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Contents

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Abbreviations

CIS	The Commonwealth of Independent States
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
EU	European Union
FDI	Foreign Direct Investment
FISIM	Financial Intermediation Services (Indirectly Measured)
GDP	Gross Domestic Product
GEL	Georgian Lari
GUAM	Organization for Democracy and Economic Development (members Georgia, Ukraine, Azerbaijan, Moldova)
HALE	Healthy life expectancy
HEI	Higher education institution
HIS	Integrated Household Survey
HSPA	Health and Social Programs Agency
IDP	Internally Displaced People
IFC	International Financial Organization
ISCED	International Standard Classification of Education
LG	Local Government
MCG	Millennium Challenge Georgia
MDF	Municipal Development Fund
MDG	Millennium Development Goals
MoES	Ministry of Education and Science
MoF	Ministry of Finance of Georgia
MoLHSA	The Ministry of Labour, Health and Social Affairs of Georgia
NBG	National Bank of Georgia
NCDC	National Center for Disease Control and Public Health
NER	Net Enrolment ratio
PHC	Primary health care
PTR	Pupil-teacher ratio
SSA	Social Service Agency

SUSIF	the State United Social Insurance Fund of Georgia
TB	Tuberculosis
THE	The total health expenditure
TSA	Treasury Single Account
UME	United Masters Exams
UNE	United National Exams
USD	United States Dollar
VAT	Value Added Tax
VET	Vocational Education and Training
WHO	World Health Organization

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Abstract

After years of stagnation and political cataclysms, Georgia tried to recover by launching radical economic and political reforms starting in 2004. The results of the reforms appeared to be impressive. The country's GDP has more than doubled; the total volume of bank deposits is five times what it used to be. Key international indices (Doing Business Index, Economic Freedom Index, Corruption Perception Index) have also reflected the success of the reforms. The occupation of the Georgian territories by Russia in August 2008 and the global financial crisis have significantly changed the current macroeconomic environment in Georgia. The August conflict undermined investor and consumer confidence, put pressure on public finances, damaged physical and other infrastructure and undermined the banking system with a large volume of deposit withdrawals. The deepening of the international financial crisis put further pressure on currency and foreign investments. The purpose of this paper is to consider the nature and magnitude of the impact of the global financial crisis on Georgia's social services sector and on the country's economy as a whole. The global financial crisis had a sharp impact on the most disadvantaged members of the society. The main objectives of the paper are to describe to what extent the education and healthcare sectors were affected in Georgia and to investigate how government policies have addressed the problems which arose due to the financial crisis.

Executive Summary

After the Rose Revolution, substantial changes began to occur in Georgia's education sector and decentralization was named a top priority. Radical reforms destroyed the old remnants of the Soviet period and made headway towards a Western style education system. Since then several documents and laws were adopted by the Georgian government and parliament aimed at creating a national education system with a streamlined and transparent governance.

The education management system has been rehabilitated during the last five years. Various institutions have been established including educational resource centres, an accreditation agency, a national examination centre, a teachers' professional development centre, and other new entities that helped to revitalize the education sector. The results have been reflected in the quality of education to some extent.

The financing system was also completely changed, and then later modified. The main change was that financing from the budget was allocated to individual students and pupils who are authorized to apply the funds at the institution of their choice. This scheme applies to all levels of the education system. In the general education system, this is called the "voucher" system, which is calculated per pupil and is different for urban, rural and high mountainous regions. In higher education, it is called a "Government Grant," which covers either total (100%) or partial (70%, 50%, 30%) tuition.

The consequences of the financial crisis were reflected in budget expenditures in the education sector. Beginning in 2003, education financing was continuously increasing by about 40% a year, except for 2008-2009, when it experienced a drop. At the same time, the financing of education increased as a percentage of GDP. It grew from 2.2% in 2008 to 2.7% in 2009.

The financial crisis did not affect Georgian households' monthly expenditures on education, cultural activities, and leisure, which have increased in absolute figures as well as a percentage of total expenditure after 2003. In the 2008-2009 academic year, the number of pupils at private schools increased by 11-12% at the basic and primary levels, which is a significantly larger increase than compared to the previous two years. At the same time, the number of pupils at public schools decreased by 3-4% at the basic and primary levels.

In 2008-2009, the government cut financing for the rehabilitation of Georgian public schools by about 85% on average. In addition, other governmental programmes in the education sector suffered due to the financial crisis. In 2005, the

national program for complete computerization and internet connectivity at schools ("Deer Leap") was launched. The program's total budget for 2007-2011 was set at 49 million GEL in 2007 but due to the financial crisis, the actual budget for this program has decreased to 37.5 million GEL.

The pupil-teacher ratio in public schools decreased in 2009, which should be a signal to the government to pay more attention to education quality in public schools. The Ministry of Education and Science does not publish data about system performance indicators, such as the promotion rate, repetition rate, drop-out rate, percentage of repeaters, survival rate etc. There is no objective or representative research related to these topics. Analyzing these coefficients could give policymakers a better idea about the direction in which more work needs to done to improve system performance and to finally increase the quality of education.

During the financial crisis, the number of pupils was increasing in nearly all the regions of Georgia (except in the occupied regions), The only exception was the Samtskhe-Javakheti region, where the number of pupils consistently decreased over the last four years, while the number of schools has remained the same and the population has not decreased. One of the reasons for such a low enrolment rate could that Samtskhe-Javakheti is populated with a number of different ethnic groups (most of them Armenian) and many children from there do not speak Georgian.

Recently, the Ministry has been working on enhancing the learning of the Georgian language by the non-Georgian population. At the same time, the Ministry is continuing the "Teach and Learn with Georgia" project, and in the 2010-2011 academic year, it plans to recruit 1,000 native English speakers to teach Georgian schoolchildren the English language.

To foster competitiveness between schools, the Ministry plans to introduce the concept of "School Branding" beginning in the 2010-2011 academic year. Schools will evaluate themselves and will receive a certain number of "stars" from the Ministry after the monitoring and evaluation.

The number of private higher education institutions (HEIs) was increasing up until 2007 (to 148); After that it decreased to 108 in 2009-2010. Not surprisingly, most of the private HEIs are situated in Tbilisi with an increasing agglomeration coefficient. The recommendation to the government is to stimulate the private sector to establish or move private HEIs to the regions, especially to Kakheti, Samegrelo-Zemo Svaneti, ShidaKartli and Imereti, where some private HEIs were closed during the global financial crisis. This would have a significant effect on the economy of those regions. HEIs in different regions of Georgia would create new life and economic activity. Higher education would become accessible for

those who are unable to come to HEIs in Tbilisi because of family, job or other reasons.

Creating good infrastructure and stimulating the establishment of new private HEIs in the regions will constitute a huge direct and indirect investment in the regions. The stimulus for establishing private HEIs could come in the form of reduced taxes, a stimulus which gained importance especially after the financial crisis. Additionally, the government should simplify accreditation rules for regional private HEIs.

The Ministry of Education collects information on Vocational Education and Training (VET) courses from individual VET centers, but at the current time, this information is provided in a format that makes it difficult to see the overall picture. This could be improved if the courses were classified according to skill-based categories and organized according to academic years. As a result, the Ministry of Education and Science (MoES), or future employers of VET graduates, would be able to easily see how many people are being trained in which kinds of skills nationwide.

Although progress has been made in improving the main health indicators, some are still far from optimal; Non-communicable diseases are the leading cause of death. The high mortality rate for neoplasms is largely due to the fact that the percentage of neoplasm cases diagnosed in the early, more treatable, stages (stages I and II) remains low, between 25% and 30%. The incidence and prevalence of some communicable diseases is still unacceptably high.

Disease prevention policies aimed at eliminating the main causes of morbidity and mortality should be enhanced. There is a need for more screening programs in order to discover neoplasms in earlier stages. Healthcare polices should be aimed at reducing tobacco use, increasing physical activity and lowering the prevalence of overweight people. Efforts to reduce smoking would also help to reduce morbidity due to respiratory diseases.

There is a plan to reduce the excess supply of hospital beds by 50% by December 2011 according to the National Hospital Master Plan; Utilization rates for Primary Health Care (PHC) have decreased dramatically; The productivity of medical personnel has increased in the last five years but is still insufficient.

There is no nationwide vision for PHC development. Two PHC Master Plans were developed, but not approved. A long-term health care policy, with a medium term strategy and a short term implementation plan, should be developed by the Government.

The Government chose to turn the deteriorated healthcare industry over to the private sector with the idea that this would lead to increased competition, higher investments into the sector and, finally, better provision of medical services. In-

creasing market forces in the sector, which is far from competitive, should be done with great caution and should be based on concerns about the feasibility and sustainability of the system, as well as on issues related to quality, efficiency and equity.

The Ministry of Economic Development is dealing with the privatization process of hospitals. The state agencies responsible for the reform of secondary healthcare should involve stakeholders in designing and implementing the reform. In addition, hospital personnel should be allowed and encouraged to meet with investors. They should take part in the process of selection by analyzing investors' objectives and the ways they plan to achieve the proposed goals.

The Government of Georgia allocates a very low share of public spending to the health sector. More than ¾ of total expenditures come from private sources. Priority should be given to increasing government investment in health, particularly in the areas of primary healthcare, public health and health promotion. The critical issue of out-of-pocket payments must be addressed within the financing process. The Government should ensure access to at least a basic package of benefits, which should include essential medicines.

The development of the private insurance market to compensate for the decline in public financing was a policy priority of the Government of Georgia after the Rose Revolution. Funding of preventive services should be increased since insurance companies are not interested in such an activity.

Two main groups remain uninsured: people who are above 60 years of age and self-employed who do not belong to the poor population, but for whom corporate insurance is not affordable. In 2009, the Government decided to subsidize insurance of the second group by introducing a cheap insurance program, but the government's expectations failed with respect to the program's coverage. Awareness of the state funding programmes should be increased and comprehensive policies to ensure insurance for the over 60 age group should be developed.

Introduction[1]

Out of all the former Soviet republics, Georgia suffered most severely from the collapse of the Soviet Union. During the early nineties, the country's gross domestic product (GDP) fell to 15–20% of what it had been under Soviet rule. Several political revolutions and a tough geopolitical situation prolonged the economic crisis, and by 2003, the country had sunk to its lowest level in modern times, politically, economically, and socially. After years of stagnation and political cataclysms, Georgia tried to recover by launching radical economic and political reforms starting in 2004.

The results of the reforms appeared to be impressive. The country's GDP has more than doubled; the total volume of bank deposits is five times what it used to be. The whole country now has reliable electricity supply; After years of serious energy shortages, Georgia has become a net exporter of electricity. Key international indices have reflected the success of the reforms: on the Doing Business Index, Georgia is in 12th place; on the Economic Freedom Index, it is in 29th place (from 93rd in 2005); and on the Corruption Perception Index, it is in 68th place (up from 130th in 2005). As a result, in recent years, Georgia has moved up more than any other country in the world in Transparency International's corruption ratings.

The occupation of the Georgian territories by Russia in August 2008 and the global financial crisis have significantly changed the current macroeconomic environment in Georgia. The August conflict undermined investor and consumer confidence, put pressure on public finances, damaged physical and other infrastructure and undermined the banking system with a large volume of deposit withdrawals. The deepening of the international financial crisis put further pressure on currency and foreign investments.

The purpose of this paper is to consider the nature and magnitude of the impact of the global financial crisis on Georgia's social services sector and on the country's economy as a whole. The global financial crisis had a sharp impact on the most disadvantaged members of the society. The main objectives of the paper are to describe to what extent the education and healthcare sectors were affected in Georgia and to investigate how government policies have addressed the problems which arose due to the financial crisis. In order to capture the consequences of the crisis, the paper analyzes the "before" and "after" conditions of the education and healthcare sectors.

[1] This paper has been prepared with the editorial assistance of Paulina Szyrmer

Country profile

Georgia is located at the crossroads of South-Eastern Europe and Western Asia. However, socio-politically and culturally, Georgia aspires to be a part of Europe. Integration with Europe is one of the main driving forces for the country's development.

After the Rose Revolution of 2003, a new government with a pro-Western orientation came to power and embarked on large-scale radical reforms which affected every sphere of public activity. The resulting rapid economic developments placed the country within the scope of major Eurasian energy projects.

Georgia is a representative democracy, organized as a unitary semi-presidential republic. It is currently a member of the United Nations, the Council of Europe, the World Trade Organization, the Organization of the Black Sea Economic Cooperation, and the GUAM Organization for Democracy and Economic Development.

According to the National Statistics Office of Georgia, the population of the countryis 4.4 million with an estimated population growth rate of 0.74%. Georgia is an ethnically diverse nation. Ethnic Georgians comprise only 83.8% of the residents, with Armenians, Azeris, Russians, Ossetians, Yezids and Greeks accounting for the rest of the population. (For other general statistics about Georgia, see Table A1 in the Appendix).

1. Economic Review

The occupation of the Georgian territories by Russia in August 2008 together with the global financial crisis significantly changed the current macroeconomic environment in Georgia. The August conflict undermined investor and consumer confidence, put pressure on public finances, damaged physical and other infrastructure and undermined the banking system with a large volume of deposit withdrawals. The deepening of the international financial crisis put further pressure on currency and foreign investments.

Starting in the second half of 2008, Georgia experienced an economic recession for the first time since 1995.

Table 1. Main Macroeconomic Indicators

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010** (projection)
Nominal GDP (million GEL)	8564.1	9824.3	11620.9	13790	16993	19069.6	17986	20791.3
Real growth of GDP (%)	11.1	5.9	9.6	9.4	12.3	2.3	-4.0	6.4
Inflation (Dec-to-Dec)[2]	--	7.5	6.2	8.8	11	5.5	3.0	6.0
Export (million GEL)	2726.6	3100.1	3921.9	4534.4	5357.2	5469.1	5045.3	5532.2
Import (million GEL)	3975.6	4733.6	5992.7	7842.7	9815.4	11006.4	9625.8	10304.5
Exchange rate USD/GEL, period average	2.1459	1.9170	1.8127	1.7767	1.6707	1.4902	1.6705	1.7823

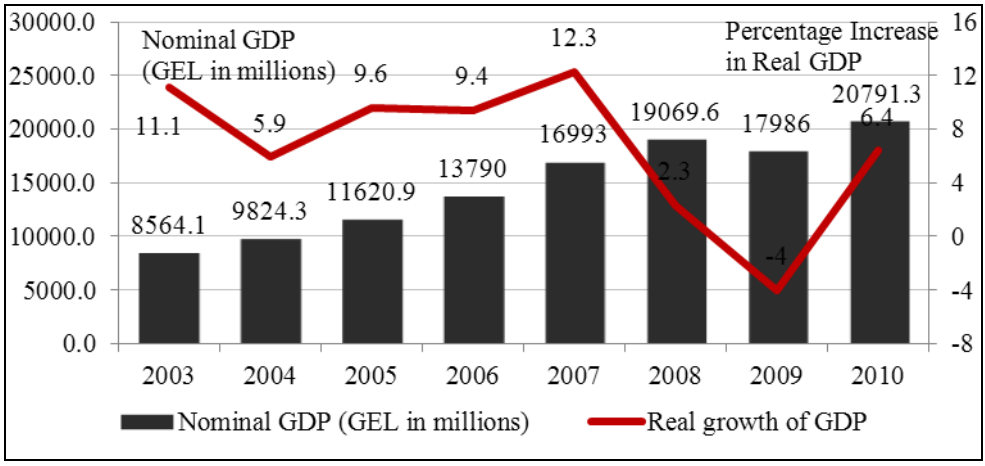
Source: the National Statistics Office of Georgia.

Prior to the first half of 2008, Georgia's economy had been rapidly growing for several years. The economic growth of the country was 9.4% in 2006 and reached 12.3% in 2007 (see Table 1). According to the forecast for the first half of 2008, the estimated economic growth for 2008 was 9%. However, the economic growth

[2] Annual inflation is calculated as percentage change of the current month's CPI over the same month of the previous year.

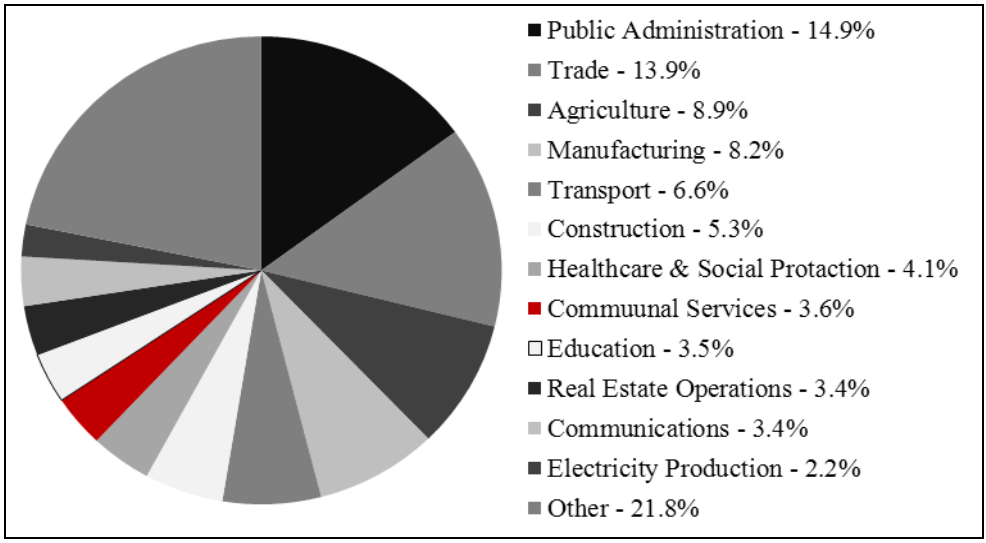
of the country started slowing down in the second half of 2008 and the overall GDP growth in 2008 amounted to only 2.3%. The forecasted GDP growth for 2009 was 2%. However, the initial estimate of GDP growth for that year was revised in the first half of 2009 and was changed, at first to -1.5% and then to -4%, according to the final estimate. In 2010, however, in accordance with the existing forecast, the same indicator should equal 2%. In the fourth quarter of 2009, real GDP increased by 0.4%, after 5 consecutive quarters of negative growth.

Figure 1. Gross Domestic Product in 2003-2010



Source: National Statistics Office of Georgia.

Figure 2. Share of Economic Sectors in GDP (%) 2008

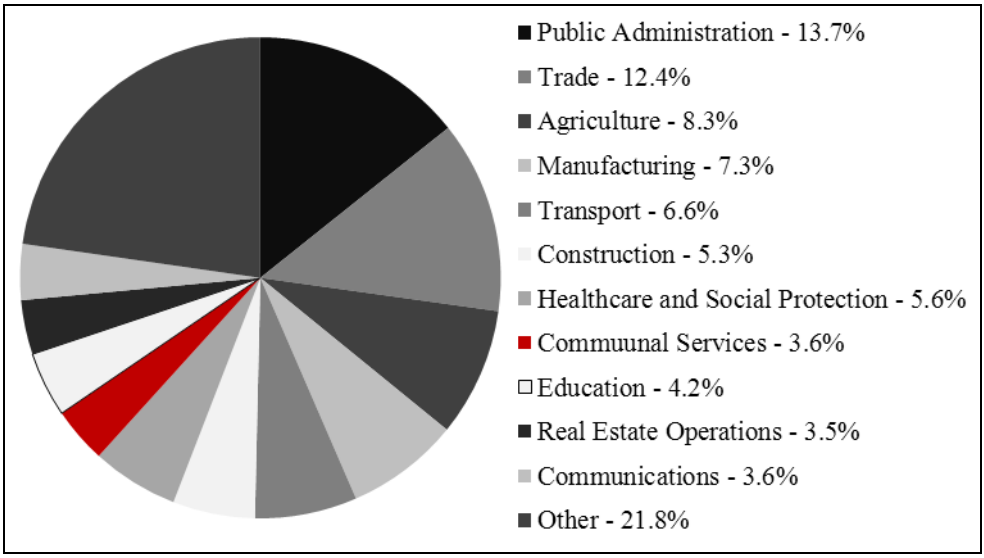


Source: National Bank of Georgia.

