provides for and is based upon the universally recognized principles of free market economy and modern approaches emphasizing the role of the state for ensuring social welfare and social security. To ensure long-term stable development of Georgia the following is needed: economic policies should be based on the model of sustainable development; in the process of systematic transformation the state should play the key role and determine development strategies for the main goals and at the level of relevant indicators; within the scopes of development strategies determine all functions which is necessary for sustainable development and public welfare; structural modernization of the economy is required to ensure global competitiveness of Georgian economy based on the reasonable use of comparative advantages of the country.

Exports should be stimulated and imports should be substituted as the integral part of the structural modernization; state should ensure fair, free and competitive market environment; formation of the modern and flexible infrastructure should be ensured to be equally available for all players. We do not believe that growth of per capita GDP is a single goal and a single indicator of development. All developed countries of the world are interested not only in GDP growth, but also in the indicators of welfare – whether the population is satisfied by the housing conditions, revenue levels and their distribution, jobs, dwelling infrastructure, education and health care quality, governance effectiveness. Growth of GDP, as such, does not condition improvement of welfare of the society. Therefore, after implementing our policies:

- The standards of effectiveness and transparency will be introduced in public finance management;
- Agricultural production will be increased to ensure stable incomes for the labor resources of Georgia, as well as food security of Georgia and increase of the export potential of the country;
- Development of small and medium business will ensure overcoming the economic crisis by the country, unemployment reduction, formation of large and powerful middle class;
- The market will be freed from the artificial monopolies hindering free entrepreneurship and take up most part of the incomes of households through imposing inadequately high prices for the essential goods and services;
- The taxes paid by the population will be spent in a reasonable and transparent manner;
- Inequality will be reduced and each family will feel improvement of welfare.

Restoration of state functions as a result of economic policies, as well as optimization of the effective and incomplete functions is impossible without fundamental institutional reform. We believe that the public servants should have the right to make competent decisions. In order to increase public benefit of the state sector, it is necessary to ensure that the public servants make informed, competent and independent decisions.

Unlike the current alarming reality our vision of institutional reform implies benchmarking against European public institutions. Management of the state owned properties will be carried out reasonably.

- Full inventory of the state property will be provided;
- The priorities will be stated and state policies will be developed in regards to privatization;

- Definitions of the strategical entities will be revised and their new list will be prepared;
- Relevant department will impose strict control of fulfillment of the obligations undertaken by the investors;
- Privatization process will be implemented transparently, mostly through auctions.

Our goal is improvement of global competitiveness of the country. In this respect, deficit of innovations and scientific researches, caused by the inconsistent reform of educational system and targeted attack of the scientific institutes, brings out the unprecedented risk of brain drain from the country. Global competitiveness index published by World Economic Forum names low quality of labor force as one of the main problems facing Georgia.

In regards to higher education, innovations and scientific researches, we have traditionally an undesirable situation. Measures to deal with these problems promptly include creation of proper conditions for returning our professionals working abroad, as well as wide-scale process of re-training of the professionals in Georgia.

Unlike current economic policies our strategy implies creation of proper mechanism for risk management based on the indicators, for preventing internal and external shocks.

STATE STIMULATION POLICIES AND EMPHASIS OF THE ECONOMIC POLICIES

Market economy, compared with the other economies, is the most successful and effective model providing welfare. Currently, for the purpose of improving shortcomings of this system, and by taking into account other interests, the necessity of reasonable intervention still persists. Substantial analysis of economic and social problems of the country shows that the main objective is formation of an optimal, de-monopolized market system. Our vision based on the free market economy provides for:

1. Apparent distinction shall be made between the government and the private sector and they shall be functionally distinguished.

2. Participation of the public sector will be minimal and in case of realization of its functions – adequate and effective;

3. Government should not hinder the private sector, market and competitive environment, which are decisive in improvement of welfare.

Strict and uncompromised implementation of the approaches above will result in significant economic growth. Growth factors will be significant and stable. In addition, vision of the elections block “Bidzina Ivanishvili – Georgian Dream” intends to establish special targeted policies in the selected economic sectors.

For active targeted state policies the following spheres were selected:

1. Agriculture, small and medium entrepreneurship, agricultural processing. Policy instruments are indirect subsidizing and transferring the resources to these sectors from the others;

2. Social sphere – pension reform, health care system reform, system of assisting the poor. Reforms of the field according to the program imply formation of the social system based on the personal responsibility, with an active state intervention in the initial years of the reform.

3. Policies of economic growth - investments are one of the significant factors of economic development of a country. In the recent years, most of the investments brought into Georgia are privatization-related, i.e. frequent change of the owners

of private assets and to the lesser extent – creation of the new production assets in the industry and agriculture. The state should create favorable environment for both, domestic and foreign investments and this implies safety of the investments, creation of the stable and forecastable business environment. Simultaneously with promotion of foreign investments the same conditions shall be applicable to the domestic investments, savings and reinvestments should grow. External financial assistance and other injections provide only temporary relief while they can not compensate for insufficient accumulation of local capital.

Our policies, instead of consumer-oriented economy, will foster the economy oriented towards savings and capitalization growth, thus playing a decisive role in long-term sustainable development.

With respect to savings stimulation, we believe that:

- The accumulation system of the pension insurance schemes is of significance;
- Active participation of the agricultural fund in formation of the long-term capital;
- Role of actual decentralization in normalization of income distribution by regions;
- Improvement of the tax environment and its prominent role in promoting accumulation;
- Significance of the entry into the new international markets and regaining of the previous ones for the purpose of creation of more high income jobs;
- Increasing the role of stimulation of consumption of local products;
- Significance of the state strategy for long-term and sustainable development to stimulate more citizens of Georgia to allocate their savings in their own country and not abroad;
- Significance of the deposits insurance for guaranteeing deposits' security.

In the current conditions we can not consider development of the country and welfare of the population without close trade & economic relations with other countries and integration into the global economic processes. Specific function of the state in stimulation of exports includes bilateral trade agreements with other countries, support of gaining preferential and free trade regimes and institutional infrastructure within the country to facilitate compliance of Georgian exporters' with the regulation frameworks of other countries and permanent growth in exports. For achieving significant expansion of the export markets, free trade with the EU countries and the USA, as well as restoration of trade relations with Russian Federation is of great significance.

FAMILY AND INDIVIDUAL

Central object of care – family and individual

Even official statistics can not conceal the fact that income inequality permanently increases in Georgia. Relatively high income people are concentrated in a very narrow segment, while most families are beyond the poverty line.

Household, that essentially is very close to the term – family, is a basic unit of the economy. Even though National Statistics Office conducts number of studies according to the household economies, effective economic policy does not recognize the role of a family, i.e. it is not interested in the problems and needs of the families. Except for benefits provided for the mothers with many children, there is no any other practice of stimulation of a family institution in Georgia. Developed countries have recognized long ago social and economic significance of a family – full families are more stable towards the risks, in addition, they have greater stimulation for saving and lower costs per member. On a single family level the effect is less significant while on a macro level all these factors are of great significance. In addition, the family is a steady platform for small enterprises, support of which is one of the key priorities of elections block "Bidzina Ivanishvili – Georgian Dream.

New development strategy offered to the public provides for activation of the role of a family. Within the scopes of family support our development strategy includes measures:

- Stimulating family involvement in small business;
- Introduction of a deductions system in income taxes;
- Stimulation of the families with many children not by one-time benefits but rather by systematic support;
- Allowing maximal realization of citizen' capacities;
- Harmonization and optimization of taxation system.

UTILITY SERVICE FEES

Since 2004, utility service fees have been rapidly increasing and by 2012, the fees in Georgia are much higher not only compared with the CIS states but even higher than in many European countries, not to mention rough methods of fee collection. Significantly overestimated utility costs are a heavy burden for the poor population. For the most part of population, since 2004, utility fees increased 3-4 times. Supply of power, natural gas and water, waste disposal – all these services have one common feature – prices for these services are inadequately high. Reason for this is unfair actions adopted by the government and regulatory commissions. In this respect, 2007 and 2010 were particularly distinguished. In these years, irrespective of the promises and heavy social background fees increased drastically.

In Tbilisi, growth in water fee from 2003 up to now comprises 160%: in 2007 it was doubled and in 2010 it increased again. No promise (24-hour water supply, water quality improvement, fee differentiation etc.) was fulfilled and deceived population has received the same and in many cases – worse services at much higher prices.

Price of natural gas was almost doubled. It is very high, when there are many preconditions for significant price reduction (Georgia receives natural gas for free, for transit of gas via main pipeline and Baku-Tbilisi-Erzrum gas pipeline; quality of natural gas is not very high etc.). During the same period, electricity fee increased by 70%. It should be noted that the differentiated fees are socially unfair.

Unfair politics implemented since 2004, for determination of the utility service fees finally ended with connecting fees with water removal in Tbilisi with electricity fees. This decision is particularly notable for its unfair and illogical nature and clearly shows that the goal of the government is simply collection of maximal amounts and not calculation of actual fees.

Priority of the state policies shall be reduction of losses, promotion of economically beneficial infrastructure and improvement of fee calculation mechanism. In this way the government should ensure optimization of fees and their stability. One of the key directions shall be execution of individual agreements between the subscribers and operators with bilateral obligations, dealing with the quality of services delivered to the subscribers and relevant responsibilities in front of them.

We believe that the utility fees should be based on the actual calculations, and correspond to the quality of delivered services and shall be affordable for the citizens. Hence,

- We shall provide re-calculation of the fees in a fair manner to ensure their significant reduction;
- We shall not allow increase of fees on the basis of biased, unfair and unjustified decisions;
- We shall not allow imposition of the fees that enslave the businessmen and increase prices of products, thus hindering development of business;
- Collective meters will be abolished, as well as the other mechanisms linking different utility service fees with one another and other mechanisms giving preference to collection of service fees and not individual responsibility of the subscribers.

TRANSPORTATION

Due to its geopolitical location and transport corridor running through it Georgia is very attractive for creation of a powerful terminal network – logistical centers. Region of South Caucasus is equally close to well established common European market and rapidly developing centers of Caspian Region. Formation of Georgia, as a country with the transit function would contribute, on one side, to the stability of the region and on the other to the development of the transport and communication/energetic corridors and to improving their security.

Existence of regulation system is essential for the field of transportation, thus we shall provide regulation of the entire industry of the public transport.

For the transport industry existence of the system of regulation including regulation of the public transport safety is of great significance. In relation with the public transport, we believe that it should be substantially based on private sector, with the exception of Georgian Railway, infrastructure related with the railway, and Tbilisi Metro. In the sphere of buses, route minibuses, taxis, the state role should include only regulation, with respect of establishment of routes' schemes / technical security and price ceilings (with the exception of taxis). In addition, regulatory function of the state should not contribute to monopolization in this sphere or increase of the power of certain operators but it should ensure increase of competition and domination of the market mechanisms in the process of prices formation.

We believe that it would be reasonable, with the exception of the railroads and railway infrastructure, to increase the role of private sector in passenger and cargo transportation, through reduction of the barriers and formation of free competition principles. In relation with Tbilisi Metropolitan, for the purpose of ensuring management effectiveness, we believe that it will be reasonable to transfer it to the private company with management rights, without privatization. Regarding the scales and geography of transport services, public regulation should be redistributed among municipal, regional and central governments.

BUSINESS ENVIRONMENT AND COMPETITION POLICIES

Development of small and medium business

In the developed countries support of small and medium business is one of the priority directions of the government. Practice of many countries show that small and medium entrepreneurship plays significant role in overcoming economic crisis, unemployment reduction, improvement of standards of living, achievement and maintenance of socioeconomic stability. Nevertheless no state policy for supporting small and medium business in Georgia was developed, and business is in the conditions of heavy tax administration and pressure. Such situation endangers SME development entrepreneurship. For example, in EU countries, the USA and others, turnover, i.e. output and employment of small and medium businesses comprise over 60% of the total figures, while the role of this sector in Georgia is much lower.

Majority of Georgian entrepreneurs attempt to reduce their economic activities in their own country and move their capitals and intellectual capacities abroad. SMEs cannot develop and their share in the economy is very low. In particular:

- Turnover of SMEs output and added value is no more than 20% of total business indicators;
- Investments in SMEs (capital generation) is less than 10%;
- Majority of small enterprises end the balance year with losses or negligible profits.
- SMEs are not able to reinvest and expand their businesses;
- If an enterprise records high profits, it necessarily occurs within the area of state control. Followed by permanent inspections from the side of controlling authorities;
- Many of them have loans with high interest rates (16-20%) and all their efforts are applied to servicing the loans.

SMEs are not among the number of the governmental priorities. This is clearly confirmed by the fact that the definition of these types of businesses is lacking and therefore, there are no supporting mechanisms in place. The new Tax Code adopted on 1st January 2011 did not improve the condition of micro and small businesses; on the contrary, tax burden of such enterprises was further increased.

During the last 10 years the number of employed in business sector in Georgia reduced irrespective of GDP growth. None of the employment programs implemented by the government resulted in improvement of the unemployment rate. In this respect, the problem was that the one-time programs served to yielding short-term pre-election results.

In most cases, on the country, the attempts of launching businesses failed. Support of SMEs from the side of many governments serves two main goals – unemployment reduction and improvement of social background. As a result of the mentioned the burden of social protection measures undertaken by the state reduces and the freed assets could be directed towards other sectors.

We plan to deal with the social problems existing in Georgia by means of non-traditional but proven approaches, such as through development of social businesses in Georgia that implies public participation and application of business instruments for job creation and opportunities of dealing with poverty.

Elections block “Bidzina Ivanishvili – Georgian Dream” will initiate promotion of SMEs by the government to ensure increase of investments and innovations in the sector. Achievement of these results will be possible through implementation of specific measures:

- Establishing policies for supporting SME development as one of the priority direction of the country’s economic policy;
- Establishment of the fund for household and small business development;
- Implementation of the reforms by providing cost reduction, i.e. reduction of the monopolistic prices of the raw materials and resources on the basis of strict compliance with the free competition principles;
- Implementation of the state policies for risk reduction in business environment and creation of a sound competition atmosphere;
- Creation of a competitive environment through restricting cartel agreements in the banking sector (to contribute to reduction of the interest rates and increase of credit availability), to ensure successful functioning of SMEs, as well as their expansion;
- Ensuring private property protection, through fair judicial system;
- Simplification of the tax procedures (simplification of the regulations of taxes calculation and payment procedures, providing relevant instructions in the law);
- Establishment of the business incubators and other institutions supporting of SMEs;
- Providing information and consultation services for SME representatives on national level;

Close collaboration with international finance institutions to revise the terms and conditions of use of the targeted credit lines to ensure that the credit lines actually provide the mechanisms of stimulation SMEs; this is of particular significance for development of agriculture. On one side, policies of fair competition and on the other – support of SMEs will ensure growth of their output and incomes. This will result in growth of employment in this sector providing basis for improvement of social situation.

SME development is the key source of dealing with the harsh socio-economic conditions, poverty alleviation and employment. Main outcome of successful implementation of this policy will be formation of large and strong middle class as the guarantee of social and political stability. Private property protection. Poorly protected property rights, and the risk of its infringement from the side of the state authorities is a significant factor hindering businesses. In particular:

- The state, through tax service, is in the role of the preferred creditor. This violates the principle of fairness and the persons participating in the civil relations are placed in unequal conditions;
- Submission of the collection order and withdrawal of cash from the cash office without a court decision is an unconstitutional action;

It is not fair that the taxpayer's property is transferred directly into the state ownership, since at the auctions there always is chance that the property is sold at a high price. According to the Global Competitiveness Index for 2011, in regards to private property protection, Georgia holds 120th place among 142 countries, and is behind all the neighboring countries. To ensure protection of the property rights the following is required:

- Existence of a fair, non-political, independent court; effectiveness of the judicial system should be ensured and decisions should be made in a timely manner;
- Elite corruption shall be eradicated;
- The judicial system shall be freed from the influence of the governmental authorities;
- Confiscation of the legally gained property is impossible.

Ensuring legal protection of the investors is our primary objective. For this purpose the following is required:

- Prevent discrimination by means of the law and various administrative procedures;
- Form stable instruments for protection of the property;
- Improve effectiveness of the judicial system through assignment of the special judges at administrative departments to provide adequate qualification in considering and resolving the disputes between investors and entrepreneurs.
- The role of a private arbitrary institution in resolving the disputes between an entrepreneur and the state shall be defined by the legislation.

Development of competition is recognized as the main condition for economic progress and its support is one of the priority objectives of the state. This objective includes free trade and identification and elimination of the circumstances restricting competition. In 2005, Georgian government has revoked the anti-monopoly legislation and the actions limiting competition were left without a regulation:

- Use of the privileged condition on the market for serving own interests – artificially setting prices by large players on the market;
- Cartel deals – agreement on artificially increased prices and unfair conditions among large players;
- Mergers of large enterprises limiting competition on the market.

As a result of this "reform" situation in regards to oil products, pharmaceuticals etc. became alarming. Several large players set the prices on the market, thus limiting entry of their competitors. These players are related with the government and gain enormous profits that are spent indirectly (bypassing the budget) for the elections campaigns of the governing party and personal welfare of the public servants. Apparent example of the cartel agreements are prices for fuel and their tendency. Change of the fuel prices in Georgia happens simultaneously, in case of all large players. Similar actions are punishable in any developed country, while in Georgia, agreement on artificially increased prices between the large players is not regarded as a violation and the government made this legal since 2005, by revocation of the antimonopoly legislation. Fuel in Georgia is imported and its price depends only on the world prices. Increase of global prices is immediately and fully reflected on the prices in Georgia, while their reduction is reflected with certain delay and at lesser extent. Competition is limited almost in all spheres of economy. As a result, the prices are significantly increased, negatively impacting the consumers (primarily the socially vulnerable population). In Europe, the main goal of the competition-oriented policies is improvement of the consumers' welfare. While in Georgia welfare of the business circles closely related to the government increases rapidly, while the consumer interests are neglected.

As to the banking system of Georgia, the commercial banks are placed in unequal conditions. For many years the government accumulates budgetary sums intended for municipal or other projects in particular commercial banks, thus increasing liquidity and providing privileges to these banks. Hence, they can afford not to care about attracting additional capital (including the deposits).

In such a situation other banks become uncompetitive. The banks, which have gained privileges from the government have turned into the finance institutions promoting state interests and fulfill all directives of the government. Finally, such commercial banks become so dependent from NBG that the latter is able to impact negatively business decisions of the bank. In such a situation a commercial bank loses its financial independence provided to it by Georgian banking legislation. The banking system is characterized by conflicts of interest between the state and corporations. Other factors also negatively impact the trust towards the banking institution and generally stability of the banking system.

Protection of the consumers' rights is one of the most important issues. For the last decades, development of the markets have contributed to creation of such variety of goods and services that the consumers are not able to protect their rights themselves on the market, in the conditions of well organized and expensive schemes of production and distribution. As a result, the consumers, whose rights are not adequately protected by the government, are placed in unequal condition as well. After the "rose revolution", together with many other immature decisions, the mechanisms of consumers' protection were practically eliminated by the government. According to the economic policies of the government relations between a business and consumers should be regulated by the market only and no additional mechanisms protecting consumers from deception are required. Such approach is not only against the practice of developed countries but also it contains certain risks. With such policies the business sector is free to mislead the consumers and this, on its side, could lead to various very undesirable results.

Food safety and quality control shall be one of the significant directions of the state policies. Nevertheless, this issue is practically neglected in Georgia. Legislative changes for the purpose of harmonization with European Union were merely formal ones and could not provide any tangible results and therefore, currently, food quality is not controlled. In this respect the consumers are not protected and unfair businesses can take advantage in an unacceptable way, which is against the policies of the European integration. Creation of a stable economic environment in our country based on the principles of justice, as well as protection of the consumers' rights is significant for us. In 2010, on the basis of request from the European Union the government started a formal process of competition restoration but the process is very slow. Restoration of anti-monopoly legislation is the most important issue in the process of negotiations with the European Union regarding deep and comprehensive free trade agreement (DCFTA).

In 2011-2012 the government has developed and approved the new law on Free Trade and Competition, which has quite significant gaps. In reality the government does not intend to identify the actions restricting competition and providing relevant response for their elimination. Policies promoting free trade and competition will be implemented:

- Truly independent competition agency will be established (currently this agency is represented only by 9 people, on the national level and its budget reduces every year);
- The law will establish relevant functions of the agency (currently the actions of the agency are determined by the government and not by the law and the agency has no authority to make final decisions independently);
- The agency will have a market monitoring function, implying implementation of the relevant researches (according to the current legislation the agency should respond to the complaints and applications and only in the spheres specified by the government);
- Scopes of control of vertical and horizontal deals will be increased significantly (currently majority of such deals are not within the scopes of regulation and this does not correspond to the EU model);
- State control of the actions limiting competition will be restored (according to the effective legislation, in management of the reserve funds no requirements of the legislation dealing with state procurements and competition are taken into consideration);

- Best international practise will be taken into consideration. As a result, protection of the consumers' rights will be guaranteed on the legislative and practical level;
- The National Bank of Georgia will impose strict control to prevent placement of the commercial banks into the non-competitive environment and the cases of conflict of interests.

As a result of implementation of the policies of election block "Bidzina Ivanishvili – Georgian Dream":

- Prices for fuel, pharmaceuticals and other goods will be reduced and the population will feel the changes immediately;
- Representatives of SMEs will be given an opportunity to operate in the spheres that are currently artificially closed for them and this will provide positive changes in the business activity and employment rate;
- Relations between the business sector and the government will become transparent and this will be positively reflected on the budgetary revenues;
- Procurement of the food products and services will be safe for health and life;
- Cases of violation of the consumers' rights will be reduced significantly.

TAXATION POLICY

Frequent changes in tax legislation show that for the last eight years the government has failed to develop a well thought tax policy. Frequent legislative changes and unstable tax system significantly hinders business development. In the newly adopted tax code, from the date of its entry into force up to present the amendments were made to dozens of laws, dealing with over 800 sections. In this respect, the situation has further worsened, compared with the previous year. SMEs are unable to immediately understand the frequent legislative changes, as they can not afford hiring highly qualified professionals and they are not able to promptly get familiarized with the changes. Hence, the level of awareness of the entrepreneurs in the tax regulations is very low; frequent legislative changes result in lack of awareness of the entrepreneurs and hence frequent sanctions against them, significantly hindering business development:

- Unclear system of deductions, in some areas - high and unjustified fines, taxation favoritism and other factors cause unjust penalties and punishments against the entrepreneurs;
- According to the tax code, the burden of proving shall be born by the entrepreneur and this means that after inspections and imposing to additional charges, the entrepreneur has to prove his/her innocence. In addition, he/she has to pay unlawfully charged taxes and if he/she still manages to prove his/her innocence, he/she has to further take care of the future set-off;
- As per the desire of the tax authorities, in many cases, based on the biased views, they can seize the taxpayer's bank accounts and property and thus paralyze their activities;
- Complicated system of tax dispute resolution and dominating role of the state are significant factors hindering improvement of business environment;
- Tax disputes, as a rule, are not resolved to the taxpayers' benefit either in the system of the Ministry of Finance or in the court;
- Low qualification of the judges prevents justified decisions in case of economic disputes (including those dealing with taxes);
- Amount of court fees (in all three instances, in total, 12% of the disputed amount) is quite a burden for the taxpayer and decreases access to courts.

