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# THE LABOR SECTOR AND U.S. FOREIGN ASSISTANCE GOALS

## GEORGIA LABOR SECTOR ASSESSMENT



SEPTEMBER 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by ARD, Inc.

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## USAID Technical Advisor:

Kimberly Ludwig, Senior Civil Society and Labor Advisor, USAID, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of Democracy and Governance

## Authors:

Barbara J. Fick, University of Notre Dame, Law School  
Denise Lamaute, USAID, Europe & Eurasia Bureau, Labor Markets and Social Insurance  
Asta M. Zinbo, USAID, Bureau for Democracy, Conflict, and Humanitarian Assistance, Democracy and Governance Office  
Tsiuri Antadze, International Organization for Migration

## Prepared for:

U.S. Agency for International Development  
*Bureau of Democracy, Conflict, and Humanitarian Affairs and  
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and  
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*Bureau of Democracy, Human Rights, and Labor*

## ARD Contacts:

Rhys Payne, Senior Technical Advisor  
John Brighenti, Project Manager  
159 Bank Street, Suite 300  
P.O. Box 1397  
Burlington, VT 05402  
Tel: (802) 658-3890 ext. 2407  
Email: [rpayne@ardinc.com](mailto:rpayne@ardinc.com); [jbrighenti@ardinc.com](mailto:jbrighenti@ardinc.com)

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## **DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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# ACRONYMS

BSEC	Black Sea Economic Cooperation
CIS	Commonwealth of Independent States
CLS	Core labor standards
CoLSAs	Country labor sector assessments
CPSU	Communist Party of the Soviet Union
CSO	Civil society organization
DCHA	Democracy, Conflict, and Humanitarian Assistance Bureau of USAID
DG	Democracy and Governance
DRL	US Department of State, Bureau for Democracy, Human Rights, and Labor
EBRD	European Bank for Reconstruction and Development
ESFTU	Educators & Scientists Free Trade Union
EU	European Union
FDI	Foreign direct investment
FORECAST	Enhancing Capacity across Sectors in Transition
FTA	Free Trade Agreement
FY	Fiscal Year
GDP	Gross Domestic Product
GEA	Georgian Employers' Association
GEL	Georgian lari
GSP+	Generalized system of preferences plus
GTUA	Georgian Trade Union Amalgamation
GTUC	Georgian Trade Unions Confederation
IDP	internally displaced person
ILAB	US Department of Labor's International Labor Affairs Bureau
ILO	International Labor Organization
IMF	International Monetary Fund
LaSSO	Labor sector strategic outline
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organization
OSCE	Organization for Security and Cooperation in Europe
PES	Professional Education Syndicate
RF	Results Framework
SME	Small and Medium Enterprise
TSA	Targeted social assistance
USAID	United States Agency for International Development
USG	United States Government



Source: CIA World Factbook



# EXECUTIVE SUMMARY

Georgia currently faces a number of economic and political challenges. First, Georgia confronts an increasing level of poverty and unemployment, with workers who are ever more vulnerable in light of the global economic crisis and lack of social safety nets. Second, the external security threat posed by Russia and the ‘territorial integrity’ question of the territories of Abkhazia and South Ossetia, formerly under Georgian control prior to the August 2008 war, is a pressing concern which has overshadowed many other issues. This threat has also posed the related problem of dealing with roughly 250,000 internally displaced persons (IDPs) from Abkhazia and South Ossetia. Third, Georgians are increasingly frustrated with national political leaders, as exhibited in the spring 2009 protests, yet lacking a viable opposition to support; the country must find a way to make the political process more responsive to the needs of a broader cross-section of the population. A particular challenge is a weak and marginalized civil society, with a low level of public understanding and trust in civic organizations, including trade unions. Finally, having committed itself to external economic orientation, and joining the European Neighborhood Program and the European Union (EU)’s generalized system of preferences plus (GSP+), Georgia must meet certain standards and establish economic, political, and education and training systems that will enable Georgians to take advantage of new trade and investment opportunities and cope with competition from regional and global trade and investors.

The largest organized labor group, as well as the largest membership-based civil society organization (CSO), is the Georgian Trade Unions Confederation (GTUC). After undergoing leadership changes in 2005, it is in the process of transforming itself from a Soviet-era union to an independent organization, taking steps toward internal reform and increased transparency and democratic governance. However, it faces a number of obstacles, including: addressing the Soviet-era mentality of the population, and some union members and leaders, regarding the role of trade unions; government policy toward labor relations; and generally low understanding of civic participation and how joining with others can help individuals to achieve rights and solve problems. There remain huge gaps in union representation as the retail, private- and foreign-owned industry, small business, and other less formal sectors have extremely low proportions of unionized workers. There are very few means, formal or informal, for these non-unionized workers to have their concerns addressed by the government. The Tripartite Social Dialogue agreement signed in late 2008 presents an opportunity, but needs to be further developed and institutionalized.

Recent analysis shows that many labor-related policies, whether they are concerned with crafting a new labor code, improving the skill match between workers and employers, ensuring a climate where the freedoms necessary for workers to organize exist, or increasing protections for workers, are closely related to broader goals of democracy and governance. In particular, labor sector programming might contribute to improved public participation in civic activities through increased capacity of trade unions to educate members and advocate for reforms, as well as increasing public trust through providing a viable voice for workers generally. In addition, more effective and responsive democratic governance and improved judicial independence and capacity can be facilitated through the efforts of trade unions and CSOs to improve labor-related legislation and government services. Labor programming can contribute to economic growth objectives for improved economic competitiveness and welfare, through increased labor organization understanding of government reforms and linkages to efforts to improve vocational training and assist vulnerable populations.

Over the long-term, the ultimate goal is for workers’ rights to be protected and international core labor standards promoted through support for vibrant, independent, and democratic trade unions and CSOs that promote labor rights, labor justice, and the representation of workers’ interests and their participation in local and national arenas.



# 1.0 INTRODUCTION

## 1.1 WHY LABOR?

The United States Government (USG)'s primary foreign affairs goal is to “help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system” (State 2007).

Full consideration of diplomacy and development issues in the labor sector can be critical to building well-governed, democratic states able to respond to their citizens' needs. The ‘labor sector’ is the arena in which youth as well as adult men and women prepare for and participate in the world of work. The world of work is understood in its broadest context, encompassing people engaged in agriculture, industry, and service sectors, whether formally employed and thus protected under the law or informally engaged in making a living. People work on- and off-farm, in rural and urban areas, in their own countries or abroad. They may toil in legal or illegal activities. They may be working voluntarily or, in the case of trafficked persons, against their will.

It is important to acknowledge from the outset that labor sector scenarios in many countries start from a position of asymmetry between employers and workers. This is particularly so in countries where the existence of ‘surplus’ labor drives wages below subsistence level. Given this asymmetrical access to power, economic resources, and political decision-making that frequently characterizes the position of workers and compromises their ability, individually and collectively, to access their rights, free and democratic labor unions provide workers with a crucial voice in their places of work, in the industries in which they play a role, and in national decision-making as well.

Failure to address issues in the labor sector increases a country's vulnerability. A country that cannot offer the prospect of employment to its labor force may leave itself open to the destabilizing pressures that can arise from unemployed and disaffected adults and youth. A country that cannot assure working conditions compliant with international standards or cannot provide stable labor relations makes itself less attractive to foreign investment; and a country that does not provide appropriate knowledge and skills to its workforce through education and training misses opportunities to improve productivity and increase wages, and thus puts at risk its competitiveness on the global market. These factors in turn discourage investment, which can exacerbate a downward spiral.

Such a downward spiral scenario makes it harder for local businesses to connect to international management techniques, modern technologies, and new markets. Formal sector growth is stymied. People may look outside the legitimate sectors of the economy for new livelihood opportunities. At the same time, the downward spiral affects prospects for democratic growth as well. Labor force participants whose rights are not protected by the country's laws and institutions and who do not have an effective voice in advocating for legislative action or influencing government policy may lose faith in their governments, which in turn can lead to political and societal conflict.

The net result of these factors may be an increased reliance of the citizenry on public social entitlement programs, such as social security and health programs. This in turn places huge burdens on the public treasury, straining the government's ability to provide for the basic needs of its people.

A focus on labor rights; labor's and business's interests as represented by trade unions, other labor sector organizations, and employer or business associations; employment; wages and workforce development by developing country policymakers; and the development organizations that work with them is therefore

essential to address people’s needs to earn a decent living in support of themselves and their families. It is also important to the development of accountable political systems that respond to citizens’ concerns and interests, democratic multi-party systems that are interest-based, rather than based on personalities and patronage, and more vibrant civil societies. As people believe that their rights are respected, their voices are heard, and their access to education and livelihoods is improved, their commitment to their communities and nations is strengthened. Addressing these issues also builds human capacity in crucial areas such as negotiation and leadership accountability, which in turn contributes to the peaceful resolution of differences and disputes in labor and industrial relations and can provide critical incentives for more transparent governance.

The USG—through, *inter alia*, the United States Agency for International Development (USAID), the US Department of State’s Bureau of Democracy, Human Rights, and Labor (DRL), and the US Department of Labor’s International Labor Affairs Bureau (ILAB)—supports international labor sector programming in pursuit of development and diplomacy objectives:

- Affirming, and supporting the enforcement of, internationally recognized core labor standards (CLS);
- Combating child labor, forced labor, and human trafficking;
- Strengthening the capacity of institutions, governmental and extra-governmental, to administer effective programs in support of the labor sector;
- Promoting organized labor, building the capacity of free and independent labor unions around the globe to advocate effectively on behalf of their members for their rights and decent conditions of work;
- Engaging with civil society organizations to advocate on behalf of issues that may be of concern to labor;
- Working with the private sector to protect human rights, including labor rights;
- Creating an international economic system that shares the benefits of increased economic growth and security with all workers; and
- Promoting economic growth with an enabling environment that encourages job formation, strengthens industrial relations between employers and workers, and addresses the needs of the workforce alongside the needs of employers to improve the competitiveness of firms, industries, and sectors, encourage growth, raise productivity, and stimulate wages and employment.