In 2008 the structure of the Georgian economy did not undergo any significant changes compared to the previous year. Public administration represented one of the largest GDP components in 2007, comprising 13.4% of GDP. In 2008, the traditional economic sectors of trade and agriculture also held significant shares of GDP, 13.9% and 8.9%, respectively. As expected, in 2008, the shares of the manufacturing and construction industries in the GDP decreased year-on-year, equaling 8.2% and 5.3%, respectively. It is noteworthy that the six sectors produced 60% of the value added to the economy.

As already mentioned, real GDP grew only 2.3% in 2008. In the previous year the growth was mainly powered by the trade and public administration sectors, each contributing 1.3% to real growth. Public administration turned out to be the main driving force of the economic growth over 2006-2007. In 2008, positive contributions to the GDP growth were made by the communications, education, and healthcare sectors. It must be noted that the traditionally important economic sectors of the Georgian economy, transport and construction, logged negative contributions.

Figure 3. Share of Economic Sectors in GDP (%) 2009



Source: National Bank of Georgia.

The downside tendency in the economy continued in 2009. Real GDP declined 5.9% in the first quarter. A tax revenue analysis showed that economic activity was particularly sluggish in April-May. This led to a 10.7% decline in Q2. In the second half of the year, the economy slightly recovered, which was mostly due to

the implementation of infrastructure projects planned by the government, as well as world price increases on raw materials which are the major export items in Georgia. Finally, the real decline of GDP was 3.9% in 2009. In 2009, negative contributions to the GDP were made by the trade sector (-2.8%), manufacturing (-0.9%) and agriculture (-0.7%). The main positive driving forces in GDP were in the sectors where the budget financing plays an important role (Healthcare and Social protection, Education, Public administration) and in electricity, gas, and in the water production/distribution sector.

You can see more details about real GDP growth rates by sectors in Table 2:

Table 2. Real GDP Growth Rates Compared to the Same Period of The Last Year (%) by Sectors

	2004	2005	2006	2007	2008	2009
Agriculture, hunting and forestry; fishing	-7.9	12.0	-11.7	3.3	-4.4	-6.8
Mining and quarrying	-19.9	-7.8	18.7	19.9	16.7	9.4
Manufacturing	11.6	14.1	22.3	11.5	-1.5	-8.5
Electricity, gas and water supply	-4.0	5.1	13.4	6.8	3.7	6.2
Processing of products by households	-1.6	12.4	3.0	28.1	-4.5	-1.8
Construction	35.9	14.1	8.5	14.6	-11.1	-3.1
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	8.2	9.4	19.7	9.6	11.8	-16.3
Hotels and restaurants	3.5	16.6	10.5	11.4	4.9	-4.4
Transport	3.7	3.9	16.8	11.9	-9.5	0.5
Communication	16.9	28.7	13.4	8.7	15.8	-3.4
Financial intermediation	12.8	52.8	36.9	15.3	4.3	1.5
Real estate, renting and business activities	28.1	10.6	17.4	23.1	2.4	-4.1
Imputed rent of own occupied dwellings	0.6	0.9	0.2	5.4	3.2	2.8
Public administration	9.7	-6.3	-2.4	15.9	9.9	1.2
Education	1.8	13.8	12.1	9.5	13.1	4.7
Health and social work	4.2	7.6	15.4	10.4	6.8	8.7
Other community, social and personal service activities	6.5	18.3	7.1	24.0	1.6	-13.0
Private households employing domestic staff and undifferentiated production activities of households for own use	20.5	-18.8	8.5	7.5	5.8	2.7
Financial Intermediation Services Indirectly Measured (FISIM)	-7.9	57.5	-15.0	42.5	26.3	-1.0

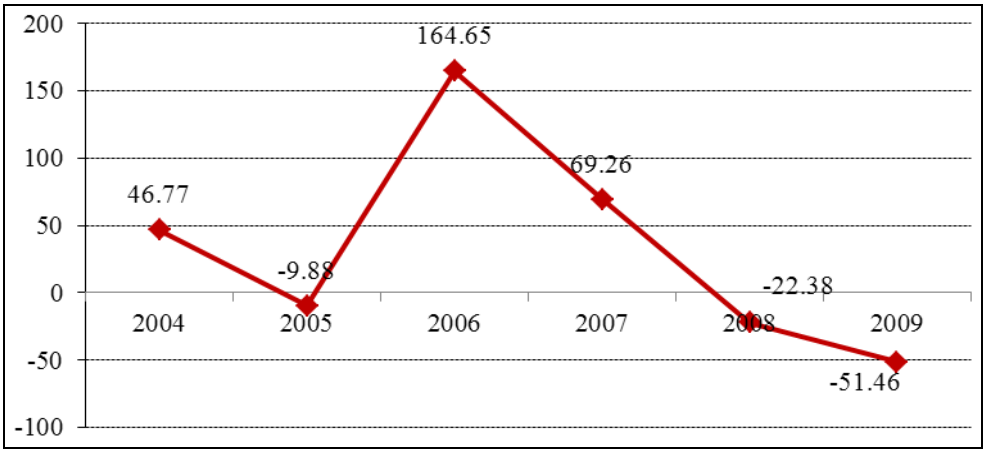
Source: National Statistics Office of Georgia.

Georgia's GDP started recovering at a very low rate in 2010. This was due to much lower domestic and foreign investments and a significant decrease in bank lending when compared to the pre crisis period.

One of the leading drivers of GDP in Georgia is Foreign Direct Investment. The total amount of net FDI was 6 billion USD in 2004-2008. During the first nine months of 2008, net FDI reached 1,051.3 million USD, which accounted for 8.6% of the estimated 2008 GDP. Total foreign capital and financial inflows grew by 47.4% to 2.4 billion USD, which amounted to 19.5% of the 2008 GDP.

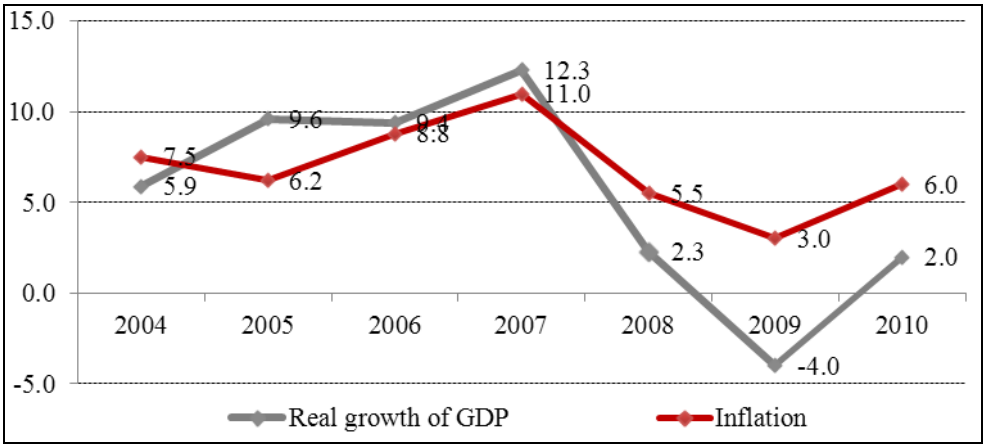
After the Rose Revolution (2003), political stability in Georgia was still questioned and the country saw a rapid increase in FDI levels starting only from 2005. In 2004-2007, the FDI growth rate was 67.7% on average, while in 2008, total FDI decreased by 22.38%. This downward trend continued even further and by 2009, FDI dropped more than twice compared to 2008 levels.

Figure 4. FDI Growth Rate 2004-2009



Source: Ministry of Finance of Georgia.

Figure 5. Inflation and Real GDP in 2004-2010



Source: Ministry of Finance of Georgia.

A weak domestic demand and a drop in prices of major import items contained inflationary pressures. Inflation, which peaked at 12.3% in August 2008, steadily declined to 3.0% by December 2009. It picked up somewhat in February 2010, mainly as a reflection of the seasonal increase in food prices.

The exchange rate has remained relatively stable despite the increase in the flexibility of the exchange rate by the National Bank since May 2009. This stability resulted from a lower import demand due to decreased consumption.

1.1. Reforms

After the Rose Revolution of 2003, structural reforms in Georgia were accelerated. In particular, progress was made with respect to the completion of large-scale privatization, a further improvement of the business environment through the liberalization of the tax and customs regime, and financial sector reform. The liberalization and deregulation of the economy motivated businesses to pay taxes, legalize most of their previously hidden operations, and initiate new ones.

Successive post-revolutionary governments pursued a wide-ranging reform program aimed at stimulating the national economy, improving the population's living standards and reducing poverty. The fight against corruption was put at the centre of the reform agenda and involved restructuring the police, implementing administrative reform and creating a more streamlined and transparent public sector.

Important institutional changes were implemented in the public sector. A large bureaucratic apparatus was replaced with a smaller and more flexible one. Only 13 out of 18 ministries were left in operation and the number of public officials was cut in half. The main aim of the reform was to minimize the interrelation between state and private sectors.

The road police, the most corrupt element of the old regime, was eliminated. A radically different system of traffic police, the so-called patrol police, was established. Today the patrol police is well equipped and offers its personnel high wages, leaving practically no room for corruption.

Agriculture is an important component of Georgia's GDP, accounting for about 9% of GDP in 2008 and for about 55% of employment. Georgia has made notable progress in liberalizing prices of all the commodities and inputs. The latest land reform set the institutional framework for the functioning of the private land markets and, consequently, a large portion of agricultural land has been privatized, including to foreigners.

Significant progress has been made in the privatization of state-owned enterprises in the manufacturing sector. Privatization and improvement in the administrative procedures for starting a business have attracted a large amount of FDI.

Georgia's antimonopoly legislation was changed radically and now advocates free trade and competition. The new law places restrictions on government rules and regulations that can lead to the creation of monopolies in the market.

The main challenges plaguing the electricity sector (unstable supply, ineffective regulatory environment and inefficient tariff system) were addressed rapidly. Georgia's electricity sector has been liberalized and partially privatized. Distribution has been fully privatized to foreign strategic investors.

Reforms have also been implemented in many other sectors, including education, taxation, licenses, technical, regulations, labor market, customs, business registration, property, finance, health, etc.

The results of the reforms have been impressive. The country's GDP has increased more than two-fold; the total volume of bank deposits has increased more than five times; and, after years of serious energy shortages, the whole country now has a reliable electricity supply and Georgia has become a net exporter of electricity. Key international indices have reflected the success of the reforms: on the Doing Business Index, Georgia is in 12th place; on the Economic Freedom Index, it is in 29th place (from 93rd in 2005); and on the Corruption Perception Index, it is in 68th place (from 130th in 2005). As a result, in recent years, Georgia has moved up more than any other country in the world in Transparency International's corruption ratings.

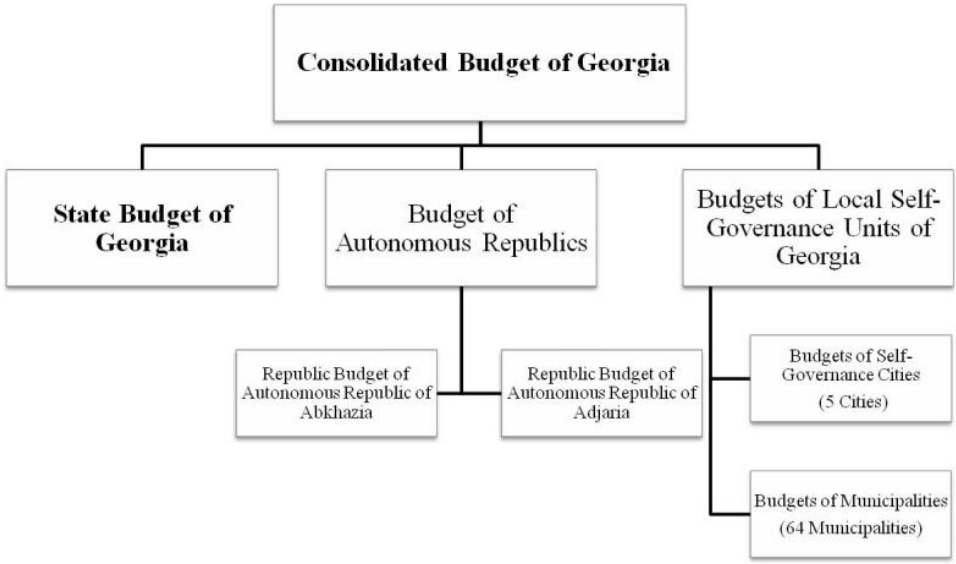
1.2. Budget

The Georgian budgetary system is comprised of the revenues and payments to be paid by the central government of Georgia, the government of autonomous republics, and local self-governing units. Public funds statistics for the execution of their functions and liabilities are approved at the central, autonomous republics and local government levels. Figure 6 represents the structure of the Georgian budgetary system.

The budget of Georgia consists of three different levels:

- The State Budget of Georgia – the financial plan of central government, approved by the Parliament of Georgia.

Figure 6. Structure of the Georgian Budgetary System



Source: Ministry of Finance of Georgia.

- The Budget of Autonomous Republics - financial plan of autonomous republics approved by the corresponding republic councils.
- The Budgets of Local Self-Governance Units of Georgia - receipts of local governments, their functions, and the financial plan of compiling liabilities, approved by local representative units. The budgets of local governance are independent from other budgets.

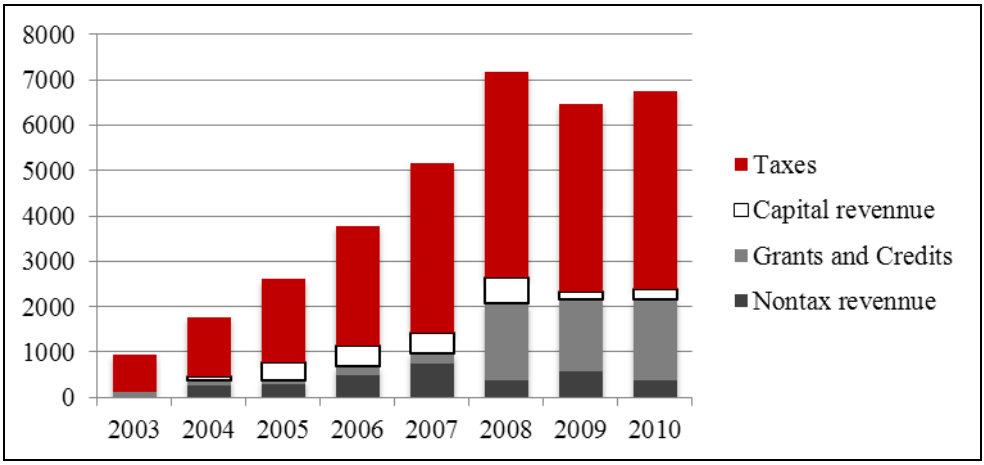
One of the main principles of budget arraignment is 'universality', which means that all the receipts are earmarked for expenditures and none of them are directly responsible for special purposes (including education and health service delivery). The consolidated budget of Georgia unifies these three levels of budgets.

Since 2004, the budgeting process has been regulated by the Law on the Budget System in Georgia. The new law eliminated all special funds and directed the entire budget to the Treasury Single Account (TSA). This change increased the transparency of the budget process. In 2009, the Parliament of Georgia adopted a new Budget Code, which provided a new equalization transfer formula that linked the size of the transfer from the State Budget to local governments (LGs) with the level of economic development of the LGs.

State budget revenues as a share of GDP have been increasing since 2003. In 2003, budget revenues accounted for about 11% of GDP, compared to 30.4% in 2007. From 2007 to 2008, the increase in budget revenues as a percentage of GDP was more than 7%. The budget's share in total GDP did not increase in 2008, and

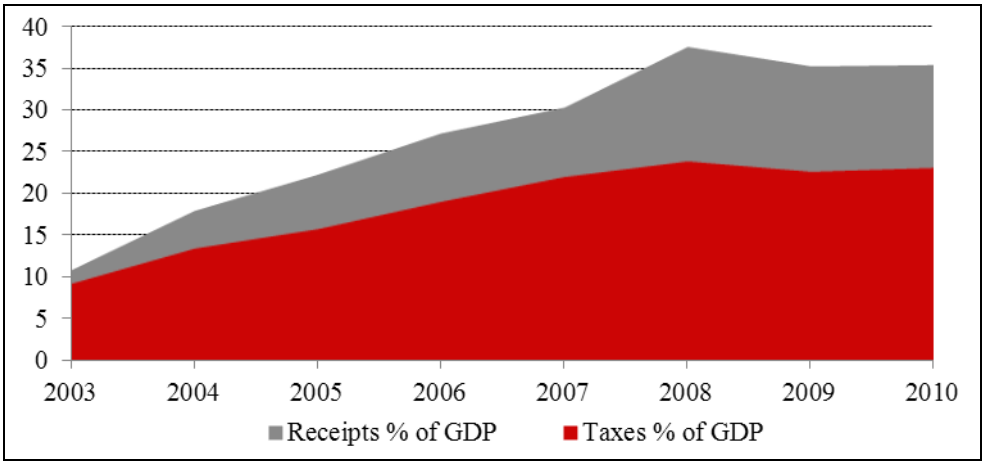
declined by 2.3% in 2009. Budget revenues in 2010 are estimated at 35.3% of GDP. The expected increase of 2010 state budget revenues compared to those of 2009 is primarily attributed to the increase in two sources of revenue: foreign grants and taxes. These comprised 18% and 64.8% of the state budget receipts and 6.4% and 23% of GDP, respectively. One of the sources of state budget receipts are grants from other countries or international organizations in Georgia. These grants are not returnable.

Figure 7. State Budget Receipts 2003-2010 (Million GEL)



Source: Ministry of Finance of Georgia.

Figure 8. Comparing the Reciepts of the State Budget and Tax Revenues



Source: Ministry of Finance of Georgia

Taxes are the largest source of state budget revenues. Hence, the trend in tax revenues as a share of GDP is in sync with the trend of total state budget revenues as a share of GDP.

Georgia's fiscal position has improved significantly since 2003 as a result of improvements in tax legislation, tax administration and a broadening of the tax base. Increasing tax revenues improved the government's ability to increase both social and capital spending, which is particularly needed for infrastructure.

According to the primary (30.12.2008) budget of 2009, taxes in the amount of 4,760,000 thousand GEL (30.6% of GDP), which is 238,000.0 thousand GEL more than in the previous year, should have been mobilized. Mobilizing tax revenues became more difficult since the Government had to look at excessively optimistic predictions of tax revenues. Consequently, the first change to the state budget was introduced on July 11, 2009. This change resulted in a reduction of the tax revenues by 500 million GEL, a reduction which exceeded 10%. However, the budget revenues still increased due to the expected grants (110.5 million GEL, which is 0.7% of GDP). Besides, the other incomes were also expected to increase according to the forecast. Resulting from the changes to the state budget, the negative indicator of the total balance significantly increased in July, when the budget's deficit reached -1,193,499.3 thousand GEL (7.7% of GDP). The growth of obligations was the main financial source of this deficit. As a result of the changes, the indicator of obligation on changes increased by 506,162.3 GEL, which mainly came on the growth of foreign obligations. The second change to the budget was made on December 4th, 2009. The income forecast was reduced by 3.7%, while expenses were reduced only by 1%. The negative indicator of the operational balance increased correspondingly. Changes of non-financial assets were reduced by 4.4 %, mainly as a result of the purchases of public property.