One of the significant preconditions for attracting investments, together with the low tax rates, is stability of the taxation policy allowing for long-term planning and risks management. Poorly formulated tax policies and frequent changes in the tax code could be regarded as a significant factor hindering attraction of the investments. For the purpose of improvement of the tax policies, elections block "Bidzina Ivanishvili – Georgian Dream", will implement the following measures:

- Ensure taxation mechanisms based on the principle of fairness;
- Every year will define untaxable minimum, no less than subsistence minimum. In addition, a reasonable system of deductions will be introduced for individuals (costs related to health care, insurance and performing of professional activities);
- Place the system of deductions in the profit tax in order;
- Review the nomenclature of the excise goods and impose taxes on luxury goods;
- Cancel the system of pricing in the property tax and maintain actual 1% rate;
- It will create the stable guarantees of taxation (create stable tax environment and will not allow frequent changes in the tax legislation);
- Prevent immediate entry into force of the newly adopted changes and set the reasonable time from their adoption to the date of enforcement;
- Review ambiguous provisions and those, allowing for double interpretation, simplify the tax norms and resolve the disputable norms for the benefit of an entrepreneur;
- Limit the dominating role of the state in consideration of the tax disputes and assign specialized judges at the administrative department;
- Develop an optimal model of business taxation, with simple accounting & accountability rules and alternative taxation mechanisms;
- Ensure de-criminalization of certain violations in the tax system;
- Reasonably reduce fines and penalties in the tax and administration spheres;
- In case of sanctions, the company's stocks will not be seized and its business activities will not be restricted;
- The service fees and dues of the administrative bodies will be reduced;
- Regulate technical issues related to tax administration only with subordinated acts (orders, instructions).

MACROECONOMIC POLICIES

Foreign investments and balance of payments

During the recent years quantity of foreign investments was reduced. In addition, inflow of the investments could not improve standards of living, expand the labor market or increase jobs. Foreign direct investments were not followed by import of technologies and hence growth of labor productivity. It should be noted that current balance of payments of Georgia is in deficit. And this means that competitiveness of Georgian national produce is very low.

Georgia has negative trade balance with almost all key trade partners. Imports are 4 times greater than exports. The key export products are not manufactured in Georgia. Almost one fourth of the exports accounts for the export of the imported products – cars. Georgia is not an iron extracting country but it is one of the leading exporters of scraps. It should be mentioned that among the exported items there are very few end products, i.e. basically the unprocessed raw materials are exported and this, finally, returns to the country in a form of expensive and in many cases – low quality imported products.

For many years Georgia has negative trade balance, however in the recent years the problem of foreign trade deficit became particularly alarming and as a result, Georgia became an import-oriented country and this imposes a significant danger for macroeconomic stability of the country. External factors contain high risk of impacting macroeconomic stability. In the conditions of global financial crisis there is a chance that in certain partner countries of Georgia financial crisis deepens and this will be followed by fall of import prices and drastic growth of demand for the foreign currency on Georgia's domestic foreign exchange market; this would result in a large-scale outflow of the foreign currency from the country.

Decision of the government of Georgia to increase the country's export potential through some poorly formulated programs turned out to be unsuccessful. This can be clearly shown on an example of the "hybrid maze" project, according to which, in 2011, the harvests should have been so high that the country would export this product. The outcomes were just the opposite – maze export increased 3 times, while export decreased 2.7 times.

As for the export of the automobiles (more exactly, their re-export), in the mentioned segment, in addition to Armenia and Azerbaijan, the countries of Central Asia were distinguished by high activity (particularly Kazakhstan). In fall 2011 the Kazakh government made decision to impose new, increased rates for automobiles' imports and this means that from 2012, import of automobiles from Georgia to Kazakhstan will reduce significantly. Dramatic reduction of remittances from the countries of Central Asia is already apparent. From the government we often hear that the exports increase compared with the previous years but they say nothing about the fact that the rate of growth of imports is much higher than those of exports. The situation is further aggravated by unequal trade relations. Partner countries implement protectionist policies and subsidize export products (e.g. Turkey subsidizes production of local cereals) and as a result, competitiveness of Georgian entrepreneurs decreases significantly.

Even though our country has eliminated trade barriers and regional and free trade agreements were made, the amount of exports remained unchanged, while imports and average trade turnover increased; thus, growth of trade balance deficit accelerated. In 2006-2010 trade deficit increased 1.4 times, current account deficit – 3.5 times, foreign investments and remittances (increasing every year and exceeding US\$ 1.26 in 2011) are not sufficient to compensate for negative trade balance. The government takes loans, quantity of which increased in the recent years almost 3 times. In total, current external debts comprise \$11.5 billion and over one third is the national debt. Georgia is still among 47 high risk countries where violation of property rights, unforeseen actions of the government and exacerbated geopolitical relations make investors reluctant to invest or make them freeze the invested capitals and wait for a favorable period. Reduction of foreign direct investments is more and more apparent in the recent years. For the purpose of dealing with the socio-economic crisis in the country, attraction of the investments and improvement of the balance of payments, after the elections, the election block "Bidzina Ivanishvili – Georgian Dream" will:

- Create stable legal environment for the investors;
- Free the investors from the influence of the government and provide stable guarantees for property protection; free the entrepreneurs from the "obligation" of funding the governmental activities and "charity" imposed by the government;
- Strengthening efforts for signing free trade agreements with the European Union and the USA.

For this purpose, in accordance with the international requirements, changes will be made to the labor code, legislation dealing with the competition will be adopted, as well as mechanisms for regulation will be ensured, standardization and certification mechanisms and food safety will be introduced, which is the necessary precondition for the mentioned agreements; it will stimulate growth of the economy oriented towards diversified exports, improvement of competitiveness of the mentioned enterprises and improve the structure of the foreign trade balance; protect local market from the low quality goods and price damping, in accordance with the WTO charter. The National Bank of Georgia and the government (Ministry of Economics) will provide systemic analysis of imports and domestic exchange market.

Foreign currency exchange rate variation and inflation on Georgian domestic currency market, in certain cases was not related with the long-term strategic goals of development of the national economy. In cases of inflow of the foreign capital or during its "deficit" NBG attempted to reduce the variations of the national currency exchange rate with the unilateral or bilateral interventions. Georgian population and business cycles have suffered monetary losses many times in cases of wide-scale bilateral foreign currency interventions.

Even though the national currency was established as the major form of payment, it could not acquire the saving function due to several reasons. In particular, the prices grow permanently for many years and in certain cases a drastic fall of GEL exchange rate against foreign currency was recorded (the so called "mini shocks"), resulting in permanent lack of trust towards lari as the

currency for saving. Low level of trust towards the national currency could be shown by the fact that annual interest rate for the time term deposits denominated in GEL is 17-18%, while for the similar deposits in foreign currency the annual interest rate is no more than 8-9% and in addition, it decreases from year to year.

Monetary stability is endangered by the inflation, which is distinguished by wide variation and periodically achieves two-digit numbers. And this is a heavy burden for the population. As of 2012 the method of calculating inflation was changed, reduction of the share of food products (characterized with the high rates of inflation) in the consumer basket from 40% to 30% (share of food consumption in the consumption structure is almost two third). In this way the government attempts to underestimate the indices of drastic growth of prices and artificially create the trend of reducing the inflation rate.

The stability of prices is not maintained in the country, while this is the main function of the monetary policy regulation. For stability of the monetary system and policies election block "Bidzina Ivanishvili – Georgian Dream", after the elections will:

- Direct the monetary policy of the country towards introduction of the long-term targeted milestones;
- It will be subject to the state budget expenditures;
- Set the key priorities of money & credit and foreign currency policies. Money supply will correspond to the growth of national income;
- Key reference point of the monetary policies will be stability of the banking system and growth of the country's competitiveness;
- Its long-term objective will be targeted towards inflation management;
- It will give the recommendation to the National Bank to actively apply the instruments of monetary regulation both, with respect of money supply and its sterilization;
- Will contribute to increase of trust towards the national currency and ensure reduction of dollarization;
- Free NBBG from the political pressure and the functions contradicting with the goals and instruments of monetary policies (e.g. regulation of the insurance activities and securities market);
- Promote sound competition between the commercial banks;
- Introduce the deposit insurance system which would become the reliable mechanism for growth of savings and stimulation of investing.

The main outcome of the money & credit and foreign currency policies' implementation, together with the stability of the banking and finance system will be maintaining price stability.

CREDIT AVAILABILITY

Georgia is among those countries where the bank credits are too expensive and funding of economy by credits is very low. While in December 2003, market interest rate for the loans in national currency was 25%, in December 2011 it reduced by two percentage points (for retail crediting), in 2011, weighted average interest rate remained the same as in 2005. Only one third of national economy is funded by means of loans. Difficulties related to the bank loans, irrespective of improvement of the quality of services of the banking sector, still comprises significant economic barrier for business development. High interest rates can not ensure full application of the potential capacities of the country's economy. Majority of small entrepreneurs and more than half of large companies can not afford bank credits and they have never received one. High interest rates for the loans are also conditioned by high risks in the sphere of business in general and the government has not implemented any effective measures for mitigating such risks. Due to absence of the organized real estate market (exchange) the issue of evaluation of real estate provided as a collateral for the loans and its disposal in case of non-payment of a loan is of great significance. Implementation of permanent and unreasonable changes of regulations in the business sphere, political and other risks, provide very poor perspectives in respect to reduction of the interest rates in the nearest future. In addition, unemployment growth and decrease in

real incomes of the population cause further limitation of availability of the bank loans, forcing the population to take loans from private mortgagers and microfinance organizations where the annual interest rates vary from 36% to 42%. High interest rates and severe conditions of crediting have worsened the social environment and many people had to sell off their real estate to repay the debts.

The government does not care about protection of the lenders' rights. According to the effective legislation, the procedures are maximally simplified for the loan providers and only their rights are protected. In addition, in case of non-repayment the mortgaged property is sold out very easily. In such a case when the sale of the collateral, does not fully cover the loan, the loan provider has the right to have the claim for the non-fulfilled obligations for the unlimited term. In such a situation the lender permanently remains in the registry of debtors, database of Credit info and is subject to various limitations.

The issue of credit availability is particularly concerning for the household economies. Share of agriculture in the bank loans is minimal, comprising about 1 %. Low activity of the banks in the real sector is due to high risks and absence of the state policies in this sphere.

Commercial banks fund only short and medium-term business projects, intended, basically, for import operations, thus reducing their risks and allowing gaining significant profits within short periods of time. Commercial banks are well aware that stability of GEL exchange rate depends not only on foreign currency reserves but also on specific governmental decisions, which are not public and transparent. Therefore, most part of the loans is granted in foreign currency and the loans granted in GEL, are associated with the foreign currency exchange rates through the so-called "hedging techniques" (granting of the loans in national currency is provided for up to two years term or at very high interest rate).

Such situation stimulates the banks to protect themselves and evaluate the potential risks very strictly. In Georgia, together with the high inflation rate, high interest rates significantly restrict crediting of the economy and business activities are performed in the conditions of high risks. Hence, the statement of the government that Georgia has the best investment environment is unreasonable. One of the reasons of high interest rates of bank loans is the fact that there is no well developed capital market, which, is the segment linking capital suppliers and consumers through financial instruments.

In 1999, for the purpose of creation of the organized securities market Georgian stock exchange was established, which is at the embryo stage even now. Stock exchange could not become the effective institution of the capital market. Volume of deals at Georgian stock exchange, for many years, is very low; the latter is caused, on one hand, by unsatisfactory financial characteristics of the joint stock companies and on the other – by their low rating and the absence of the governmental policy in this sphere.

For credit availability, the election block "Bidzina Ivanishvili – Georgian Dream" will:

- Ensure that development of Georgian economy was mostly based on the development of local production and stimulation of savings;
- Governmental policies will support partnership relations between the banking sector and businesses;
- Will prioritize creation of the special agrarian fund by the government, which will provide services to the agricultural sector and support it;
- Ensure establishment of the special fund to support households, SMEs;
- Pay particular attention to business start-ups and availability of credits for the young people intending to launch their businesses;
- Legislative changes will be made emphasizing the rights of debtors, corresponding sanctions and restrictions imposed against them will correspond to internationally accepted practice;
- Through implementation of the complex economic reforms the incomes of the joint stock companies will increase and their shares will become demanded from the side of investors;
- Entry of the highly liquid shares attractive for the investors will ensure growth of demand and the number of deals.

After the “rose revolution” the volume of consolidated budget increased, however growth of revenues was not followed by improvement of the social indicators. Instead, the government has significantly increased the bureaucracy expenditures. Currently the budget policies implemented in the country have numerous gaps. The costs set by the budget are unjustified and non-transparent. Absence of proper budget programs allows the government to make numerous unreasonable and non-priority costs unacceptable to the population as the format of budget in the country is unclear for the population and the government does nothing to make it publicly available. Majority of the population is isolated from budgetary processes and has to blindly trust and agree with any budget offered by the government as actual contents of the budget is unclear for them. Frequent changes to the budget during the budget year have become an accepted practice.

For example, in 2011, about 500 changes were made to the local budgets system. Given such number of changes Georgian government is able to easily bear any desired expense without assessing the impact thereof on the budget in general. A Budget is a financial plan of a government and numerous changes to it, during the year point to lack of planning ability. Wide-scale changes to the budget by the end of a year became a tradition, actually all unreasonable and unforeseen costs made during the year become legal through this mechanism. Reforms implemented in the state procurements are not complete. Procuring entities do not justify necessity of procurement of the goods and/or services, causing low effectiveness of spending. In addition, failure to take into consideration maintenance (operation) costs of the procured goods is a problem.

It should be stated that elite corruption shows up during the state procurement processes, when one and the same companies closely related to the government permanently “win” the multi million contracts. In general, the chamber of control (state audit service) can play a significant role in improving effectiveness of spending of the state budget and reasonable application of the budget amounts, its main function is permanent monitoring of spending of the budget assets.

Chamber of control (state audit service) shall not only identify the cases of violations and facts, rather, it should focus on implementation of the prevention measures to identify and improve the possible gaps, leading to numerous changes and ineffective spending of the budget assets in the future, before approval of the budget. In addition, chamber of control (state audit service) should become an evaluator of effective spending and not merely a body controlling accounting documentations. Through improvement of effectiveness of the budgetary spending part, elimination of unreasonable costs, reduction of the administrative costs and shadow economy it is possible to identify significant budgetary sums that can fund the priority directions – these are health care and social security, education and agriculture.

Budget reform will be conducted in the following directions:

- Effective mechanism of setting budget priorities will be developed to be oriented towards identification of public problems;
- The budget will be published in the simplified format and it will be publicly reviewed;
- Share of the unspecified, so called “other” expenses in the budget will be reduced to the extent adopted internationally;
- Key macroeconomic parameters and the budgetary policies will be mutually concerted;
- Administrative costs will be optimized;
- Effective mechanisms for protection of the public servants will be developed;
- Effective and transparent mechanisms of formation and disposal of the budget funds will be developed;
- System for intra-budget distribution of the budget revenues will be improved and its fiscal decentralization will be provided;

Georgian chamber of control (state audit service) will actually become an active participant of the budgetary process. Its basic activities will include auditing financial relevance and effectiveness. As a result of implemented reforms:

- Through budget optimization significant amounts will be saved;
- Through reduction of the shadow economy the budget revenues will increased;
- Funding of the programs oriented towards improvement of the population's welfare will become possible;
- Budgetary priorities will be identified with the participation of population.

Management of state debts

State debt, its structure, and policies of the government implemented in this respect, conditions the prospects of country's development. Even though the governing party periodically states that the external debt of the country is quite low and there is nothing to be concerned about in this, policy implemented for the debt management is indeed alarming. Government's statements that our country has no problems in this respect are based on some known indicators (60 per cent of GDP and 110 per cent of exports). But the fact that not all indicators have achieved the critical limit does not allow positive evaluation of the pace of growth of the debt.

According to the latest data, external debt of Georgia is US\$ 11.5 billion, of which, over US\$ 4.5 billion comprise state debt. Even though external state debt of Georgia reduced slightly in 2004-2006, from 2007 it started to increase rapidly. Issuance of Euro-obligations in 2008, when, as the government states, we had a budgetary surplus, was illogical. In addition, the promise was not fulfilled and these amounts were not used for construction of gas reservoir or high voltage transmission lines. For the purpose of covering the mentioned amount the government has issued new Euro-obligations in 2011 to be covered in 2012.

Because of such unreasonable policies, for the loans of US\$ 500 billion the future generations will have to pay the interests up to US\$435 million. Economic development of the country is of great significance for us, as well as rejection of current policies of leaving great debts to the future generations, and most important of all, transparent spending of credits, for the justified investment projects. Hence:

- Effective policies of debts management will be implemented and these policies will take into consideration the fairness between generations and ensure support of sustainable macroeconomic policies;
- Application of the loans for the capital projects beneficial for the population will be ensured, thus excluding ineffective use of artificially overestimated costs;
- Implementation of the reasonable policies will ensure maintenance and management of the debt at optimal level and this would contribute to the country's economic effectiveness.

For the last 20 years there was no state policy dealing with internal debts. In different periods Georgia has or has not recognized indebtednesses to the citizens as an internal debt. Nevertheless, the priorities were not identified and neither long-term plan for servicing of the internal debt was developed. Hence, we shall provide inventory of internal debts and creation of actual mechanism for their repayment.

AGRICULTURE

Negative outcomes of inadequate economic politics of the government were most apparent in agriculture. After the "Rose Revolution" this sector is unambiguously associated with economic underdevelopment and its needs are permanently neglected. The government was unable to elaborate the strategy of agrarian sector development and practically let the process take its own course. Implemented politics are limited to the populist steps and measures intended to regulation. The share of agriculture in budgetary assignments, as well as in the foreign investments varies within 1-1.5%. Significant part of these costs is spent on the government's administrative, one-time ineffective and populist actions. In the country where half of the population lives in rural

areas and is linked with agricultural food production, the government's politics: "the rural areas do not require assistance, we shall import the goods which we cannot produce", brought about catastrophic outcomes. Key indices of agrarian sector decreased dramatically.

In the period from 2004 to 2011 the sowed areas reduced two times. Plant growing production fell, among them, a decrease in potatoes production amounted to 36%, fruits – 50%, vegetables and melons – 60%, maize – 70%, wheat – 80%. Number of cattle, sheep, hogs and poultry reduced. Meat production reduced by almost 50%, while dairy production decrease was 25%. Wheat production, per capita, was almost 5 times lower.

In the agrarian sector no harvest increase was observed and for some crops the yields reduced significantly; situation, with respect of self supply of food products worsened significantly. For the key food products self-supply index decreased. In this respect, wheat should be particularly mentioned; its imports increased 3.7 times. Index of wheat self-supply reduced from 24% to 8%. In 2011, per capita consumption of bread, meat and meat products, milk and dairy products, eggs, fruits, vegetables, honey, chocolate and other food products was lower than in 2003; quite low levels of productivity and competitiveness further fell. Low market prices, relative to high production costs results in inability of local products to compete properly with the imports. In 2004-2011, imports of agrarian & food products increased almost 6 times, while exports – 2.5 times only. Negative balance of trade increased 15 times. Due to all these, even at local markets, foreign cheap and in many cases low quality goods replaced local products. As a result, up to 80% of agrarian & food products consumed by Georgian population are imported; this situation further aggravated the problems of unemployment and poverty. Almost half of Georgian population lives in rural areas, while share of agriculture in GDP is much lower, comprising 8% only. 54% of labor force of the country is "employed" in agriculture. According to official statistics, majority of them are self-employed and actually, most of them are unemployed. As a result, 64% of the "employed" in this sector are below the poverty line, and 23% of them live in extreme poverty. Lack of employment opportunities and earning of subsistence leads to mass migration, causing, on its side, emptying of the villages.

Among the factors hindering development of agriculture in Georgia is the problem of fragmented parcels caused by land reform implemented in Georgia.

- The farmers have no legal guarantees of land ownership and feeling that their property rights are protected;
- Agricultural goods & food storage and processing businesses and food industry development are very poor.
- The situation is very bad with respect to rural infrastructures as well. No stable and high income jobs are created;
- Degradation of the sector is mostly conditioned by underdevelopment of the infrastructure and unavailability of services – the irrigation & drainage systems are out of order, there is a lack of agricultural machinery, quality fertilizers, pesticides and chemicals, the systems of seeds production, nurseries, species testing and refreshment actually do not function;
- Technological underdevelopment is a significant problem;
- Science and education oriented towards this sector, as well as consultation and information services, extension develop at very low pace;

Limited access to financial resources

During the period of 2004 to 2010 the loans granted by commercial banks increased almost 10 times and only 20% of these loans were granted to the companies registered in the regions. Share of agriculture in total amount of granted credits is no more than 1-2%. Low availability of credits is caused by high risks in agrarian production, absence of liquid collaterals and absence of insurance systems in rural areas. Absolute amount of FDI flowing in agriculture is very low – US\$ 10-20 million only. Share of the sector in total quantity of foreign investments is within 1-2% only.

Low economic activity in the regions and small income of the population

Only up to 7 thousand people are formally employed in agriculture, comprising only 1.9% of the total employed in the country. Level of commercialization in the agrarian sector is very low. Agricultural production in Georgia gradually turns into the subsistence farming; only one fourth of the goods produced by household economies are marketable and the remainder is consumed locally.

KEY DIRECTIONS OF AGRICULTURE DEVELOPMENT

Goal of the agrarian policies developed by the election block “Bidzina Ivanishvili – Georgian Dream” is economic strengthening of rural areas, growth of the farmers’ incomes and improvement of their standards of living. Modernization and extensive development of the agrarian sector should ensure elimination of poverty in the villages and develop regional economy.

Key objectives of development of the agrarian food sector include:

- Full and effective realization of the agricultural potential;
- Development of various services related to the agricultural & food sector;
- Sustainable growth of the agro-industrial production;
- Increase of the sector’s profitability and development of competitive production;
- Ensuring sustainable development in the long run;
- Growth of the export potential of agrarian & food sector;
- Ensuring food security;
- Food safety and maintenance of agrarian-bio-diversity.

Development of agriculture will become a priority of the economy and the primary guarantee of this will be clearly formulated agrarian and regional policies and substantial growth of funding in agricultural sector. Sources of funding of agriculture, for the next four years will include the state budget, loans and grants of international organizations and donor countries, private investments (domestic and foreign).