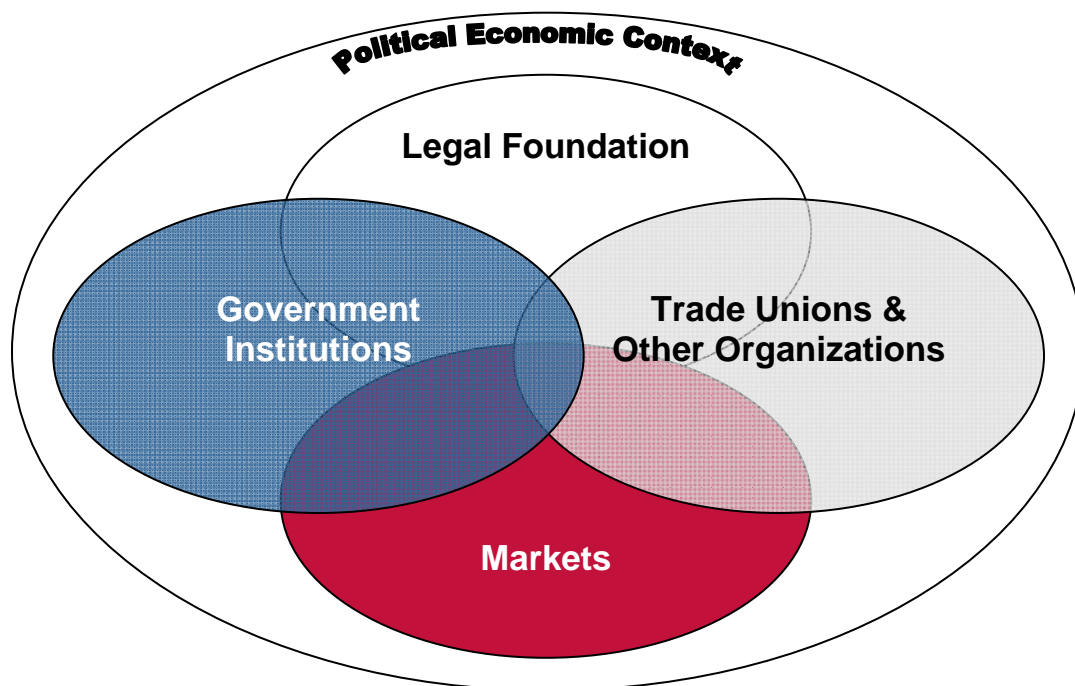
## 1.2 OVERVIEW OF LABOR SECTOR ANALYTIC WORK

Since 2007, USAID and State/DRL have sponsored analytical work to develop a more uniform methodology to understand issues in the labor sector and how they intersect with US diplomacy and development goals. A **technical paper** on the role of labor in achieving foreign assistance goals (Salinger and Wheeler, updated 2009) found that:

- 1) The labor sector—that is, the legal foundation, government institutions, trade unions and other labor sector organizations, and labor markets, understood individually, overlapping, and intersecting with each other, as depicted in **Figure 1**—is a **multidimensional system** that requires multiple and integrated interventions to achieve diplomacy and development goals;
- 2) Using this systemic approach offers **multiple utility**, as a means both to promote labor rights and organizations for their own sake and to increase the effectiveness of programs that seek to achieve a diverse set of USG foreign assistance goals;

- 3) Labor sector issues are of *integral importance* to achieving progress in major foreign policy objectives, including respect for the rule of law and human rights, promotion of democracy, and economic growth and prosperity; and
- 4) Broad *political economy considerations* are an essential context for understanding how to address stability, rule of law, participation, livelihood, and social protection concerns.

**Figure 1: Four Components of a Well-Functioning Labor Sector**



In addition to the technical paper, the suite of labor sector analytic products includes:

- A **strategic assessment guide** detailing how to approach the organization and implementation of continuing labor assessments in the field has also been prepared (Salinger and Wheeler, revised 2009). This how-to manual outlines how to carry out an integrated labor sector analysis and provides a checklist of information that the assessment team seeks to collect in the field;
- A **pilot labor assessment** testing the conceptual framework, conducted in Cambodia (Lerner, Salinger, and Wheeler 2008);
- **Country labor sector assessments** (CoLSAs) have been carried out in four of the five regions in which USAID programs are active:
  - Asia and Near East: Bangladesh (Kolben and Penh 2009);
  - Europe and Eurasia: Ukraine (Fick et al. 2009);
  - Latin America and the Caribbean: Honduras (Cornell et al. 2009); and
  - Sub-Saharan Africa: Nigeria (Chottepanda et al. 2009).
- A pilot **labor sector strategic outline** (LaSSO), more narrowly focused on worker organizations, was conducted in Georgia (Fick et al. 2009b); and

- A **labor sector programming handbook** synthesizes understanding of the key elements of a well-functioning labor sector, provides a preliminary framework for monitoring and evaluating the results of labor sector programming, and offers an inventory of labor sector programming examples (Salinger and Saussier 2009).

This body of work has been presented at a series of public labor forums for discussion with USG labor sector partners, a group that includes representatives from USG agencies, two of the National Endowment for Democracy's core grantees (the Solidarity Center and the Center for International Private Enterprise), international organizations that support labor sector programs, non-governmental organizations (NGOs) and research institutions that work in the labor arena, and development consulting firms that implement labor sector programs.

### **1.3 ORGANIZATION OF THE GEORGIAN LABOR SECTOR STRATEGIC OUTLINE**

The Georgia Labor Sector Strategic Outline field research was carried out from September 21–29, 2009. Its purpose was to better understand the interconnection between labor rights, organizations, markets, and institutions and identify strategic approaches and opportunities for labor-related programming in Georgia to achieve strategic goals in other objective areas. The assessment team met with representatives of the USG Mission; trade unions; workers in the transportation, education, health care, municipal, and metalworks sectors; employer/business organizations; the Ministry of Labor, Health, and Social Affairs; CSOs; international organizations; private think-tanks; and individual experts. A one-day visit was made to Kutaisi, the second largest city in Georgia.

This report summarizes the Georgia Labor Sector Assessment team's findings and analysis. Section 2 presents an overview of the economic, political, and historical contexts in which Georgia's labor sector is situated. Section 3 analyses Georgia's labor sector in terms of its legal foundation, labor sector institutions and organizations, and labor markets. Section 4 analyzes the role of labor-related issues in the overarching development themes that have provided the foundation for USAID's program in Georgia from 2003 to the present. Section 4 concludes with strategic considerations and program recommendations, highlighting opportunities for labor-related programming identified by the labor assessment team.

## 2.0 GEORGIA COUNTRY CONTEXT

Since independence from the Soviet Union in April 1991, Georgia has experienced several turbulent phases in its political development. An attempt by the incumbent Georgian government to manipulate national legislative elections in November 2003 touched off widespread protests that led to the 2004 Rose Revolution and the resignation of then President Eduard Shevardnadze. Since then, the government has been dominated by President Mikheil Saakashvili and a handful of close advisors. Popular demonstrations in November 2007 led to a government-declared state of emergency, and presidential and parliamentary elections in early 2008, with the president's party consolidating its strength. In August 2008, long-simmering tensions between Russia and Georgia over the territories of Abkhazia and South Ossetia erupted into war. While Russia has supported claims to independence of the territories, Georgia still considers Abkhazia and South Ossetia to be part of its territory. Georgia also faces the related problem of dealing with roughly 250,000 IDPs from these territories. This 'territorial integrity' and security issue has overshadowed many domestic policy discussions, and observers frequently cite how close Russian tanks came to the Georgian capital of Tbilisi during events in 2008.

Georgia currently faces a number of economic and political challenges. First, Georgia confronts an increasing level of poverty and unemployment, with workers increasingly vulnerable as a result of the global economic crisis and lack of social safety nets. Georgian citizens took to the streets again in spring 2009 and have been increasingly frustrated with national political leaders. These protests did not lead to significant changes due to the lack of a viable opposition that is capable of aggregating and articulating the interests of a broader cross-section of the population. A weak and marginalized civil society contributes to this deficit, with a low level of public understanding and trust in civic organizations, including trade unions. Finally, having committed itself to external economic orientation, and joining the European Neighborhood Program and the EU's GSP+, Georgia must meet certain standards and establish economic, political, and education and training systems that will enable Georgians to take advantage of new trade and investment opportunities and cope with competition from regional and global trade and investors.

The labor movement in Georgia has a relatively long history, with the main GTUC founded in 1991, but dating back to the period prior to Georgian independence when it was still a part of the Soviet Union and all of its leaders were communist party leaders. Trade unions in the Soviet Union trace their history back to the Russian Revolution of 1905, and unlike trade unions in the West, had compulsory membership and the main goal of representing government, management, and the Communist Party of the Soviet Union (CPSU). Trade unions in Georgia still struggle with popular perceptions of trade unions as instruments of the state which distribute welfare benefits; oversee sports, cultural, and vacation facilities; and distribute gifts and vacations. Their public image is quite negative. The GTUC went through a period of change in 2004–2005 when new leadership came to the fore through elections. It is now one of the rare trade unions formed during the Soviet period that is making serious efforts to reform itself. The current GTUC leadership has remained neutral of political party affiliations and refrained from participating in popular protests in 2007 and 2009. Affiliate members of the GTUC represent a large number of public sector workers such as teachers and health care workers, as well as industries such as transportation and metallurgy.

After the 2004 Rose Revolution, the Georgian Government's labor and social policy was significantly changed with the introduction of a radical package of neo-liberal reforms and the abolishment of many regulations to encourage foreign investment and eliminate corruption. This included the elimination of most health and social entitlements. Unemployment benefits and employment services were eliminated. The labor code of 2006 reduced worker protections substantially, and the efforts of organized labor have focused primarily on revisions to the labor code and less over broadening the public debate on labor and social policy issues.



# 3.0 GEORGIA'S LABOR SECTOR

Using the conceptual framework summarized in Section 1.0, this section describes the four dimensions—the legal foundation, government institutions, organizations, and markets—that underpin Georgia's labor sector, as observed during the team's assessment.

## 3.1 LEGAL FOUNDATION

Georgia is a party to various international instruments which address certain aspects of labor and employment policy. In terms of domestic legislation, it enacted a new Labor Code in 2006.

### 3.1.1 International Obligations

Georgia has been a member of the International Labor Organization (ILO) since 1993. It has ratified 16 ILO Conventions, including all of the core labor standards conventions enunciated in the ILO Declaration on Fundamental Principles and Rights at Work.<sup>1</sup>

Georgia is a party to several international conventions which have implications for labor rights: the International Covenant on Civil and Political Rights (Article 22: freedom of association and the right to form trade unions); the International Covenant on Economic, Social, and Cultural Rights (Article 8: the right to join unions and the right to strike); the Convention on the Elimination of All Forms of Discrimination against Women (Article 12: elimination of sex discrimination in employment, right to equal remuneration, and provision of maternity leave); the Convention on the Rights of the Child (Article 32: protection of children from economic exploitation and performing work that is hazardous or harmful to a child's health or physical, mental, spiritual, moral, or social development); and the Convention for the Elimination of All Forms of Racial Discrimination (Article 5: prohibition of racial discrimination in employment).

Additionally, Georgia joined the Council of Europe on April 27, 1999, and subsequently ratified the European Convention on Human Rights on May 20, 1999.<sup>2</sup> As a result of these actions Georgia is legally bound to observe the provisions of the Convention and is subject to the jurisdiction of the European Court of Human Rights in instances where violations of the Convention by Georgia are alleged.