The first reform of the taxation system was implemented in 2003. There were a total of 22 different types of taxes and most of them were differentiated and duplicated. Despite the large number of taxes and high tax rates, tax revenues constituted only 11% of GDP in 2003. As a result of the 2005 tax reform, the number of taxes decreased. Out of 22 taxes in the former tax code, only 6 exist today. The progressive income tax (from 12% to 20%) was replaced by a 12% flat tax. The VAT was reduced from 20% to 18%; the social tax rate was reduced from 33% to 20%. Income and social taxes were consolidated in 2008 and their combined rate was reduced from 32% to 25% and to just 20% in 2009.

Table 3 summarizes the changes in Georgia's taxation system from 2004 to 2009. The Government is now in the process of developing a new tax code, which is to be approved in the first quarter of 2011. According to the new tax code, tax rates are planned to be further decreased as shown below.

Table 3. Taxation Reforms in 2003-2010 and Planned Reforms for 2011-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of Taxes	22	7	7	7	6	6	6	6	6	6
VAT	20%	20%	18%	18%	18%	18%	18%	18%	18%	18%
Income Tax	12-20%	12% (flat)	12% (flat)	12% (flat)	Social Tax + In-come Tax	Social Tax +Income Tax	20%	18%	15%	15%
					25%	20%				
Social Tax	33%	20%	20%	20%	-	-	-	-	-	-
Corporate Profit Tax	20%	20%	20%	20%	15%	15%	15%	15%	15%	15%
Dividend income tax	10%	10%	10%	10%	10%	5%	5%	3%	0%	0%

Source: Ministry of Finance of Georgia.

As a result of the taxation reforms of 2003, revenues from income tax increased by 60% in nominal terms and accounted for about 25% of the total tax revenue. In 2010, income tax revenues are expected to decrease by 4%. In 2008, the biggest share of tax revenue (49%) was provided by VAT (see Table 4). VAT revenues increased more than 5 times between 2003 and 2008 and stopped growing in the aftermath of the global financial crisis.

Table 4. Decomposition of Tax Revenues in 2003-2010 (Million GEL)

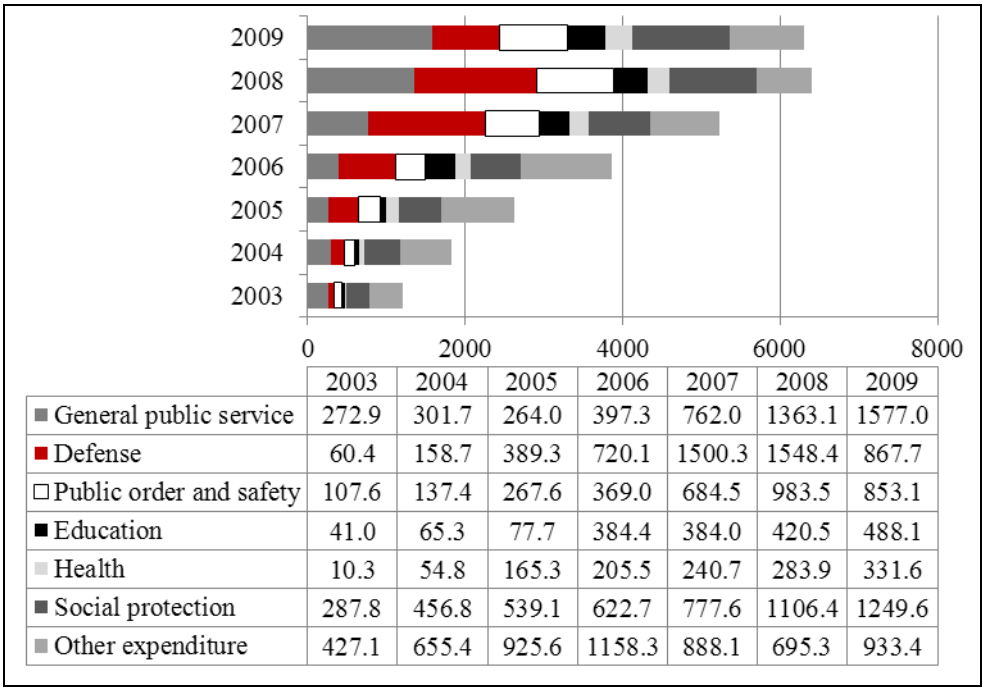
	2003	2004	2005	2006	2007	2008	2009	2010
Taxes total	806.6 (86.4)[1]	1322.1 (74.5)	1836.1 (70.4)	2633.1 (69.8)	3732.6 (72.4)	4541.6 (63.3)	4139.2 (64)	4382 (64.8)
Income Tax	20 (2.1)	16.4 (0.9)	290.7 (11.1)	386 (10.2)	526.8 (10.2)	1218.3 (17)	1048.8 (16.2)	1165 (17.2)
Profit Tax	11.8 (1.3)	11.3 (0.6)	210.3 (8.1)	324.9 (8.6)	533.1 (10.3)	592.1 (8.3)	520.6 (8.1)	535 (7.9)
VAT	368.5 (39.5)	598.7 (33.8)	987.4 (37.9)	1332.7 (35.3)	1973.7 (38.3)	2069 (28.8)	2034.3 (31.5)	2039 (30.2)
Excise	89.2 (9.6)	161.9 (9.1)	286.4 (11)	335.6 (8.9)	428.6 (8.3)	518.5 (7.2)	446.4 (6.9)	538 (8)
Customs Duty	56.1 (6)	88 (5)	123.4 (4.7)	132.4 (3.5)	52 (1)	51.9 (0.7)	35 (0.5)	74 (1.1)
Other Taxes	267.1 (28.6)	462.1 (26.1)	438.8 (16.8)	507.5 (13.5)	745.1 (14.4)	91.8 (1.3)	36 (0.5)	31 (0.5)

[1] Numbers in brackets show the percentage of total budget revenue.
Source: Ministry of Finance of Georgia.

1.3. Budget Expenditure Structure

State budget expenditures have increased significantly since 2003, both in absolute terms and as a share of GDP. For instance, in 2005, budget expenditures were 1.5 times higher than in 2004 and twice as high as in 2003. In 2003, budget expenditures equaled about 14% of GDP as compared to 33.6% and 34.4% in 2008 and 2009, respectively. Budget revenues as well as expenditures (as a percent of GDP) reached their peak in 2008. In 2009, expenditures were maintained at the 2008 level, even though social welfare spending was increased significantly at the expense of defense spending.

Figure 9. Expenditure of State Budget 2003-2009 (Million GEL)



	2003	2004	2005	2006	2007	2008	2009
General public service	272.9	301.7	264.0	397.3	762.0	1363.1	1577.0
Defense	60.4	158.7	389.3	720.1	1500.3	1548.4	867.7
Public order and safety	107.6	137.4	267.6	369.0	684.5	983.5	853.1
Education	41.0	65.3	77.7	384.4	384.0	420.5	488.1
Health	10.3	54.8	165.3	205.5	240.7	283.9	331.6
Social protection	287.8	456.8	539.1	622.7	777.6	1106.4	1249.6
Other expenditure	427.1	655.4	925.6	1158.3	888.1	695.3	933.4

Source: Ministry of Finance of Georgia.

When discussing the functional classification of budget expenses, the highest percentage goes for expenditures on general public services. The Government increased its spending on general public services by about 480% between 2003 and 2008 in nominal terms. The second place is occupied by social welfare (20% of the state budget in 2009). The increase in these expenditure items was conditioned by an essential slowdown in economic activity. As expected, spending on

defense increased from 18% to 28 % of the state budget in 2007 and 2008 and went down again in 2009 (to 14%). The spending later shifted from defense and election outlays to the conflict-related reconstruction, social spending (including emergency assistance for a large number of internally displaced persons) and investments in infrastructure in the first half of 2009. The Government increased the budget for social protection from 6.7% of GDP in 2008 to an estimated 7.8% of GDP in 2009, in particular after the August 2008 conflict. Concessional loans extended by the international donor organizations represented one of the most important sources of financing of the budgetary expenditures. In addition, it was envisaged to issue treasury bills to finance the 2009 expenditures.

In 2008, the consolidated budget deficit amounted to 1,179 million GEL, or 6.2% of GDP (see Table 5). It should be pointed out that the deficit-to-GDP ratio tends upwards over the years. The 2009 budget provides for an even further deficit widening, up to 8.8%. As already mentioned, in recent years the deficit financing was mainly powered by the proceeds from privatization; however, in 2008, the latter began tending downwards. Since the previous year, deficit financing at the expense of the increase in foreign liabilities was increased, which is largely due to the significant credit resource extended by international donors after the August developments.

Table 5. Consolidated Budget Deficit 2005-2010

	2005	2006	2007	2008	2009	2010
Deficit (million GEL)	**208**	**420**	**806**	**1179**	**1673**	**1360**
Privatization	439	719	888	698	358	210
Deficit Decline	-67	-173	-87	-430	368	0
Increase in Obligations	-164	-125	5	911	947	1150
• foreign	-35	-62	35	967	683	1013
• domestic	-130	-64	-30	-56	264	137
o/w Treasury Bills					270	200
Deficit/ GDP (%)	**1.8**	**3.0**	**4.7**	**6.2**	**8.4**	**6.9**

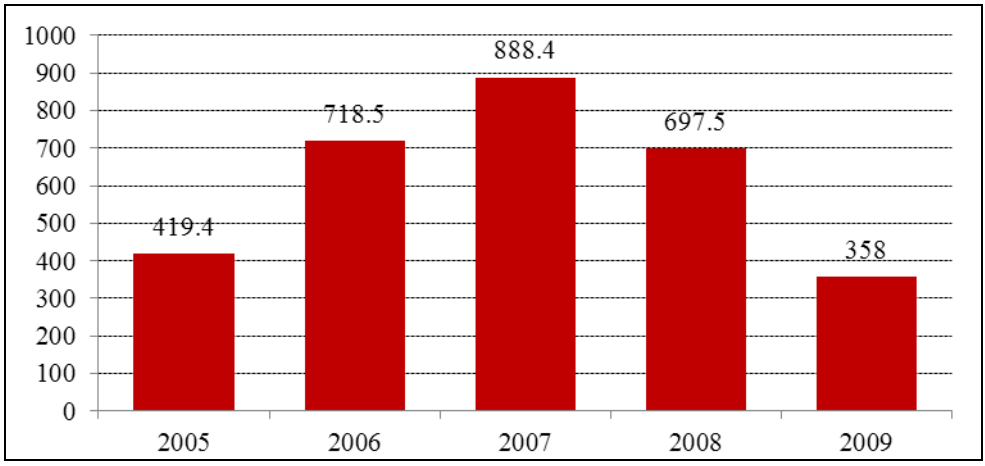
Source: National Bank of Georgia.

The deficit is covered by an increase in public debt and the use of credit resources, as well as by the revenue from privatization of state property according to the state programs.

The proceeds from privatization represented the main source of budget deficit financing for many years and, in particular, in 2006 and 2007, during which 17% and 15% of budgetary expenditures (respectively) were financed from this source. This tendency could not last long for obvious reasons; this article of the budgetary revenues began declining beginning in 2008. The 2008 proceeds from privatiza-

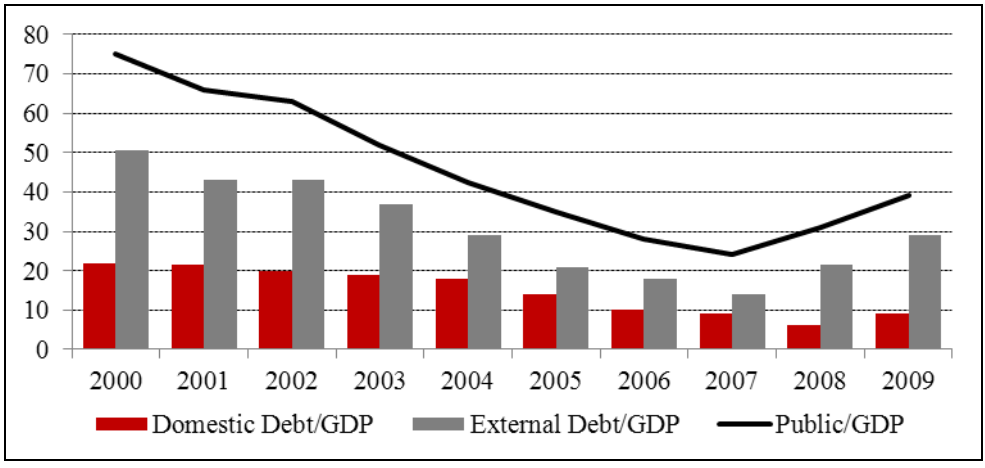
tion exceeded 698 million GEL, comprising circa 10% of the total expenditures. In 2009, the total income from the sale of non-financial state-owned assets was 358 million GEL, which equaled 5.6% of the total expenditures.

Figure 10. Proceeds from Privatization 2005-2009 (Million GEL)



Source: National Bank of Georgia.

Figure 11. Public Debt to GDP, 2000-2009 (%)



Source: National Bank of Georgia.

Public debt represents one of the major components of the government finance. By the end of 2008, the state external debt totaled 2,691 million USD (21% of GDP), while domestic debt was 1,459 million USD (11.4% of GDP). That year domestic debt increased through the issuance of treasury bills, and external debt

increased through the receipt of donor credits. External debt comprised 75% of the public debt in 2008. Domestic debt grew by 900 million USD throughout 2009, exceeding a total of 2.6 billion USD (24.1% of GDP) by the end of the year.

1.4. Foreign aid

The negative impact of the global financial crisis and the August 2008 conflict were partially balanced by large-scale international financial support, amounting to about 4.53 billion USD over three years, which was pledged in October 2008. The IMF emergency 18-month stand-by program of 750 million USD, which started in mid-September 2008 and was later augmented by an additional 424 million USD and extended to June 2011, also helped with the stabilization process after the conflict.

As of December 31, 2008, Georgia had already entered into several agreements and received 30% (1,350 million USD, 10.5% of 2009 forecasted GDP) of the total donors' pledge to private as well as public sectors (see Table 6). Additional projects have already been identified and agreements reached 2,390 million USD (53% of the total pledge, 18.5% of 2009 forecasted GDP) to be received in 2009. The government of Georgia has been working on and negotiating the terms and conditions of the remaining 760 million USD, which constitutes 17% of the total pledged amount. The public economic stimulus, mainly financed by the large amount of pledged international financial support, will provide some offsetting effect.

Table 6. Foreign Aid

Aid by Donor		***Aid by Sector***	
Donor	**US$ million**	**Sector**	**US$ million**
World Bank	530	IDPs support	350
EBRD	927	Transport infrastructure	682
Asian Development Bank	300	Energy infrastructure	381
IFC	350	Urban and municipal infrastructure	210
European Investment Bank	330	Finance and banking	1,105
USA	1,000	Non- sectoral support	586
EC	638		
EU members	174		
Japan	200	Unallocated	1,221
Other states	88		
Total	**4,535**		**4,535**

Source: Ministry of Finance of Georgia.

The government's 2.2 billion GEL fiscal stimulus package for 2009 was distributed among the different sectors as shown in Table 7:

Table 7. The Government's Fiscal Stimulus Package

State Budget, million GEL (including donors' financing through the budget)	
• Main roads (road dept.)	520
• Other roads (MCG, MDF)	180
• Water utilities	120
• Regional projects	150
• IDP housing	140
• Educational infrastructure	80
• Irrigation, river border construction	30
• Other	230
Subtotal	**1,450**
Tax decrease	250
Donor financing, outside of budget	500
Grand total	**2,200**

Source: Ministry of Finance of Georgia

1.5. Municipal budgets

Data on the functional breakdowns of all the LGs is available for 2007-2009 years. Health and education expenditures have indeed proved sensitive to the crisis and/or the August 2008 war. Almost all the LGs cut their health expenditures and increased education expenditures. The expenses on education increased substantially in 2008. The reason for this was the stimulation of the aggregate demand by the Georgian government. The health sector is mostly private (privatization of hospitals started in 2006) and the decreased expenses on health were caused by the decrease in investments which began in 2008. The increased expenses on education, however, mostly originated from the process of repairing state schools.

As a share of municipal budgets, first place is taken by the general public service. An average of 24.6% of the total spending of all the municipalities of Georgia in 2009 was dedicated to this sector.

In 2008 there was a significant increase in expenditure on education in almost all the regions except Abkhazia and Kvemo Kartli. But the picture is not as clear when considering spending in 2009. The effect of the crisis and/or war is obvious. It worth mentioning that if not for the government's stimulation policy (education

is one of the sectors that falls within the scope of this policy), shares of expenses on education would have fallen even more.

With regards to healthcare spending, there was a slight increase in 2008, though not in all regions, but the tendency did not continue in 2009 (see Table 8).

Table 8. Share of Total Local Budget Expenditures

Regions	Health 2007	Health 2008	Health 2009	Education 2007	Education 2008	Education 2009
Abkhazia (Aut. Rep.)	2.4	2.0	2.8	8.5	3.3	2.9
Tbilisi (Capital)	1.3	3.1	3.9	5.2	9.0	7.1
Adjara (Aut.Rep)	0.6	3.1	1.6	11.6	15.1	8.6
Kakheti (8)	1.6	1.1	1.0	11.2	14.4	14.6
Imereti (12)	1.5	1.1	1.1	10.1	19.5	18.1
Samegrelo-Zemo Svaneti (9)	2.1	1.2	1.3	9.1	17.1	14.1
ShidaKartli (7)	1.0	0.5	0.7	5.5	13.3	23.1
QvemoKartli (7)	1.3	1.3	1.3	4.3	4.0	10.8
Guria (3)	1.5	2.7	1.4	5.5	11.5	13.9
Samtskhe-Javakheti (7)	1.8	1.7	1.7	2.2	10.5	9.6
Mtskheta-Mtianeti (4)	2.0	1.3	1.2	10.2	17.8	12.7
Racha-Lechkhumi and QvemoSvaneti (4)	2.8	2.0	1.6	4.9	7.6	11.2

Source: Ministry of Finance of Georgia.

2. Education

2.1. Changes in the Legal Framework

On October 18, 2004 the Georgian Government adopted the "National Goals of General Education" document in order to ensure the implementation of a comprehensive policy in education and science. This document became the main basis of educational reform.

According to the amendments to the constitution of Georgia (27.12.2006, #4135-RC), primary and basic education, which includes nine grades, is compulsory. According to the law, general education in Georgia should be fully financed through public sources. Citizens also have the right to receive state financing for vocational and higher education.

In April 2005, the Parliament of Georgia adopted the Georgian Law on General education, a legal framework for the institutional reform of general education. The law ensures transparency, equal access to general education for all citizens throughout their entire life, administrative and financial autonomy of the general education institutions, independence of schools from religious and political organizations, eradication of violence in educational establishments, and the introduction of inclusive education.

The Law on Professional Education was adopted on March 28, 2007. The law is based on the "Concept of Vocational Education" worked out by the government of Georgia on August 31, 2005. The ultimate goal of this law is to create a vocational educational system that will meet the requirements of the constantly changing labour market, boost the professional development of people, and facilitate social protection and career opportunities while also creating adequate conditions for professional development and employment of vulnerable people.