In the structure of financing, the share of private investments will increase gradually, replacing other types of funding. 1-billion-Agriculture Development Fund will be established. The Fund will provide financing of the agricultural programs, ensure co-financing of the favorable credits to the farmers, as well as participate in agrarian insurance. Accumulation of the monetary assets in this Fund will be provided from the state budget, and funding, received from external sources and other attracted investments.

Strategy implementation and expected outcomes in result of implementation of the agrarian and regional policy strategies:

- The issues of land use will be regulated;
- Clear guarantees of protection of the property rights on land will be created;
- Legal and technical aspects of agricultural land ownership will be put in order;
- Lands passport system will be implemented;
- Maximally effective use of the available natural resources will be promoted, in regards to both, extensive (full coverage of the areas) and intensive (growth of products and yields) factors.
- The norms regulating land use system will be developed, the network of the consultation and information services will be developed.

To overcome the ineffectiveness caused by land fragmentation, various economic stimuli for arable lands consolidation will be created. Majority of policies implemented in this sphere will include promotion of cooperation and stimulation of development

thereof; Agricultural sector will be provided with the services and raw materials. The farmers will be able to take advantage of the irrigation and drainage systems, veterinary services, as well as the required technologies (processing, storage, and packaging) after harvesting, high quality seeds and saplings, fertilizers, plant protection means and fodder.

In delivery of the services and materials the principles of commercialization and availability will be followed with the state support, taking into consideration the specific features of individual regions, the agricultural service centers will be created; the state program will be developed to support bio-agrarian production. We shall support registration of the farmers' lands as bio-farms and establishment of the associations of bio-farms. We shall implement the measures to introduce the bio-standards in the agriculture goods processing entities. We shall consider the possibility of treating of the arable lands and forests with bio-preparations. Small and medium-size farms will be provided with the available finances.

Policies developed on the basis of needs of agrarian & food sector will reduce the risks in the sector and make it more attractive for the credit institutions. Programs of the direct state support will be targeted, regarding improvement of agricultural production effectiveness, technological development and capitalization objectives; agricultural production will grow. Agrarian policies will be oriented towards drastic growth of production in agricultural sector. Growth of production in agricultural sector will be directly reflected in food production growth.

Georgian agrarian & food enterprises, including the processing industry should form the basis for food security (with respect of both, quantity and availability) in the country; productivity in the agrarian sector will grow, as well as profitability and competitiveness. Qualitative characteristics of agrarian sector operation will gradually comply with the international standards and the manufactured products will become competitive; incomes generated in agriculture production will grow.

Development of agrarian sector will be directly reflected in income growth. Level of commercialization and turnover will grow; the modern system of agrarian education & science, consultations and extension will be formed. The farmers' consultation & information and extension systems will be formed. Development of agrarian science and education system will ensure training of the highly qualified human resources and their supply to the sector. In the programs of farmers' support (including financial support) the priorities will be the projects of technological modernization and innovations; Georgian products will return to the domestic markets.

As a result of development of the agrarian sector the share of domestic production in domestic consumption and hence the index of self-provisioning of the country will increase. Basis for reduction of imports will be provided by significant growth of market competitiveness of the specific types of agrarian food products. Effective system of food safety will be formed; Georgia will occupy a dignified place the international market. Production of high quality and competitive agricultural goods will provide opportunity of full use of the export potential. The institutional systems will be formed to assist local producers of agricultural goods to deal with the non-tariff barriers of the foreign countries. Priority of the state foreign trade policies will be gaining of preferential trade regimes with other counties, primarily, with the key trade partners, the EU and the USA; as well as return to the Russian and other traditional markets.

The role of the regional and local government will increase. As a result of decentralization, the role of local and regional governments will particularly increase in planning and delivery of the public service / infrastructure conditioning growth of local business productivity and competitiveness. The role of self-governments in agrarian food sector, use of natural resources of local significance, creation of the adequate infrastructure environment for small and medium scale farmers will increase; sound business environment will be created and stimulated in the regions. Expansion and development of production and services related to agriculture will provide basis for growth of competitive, primary agrarian production. Development of the infrastructure components oriented towards further stages of agrarian production being a significant factor of employment and generally regional development will be supported.

Production of the food products competitive on the domestic and foreign markets will be of priority. Development of agrarian food sector and related business components will perform the function of a key generator of the population income growth and this, on its side, will further be reflected on the development of non-agricultural production and services. This in its turn promotes creation of the solvent demand, as well as growth of savings and investment resources.

Standards of living in the regions will improve. Indicator of success of our policies for development of agriculture and regional economic development will be improvement of standards of living in the rural areas and poverty elimination, improvement of household and infrastructure environment, creation of the opportunities for proper life and employment in the regions, what would make rural areas an attractive place for living and finally result in the trend of returning of the population migrated to the foreign countries and the capital city. In the nearest future, in result of implementation of these policies, several tens of thousands jobs will be created in the agrarian sector; welfare of the self-employed will improve and their income will significantly exceed the subsistence minimum and unregistered unemployment in rural areas will be reduced.

SOCIAL CARE

The country does not have nor state (mandatory) neither private (voluntary) unified pension insurance system. In 2004 the legislation on social insurance and social (pension) insurance contribution was abolished. Therefore we do not even have a pension definition per international standards, and the word means the same as social assistance to the elderly. Currently, pension amount is solely depended on the governmental will. Each insignificant increase is associated with a political calendar and is given in a form of a “mercy” from the state.

Moreover, the government, as a rule, in turn requests electoral votes from the pensioners. This system is nothing more than a pure electoral bribery with budgetary resources, political corruption, and the most dangerous of all social-financial basis of authoritarianism. Since there was no political will, a law on non-state insurance did not go into force.

Currently, the pensions are covered exclusively from the central budget that causes a constant increase of budgetary expenditures and does not allow for distributing proper amount of pensions. By taking into account demographic tendency, given conditions will become even more problematic in the future.

Creation of a cumulative pension system is necessary, meaning that pensions that the citizens receive will be adequate to whatever they have accumulated. A unified legislation on state and non-state pension insurance system, existing currently in the EU countries, will be established in Georgia, which shall enable us to gradually become an organic part of the European social network. Basis for the new system shall be such principles as: fairness, solidarity and guarantee.

Elections block – Bidzina Ivanishvili – Georgian Dream takes responsibility to initially assign pensions no less than subsistence minimum, enforced by a special law.

Substantial reform of pension system, implying establishment of cumulative principle, will be based on mandatory pension insurance. As a result of the reform, private pension institutions will play a significant role in the system. Pension amount will be based on insurance span and the amount of insurance contributions. The state will have a distinct regulatory function in order to ensure stability of the system. Besides, for those citizens with an incomplete employment span and insurance contributions a social pension will be assigned.

Pensions for the elderly will equal subsistence minimum, as well as pension for people with the first and second group of disabilities, people who lost breadwinners, politically repressed, Chernobyl victims, war veterans. A discrimination that took place in 2005 against employees of law enforcement agencies will be abolished and their pensions will be recalculated based on the current normative acts.

Existing pension bonuses according to the “merit” will be increased in proportion with other pensions. In the conditions of not functioning system for the retired and special pensioners, together with the health insurance system, social security priority spheres should be in given in the forms of social monetary assistance and social services. The system of social assistance should cover all social groups, who are in need of such assistance. In order to evaluate social conditions of an individual, multi factor model should be used, based on an improved system of already existing evaluation scheme of the socially disadvantaged.

A database of the socially disadvantaged, shall be differentiated according to categories, therefore assistance provided shall be differentiated based on these categories; social assistance for the extremely needed ones shall be doubled; a number of beneficiaries shall be increased.

Notwithstanding that the system of social assistance shall be federal and unified, evaluation, servicing and administering the socially disadvantaged individuals shall be delegated to municipalities. A major part of the social services shall be special institutions – for orphans, elderly and people with disabilities, daycare centers, as well as specialized entities.

Development of the social services network shall be based on the principle of geographic access and availability. Administering and financing function shall be presented to the regional and municipal governments.

HEALTHCARE

As a result of the inefficient “reforms” that took place in Georgia in recent years, 70% of the population is without a medical insurance. Prices for medicine are extremely high. Majority of the population use their family incomes to cover for the doctor appointments and medicine. Quite a lot of people do not have finances for medical services. There is no unified state policy on healthcare quality and standards, as well as for the medical service providers.

Evaluation criteria and mechanisms

The system is not divided up by the regional and functional principles. Therefore, their rights and obligations, accountability to the citizens, regulations, such as modern standards/guidelines, protocols; medical education and development are not defined.

The role and principles of the government

The government cares for its citizens and takes responsibility for providing access to medical services. Together with the government, citizens have the right and possibility to participate individually or in group in planning and implementing their own healthcare. The major objective of Georgian healthcare system will be constant improvement of the citizens' health. In order to fulfill these objective unified efforts from the side of all participants is required (service provider, decision maker and financier).

Characteristics of Georgian healthcare system will be:

- Access to unified and free quality healthcare;
- Operating with a state defined basic basket;
- A regulatory role of the state;
- Healthcare network oriented towards disease prevention;

- Creating competitive environment for the state and private systems;
- Ensuring free choice for additional services.

At an initial stage of the reform, each citizen of Georgia will be provided with a universal insurance baseline package. This package will ensure access to quality medical services, protection from financial risks, disease prevention and treatment as per the baseline package.

Organization and management of the healthcare system financing

In order to improve healthcare system financing international best practice mechanisms will be implemented. A nongovernmental nonprofit institution shall be established, that shall administer the resources, choose and finance providers (medical personnel, hospitals). Its council shall unite government representatives, patients, medical personnel, insurance and nongovernmental organizations (professional unions among them).

Function of the Ministry of Healthcare shall be legislative initiatives, monitoring the working process of the institution, defining-evaluating baseline package, regulatory activities (licensing, certifying, and quality control, promoting constant medical education), financing and managing public healthcare programs.

Functions of the central and regional governments shall be diversified. On the central level financing policy of the system shall be established, pharmaceutical regulations shall be undertaken, licensing and coordinating healthcare policies among medical institutions (state, private), as well as ensuring evaluation of medical technologies (metrology, calibrating), functioning of the system.

On the regional level, public healthcare departments shall be established, that shall undertake local needs based on the epidemiological research and coordinate the needs, analysis and problems to the central government. They shall supervise local healthcare networks, engaged in treating common and frequent diseases, as well as creating and implementing a regional public healthcare policy.

A unified database shall be created, in order to analyze, plan and adequately manage needs of the healthcare system on a regular basis, and correctly make interventions.

Private insurance companies shall be engaged in offering additional services not covered by the baseline package. The hospital sector shall be presented by the state, municipal and private hospitals in Georgia.

Financing the healthcare system shall be based upon the following principles:

- A standardized baseline package shall be defined that shall be the same for the entire population;
- Private companies shall have the possibility to provide with additional, supplementary services;
- Competition shall be promoted for offering additional, supplementary services;
- The state shall define the price for the baseline package and shall not be connected with an individual's healthcare risks.

The baseline package defined by the state shall cover all those services that shall be financed completely by the state:

- Ambulatory services (family/village doctor and specialists);
- Prophylactic analysis (screening) and immunization (vaccination);
- Emergency;

- Hospital services (vascular treatments stents, shunting);
- Pregnancy, birth;
- Diagnosing and treating childlessness;
- Oncology (chemotherapy, and radiation);
- Emergency dentistry, medicine – primary medicine with 50% reductions.

At the same time, financing of specialized healthcare directions shall continue, such as:

- Diabetes program (financing shall double);
- Mental health program (financing shall double);
- Anti rabies treatment program (financing shall double);
- Safe blood program (financing shall double);
- Tuberculosis program;
- HIV/AIDS program;
- Dialysis and kidney transplant program;
- Drug treatment program;
- Epidemiologic supervision program;
- Treating people with rare diseases;
- Program for treating professional diseases;
- Program for supporting constant medical education and research;
- Treating people with limited abilities.

Quality and access to medical services. Medical services shall be equally distributed in the entire country, so that the population has the possibility to receive quality healthcare country-wide.

Quality control shall be ensured by means of domestic and external audit, quality control offices, quality control programs, assessment indicators, accreditation standards, management of patients' safety and risk management standards. The personnel shall be trained in technical safety methods. Physical, financial, quality access shall be ensured, decision making shall be made on documented bases and ethic norms for the medical services shall be protected.

NATIONAL DEMOCRATIC PARTY

EDUCATION

Education issues are not considered in the National Democratic Party's platform. It stresses on unemployment overcoming program, on insurance and on other social programs. But, in their statements, the leaders of NDP say that the students' loans pay-back should be after graduation, when the young professionals have income. Also, the party's goal is to make a profession of a teacher more prestigious, which can be achieved by increasing wages and by legislatively guaranteeing labor rights.

EMPLOYMENT

To deal with this social disease NDP presents an incentive of creation of the state employment service (agency). The employed people will be insured and receive monetary compensation in case of loss of their jobs. The unemployed citizens will be registered with the state employment agency, they will be given the status of unemployed and they will receive monthly allowances.

Simultaneously, through the state employment agency, they will be able to seek new jobs and if required, they will be trained in the demanded professions at a time. Part of the unemployed desiring to be engaged in small business will receive support from the state employment agency. All service fees will be paid by the state.

MACROECONOMIC ISSUES

With respect of entrepreneurship, NDP's goal is formation of a strong middle class in the country. Middle class cannot be discussed without small entrepreneurship and therefore, state will not only protect small business but also it will provide assistance to it – impose low taxes, provide free legal and accounting consultations. Newcomers and operating businesses will have an opportunity to take low-interest long-term loans.

AGRICULTURE

We see Georgian villages as a significant and traditional component of our national identity requiring care and support. Agriculture cannot develop without state support; therefore, the government should provide assistance to the household economies through long-term low-interest credits; provide subsidizing of the rural products, provide familiarization of the farmers with advanced technologies; in case of natural disasters, as well as poor harvests, provide financial assistance in a form of agrarian insurance, veterinary services shall be established in the rural areas. This is the vision of National-Democratic Party and in our opinion; this is the way, allowing not only maintaining Georgian villages but also developing agriculture in general, ensuring supply of the population with safe food products without any dependence on imports.

SOCIAL CARE

NDP has a different approach as compared to the government. Our pension system envisages providing a dignified retirement for the elderly that is why it is important that the country has a baseline pension, in the amount of the subsistence minimum, and indexed to inflation. Pensioners representing different categories will be provided with the baseline pension. At the same time,

accumulative pension scheme will be established – portion of the paid income tax will be accumulated to a person's individual account. When the retirement age is there, individuals will receive both the baseline pension and the amount that has been accumulated to their private accounts.

HEALTHCARE

All members of society should have access to healthcare regardless of their income. Universal health insurance that we are offering to the people is based on the sharing of responsibility between businessmen, their employees, and the state. The universal health insurance system will make it possible for every citizen to receive full medical services without out-of-pocket payments regardless of whether they are employees, businessmen, public servants, teachers, housewives, students, the unemployed, or pensioners. The principle – healthcare for all shall be established.

CHRISTIAN DEMOCRATIC MOVEMENT

EDUCATION

“EDUCATION FOR EMPLOYMENT”

GEL 1 billion for education:

- Primary education – GEL 690 million: up to 50,000 teachers will be provided with minimal salaries of GEL 900, portable computers and, together with 600,000 students – school textbooks.
- Higher education and scientific research program – GEL 310 million (100,000 students will be awarded at least half of funding, i.e. GEL 1,125 and the students of the families with many children, socially vulnerable and those of high mountain regions will receive 100% funding. Funding of the scientific grants will be increased by four times).

MACROECONOMIC ISSUES

UNIFIED GEORGIA FOR ALL GENERATIONS

To increase GEL 8-billion budget to GEL 10 billion:

- Pressure over the business shall be eliminated immediately and economic crime decriminalization will be provided;
- Elite corruption shall be eliminated and “black holes” in the economy, in a form of business monopolies shall be filled;
- Based on social market economy principles we shall adopt differentiated taxes. Principle of our fiscal policy will be: “lower incomes – lower taxes”. Non-taxable minimum will equal the subsistence minimum. Income tax will be within 10-25%, allowing mobilization of additional GEL 350 millions.

EMPLOYMENT AND LOW TARIFFS

Energy sector: GEL 1 billion:

- Construction and rehabilitation of energy infrastructure – construction of hydropower stations will continue, generated cheap hydropower will contribute to reduction of fees, economy development and creation of new jobs; state will ensure gasification of the settlements;
- 75% of Telasi shares and 100% participation interest in Energopro Georgia will be redeemed – as a result, the investment component will be withdrawn from the power supply fees thus reducing them further;
- Gas from Shah-Deniz will be received, gas procurement for the heat power stations will be eliminated and thus gas fees will be reduced significantly;

INFRASTRUCTURE FOR WELFARE OF ALL FAMILIES

Infrastructural development – direct budget expenses of GEL 700 million, with additional GEL 800 million from International Finance Institutions, hence GEL 1.5 billion:

- Development of the road infrastructure: GEL 850 million, including “road for each village” – GEL 40 million (for 3 years period GEL 1.2 billion will be spent and each village will have a good road infrastructure;
- Restoration & rehabilitation of water supply system, i.e. drinking water for each family – GEL 250 million;
- Restoration of regional and municipal infrastructures – GEL 250 million;
- Support of IDPs, providing them with their own housing, restoration of subsidies of monthly 100 K/watt power supply per person – GEL 150 million.

STATE WITHOUT DEBTS

Servicing internal debt:

- Program of cooperative housing construction program – GEL 60 million. For 4 years GEL 240 million will be spent, 100 buildings will be constructed and 9.000 IDPs will be settled;
- Program of covering wage debts emerged in 1998-2004 period – GEL 35 million (in total, for 2 years GEL 70 million will be allocated).

AGRICULTURE/EMPLOYMENT

“Competitive Farmers Instead of Peasants with Small Land Parcels” Billion GEL for Agriculture

- Program of development of agrarian cooperatives – GEL 550 million. State will stimulate lands consolidation through cooperation, subsidize fuel and fertilizers, procure the machinery and provide harvests’ insurance;
- Agrarian bank – GEL 300 million. The State will grant cooperative economies long-term and low-interest credits and for the first three years the state will fully cover the principal amounts and interests. As a result, annual cooperation will create 80.000 jobs;
- For sale of agricultural products, arrangement of relevant warehouses, refrigerating and transport infrastructure – GEL 250 million.

SOCIAL CARE

Pensions 2.1 billion GEL. This sum will include veteran pensions (60 million GEL). Pensions for the elderly in 2014 will be 200 GEL, 220 GEL in 2015; 240 GEL in 2016.

HEALTHCARE

Healthcare – 800 million GEL; Children of 0-18 age, pensioners, IDPs, disabled persons, those, who have lost bread earners, population of high mountain regions, pensioners of the law enforcement entities will receive advanced health insurance packages from the state.

POLICY BRIEFS

NEW RIGHTS

EDUCATION (ISET-PI)

The party's official program document pays considerable attention to education, outlining its unique vision for the education sphere. Most significantly, New Rights plans to double education finance, increasing its share of gross domestic product (GDP) from 2.2% to 5%. This represents part of the party's wider policy of budget optimization and priorities reassessment.

The pre-election program of the party pays particular attention to school and pre-school education. The primary goals of the party's proposed education reforms are: the comprehensive decentralization of the school system and the maximization of school autonomy, the systematization and universal availability of pre-school education, the provision of textbooks for pupils at the primary level of education, and the creation of schemes to encourage individuals to undertake pedagogical education.

According to the party's program, education's annual budget will be increased at least twice in relation to both GDP and the national budget. On the one hand, this increase is welcomed – the prioritization of education signals that that proper attention will be paid to Georgia's long-term economic development. On the other hand, increasing education's share of the budget will necessitate either a reduction in funds for other spheres of the budget or an increase in taxes, either of which could cause negative economic results. According to the party's program, the necessary funds will be taken from the budgets for infrastructure and the state apparatus, though it is not shown whether a transfer of this kind is possible and the potential drawbacks of such a policy are not analyzed.

The party's program for school and pre-school education would be executed over the course of the next four years. The systematization and universal availability of pre-school education deserves attention; it could turn out to be one of the party's most significant promises. Refining the pre-school system will contribute to an increase in the birth rate and will allow parents to devote more time to social activities, their career and professional development. The policy may, therefore, have a positive effect on the economy in the both the short and long-term periods.

Unfortunately, however, the party's proposals pay no attention to higher education, which may precipitate the abandonment of previously initiated university. It is vital that attention is not relaxed and that the system of higher education continues to improve.

EMPLOYMENT (ISET-PI)

The pre-election policy document of the New Rights Party does not devote a separate section to Georgia's unemployment problem. Rather, discussion of the issue is spread over various different segments. The party's analysis of the unemployment problem is backed up with generally reliable statistical data and in this sense is quite credible. The program document correctly asserts that even though the economy has experienced above average growth for a decade, unemployment and poverty still remain high. Furthermore, the real level of unemployment in the country is much greater than is suggested by official statistics, based as they are on the methodology of the International Labor Organization (ILO). The document argues that despite the quite remarkable growth performance of the Georgian economy over the last ten years, the benefits of growth have not "trickled down", which is reflected in the high unemployment and the poverty rates. According to the party, the main reason for this is Georgia's

extremely stagnant agricultural sector. The New Rights' also highlights the fact that 60% of Georgia's employed population is self-employed, meaning less than 40% are hired employees.

The New Right's plan for tackling unemployment is extremely right-wing. The party dismisses measures taken by the state which aim to increase employment through intervention in the labor-market. They believe that, if established, an employment agency or ministry will fail. The party argues that state intervention to tackle unemployment should be limited to those measures that support small and medium-sized businesses i.e. those measures that support the development of the middle stratum of society. Otherwise, the state should keep intervention in business relations to a minimum. The argument of the New Rights is based on the experience of the USA and the European Union (EU), where small and medium-sized enterprises comprise the greatest proportion of the entire distribution of business. From a purely economic point of view, development of small and medium-sized businesses is a reasonable strategy, although in practice its implementation will require a plethora of thoroughly well-planned measures.

MACROECONOMIC ISSUES (EPRC)

The New Rights' pre-election program is one of the most extensive among those of the parties participating in the 2012 parliamentary elections and significant attention is devoted to the issue of how further economic development can be achieved. The basic macroeconomic tendencies of the country's development thus far are considered in detail and the document demonstrates a good understanding of the hierarchy of basic macroeconomic parameters and the relationships that exist among them. More and less significant parameters and relationships are clearly demarcated.

The New Rights' program describes how the dynamics of basic macroeconomic parameters – e.g. employment, investment, export-import dynamics, etc. – influence the country's economic situation. The authors of the program rely on official sources for factual reference and avoid speculating with unofficial data. In our opinion, the party is correct to criticize the ineffective structure of employment and the problematic methodology used by the state for unemployment registration.