Georgia also ratified certain provisions of the European Social Charter (revised) on August 22, 2005. The Charter obligates the signatories to pursue policies aimed at the attainment of the principles espoused in the Charter, including (in the case of Georgia), *inter alia*: Article 1—the right to work, including the provision of free employment services and the promotion of vocational training; Article 2—the right to

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<sup>1</sup> These "core" conventions are C. 87 and 98 concerning freedom of association and the effective recognition of the right to collective bargaining; C. 29 and 105 concerning the elimination of all forms of forced or compulsory labor; C. 138 and 182 concerning the effective abolition of child labor; and C. 100 and 111 concerning the elimination of discrimination in respect of employment and occupation

<sup>2</sup> The Convention guarantees, *inter alia*, the right to form and join trade unions and prohibits the State from placing restrictions on the exercise of this right except under very limited circumstances. See CONVENTION FOR THE PROTECTION OF HUMAN RIGHTS AND FUNDAMENTAL FREEDOMS, Article 11, "Freedom of assembly and association."

reasonable working hours; Article 4—the right to increased rate of pay for overtime, and the right to equal pay for equal work; Article 5—the right to organize; Article 6—the promotion of joint consultation and collective bargaining between employers and workers; Article 7—special protections for workers between the ages of 15 and 18 years; Article 8—special provisions for pregnant and nursing female workers; Article 10—provision of a system of apprenticeship and retraining; Articles 20 and 27—right to equal treatment without discrimination on the grounds of sex or family responsibility; and Article 29—the right to information and consultation concerning collective redundancies.<sup>3</sup> The Charter includes a supervisory mechanism whereby signatories provide national reports for review to the European Committee of Social Rights, renders judgment concerning conformity to the Charter. If the Committee finds a state in nonconformity and the state fails to take steps to bring itself into conformity, the Committee reports its conclusions to the Committee of Ministers which adopts a recommendation, addressed to the state, indicating the steps that need to be taken to bring itself into compliance.<sup>4</sup>

Lastly, Georgia is currently a beneficiary of the GSP+ in its trade relations with the EU, as well as a beneficiary of GSP+ in its trade relations with the United States. To maintain this status under both systems, Georgia is required to implement the principles found in the ILO CLS. In addition, Georgia is in the process of negotiating a free trade agreement with the EU, whose trade agreements usually include a provision that the trading partner's labor practices not fall below internationally recognized CLS.<sup>5</sup>

### 3.1.2 Domestic Legislation

The Constitution of Georgia (adopted August 24, 1995) expressly recognizes several rights pertaining to work, including: Article 14—recognizing equality before the law (non-discrimination principle); Articles 19 and 24—regarding freedom of speech and information; Article 25—providing for the right to public assembly; Article 26—granting the right to form and join trade unions; Article 30—prohibiting forced labor; and Article 33—recognizing the right to strike. Article 6 of the Constitution also states that “the legislation of Georgia shall correspond to universally recognized principles and rules of international law” and that international treaties take precedence over domestic law unless they contradict the Constitution of Georgia.

The foundational statute governing labor relations is the Labor Code of 2006. It is based on a neo-liberal, free market economic philosophy envisioning minimal interference from the state, and the assumption that there is equality between workers and employers to negotiate individual contracts addressing labor issues. The resulting statute is a bare bones outline of labor topics with minimal substantive content.<sup>6</sup>

#### *Issues Relating to Hiring and Firing*

There is no protection against discrimination in the recruitment and hiring process. While Article 2(3) prohibits discrimination in the employment relationship, a subsequent provision (Article 38 (1) and (3)) allows employers to terminate the employment relationship so long as one month's severance is paid, effectively precluding workers from challenging their termination as discriminatory so long as severance is paid.

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<sup>3</sup> See EUROPEAN SOCIAL CHARTER (REVISED) Arts. 1, 2 §§1, 2 and 7, Art. 4, §§2, 3 and 4, Art. 5, 6, 7 and 8 §§3, 4 and 5, Art. 10 §§2 and 4, Arts. 20, 27 and 30.

<sup>4</sup> There is also a collective complaints mechanism for enforcement of the rights contained in the Charter, but Georgia has not accepted that mechanism

<sup>5</sup> Georgia is also party to several bilateral, and one multilateral, trade agreements with Commonwealth of Independent States (CIS) countries and Turkey. None of these agreements address labor issues.

<sup>6</sup> The entire Code (translated into English) is fourteen pages.

### ***Wage and Hours Issues***

The Labor Code does not refer to any minimum wage requirement. Rather, the minimum wage is set by Presidential Decree. There are two Presidential Decrees currently in effect establishing the minimum wage: one issued in 1999 setting 20 Georgian lari (GEL)/month (approximately \$12); and one issued in 2005 setting the minimum wage for public sector workers at 135 GEL/month (approximately \$80).<sup>7</sup>

Article 14 sets the weekly work hours at 41, unless otherwise provided for in the individual employment agreement. Moreover there is no statutory requirement for the payment of overtime; under Article 17(4) terms for overtime are defined by the parties. More than 25% of the workforce works over 41 hours per week.<sup>8</sup>

### ***Workplace Safety and Health***

Article 35(1) requires the employer to provide a safe workplace. Article 35(8) specifies that legislation will set forth labor safety rules; such legislation, however, has yet to be enacted, resulting in no occupational safety and health standards.

### ***Collective Bargaining***

Articles 41 and 43 define collective agreements, but there is no requirement to engage in collective bargaining nor is there any governmental mechanism to promote collective bargaining. Individual employment contracts predominate in the workplace. Indeed, a representative of the Georgian government at a hearing before the ILO Conference Committee on the Application of Conventions stated that “the government would not attempt to artificially create a tradition of collective bargaining where none existed.”<sup>9</sup>

### ***Right to Strike***

Several Labor Code provisions regulating the right to strike are also problematic. Article 49(8) limits the duration of a strike to 90 days. Article 51(2), (4), and (5) imposes restrictions on the right to strike, and the Georgian Criminal Code Section 348 imposes compulsory labor as a sanction for participation in an illegal strike. All of these provisions are non-compliant with ILO jurisprudence under Convention 87.

### ***Trade Union Regulation***

There are two other statutes regulating trade unions: The Law on Trade Unions of 1997, and the Law on the Suspension and Prohibition of the Activities of Voluntary Associations of 1997. The former contains a requirement (Article 2(9)) that at least 100 persons are necessary to form a trade union, a number considered unreasonably high by ILO standards. There do not appear to be any other legal impediments to registering or establishing a trade union. While Article 11(6) of the Law on Trade Unions prohibits employers from discriminating against employees because of union membership, the Georgian Supreme

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<sup>7</sup> Given the large earnings gap among the workforce based on variables such as gender, education level, employment sector, and place of residence, an average wage figure is relatively meaningless. For example, in 2006 monthly earnings varied by sector from a low of 101.9 GEL in education to a high of 635.3 GEL in extraterritorial organizations. WORLD BANK, GEORGIA POVERTY ASSESSMENT at 77-81 (2009). What can be said is that the minimum wage is generally irrelevant to establishing the pay structure in Georgia

<sup>8</sup> *Id.* at 81 (2009).

<sup>9</sup> ILCCR: *Examination of individual cases concerning Convention (No. 98): Right to Organise and Collective Bargaining, 1949 Georgia* at 11 (2008).

Court has held that the provision of the 2006 Labor Code allowing an employer to terminate the employment relationship upon payment of severance prevails over the 1997 Law on Trade Unions.<sup>10</sup>

### 3.1.3 Labor Law Strengths and Weaknesses

There is almost universal agreement, among trade unions, employer associations, the ILO, the EU, and the Council of Europe, that the current Labor Code is deficient and in need of reform.

Since late 2008 the Ministry of Labor, the Georgian Employers’ Association (GEA) and the GTUC have been engaged in social dialogue discussing amendments and reforms to the Labor Code. The ILO, through a Canadian consultant (a former Minister of Labor), has been working with the parties on these efforts. Government interest in reforming the Code has been heightened due to the ongoing review by the EU concerning extending GSP+ status upon its expiration in 2011. While there is some optimism that reforms may be implemented, at present<sup>11</sup> there are no specifics concerning what changes will be made or exactly when any proposals will be submitted to Parliament.

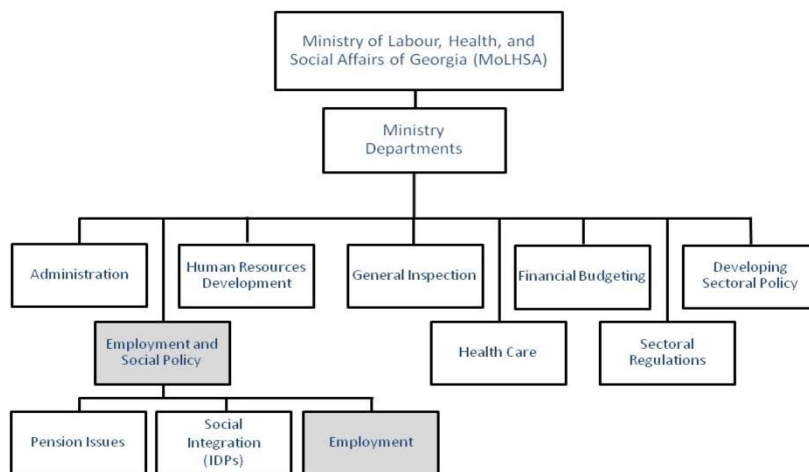
## 3.2 GOVERNMENT INSTITUTIONS

Given the government’s hands-off policy on most labor matters, there is minimal institutional support for, or emphasis on, labor policy matters. There are four institutions which are the main governmental actors on labor issues: The Ministry of Labor, Health, and Social Affairs; the Ministry of Education and Science; the Judiciary; and the Tripartite Social Dialogue mechanism.

### 3.2.1 Ministry of Labor, Health, and Social Affairs

Despite its title, this Ministry has minimal focus on, or structural support dealing with, labor issues. There is one subdivision, the Employment Department, under the Department of Employment and Social Policy,<sup>12</sup> whose portfolio includes labor, children, the disabled, and domestic violence. This Department employs a total of 12 staff.

**Figure 2: Structure of Ministry of Labor, Health and Social Affairs**



<sup>10</sup> Paata Doborjginidze v. LLC Tbilisi Metropolitan Railway.

<sup>11</sup> As of late September 2009

<sup>12</sup> <http://www.healthministry.ge/eng/departments.php#six>

The labor inspectorate was abolished in 2006. Workplace safety is the responsibility of the employer; enforcement of that responsibility is left to the trade union or for the worker to file a claim in court. The Public Employment Service was also discontinued in 2007; currently there are no government-provided employment services, although there are a few private agencies providing such services for a fee. There are no government programs to provide payment for worker sickness or workplace injuries. While the Labor Code requires the employer to reimburse employees for workplace illness, the only means for obtaining such reimbursement is to file a lawsuit against the employer.

The Ministry of Labor, Health, and Social Affairs is also responsible for the administration of the few social assistance programs that exist. With few exceptions, all social assistance programs are means-based. Social protection programs are discussed in more detail in Section 3.4.3 below.

### **3.2.2 Ministry of Education and Science**

The Ministry of Education and Science is responsible for vocational education programming. The Law on Vocational Education of 2007 established a national vocational education system. There are approximately 38 vocational education centers throughout the country, 10 of which have been recently renovated. The centers are financed by the government and training is provided at no cost. Applicants for admission must have completed the ninth grade and successfully passed qualification tests. The centers include a career service to help graduates obtain employment. The types of training provided include skilled trades (e.g., auto repair, carpentry, plumbing), construction, tourism, information technology, and agriculture. Some vocational centers also provide employee training programs responsive to specific requests from companies. There is, however, no good statistical source for determining labor market needs which would be helpful in ensuring responsive training programs. This lack contributes to the mismatch between worker skills and workplace needs, which the World Bank has identified as a significant cause of unemployment in the country.<sup>13</sup>

### **3.2.3 Judiciary**

Cases involving labor issues are subject to the jurisdiction of the general courts rather than specialized labor courts. Trade unions can represent their members in court. Since 2005, GTUC has taken over 20 cases to court. Legal Aid Centers run by the Georgian Young Lawyers' Association provide advice on some labor cases. While court statistics indicate a large number of labor cases, there is some indication that many of these involve severance pay disputes rather than claims for violations of labor rights.