2.2. Management System for Education

Within the framework of its jurisdiction, the Ministry of Education and Science coordinates and controls all the bodies under its supervision. The Ministry ensures the constitutional right to have access to education and to chose the form of

education, works out developmental strategies for education and science, approves educational programs and state educational standards and controls their implementation, issues licenses, and accredits educational institutions and approves the list of specialities and professions according to which state educational certificates are issued.

The role of the territorial bodies was changed by the establishment of educational resource centres in 2006. The ultimate goal of these resource centres is not managing and controlling general educational or vocational institutions, but rather rendering assistance, providing consultation to educational institutions in terms of financial and administrative management, upgrading teachers' qualifications and introducing new national curricula.

A new entity, the State Accreditation Agency of Educational Institutions, was established in 2006. This independent body uses Georgian legislation only as the primary base for its activities. The goal of the agency is to carry out accreditation of general, higher and professional educational institutions and to foster the ongoing processes of raising the quality of the educational institutions. This will ensure that educational institutions meet state requirements and international standards.

The aim of the National Examination Centre (known as the National Assessment and Examination Centre before 2007) is to conduct national admissions exams, assess the teaching process at general educational institutions, participate in international evaluation of pupils' achievements, prepare the necessary tests for the admission exams at the Master's level, and manage their implementation in line with the higher education institutions.

The primary goal of the National Curriculum and Assessment Centre (established in April 2006) is to prepare the national curriculum for the general education institutions and foster its introduction, carry out pilot projects, work out and implement national evaluations, identify the compatibility of textbooks with the national curriculum and assign seals of approval to recommended textbooks. The Centre also works on the project for apprenticeship educational standards.

The primary task of the Teachers' Professional Development Centre (established in July 2006) is to introduce and further develop high standards for teachers' professional qualifications, to foster the establishment of the overall system for teachers' professional retraining and development, and to grant teachers permission to teach.

The Georgian National Science Foundation, a legal entity under public law, was established by the Presidential Decree No. 653 passed on July 17, 2005. The primary task of the Foundation is to organize the allocation of state research grants

(financed by the state budget) through competitions conducted in an open, transparent and competitive environment.

Early childhood development, childcare, the implementation of the state language teaching policy and the development of science and technology represent the other primary areas of responsibility of the Ministry of Education and Science of Georgia.

2.3. Education Financing

The system of education financing has undergone significant changes. Instead of supporting educational institutions or programs directly, financing from the budget is allocated to students and pupils who are authorized to use the funding at the institution of their choice. This scheme applies to all levels of the educational system.

Table 9 represents changes in education financing in the budgets of the years 2003-2009.

Table 9. Education Financing

		2003	2004	2005	2006	2007	2008	2009
Nominal GDP (million GEL)		8564.1	9824.3	11621	13790	16993	19075	17986
Budget, total expenditures (million GEL)		1207.1	1930.2	2618.6	3821.4	5237.1	6401.0	6300.5
Education	Million GEL	41.0	65.3	77.7	384.4	384.0	420.5	488.1
	% of Budget	3.4	3.4	3.0	10.1	7.3	6.6	7.7
	% of GDP	0.5	0.7	0.7	2.8	2.3	2.2	2.7

Source: National Statistics Office of Georgia.

The radical increase in the 2006 budget can be partially explained by the introduction of the voucher system as a method of financing general education. This important systemic change was reflected in the budget of the Ministry and in the budgets of the territorial bodies. Schools opened their own bank accounts and received money corresponding to vouchers calculated per pupil. Before 2006, schools were financed by local governments, which is why the budget of the MoES was so low until 2006. Even though the nominal value of education expenditure has increased over the last several years, it experienced a drop as a percentage of GDP in 2008.

The structure of private expenditures has also changed. A household's monthly expenditures on education, cultural activities and leisure have increased in absolute figures as well as by percentage of the total after 2003, but this ratio (expenditures on education, culture and recreation / total expenditure) dropped in 2008. Expenditures on education did not increase in proportion to a household's income. In general, as Table 10 shows, family incomes grew while education spending was still very rigid.

Table 10. Yearly Expenditures of the Total Population (Million GEL)

	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure	**4202.4**	**4611.6**	**4390.8**	**4627.2**	**4676.4**	**4989.6**	**5374.8**	**6480**
On education, culture and recreation	94.8	170.4	76.8	80.4	96	114	154.8	163.2
Percentage of total	2.3%	3.7%	1.7%	1.7%	2.1%	2.3%	2.9%	2.5%

Source: National Statistics Office of Georgia.

2.4. General Educational System

According to the Law on General Education, general education in Georgia is comprised of three levels: primary education (6 years), basic education (3 years) and general secondary education (3 years). (Basic education in Georgian publications is sometimes referred to as "lower secondary"). A child starts general education at the age of six. Primary and basic levels of education are mandatory. The shift to a 12-year general education was completed in the fall of 2007. General educational institutions/schools are legal entities by public or private law that carry out educational activities in line with the national curriculum and fully cover at least one level of general education.

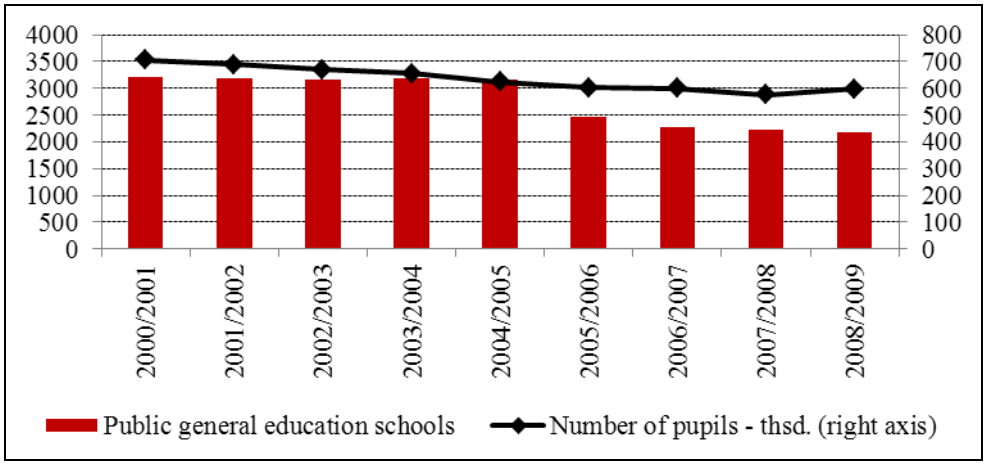
Table 11. Number of Pupils in General Education Schools for 2002-2010 Years

	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010
Public schools								
1-6	377016	354175	326356	307177	301464	288846	276999	263873
7-9	202994	208684	207789	191973	177154	164802	159299	156177
10-12	90897	92165	93153	102212	121069	122976	161522	156753
Private schools								
1-6	9091	9776	11866	19420	20785	22181	24907	25264
7-9	3989	4403	6174	8515	8596	8853	9849	10409
10-12	2312	2723	2962	5427	6920	7008	10723	12050

Source: Ministry of Education and Science of Georgia.

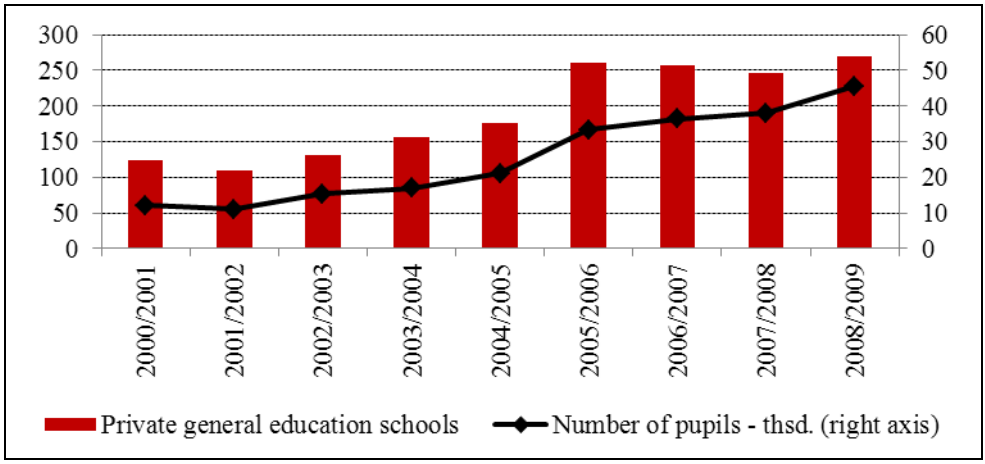
In the 2009-2010 academic year, there were 2,179 state and 283 private schools in Georgia. Table 11 shows changes in the number of students in public schools between 2002 and 2010 with the breakup into primary, basic and secondary educational levels:

Figure 12. Number of Public General Education Schools and Pupils 2000-2008 (In thousands)



Source: National Statistics Office of Georgia.

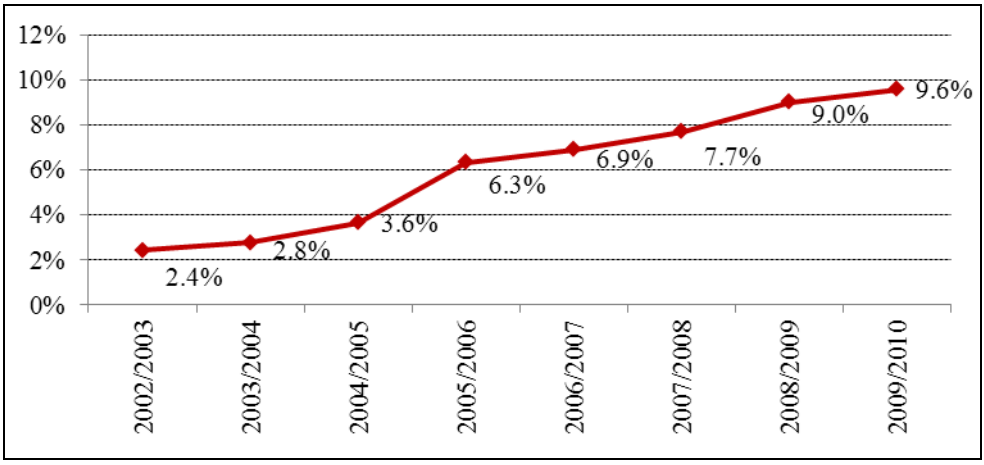
Figure 13. Number of Private General Education Schools and Pupils 2000-2008 (In thousands)



Source: National Statistics Office of Georgia.

While the total number of pupils decreased after the 2004-2005 academic year by about 4%, it hasn't fluctuated very much since then. At the same time the number of pupils is decreasing in public schools and increasing in private schools, especially at the primary and basic levels.

Figure 14. Ratio of Pupils in Private Schools Over Pupils in Public Schools 2002-2009



Source: National Statistics Office of Georgia.

This was the result of an increase in the general standard of living of the population. As will be shown in the following analysis, the education quality is generally better in private schools and the number of private schools has increased to meet the demand. In the 2008-2009 academic year, the number of pupils at private schools increased by 11-12% at the basic and primary levels, which is a significantly larger increase in numbers as compared to the previous two years. At the same time, the number of pupils in public schools decreased by 3-4% at the basic and primary levels (see Appendix, Table A2). The number of private schools has increased correspondingly and in 2009 it reached 270 (there were only 248 private schools in 2008). (See Appendix, Table A3). This may be explained by the increased income of the population and by the fact that the state program of financing general education became available to private schools as well as public schools.

The share of girls in general education schools amounted to about 48% for almost all the school years between 2002 and 2010, according to the data, which includes only public schools (See Appendix, Table A4).

Unfortunately, because of several errors in collecting and processing data, it is impossible to determine the exact number of pupils enrolled in schools. However,

information provided in Table 12 may give some idea about the existing conditions with regards to this matter. Namely, it provides the number of pupils in all the schools in Georgia in each grade (1-12) at the beginning of the 2009-2010 academic year and the number of children born during the respective years. It assumes the starting age for general education at six years.

Table 12. Enrolment Rate for 2009-2010 Academic Year

Grade	A child's age in each grade	Year of birth	Number of children born	Number of pupils in each grade	Gross Enrolment rate
1	6	2003	46194	45649	99%
2	7	2002	46605	46516	100%
3	8	2001	47589	47833	101%
4	9	2000	48800	48159	99%
5	10	1999	48700	47964	98%
6	11	1998	51500	53016	103%
7	12	1997	54000	54709	101%
8	13	1996	55000	55473	101%
9	14	1995	56300	56404	100%
10	15	1994	57300	52395	91%
11	16	1993	58301	55212	95%
12	17	1992	68711	61196	89%

Source: National Statistics Office of Georgia.

According to the data, the enrolment rate is calculated by dividing the number of pupils in each grade by the number of children born during the respective years. As one can see, such a rough estimate causes the enrolment rate to exceed 100% in some cases. The numbers used do not include dropout and mortality rates. The most important indicator is the date of birth. For example, a child who was born in 1999 will probably be in the 4th grade in the 2009-2010 academic year if he/she was born after September. The rules regarding the age of acceptance to school were not strict, were often violated and changed frequently. In spite of this fact, this is quite a good approximation and the results show that basic education fully covers all school-age children. For the 10th, 11th and 12th grades, the enrolment rates were 91%, 95% and 89% respectively. Several factors explain these low enrolment rates. First, finishing basic education (9 grades), after which a pupil can pursue studies at a vocational institution, is compulsory in Georgia. Moreover, in the 1990s, when Georgia was experiencing extremely harsh political and economic conditions, it also experienced a high rate of emigration. The enrolment rate was similar (even insignificantly higher) in the 2008-2009 academic year, with the only significant exception being the 12th grade enrolment rate at 61%.

The Net Enrolment Ratio (NER) measures enrolment in primary education of children of the official primary school age as a percentage of the corresponding population. The problem is that the Statistical Office of Georgia provides the number of the population between ages 5 and 19, which overestimates the number of school-age children. However, using this data, an approximated increase in NER and the trend across the years could be obtained. According to the data, pupils' enrollment was decreasing in 2000-2005 by about an average of 1.5% each year; after 2005 it started to increase, with the only exception being 2007.

The pupil-teacher ratio (PTR) is one of the most common indicators used in educational planning. It is believed that a low number of pupils per teacher indicates that students will have more contact with their teachers and thus will have a better learning experience. This ratio is also used to measure the level of human resources input (teachers). In Georgia, the PTR has varied over the last several years. The only exception was the 2009-2010 academic year. The number of teachers in private general education schools is unknown and it is impossible to calculate PTR for them.

Table 13. Number of Teachers in Public General Education School (Persons)

	2006/2007	2007/2008	2008/2009	2009/2010
Teachers, total	69718	68779	69444	79891
I-VI classes teachers	47171	45724	45941	52010
VII-XII classes teachers	49755	67909	48131	54956

Source: National Statistics Office of Georgia.

The PTR in the public general education schools can be calculated using the data from Tables 12 and 13. The PTR for the primary level (1-5 classes) is continuously decreasing but one can observe a relatively larger drop for the 2009-2010 academic year and the same is true for PTR as a whole, which can be one of the main indicators of quality improvement:

Table 14. Pupil-Teacher Ratio in Public General Education Schools

Teaching year	Ratio Total	Ratio Primary Level
2006/2007	8.6	6.4
2007/2008	8.4	6.3
2008/2009	8.6	6.0
2009/2010	7.2	5.1

Source: National Statistics Office of Georgia.

PTR values are unusually low, which could mean that education expenditure should be high, but this is not the case for Georgia because teachers' salaries are quite low. Official data on teachers' salaries is not available, but according to the data from various sources, a teacher's average net salary varies between 350-400 GEL. Teachers' salaries are calculated based on their experience, education level, their knowledge of English and whether or not they have passed qualification exams as well as other factors.

Looking at the number of pupils in each municipality, it is noticeable that the number of pupils decreased sharply in the occupied regions of Georgia for the 2008-2009 academic year (for example there was a 57% drop in the Akhalgori municipality, which belongs to the Mtskheta-Mtianeti region). But in general, in almost all the regions of Georgia, the number of pupils increased on average by about 4% (including the capital) in the 2008-2009 academic year. The only exception was the Samtskhe-Javakheti region, which experienced a continuous decrease in the number of pupils over the last 4 years (see Appendix, Table 5), while the number of schools there has remained the same and the population has not decreased (it has stayed at between 200 – 210 thousand during the last ten years).Thus, all these factors point to the fact that the enrolment rate has decreased in the Samtskhe-Javakheti region. The recommendation to the government would be to find out why there is a decreasing school enrolment rate and to increase the government's control mechanisms in this region. One of the reasons for such a low rate could be the fact that Samtskhe-Javakheti is populated by a number of different ethnic groups (most of them Armenian) and many children there do not speak Georgian. There are 340 schools in Georgia with instruction given in a language other than Georgian. Only at the end of 2010 did the Ministry of Education and Science of Georgia partially notice the problem and they planned to send experienced teachers of Georgian Language to Samtskhe-Javakheti and different parts of Kvemo Kartli. Those teachers were chosen via a competition and they got a higher salary by 1000 GEL. Official statistics of this program are not available yet, but obviously it will positively affect the situation in those regions. Moreover it would be better to supply those regions with experienced teachers in different subjects, not only the Georgian Language. Simultaneously, the Teachers Training Center has to take care of teachers' qualifications from those regions.

During the reform of vocational education, general and vocational education levels were separated. The general educational component was removed from the program of initial and secondary professional education. This caused a number of pupils to return to general public schools from vocational institutions in the beginning of 2006 in order to finish their secondary education. This is the main reason why the number of students in 11th grade increased during the 2006-2007 academic year compared with other years (see Table 15).

Table 15. Pupils' Distribution in Public Schools According to Grade

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Total	666143	650086	622999	601362	599687	576624	597820	576803
Grade								
1	56569	55168	51285	45346	46725	44057	42004	40971
2	57876	55827	52449	50036	45155	44807	43796	41633
3	56693	57107	53695	51526	50213	45009	44679	43252
4	62104	56186	55306	53130	51994	50114	44917	44159
5	70191	60836	53757	54051	53199	51898	49995	44412
6	73583	69051	58713	53088	54178	52961	51608	49446
7	74174	72550	67019	57811	53326	53969	52733	51105
8	64800	72212	70053	65723	58070	53141	53708	52030
9	62830	62818	69435	68439	65758	57692	52858	53042
10	46033	46055	48239	56619	62505	61730	53658	48628
11	41214	42206	42982	45593	58497	61164	59739	51230
12	76	70	66	0	67	82	48125	56895

Source: National Statistics Office of Georgia.

2.5. Governance of Schools

School autonomy is ensured by the self-governance bodies of the general educational institutions, which include a Board of Trustees, the office of the Director, the Teachers' Board, the Pupils' Self-governance Body and a Disciplinary Committee. The Board of Trustees is the highest electoral body in the system of a public school's self-government. The primary goal of this body is to ensure civil participation and increase public involvement in school life and, especially, in the school management process. According to the Law of Georgia on General Education, a Board of Trustees must include representatives of parents and a pedagogical council, consisting of an equal number of people, and one representative from a secondary school elected by a Pupils' Self-governance Body. In addition, a Local Self-governance Body may also appoint one member to the Board of Trustees. The Board of Trustees elects a school director who is also approved by the Ministry of Education and Science of Georgia. The Board of Trustees has many important functions, including the election and dismissal of the school director and approval of the school's budget, curriculum, development strategy, list of textbooks, internal regulations and procedures, etc. The board also ensures the transparency of all these documents. The first election of the Boards of Trustees in the Georgian general public schools was held on June 7, 2006.