We also agree with the program authors' opinion that the state's expenditure policy is both ineffective and the primary cause of the budget deficit. Fiscal problems in relation to development in general are also well considered, including the relationship between business freedom and economic growth on the one hand, and business freedom, tax policy effectiveness and budget process transparency on the other.

The document demonstrates an awareness of external economic considerations (export-import dynamics, foreign state and corporate debt) and the party's ideological principles – i.e. that the government should be as small as possible – are clearly evident. For example, the fact that the government intends to increase the wages of public employees at a higher rate than the rate in increase of social expenditure. The document also considers the vulnerability of Georgia in the sphere of attracting foreign investment.

However, the factual section of the New Rights' document is punctuated with a number of short-comings. For example, the program states that fuel and medicines, along with many other products, are catastrophically expensive in Georgia, but it is unclear what "catastrophically expensive" means. How expensive they are in comparison with neighboring countries? Or how expensive they are in comparison to the average income? Without qualification the argument lacks power.

Elsewhere, the document states that employment is only effective in a few sectors in the economy, citing Dutch Disease. However, the phrase "Dutch Disease" is used negligently without explanations. This economic phenomenon characterizes only a certain type of country at a certain stage of development – in our opinion, drawing parallels to the situation in Georgia is wrong. The program also expresses the opinion that Georgia has a clear competitive advantage due to its underground natural

resources, geographic location and workforce. This is disputable. It is true that the greater part of investment has been related to the privatization of state property and that the increase in state expenditure has been due to the formalization of the economy and the increase in fiscal revenues. However, it is incorrect to say that the portion of total investments acquired that have been utilized to serve an increase in capital efficiency has been insignificant. However, on the whole and despite errors such as these, the program's provision of factual material is reliable.

In general the New Rights' economic program is consistent, although there are a number of contradictions. For example, the paper asserts that unemployment is the economy's greatest challenge, and that it will only escalate with time, but at the same time does not mention those sectors that are characterized by highly effective employment. This is illogical and contradictory; if employment in the country is not increased, if it holds constant and new sectors are not established, then it will be only the existing economic sectors that are responsible for economic growth. How, then, how can the economy grow? This would suggest that those sectors that employ the work force are highly effective.

The assertion that inflation in Georgia remains high (especially on imported produce) whilst the central bank artificially strengthens GEL is also contradictory. If the National Bank strengthens GEL, then the price of purchased foreign goods exchanged in GEL should be decreasing rather than increasing.

Again, the paper's argument that Georgia, "as an import-oriented country", annually loses labor resources due to migration is contradictory. If the unemployment problem in Georgia is acute and Georgia is in possession of a significant labor surplus, then migration does not mean the loss of labor resource. In order to be economically proper, this idea should be formulated in another way. Otherwise, the macroeconomic section of the New Rights' program is generally consistent.

In terms of economic logic, the macroeconomic section of the New Rights' program achieves moderate levels of accuracy. However, the program document's economic logic becomes significantly less robust as it moves from, and builds upon, the analysis of relatively simple economic phenomena to more complicated trends in the economy. For example, it is mentioned that the resistance of the Georgian economy from disruptions in the global economy has decreased over the last few years and that the country is still dependent on the international economic situation. This is received negatively by the party and they write as if better government policies could have rectified the situation. Unfortunately, this is not so; generally, small open-type economics like Georgia's necessarily depend on the international environment.

It is unclear what "consumer economic policy" means or why imports necessarily impede exports. Any small country imports a great spectrum of goods and exports far fewer products – indeed this is the logic of the international distribution of labor. Increasing Georgian exports will not necessarily be achieved by limiting imports.

It is also stated in the New Rights' program that the decrease in industry's share of the GDP, despite its nominal increase, indicates that a great sum of industrial potential is going unused. This is a very bold statement as it is very difficult to know for sure whether the industrial potential of Georgia is much greater than is already being harnessed. Perhaps we do not have more industrial potential at all and in the process of the economy's economic optimization, resources instead flow into the service sector, which may be even more effective.

The assertion that the banking sector stimulates the trade of imported goods, and thus balances local demand through the foreign market, lacks economic logic. This proposition is unclear and uses economically improper terminology. It is evident that it would have been better if the country had possessed more of its own savings, and was more export oriented. Unfortunately, due to a number of interrelated factors, this is not the case.

The New Rights' standpoint concerning the transparency of budgetary policy and the support of entrepreneurship for long-term economic development is impressive and logical relationships between macroeconomic problems and macroeconomic param-

eters are also well observed; in general, the structure of their vision displays clear economic logic. On the whole, the economic logic of the macroeconomic section of the New Rights election program is quite satisfactory.

The proposal that expenditure on the various budgetary categories (education, health, etc.) should be formulated in terms of their proportion of GDP is quite feasible. According to the proportions proposed, the total share of expenses as a proportion of GDP is less in budget offered by the New Rights Party than it is under the current administration.

Utilizing conservative economic policies to gradually decrease the budget deficit and effectively management manage foreign debt is also quite feasible. All governments should be able achieve these goals in either the medium or long-term period.

A number of concrete proposals are offered that aim to improve Georgia's economic and business environment. We believe that limiting governmental interference in the activities of business, protecting competitiveness, refining tax legislation and ensuring the transparency of its enforcement are all quite feasible. Other activities for encouraging small businesses are also offered.

We believe that the establishment and effective functioning of a small business support fund is unrealistic. Unfortunately, Georgia has a poor history in relation to the establishment of such funds. In addition, it has not been proven that the credit offered by this fund will be cheaper than that offered by traditional banks, which is becoming cheaper, but not a rapidly as business would like. Besides, we think that the administration of such a fund will lead to prohibitive direct and indirect costs. Therefore, we do not believe it is proper to divert state funds for this purpose, even if it is to finance small businesses. We also believe that the managements structure of the fund will be very bureaucratic, which will complicate its activities.

In general, however, the measures offered are feasible in both the short and medium-term periods.

The logic and foci of the macroeconomic section of the New Right's election program leads us to believe that the party's approach towards this facet of the economy is situated within the socialist, Western European, social-democratic spectrum. While the party understands the necessity of transparency, resource efficient policies, and minimal governmental interference in an economy, the document's general tone and the New Rights' repeated assertion that the state should play a more active role in the economy suggests that the party's stance is not in the libertarian spectrum as its name would suggest. Rather, it is more centrist, with both leftwing-centrist and rightwing-centrist positions on various issues.

AGRICULTURE (EPRC)

The New Rights' program document is one of the most extensive among the political parties participating in the 2012 parliamentary elections. Therefore, it offers plenty of opportunity to estimate the document's factual accuracy, feasibility, assumptions about the hierarchy of priorities, and other criteria.

The New Rights' agricultural program is particularly well structured. The basic issues are singled out, are hierarchically arranged more or less correctly and the authors of the program aspire to rely on available, factual information obtained from official sources. For example, the structure of distribution for the Georgian land fund, the number and dynamics of those employed in the agricultural sector, the scale of production, and agricultural export-imports are all accurately described. The authors of the program rightly note that the use of certain types and sources of information – e.g. village employment statistics – without due care and analysis can lead to error. However, reliance on international sources, e.g. data from the World Bank, is welcomed.

The program expresses the facts of the situation without dramatization and the tone of its discussion is moderate and business-like. At the same time, the program analyzes the severity of the situation in Georgia and the negative effects of agricultural stagnation on the country's development from both an economic and social perspective. Criticism of both the government and

the political spectrum's lack of an effective program for the agricultural sector is justified. The negative consequences of the Russian embargo are also well observed.

Despite the above, there remain a number of issues regarding the program's factual material. For example, it is unclear why it is considered to be the case that there are only 600 tractors in the country, and that at least 5000 would be required to improve the agricultural sector. In our opinion, it is incorrect to emphasize the fact that the manufacture of agricultural products was greater during the Soviet era. It is true, but emphasizing this statistic in the context of a dramatically changed state system is both unhelpful and misleading. Even within the Soviet Union, Georgian agriculture was not prominent and used to maintain its output through subsidization from the center and by focusing on specific produce (e.g. tea, citrus fruits and wine, which enjoyed guaranteed distribution without foreign competition).

In regard to factual accuracy, it should also be noted that the date given for the spread of African swine fever is late – the epidemics began in 2006 and not in 2008 as stated in the program. In addition, the sum of agricultural credits as given in the program is unrealistic. It is true that their absolute size is very small, but the figure is not as small as the authors of the program suggest. Also, as an interest rate, 30% is extremely high, but this rate is typical of microfinance organizations and is not representative of the entire banking sector, in which a decrease in the rate for agricultural credit is being observed (although it is still high, with an average of 13-18%). Despite some flaws, then, the factual material is, on the whole, accurate.

The internal logic of the New Rights' program document is sound. The generally businesslike tone of the program and competent approach to the issues results in a relative dearth of mutually exclusive proposals. It seems that the document has been conscientiously prepared taking into account the opinion of experts. However, as always there are several points which we find to be contradictory:

The greater part of the program is dedicated to the use of tax incentives to stimulate agricultural production. As the program asserts, it is indeed possible that tax incentives, given that all other conditions are equal, represent significant stimuli for promoting production. At the same time, however, the assertion is contradicted by a later statement that says small landowners have no incentive to use their land productively because they are exempted from taxes. If, on the one hand, production incentives rise when profit and other taxes are decreased, how is it that the other hand that a farmer's production incentives rise when he his land tax increases? Tax incentives should stimulate production no matter the kind of tax. Probably, the authors wanted to say that the land tax is very specific and its avoidance is impossible, which makes the owner use their land optimally. However, it should be noted that optimal land use is encouraged by a functioning land market and not taxes. Practically, such a market does not exist in Georgia.

The authors of the program note certain cases in which farmers have had to sell their products for less than their production cost while the country's retail network is full of canned food of foreign origin. The following question thus arises: if production is subsidized (e.g. through fuel, fertilizers and pesticides), will the problem of overproduction severely escalate? Who will purchase these products in greater quantity if (in the opinion of the document's authors) there are instances where farmers have failed to sell their produce?

The program gives a generally accurate assessment of the basic reasons and conditions that explain why Georgia is experiencing a technological lag in the agricultural sector. For example, the relatively high cost of technologies, expertise, raw-materials, capital and spare parts is one major factor precipitating low levels of production and production efficiency. The measures offered by the New Rights party to eliminate the most significant of these factors are grounded in sound economic reasoning. The party's economic and political stand in this regard is notable for the way it understands the necessity of complying with the regulations set by donor organizations, especially those demanded by the EU, and the possible positive side-effects thereof.

It is also noteworthy that the party believes agriculture to be a major component of the economic and social composition of the country. It is certainly clear that the particulars of the agricultural sector are connected with issues of preserving tradition and

the national identity. It is also true that the extremely low production output of the agricultural sector is inhibiting Georgia's economic development. It is likely that the program's authors are privy to the empirical evidence which shows that, with the exception of a few isolated cases (Singapore, Hong Kong, etc.), no leading country has achieved substantial economic growth without increasing agricultural production.

Elsewhere, a cogent analysis is given of the issue of cooperation in the agricultural sector. The party's program considers cooperation to be a relic of the Soviet Union. Instead, emphasis is placed on training as an effective mechanism of technology transfer and on strengthening the role of the ministry of agriculture and other authorities that establish and enforce agricultural policies, including that of the proposed increase in budgetary finance.

Both the efficiency and economic logic of measures proposed to increase agricultural production are disputable. The document does not show how and where the redundant manpower existing in Georgia's village communities will be employed. This is a serious flaw; redundant manpower must be employed to increase demand for products and stimulate the development of other sectors of the economy through the transfer of manpower to them (e.g. industrial, service).

In our opinion, other measures also lack economic logic. Nothing is said about the formation of the land market, and the consolidation of land resources, etc. At the same time, we think it is good to have land resources governed locally as it will serve the basis for establishing market relations, but this issue has not been extensively examined in the program.

Also in our opinion, an excessively large emphasis is placed on the exemption from taxes, and in particular that some investors and investing organizations may not be subject to the payment of taxes for next four years. A selective approach to certain sectors by the state in regard to tax is not normally justified due to the fact that it breaks the general macroeconomic balance and has a negative effect on the delivery of accurate information to economic agents about the relative prices of economic resources. Moreover, exemption from profit and other taxes is neither necessary nor sufficient for development. The effect of such short-term measures in a small and open economy such as Georgia's will be limited, as the final price of goods and the cost of the capital are usually determined by the international market and not by state policy. There is no economic logic in a massive exemption from taxes for individual sectors. Moreover, if these reductions fail to have results in the short-term period, the state will lose the means to employ tax incentives and the budget will incur losses.

In our opinion, the value of subsidization is also disputable because it may not result in an increase in production efficiency. Moreover, subsidization only has a certain logic when the population of a village is relatively small and the distribution of budgetary resources is simple. The labeling of subsidized fuel does not mean that its final consumer will be the targeted group – it is possible that subsidized fuel will be purchased by other groups for the purpose of selling it on the black market. The administration of this process is also expensive and very complicated. The same goes for the subsidization of pesticides and fertilizers: it causes the unnecessary and inefficient use of these resources. Nowadays, Georgian farmers use nitrogen fertilizer in great quantities and have no information concerning the necessity of using a combination of fertilizers to optimize the fertility of their land. Moreover, subsidies will simplify activities for the manufacturers of low-quality products and hinder the formation of a competitive market environment. Free consultations are unnecessary because peasants receive instruction as it is required in farmers' service centers upon purchasing pesticides and fertilizers, the cost of which is added to the price of goods. However, improving the quality of said consultations through training is indisputably required.

It is difficult to justify the subsidization of credit resources because its administration will cost the state more than the private sector. Also, creating an agricultural bank will not necessarily guarantee that cheap credit will be used within the agricultural sector; monetary resources may be moved to other sectors where profitability is higher. Both the farmer and the entrepreneur should be incentivized to invest his own savings in production increasing and assets, at least at the initial stage.

The practice of subsidizing agricultural technology is also incorrect in our opinion. Currently in Georgia, there is a problem reaching the optimal hourly load of techniques, taking into account the significant proportion of land that remains untilled. The reason

is that land plots are small, there is no land market, and the land is mostly in the hands of people who are not even aware of the location of their plots (e.g. parts of the urban population, who were issued plots of land under the 1992 reforms). To make techniques available, it is necessary to encourage the establishment of new types of leasing and purely-leasing companies. Currently, leases are only issued by companies existing under a bank, and they typically require consumers to purchase techniques through a bank loan. Cheaper, secondary techniques should be imported privately on market terms and should not be subsidized, as it would result in the saturation of the market with expensive techniques.

The issue of food safety has not been properly understood. The document wrongly includes food security in its understanding of food safety, taking it to mean both the quality control of food and the access to adequate nutrition. It is also argued that the implementation food quality controls will increase the sales prospects of products manufactured in Georgia. This is incorrect – great quantities of low-quality and dangerous products are produced in our country. Unfortunately, the authors do not understand that reforms have already been implemented by the government, but inconsistently, which has negatively effected the price of goods. It would be more economically logical for the program to advocate legislation that would impose equal quality controls on foreign and domestically produced foodstuffs. The program is, therefore, average in terms of its economic logic.

The New Rights' economic program presents information concerning the resources and sources of funding to be utilized for its various proposed measures without an analysis of the potential negative economic and monetary consequences these steps will elicit. In our opinion, this is a serious flaw. Furthermore, turning around the situation in the agricultural sector will require significantly greater effort than the party recognizes, and unfavorable domestic and foreign circumstances will mean that the results will not be revealed in the short-term.

The document states that the cost of production for a single farmer is \$1872. At the same time, however, a large proportion of the village population is unemployed, which suggests that a greater part thereof needs social assistance rather than a large-scale subsidization program. Social assistance means the financing of healthcare, education and infrastructure (together with other direct help), which will create the conditions for non-agricultural jobs. Moreover, in order that the measures offered by the New Rights' agricultural program achieve positive results in the short-term period, there will be no point in employing a large proportion of the village population in the agricultural sector, unless other spheres of the economy develop more quickly to utilize the redundant manpower.

Insurance generally, and agricultural insurance in particular, only makes sense when the risks are small. Unfortunately, at this stage of Georgia's development, emphasis on insurance is unrealistic because the scale of production is not big enough in the village regions and there is no material base for it. The prerequisites for cheap insurance do not exist in the villages. The emphasis on weather insurance is more plausible than on harvest insurance, but it requires a serious amount of administrative resources and extensive, accurate information on risks related to the weather, which we currently do not possess.

The establishment of enterprises in every village is also unrealistic; there is neither the capital nor an urgent necessity for such a program. The revival of tractor production in Kutaisi is also unrealistic at present and, moreover, we do not know the scale of capital and human resources that would be required, what the minimum volume of production would be (how much must be produced in order to break even, or whether the enterprise will manage to produce tractors that are cheaper than their foreign analogues.

In our opinion, the establishment of a large-scale processing industry is also unrealistic. For example, the supply of apples as a raw material is so small that a factory would not manage to be competitive with foreign analogical products without increasing the volume and quality of the production base, which will need at least ten years. The rapid establishment of veterinary services is also unrealistic in our opinion. If there is no state system of goods registration and the breed characteristics of cattle do not fundamentally change, the system will not function efficiently in the short-term period. The planned infrastructural improvements also sound unrealistic. We think that, at present, the rehabilitation of drainage and irrigation systems needs more funds than the

figure given in the New Rights' document, "a strong village of the 21st century". Moreover, infrastructural projects will be less efficient without measures to consolidate land resources. In terms of feasibility, then, the program is average.

The internal logic and measures emphasized within the agricultural section of the New Rights' election program lead us to conclude that the party's approach to agricultural policy lies in the Western European, social-democratic corner of the spectrum. This is in contrast with the party's name and its declared orientation. Much more is said in the agricultural section about subsidies and assistance than about the creation of the prerequisites for competitiveness with minimal state intervention. On the contrary, the asserted prerequisite for achieving progress in all problematic spheres of agriculture is said to be active state intervention. At the same time, however, it is not clear when such intervention would be scheduled to finish and by what means the stated goal of an effective dialogue and partnership with the private sector would be reached. In terms of its ideological/political position, the agricultural section of New Rights' economic platform is on the left side of the spectrum.

HEALTHCARE (LAT)

The New Rights Party's program presents an in-depth and detailed analysis of the current situation in the field of healthcare. During the analysis of the current situation, those reforms implemented to date are assessed and their findings supported by empirical evidence. The program analyzes the modern approach to the healthcare system and places particular emphasis on the fact that access to healthcare is not universal, since it only covers 25% of the population, and predominantly just the poor. At the same time, it is underlined that the availability of investment in the field is quite limited. The supply of pharmaceutical products is relatively more developed. However, the population's access to medicine is limited due to pre-existing monopolies and the inefficient regulation of the pharmaceutical market.

The value of the program resides in its focus, among other issues, on the lack of human resources and financing for health care services. However, the program fails to remark upon a number of important measures, thanks to which access to preliminary healthcare has increased for a variety of segments of the population (e.g. pensioners, socially disadvantaged). It should not be forgotten that, due to the healthcare reforms undertaken in recent years, tangible steps have been taken towards transforming healthcare services into an insurance system (e.g. the reconstruction and rehabilitation of hospitals). These and other issues are only superficially addressed in the program and, therefore, the due diligence with which it assesses the strengths and weaknesses of the existing system can be questioned.

At the same time, some conclusions made by the New Rights Party are ambiguous and sometimes controversial. The party program promises an improved healthcare to the electorate but does not indicate the specific indicators that it intends to improve. The program presents those indicators that worsened over the course of 90's, but neglects the fact that these same indicators have somewhat improved in recent years. Nearly all comparisons are made with the countries in Europe – in only one case is Georgia compared with countries from the former Soviet Union and the data is wrong. The given "fact" that the mortality rate among children under the age of 5 years is considerably higher in Georgia compared to other former soviet republics is wrong. A number of other former soviet republics countries have significantly worse statistics, particularly those in Central Asia.

The program presents an inadequate quantitative analysis of healthcare that does not present the shift in dynamics the system has experienced in recent years. At the same time, demographical analysis is not representative enough. For example, the low birth rate is only analyzed in association with youth migration, when according to state policy in this regard, the birth rate is dependent upon a number of factors, including access to housing, employment and education.

Healthcare indicators are only presented empirically. For example, according to the program, the productivity of medical personnel in Georgia is among the lowest in all CIS countries. What is meant by "productivity" is unclear, so too is how it has been

measured. At the same time, economic terms are muddled and hard to understand. For example, the confusing assertion that “a decrease in the low productivity efficiency of medical staff causes a decrease in their salaries and motivation that negatively affects quality”. The question is, in the case that medical staff salaries are increased, will this automatically cause an increase in the access to and quality of services? And if so, how is the party planning to increase salaries in the private sector for medical stuff – forcefully or through market mechanisms? In fact, between 2003 and 2011, salaries in the healthcare sector have increased 6 times (faster than GDP growth rate). Meanwhile, the wage difference between qualified and unqualified personnel has increased. Therefore, using aggregated statistics in this sector may produce erroneous results. The program also asserts that the number of infectious and other diseases have increased in Georgia. However we should also take into account the fact that access to healthcare has also increased in this period, therefore disease registration has improved. In conclusion, failing to take into account all the interwoven aspects of a sector such as healthcare when conducting a comparative analysis can undermine policy development.

The program correctly emphasizes the infrastructure of the healthcare system and its efficiency indicators, but it does not comment on the construction of more than 100 hospitals. This fact is politically important, since it is connected to the issue of access to healthcare and the question of how the planned smaller hospitals will provide quality services whilst covering their expenditures. It is expected that the small hospitals will not be able take advantage of the economy of scale. Therefore, hospital visits will be more expensive for the population, unless they are subsidized by the state. Otherwise, prices for in-patient services will increase even more. Although the program presents a good deal of important and pertinent data, its factual correctness is, overall, not always good.

One of the program’s strengths is its logical review of the problems facing Georgia’s healthcare system and related issues. However, a general assessment of the existing reforms is presented without properly interrogating their shortcomings, i.e. that the state implemented speedy, inconsistent changes, without planning or effective supervision, regulation and administrative resources. Without specific details, the review’s statements are little more than hot air. The program criticizes the ownership of hospitals by insurance and pharmaceutical companies on the basis that monopolies could be created that would increase prices and limit the free choice of medical services. In order to overcome this problem, the program proposes a change in state regulations. However, the regulation issue is vague and the recommendations presented are unsystematic and fragmented.

The program tries to assess the effectiveness and efficiency of healthcare services. However, its conclusions are ambiguous because its analysis is not based on existing methodologies for assessing the sector’s efficiency. The priorities of this section of the program are concerned with the planning of human resources and technical issues of regulation. Financial support for the program’s proposed activities are presented in detail, but the extent of the budgetary burden it is not made clear. Even though the program indicates the party’s general financial priorities, it lacks a concrete spending scheme.