A common concern raised during interviews involved the level of qualifications of judges, especially in dealing with labor issues, and the lack of judicial independence from the government.

Other options available to workers in resolving labor disputes are limited. There is no tradition of alternative dispute mechanisms in Georgia. Where a trade union exists, workers can solicit help from the union; in other instances workers at times engage in direct action such as hunger strikes, protests, and strikes.

The GTUC has been particularly active in working at the international level, with institutions such as the ILO, the International Trade Union Confederation, the European Trade Union Confederation, and the Global Union Federations, to mobilize support on labor issues. It has used the GSP+ process as well as the ongoing EU Free Trade Agreement (FTA) negotiations to put pressure on the government to reform the Labor Code in compliance with international standards. These international channels, while effective in the short run, are not sustainable over the long haul; the development of effective domestic options for addressing worker rights issues is needed.

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<sup>13</sup> WORLD BANK, GEORGIA POVERTY ASSESSMENT at 85 (2009).

### **3.2.4 Tripartite Social Dialogue**

On October 31, 2008, GTUC, the GEA, and the Minister of Labor, Health, and Social Affairs signed a tripartite agreement establishing a framework for Tripartite Social Dialogue. The parties agreed “to meet at least biweekly in order to discuss the current socio-economic situation,” including legislative initiatives related to the Labor Code, collective bargaining, healthcare, workplace health and safety, unemployment insurance, and pension reform. During the past year, the majority of the discussions have focused on reform of the Labor Code.

Tripartite Social Dialogue is off to a good start but needs to be developed and institutionalized. The process needs to be formalized with the addition of a secretariat to keep minutes and provide an administrative structure. Expert assistance needs to be available to the participants to provide consultation on the broad array of issues likely to arise as the dialogue develops. Participation, currently limited to one representative of each party, could be broadened to allow for a small team of participants.

### **3.2.5 Government Institutions Strengths and Weaknesses**

As noted in the introduction to this section, the government policy on labor matters to date has been mainly a ‘let the market regulate’ approach. In order to achieve any type of effective government role in crafting and enforcing labor policy, the institutional capacity of the Ministry of Labor, Health, and Social Affairs will need to be improved. Further measures to expand and enhance vocational training, as well as to improve the ability to identify the needs of the labor market so as to provide the relevant training, can help to alleviate the high unemployment rate in Georgia. The reinstatement of a Public Employment Service would also contribute to a reduction in the unemployment rate. With regards to Tripartite Social Dialogue, while it has the support of the current participants, it remains to be seen whether any recommendations emanating from this process will effectively influence government policies.

## **3.3 LABOR-RELATED ORGANIZATIONS**

### **3.3.1 Trade Unions**

There is one trade union confederation in Georgia—GTUC. GTUC is the successor to the previous Soviet confederation, the Georgian Trade Union Amalgamation (GTUA). A new leadership was elected at the 2005 GTUA Congress, representing a break with the old Soviet style of trade unionism, and the organization was renamed GTUC.

With a few exceptions, most trade union organizations in Georgia are affiliated with GTUC. It consists of 25 union organizations (two regional organizations and 23 sectoral unions) with a combined membership base of over 250,000 workers. It is the largest grassroots CSO in Georgia. Trade union density based on GTUC membership is 20% of the economically active workforce.<sup>14</sup>

Among individuals interviewed, there was agreement that the new GTUC leadership represented a clear break from the Soviet legacy, that the organization is independent of the government, and that it is moving in the right direction toward a more democratic and transparent operation. There remains much work to be done, however, in truly transforming the entire organization; many of the affiliate leadership and union members still operate under the Soviet mindset, viewing unions as providing sinecures to the leadership and resort trips to the membership. Among the affiliate unions, the Educators & Scientists Free Trade Union (ESFTU) and the Utility Workers Union are the most reformed.

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<sup>14</sup> This is roughly comparable to trade union density in other former Soviet countries: 30% in Romania and Slovakia, 20% in Bulgaria, 17 % in Hungary, and 16% in Poland.

Attendance at the opening session of the September 2009 GTUC quadrennial congress provided insight into the operation of the organization. The report on the activities of the organization over the past four years disclosed a broad range of issues addressed, including the rights of women, migrant workers, and IDPs; providing assistance to victims of conflict and natural disasters; and working to improve the Labor Code and engaging in social dialogue. This comprehensive view of worker issues addressed by GTUC stands in contrast to the more myopic view of many post-Soviet trade unions which focus solely on the needs of their own members.<sup>15</sup>

In attendance at the Congress were not only trade union representatives from 13 nations, but also the Georgian Minister of Labor, Health, and Social Affairs and the President of the GEA, both of whom gave speeches expressing their desire to cooperate with the trade unions.

GTUC's total budget for 2008 (its first year operating in the black under its new leadership) was 455,000 GEL (approximately \$271,496), of which 25% came from membership dues (160,000 GEL or approximately \$95,471). The remainder of its income is based on rent from lease agreements for space in union headquarters and monetary assistance from international unions and foundations. GTUC also audits affiliates' financial accounts and works with them to improve their financial management.

Other services provided by GTUC include a legal services department which drafts legislative proposals and provides legal representation for dismissed workers, and a safety protection staff member who investigates workplace safety problems and helps injured employees receive compensation. There are about 20 staff employed by GTUC.

GTUC has recently begun printing and distributing a newspaper to keep members informed of its activities and labor issues in general. It hosts a website with news stories, research papers on labor issues, and explanations of worker rights; and holds regional meetings to maintain communication with its members. It has been relatively successful in organizing new members and involving young people in the movement.

The ESFTU is GTUC's largest affiliate union with 103,000 members. It was established as an independent union in 1998 following a hunger strike by teachers in Kutaisi to obtain unpaid wages. It maintains good communications with its membership through direct contact with members at their schools, bi-monthly newsletters, and training sessions. They recently received the results of questionnaires completed by the membership indicating how the union should set priorities for activities and apportion its budget; some of the priorities were strengthening the trade union through increased membership training, raising the qualifications of teachers, and providing legal assistance to the membership. The union also provides each member with a guide explaining the role of the union and containing telephone contact information of union leaders. The ESFTU successfully waged a legal battle in which the court found that the Ministry of Education is the teachers' employer for purposes of collective bargaining. The Ministry had argued that the local school administrations were the employer, even though all salary decisions are made at the federal level.

Trade unions face several obstacles, however. First and foremost is an image problem. The public, as well as many workers, still view trade unions as based on the Soviet model of 'transmission belts' which do not truly represent the interests of the workers and whose only role was to provide patronage rewards. This image is slowly starting to change,<sup>16</sup> but more work needs to be done. Moreover, work needs to be

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<sup>15</sup> For example, in 2007, GTUC worked to organize the self-employed traders in the public markets; the resulting Union of Self-Employed and Commercial Workers has 2,500 members in Tbilisi. Many trade unions, by comparison, view the needs of the self-employed as beyond their purview.

<sup>16</sup> The INTERNATIONAL REPUBLICAN INSTITUTE, *Georgian National Voter Study* (2003-2009), indicated that voter confidence in trade unions increased from 11% in 2003 to 21% in 2009, and the negative opinion of trade unions decreased from 46% to 39%.

done within the trade unions themselves to eliminate the remnants of the old Soviet mentality among union officials and members, which tend to predispose them against the development of democratic and independent trade unions which better represent the interests of members.

Secondly, the current government philosophy does not favor trade unions. It does not think it can ‘afford’ trade unions at this time in Georgia’s development. This philosophy is reflected in the lack of legal protection from anti-union discrimination which acts as an impediment to workers joining unions. Many workers fear retaliation and loss of employment if they become involved with a union.

Thirdly, there are reports of employers forming so-called ‘yellow unions’ (employer-controlled trade unions) in order to thwart the formation of independent unions. In January 2008, the Professional Education Syndicate (PES) (a teachers’ union) was established by school directors and an official within the Ministry of Education. It was reported that school directors were encouraging employees to quit the ESFTU and join the PES. A similar situation was reported at an iron factory where the employer ordered the workers to join a union formed by the company.

### **3.3.2 Employer Organizations**

Organizations dealing with employer interests generally fit into one of three categories: employer associations, business associations, and chambers of commerce. Employer associations bring together business entities, regardless of sector or region, for the purpose of representing and promoting employer interests in the economic, social, and labor fields. It is usually this type of association that participates in tripartite social dialogue. Business associations bring together employers based on common sectoral interests, such as a banking association or an association of textile manufacturers. Chambers of Commerce focus on promoting business, helping to create favorable business conditions, and providing business education and training seminars for their members. Membership is generally open to all businesses within a given geographic territory.

Employer organizations in Georgia are at a more nascent stage of their existence than trade unions. This is explainable due to the fact that in Soviet times trade unions formally existed, whereas no employer-based organizations existed since the state was the employer. The GEA was founded in 2000 and is currently composed of more than 500 business members representing the main sectors of economic activity. Its main focus currently is participation as the employer representative in Tripartite Social Dialogue with GTUC and Ministry of Labor, Health, and Social Affairs. It is also the employer representative at the ILO annual conference. It has been a member of the International Organization of Employers since 2005.

There are very few business associations in Georgia. Currently there are associations representing the banking, construction, and agricultural sectors as well as associations of women entrepreneurs and small and medium enterprises. Lastly there are three main chambers of commerce: the American Chamber of Commerce in Georgia, the International Chamber of Commerce in Georgia, and the Georgian Chamber of Commerce and Industry, with the first two being the most active.

### **3.3.3 Civil Society Organizations**

The overall profile of civil society in Georgia is weak, and has not recovered since a large number of CSO leaders joined the government following the 2004 Rose Revolution. National security priorities and the need for urgent reform in this area have been used by the government to justify lack of public consultation. Citizens feel that even though they lack an organized voice, no one is listening anyway. There are a handful of well-known Tbilisi-based elite CSO leaders promoting reforms whose names are



mentioned frequently.<sup>17</sup> Most CSOs are funded by foreign donors and confront the constraints of agendas dictated by, and quick results demanded by, those donors. Skills in advocacy, research, and negotiation are often weak and CSOs do not sufficiently engage with the public on issues. Grassroots-based or local community organizations are rare. According to some polls, the highest level of trust is for the Orthodox Church<sup>18</sup> and some limited amount of volunteerism takes place around the church.

In general, there are few well-defined interest groups or professional organizations in Georgia. There are hardly any labor-related issues on the agenda of local CSOs, and there are no specialized organizations with a primary focus on labor issues. A number of CSOs deal peripherally with labor as it impacts on their major focus, e.g. migration, trafficking or gender issues, or legal aid. The Georgian Young Lawyers' Association is one of the most widely respected CSOs dedicated to promoting human rights and the rule of law and has handled some labor-related cases. The Business and Economic Center is a London-founded local group with offices in the Parliament promoting parliamentary education and constructive dialogue with stakeholder groups. It has helped Parliament to engage with 'economic operators' including business and employees, and has included trade union representatives in some of its discussions.