2.6. Financing of Schools

The main source of financing for schools comes from the state budget. According to the Government's decision, the value of a voucher per pupil in city schools was set at 220 GEL in 2005, for village schools it was set at 330 GEL, and for schools situated in high mountainous places, at 396 GEL. In 2007, the value of a voucher increased in the cities to 235 GEL, in villages to 350 GEL and in mountainous regions to 425 GEL. The capital expenditures of schools are reimbursed by the state or local self-government bodies. A public school has also the possibility of attracting other investments within the framework of the Georgian legislation.

Parents have the right to receive a voucher for every school-age child and allocate it to an institution of their choice. The money follows a pupil if he/she moves to another school. Accredited private schools are also eligible for state financing. From the very beginning, switching to a voucher financing system caused several problems. About 60% of public schools required additional financing in order to continue functioning. Due to this problem, the formula for calculating the voucher amount was changed several times according to a school's size and the region of allocation.

The existing financing model has not been functioning efficiently: some schools could not spend all the money that was been allocated to them, while others had a budget deficit. There were frequent cases of the Ministry having to subsidize certain schools while neighbouring schools had a surplus of funds. Starting in the 2011-2012 academic year, the Ministry is planning to modify the financing model for public schools by introducing a lump sum financing system. This means that apart from vouchers, all schools will be provided with a single payment for the total amount they need to operate efficiently. The lump sum financing will be about 10,000-30,000 GEL per school depending on its size, number of pupils etc. The Ministry is also planning to decrease the voucher amount for private schools.

In 2006, total expenditures for the voucher program were 187.4 million GEL. Expenditures planned in 2006 for the following years are presented in Table 16.

Table 16. Expenditure Plans of 2006

	2007	2008	2009	2010	2011
Voucher program	200000	228700	261800	324000	430000
Investments	684558	120000	100000	95000	50000
Other programs	18638.2	23473	24828	13123	14823
Total	287094	372173	386628	432123	494823
Percent of MoES budget	75.16%	82.34%	77.64%	73.37%	78.54%

Source: Ministry of Education and Science of Georgia.

In 2006, 70 training sessions were conducted and 6,000 teachers from different Georgian state schools were trained. In 2007, the Ministry created a program for teachers' professional development. A program for teachers' professional certification is being launched at the Centre for Teachers' Professional Development. The Centre was granted a considerable budget during the last years, with about 800 thousand GEL in 2008 and about 2 million GEL in 2009., with plans for the budget to double in 2010.

2.7. Main projects in the General Education System

The President of Georgia launched a national program in 2005 - "Iakob Gogebashvili – The program for the rehabilitation of Georgian public schools". In 2006, 217 schools were rehabilitated, 21 schools were built, heating systems were repaired in 181 public schools and 50 school buses were purchased within the framework of the program. The program's total financing equalled 73,472.69 thousand GEL in 2006. By the end of the program (2011), all the schools in Georgia will be rehabilitated, equipped with new facilities and laboratories. Table 17 shows the program's projected and actual financing for 2007-2011. Spending for school rehabilitation exceeded the planned amount in 2007, but in 2008 it accounted for just 20% of what was planned in 2006.

Table 17. Financing for Rehabilitation of the Georgian Public Schools (thousand GEL)

	2007	2008	2009	2010	2011
Planned budget	68,455.8	120,000.0	100,000.0	95,000.0	50,000.0
Actually spent money	78,831	25,333.1	8,283.5	21,597.5 (Plan)	

Source: Ministry of Education and Science of Georgia

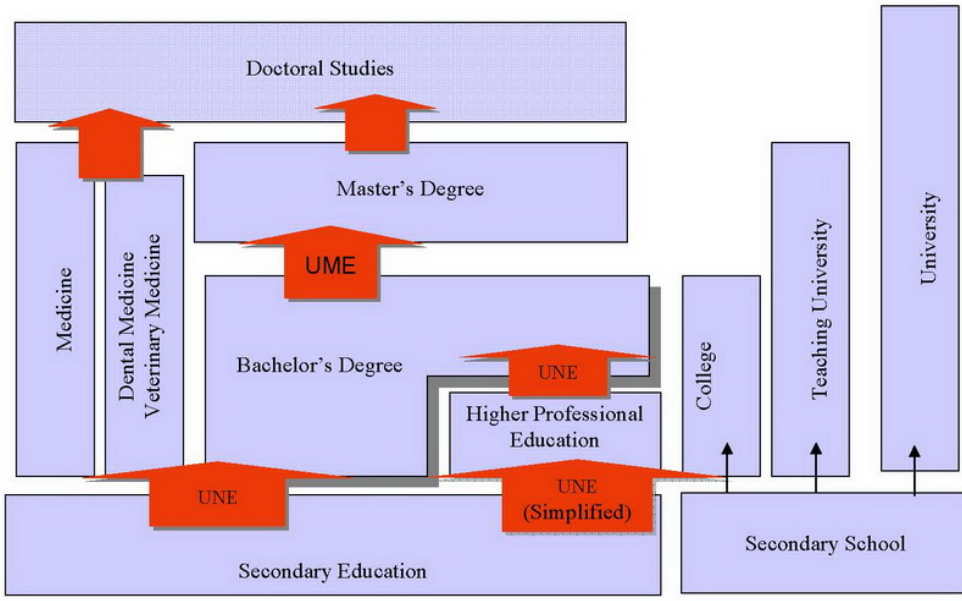
In order to provide all pupils with identical conditions in terms of availability of information and necessary skills for obtaining that information, in 2005, the national program for complete computerization and internet connectivity of schools ("Deer Leap") was launched, which was fully financed form the central budget, which was reflected in the budget of MoES. In 2005-2006, 665 public schools received 7,355 computers. The budget for this program amounted to 5,830 thousand GEL in 2006, which was twice as high as the previous year. In the fol-

lowing year, the budget of "Deer Leap" was dramatically increased and in 2007 it was 12,300,300 GEL. It experienced a huge drop in 2009 (down to 268,900 GEL) as compared to 2008 (7,815,400 GEL). The plan is to increase financing for the "Deer Leap" program during the next few years. The program's planned budget is 3,400,000 GEL for 2010 and 8,196,200 GEL for 2011. If, at the beginning of the program there was 1 computer per 200 pupils, in 2008 this indicator changed to 1 computer per 20 pupils. By the end of 2007, all the schools in Georgia, including schools in the mountainous regions, were connected to the Internet. As planned in 2007, the program's total budget for 2007-2011 should be 49 million GEL, but because of the financial crisis and the conflict with Russia, the actual budget for this program decreased to 37.5 million GEL.

2.8. Higher Education

The Law of Georgia on Higher Education, adopted in 2004, brought about systematic and multifaceted changes to the system of higher education in Georgia. The country joined the Bologna Process and started to adopt its major guidelines. A three-level degree system, consisting of a Bachelor's Degree, Master's Degree and Doctoral Degree, was adopted in 2007.

Figure 15. System of Higher Education



The law provides autonomy to higher educational establishments, which independently determine and implement their academic, financial and administration activities. The following types of higher educational institutions (HEI) exist in Georgia:

- Universities offering bachelor's, master's and doctoral educational programs;
- Institutes authorized to conduct educational programs with at least one of them being at the master's level;
- Colleges authorized to conduct professional higher education programs only at the level of a bachelor's degree.

The management bodies of HEIs are comprised of an Academic Council, a Representative Council (the Senate), an office of the Dean, a Head of Administration and a quality assurance service.

Before 2004 the number of HEI increased rapidly, but the new establishments often lacked an appropriate material base or academic staff to ensure a quality education. In 2002-2005, the number of students increased rapidly (See Appendix, Table A6). Many private institutions became 'diploma mills,' and did not pay due attention to quality and academic excellence. As a result, the number of higher education diploma-holders skyrocketed while the economy could not provide jobs for even half of them (see table 18).

Table 18. Higher Education Institutions and Enrolment (Units)

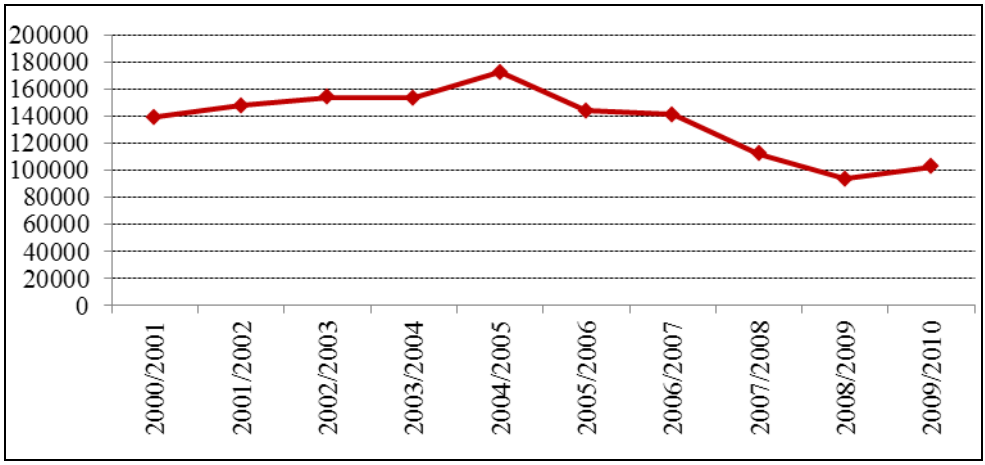
	2000-2001	**2001-2002**	**2002-2003**	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**	**2007-2008**	**2008-2009**	**2009-2010**
Public institutions	26	26	26	26	26	25	18	19	20	21
Students at Pub. HEI, thsd	105.8	115.5	122.2	123.9	137.0	113.8	110.8	81.2	66.5	74.1
Private institutions	145	153	154	150	172	140	148	137	109	108
Students at Pr. HEI, thsd	33.1	31.9	31.5	29.4	35.4	30.	30.0	30.9	27.1	28.7

Source: Ministry of Economic Development of Georgia, Department of Statistics.

After the 2006-2007 academic year, the number of private higher education institutions decreased from 148 to the current 108. At the same time, the number of public HEIs increased at the rate of just one per year. The total number of students also decreased after the 2005-2006 academic year as a result of reforms of the

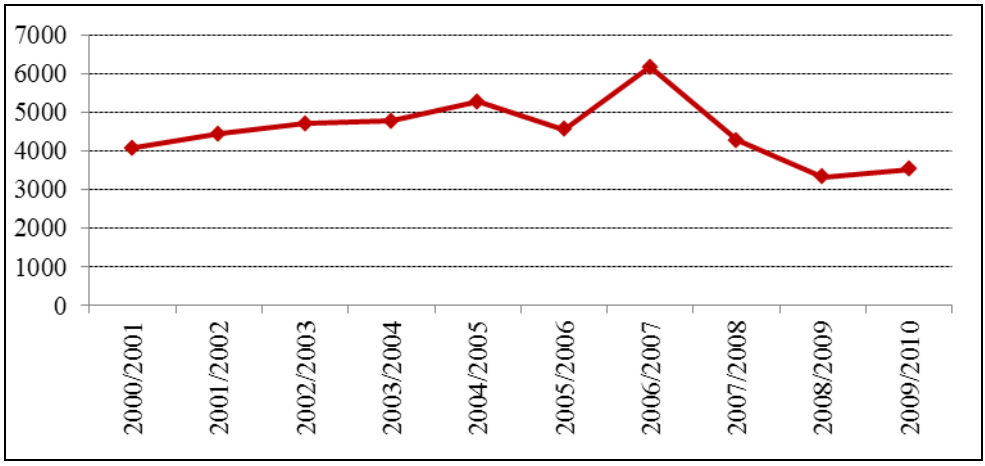
national admission exams, etc. The total number of students reached its minimum during the 2008-2009 academic year:

Figure 16. Total Number of Students 2000-2009



Source: the National Statistics Office of Georgia.

Figure 17. Number of Students per public Higher Education Institution

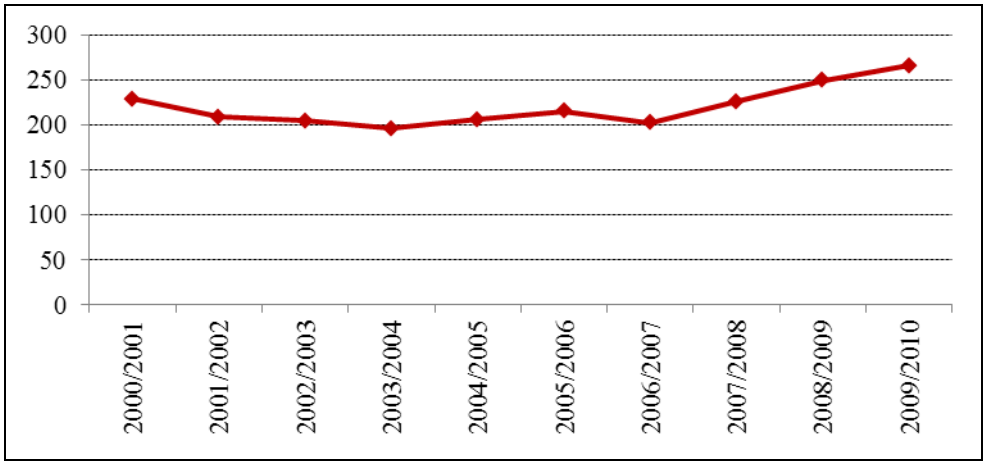


Source: National Statistics Office of Georgia.

It is worth mentioning that the decrease in total number of students has not been significantly affected by demographic factors. The size of the student age population has decreased by about 2.4% in 2010 compared to 2006, but it still remained higher than in the 2000-2005 period. The drop in 2008 can be explained by several factors, the most significant being the military conflict of August 2008. However, after some

insignificant fluctuations, the number of students per private HEI increased slowly in recent years. Private schools in Georgia are usually specialized in one or a few fields and, therefore, enrol a relatively small number of students. The situation is quite different at public HEIs: the number of students per one HEI decreased from 6,000 students in 2007-2008 to about 3,500 in 2008-2009.

Figure 18. Number of Students per private Higher Education Institution



Source: National Statistics Office of Georgia.

The majority of higher education institutions was always situated in Tbilisi (see Appendix, Table A7). However, the agglomeration coefficient for public HEIs decreased over time: in 2005, 56% of students of public HEIs studied in Tbilisi, whereas in 2009, it was only 43%, with a continuously decreasing trend. This was a response to the general policies of the Government of Georgia, which is making efforts to encourage economic activity in other regions, not only in the capital.

The government' recommendation is to stimulate the private sector to establish or move private HEIs to the regions, especially to Kakheti, Samegrelo-Zemo Svaneti, ShidaKartli and Imereti regions, where some private HEIs were closed during the global financial crisis. This would have a much more significant effect on the economy of those regions. HEIs in different regions of Georgia will generate new economic activity. Higher education will become more accessible for those who are unable to come to HEIs in Tbilisi because of family, job or other reasons.

Creating good infrastructure and stimulating the establishment of new private HEIs in the regions will constitute major direct and indirect investment in the regions. The stimulus for establishing private HEIs could come in the form of re-

duced taxes, a stimulus which gained importance especially after the financial crisis. Additionally, the Government can simplify accreditation rules for regional private HEIs.

2.9. Financing and accreditation of HEIs

As a the result of the reforms, the model for higher education financing was changed in 2005. Top-scoring applicants received state grants ranging from 1,100 GEL to 1,500 GEL a year. The new "Money Follows the Student" formula radically changed the former lump-sum allocation model for financing education. The state grant can go to all the accredited HEIs for financing a Bachelor's degree or/and a professional educational program.

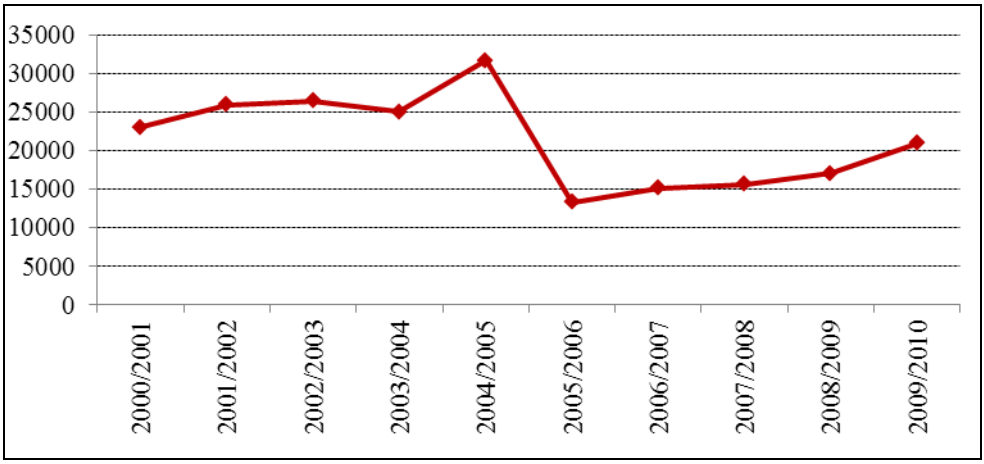
The Accreditation Council of Higher Education Institutions was set up in 2005 and institutional accreditation was implemented starting in 2004-2005. Out of 247 higher education institutions applying for accreditation, less than half (117) were accredited. The next stage of institutional accreditation was carried out in 2006. As a result of this stage, the number of accredited HEIs was reduced from 117 to 43 and the number of students reduced accordingly. Today there are 71 accredited HEIs in Georgia. Other HEIs without accreditation (so called licensed universities) have to pass authorization starting in 2011. A draft law is being discussed and will probably be approved. As a result, diplomas of licensed universities will become equivalent to the diplomas of accredited universities and will be recognized by the state. If licensed higher educational institutions do not pass authorization, they will be able to function as Community Colleges or Public Institutions.

A completely new model of admissions exams was introduced in the 2005-2006 academic year. According to the law, the Unified National Admissions Exams (UNAE) were held throughout the entire country beginning in that academic year. While 31,315 students were enrolled in HEIs in 2003 (6,279 in private HEIs), only 16,143 students were admitted to HEIs, including private institutions, in 2005. This was the result of the Unified National Admissions Exams and the smaller number of accredited HEIs, both of which signalled an increase in the quality of education. (See Appendix, Table A7).

After the reform of the admissions process, the number of admitted students started to increase again at an average rate of 9% annually in 2006-2009; a 23% increase was registered in the 2009-2010 academic year. There was no significant change in the number of students in public HEIs in 2007-2009. The situation with private institutions, however, was quite different. There were 11,281 students in

private HEIs in the 2006-2007 academic year. In the next year, this number decreased to only 7,266, which constitutes a 35% drop (see Appendix, Table A8). This can be explained by the financial crisis, which caused a decrease in the demand for paid education. Even though the income effect decreased the number of students in both types of institutions, the percentage of students in public HEIs increased because they charge lower fees.

Figure 19. Number of Students admitted to Public Institutions 2000-2009



Source: National Statistics Office of Georgia.