It is positive that the program’s priority is to improve the quality of medical services and expand the population’s access to them, primarily through regulation. In general, the program’s concerns, and the problems it identifies are presented in a professional, well-structured and comprehensive manner, and are coherently formulated by identifying implementation mechanisms.

The program ties the issue of healthcare finances with fairness, stating that large shares of medical services held in private hands creates unfair conditions for access to these services, because resources are not distributed effectively. A key aspect of this argument is the assumption that the major burden of healthcare should be held by the government. This is different from the political direction that the government has been pursuing over the last few years. Therefore, taking into account the problems existing in the field of healthcare, emphasis is made on broadening access to medical insurance among the population. The party envisages widening the number of state-insured individuals to encompass those under the age of 16 and above the age of 65 years.

The party’s readiness to engage the private sector in medical insurance through tax incentives is a positive step. The initiative will give entrepreneurs the option to list insurance costs as expenses and insurance costs for the formally employed will be de-

ducted from income taxes. On the one hand, this approach will decrease budgetary revenues. On the other hand, however, the insurance burden will be transmitted to the private sector and the employed themselves. There is logic behind the measure; it is both coherent and feasible. However, the self-employed will be left out of the scheme and they represent the majority of Georgia's employed. Thus the taxation initiative will not benefit a significant proportion of the population, since they exist within a different taxation regime. At the same time, however, the program does state that private insurance companies engaged in the state program should have an obligation to provide baseline insurance packages for corporate and individual customers and to constantly monitor the quality of the services provided. The program emphasizes the need to provide medical insurance to the population left without it, either by means of taxation priorities or measures to motivate the purchase of baseline insurance packages. However, concrete means of implementing the policy are not given. If we take into account the fact that the party's platform is oriented towards promoting entrepreneurship through tax discounts (0% for the first year, 50% for the second and third years), since they will not have to pay taxes already, then those employed in small businesses will also be left outside the insurance scheme as it is presented. The prevention of socially dangerous diseases is declared to be a priority without any concrete examples of where the requisite finances will come from being given. Disease prevention will require significant sums of money from the state budget; it is, therefore, doubtful that this initiative would be implemented.

Overall, the program is well formulated. It concentrates on strengthening elements of the market economy and can thus be placed on the right-hand side of the political-ideological map. However, participation by the state, increasing its engagement and investment in an insurance system is controversial for a right-wing ideology, since they represent more left-wing objectives.

SOCIAL CARE (LAT)

The program sets pension system and social care goals, identifies the issues and outlines activities to be implemented. An assessment of current situation in the pension system is presented and a desire to implement an in-depth transformation is declared. The facts and figures of the situation are not analyzed in any detail, the program only mentions that pensioners, and the portion of the population close to the pension age, did not have the opportunity to make savings to compliment the state pension (given their income) when they were employed, and thus the system is not effective. This assertion is not accurate; the reason that employed individuals are not able to deposit savings in a pension fund is caused by various factors including macroeconomic circumstances, conditions in the labor market and poverty. Therefore, the fact that employed individuals are unable to make savings is not only the result of the existing pension system. A number of countries successfully use the state solidarity system (eg. Austria). Nowadays, given the risks associated with financial markets and inflation, there is an acute demand from society for an increase in the state's role in the provision of social care. Efficiency in the pension system is connected with the extent to which private and state pension funds are able to provide the elderly with a dignified life, no matter which system state policy is based on. Therefore, the party envisages increasing the role of the accumulative system together with the solidarity system, although this direction is not argued in depth.

The Party's assertion that the minimum state pension package will be linked to the subsistence minimum is dubious. A number of parties have in the past offered this policy during the pre-election period and then later on, once the financial burden on the state budget had increased, reviewed the methodology for calculating the subsistence minimum or increased the pension age. Another approach calculates the state pension minimum according to the amount of taxes paid an individual has paid to the budget in their lifetime. Experts believe that this approach is fairer. However, Georgia is not ready to implement such an initiative. The program position presented by the New Rights party will be popular among the population, but it is not said why the party chose this particular platform. Implementation of this program is related to a number of macro and microeconomic conditions and threats (budgetary deficit, unstable conditions in the labor market, steadily increasing inflation, etc.). The program does not clearly represent the current situation in the pension system and, unlike the healthcare program, it is undetailed and politically motivated.

The status quo of the social care system is presented vaguely and inconsistently. The program states that the field is characterized by unfairness, red tape barriers, ambiguity and does not have clear-cut criteria for calculating rating scores. The program does not describe these factors in detail and they lack concreteness and justification. Presenting an analysis of the facts regarding the conditions of social care beneficiaries would have made the program more convincing.

Reforms to be undertaken in the pension system are not presented comprehensively and, therefore, a number of questions arise in regards to the program. For example: to what extent the burden on the state budget will be increased, whether or not the state will be able to finance the rise in pensions and whether or not pensions will be inflation-indexed, etc. At the same time, it is uncertain why individuals over the age of 40 years should receive pensions (we believe the age should be 60 or 65). Therefore, we suspect that if the New Rights party comes into power they will alter the retirement age. It is worth giving attention to the fact that the issues discussed in the program are based on a three pillar system, since implementation of these pillars are, in practice, are strengthened by concrete rational statements.

Unlike other programs, the New Rights' social aid program envisages providing internally displaced individuals with decent living conditions. The program intends to provide legal and social protection for the participants of wars for the territorial integrity of Georgia and their families. To this end, the existing state strategy is described and its shortcomings are presented. Questions arise regarding other beneficiaries and social groups that are not provided for by the New Rights' social program and who ask for assistance (such as disabled individuals, mothers with multiple children, etc.). Therefore, issues of social care towards specific social groups are incomplete or else they are underrepresented.

As mentioned, the program presents a three pillar pension system: a fixed state pension that will be equivalent to the subsistence minimum, a social pension for deserving groups of individuals (persons with disabilities and veterans) whose pensions will be 30% above the subsistence minimum and individual pension savings. Aligning state pensions with the subsistence minimum will require additional sums from the budget that the program does not touch upon.

Differentiating the pensions for disabled individuals from the baseline pension is a generous initiative, although increasing pensions for these individuals will further burden the state budget. It is unclear how is the 30% markup calculated. Connecting the individual retirement savings system to income tax would be a positive move, since it will promote the establishment of pension schemes. The initiative might also encourage the usage of savings for the provision of social assistance. However, this scheme – as in the case of healthcare insurance – cannot be used as a stimulus for small enterprises and the self-employed. The proposed insurance scheme will not be universal and will only effect a limited number of employed individuals.

The program also envisages an alteration of the method by which a family's property is assessed. That is, when determining the amount of social assistance a family is entitled to, a priority will be given to income and its proportion in relation to the subsistence minimum. The establishment of country-wide rating scores is politically expedient. As mentioned, according to this principle, a family's income will be presented as a ratio of the subsistence minimum. If we take into account what will happen to the state budget if social assistance is linked with the subsistence minimum, we realize that the initiative is no more than a generous wish. It would have been between if the financial implications of initiative had been properly presented in the party's program. Other questions also arise in relation to this initiative, such as whether or not it would be fair to use a universal rating system across the entire country and thus disseminate equal amounts of social assistance regardless of geographical circumstance. If we prioritize IDPs, the participants of the wars for territorial integrity of Georgia and their families, the interests of other groups will be neglected. The social assistance initiatives proposed for internally displaced individuals are romanticized. The program proposes to provide housing for IDPs that exist in various parts of Georgia, where they will be able to undertake typical household activities, implement infrastructural projects, etc. These initiatives are undeniably important, but nothing is said about the financial capabilities of the state to undertake them. It is obvious that these activities require a large amount of investment and cannot possibly be financed with the state budget. Currently, only 30% of internally displaced individuals have accommodation. According to empirical calculations, providing the remaining 50 thousand families with even the smallest possible land and

apartments will cost more than 12 billion GEL. This is beyond the resources of either the state or the private sector and the limit for receiving aid from international donor institutions for this kind of project has been reached. We believe that a more realistic program should have been proposed. There is a definite need to solve the problems of internally displaced individuals, but the initiatives forwarded in the program are incomplete. On the other hand, the initiative to provide legal and social protection to the participants of wars for the territorial integrity of Georgia and their families is quite realistic and feasible; it envisages strengthening the state's financial and institutional care through specific activities. However, the interests of other social groups asking for the state's assistance are not mentioned in the program.

The New Rights Party's social care program is situated on the centre-right of the political -ideological map. Their right-wing position is further strengthened by the introduction of market mechanisms to the pension system. However, in the field of social-care , the party's measures are centrist with left-wing elements, since it does not promote corporate social responsibility and implies dominance of the state role.

UNITED NATIONAL MOVEMENT

EDUCATION (ISET-PI)

That education plays an important role in the economic development of nations is currently considered an undoubted truth. Educated societies raise the value added of produce and are able to satisfy the ever changing needs of its members by conceiving and realizing innovative solutions. Ultimately, improving the quality of education leads to economic growth, lower unemployment, higher wages, and better living standards.

Economists categorize education as a specific type of capital – “human capital”. Education is a form of capital in the sense that it is a factor of production that enhances the value of the output of the production process. That is, it enables a process to produce more and higher quality products employing less physical capital and labor.

When it comes to education it should be remembered that developing a qualified and educated society is a long-run process. For instance, improving education quality at secondary school level would have economic effects only after students graduate from school or higher education institutions and go to job markets. Thus, reforms in the education system should be taken with great care while estimating its long run effects as accurately as possible. Otherwise, in the case of mistakes, society loses years of potential growth, becoming the victim of a failed experiment.

Unfortunately, Georgian political parties do not consider education to be a priority and have forwarded no serious or validated agendas for reform. Pre-election platforms assign an insignificant role to education, instead making such social issues as health care, unemployment benefits and health insurance their principle foci. Despite a general agreement across the political spectrum that education is of utmost importance for long run growth, the parties also realize that in the short-run, winning votes necessitates the targeting of more easily marketable solutions.

That being said, UNM has a relatively comprehensive and detailed education platform which outlines a multidimensional approach for the improvement of the system. This is more or less natural – UNM has lead the way on education for over 8 years and as such has the most experience initiating and implementing reform. Their pre-election education platform is a continuation of previous reforms dating back to 2004. The platform places particular emphasis on student employment and professional training programs, giving priority to the formal and natural sciences, increasing education's share of the budget, perfecting the voucher system of student funding (based on a per capita model) and applying the voucher model to vocational colleges. From 2013, united national examinations will be abolished and students will be accepted to higher education programs based solely on school examinations. 15 vocational training centers will be established offering courses in English language, computer skills and various professional orientations. The purpose of the centers will be to increase both the qualifications of labor force and their chances of being employed.

The success of the vocational training centers program will be directly related to the demand structure of the job market – the program will increase the supply of qualified labor, but it will not have any effect on the demand for qualified labor. Labor demand is determined by economic growth, prices, tastes and other market factors. If the level of demand is fixed, an increase in the supply of qualified labor will increase employment but decrease wages because of the increased competition on the supply side. Therefore, in order to increase both employment and wages, it is essential that demand is also increased.

Making formal and natural sciences a priority will cause an increase in R&D potential. A greater focus on natural sciences at schools and the establishment of up to 900 new laboratories will inspire students to switch from humanities to natural sciences. This will be a favorable trend for growth. The recent imbalance in the market created by the oversupply of humanities graduates

had the effect of decreasing wages and increasing unemployment. Increasing the number of graduates from the natural and formal sciences will restore the balance and favor the effective reallocation of resources.

According to the Ministry of Finance, in 2012 the government will spend 9% of the budget on education – 621 million GEL. Compared to the same figure in 2011 (552.5 million GEL), this is 12.5% increase. If the government keeps this rate of increase year on year, these figures are consistent with UNM's promise to spend over 4 billion GEL (short scale) on education over the next 4 years. Assuming that during the following 4 years GDP annual growth rate is 6% (average annual growth rate of past 10 years), then the government will either have to:

- Increase the budget by more than 6% annually in order to meet the promise which will likely necessitate increased taxes or,
- (In the case that government does not increase taxes) Increase the budget deficit and/or decrease spending in other spheres.

Therefore, according to these 2 scenarios, increased spending on education will necessarily be accompanied by some cost to society.

The main arguments given by the proponents of the voucher system of student funding are as follows: that the model gives students flexibility to choose the best higher education institutions and programs that the model provides educational institutions with the incentive to improve both the quality of education and the teaching environment. The model creates a competitive environment in which institutions must improve and maintain standards in order to attract students and survive. Opponents of the model assert that since all students are subject to vouchers, without regard to social status and need, the model leads to the suboptimal allocation of budgetary funds. For example, wealthy parents who take their children to private schools use these vouchers to cover part of the tuition costs: first, the wealthy are already able to pay tuition fees even without help of vouchers and second, those funds which the vouchers of the wealthy parents represent could have been used for public schools, creating danger that public schools will become underfinanced.

Abolition of the united national examinations would enable government to allocate resources to alternative needs. Would this represent an optimal use of resources? In order to reasonably answer this question, various social cost-benefit analyses will need to be conducted – i.e. the costs and benefits of the policy will need to be assessed. For instance, one benefit would be the simplification of the procedures by which students apply and are enrolled in to higher education programs. On the other hand, oversimplification might mean that students are not well enough prepared for further studies because they did not study, for example logics – a section of the united national examinations which is not taught at schools. Foreign languages, mathematics and Georgian language exams will be still conducted at schools but logic will be left out. Since formal logical reasoning is an essential foundation for understanding for the sciences, the 12th grade high school curriculum will have to include logics as a subject.

Another negative implication of the abolition of the united national examinations would be that teachers who had previously generated a large share of their incomes by preparing students for the exams would be deprived of this opportunity. On the other hand, this problem could be mitigated by an increase in demand for private tutors for the school exams which would now determine the success of a application to higher education and which would be on a range of school subjects other than math, languages and logics.

EMPLOYMENT (ISET-PI)

The official pre-election program document of the UNM is the "Contract to Georgia". In this program the governing party promises to half the current level of unemployment over the next 4 years. According to the document, a new employment ministry was established in July 2012 and is now actively working to achieve this goal.

The principal task of the ministry is to register the unemployed population and to create a database of their professional skills while simultaneously recording all current vacancies in the job market. In addition, the ministry will provide professional training to increase the qualifications of all job seekers and increase their prospects for employment. Unemployment in Georgia is primarily structural, meaning that there is a mismatch of professional skills in the market, suggesting that such government initiatives by the government may well succeed in decreasing such forms of unemployment. An accurate analysis of Georgia's vacancies will allow the ministry to evaluate exactly what professional skills are in demand within the labor market and subsequently – considering the professional skills already in supply – provide matching training to jobseekers, thus significantly increasing their probability of securing employment.

On the other hand, this kind of arrangements will have only a short-term effect in the long-run its impact will be eliminated. The reason for this is the inadequately educated population of young people joining the job market each year. According to the global competitiveness report 2011-2012, the main obstacle for business development in Georgia is the lack of skilled labor. Analyzing unemployment amongst the various age groups we can see that the 20-24 age group holds by far the highest rate of unemployment (36%). It is again underlined that the population receives inadequate higher education and after graduation many still struggle to find work. Others question how economically rational it was to create the employment ministry at all, which absorbs a significantly large proportion of the sector's budget (the ministry will get 950 thousand GEL in the last 6 months of 2012).

To draw a final conclusion about the relative worth of the ministry, its probable costs and benefits must be estimated. In the 6 years since 2006, a total of four different programs were implemented by the government in an effort to tackle unemployment (it should be noted that all these programs were started in pre-election periods). The programs did not achieve their goals and were thus economically unjustified: in 2006 the unemployment rate was 13.6% by 2011 it had increased to 15.1%. Given this previous experience, we could be forgiven for supposing that the creation of the ministry and its associated programs were just another populist initiative rolled out in time for the election and will not bring about any real results.

The UNM uses its official website (www.unm.ge) to communicate with the electorate and outline its manifesto. The site includes a brochure of the UNM's policy platform and a video-recording of the prime minister discussing the party's plans for the next four years and their possible outcomes. Over the next four years the government estimates that it will attract at least 4 billion in foreign investments, which will supposedly create 80,000 new jobs. They claim that an additional 140,000 people will be employed in the tourism sector and that the construction of 5,000 km of new roads will provide stable employment for another 40,000. The government is also planning to invest around \$4 billion USD in the energy sector, which, according to their calculations, will employ 13,000 people.

To attract 4 billion foreign investments in the next 4 years is a realistic estimate – since 2006 (excluding the years of the global financial crisis) more than \$1 billion USD have been invested in the country annually. In 2011 foreign investment totaled 1.11 billion USD and the same trend could be maintained over the next few years. On the other hand, it is hard to evaluate whether or not said investments will create the estimated 80,000 jobs. The National Movement does not divulge the calculations by which these estimations were made or the assumptions contained therein. It is similarly difficult to gauge how realistic their other promises (such as 140,000 new jobs in the tourism sector or 13,000 jobs in the energy sector) are. Particular criticism is directed toward the alleged 40,000 stable jobs that are to come from the expansion of the road network. Construction projects of this kind will most typically create only short-term positions; those that are employed will likely rejoin the unemployed once the project is completed.

It is worth noting that the election pledges made by the prime minister in his video recording and the do not match with the party's online manifesto. For example, rather than the 40,000 promised in the manifesto, the prime minister states that the \$4 billion USD foreign investments Georgia can expect over the next 4 years at least 50,000 jobs will be created. This kind of inconstancy calls into question the accuracy of the website and pre-election program's other estimates and suggests that such may be little more than pre-election populism.

The United National Movement's pre-election program, More Benefit to the People, avoids analysis of the current economic situation, favoring instead to recount the party's victories to date. For example, it is declared that with the help of Georgian society, the government of Georgia has successfully defeated corruption and criminality. Indeed, Georgia has enjoyed a good deal of success in this direction. However, the fight against corruption and criminality is an ongoing process and, therefore, to declare that corruption and criminality are defeated can only be an overestimation. Elsewhere, however, the declaration that the country has seen a considerable economic progress due to taxation reform and the removal of red-tape barriers is correct.

Unfortunately, the ruling party's pre-election program can barely be considered a pre-election program at all. More Benefit to the People is instead a declaration of goals, without a program of action or even an assessment of how these goals might be achieved. The current economic situation is not analyzed in any depth, despite the obvious appreciation of the difficulty of the situation displayed in statements related to social conditions and employment. However, descriptive statistics are sparse; although several given evidences do bare some semblance to reality – it is, never-the-less, difficult to assess the factual correctness of the document. Likewise, the program's general lack of content means that it is not feasible to evaluate it in regards to its internal consistency.

The economic reasoning of the document is quite weak. For example:

- Within the descriptive portion of the document, it is unclear why are employment figures are juxtaposed against other macroeconomic parameters and activities undertaken by the state.
- Similar employment programs were implemented in the past but their results are not assessed.
- It is unclear, what is meant under by everyone who wishes will receive a training voucher. This statement lacks logic since everyone means both employed and unemployed, and the number of professions to be learned is quite large.
- How do we know what which professions are in demand, the scale of demand or the timeframe?
- How will the state budget be able to finance this?

The employment problem cannot be solved by the state minister of employment; government initiatives to create jobs by means of administrative resources are counter to the logic of a market economy. A 1000 GEL 4 year voucher to a family comprising three persons equals around 7-8 GEL per month per person. It is unrealistic to assume that this sum will solve a family's financial problems.

In general, the program lacks economic reasoning and logic, but, in terms of feasibility, it is quite achievable. If we calculate the prospective expenses per year (that is, divide the total by 4) the result equates to the government's current rates of expenditure in the relevant sectors.

At the same time, if we take a look back at the history of unrealized pre-election promises and assume future commitments are likely to follow the prevailing trend, then the idea of expecting 150 new schools, insurance for all pupils, a salary increase for certified teachers to 600 GEL, grant receiving students to be doubled, pensions to be increased and various other pre-election promises is quite unrealistic. Therefore, overall, the program lacks consistency when it comes to its feasibility.

The emphasis placed on employment, social issues, pensions, universal insurance and state expenditure places the UNM pre-election program on the left of the political spectrum.

When discussing the platform of the UNM we refer to the government's program document and the information placed on the party's website. Despite the fact that in the pre-election speeches of various representatives of the party, the development of Georgia's agricultural sector was described as being essential, the UNM's platform says unfortunately little about the current situation in the field of agriculture, its problems or future prospects. Instead, the UNM's platform focuses on advertising some of its earlier programs such as the power of recently established refrigeration utilities, the number of tractors brought in the country, the establishment of farmer service centers and greenhouses, and the restoration of the country's irrigation systems (including the particulars of installing pivot watering systems).

Thus, it is quite difficult to assess the accuracy of UNM's vision in regard to the condition of Georgia's contemporary agricultural sector. Furthermore, initiatives outlined above were only recently introduced (2011-2012), which implies that during its time in office the UNM did not have a coherent agricultural action plan and thus had no results to observe.

The portion of the UNM's program document related to agriculture does not present a particular vision; no attempt is made to analyze the current situation. Therefore, in order to assess the UNM's agricultural platform in terms of factual correctness we will instead evaluate the information presented on its web-site regarding the winery sector's export tendencies and outlook. We believe that pronouncements regarding wine exports, i.e. that they will increase to a value of \$100 million USD in the upcoming two years, are overly optimistic. According to information provided by GeoStat, wine exports increased in value from \$41 million to \$54 million USD between 2010 and 2011 – a 31% increase. If we trust the prognosis presented by UNM, wine exports in 2012 will reach \$60 million, a significantly smaller increase, representing a decrease in the projected export growth tendency. If the tendency continues to increase at this level, the value of wine exports in two years will reach \$73 million, and not \$100 million USD as presented on the UNM website.

The projects and policies presented in the UNM's agricultural platform are so few and so frequently out of context that it is impossible to assess the platform in terms of its internal consistency. However, an inconsistency found on the web-site has attracted our attention. It is declared that UNM plans to spend 4 billion GEL. The agricultural projects presented on the UNM web-site (processing enterprises, irrigation, drainage, procurement of machinery, etc.) require far less than 4 billion GEL to fund. On the other hand, it could be that these funds are intended to be used for other projects promised by the UNM, such as road-restoration and supplying villages with natural gas and water, . However, these are infrastructure projects are thus beyond the mandate of an agricultural program. Additionally, there are no detailed timelines for implementing these programs or other sources of finance explicitly allocated to them.