The most notable of international NGOs operating in Georgia dealing with labor issues is the Friedrich-Ebert-Stiftung Regional Office for the South Caucasus. Since 2006 they have supported training on collective bargaining and social dialogue for Georgian trade unions, regional office coverage of the union, and an international conference on social dialogue organized by GTUC, as well as support for the ESFTU on collective bargaining with the Ministry of Education in 2009. The Friedrich-Ebert-Stiftung plans to continue its financial support in the future, in particular for capacity building with GTUC and GEA for the social dialogue process.

### **3.3.4 Labor-Related Organizations Strengths and Weaknesses**

The trade unions are moving in the right direction by working to provide a more effective voice for their members. They have the potential to become truly effective CSOs, influencing government policy on behalf of workers in general. With the exception of the GEA, however, other Georgian-based business organizations are still in their formative stages and are disunited in their activities. CSOs in general are mainly foreign supported and reflective of the concerns of elite opinion makers; few have any real membership base among the general population. All of these organizations, whether trade unions, employer-based associations, or CSOs can benefit from capacity building, advocacy training, and a deeper grounding within the local population

From a grassroots perspective, many interviewees pointed to the need for extensive civic education to re-train and empower citizens about their rights and responsibilities in a changed environment. As a result of a holdover outlook from the Soviet era, much of the populace expect someone else to solve their problems. There is no tradition of civic engagement and an attitude of cynicism and resignation prevails. Lack of independent media coverage also inhibits society's understanding and belief in its ability to effectively promote change.

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<sup>17</sup> E.g., Ghia Nodia has chaired the Tbilisi-based think-tank Caucasus Institute for Peace, Democracy and Development since 1992 and was Minister of Education and Science in 2008; and Alexander Rondeli, president of the Georgian Foundation for Strategic and International Studies (GFSIS).

<sup>18</sup> INTERNATIONAL REPUBLICAN INSTITUTE, *Georgian National Voter Study (2005-2009)* (consistently ranked the Church as the public institution with the highest voter confidence rating).

## 3.4 LABOR MARKETS IN GEORGIA

### 3.4.1 General Macroeconomic Overview

The 1990s was one of Georgia's most severe economic periods. The economy had virtually collapsed in the immediate post-Soviet era. After the Rose Revolution in 2003, Georgia embarked upon numerous reforms to improve its economic environment—tax reduction, accelerated privatization, anti-corruption measures, and business friendly policies, to name a few. These and other factors contributed to Georgia's recovery and an average annual gross domestic product (GDP) growth of 9.7% between 2003–2007.

**Table 1: Economic Indicators**

Indices	2001	2002	2003	2004	2005	2006	2007	2008	2009 est.
Real GDP (% change)	4.8	5.5	11.1	5.9	9.6	9.4	12.4	4.0	-3 to -4
Average Unemployment Rate	11.1	12.6	11.5	12.6	13.8	13.9	13.6	16.5	
Inflation (year-on-year, % change)	3.4	5.4	7.0	7.5	6.2	8.8	11.0	10.0	
GDP Per Capita, \$USD				1188	1484	1764	2,315	2920	

Source: World Bank, IMF, Asian Development Bank

Notwithstanding Georgia's pre-global crisis economic expansion, its employment declined (jobless growth) from 1.89 million in 2003 to 1.71 million in 2006, losing about 178,000 workers largely from the public and agricultural sectors. In contrast, construction, finance, and mining registered the highest rates of growth in output and real earnings, accounting for 8% of total employment. In 2007, agriculture (including hunting, forestry and fishing) was 11% of the GDP; industry (including energy) was 16%; wholesale and retail trade (including repairs, hotels and restaurants, transport, and communications) was 29%; financial services (including real estate) was 9%; construction was 8%; and other services was 27%.<sup>19</sup>

In 2003–2008, the volume of exports from Georgia increased by a factor of 3.2, while in the same period imports increased by a factor of 5.3. Turkey, Azerbaijan, the Russian Federation, and Armenia dominate as importers. In recent years, trade relations have increased with Ukraine, Canada, Bulgaria, China, the United Arab Emirates, and the US. As of 2008, 33% of imports and 36.2% of exports were with the Commonwealth of Independent States (CIS) countries, 27.5% of imports and 22.4% of exports with EU countries, and 49.2% of imports and 59.1% of exports with member-countries of the Black Sea Economic Cooperation (BSEC).<sup>20</sup> Imports and exports with the US are 5.8% and 6.8%, respectively.<sup>21</sup>

In recognition of the country's reform accomplishments, the World Bank ranks Georgia as one of the world's leading economic reformers. The country's ranking in the World Bank's Doing Business Survey improved from 137<sup>th</sup> place in 2004 to 37<sup>th</sup> place in 2006. In 2008 the country's ranking rose to 21<sup>st</sup> place and in the 2010 report to 11<sup>th</sup>. The transition indicators for 2006 issued by the European Bank for Reconstruction and Development (EBRD) show that Georgia is now roughly in line with the EBRD

<sup>19</sup> UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE, UNECE COUNTRIES IN FIGURES: *Georgia* (2009), <http://www.unece.org/stats/profiles2009/georgia.pdf>

<sup>20</sup> The BSEC, established in 1992, is composed of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine.

<sup>21</sup> Department of Statistics of Georgia Quarterly Bulletin 2009-II, [http://statistics.ge/\\_files/georgian/QuarterlyBulletin\\_2009\\_II.pdf](http://statistics.ge/_files/georgian/QuarterlyBulletin_2009_II.pdf)

average. Additionally, the Heritage Foundation 2006 Index of Economic Freedom reclassified the Georgian economy as ‘mainly free,’ a change from its ‘mainly non-free’ position on the 2005 index.

Since late 2008, due to the conflict with Russia and the world economic crisis, the economic growth rate has contracted significantly. Real GDP during the first half of 2008 increased 8.7% year-on-year. As a result of the August conflict, growth in the third quarter of 2008 declined to -3.9%.<sup>22</sup> In the first half of 2009, the volume of foreign direct investment (FDI) dropped to \$226 million after accelerated FDI increases of \$449.8 million in 2005, \$1.2 billion in 2006, \$2.0 billion in 2007, and \$1.6 billion in 2008. Private capital inflows, which had been financing the current account deficit, dropped from \$1.7 billion during the first half of the year to an estimated \$450 million during the second half.<sup>23</sup> In 2007 inflation was 11%. However, by the end of 2008, as a result of the economic crisis, which stemmed consumption, inflation decreased to 5.5%.

Poverty is the most acute social problem for contemporary Georgia. According to the World Bank, 23.6% of Georgians are poor, and 9.3% are extremely poor. Poverty is higher in the rural areas, 29.7% headcount, than in the urban areas, 18.3% headcount. The extreme poverty headcount is 12.4% and 6.7%, respectively. Thus, 59 % of the poor and 62 % of extreme poor live in rural areas.<sup>24</sup> High unemployment and low incomes are major contributors to the poverty problem.

### 3.4.2 Labor Market

In the 1990s, Georgia’s post-Soviet economic crisis saw a contraction in the labor market. Employment opportunities decreased and the number of employed workers shrank by more than one million people. In 1998 the unemployment rate was 12.4% and the employment rate was 57.3%.

Due to the Russian conflict and the global economic crisis, in 2008 the percent of the population who were economically active was 62.6%, the employment rate was 52.3%, and the unemployment rate was 16.5%.<sup>25</sup> According to the International Monetary Fund (IMF), since 2008, significant unemployment has been reported in the construction, financial, and retail sectors and real GDP growth projections for 2009 have been revised down to -4 %.

In the first quarter of 2009, 54.3% of the workforce was employed in agriculture, 9.8% was employed in trade, 6.8% in education, 6.7% in industry, 4.7% in transport and communication, 4.2% in construction, and 13.5% in other sectors.<sup>26</sup>

Georgia’s real level of unemployment is much higher than the official statistics indicate; according to some Georgian experts the real rate is about 30–35%. The government’s definition of employment is described as ‘artificially inflated,’ including anyone with minimal levels of economic activity. For example, rural residents with land are deemed self-employed even if they don’t farm the land or have a small garden. Those who are employed for at least one unpaid hour in a household, or help their relatives free of charge, are deemed self-employed, and this group constitutes approximately 450–500,000 people.

Unemployment in urban areas is four to five times higher than in rural areas. Female unemployment is lower compared with males. However, female economic activity and employment in both urban and rural

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<sup>22</sup> International Monetary Fund, Georgia: Letter of Intent and Technical Memorandum of Understanding, July, 2009.

<sup>23</sup> Department of Statistics of Georgia Quarterly Bulletin 2009-II, [http://statistics.ge/\\_files/georgian/QuarterlyBulletin\\_2009\\_II.pdf](http://statistics.ge/_files/georgian/QuarterlyBulletin_2009_II.pdf).

<sup>24</sup> WORLD BANK, GEORGIA POVERTY ASSESSMENT at 59, Figure 3.2 (2009).

<sup>25</sup> [http://www.statistics.ge/\\_files/english/calendar/labour/2008-LFS.xls](http://www.statistics.ge/_files/english/calendar/labour/2008-LFS.xls)

<sup>26</sup> GEORGIAN-EUROPEAN POLICY AND LEGAL ADVICE CENTRE, *Georgian Economic Review* 8 (1st Quarter, 2009), [http://www.geplac.org/newfiles/GeorgianEconomicTrends/2006/GER I 2009\(eng\).pdf](http://www.geplac.org/newfiles/GeorgianEconomicTrends/2006/GER I 2009(eng).pdf).

areas lag behind that of males by 18–20%, with the number of employed males exceeding females. The unemployment rate is the highest among youth under age 30, at 31% in 2006.<sup>27</sup>

In Georgia, most workers are self-employed (70% of the workforce) with the concentration of the self-employed highest in rural areas and small towns. Those who are formally employed constitute a mere one third of the workforce. Tbilisi and Ajara, which are distinguished by high rates of economic development, have the highest rate of unemployment. Guria and Samtskhe-Javaheti have the lowest level of unemployment. In 2006, individuals who have never worked accounted for about 30% of unemployment.

High unemployment, low salaries, and skill mismatches are deemed the major inefficiencies of Georgia's labor market.

**Key employee characteristics are:**

- In 2007, more than half of all employees were employed in low-skilled, inefficient agricultural endeavors (53%), followed by trade and services (18.2%), education (7.3%), and health care and social work (3.5%);
- Nearly 4% of employees are public sector workers;
- In 2004-2007, the construction sector boomed, increasing employment and salaries in that sector by 2.2 times. With the Russian and global economic crisis, that trend has had a major reversal; and
- During the last few years, the number and share of employees in the financial, hotel, and restaurant sectors increased, as did the salaries for these workers. The 2008 war and the world economic crisis have had a negative impact on these sectors.