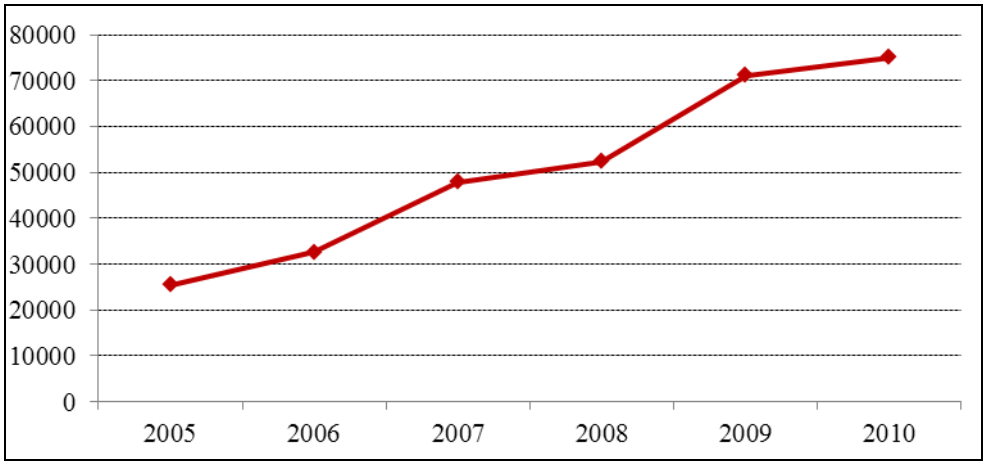
4,210 admitted students received state grants in the 2005-2006 academic year. A grant's maximum amount was 1,500 GEL, which is equal to the tuition fees at state HEIs.

New types of grants, each financing 100%, 70%, 50% and 30% of tuition costs, were introduced in 2006. Financing from the budget is allocated to students who are authorized to use the grants in the institution of their choice, be it a public or a private HEI. The maximum 100% grant is 2250 GEL per year, which is the maximum fee at public HEIs. If a student applies to a private HEI, he/she must cover the difference between the tuition cost and the grant he/she received. The new model of grant distribution made it possible to increase the number of grant holders compared to the previous year.

In 2005, higher education financing absorbed 25,529.7 thousand GEL, and in 2006 the amount increased to 32,594.1 thousand GEL.

In 2006, a student loan system was introduced in cooperation with private banks. Students can receive education loans under various terms for covering their tuition fees.

Figure 20. Financing Higher Education 2005-2010 (Thousand GEL)



Source: National Statistics Office of Georgia.

2.10. Vocational Education

Reform in the sphere of vocational education began later than in the sphere of higher education. The Law on Professional Education adopted in March 2007 defined the goals of vocational education, the scope of its reform, and its organizational and administrative principles.

Before 2004, 80 basic and 87 secondary state professional education institutions functioned in Georgia under the Ministry of Education as well as under other Ministries and governmental bodies.

Due to a shortage in government funding, the vast majority of basic professional institutions could not function and, therefore, from 1989 to 2004, their number was reduced dramatically. The number of students studying in vocational institutions was reduced by about 7 times the original amount and the number of admitted students dropped from 15,000 to 2,000. The secondary state vocational institutions did not experience such a dramatic decline; the number of students in budgetary groups there was reduced only 25%.

In 2003, vocational education funding amounted to 3,089,231 GEL, consisting of 1,595,000 GEL for basic vocational education institutions and 1,491,231 GEL for secondary vocational education institutions. Table 19 shows spending (in thousands GEL) on vocational education in 2004-2010:

Table 19. Financing Vocational Education 2004-2010

		2004	2005	2006	2007	2008	2009	2010 Planned
MES Budget		89,709	80,947	358,165	410,829	458,337	519,364	550,000
Program title	Vocational Education and Training Support Program		1,547	1,717	5,846	8,413	9,800	9,000
	President's National Program "Rehabilitation of Vocational Schools"			3,999	6,754	688	0	2,500
	LEPL National Professional Agency				0	535	0	0
	Basic Vocational Schools Support Program	3,342						0
	Secondary Vocational Schools Support Program	3,811	2,152	2,063				0
Total expenditure on VET		**7,153**	**3,699**	**7,779**	**12,600**	**9,636**	**9,800**	**11,500**

Source: Ministry of Finance, Full Administrative Budget (2010, 2009, 2008, 2007, 2006).

According to the Law on Vocational Education approved in 2007, two types of professional education institutions are currently being set up in the country, namely colleges and professional education centers. Colleges are institutions of higher education that carry out higher professional education programs (ISCED level 4). Vocational education centers are legal entities by public law, which carry out vocational programs (ISCED level 4). Graduates of vocational education are certified specialists and acquiring vocational education is possible only after graduating from a basic level of general education (which is lower secondary education according to ISCED standards). A supervisory board, consisting of employers, representatives of social organizations, parents of students and representatives of vocational education teachers represents the highest body of professional education administration in these institutions.

All the directors and more than 80 teachers of professional subjects in the new centers received training as part of the President's National Program of "Rehabilitation of Vocational Education Institutions," launched in 2006. A list of vocational education centers and professions for each center along with a list of workshop equipment were prepared together with foreign experts.

During 2006-2008, 11.4 million GEL was spent on rehabilitating the system's infrastructure and 10 centers received the bulk of this rehabilitation money. Since

that time, significantly more funding has been given to the ten rehabilitated schools than to the others. Table 20 presents a breakdown of financing from the year of 2008 based on whether a school was rehabilitated or judged to be in "good condition" or was one of the remaining schools.

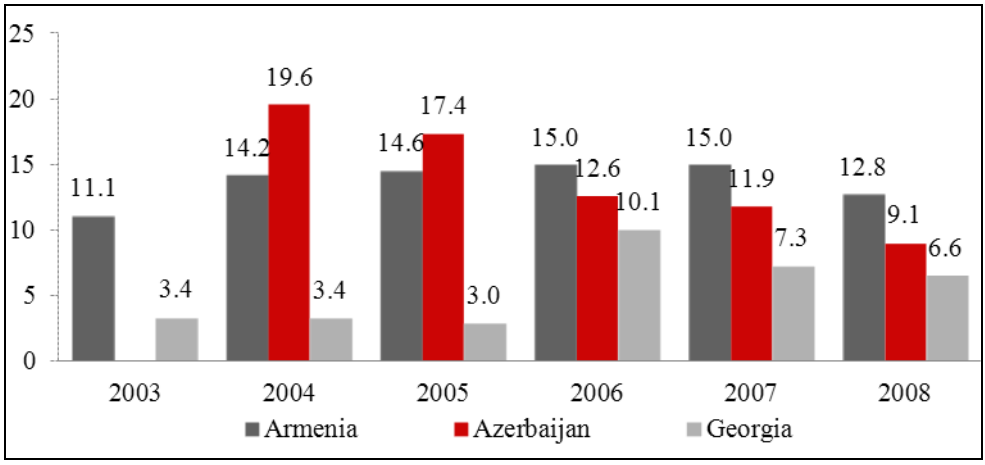
Table 20. Level of Infrastructural Development

	#	Total Financing	Financing per school
Rehabilitated	10	3,871,463	387,146
Judged to be in " good condition"	12	2,087,628	173,969
Remaining schools	16	1,321,974	85,123

Source: Ministry of Education and Science, VET Situational Analysis, Tbilisi, Georgia p.10.

Considerably more funding was allocated to the rehabilitated VET Centers than to the others. Staff in the rehabilitated VET Centers also enjoys higher salaries. The variation is considerable. In public VET Centres, a basic salary is around 2 GEL (1.10 USD) per teaching hour. In some Centers this can be as high as 15 GEL (8.80 USD) per hour.

Figure 21. Education Budget as a Percent of Total Budget in Armenia, Azerbaijan and Georgia 2003-2008



Source: Ministry of Finance of Georgia.

The Ministry of Education collects information on VET courses from individual VET centers, but at the current time this information is provided in a format that makes it difficult to see the overall picture. This could be improved if the

courses were classified according to skill-based categories and organized according to academic years. As a result, the MoES, or future employers of VET graduates, would be able to easily see how many people are being trained in what skills nationwide.

Georgia has the lowest expenditures on education as a share of the total budget expenditures in the South Caucasus region. However, these shares have been changing dramatically over the years.

3. Health

3.1. Key health sector indicators

In the 1990s Georgia faced significant declines in its socioeconomic conditions. Correspondingly, the health status of the population seriously deteriorated. However, the healthcare sector has been improving during the last few years. Life expectancy at birth has a positive trend (except for the last 2 years) and maternal deaths and infant mortality are decreasing. In spite of these positive changes, healthcare indicators are still not comparable to EU figures, and there is a big gap when comparing Georgia's numbers to the Millennium Development Goals (MDGs) for 2015. In support of the Millennium Declaration of September 2000, Georgia is committed to defining and fulfilling the eight MDGs which address specific Georgian needs. Three out of eight goals concern the healthcare system. They include:

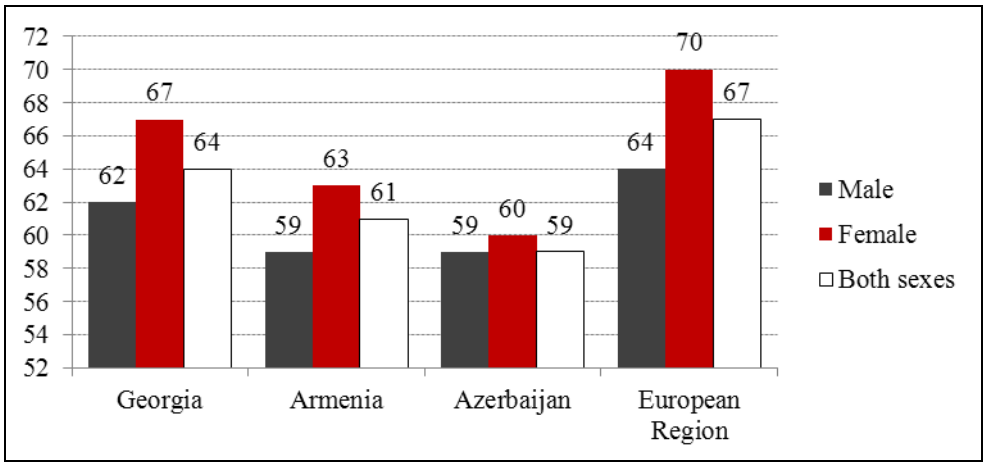
- **Goal 4: Decrease child mortality**. Target 10: Reduce by two-thirds, between 2000 and 2015, the under-five mortality rate. In 2000, the under-five mortality rate was 24.9 and therefore the target for 2015 is 8.3;
- **Goal 5: Improve maternal health**. Target 11: Reduce by three-quarters, between 2000 and 2015, the maternity mortality ratio. The target is to decrease it from 49.2 (2000) to 12.3;
- **Goal 6: Combat HIV/AIDS, malaria and other diseases**. Target 12: Effectively reduce the spread of AIDS, halting new cases of HIV by 2015; and Target 13: Effectively reduce the incidences of malaria and other major diseases, halting their spread by 2015.

Life expectancy and mortality rates provide good summarizing measures of the overall health of the population. Life expectancy in Georgia was improving during the last decade, but decreased in 2008. This decrease was expected and came as a result of the conflict with Russia. The life expectancy indicator continues to stay below the EU average.

The life expectancy indicator reflects how many years a person might be expected to live given the current mortality rates, but it is a poor measure of a person's health conditions during life. WHO estimates different indicators to capture a person's health status during life. This index is called "**Healthy life expectancy**" (HALE) at

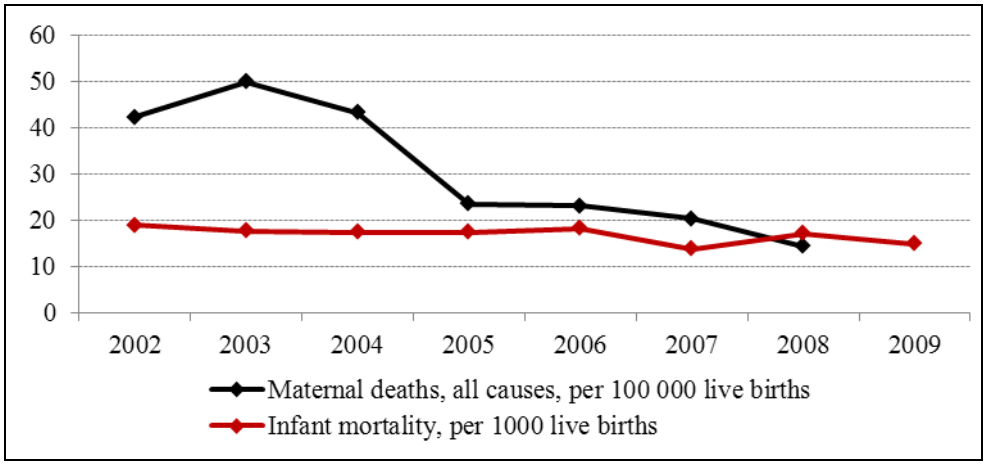
birth, which represents the average number of years that a person could expect to live in "good health" by taking into account years lived in less than full health due to disease and/or injury. The HALE index for Georgia in 2007 was as follows:

Figure 22. Health Life Expectancy (HALE) at Birth in Years



Source: World Health Statistics, WHO, 2010.

Figure 23. Maternal Deaths, All Causes, per 100 000 Live Births and Infant Mortality, per 1000 Live Births for 2002-2009 years



Source: World Health Statistics, WHO, 2010.

According to these statistics healthy life, expectancy is higher in Georgia than in other South Caucasus countries, but lower than the WHO European Region average.

Maternal deaths from all causes per 100,000 live births has been decreasing since 2004. In 2005 this rate decreased sharply by 19.73 and while it continues to decrease, it still remains above the EU average (see fig. 23).

Infant mortality (before reaching the age of 1) per 1,000 live births fell from 18.15 in 2006 to 14.9 in 2009, but is still high compared to the EU average (12 in 2002 to 2008). There is a large variation across regions, with Tbilisi having the highest rates (because the most complicated cases are transferred to the capital through the state referral program), followed by Achara and Imereti. Table 21 indicates regions with the highest and lowest figures for particular years. The first three regions with the highest infant mortality rate are marked by red cells and three regions with the lowest figures by yellow cells.

Table 21. Infant Mortality, per 1000 Live Births

Regions	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
ABKHAZETI	...	...	...	...	...	...	
AJARA	17.08	15.61	20.32	19.38	19.74	18.66	14.6
TBILISI	32.36	28.64	24.69	26.41	27.47	18.54	21.6
KAKHETI	12.52	6.81	9.68	6.21	8.34	5.22	6.7
IMERETI	15.89	16.85	19.08	19.39	18.5	18.47	15.4
SAMEGRELO	5.93	7.67	3.89	6.48	5.94	4.58	1.9
SHIDA KARTLI	12.13	15.23	13.06	8.55	7.09	5.38	2.3
KVEMO KARTLI	6.91	3.86	6.23	3.64	4.77	4.39	2.6
GURIA	8.34	6.59	5.59	5.56	10.11	3.36	1.1
SAMTSKHE-JAVAKHETI	2.68	5.17	7.21	3.28	3.91	1.93	4.6
MTSKHETA-MTIANETI	9.49	6.59	8.33	3.53	9.13	2.22	6.3
RAJA-LECHKHUMI	14.04	4.2	5.41	0	0	8.26	0
Georgia	**18.92**	**17.62**	**17.32**	**17.29**	**18.15**	**13.73**	**14.1**

Source: Georgian National Centre for Disease Control and Health Statistics for 2002-2008 which is provided to the WHO web site.

The estimated probability of dying before age 5 per 1,000 live births, has been estimated by the WHO for 2002 to 2004 and for 2008. Table 22 shows that this data for Georgia is far above EU averages. Healthcare policy should target this group (children below 5 years of age) and should try to improve the health conditions of children.

Mortality and morbidity rates/the disease burden. Non-communicable diseases represent the main causes of mortality in Georgia. On average, in 2000-2009, 63% of all deaths were caused by diseases of the circulatory system. The death rate is also high for cases of neoplasm (11% for 2000-2009), symptoms,

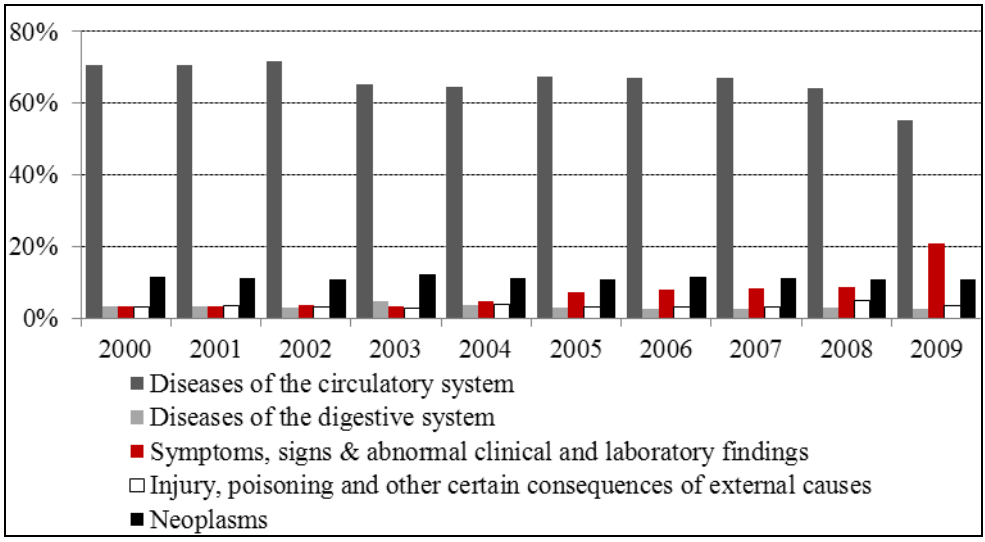
signs and abnormal clinical and laboratory findings not classified elsewhere (7% for 2000-2009) and diseases of the digestive system (3% for 2000-2009). The five main causes of death and their trends can be seen in figure 24:

Table 22. Main Indicators of Population Health Status

Indicator	Countries	2002	2003	2004	2005	2006	2007	2008
Life expectancy at birth, in years	Georgia	71.5	72	71.4	73.1	74.3	75.1	74.2
	EU	77.9	77.94	78.52	78.68	79.06	79.21	79.31
Maternal deaths, all causes, per 100 000 live births	Georgia	42.19	49.89	43.13	23.4	22.99	20.21	14.3
	EU	6.59	6.84	6.75	5.63	5.96	5.7	5.96
Infant mortality, per 1000 live births	Georgia	18.92	17.62	17.32	17.29	18.15	13.73	17
	EU	5.46	5.26	5.12	4.87	4.68	4.51	4.44
Estimated probability of dying before age 5, per 1000 live births (World Health Report)	Georgia	23	45	44.5	...	...	...	30
	EU	6.49	6.46	6.06	...	...	...	5.12

Source: WHO Statistics for 2002-2008 years.

Figure 24. Five Main Causes of Mortality, 2000-2009



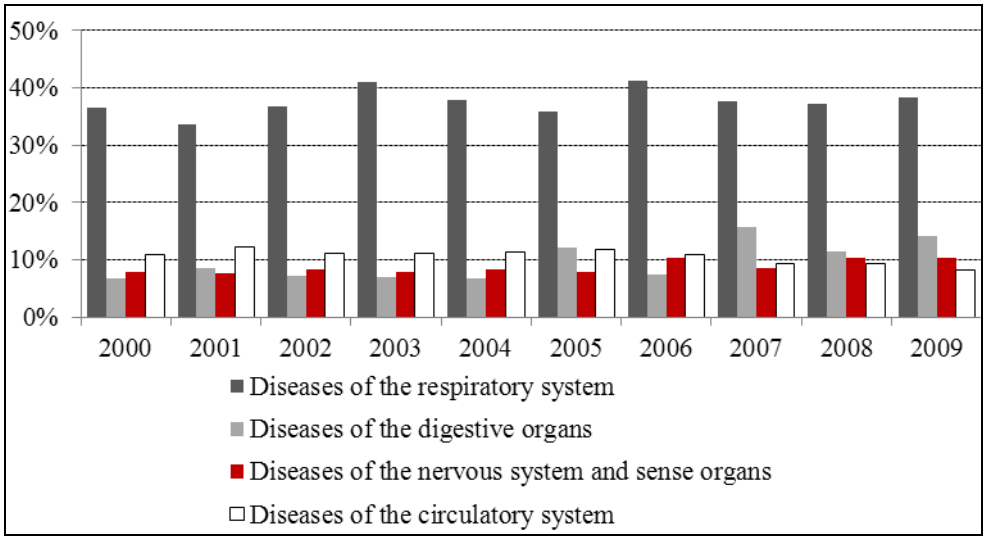
Source: National Statistics Office of Georgia.