In terms of economic reasoning, the projects are presented only as a list of goals; the reasoning behind their connection with the promised doubling of agricultural produce is vague and lacks an action plan or explanation of how these goals will be reached. For example, financial, technological and other barriers to their implementation are not discussed. The platform promises to provide 800,000 farmers with 30 GEL vouchers. In total this is 24 million GEL. If UNM plans to spend in 4 billion GEL in total on the agricultural sector, it is unclear why is it necessary to provide farmers with additional vouchers which in total amount to less than one percent of the total program budget. Furthermore, these vouchers are a very inefficient form of a subsidy. In general, agricultural subsidies positively affect beneficiaries (but not necessarily the entire economy) when their number as compared to the entire population is relatively small. For example, in Europe and the USA less than 5% of the population is employed in the agricultural sector. Therefore, it is quite easy to redistribute resources from the 95%. In Georgia, on the other hand, where only 600,000 people are formally employed (i.e. taxpayers), subsidizing all agricultural workers will be a difficult task. In order to improve the economic situation of the rural population, they will need to receive resources proportional to those received in the US and EU from those employed in non-agricultural sectors, which is, in our opinion, impossible. 30 GEL vouchers will not fulfill the objective of massive subsidization that the UNM's platform appears to envisage. Voucher distribution is particularly ineffective because:

It is a one-time activity and is not directed towards alleviating the current lag in agricultural technology. Even if the farmers use these vouchers for purchasing fertilizers and chemicals, without training and knowledge in modern agricultural practices nothing will change.

As assistance, it is both insignificant and ineffective; according to the authors of the program document it would in total be enough to purchase just 1,000 square meters of land.

Other than nitrogen fertilizers and a few methods of crop protection, most fertilizers and relevant chemicals are not produced locally, so why should we subsidize imported products?

Providing 30 GEL in social assistance would be more effective than distributing vouchers. Those farmers who do not need fertilizers or other chemicals will sell their vouchers to larger producers who do and for less than the market price. It is unclear why the means of production should be subsidized for large producers, as there are no prerequisites on the side of the beneficiaries to be eligible to receive vouchers.

Farmer Service Centers have been in Georgia since 2008. They were established with the help of international donor organizations and are, therefore, not a new idea. These organizations are private and operate without state support, but have, never-the-less, expanded quite well with their own resources according to market demand. It is unclear, therefore, why the government would want to copy the idea and even go so far as to promise customers production means for a reduced price. The UNM is also vague as to what constitutes a reduced price. This is concerning especially if we consider the fact that the goods sold in the farmer service centers are imported. How can low priced tractor rental be guaranteed without control over the price of imported fuel? If the UNM believes that the service is more expensive than it should be, their hypothesis must be proved, and the phenomena's causal factors diminished.

Importing tractors lacks economic logic. Fuel is relatively expensive in Georgia and as a consequence it is often not possible to operate a tractor all year long, not to mention a combine. The UNM web-site refers to John Deere machinery, which despite its good quality is too expensive for Georgia. Therefore, it would be better to create a financial instrument for the provision of low cost machinery rather than use Georgia's constrained budgetary resources to import expensive agricultural equipment.

The government proposes that it will establish a network of warehouses across Georgia. However, the potential for benefit of this endeavor is unclear. The creation of such an infrastructure is very promising, but there is no guarantee that the warehouses will not end up being filled with imported products, rather than fostering domestic production as they are intended. Instead of creating new storage facilities, it would be more effective to establish leasing legislation to ensure the affordability of such facilities already on the market.

One of the goals of the program is to double the output of the agricultural sector within four years. This would require an annual 20% increase in production. Given the characteristics of the sector described by relevant empirical evidence, to expect as much is unrealistic.

According to the UNM platform, the agricultural sector will receive in total 4 billion GEL, an average of 1 billion GEL per year. The goal is to double agricultural output in the next four years. In monetary terms this means an increase from a current output valued at 3 billion GEL (total agricultural produce according to Geostat) to 6 billion GEL. If the UNM's projections are correct, this means that each billion invested in agriculture will return 750 million GEL value added in production. The rate of return would therefore be an unrealistic 75%. The promise to establish of 500 new agricultural enterprises is unconvincing if we consider the 100 agricultural enterprises that were promised but not produced in the past; how could it possible to create 5 times as many operations with the agricultural sector in significantly worse condition?

Finally, in sum, the UNM action plan for agriculture is a broadly left-wing.

SOCIAL CARE (LAT)

The platform does not include an assessment of the population's living standards or an analysis of current issues in the social sphere. The provision of welfare and social care should be a particularly critical subject in this round of elections as there have been some dramatic developments in the social sphere in recent years. According to official data, over 50 percent of the population lived below the poverty line before 2004. As a result of the country's economic growth and the social reforms implemented after the Rose Revolution, poverty has been reduced. However, at the same time, inequality has increased and the poverty profile has changed among certain social groups.

There have been a number of positive institutional developments in the field of social care. In order to provide Georgia's deprived population with social protection, families living in extreme poverty were identified and surveyed, their conditions were assessed, and the information about them was collected within a single database. Distribution of targeted social aid – subsistence aid – could then begin. The reform was primarily aimed at improving the social and economic conditions solely for the population living in extreme poverty. Benefits and exemptions were replaced by monthly monetary payments. While these payments were still well below the subsistence minimum, this system should still have provided better social care than the one it replaced, particularly because the monetary payments made according to rating points are supplemented with state medical insurance and various subsidies (e.g. electricity subsidies). However, poverty indicators show that this system of social protection had a relatively limited impact in terms of improving the population's welfare.

Information about the population living below the poverty line is currently provided by the Social Service Agency. The information is based on the number of beneficiaries of subsistence aid and their share in the total population. According to this indicator, the poverty figure in Georgia is 9-10%. However, given the fact that, according to the Social Service Agency's data, an average of half a million people a month applied to the agency for social aid in early 2011 and that each represented a family that comprised on average three persons, we can assume that approximately 28.5% of the population are in need of government aid, although only 9.-10% percent receive it. The number of families living in poverty could therefore be three times higher than the number of families that receive government aid.

Socially vulnerable individuals are most greatly threatened by poverty today and their number has not decreased despite recent reforms in the social sphere. Georgia's poverty figures indicate that four out of every 10 people face an economic threat. Moreover, poverty figures are 20-25% higher in rural areas compared to urban areas and the gap increases every year. Generally, poverty is more widespread in rural areas, but is more severe in cities. The poverty gap between rural and urban areas keeps growing, while the difference in employment structures leads to a growing inequality both between large and small cities, and decile groups.

It would be important for the National Movement's platform to assess all these circumstances and outline policy prescriptions. Social care has been affected by a number of factors. The pension reform is significantly affected by the process of population ageing – which poses a serious threat to generation renewal – as well as the situation in the labor market. The number of children under the age of 16 is decreasing but the number of persons who do not reached the age of employment is also decreasing sharply. Meanwhile, the number of people who reach the pension age continues to grow. The demographic ageing of the population has resulted in a growing economic burden for those people capable of working – especially those who are actively employed. The number of dependents per 1,000 employed persons has increased in Georgia. Considering the fact that the unemployment figures have remained constant, the demographic pressure is an even bigger problem for the social care system as it creates additional social expenditures, which, in turn, increases the burden on the employed population. There are 75 employed persons per 100 pensioners in Georgia today, while an optimum proportion is 350-400 employed persons per 100 pensioners. This has a powerful impact on the pension system and requires the constant growth of government's expenditures in the social sphere.

Although the government has stated in its platform that it is planning to further raise pensions to USD \$100, pensions cannot be raised through an increase in the number of employed persons, which is going to produce a serious threat to the state's social

care system in the future. Without a deep analysis of the current state of social care and the welfare system, the inclusion of political goals, objectives, and measures in any pre-election platform is merely hot-air.

The platform only contains a few sentences devoted to the issues of social care and protection, focusing mainly on the quantitative side of expanding social aid. However, a number of questions remain unanswered as to what types of reforms are needed in order to improve the current system, how effective the size of aid will be given the high level of unemployment in Georgia and as the process of population ageing further reduces the effectiveness of the funds allocated for pensions.

On the positive side, unlike others, the National Movement's platform highlights the need for an IDP aid program. It is noted that the process of IDP housing construction will continue and they will subsequently acquire ownership of the apartments, although the scale of these activities is not specified. The number of IDPs who have received apartments so far is so small that additional measures will be necessary in the future, although the platform says nothing about this. Apparently, the problem of IDPs will remain unresolved for a long time to come, even though, according to the ruling party's strategic plan for IDPs, they were to be provided with apartments by 2014. If the electoral platform is any indication, the National Movement will not be able to attain this goal. The platform does not cover other issues, such as social care and welfare for specific social groups.

The priorities of the National Movement's platform in the social sphere include providing every family with a 1000-lari voucher in 2012-2016 and raising the pension package to an equivalent of USD \$100. Giving every family 20 lari a month for a period of four years, which every family can use according to its specific needs (for utility payments, school textbooks, medicines, fuel, fertilizers, etc), is a rather populist promise and will have only a minor effect in terms of reducing poverty and solving other problems. At the same time, wealthy and medium-income families that do not need the vouchers will still receive them. As far as economic usefulness is concerned, this policy will not produce any particular economic effect. According to the party's platform, 6 billion lari will be allocated for financing pensions. The annual allocation for pensions is approximately 1.5 billion lari, which is an annual increase of approximately 430 million lari over the current budget allocations (1,072.291 billion lari). Meanwhile, the annual allocations for social care is to be approximately 750 million lari, which is almost 2.8 times more than the 2012 figure (approximately 273 million lari).

The party's platform does not say anything about the importance of the development of private pension funds and savings schemes for the country's pension system. The country's national savings indicator is negative, which impedes the pension system's development significantly. Consequently, focusing on state pensions and social care alone means that poverty will remain the country's greatest problem. Annual growth in social expenditure will be a heavy burden for the state and will obstruct the development of the labor market and employment numbers, which should be one of the primary prerequisites for social protection.

The platform is essentially socialist as it focuses on a state-funded system of social care and protection. It does not mention or utilize the active role and possibilities of other interested societal actors, including business, local government, and other related institutions. Market mechanisms of social protection are not discussed either, while the social responsibilities imposed on the state are quite heavy.

HEALTHCARE (LAT)

The United National Movement's electoral platform is based on two policy documents: "Contract with Georgia" and the Georgian Government program "More Benefit for the People 2012-2016." They have also created an electoral calendar. The issues of healthcare and social care have been allocated different amounts space in these documents. The documents mostly provide program targets, while the calendar includes an action plan and concrete implementation time frame, offering specificity to the program. The platform only provides a very general analysis of the healthcare sector; the situation in the field is described in just a few

sentences and the document does not identify current issues that the platform's provisions will focus on. The platform provides a brief overview of the dynamics of health insurance, noting that, while the number of insurance holders in Georgia increased six-fold in 2006-2012, this policy will continue in to the future and will expand to include additional social groups. Following a brief overview of the particulars of the insurance sector, the platform sets the goal of expanding the existing system.

The healthcare section of the platform covers two main areas: (1) The construction of new hospitals and (2) the expansion of the health insurance system. According to the platform, 150 new hospitals are to be made universally accessible. In 2012, 100 new hospitals are to open and another 150 new hospitals will open in 2013. As a result, there will be a total of 200 new hospitals in 2012 and 250 new hospitals in 2013. The platform notes that the hospitals should be equally accessible to people with both state and private insurance as well as to those with no insurance, although the sources of finance for their construction and operation are not specified. It is not clear how the costs will be divided between the public and private sectors. As a result, there is the impression that the state will build the hospitals, while, in reality, the largest investment in the construction is to be made by the private sector – namely the insurance companies that will own the clinics and hospitals along with providing insurance. The profits that the insurance companies have made over the years through the rising prices of insurance packages have been used for hospital construction. Since the platform does not identify the sources of finance for these activities, there is a lack of transparency and clarity as far as funding is concerned.

The health insurance system is the second major area covered by the electoral platform. There is a plan to provide the entire population with health insurance over the next four years. The target is set in the platform, the issue is highlighted, and the platform also includes information on the relevant funding. In order for the health insurance system to cover the entire population, 3 billion lari is to be allocated from the state budget. The issues are discussed in a consistent manner and there is a chain of logic running between the provisions of the platform. Along with the expansion of the insurance system, there is a plan to expand the provision of medical service through the construction of new clinics, although the platform does not say anything about improving the quality of medical services as it focuses primarily on increasing the accessibility of healthcare.

According to the United National Movement's healthcare platform, 50 percent of the population will be covered by health insurance. For this purpose, 3 billion lari will be allocated in the state budget in 2012-2016. Additionally, the state insurance program will cover all students, all pensioners and children under the age of five. These will add to the groups that presently have insurance: People living in poverty, teachers, and the employees of the Internal Affairs Ministry and the Defense Ministry.

Such promises are moderately populist and can be fulfilled but will require a fivefold increase in the current budget allocations for health insurance (168 lari was allocated for this purpose in 2012). Diverting 3 billion lari of public funds to the medical market will create pressure on medical service prices and will increase the price of insurance packages, which could in turn offset the benefits for people already covered by insurance. This risk is realistic, given the fact that the insurance companies that have won government insurance contracts since 2010 have accepted the important obligation of building and equipping medical institutions in the districts where they operate within a predetermined time frame (the party's platform also provides for the construction of 150 new hospitals). The number of new constructions implies the launch of small and medium-sized hospitals, which is going to render the services more expensive – either they will not be able to utilize the economies of scale or they will be unable to offer their patients complex services. The growth in medical costs will affect the services offered to insured persons. At the same time, given the high costs of small clinics, medical personnel could again find themselves in a difficult situation because the revenues of these clinics will not be enough to provide them with adequate remuneration. This will also have a negative impact on the quality of medical services.

According to the platform, the same insurance companies will also be granted management rights over the portion of the primary healthcare network that comprises village clinics and ambulance stations. As the privatization of the healthcare sector continues, clinics will be owned by pharmaceutical and insurance companies. Some pharmaceutical companies own medical institutions and also provide insurance, which creates the danger of regional monopolies unless a relevant regulatory framework

is created. Consequently, there is a danger that the low-income population's access to medical services will be reduced in some areas. The implementation of the proposed policy will therefore be controversial and the costs of healthcare services could rise as the provision of these services expand, affecting its accessibility and triggering an increase in insurance package prices. These risks are real, but the platform does not identify the mechanisms and regulatory rules for dealing with them.

From an ideological viewpoint, the National Movement's healthcare platform is based on the growth of state expenditures on health insurance, which renders it somewhat socialist. The platform does not impose any kind of social responsibility on business and does not emphasize the need for businesses provide their employees with health insurance. The state budget is to accept most of the burden. Meanwhile, insurance companies are responsible for the construction of hospitals alongside the state. Since funds allocated in the budget for insurance are among the primary revenues of the insurance sector, these funds will indirectly be spent on the construction of hospitals. Therefore, given the leading role of the state, the party's policy should be described as moderately socialist.

GEORGIAN DREAM

EDUCATION (ISET-PI)

Issues regarding education play an important role in the party's election platform. According to the program, government funding for education has not been high enough, and "the current model of financing educational institutions and procedures for school branding creates an unhealthy competitive environment and unequal educational opportunities."

"Georgian Dream" aims to increase public expenditure on education in relation to the gross domestic product, but according to the party leader, their main tasks will be "a school in every village", increasing The slogan, "a school in every village", is not expanded upon, its meaning is not given. According to the latest data, there are 3668 villages in the territory of Georgia. So far, the country has 2317 acting schools, of which 445 are in Tbilisi, Batumi, Kutaisi, Rustavi and Poti, leaving 1872 in other towns and villages. So, a literal interpretation of the slogan would suggest that the party intends to build around 1400 new schools. This would require huge amounts of money and also calls into question whether the need for more schools is so great. Unless there is a marked increase in the birth rate, if demand is lower than seems to be anticipated this money will be wasted. On the other hand, if we understand the slogan to mean that the party intends to meet the existing demand by building an appropriate number of schools, then this policy is encouraged.

The salary and social protection offered to teachers is addressed in a number of the party's election programs and Georgian Dream is no exception. In the short-term period, the party plans to increase salaries and improved living conditions with the intention of raising the status of teachers in society, which in the long-term period is hoped will boost competition in the teachers' labor-market, increase the competence of prospective candidates and ultimately improve the quality of primary and secondary education.

The increase in public expenditure on education in relation to the gross product directly implies an increase in taxes. Such a policy is contrary to the party's promise that taxes for both consumers and companies will not grow. If we assume that taxes will not increase, then there remain two alternatives:

Budget funding from sources other than taxation – such as social contributions, grants and revenues from the state capital – is expected to increase. However, as of 2011, the contribution of alternative sources to the budget is 10%, 5% lower than in 2010. The party gives no reason to expect a radical increase in the significance of these sources in the short-term period.

The government will have to increase its foreign debt, which will contribute to the fiscal deficit and the economic slowdown.

The party argues that "the current model of financing educational institutions and the procedures for school branding create an unhealthy competitive environment and unequal education opportunities". This assessment is very superficial, especially given that the "Georgian Dream" program does not offer an alternative funding model. It may be true that the current model does not work properly due to numerous bureaucratic and practical factors. However, this does not mean that the idea of the model is wrong, or creates an unhealthy competitive environment and unequal educational opportunities. On the contrary, the purpose of the funding model is to create a competitive environment in which schools operate according to market principles.

EMPLOYMENT (ISET-PI)

A separate section of Georgian Dream's pre-election program document is devoted to the problem of unemployment. The program emphasizes the fact that, despite the high average rate of economic growth observed in the last decade, the unemployment rate in Georgia remains high, even according to official statistics that may not take into account hidden unemployment. The party names the absence

of a long term strategy from the government to fight unemployment as the main reason why a solution to the problem remains elusive. The document also calls out the employment programs implemented by the governing party, which in the opinion of Georgian Dream were merely part of a pre-election public-relations campaign and not a real attempt to solve the problem. The creation of an employment agency by the Georgian government is considered by Georgian Dream to be part of their populist pre-election campaign. This assumption is quite legitimate – since 2006, none of the four pre-election program goals have been achieved and the level of employment has not been increased.

Furthermore, in 2011 the unemployment rate rose to 15.1%, up from 13.6% in 2006. However, it should be noted that in the case that the UNM's objectives from this campaign are achieved and the Ministry of Employment properly implements its planned measures, the level of employment shall increase in Georgia, at least in short-term.

Georgian Dream plans to increase the Employment level by developing small and medium business and supporting agriculture. Georgian dream believes that an increase in the level of cooperation, commercialization and technological development in agriculture is a vehicle for the growth of the agricultural sector as a whole, which is an economically proven strategy for increasing the number of employees. However, the program doesn't cover the financial resources that will be involved in the implementation of these measures. For example, it is not clear whether these measures will be implemented through tax increases or redistribution in the structure of the budget. Consequently, it is difficult to assess the feasibility of the program objectives.

MACROECONOMIC ISSUES (EPRC)

The macroeconomic section of the Georgian Dream program of is both detailed and well-structured. Each of the important issues are discussed separately, such as the overall economic environment, the external sector, monetary and budgetary policy and issues related to external debt. Understandably, the presentation of a methodologically correct analysis of the macroeconomic situation goes beyond the objectives and competences of an election program, which would significantly complicate efforts to provide a clear and concise outline of the program's vision. However, in the program's analysis of the macroeconomic situation, the party's view should be given in outline, at least and the proposed measures should logically justify the main components of this view. So, let us try to assess the macroeconomic section of Georgian Dream's election program from this standpoint. Before we continue it should be mentioned that within this portion of the election program, one can sense the author's concern about the fact that the dynamics of Georgia's economic development are somewhat one-sided: a significant imbalance with respect to foreign-trade relations, the fact that there is a trend towards the accumulation of public debt and inconsistencies in anti-inflationary policies are all observed. The authors are familiar with the official statistics and are competent in their interpretation of them. Negative trends revealed in foreign trade are well formulated; in particular, the fact that the trade balance for goods and services is in chronic deficit and Georgia's few haphazard export groups (such as the re-exportation of cars) cannot change the situation. In addition, the counter-productivity of measures to increase exports (such as the promotion of maize exports) is evaluated accurately.

Capital account trends in the balance of payments and in particular the fact that the authorities have taken unjustified new loans resulting in the deterioration of Georgia's net international credit position, is also evaluated accurately. Exchange rate and inflation trends are, in general, tackled well and the causes of high interest rates are correctly diagnosed – namely the danger of inflation, high level of dollarization in the economy and the scarcity of savings in the banking system...

In the macroeconomic part of the program, much attention is given to the problem of foreign debt management. We fully agree with the authors that the level of foreign debt against gross domestic product are not yet too high, but that consistent and cautious policy is required not to let the public foreign debt approach an alarming level.

When analyzing the current state budgetary policy, the authors of the program highlight the discrepancies in planning and implementation, as well as shortcomings in the transparency of the budgetary process.

Even though the macroeconomic parameters are formulated correctly, evaluation of the facts is incomplete. In particular, in the analysis of the foreign sector, the trade in services is not mentioned. In this, Georgia has a positive balance, and it is an important source for improving the balance of payments. In our opinion, it is also necessary to mention Georgia's relatively strong foreign trade position in primary materials such as gold and hazelnuts. In addition, in recent years, scrap metal has increasingly taken on the character of a re-export product. As for the monetary statistics, there are some inaccuracies. For example, it is stated that interest rates on deposits denominated in the national currency amount to 17-18%, while in foreign currencies this figure ranges between 8 and 9%. At present, according to the national bank, the market rate for deposits in the national currency is approximately 11%. The statement that foreign direct investments did not lead to the introduction of technologies and an increase in labor productivity is somewhat controversial. It would have been better to say that foreign direct investment was not actually reflected in Georgia's employment indicators. In general, the Georgian Dream election program presents a convincing vision of the current macroeconomic situation, despite some inaccuracies.

Although in general, the macroeconomic section of the Georgian Dream program is free from contradictions, it does, to a certain extent, seem incomplete. In particular, nothing is said about the role of fiscal and monetary policy in stimulating employment. At the current level of formal employment, it will be difficult to activate the full potential of the credit market. At the same time, without high levels of formal employment the efficiency of monetary and fiscal policy is very limited. In our opinion, the causes of unemployment and underemployment and the proposed fiscal measures to correct them should be given much greater consideration. Even though the document highlights special funds, it should be noted that the efficiency of such instruments are very limited. It is controversial that tight fiscal and monetary policies are suggested whilst at the same time noting that expensive credit resources are a major cause of economic stagnation; in the short-run, it is very difficult to reduce the cost of credits without the growth of the money supply. On the other hand, such a policy may double the risk of inflation and pose a danger to exchange rate stability. Unfortunately, the Georgian economy is not able to encourage export by the depreciation of its currency, as the country has very limited export potential, and its essential goods (food, fuel, vehicles) are mostly imported.

The proposed active measures to conduct monetary policy, in particular with regard to the intervention and sterilization of the currency market does, (to some extent) contradict the reported fact that the National Bank intervened actively in the formation of the exchange rate, which, eventually, did not bring any effective results.

The above mentioned is our assessment of the macroeconomic section of the document in terms of internal consistency and does not apply to any particular statements. Ultimately, the macroeconomic section contains no such statements that would be fundamentally contradictory.