**The main contributing factors to Georgia's high unemployment are:**

- Limited demand for labor;
- Sharp imbalance between labor force demand and supply (quantitative, structural, and qualitative);
- Employee rights violations;
- Low wages;
- Low skills and inexperienced workers;
- Few and poor quality vocational training opportunities;
- Deficiency of job-search and counseling assistance; and
- Poor infrastructure

**The main characteristics of unemployment in Georgia are:**

- Long duration, beyond 12 months for 75–77% of the unemployed;
- Highly educated unemployed workforce (in 2007, 44.4% of unemployed women and 40.6% of unemployed men had higher education);
- Especially high percentage of unemployment among youth under 30 years of age (31% in 2006);

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<sup>27</sup> The ratio of labor force (employed + unemployed) to the population aged 15+, expressed in percentage.

- Sharp differentiation of unemployment between urban and rural areas; and
- High percentage of ‘hopeless unemployed’ (those not intensively seeking jobs because they have lost hope of finding one).

### 3.4.3 Social Protection Programs

Beginning in 2006, Georgia has been moving from a system of categorical benefits to targeted social assistance (TSA). With the passage of the Labor Code of 2006, which repealed the Law on Employment, the unemployment compensation insurance program was abolished. There are a few remaining categorical benefits, such as disability benefits at 55 GEL/month (approximately \$32.50); workplace maternity leave benefits at four months paid leave for government workers and a 600 GEL (approximately \$355) payment (spread over four months) for other workers; and old age pension<sup>28</sup> of 80 GEL/month (approximately \$48) plus an additional 10 GEL (approximately \$6.60) for persons who have worked at least 25 years.

Social assistance to poor households includes TSA and several categorical benefits, the latter of which are closed to new applicants and are expected to be phased out. All households may apply for TSA. A proxy means-based test is used to determine eligibility; due to the high level of informal sector economic activity, income was considered an inaccurate measure of need. Thus, real possessions (such as a television) as well as monetary income are given point values. A household which exceeds 57,000 points is ineligible for TSA. For those eligible, the benefit is 30 GEL/month (approximately \$20) for the first individual in the household and 12 GEL (approximately \$8) for each additional family member.

Social protection programs reach 57.8% of the population, with old age pensions accounting for the largest single amount.<sup>29</sup> Almost 60% of the population living in households receive at least one type of social protection benefit. In 2007 Georgia allotted 4.1% of GDP for social transfer payments; in contrast, member states of the EU averaged 20% of GDP on social protection programs in 2005.<sup>30</sup>

The poverty line in Georgia is 71.6 GEL (approximately \$47.25) and the extreme poverty line is 47.1 GEL (approximately \$31.08).<sup>31</sup> Thus the amount of TSA is below the extreme poverty line; disability benefits below the poverty line; and old age pensions just above the poverty line.

### 3.4.4 Labor Market Strengths and Weaknesses

During interviews almost every respondent listed unemployment as the most serious concern facing the average Georgian. This is consistent with recent polling data indicating that unemployment is the main problem facing Georgia and the most important issue for individual households.<sup>32</sup> Low job demand, a skills and educational mismatch between labor market needs and job applicants, insufficient vocational education and retraining opportunities, and the absence of a government public employment service are factors contributing to this problem. These obstacles will pose barriers to fulfilling the Georgian Government’s ambitious policy to promote international trade and investment. A policy aimed at

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<sup>28</sup> Women are eligible for old age pension at age 60, men at 65.

<sup>29</sup> Approximately 72% of social assistance spending is allocated for pensions, received by almost 850,000 individuals. WORLD BANK, GEORGIA POVERTY ASSESSMENT at 92 (2009).

<sup>30</sup> *Id.* at 92-93.

<sup>31</sup> *Id.* at 5 Table 2.

<sup>32</sup> INTERNATIONAL REPUBLICAN INSTITUTE, et. al, GEORGIAN NATIONAL SURVEY at 4 and 6 (June 16-25, 2009).

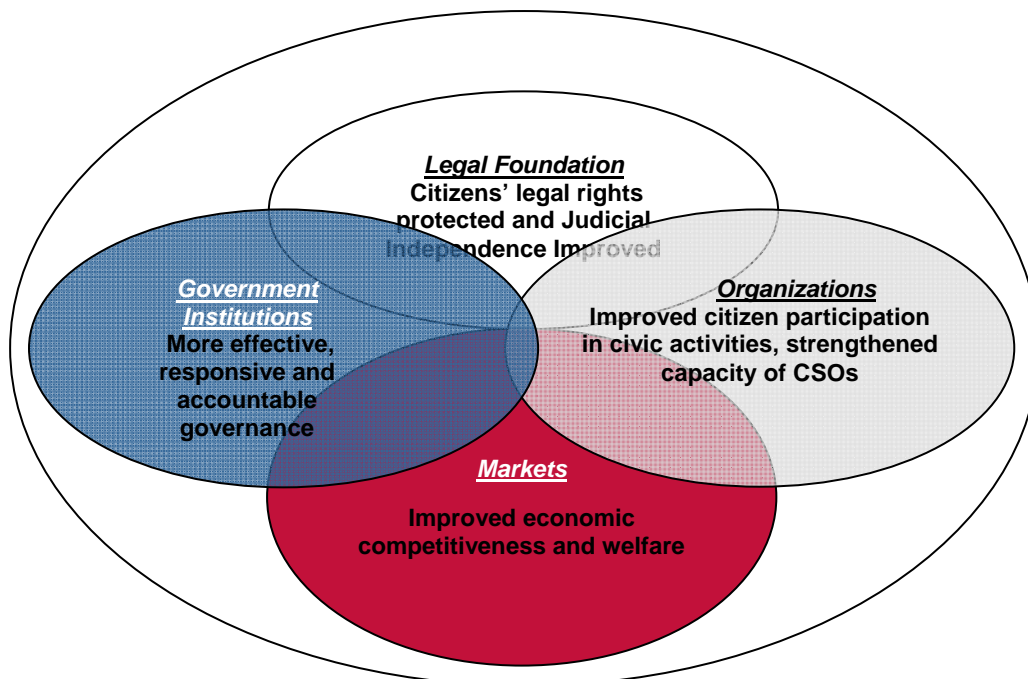
improving human capital and promoting job creation, perhaps based on the ILO Decent Work Agenda, may help to alleviate unemployment.

# 4.0 STRATEGIC CONSIDERATIONS AND PROGRAM RECOMMENDATIONS

## 4.1 FOREIGN ASSISTANCE CONTEXT

Identifying strategic considerations for future programming in Georgia requires an overview of the USG program over the past five years, taking into consideration special circumstances such as the August 2008 conflict with Russia. Elements of USAID/Georgia’s programming as they intersect with the four core elements of the labor sector framework are summarized in Figure 3. USAID/Caucasus-Georgia strategic framework covers the period 2004–2008, but the mission is currently in the process of completing a revised strategy document and results framework. Given the present outline of USG programming in Georgia, several strategic considerations for integrating a labor perspective present themselves.

**Figure 3: Labor Enabling Environment and USAID/Georgia Program Priorities**



The US Department of State and USAID consider Europe and Eurasia as a region simultaneously transforming and supporting the transformation of other parts of the world. European allies and institutions (the EU, the North Atlantic Treaty Organization (NATO), and the Organization for Security and Cooperation in Europe (OSCE)) play an essential role in helping European countries like Georgia and Ukraine complete and consolidate their own democratic advances.<sup>33</sup>

The August 2008 conflict with Russia was a significant event for Georgia. The USG made a special pledge in October 2008 of \$1 billion in economic and other assistance to Georgia to respond to the needs of conflict-affected populations, addressing needs of IDPs and priorities in the security and infrastructure sectors. A secondary effect of the special aid package highlighted by some observers has been a softening of the impact of the global financial crisis in 2008/2009. The Congressional Budget Justification for Fiscal Year (FY) 2010 requests over \$83 million for Georgia. Funding will continue the work to help Georgia recover from the conflict. US programs will focus on work to enable Georgia's economic recovery, strengthen the separation of powers, develop a more vibrant civil society and political plurality, bolster independent media and access to information, continue to improve social sector reforms, and increase the country's energy security.<sup>34</sup>

**Table 2: Appropriation by Year - Georgia**

by Program Objective and Program Area

Georgia

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 CBJ
	FY 2006 Actual Total	FY 2007 Actual Total	FY 2008 Total	FY 2009 Total	FY 2010 Request Base
<b>TOTAL</b>	85,588	74,685	378,850	309,200	83,050
<b>1 Peace and Security</b>	34,753	28,913	29,794	41,877	26,375
1.1 Counter-Terrorism	1,014	1,865	560	500	450
1.2 Combating Weapons of Mass Destruction (WMD)	864	2,100	4,900	3,900	1,500
1.3 Stabilization Operations and Security Sector Reform	30,353	21,710	18,783	34,307	22,925
1.4 Counter-Narcotics	-	-	641	300	700
1.5 Transnational Crime	-	616	880	2,350	300
1.6 Conflict Mitigation and Reconciliation	2,522	2,622	4,030	520	500
<b>2 Governing Justly and Democratically</b>	15,434	12,050	35,980	34,629	20,371
2.1 Rule of Law and Human Rights	2,760	2,361	7,865	9,829	4,675
2.2 Good Governance	6,810	3,755	5,738	11,587	5,350
2.3 Political Competition and Consensus-Building	523	1,853	5,613	2,186	3,200
2.4 Civil Society	5,341	4,081	16,764	11,027	7,146

<sup>33</sup> [http://www.usaid.gov/policy/coordination/stratplan\\_fy07-12.pdf](http://www.usaid.gov/policy/coordination/stratplan_fy07-12.pdf)

<sup>34</sup> [http://www.usaid.gov/policy/budget/cbj2010/2010\\_CBJ\\_Book\\_1.pdf](http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf)



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 CBJ
	FY 2006 Actual Total	FY 2007 Actual Total	FY 2008 Total	FY 2009 Total	FY 2010 Request Base
<b>TOTAL</b>	85,588	74,685	378,850	309,200	83,050
<b>3 Investing in People</b>	9,560	7,766	15,764	76,665	9,490
3.1 Health	7,655	5,346	12,101	11,450	7,475
3.2 Education	1,905	2,370	2,530	2,215	2,015
3.3 Social and Economic Services and Protection for Vulnerable Populations	-	50	1,133	63,000	-
<b>4 Economic Growth</b>	22,445	22,836	284,822	153,829	25,314
4.1 Macroeconomic Foundation for Growth	1,820	576	254,741	4,500	3,000
4.2 Trade and Investment	1,831	3,698	4,963	2,432	3,070
4.3 Financial Sector	920	521	458	8,140	1,654
4.4 Infrastructure	5,554	4,315	13,575	116,610	3,800
4.5 Agriculture	6,805	5,421	3,695	10,524	6,550
4.6 Private Sector Competitiveness	2,314	5,668	4,773	11,623	4,890
4.7 Economic Opportunity	2,802	2,637	2,545	-	850
4.8 Environment	399	-	72	-	1,500
<b>5 Humanitarian Assistance</b>	3,396	1,800	8,000	2,200	1,500
5.1 Protection, Assistance, and Solutions	3,396	1,800	8,000	2,200	1,500

Source: USAID Budget documents (various years), <http://www.usaid.gov/policy/budget/>

The Governing Justly and Democratically budget category (24.53% of the FY 2010 request) includes programs to encourage national and local level government reform; support free, fair, and competitive elections; bolster the political party system and the institution of Parliament; advance the rule of law; foster broader public participation in political life; and promote the integration of national minorities. Priorities include civic participation and democratic governance, including new programs in civil society and media. A special interest has been identified to encourage citizen voices around real issues. Increased public discontent was expressed in public protests through spring-summer 2009, highlighting the need for increased public space for debate. Labor unions are a potential channel for citizens' voices around real issues.