The high mortality rate caused by neoplasms is partly due to the relatively low rate of early diagnoses (between 25% and 30% at stages I and II) by international standards. The increased number of cancer incidents illustrates the need for more screening programs. In turn, a high proportion of deaths caused by circulatory

system diseases underlines a necessity for healthcare policies aimed at the reduction of tobacco use, an increase of physical activity and lowering the prevalence of overweight people. Efforts to combat smoking would also help to reduce morbidity caused by respiratory diseases.

Morbidity rates. In 2009, the number of registered cases of different diseases diagnosed for the first time reached 1,169.5 thousand. The first four categories were diseases of the respiratory system (38.26%), diseases of the digestive organs (14.19%), diseases of the nervous system and sense organs (10.40%) and diseases of the circulatory system (8.21%) (fig. 25).

Figure 25. Morbidity with Acute and Chronic Diseases by Main Disease Groups as a Percentage of Registered Cases Diagnosed for the First Time, 2000-2009



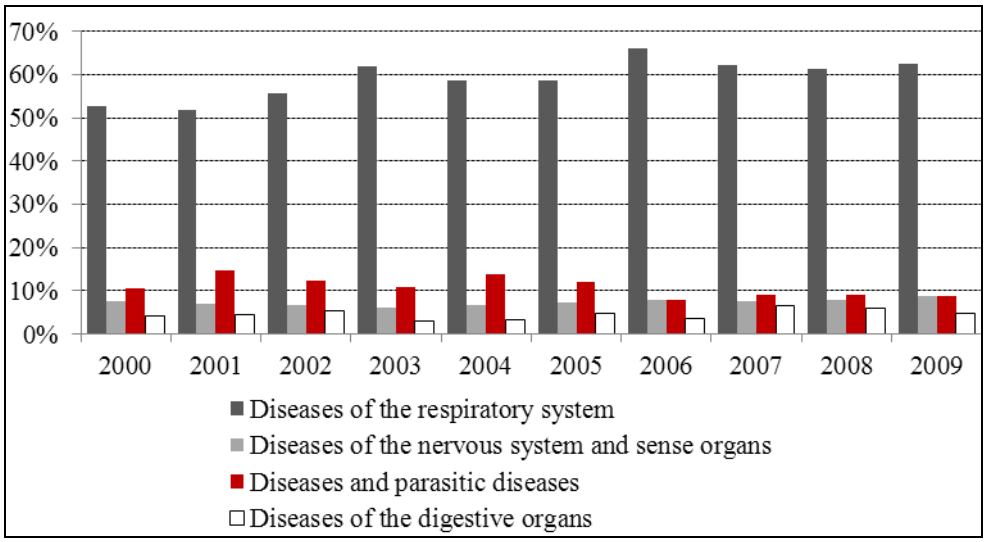
Source: National Statistics Office of Georgia.

In 2009, 394.1 thousand cases of acute and chronic diseases in children (0-14 years old) were diagnosed for the first time. Figures for morbidity of children separated by the main disease groups shows a very different picture. The first four categories were diseases of the respiratory system (62.57%), diseases of the nervous system and sense organs (8.91%), infectious and parasitic diseases (8.78%) and diseases of the digestive organs (4.82%) (fig 26).

As a result of the deteriorating socio-economic conditions, communicable diseases were on the rise during the 1990s. For instance, tuberculosis (TB) morbidity increased during this decade from 29.7 per 100,000 people in 1988 to 145 per 100,000 in 1997, making it almost the highest level in the WHO European region.

Although TB morbidity rates declined, its incidence (number of new cases each year) and prevalence (number of people with the disease at a specific point in time) are still unacceptably high. Incidences of tuberculosis per 100,000 persons in 2007 was 84 in Georgia, compared to the EU average of 19.45. This figure is also higher compared to the rest of the Caucasus region: 72 in Armenia, 77 in Azerbaijan (See table 23).

Figure 26. Morbidity of Children (0-14 years old) with Acute and Chronic Diseases by Main Disease Groups as a Percentage of Registered Cases Diagnosed for the First Time, 2000-2009



Source: National Statistics Office of Georgia.

Table 23. Estimated Incidence of Tuberculosis per 100,000 People

Countries	2000	2001	2002	2003	2004	2005	2006	2007
Georgia	82	84	84	83	83	84	84	84
EU	24.56	24.01	23.33	22.67	21.81	21.04	20.33	19.45
Armenia	71	72	72	71	71	72	72	72
Azerbaijan	75	77	77	76	76	77	77	77

Source: European Health for all Database (HFA-DB) World Health Organization Regional Office for Europe. Updated: July 2010.

According to the National Statistics Office of Georgia, the rate of morbidity from sexually transmitted deceases is increasing. There were only 186 cases of HIV/ AIDS registered in 2000 compared to 2,236 cases in 2009. The number of newly registered HIV infections is increasing each year.

3.2. Health Care Supply

The system of healthcare service in Georgia is divided into three levels:

1. Primary healthcare (PHC) network;
2. Secondary level network, which includes village, city and central regional hospitals;
3. Third level healthcare, including special level hospitals, diagnostic and scientific centers.

The number of hospitals per 100,000 people is higher in Georgia than in the EU, but the number is not a good enough indicator in this case, as a hospital's productivity and quality are more important. One of the reforms conducted in the healthcare sector is focused in optimizing the number of hospitals and building new hospitals equipped with modern technology.

The utilization of one hospital bed (measured in days) decreased from 10.1 in 2000 to 6.2 in 2009. This positive trend indicates that it is possible to increase the number of hospitalizations, with only small changes in the resources needed. However, it is crucial to determine the cause of this decline: is this caused by an improvement in healthcare quality and technology or by inadequate discharging of patients from the hospitals? Low utilization rates may also indicate problems with access to hospital care. Unfortunately, any conclusions with regards to these questions cannot be drawn from the existing data (see table 24)

Table 24. Main Characteristics of Public Health for 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of hospitals, units	229	251	251	248	246	242	244	245	244	241
Hospitals per 100,000	6.11	6.07	6.4	6.35	6.29	6.14	5.96	6.04	...	5.99
Hospitals per 100000, EU	2.87	2.85	2.81	2.76	2.75	2.72	2.68	2.67	2.64	...
Primary health care units per 100,000	23.38	23.2	18.41	18.9	20.95	17.65	14.76	14.38	...	11.36
Hospital beds per 100,000	477.10	429.55	419.77	419.3	407.32	391.96	374.15	331.90	...	309.08

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Hospital beds per 100,000, EU	617.16	605.62	592.47	579.74	567.71	560.09	546.64	535.56	528.8	...
Physicians per 100,000	473.1	429.55	464.18	484.23	489.44	465.7	468.33	454.63	...	467.23
Physicians per 100,000, EU	296.04	301.52	307.4	313.62	317.19	318.02	323.48	326.28	328.34	...
In-patient care admissions per 100	4.62	4.57	4.88	4.97	5.48	5.88	6.17	6.5	7.17	7.23
In-patient care admissions per 100, EU	18.01	18.08	18.15	17.93	17.81	17.72	17.57	17.52	17.73	17.72
Outpatient contacts per person per year	1.4	1.5	1.6	1.8	2	2.1	2.2	1.95	2.1	2
Outpatient contacts per person per year. EU	6.45	6.38	6.35	6.28	6.05	6.17	6.14	6.14	6.23	6.2

Source: European Health for all Database (HFA-DB) World Health Organization Regional Office for Europe, Updated January 2011.

According to the National Hospital Master Plan, 50% of the existing bed capacity will be eliminated by December 2011. However, an additional analysis should be done to determine the extent to which the under-utilization of hospital beds results from financial barriers to accessing healthcare services. If this is the case, reducing the number of beds will not address the problem. Table 25 presents bed utilization data for 2009. Occupancy rate is measured as total number of hospital bed days divided by the number of available hospital beds. Average length of stay is measured as total number of hospital bed days divided by the total number of hospitalization cases. Rotation is total number of hospitalization cases divided by hospital beds. As expected, Tbilisi had the highest density of beds. High numbers for Racha- Lechkhumi and Samtskhe-Javakheti is due to the low population density of these regions. Higher numbers of rotation in Achara, Mtskheta-

Mtianeti, Kakheti and Tbilisi mean that resources are used more efficiently compared to other regions.

Table 25. Bed Utilization in 2009

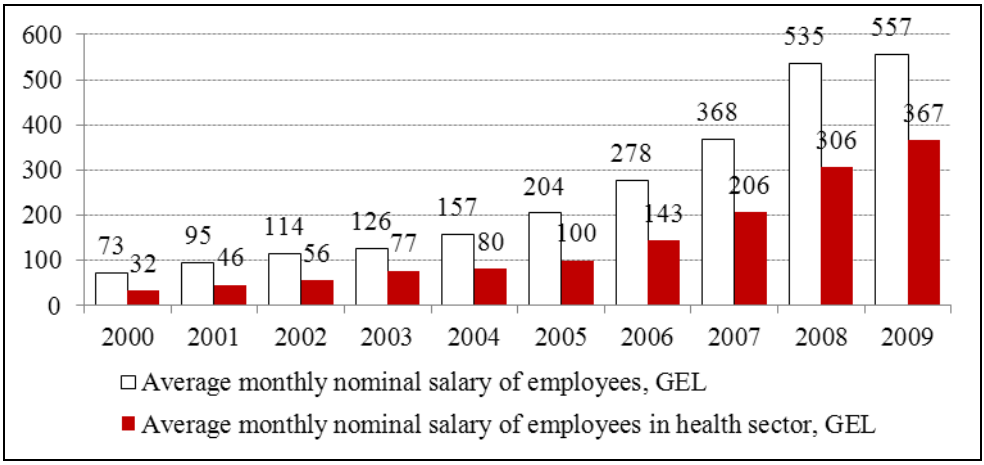
Regions	Number of Beds per 100,000	Occupancy Rate	Average Length of Stay	Rotation
ABKHAZETI	…..	45.0	4.3	10.5
AJARA	269.4	172.2	6.1	28.1
TBILISI	499.0	166.8	6.4	25.9
KAKHETI	163.7	110.2	4.2	26.2
IMERETI	342.1	146.8	7.2	20.5
SAMEGRELO	204.2	127.6	5.8	21.8
SHIDA KARTLI	192.2	145.2	6.2	23.4
KVEMO KARTLI	170.5	121.0	6.1	19.9
GURIA	189.5	103.3	5.3	19.4
SAMTSKHE-JAVAKHETI	301.9	106.1	8.2	13.0
MTSKHETA-MTIANETI	121.0	87.6	3.3	27.0
RAJA-LECHKHUMI	450.7	61.7	6.5	9.4
G E O R G I A	**309.1**	**148.2**	**6.3**	**23.4**

Source: National Center for Disease Control and Public Health. Statistical report 2009.

Unlike many developing countries, Georgia traditionally had high numbers of well-trained medical staff (per 100,000 population), particularly as compared to the Eastern European post-Soviet countries, but there is a high measure of inequality in their allocation. According to 2009 data, approximately half of doctors are located in Tbilisi. The number of doctors and nurses has decreased over the last decade. Despite these changes, the rate of doctors per 100,000 population is still relatively high. The number of nurses, however, has fallen below the CIS and EU averages and continues to drop, regardless of the fact that a need for more nurses was officially declared. The ratio of nurses to doctors equals 1:1 in Georgia, while the WHO recommended ratio is 1:4. Healthcare policy should address inequality in the supply of medical personnel across all the regions. Salaries of the medical personnel may be one facet of this problem. Figure 27 provides a comparison of the average wage in the economy to the average wage in the healthcare sector for 2000-2009. Salaries in the healthcare sector are below the average salary in the country. It must be mentioned that this inequality has decreased in 2009 compared to previous years; the average salary of medical staff has increased by 20% while the increase in the average national salary was only 4%. These are not salaries in

real terms, but looking at inflation rates for the period, a slight increase can be observed in overall average monthly salaries.

Figure 27. Comparison of the Average Wage in the Economy to the Average Wage in the Health Sector, 2000-2009



Source: National Statistics Office of Georgia.

Utilization rates for PHC have decreased dramatically. Between 1990 and 2009, the average utilization rate fell from 7–8 visits per person per year to just 1.9 visits. The utilization rate for PHC services in rural areas is even lower, at just one visit per person per year on average. Nearly half of Georgia's 4.4 million population lives in rural areas. PHC facilities in rural areas are more likely to be of poor quality, with staff who have not benefited from various retraining programs.

The productivity of medical personnel, both in hospitals and in medical institutions rendering out-patient services, is very low. The patient to physician (of all specialties) ratio shows that productivity has been increasing over the last 5 years.

Table 26 shows the regional distribution **of retrained primary healthcare doctors and nurses** and compares it to the targets set by the Primary Healthcare Development Plan, the aim of which is to improve the coverage and utilization of quality primary healthcare. The results show that as of the beginning of 2009, 53% of the minimal target number for retrained primary healthcare doctors and 47% of the minimal target number of primary healthcare nurses was reached across the country. However, the numbers show significant regional variations; a relatively small number of primary healthcare personnel has been retrained for one of the most populated regions of Georgia, Kvemo Kartli, and no personnel were retrained for Samtskhe-Djavakheti, Racha-Lechkhumi and Kvemo Svaneti.

Table 26. Total Number of Retrained Family (primary healthcare) Doctors and Nurses, Georgia and the Regions, 2009

Region	PHC Doctors Retrained			PHC Nurses Retrained		
	Number	Target	% of Target	Number	Target	% of Target
Adjara	127	193	66%	208	221	94%
Tbilisi	362	470	77%	130	470	28%
Kakheti	222	212	105%	224	212	106%
Imereti	178	355	50%	204	384	53%
Samegrelo	92	230	40%	104	300	35%
ShidaKartli	75	150	50%	80	167	48%
KvemoKartli	16	241	7%	16	273	6%
Guria	48	77	62%	56	99	57%
Samtskhe-Djavakheti	0	105	0%	0	136	0%
Mtskheta-Mtianeti	15	64	23%	15	78	19%
Racha-Lechkhumi& KvemoSvaneti	0	26	0%	0	58	0%
Total for Georgia	1135	2123	53%	1037	2398	43%

Source: Ministry of Labour, Health and Social Affairs.

3.3. Healthcare reforms

The Ministry of Labour, Health and Social Affairs (MoLHSA) represents a key strategic health decision-maker. It is focused on both decision-making and regulation. Its mission is to provide sustainable development of human resources by setting and implementing policy in the healthcare sector. Its goal is to develop a high quality, fair and accessible healthcare system based on consecutive reforms. MoLHSA is responsible for defining the benefits package provided by the state health programs.

MoLHSA is fulfilling its duties with the help of several affiliated institutions:

1. **Health and Social Programs Agency (HSPA)**. HSPA is responsible for organizing governmental programs, registering required contracts for participants in these programs, contract enforcement, information management for each program, systematization and automatization of services and collaboration with international and local NGOs on programs developed by the agency.

2. **The Medical Services Provision Regulation Agency**. This agency is responsible for issuing licences and permits for healthcare facilities and for certifying medical professionals. It also deals with patients' complaints regarding the quality of healthcare.
3. **The Drug Agency**. This agency is responsible for implementing the state drug policy. Its main task is ensuring that pharmaceutical products registered in Georgia meet the country's criteria for quality and safety, and that all the pharmacies comply with established standards.
4. **Department of Veterans Affairs**

Other organizations included within the MoLHSA are:

1. **National Center for Disease Control and Public Health (NCDC)**. NCDC is a legal entity under public law and its main responsibilities include surveillance of communicable and non-communicable diseases, control and prevention of public health diseases, outbreak investigations, accumulating medical statistics, promoting healthy lifestyles, conducting trainings and continuing education, and ensuring biosecurity and biosafety. NCDC also supervises the HR National Focal Point, the National Immunization Programme, National Referral Laboratories and the National Repository of IDPs.
2. **Social Service Agency**. SSA is responsible for improving social protection through the effective management of state benefits and programs of social assistance.

3.4. Aims and objectives

After the Rose Revolution of 2003, the new government faced the following situation:

- excessive and outdated infrastructure;
- inadequate and low quality services;
- lack of efficient market forces in the sector;
- non-competitive environment;
- corruption

The new government aimed to combat these problems with the following reforms of the healthcare sector:

Decentralization

Since independence in 1991, the Georgian healthcare system moved from the centralized Semashko model to a decentralized one. First, the move to decentralize healthcare and the development of a health insurance system, funded by a $14 million package from the World Bank, started in the mid-1990s. This involved a basic benefit package provided by the state (BBP), which provided limited services that were either free or subsidized. However, this insurance package was not promoted properly; most people were unaware of their new rights and thus continued to pay informal fees charged by the medical staff.

In December 2005, local governments acquired very limited responsibility and resources for health, mainly focused on promoting healthy lifestyles disease prevention. However, some regional governments, for example in Adjara, run programs that provide financial support to the poor. According to the Law on Local Self-Government adopted in 2005, the exclusive responsibilities of the local self-government include mobilizing resources in the healthcare and social sectors, ensuring a safe environment, promoting a healthy life style and identifying health-related risk factors.

Reforming primary health care (PHC) – PHC Master Plan I 2004–06 and PHC Master Plan II 2007–10

The Ministry prepared PHC Master Plan I in order to reform primary health care. This plan was funded by the World Bank, the EU and UK Department for International Development (DFID). The main purpose of the reform was to provide universal access to quality basic medical care through a publicly owned and managed system. It was based on the principle that no one should be more than 15 minutes away from a PHC centre. PHC Master Plan I also incorporated plans to retrain all the medical staff delivering PHC and to rehabilitate PHC facilities. This plan was oriented to move towards a fixed per-person tax system and assumed that financing for PHC should, in the short term, be covered by the state budget and service fees.

In 2006, the Government decided to review PHC Master Plan I. The reformed plan appeared to be unacceptable for the Government of Georgia. The fact that the public healthcare system could be effective and efficient without increased involvement of the private sector was suspicious. The plan was also too expensive and overambitious. For instance, the promise of '15-minute access' was considered unrealistic given the country's geographic location and the fact that many people live in mountainous regions with roads of poor quality.

The Governmental Commission for Health and Social Reforms, led by the Prime Minister and comprised of a number of line ministers, was created in October 2006 and offered an alternative version, PHC Master Plan II, which, by that time, was politically more attractive and technically easier to implement and required fewer administrative resources. PHC Master Plan II differentiated urban and rural models of PHC provision, with about 900 PHC providers in rural areas, and an unlimited number of PHC facilities in the cities and regional/district centers. All PHC were to be privatized. The vision of having one PHC facility in every village was packaged as a component of the "50 days programme towards elimination of poverty in Georgia," which was articulated and implemented in 2008-09.