The macroeconomic section of the Georgian Dream program presents a well-considered analysis and the basic measures proposed are logical. The authors recognize that the ability of macroeconomic policy to positively impact an economy is actually quite limited. The document seems to be thoroughly prepared. Measures directed at improving the consistency and transparency of budgetary policy and strengthening both monetary policy and the central bank is economically logical. The conservative policy in regard to foreign debt is well formulated.

However, the statement that the financial crisis could cause a drop in foreign goods prices, which will increase demand and worsen the foreign-trade balance of Georgia, is somewhat illogical. It is not that accurate not quite obvious, since the change in the import volumes depends on the price elasticity of imported goods prices. Thus, it is quite unclear how the financial crises would have an impact on Georgian economy through imports. The impact of the financial crisis on the Georgian economy in terms of import is not obvious. On the contrary, in our opinion, decrease in prices on foreign goods is desirable the fact that the foreign goods prices will drop is favorable, since citizens will be able to buy different products at a relatively low price. Against this background, it is strange why they don't assess that the possible negative consequences of the global financial crisis on the Georgian export, because it is more clear that will be immediately affected by it.

We do not think it is logical to say that Georgia's manufacturing competitiveness is being hampered by the fact that trade partners are subsidizing their produce. Competitiveness is determined by productivity; subsidies do not lead to an increase in competitiveness. It is

proposed that Georgia should protect its market against the import of poor-quality imported products and dumping, but the mechanisms through which this might be achieved are unclear. The program suggests that imports and the domestic foreign exchange market should be analyzed, which is obviously not enough to protect the market. In addition, no explanation is offered as to what is meant by the protection of the domestic market.

Unfortunately, in its analysis regarding interest rates on deposits and loans, the program says nothing about the fact that, despite the reduction in rates, so-called spread, (i.e. the difference between the interest rates on existing loans and deposits) is still very high. At the same time, in our opinion, the lack of confidence in the national currency is determined by unstable fiscal policy, which creates constant expectations of inflation. Georgia has not yet achieved a primary budget surplus, without which it is difficult to conduct effective monetary policy.

The assertion that budget revenues will increase by reducing the shadow economy is in doubt. It is not clear what is meant by this statement. We believe that it will be difficult for the general public to understand the following statement: "effective debt management policies will be established that provide stable macroeconomic policy support and justice between generations." In terms of economic logic, the macroeconomic section of the Georgian Dream program is generally good and the measures it proposes could bring positive results in the short and medium-term periods.

The macroeconomic measures to be implemented are delivered with caution. This might be due to the fact that Georgia has rather serious problems which will be difficult to solve in the short-term, especially by the limited instruments of macroeconomic policy. This applies to increasing GEL denominated savings, reducing the cost of capital resources, increasing exports, etc. We believe that the authors of the document are completely aware of the above and therefore largely propose measures which can be feasibly realized through the regulation of the country's fiscal and monetary policy. Liberalization of the private sector and continued cooperation with the U.S. and EU in order to secure a more favorable trade regime is quite possible. We also believe that it is feasible to improve the quality of the budgetary process through policies listed concerning the budgetary sphere.

We are quite skeptical about using the insurance scheme for deposits to improve the situation in the credit market, even if the country already has the resources for it to work. We do not expect the measure to result in considerable improvements for the credit market, even if it produces a one-sided positive effect. Unfortunately, in the short-term period, no dramatic increase in savings or no decrease in interest rates on loans are expected.

We do not believe that in the near future the role of joint-stock companies in the Georgian economy will rise significantly. In Georgia and in other small countries like Georgia, the existence of a large-scale financial market is both problematic and is not actually a paramount necessity. In addition to other necessary conditions, in order to have a large scale financial market a country needs a sophisticated set of laws and traditions that are tailored to its specific needs and circumstance. In many advanced countries, financial markets do not play a major role in the economy and are not impaired by the fact.

We are skeptical about the assertion that the structure of the foreign trade balance will be improved by promoting diversified export-oriented enterprises. Unfortunately, this policy outcome cannot be expected the short-run and besides, it is not of paramount necessity. The main implication of the current account deficit is that the government should avoid financing its expenditures from foreign sources. Endogenous factors involved in the formation of the balance of payments are self-regulating and until the state's budgetary and external debt policies are strictly conservative, the negative trade balance is not so dangerous.

Except for the items mentioned above, most of the measures contained in the macroeconomic section of the Georgian Dream's election program could produce positive results in the short and medium-term periods.

The macroeconomic section of the program is well balanced. It presents a well-defined and appropriate role for budgetary and monetary policy in the economic development of the country and the stabilizing function of the state is emphasized. The proposed measures do

not involve any drastic, cardinal steps, while at the same time the emphasis is placed on well thought-out fiscal and monetary policies. The mechanisms of state regulation are outlined with caution, which imbues the program with a centrist character.

AGRICULTURE (EPRC)

In the election program of Georgian Dream, much attention is given to the agriculture sector. The value of the agricultural sector both for the economy and in general is considered in the context of the socio-political structure of the country. The unsatisfactory situation that exists today in the agriculture sector and the underlying causes of this situation are comprehensively described. On the whole, general trends in agriculture are depicted correctly. It appears that the document's authors are skeptical of the official employment statistics for agriculture, as evidenced by the fact that the words "employed" and "self-employed" appear in quotation marks when the share of the labor force employed in agriculture is evaluated. As can be seen, the document was created after a thorough analysis and understanding of the problems facing the agricultural sector. Factors such as the fragmentation of land and the lack of regulation over property relations, the collapse of basic infrastructure, technological lag, high cost of funds and the lack of meaningful public policy are all considered in detail.

In terms of factual correctness, the agriculture section of the Georgian Dream program document is characterized by a methodical and business-like approach to the problem. However, some of the statistics given are problematic, if not inaccurate. In our opinion, statements given on the reduction in the consumption of certain products per capita – namely that in 2011 the consumption of bread, meat and meat products, milk and dairy products, eggs, fruit and vegetables per capita was lower compared to 2003. In all probability we are dealing with the shortcomings of today's statistics. We forward that that the population of the country has significantly decreased and that this decrease is not shown in the official statistics. Therefore, if consumption per capita is calculated by dividing the total consumption by an overestimation of the entire population, it is not surprising that the consumption of individual products per capita seems to have decreased. In all other respects, in terms of accuracy of the facts, the agriculture section of the Georgian Dream program is accurate and thorough.

The policy document is both clear and concise. The authors avoid categorical statements and bold predictions, which makes the document rather consistent. Somewhat contradictory is a paragraph which refers to the fact that 54% of the workforce is employed in a village, while at the same time that the deterioration of living conditions in rural areas leads to large-scale migration. Although the document's authors are evidently familiar with the employment statistics, and probably know that the official statistics on employment in the village have been showing this figure for around 10-15 years. Therefore, it is unclear how the supposed massive migration of the rural population is taking place when the proportion of the population employed in rural regions appears not to change. However, the authors of the document do not give their own assessment of migration amongst the rural population. The document does not contain any other significant internal contradictions.

From an economic viewpoint, the measures proposed by Georgian Dream, are formulated clearly and accurately. Due to that the severity of the situation in agriculture is quite dramatic, the document places emphasis on gradual, but genuine improvement. Factors deemed necessary for the development of Georgia's agriculture include: the organization of infrastructure, the availability of financial resources, the introduction of modern technologies, food safety and regional/rural policy. On the whole the proposed measures are economically logical. However, details of the specific mechanisms by which the proposed state fund will operate, its management structure, the time-frame of its implementation, the general scheme of operation and other relevant information would be desirable. This kind of fund has never been effectively realized in Georgia and historically, state management of this kind of initiative has not been very effective. These gaps are therefore particularly notable by their absence.

An increase in public and private finance for agriculture is quite achievable in the short and medium-terms, especially if a separate agricultural fund is created. The formation of an agricultural insurance system is a significantly more difficult task, as it requires a sophisticated financial, legislative and legal institutional framework. We would argue that the Georgian insurance system has not justified itself even in the less defective sectors of the economy. It is entirely possible to regulate property relations and create pre-requisites for the consolidation of lands in the short and (especially) medium-term periods. The significant improvement in product

quality needed to perform this task seems quite possible. However, if we do not take into account existing export positions (e.g., hazelnut) improving competitiveness and product quality to the level required to make it possible to enter the European and other major markets may prove problematic. In the medium-term it is also possible to increase the minimum living level of rural incomes, although calculating a precise estimation of the minimum living wage is problematic. Also in the medium-term period, agricultural processing capacities can be expanded, although reaching optimum output will require more time. However, it should be taken into consideration that the success of agriculture in Georgia will largely depend on external economic factors, which greatly complicates the task of achieving these goals.

Agriculture section of the Georgian Dream's program is well balanced document; it emphasizes the role of both the government and the market in supporting the development of agriculture. In our opinion, the proposed measures, are necessary components for the creation of market relations and involve strengthening the role of the state in the establishment and effective operation of market institutions. The program does not offer clear measures for the dramatic change of market relations by the state, but the establishment of an agricultural fund using government resources is a somewhat leftist measure. Finally, however, in the context of the current political reality in Georgia, the program is of a more centrist character.

SOCIAL CARE (LAT)

The social policy vision comprehensively presented in the Coalition's program is focused on state incentives and sound economic policy. The proposed social care reforms are based on the creation of a sustainable social protection system. The program comprises of an analysis of the current situation in social care and a step-by-step presentation of the reforms to be implemented in the field. The program highlights shortcomings in current legislation regarding the social system. More precisely, it criticizes the fact that the country has neither private (voluntary) nor state (mandatory) pension systems. At the same time, the international definition of a state pension is ignored, which means that pensions equal social aid for the elderly.

The document correctly highlights the necessity of passing and enforcing a law on non-state insurance and recognizes the difficulty of financing state pensions through only budgetary sources. The program analyzes current demographic tendencies to show that a constant increase in budgetary expenses would be expected if pensions were financed only through the budget. However, these demographic tendencies are not empirically verified. It is also correctly noted that in order to establish state and non-state pension insurance a unified legislation package based on European principles would be needed. These principles are: fairness, solidarity and reliability.

The program describes the problems that exist in the sphere of social care reliably and proposes reforms for overcoming them. Little is said regarding the reforms implemented during in past years and their relationship with the alarming conditions currently being experienced by the socially vulnerable population. At the same time, the shortcomings and inefficiency of existing social assistance programs is neither well-presented nor justified. The section of the program that proposes assigning pensions to citizens with not enough years of working experience or contributions is quite vague. The number of years of work experience required is not indicated. Neither is why it should be called a social pension if these individuals are not socially disadvantaged, poor or disabled and are not members of families with such individuals.

Recommendations are presented well regarding the creation of a database of socially disadvantaged individuals and establishing a unified system of categorization. Thus, the assistance provided will also be differentiated by need. Emphasis is correctly placed on delegating the process of evaluating, serving and administering socially disadvantaged groups to local municipalities. This initiative is part of a wider decentralization agenda, aimed at improving the effectiveness of the implementation process. Engaging local municipalities in the process will strengthen the role and image of local authorities and make the process smoother and easier, since local authorities have a better understanding of the needs of their citizens.

The section of the program that proposes reforming pensions by introducing personal pension savings (accumulative pension insurance) is relatively consistent. The program forwards a mandatory accumulative pension insurance in which private companies will have a leading role (with the state maintaining a regulatory role), and proposes to provide a pension that will be at least equivalent to the subsistence minimum. Based on the principles of an accumulative pension system, once an individual retires he/she will receive an income that is equivalent to the savings invested over the period that the individual was economically active, as well as the interest accumulated by the invested capital. A number of questions arise, such as: what will happen if the amount accumulated is not enough to provide the minimum pension? Will the state cover the difference? When will it be possible to receive the pension? Will the individual have to reach retirement age or will there will be a minimum time of accumulation required (e.g. 20 or 25 years). Finally, and moreover, if the pension fund goes bankrupt, will the state be responsible for protecting the entitlements of the insured? The program does not give a clear answer to these questions.

Linking pensions to the subsistence minimum is feasible, since the pension burden partially transfers to the accumulative system, reducing pressure on the budget. In this case, doubling social assistance might also become possible. The mandatory accumulative pension system will foster a savings increase in the country while at the same time, utilizing funds from the accumulated pension scheme will increase state liabilities. The initiative of linking pensions to contributions and the length of time an insurance policy has been held is less feasible. According to the program, the government maintains a regulatory function, and thus it is only possible to place private contributions made to private insurance funds on the secondary stock exchange where government liabilities will be transformed into pensions. Liabilities sold by the state will be characterized by volatility, due to its current debt situation, and companies managing the insurance funds will have to bare various types of risks, that in turn will have an effect on the size of pensions. Despite the fact that this mechanism has lower risks than other investment resources presented on the stock exchange, dynamic development will not be possible. Therefore the size of pensions cannot be dictated by the number of years worked and volume of contributions made.

Implementing an accumulative pension system is of great importance. Its implementation will largely depend on taxation stimuli and changes to be made to the existing tax code. Even if the accumulative pension scheme is mandatory, it still will not be all encompassing unless employers and the employed are motivated with additional factors to transfer sums from their income and profit taxes to private and state pension funds. This is not mentioned in the Coalition's program. Globally established practices in this regard deserve attention.

The program envisages the establishment of specialized institutions that will be responsible for providing services to the elderly, children deprived of parental care, and individuals with disabilities, etc. These will be managed and financed by regional and municipal governments. However, nothing is said about the resources with which municipalities will be able to finance these institutions. Private contributions will play an important role. However, experience shows that these types of organizations are usually dependent on international donor grants, without which they cannot function. Therefore, a stable source of financing is needed, which transforming the budget format of local governments would make possible.

This part of the program coincides with the direction of Georgia's European-style development and the program itself is also of a European, social-democratic character, although the central role of the market economy in the pension scheme partially counterbalances the left-wing elements of the universal insurance. The social care system is in its nature socialist, since the emphasis is on the role of the state and the role of the market economy in the social care system is not reviewed.

HEALTHCARE (LAT)

The pre-election program, the Georgian Dream Coalition proposes that health insurance be bundled together with other state welfare programs. The universal standard insurance package would ensure access to quality medical services, financial risk protection, disease prevention and medical assistance within the framework of the baseline insurance package. Despite the trace of populism in the party's promise that 100% of the population will be covered by the medical insurance, their pledge is quite realistic. However, the sums allocated to the insurance in the budget requires a substantial increase (in the 2012 budget, United National Movement – the ruling party- has allocated 168 million GEL to cover just 50% of the population) and the program of does not indicate from where these sums will be mobilized.

The initial stage of the universal insurance will be a burden on the budget. At the same time, the cost of the universal insurance package will depend on the relationship between allocated public finances and demand for medical services. Therefore, it is possible that the universal insurance combined with limited public finances will have an effect on the quality of the medical services provided; in any case, the price of medical services that are not covered by the standard baseline package might increase. The latter might be offset in the long run by creating state and municipal infrastructure in the hospital sector, but this will in turn require additional state investment. It is logical that private insurance companies are allowed to provide additional services that are not covered by the baseline package, but for many employees, receiving them will be depended on the good will of the population or the employer. Although the main emphasis will still be placed on the state financed insurance system, employers will have the option to include sums allocated to the medical insurance as expenditures, which will in turn motivate them to provide their employees with better insurance packages.

The program is consistent and feasible. It will have different outcomes in the short and long run and later on will bring positive results, in the case that of budgetary revenues increase.

State funding is the major cornerstone of the program. For this purpose, the coalition plans to establish a new structure of public finance management, presided over by a non-profit, non-governmental institution. The creation of such an institution in the sphere of healthcare is reasonable, although its management by the council will take on more of an advisory role, since the council will be presented by individuals from diverse interest groups (patients, entrepreneurs engaged in the sphere of healthcare, NGOs), thus a conflict of interests may arise.

The program does not clarify who will be responsible for electing the members of the council, and how the efficient management of finances will be ensured.

The program envisages the equal distribution of medical services throughout the country and the development of state, municipal and private hospital networks. This is, in a sense, quite important for the population, since each of these institutions will be able to provide different services, although the section of the program that describes the freedom of choice between state and private services and the formation of a competitive environment is somewhat fragmented.

If a holder of the basic package is dependent on the provider offered by the nonprofit, non-governmental institution to receive a service, this will limit the patient in his/her freedom of choice and will limit the scope of the medical services on offer. Eventually, this will be reflected in the price of the services. On the other hand, if the patient is able to make a decision without the regulatory institution (opting for a service that is not presented in the program), then private, state and municipal healthcare organizations will likely have different prices and service offers. In this case, they will try target different segments of the population according to their incomes and needs. Therefore, questions remains regarding the competitive environment in the sphere of healthcare.

The establishment of a national policy on healthcare quality and standardization, as promised by the NDP, is essential; embedding international standards, norms and guidelines in Georgia's healthcare system will support the insurance companies in creating an accountable system. The creation of a civil healthcare department is also important, since it will improve the information available to the central government regarding disease prevention.

In summary, the NDP program envisages institutional reforms directed towards improving the quality of healthcare while increasing its significance as a policy issue. The party's program is of European, social-democratic orientation.

NATIONAL DEMOCRATIC PARTY

EDUCATION (ISET-PI)

The National Democratic Party's vision for the education sphere is not contained within the party's program document. Instead the program focuses on unemployment, insurance and other social issues. However, according to statements made by its leaders, the party's position is as follows: First, tuition credit should be repaid only after receiving a diploma, i.e. when a young person obtains their own source of income. Second, teaching should be promoted as a prestigious profession, which will be achieved by high salaries and legislative guarantees of labor rights.

It seems that the party's principal goal is the redistribution of existing economic resources rather than long-term sustainable development. Unemployment insurance, establishment of the employment agency, grants for small businesses, agricultural subsidies and assistance programs for the socially vulnerable – each is an important component of the state's aspiration for a social-democratic system and all serve to promote the fair distribution of existing economic resources. This kind of policy satisfies society (more or less) in the short-term and serves the goal of fairness. The problem is that social policy does not precipitate long-term development, and long-term development should be the ultimate goal of every state.

In the long-run, education is a major driving force of sustainable economic development, which produces high quality human resources, which have the motivation and skill to bring innovation into the economy, to manufacture products that will be competitive on the world market, to discover and penetrate new segments of the market, etc. Leaders of the National Democratic Party state that the connection between the education and economic activity is weak, but they do not provide methods of strengthening this bond.

Such assertions are theoretically justified and are employed by the West. The initiative will be supported by banks and other loan issuing organizations. In most cases, such support does not exist until the state becomes a guarantor. Issuing loans to students and holding off from calling them in until after graduation from university comes with associated risks. Students may not graduate from the university, may not find a job, may find a job but may not have enough income, etc. If the state becomes an intermediary between the student and the credit provider, however, the risk will be transferred to the state allowing educational loans to be provided on the market. However, there is a risk that in a country with high levels of unemployment, a great number of graduates will not find work precipitating great budgetary losses which will burden society in the form of taxes and/or an increase in the country's deficit.

EMPLOYMENT (ISET-PI)

Combating unemployment is one of the central elements of the National Democratic Party's pre-election program. The party asserts that a state employment agency will be established in order to solve the problem of unemployment. One of the major goals of the agency will be the registration of the unemployed and conferring their status as an unemployed person. At the same time, the agency will provide for the retraining and professional development of the unemployed in accordance with required professions and vacancies existing in the market. The National Democratic Party has stated that their proposed employment agency will be an institution systematically and structurally different from the employment agency established by Merabishvili, most notably that the institution will have a relevant legislative base, which the current ministry does not have.

Taking into account that the most widespread form of unemployment in Georgia is structural– i.e. the skills of job applicants do not correspond with the skills and qualifications required by employers - similar types of measures may decrease unemployment levels.

On the other hand such measures will probably decrease unemployment only in the short-term, while in the long-term the effect could be insignificant. The main reason for this is the insufficient instances of higher education among Georgia's youth, who make up the greatest portion of those who annually join the ranks of the unemployed. According to the global competitiveness report 2011-2012, Georgia's inadequately educated labor force is the major obstructive factor of doing business here. Meanwhile, an analysis of unemployment and age reveals that the highest level of unemployment (36%) is in the 20-24 age group. Therefore, it would be a mistake to rely solely on the establishment of an employment agency to decrease unemployment over the long-term.

The National Democratic Party proposes a law regarding unemployment insurance", which would require obligatory insurance for the unemployed. The purpose of obligatory insurance will be the payment of benefits to workers and officials in the case of job loss or (particularly in the case of entrepreneurs) bankruptcy. Issuing benefits to the unemployed will be one of the major functions of the employment agency. Unemployment insurance is significant for the stabilization of citizens' income, though it should be taken into account that the payment of benefits to the unemployed may decrease their motivation to find a job, which could escalate the problem. According to the party's program, a special fund will be established for financing unemployment benefits made up of insurance fees and a portion of the state's budget. However, the party's program document does not contain any information concerning the amount of monetary funds required for financing the program and, therefore, it is difficult to assess its economic feasibility. An increase in budget expenses could be an inevitable result of undertaking this initiative, which would make it necessary to either increase existing taxes or establish a new kind of tax. Due to the extremely left-leaning nature of the program, we can assume that the National Democratic Party will try to impose these new/increased taxes on the entrepreneurial class, which will negatively affect their incentive to invest in the economy.

MACROECONOMIC ISSUES (EPRC)

The National Democratic Party has presented the following documents: "The National Democratic Party is ready to sign a contract with its people!" and "Employment program". The first document is more of a platform type of document and the second has certain characteristics of a program document. The first document does not really contain any information concerning the macroeconomic situation in Georgia. The other document emphasizes just one macroeconomic parameter – unemployment. Although the latter is relatively brief, its analysis is also relatively accurate. Based on the other documents presented by the NDP it is basically impossible to get a handle on their views in regards to other economic issues.

The documents submitted by the National Democratic Party are small and succinct and analysis is minimal. The documents represent a declaration of goals without details regarding the means of achieving them. "Employment program" contains just one measure, i.e. promoting employment through the establishment of a specialist state agency. The internal consistency of these documents can be regarded as average, but only because the material submitted by the National Democratic Party is quite limited; they do not contain precise mechanisms or a timeframe for achieving their goals. Some economic logic is present in the measures offered for reforming the pension system. The problems of agriculture and employment are very simplified, even primitive. Unemployment is a complex problem which cannot be combated through an employment agency alone. Unemployment insurance and the retraining of the unemployed may be generous objectives, but they need time and funds, neither of which is mentioned in the program. In itself, the establishment of an employment agency will have neither a positive nor negative influence on the labor-market.

The measures presented by the National Democratic Party are feasible. Unfortunately, however, there is nothing said about the time and resources required for their implementation. There is little information concerning mechanisms for the execution of these measures.