In addition, under the category of 'special projects' the mission supports cross-cutting activities which focus on capacity building of public and quasi-public entities, CSOs, and the private sector to support Georgia's reform process. In particular, the Enhancing Capacity across Sectors in Transition (FORECAST) offers a possibility for specific institutional capacity development to complement other USAID activities.

Under a new rule of law portfolio, USAID will focus on increased transparency in the judiciary, professionalism, and the creation of a defense bar association, as well as support for CSO to perform watchdog activities

The Economic Growth budget category (30.48% of the FY2010 request) includes programs to improve the business environment, expand access to capital, enhance business skills, develop a properly functioning land market, improve agricultural productivity, increase competitiveness of targeted business

sectors, and expand economic opportunities in rural communities. Specific programs include the Georgia Employment and Infrastructure Initiative focusing on rural development and increasing links between producers and retailers, the Small and Medium Enterprise (SME) Support Project and business climate reform.

The Investing in People portfolio (11.43% of the FY 2010 request) includes programs for health and social development projects which support the reform of secondary education; control the spread of infectious diseases; increased capacity of health services; provision of national level health policy assistance; provision of expanded and improved reproductive health services; and improved conditions for vulnerable children and youth. The program includes a focus on improving vocational education and training in construction and tourism, as well as improving the competencies of nurses currently practicing in Georgia.

USAID Democracy, Conflict, and Humanitarian Assistance (DCHA)/Democracy and Governance (DG) in Washington, DC is currently providing support in Georgia under the Global Labor Union NGO Strengthening Cooperative Agreement No. DGC-A-00-02-00002-00 with the American Center for International Labor Solidarity ('Solidarity Center') through FY 2010. Solidarity Center activities in Georgia include working with:

- The GTUC to strengthen its organizational, outreach, and collective bargaining abilities, including developing public outreach and legal department capabilities and strengthening economic literacy;
- The ESFTU to improve financial transparency and strengthen internal democratic practices; and,
- Both unions to improve long-term sustainability: financially, organizationally, and within both civil society and the larger populace.

The only other donor explicitly mentioned during the field work as providing support to labor unions in Georgia was the Friedrich Ebert Stiftung, with an emphasis on support for social dialogue.

## **4.2 STRATEGIC CONSIDERATIONS**

A functioning and balanced labor sector protects workers' rights; promotes participation, transparency, and accountability; supports economic growth; and increases incomes and opportunities. Over the long-term, the ultimate goal is for workers' rights to be protected and international core labor standards promoted through support for vibrant, independent, and democratic trade unions and CSOs that promote labor rights, labor justice, and the representation of workers' interests and their participation in local and national arenas.

Recent analysis shows that many labor-related policies, whether they are concerned with crafting a new labor code, improving the skill match between workers and employers, ensuring a climate where the freedoms necessary for workers to organize exists, or increasing protections for workers, are closely related to broader goals of democracy and governance. In particular, labor sector programming might contribute to improved public participation in civic activities through increased capacity of trade unions to educate members and advocate for reforms, as well as increasing public trust through providing a viable voice for workers generally. In addition, more effective and responsive democratic governance and improved judicial independence and capacity can be facilitated through the efforts of trade unions and CSOs to improve labor-related legislation and government services. In addition, labor programming can contribute to economic growth objectives for improved economic competitiveness and welfare, through increased labor organization understanding of government reforms and linkages to efforts to improve vocational training and assist vulnerable populations.

More focus on a range of labor sector issues and programming can significantly contribute to achieving both DG objectives, as well as economic growth objectives. Numerous opportunities exist to integrate

labor-related concerns to help achieve USG mission objectives in priority areas. The following are offered either to be addressed directly or to be approached indirectly through existing or new programming:

- Civic empowerment: effective labor organizations (trade unions, employer associations, and CSOs focused on labor) that provide voice for effective democratic change;
- Judiciary system strengthened: equitable legal framework adopted and core labor standards implemented;
- Democratic governance: effective, credible institutions with capacity to enforce workers' rights and adjudicate labor disputes effectively; and
- Improved economic competitiveness and welfare: efficient labor markets that are transparent, open, and provide equitable opportunities to both workers and employers.

In addition to the general strategic considerations for the labor sector above, the following are recommendations that focus more specifically on one of the components of the labor sector—labor movements and worker organizations. The primary proposed objective is to strengthen independent and democratic trade union capacity to increase civic participation on labor issues by:

- Improving the capacity of trade unions to organize and respond to members' needs; and
- Increasing the ability of trade unions to effectively engage with employers and government to promote worker rights.

Labor-related policies, such as reforming the current labor code, ensuring a climate where workers' ability to organize is supported, and increasing protections for workers are closely related to broader goals of DG. A key priority identified by stakeholders in Georgia is the reform of the Labor Code, and it is assumed that ongoing efforts to do so through the tri-partite dialogue mechanism and ILO engagement will continue. With over two million individuals in the workforce (almost half of the population), labor policies have a wide-ranging impact. Such policies also have a direct effect on economic growth. Political competition can be enhanced by improved trade union lobbying of political parties on labor-related issues. Government accountability for labor policies can be improved through an independent trade union movement which can inform workers concerning governmental shortcomings and the need for reforms on these issues.

One of the principal goals of democracy assistance is to increase civic participation. Supporting programs aimed at building the capacity of independent trade unions provides a crucible for democracy on two levels. First, trade union activity in the workplace offers a concrete demonstration that individuals, acting collectively, can effectively influence change for the better. Secondly, democracy within trade unions affords a template of leadership responsiveness and accountability to the needs of the electorate (i.e. membership).

A focus on labor-related issues also increases the ways in which the population participates in politics and increases the impact of that participation. Encouraging policymakers to engage in more open public dialogue on labor issues, through, for example, tripartite social dialogue, can demonstrate that democracy is not just a platitude but can have an influence on daily life.

Another element of successful DG is linking CSOs to build networks and coalitions for addressing common interests. Labor sector issues can provide a basis for coalition building. There are a few CSOs in Georgia addressing trafficking, migration, and gender issues, all of which have a labor-related aspect, and all of which are on the radar screen of GTUC. The opportunity exists to help create the environment for effective coalition building on these issues.

What is it about the trade union movement that positions it to fulfill the strategic democratizing functions of civil society so effectively? First, the sheer size of a domestic trade union movement as compared to other domestic CSOs creates the potential for far-reaching impact on both the elites and the grassroots. In Georgia, there is no CSO whose dimension even closely compares to the membership size of the union movement. Second, in most independent trade unions, internal democracy is strong, with the leadership elected by, and answerable to, the members. This contrasts with the majority of Georgian CSOs which are foreign-donor driven, both in terms of financing and accountability. Third, the range of issues addressed by the trade union movement is potentially extremely broad, extending beyond the parochial interests of its own members and embracing a range of issues which have impact on workers as a whole, such as minimum wage issues and safety in the workplace. Trade unions in many countries actively engage in activities and dialogue-related to civil rights, affordable housing, and educational improvement. GTUC has demonstrated its capability to look beyond the narrow focus on membership to the broader issues affecting society, such as victims of war and natural disaster and gender issues.

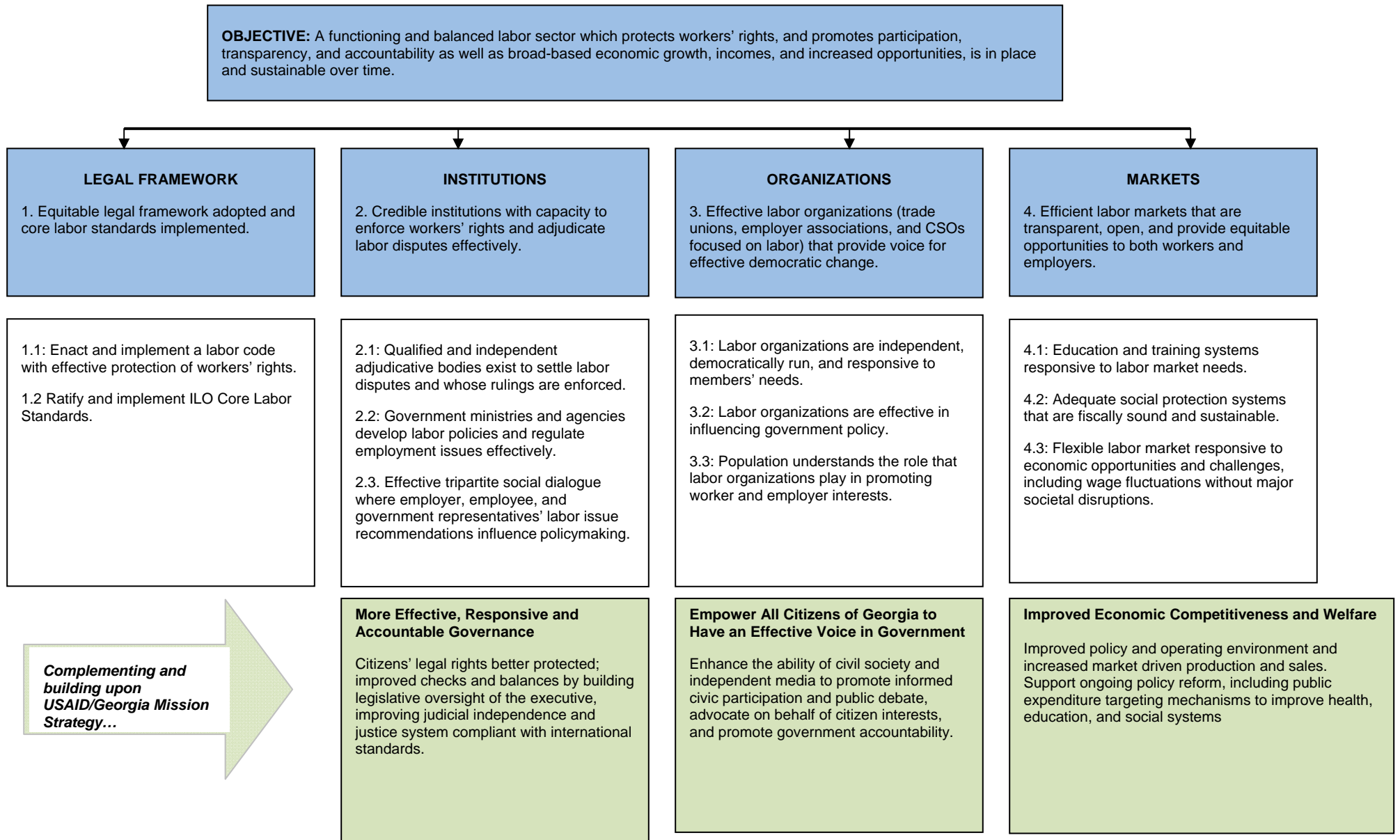
An economic growth agenda requires attention to many variables, among which are labor sector issues. A competitive business environment, for instance, needs collaborative, rather than confrontational, labor relations. Trade unions and workers need basic economic literacy in order to participate in productive ways in addressing issues of trade and investment policies and globalization. Verifiable and transparent information confirming compliance with core labor standards allows for continued benefits under GSP+ systems with trading partners, as well as assuring international buyers that their sourcing partners will not appear in news reports about substandard working conditions. Workers whose labor rights are respected, whose working conditions are decent, and whose wages are commensurate with productivity have the incentive to invest their energy, skills, and creativity toward improving their employer's business rather than merely putting in a day's work.

Another labor dimension to economic growth revolves around skills and training. As noted earlier in the report, the World Bank has identified the mismatch between worker skills and workplace needs as a significant cause of unemployment. This issue was also raised by many of the interviewees. Re-establishing a Public Employment Service, as well as developing a national employment policy, may help to identify the skills gaps as well as emerging market needs. Trade unions can also provide a link between workers and job services as well as negotiate with employers for improving on-the-job training and apprenticeship opportunities.

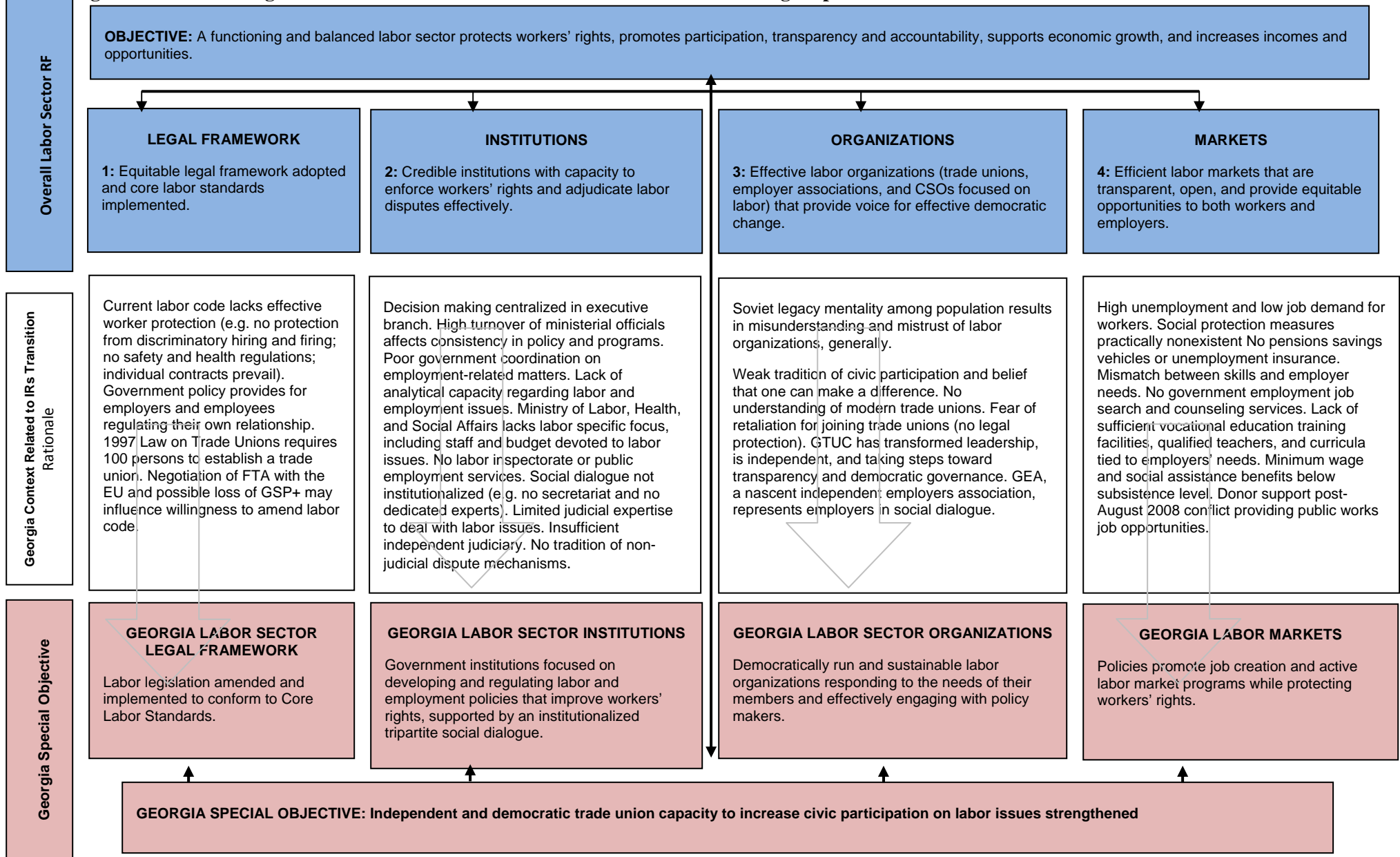
# APPENDIX A: RESULTS FRAMEWORK

The goal of this portion of the LaSSO methodology is to elaborate a Results Framework (RF), USAID's basic planning tool. An RF links causes and effects between higher level objectives, stated as results to be achieved, and lower levels, and (like the logical framework) vice-versa. Two frameworks are presented below. The first is a 'holistic' view that considers the labor sector overall. The second is a 'special' labor sector objective that focuses more narrowly on worker rights and organizations. This is not intended to reflect a formal RF for both a Strategic Objective and Special Objective program in the country in which a LaSSO is being prepared. This RF outline is intended to more clearly illustrate short- and medium-term program possibilities and where the labor sector might 'fit' within development portfolios.

**Figure 4: Overall Objective for a Well-Functioning Labor Sector**



**Figure 5: Transitioning From The Overall Labor Sector Framework To The Georgia Specific Results Framework**



**GEORGIA SPECIAL ASSISTANCE OBJECTIVE: Independent and democratic trade union capacity to increase civic participation on labor issues strengthened.**

**SPECIAL IR 1:**

Capacity of trade unions to organize and respond to members' needs is improved.

Sub-IR 1.1: Trade union members have increased understanding of workers' rights and market economics.

Sub-IR 1.2: Organizational capability to manage internal structures and recruit new members improved.

Sub-IR 1.3: Two-way communication between leadership and membership Increased.

**Illustrative Indicators:**

- Training sessions held;
- Number of new members;
- Increase in membership dues;
- Audit/accountability systems in place for reporting and oversight;
- Member questionnaires;
- Interactive websites;
- Info centers established where workers can go; and
- Trade union walk-in office hours for advice

**SPECIAL IR 2:**

Ability of trade unions to effectively engage with employers and government to promote worker rights is increased.

Sub-IR 2.1: Improved public perception of the utility of trade unions in providing voice to improve worker rights is increased

Sub-IR 2.2: Capacity of trade unions to advocate effectively on labor policy increased, e.g. amendments to labor legislation, improved social protection systems, health and safety, worker skills upgrade

Sub-IR 2.3: Ability of unions to facilitate effective links between workers and employment and training services and opportunities strengthened

**Illustrative Indicators:**

- Polling (e.g. link to DG office planned surveys);
- Increased membership of trade unions;
- Number of collective agreements reached;
- Number of proposals submitted to parliament;
- Positive legislative change improving workers rights;
- Improvements in job training opportunities; and
- More workers receive job training and retraining.



# APPENDIX B: CONTACTS

## LABOR ORGANIZATIONS

### *Georgian Trade Unions Confederation*

Irakli Petriashvili, President

Gocha Aleksandria, Vice President

### *Educators & Scientists Free Trade Union of Georgia*

Manana Ghurchumalidze, President

Mari Alighishvili, Coordinator for International Affairs

### *Transport Workers Union of Kutaisi*

Tenzig Hachahidze, Chair

Temur Burjanadze, Deputy Chair

### *Georgian Public Service Union*

Nunuka Buskhrukidze, Chair, Kutaisi Municipal Workers

### *LTD “Gregorian Magnum” Imereti Metallurgy Union*

Goga Breggvadze, Chair

John Putkaradze, Deputy Chair

*Delegates to GTUC Congress* representing trade unions in the following sectors: education, transport and health care

### *Labor Lawyer*

David Kereselidze, Dean of the Law Faculty, Head of the Master’s Program, Tbilisi State University

## BUSINESS ORGANIZATIONS

### *Georgian Employers’ Association*

Elguja Meladze, President

### *Kutaisi Regional Chamber of Commerce and Industry*

Zurab Tadumadze, President

Emzar Gvinianidze, Executive Director

### *Brain Source International*

Michael Lelashvili, Managing Partner

## GOVERNMENT OF GEORGIA

### *Ministry of Labor, Health and Social Affairs*

Gia Kakachia, Head of Child Care and Social Programs Division

### *Ministry of Education and Science*

Tinatin Losaberidze, Head of Kutaisi Professional Teaching Center No. 1

*Parliament of Georgia*

Otar Toidze, Chair of the Committee of Health and Social Issues

## **CIVIL SOCIETY ORGANIZATIONS AND THINK TANKS**

*Business and Economic Center*

Archil Bakuradze, Chairman, Deputy Secretary General of the International Association of Business and Parliament

Giorgi Kvaratskhelia, Executive Director

*Georgian Evaluation Association*

Nino Saakashvili, President

*Georgian Foundation for Strategic and International Studies*

Amb. Alexander Rondeli, President

Dr. Eka Metreveli, Research Fellow

*Georgian Young Lawyers' Association*

Tamar Khidasheli, Chairwoman

*Knowledge Fund/Free University*

Vakhtang Megrelishvili, Academic Research Coordinator

*Local Democracy Association, Kutaisi*

Ioseb Khakhaleishvili, Executive Director

## **INTERNATIONAL ORGANIZATIONS**

*Council of Europe*

Borys Wodz, Special Representative of the Secretary General

*Friedrich-Ebert-Stiftung Regional office for the South Caucasus*

Matthias Jobelius, Regional Director, South Caucasus

*International Labor Organization, Project Office Caucasus*

Zsolt Dudas, Chief Technical Adviser

Ia Dadunashvili, Chief Program Coordinator

*Representative Office of the American Center for International Labor Solidarity in Georgia*

Robert Fielding, Country Program Director

Alexander Feltham, Program Officer (Solidarity Center, Washington, D.C.)

*World Bank Office, Tbilisi*

Nino Moroshkina, Health Specialist

## **US GOVERNMENT**

Craig Hart, Program Officer, Program and Project Support Office, USAID

Michael Jones, Economic Growth Officer, Office of Economic Growth, USAID

Michelle Logsdon, Director, Office of Democracy and Governance, USAID

Nino Metreveli, Project Management Specialist, Office of Economic Growth, USAID

Dr. Rezo Ormotsadze, Senior Financial & Commercial Sector Advisor, Office of Economic Growth, USAID

Joakim Parker, Acting USAID Mission Director



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**U.S. Agency for International Development**

1300 Pennsylvania Avenue, NW

Washington, DC 20523

Tel: (202) 712-0000

Fax: (202) 216-3524

**[www.usaid.gov](http://www.usaid.gov)**