The introduction of the document, "The National Democratic Party is ready to sign a contract with its people!" states that the National Democratic Party supports a policy direction known as a "social market economics".

AGRICULTURE (EPRC)

The NDP document provides so little analysis that assessing its internal consistency is practically impossible. The document's authors do indicate that they think agricultural development is impossible without the state's assistance and, the subsidization of free consultations, insurance and other measures are mentioned. The projects offered wholly correspond with the foundational principles of the National Democratic Party, i.e. that agricultural development is impossible without the state intervention. However, if the party holds such a position, it should present a detailed list of measures to be executed through said state intervention, which it does not. It is equally difficult to assess the economic logic of the NDP program document as it does not present the measures necessary to achieve its vision. The measures may be quite feasible, but the document contains no mention of quantifiable goals or funding possibilities. Therefore, an analysis of the document's agricultural policy is practically impossible.

It can, however, be concluded that this section of the National Democrat's platform is extremely left –wing, because it considers that agricultural development is impossible without the state's direct intervention.

SOCIAL CARE (LAT)

The promise to align pensions with the subsistence minimum is not new; various parties use this statement to underline that the basic pension should provide the elderly with a minimum standard of living. However, the party's platform does not mention the pressing need to improve the methodology by which the subsistence minimum is officially calculated. In 2006 the price of the minimum subsistence basket decreased by 30%, thus artificially decreasing the number of people living above the poverty line. The minimum subsistence basket is often manipulated for political gain and it is, therefore, possible to align pensions to the basket by simply readjusting its value. Furthermore, food expenditure should ideally comprise just one third of a person's aggregate income, whereas in Georgia, food expenditure accounts for more than half, which highlights the poverty of the population. Therefore, in the case that pensions are converged with the subsistence minimum, the poverty level among pensioners will decrease slightly, but their problems will not be solved.

The inflation indexation of pensions will accelerate their increase. However, this will in turn increase government expenditure, making further pension indexation impossible. All these promises are just hot-air; no country in the world uses indexation in regards to pensions and its problems are more acute in Georgia, where economic growth is moderate and inflation is often expressed in double digits.

In order to increase pensions, the NDP plans to initiate an accumulative pension scheme. It should be noted that such a scheme has existed in Georgia since 1998, when the law on private pension funds went into force. However, the law was doomed from the beginning since the voluntary accumulative system did not work. Therefore, the National Democratic Party is right to assert that pension accumulation should happen at the expense of income tax. In practice, based on the international experience, pension sums to be covered by taxes should be stimulated somehow. However, the party platform does not say much about the mechanisms through which this would happen, the type of stimuli that will be utilized and how the sums will be administered. It is unclear who will be responsible for establishing and managing the accumulative pension fund scheme and if the state acts as a guarantor for the repayment of funds (if the investment of pension deposits will be done within state liabilities), then the state may have to take this sum as a domestic loan, which will worsen the current budgetary deficit still further.

Unemployment benefits are important, but this is only one part of the employment problem. The party does not mention how unemployment benefits would be paid, from which sources, what type of legislative changes would be made in the tax code and what the role of employers will be. Of course, the State Ministry of Employment will not be able to provide jobs for the unemployed; this is a task for the private sector. The agency cannot fulfill the role of a labor market, since this function has been gradu-

ally taken up by the Georgian private sector and virtual internet markets. Social assistance to the unemployed is only declared as an intention, there is little said regarding the utilization of the tools available to the state (taxation, investment, etc.).

The party program is quite vague regarding the sums needed for providing social assistance. There is quite a lot said about the protection of a mother's rights, the provision of a minimum wage and insurance for pensioners. Each of these activities exist separately in various countries, however it will be quite a burden on the state budget for mothers to receive financial aid for their children, have a minimum wage and be insured at the same time, then later on also receive a pension. Even countries with strong economies have a difficulty financing these kinds of initiatives.

HEALTHCARE (LAT)

The program gives separate statements regarding universal medical insurance. The model by which the principle of "healthcare for all" will be implemented and the role of the government in said model are not defined. The party places responsibility on 1) the state, 2) the employer and 3) the employed. However, nothing is said about how this responsibility will be divided, who the insurer will be, whether it will be mandatory or not, what the social role of entrepreneurs will be, what kind of motivation the employed will have to become insured and how will that insurance be paid, among other things.

Overall, "insurance for all" is merely a declaration of good intention, no concrete plans are proffered. Therefore, it is quite hard to assess the intention in terms of its feasibility.

CHRISTIAN DEMOCRATIC MOVEMENT

EDUCATION (ISET-PI)

The party's 10-item education program only refers to budgetary and financial implications. The major goals of Christian Democrats are to increase education funding by up to 1 billion GEL per year and providing students from large and socially unprotected with 100% grants during their enrolment in institutions of higher education. The party plans to increase the budget from 8 billion to 10 billion GEL, with 1 billion (10% of the budget) going to education.

This financial policy has several drawbacks: first, the budget increase is joined with an increase in taxes, which will cause discontent in society and second, raising the budget for education to 10% implies that there will be a reduction in funding in other areas. The Christian Democrats intend to free up permanent assets by a three-fold reduction of the armed forces. The question is whether such a radical reduction will be detrimental to national security.

In addition, the party also does not have an improvement program for education sector with comprehensive projects and goals, which brings into question their financial arrangements. The question therefore arises – on what specifically will these additional funds be spent? What projects will be carried out and will an increase in education funding give positive results?

The promise to provide 100% financing for all students from large and socially unprotected families –sounds generally social-democratic and “fair”. However, problems arise if one takes into account the potential effectiveness of this policy. Funding according to social status might reduce the quality of education for students in institutions of higher education. Capable and motivated but socially-unprotected students who were previously unable to pay the cost of training, still receive grants based on their own merit, and are currently enrolled in higher education institutions. Grants funded according to social status will support less diligent students, which will lead to a decrease in the quality of education provision. So, it could be better to give funding according to merit.

EMPLOYMENT (ISET-PI)

The pre-election policy document of the Christian Democrats is a 10-point plan. According to this document, if the party wins a parliamentary majority, the Georgian state budget will increase from the current 8 billion to 10 billion, which will – according to the party leadership – take place through an increase in the income base. To achieve this goal, the party is planning to launch an agrarian cooperatives program, which will consolidate of land, fuel and fertilizer subsidies and thus curtail insurance by means of cooperation. At the same time, an agrarian bank will be created that will provide low-interest credit. According to the party's calculations, cooperation of this kind will create 80000 additional jobs annually in the agricultural sector, which will in turn increase the income base.

These measures will undoubtedly yield positive results in terms of employment growth, although the assertion that 80000 new jobs will be created annually it is quite unrealistic –if the party's calculations are accurate, it would mean that in four years 320000 new jobs will be created, implying that every third rural inhabitant will be employed by a cooperative.

According to the Christian Democrats, in order to overcome the problem of unemployment it is necessary to develop the energy sector. In particular, the construction of new hydropower plants, which will provide an opportunity to replace the relatively expensive energy generated by thermal power plants with low-cost hydropower. Thus, according to the party, it will be possible to significantly reduce the price of energy, which will, consequently, promote economic activity and increase employment. The aforesaid plan is sufficiently well justified economically, since in Georgia there are quite a number of unused water resources. On the other

hand, however, experts suggest that the cost of electricity produced by new hydroelectric power plants will not be significantly lower than that from existing thermal power plants, which casts doubt on the argument that the construction of new power plants will reduce electricity tariffs.

MACROECONOMIC ISSUES (EPRC)

The document “The 10-point state budget”, submitted by the Christian Democrats, is not a policy document. Rather, it can be considered as a statement of intent. The macroeconomic part, as such, is not presented in it. However, they plan to tackle employment, high prices of household expenses and taxes. The current situation is not described, although the existence of monopolies, elite corruption and pressure on business are mentioned.

In the submitted plan it is indicated that the existing 8 billion budget is expected to grow to 10 billion: such as pressure on business will be ceased and decriminalization of economic crimes will take place; alienation of elite corruption will and “black holes” existing in the economy such as business monopolies will be filled; differentiated taxation will be introduced on the basis of the principles of the social market economy.

It is not clear what the relationship is between the growth of the budget from 8 to 10 billion and the decriminalization of the economic crime, abolition of monopolies and elite corruption (i.e. they have no idea how the alleviation of the above will allow the budget to be increased by 2 billion, or if they do they are vague about it). According to the plan, progressive tax seems to be being proposed in the plan, but it is not mentioned anywhere, it is implied. The introduced income tax ranging between 10-25% is connected with an increase in budget revenues by 350 million, though it is not clear how/by which mechanisms. Current tax is a flat 20%, what if more people are in the 10% range than are increased to the 25% range. This item of the platform of the Christian Democrats is called “United Georgia for all generations,” although it is not clear how this name is connected with tax incentives or monopolies.

It is hard to understand what the slogan – “a debt-free state”, means. Maybe this means that the Christian Democrats are committed to paying off historical liabilities such as the debts of builders of cooperative apartments and wages owed to public servants from the 90's pay freeze. If the Christian Democrats want to cover all debts, then they should cover the liabilities the state has towards all national economy agents, and the financial sources mentioned here are much less than the domestic debt of the state – i.e. they don't have enough money to cover it. Therefore, look at the action plan of the Christian Democrats, the state cannot be debt free.

In the joint 10-point plan of the Christian Democrats, links the two issues of the reduction of fees for gas and electricity, and employment issues. Indeed, low fees for gas and electricity might actually cause employment, but not always. If fees for gas and electricity go down, their use in business may increase, which will not generate employment growth rather the purchase of new capital equipment, which will use more gas or electricity. Generally, more caution is needed when discussed the field employment (they don't realize that there is no “ready to go” remedy). This problem cannot be solved with one-off measures. It is not justified why it is necessary to introduce a differentiated tax and have a non-taxable minimum wage. Will taxes derived from the rest population be enough to finance the above-mentioned large-scale social programs? Overall, then, the economic logic Christian Democrat's platform is rather average in terms of.

It is very difficult to talk about its feasibility because, in our opinion, the 10-item plan is given in the form of declaration of intent. It is nowhere said how, in what terms and through what mechanisms the intentions will be realized. It goes without saying that the full restoration of the basic infrastructure in 3 years is extremely unrealistic.

The economic program of the Christian Democrats is extremely leftist. The document is written in a populist style. Emphasis is placed on intensive state intervention; nothing is said about strengthening the market economy.

As previously noted, the 10-item document of the state budget submitted by the Christian Democrats is not a policy document. Rather, it can be described as a statement of intent. In the agricultural part “A competitive farmer instead of a land-poor peasant” the current situation in Georgia is not analyzed and thus, the document cannot be tested in terms of factual accuracy.

In the program the expediency and the purpose of the proposed measures are not discussed, only a list of measures and their separate and combined costs are given. For example, as a result of some measures, namely the formation of cooperatives, 80,000 jobs can be created. Except for this, there is nothing that makes it possible to check the consistency of the document. It is interesting to note that the “competition” referred to in the title does not occur in the text at all.

The document is generally devoid of economic logic, since its authors did not substantiate their proposed measures. The purchase of equipment and state crop insurance, fuel and fertilizer subsidies, the creation of storage facilities and low-interest credits for cooperatives and their further cover by the state for a three-year term and are integral components of the action plan but are lacking in any economic logic. At absolutely all stages of the production and marketing of products there very active state intervention is proposed, which in the mid- and long-term periods will destroy any prerequisite for innovation, efficiency increases and competition.

It is unclear why the state should completely cover the loans of those farmers who have already benefited in the form of subsidies for fertilizers and pesticides, cheap credit and have a guaranteed market in the form warehousing established by the Government. What have the representatives of other sectors of the economy done wrong? Would taxpayers, at whose expense the replenishment of the budget takes place, agree to bear such large-scale costs? Such apparently populist measures are unproductive.

There is a problem in Georgia’s agricultural sector of the production of competitive products due to their price compared to foreign imports, which requires the creation of an appropriate enabling economic environment. This is a necessary but insufficient condition for the development of production. It has been empirically proved that agricultural productivity is growing very slowly compared to other areas of the economy. Thus, a radical change in the situation will take many years, but only in the ideal case – i.e. only if, during this period, the competitors to Georgian production, those countries manufacturing foreign counterparts, do not increase their competitive preeminence. Finally, subsidies and the creation of incentives give results in very limited circumstances and only when they are purposeful. We think that aid should be given to effective, future-oriented farmers rather than to all who wish. No one will refuse assistance offered, but who will evaluate the results of this assistance and how will they go about it? This kind of reasoning is completely absent in the program.

The considerations of the Christian Democrats would be more acceptable if the rural population were given more social support (unfortunately, in our opinion, at present most of our farmers require social support), a relatively low-scale, goal-oriented program for change-oriented farmers would be developed and, as an alternative to employment in agriculture, a more or less comprehensive plan of action for the creation of non-rural sources of employment in rural areas would be elaborated.

Measures are feasible only if it is possible, in principle, to find \$550 million within three years to finance the state agrarian cooperatives and to spend \$300 million through the Agricultural Bank by means of a fundamental redistribution of state expenditures. An assessment of the feasibility of the above objectives is difficult, because the objectives are not presented in depth. One can only where it is feasible that 80,000 jobs will be established annually through the establishment of co-operatives. From the document it seems that the authors only have a vague understanding of what is implied by the idea of a co-operative and co-operation. The consolidation of land, mentioned here in the context of state cooperatives, naturally raises the question - will the already privatized land be renationalized?

In addition, there is no mention of the need for the legal, institutional and taxation frame work conditions necessary for the function of cooperatives which today does not exist in Georgia. It is also unknown whether the cooperatives will work. 80,000 jobs annually

would mean 240,000 jobs over 3 years. If we assume that the average rural family consists of 4 people, then the authors of the document believe that they will employ one person from each family in each village. This statement is unrealistic, incompetent and populist.

The agricultural program of the Christian Democrats is extremely leftist and the document is written in a populist style. The emphasis is placed on intensive state intervention; nothing is said about strengthening the market economy.

HEALTHCARE (LAT)

The principle pledge in regards to health and social care in the Christian Democratic Movement's pre-election program is equal care for all generations and prosperity for each and every Georgian family. The party believes that a major prerequisite for achieving this goal is increasing the state budget to 10 billion GEL. The pre-election program of the party is presented in a 10 point State Budget, one of the major goals of which is: access to healthcare and respected pensioners.

A cornerstone of the healthcare program is a respect for pensioners. The program does not provide an analysis of the current situation, but the healthcare project reviewed during the pre-election presentation was well formulated and problem oriented. Only some elements from this presentation are given in the pre-election program document.

The Christian Democrats are determined to establish a new, optimized, transparent and comprehensive system for the supply and management of medical assistance. The system should provide full access to medical aid, protection from financial risks a sense of fairness and constant improvements in the quality of healthcare. At the same time, finance for the healthcare system will be provided through program financing, as well as the private insurance sector. For this purpose, the program envisages dividing the population of Georgia according to different categories and providing subsidies accordingly: the state will fully cover the medical costs of those who are unable to pay for their healthcare and, at the same time, will support the rest of the population in getting full access to medical care.

The party program distinguishes two major groups: the poor and everybody else. Both groups will receive a universal insurance package, financed through program financing. At the same time, the state will provide the additional costs needed for the first group to gain full access to medical care, whereas the rest of the population will be able to purchase private insurance services with their own means or with the help of an employer. This approach will ensure a division of social responsibility between the state and the private sector. This system is utilized in other developed countries, suggesting that establishing and developing this system in Georgia will considerably improve healthcare.

The party envisages different packages, for example that mandatory and voluntary private insurances will function together with the state provided insurance and thus soften the pressure on the state budget. At the same time, all healthcare providers will have the option to supply any insurer with any type of service. The party plans to establish the following types of healthcare programs: public health, first aid, emergency care, the treatment of alcoholism and drug addition, diagnosing and treating tuberculosis, mental health, the treatment of hepatitis C and the treatment of acute infectious diseases, among others. It is particularly important that a special program would be dedicated to mother and child healthcare, and another would be established treating 0-18 year old children abroad. Each of the presented programs would be assigned state funds. The annual cost of the universal insurance package would amount to 270,000,000 GEL and the additional package (for the first group), 355,000,000 GEL. In total state healthcare programs would amount to 850-900 million GEL per year.

Not only does the pre-election document present the insurance principles of the mandatory state, and mandatory and voluntary private insurance schemes, it also presents specific healthcare programs and the financial support needed for implementing them. The healthcare system will be paid for with program financing as well as with the resources of the private insurance sector. Thus,

institutional changes, healthcare initiatives and the finances needed for implementing them are interrelated, and presented as a consistent reform; this in its turn indicates that the Christian Democrats pays close attention to the healthcare system.

The 10 point State Budget cannot be considered to be a proper program document. The 10 point action plan envisages increasing the state budget by 2 billion GEL (to equal 10 billion GEL), this will be achieved through the decriminalization of economic crimes through the alleviation of elite corruption. The plan to increase the state budget by 2 billion by implementing these measures is not reasonable, since the documents give no additional analysis in this regard. The plan talks about establishing a new progressive taxation scheme that will increase budgetary revenues by 350 million GEL. Income tax will range between 10-25% according to the level earnings. In addition, a non-taxable minimum will be introduced that will equal the subsistence minimum, which makes it less likely that an additional 350 million in revenues will be raised.

In its healthcare program, the party's emphasis is on the development of state-financed programs and increasing the population's access to healthcare. The state expenses allocated to healthcare will increase, thus ensuring baseline universal medical care while private companies insure additional risks. This position is both realistic and feasible. Although the major burden will still be placed on the state budget, which will make it necessary to constantly increase the sums allocated to healthcare. The program package will increase and the state will directly finance it through medical organizations, thus making baseline medical care accessible for the population. Although the increase in demand from the population, endogenous and exogenous risks on budgetary revenues, inflation and other macroeconomic risks will make financing healthcare programs case sensitive and will threaten the feasibility of the party's action plan.

Assigning an additional role to the insurance companies in the provision of medical services and providing healthcare services through the state budget may have little effect on the quality of the services provided by medical institutions and might not result in an increase in investment in the sector. The plan to undertake institutional reforms to overcome the limitations of the healthcare sector is both realistic and of great importance. It will mean that insurance companies and medical service providers will no longer be the same organizations, hospital owners will no longer be insurance companies themselves, and healthcare programs will no longer be implemented by providers exclusively contracted by the insurance provider. Finally, the party wishes to make it possible for all providers to deliver any kind of medical service to any insurance company. It is also proposed that the state management institute will be reformed and the current Ministry of Health and Social Care will be divided into two entities – The Ministry of Health and The Ministry of Social Care – alongside the accreditation of the medical institutions, the establishment of a state emergency center, paying special attention to penitentiary healthcare provision and adding a medical history to identification cards, etc. Not only are these initiatives feasible, their implementation is essential.

The party's position on the issue is European social-democratic. It is centrist and envisages the participation of both state and private institutions in financing healthcare.

SOCIAL CARE (LAT)

Unlike its healthcare program, the party's position on the provision of social care is relatively undefined. The party's view of the current situation in the sphere of social care is not given and, therefore, it is hard to assess the program's factual correctness. The program's only emphases are the provision of pensioners and internally displaced persons with housing and restoring subsidies for electricity consumption.

The program proposes an initial increase in social care expenditure to 2.1 billion GEL and then later on, gradually increasing pensions for the retired. The party's program does not provide answers to some essential questions that are of particular importance for different social groups. For example, nothing is said about social protection for the poor, specific systems of protection, or the state's responsibility towards this portion of the population. The program envisages increasing pensions and compensations at the state expense. The opinions presented are inconsistent and do not outline a specific approach for tackling the issue.

The party wants to: increase pensions for the retired (in 2014 – 200 GEL, in 2015 – 220 GEL, in 2016 – 240 GEL); converge the pensions of persons with disabilities, persons without bread-winners and orphans with pensions for the retired; introduce a non-taxable minimum income that will equal the subsistence minimum; determine the status of unemployed and establish unemployment benefits; decrease the cost of energy resources; re-calculate pensions for those who have served in the military; pay off domestic debts (state liabilities accumulated during the 1998-2004 cooperative apartment-building program); and offer compensation for persons injured during employment.

In addition, the party plans to provide housing and employment to internally displaced individuals. The party believes that the government should continue building housing for internally displaced individuals no matter where they live, in a private or state owned building. At the same time, the party believes that it is necessary to subsidize electricity costs for internally displaced individuals (up to 100 kw/h per person) and provide them with a better insurance package. The program of the Christian Democratic Party proposes allocating 2 billion 40 million GEL to provide pensions for veterans (60 million GEL) and pensions for the retired (without veteran's pensions).

The party plans to increase pensions and develop a state solidarity system. The accumulative pension scheme will be voluntary, although the program does not describe the mechanisms for developing the accumulative scheme. It is planned that pensions will increase by 10-12% per year. This type of system is again dependent on revenues from the state budget and thus the burden will be placed on the taxes of the formally employed. In Georgia, the ratio of tax payers to pensioners is very low; one pensioner is provided for by 0.9 formally employed individuals. It is unlikely that the number of tax payers will increase in the near future.

The party believes that additional employment will be generated by encouraging the formation of cooperatives and other measures, which will, in turn, increase the numbers of taxpayers. However, due to certain peculiarities, it is less likely to increase formal employment in agriculture as it is in other economic sectors and thus the possibility of drastically increasing the number of available jobs is limited. Therefore, the implementation of the program's plan is only feasible by redistributing budgetary revenues.

The program does not indicate the sources of finance by means of which internally displaced individuals will be provided with housing. The number of internally displaced individuals is so high that providing housing for all of them would only be possible if the party could find an alternative source of funds, as paying for this initiative from the state budget is impossible. It should be noted that the party does not indicate how much the project will cost to finance and how these finances will be obtained or attracted. Likewise, the promise that past state domestic debt liabilities will be covered is at best optimistic – the program does not provide the financial justifications for this initiative, nor does it analyze the current situation regarding the state's domestic debts.

The party believes that it is important to increase the role of Georgia's Orthodox Church in the social sphere and thus plan to increase the Church's state financing 4 fold. The party views the church as a partner of the government when it comes to implementing social programs. This, particularly interesting, approach is not well-defined; the kind of projects that will be implemented in partnership with the church are not given. The program is socially oriented and places significant emphasis on the government-lead redistribution of resources. However, if the party is to successfully implement the initiatives it presents, budgetary revenues will have to increase, which may disincentivize entrepreneurs, while the growth in expenditure may cause inflation.

The ten point action plan presents a list of ambitions without a timeframe or mechanisms for their implementation. Therefore, it is hard to assess the feasibility of the plan.

The document is populist, and placed on the left-hand side of the political-ideological map. The party's position is socialist, as a major emphasis is placed on the role of the state budget in providing pensions and social protection. At the same time, since the activities presented do not cover all social groups, it is also moderate in nature.