Neither Master Plan I nor II has been approved. The current status of PHC development could be described in the following terms: (i) lack of a nationwide vision for PHC development; and (ii) absence of state responsibilities for funding PHC (the Government abolished the state universal program for PHC in 2009).

Hospital sector reform

The Hospital Master Plan, aimed at providing high-quality and affordable hospital services, was approved by the Government in January 2007. The Master Plan called for a complete replacement of the existing hospital infrastructure within a three-year period (2007-2009) by transferring full ownership rights from the state to the private sector through an "Investment programme." It aimed to optimize the excess hospital sector capacity (the target number of beds in the country was determined to be 7,800, according to the Georgian Government Decree #11, January 26, 2007), the number of hospital beds per facility (based on the population's healthcare needs), the location of inpatient facilities (based on the principle of 45-minute access), the types of hospital services and, finally, infrastructure and equipment.

Rehabilitation of hospital infrastructure does not bring fiscal benefits. More specifically, the Government receives no financial revenue from the privatization of hospital-sector assets. Investors receive existing hospitals with the attached land and provide a certain number of beds, according to the Master Plan and tender conditions. They own the hospitals and are obliged to keep the existing profile for at least seven years. The hospital rehabilitation program was named "100 New Hospitals." One obvious drawback of the program is the fact that pharmaceutical companies were allowed to compete for tenders. A conflict of interest may arise when a pharmaceutical company becomes the owner and provider of hospital services.

The Government chose to turn the deteriorated healthcare industry over to the private sector with the idea that this would lead to increased competition, higher investments into the sector, and finally, rendering of better medical services. Ac-

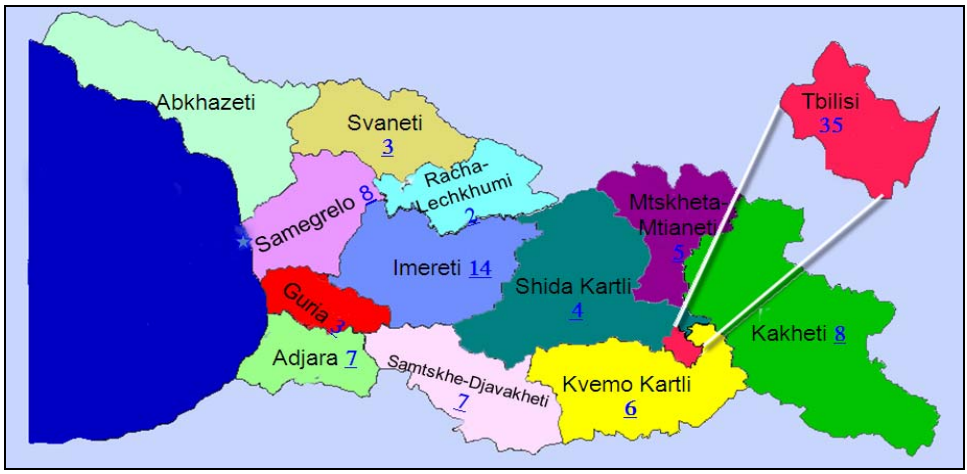
cording to the Government, its reform plan guaranteed access to basic medical care within a half-hour's driving distance for 80% of the population.

However, because of economic and political difficulties and shocks (the conflict with Russia in 2008 followed by the financial crisis), the general level of investment, and specifically investment in the healthcare sector, declined. The MoLHSA was not able to entirely implement its hospital sector reform as was originally planned. The original plan was modified in the following ways:

1. Some investment projects were left in the old format (as mentioned above) and some hospitals were sold to investors for a symbolic price (1,000$);
2. The Government itself decided to finance some rehabilitation and building expenses;
3. The Government involved insurance companies in the reform process. Insurance companies will build new hospitals by the end of December 2011 in 46 districts of Georgia. The districts were allocated to insurance companies through an auction.

Currently, 102 hospitals are in the process of being built and rehabilitated; 23 are being financed by the state budget, 76 by private investments and 3 with the help of donor organizations (such as USAID). The regional distribution of these hospitals is presented in the map below.

Map1: Regional Distribution of Hospitals Which Are Under Construction and Rehabilitation According to the Hospital Sector Reform



Source: Ministry of Labour, Health and Social Affairs.

There are serious concerns about privatization. It may result in even greater inequalities in access to health care, because healthcare costs are likely to increase. The hospital privatization program contains no specific provisions on regulat-

ing or monitoring different types of services. According to the government, the regulatory policies in the healthcare sector are under reconsideration at the moment. If government will not take any action toward regulating the hospital sector, the privatization process will create monopolies and prices of healthcare services will increase. Privatization has also increased the moral hazard problem associated with healthcare, as pharmaceutical companies are becoming owners of hospitals. As a result, the privatization process should not be treated as solely an economic process administered by the Ministry of Economic Development (the ministry which deals with the process). The Ministry of Health (together with the hospital staff) must be involved in the process and must ensure that this first stage of the healthcare reform sets up a solid foundation for future efforts in this sector.

The state agencies responsible for the reform of secondary healthcare should involve stakeholders in the design and implementation of the reform. In addition, hospital personnel should be allowed and encouraged to meet with investors. They must take part into the process of selection, analyzing investors' objectives and the ways with which they are going to achieve the proposed goals. The government should somehow ensure that affordable prices for medical services are set in the sector.

3.5. The government's health priorities 2008–2012

Within the framework of a Programme of the Government of Georgia for 2008–2012, 'United Georgia without Poverty,' MoLHSA announced the government's priorities for the next 4 years in March 2008. There are three strategic objectives which aim to strengthen the health sector:

- Objective 1: Increase the welfare of the population by developing a more efficient social security network and improve the health of the nation.

This objective also includes developing the Strategic Plan for Human Resource Development for 2009–2020. It will deal with the demand for doctors, nurses, public healthcare practitioners and healthcare managers. The MoLHSA plans to coordinate reforms with the Ministry of Education and Science for the undergraduate and postgraduate levels of medical education.

- Objective 2: Guarantee national security by minimizing public health problems and threats and creating a healthy environment for ensuring the well-being of the population.
- Objective 3: Strengthen the capacity of the Ministry and associated agencies.

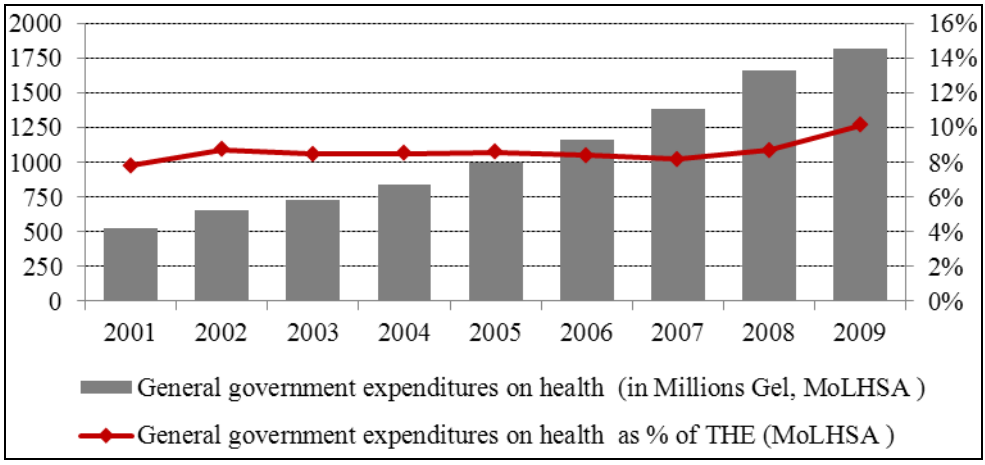
This objective includes:

- Developing and modifying national legislation according to the challenges of the system and creating a satisfactory legal environment for the planned reforms
- Increasing the stewardship function of the Ministry in order to guarantee developments in the health and social sectors and to serve the public interest, accelerate economic growth and promote public–private partnerships.

3.6. Spending Trends

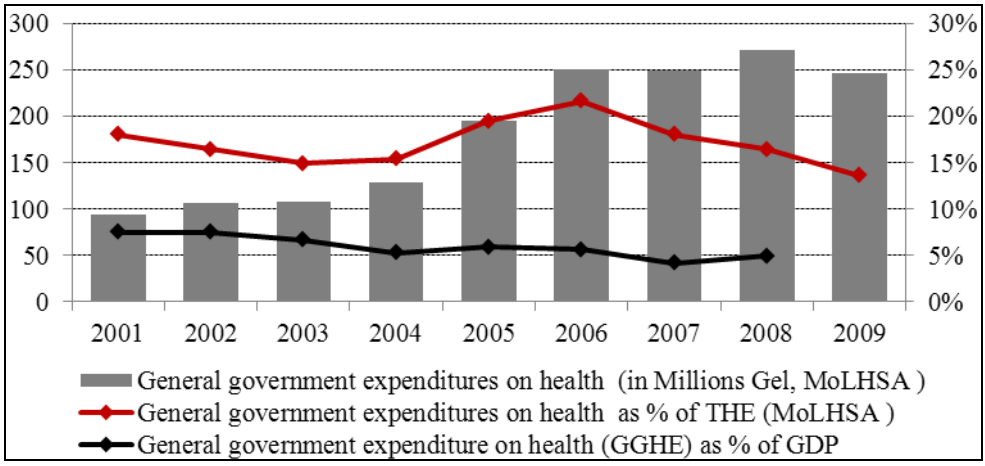
According to the National Health Accounts, total expenditure on health in Georgia amounted to 10.1% of GDP in 2009. This figure is slowly increasing and on average it is 8.6% for the period of 2001-2009. More than ¾ of total expenditures come from private sources (See Appendix, table A9).

Figure 28. Total Health Expenditures



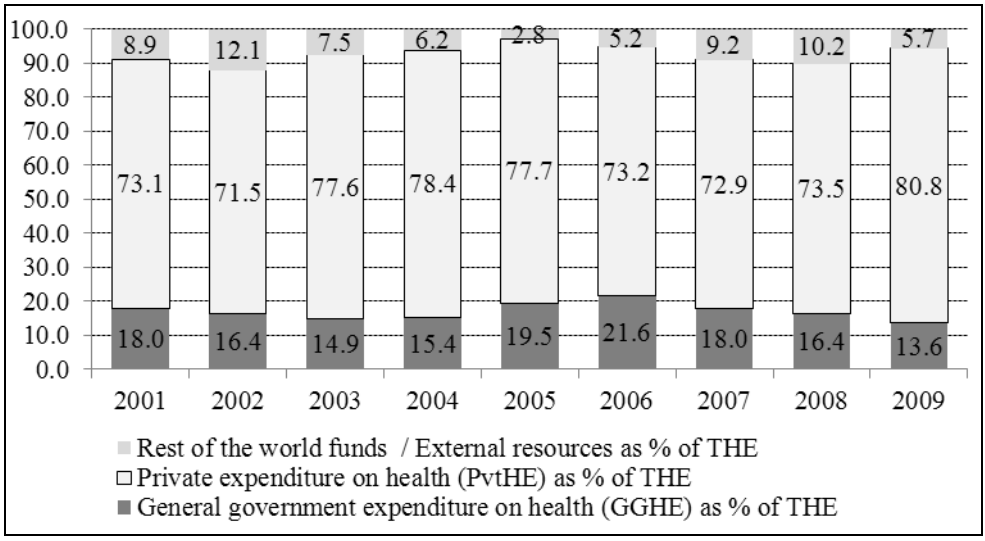
Source: National Health Accounts and Ministry of Labour, Health and Social Affairs, National Health Accounts of Georgia.

Figure 29. Trends of General Government Expenditures



Source: WHO 2010, National Health Accounts and Ministry of Labour, Health and Social Affairs, National Health Accounts of Georgia.

Figure 30. Structure of the Total Health Expenditures



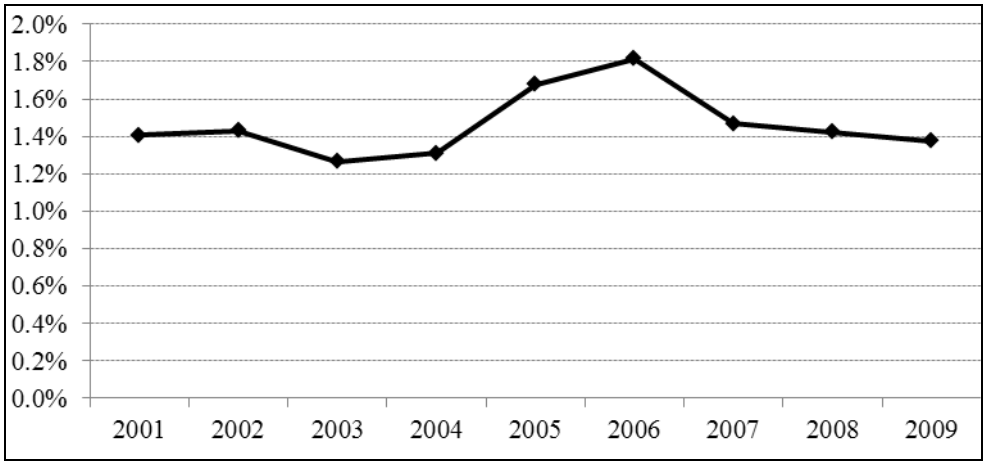
Source: National Health Accounts and Ministry of Labour, Health and Social Affairs, National Health Accounts of Georgia.

The figures above describe Georgian National Expenditure on Health. During 2001-2009, the general government expenditure on health (comprised of central and territorial budgets and the State United Social Insurance Fund of Georgia (SUSIF) during 2001-2006, which was replaced with the Health and Social Program Agency in 2007 and instituted by Presidential Decree #410 on 29 June,

2007) provided 17.1% of the total health expenditure (THE). 82.9% came from the private sector, including private social insurance, out-of pocket payments, non-profit institutions serving households, private funds (firms) and corporations, and external sources. The financial crisis had a minor impact on the health sector in Georgia. In 2009, general government expenditures on health decreased by 9% compared to 2008. The cost sharing structure changed from 2008 to 2009: private expenditures on health as part of THE have increased from 73.5 % to 80.8%.

Despite of the dramatic increase in health spending by the Government of Georgia during the last 5 years, in 2009, public health expenditures remained at 1.4 % of the country's GDP. (See figure 31). Public funds for healthcare are not spent only by the Ministry of Labor, Health and Social Affairs, but are also spent by other ministries, for example, the Ministry of Defense, Ministry of Internal Affairs and Ministry of Justice. However, the amount spent by each of these ministries is relatively small, less than 1% of the total health expenditures.

Figure 31. General Government Expenditure on Health (GGHE) as % of GDP



Source: National Health Accounts and Ministry of Labour, Health and Social Affairs, National Health Accounts of Georgia.

Thus, Georgia's health sector is mostly based on private financing. The Government's failure to allocate sufficient finances for the health sector resulted in a high level of private expenditures, mainly out-of-pocket payments.

The development of a private insurance market to compensate for declining public financing became a policy priority after the Rose Revolution. Even though the volume of funds mobilized by private insurance companies is increasing, it still amounts only to a small fraction of private expenditures on health. After 2010, this share is expected to increase. As mentioned earlier, the Government of Geor-

gia involved insurance companies in the hospital development plan. This initiative will lead to the development of an insurance system and probably cause a significant increase in funds mobilized by private insurance companies.

The role of local governments in providing health services is declining (See table 27).

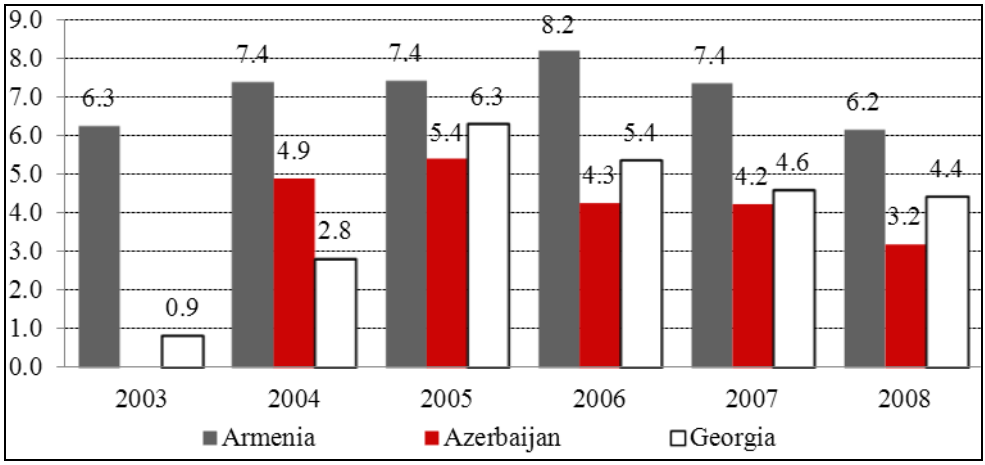
Table 27. The Share of Local Governments in Total Health Expenditures

National Health Accounts	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure on health in Millions (GEL)	521.5	650.7	724.8	835.9	998.3	1,159.6	1,386.6	1,660.7	1,818.5
General government expenditure on health in Millions (GEL)	93.8	106.5	108.3	128.8	194.8	250.1	249.2	271.7	246.5
State/provincial government expenditure on health in Millions (GEL)	23.5	21.2	20	26.7	41.4	17.7	15.6	14.5	18.7
State/provincial government expenditure on health as % of public expenditure	25%	20%	18%	21%	21%	7%	6%	5%	8%

Note. State and provincial government includes state institutions and organizations on the regional level such as: Tbilisi city department of health and social affairs; Adjara Autonomous Ministry of Health; Aphkxazia Autonomous Ministry of Health and Other municipality health departments.
Source: National Health Accounts and Ministry of Labour, Health and Social Affairs, National Health Accounts of Georgia

Figure 32 below presents a regional comparison of healthcare sector spending as a percentage of budget spending. The highest healthcare sector spending in the period between 2003 and 2008 was in Armenia. In 2009, Georgia spent 5.3% of the budget on healthcare. In the 2011 budget draft, the healthcare sector is considered one of the priorities and spending in this sector is planned to increase.

Figure 32. Regional Comparison of Healthcare Sector Spending



Source: Ministry of Finance of Georgia.

The Statistics Department of Georgia annually conducts an Integrated Household Survey (IHS). The data from this survey provides the possibility to look at the changes in monthly health expenditures of Georgian households and their share in total expenditures (see table 28). The share of healthcare expenditures has been steadily increasing.

Table 28. Distribution of Average Monthly Healthcare Expenditures of the Total Population by Years, Million GEL

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
On healthcare	12.5	16.8	14.1	15.6	19.8	23.5	27.9	38.5
Expenditure, total	350.2	384.3	365.9	385.6	389.7	415.8	447.9	540.0
Share of healthcare expenditures in total expenditure	3.6%	4.4%	3.9%	4.0%	5.1%	5.7%	6.2%	7.1%

Source: National Statistics Office of Georgia.

Financing service provision

Table 29 above presents what share of expenditures is devoted to different service providers from public, private sources and from THE. In 2009, hospital service expenditures amounted to 34.6% of THE, 49.4% of THE from public sources and 31.1 % of THE from private sources. There is a decreasing tendency in the share of THE devoted to the hospital sector (2007 – 37.7%, 2008 – 39.1%, 2009 - 34.6%). This reflects the privatization of the hospital sector.

Table 29. Total Current Expenditure on Health, According to Financial Agent and Provider (% of Expenditure by Financial Agent category)

Providers	2004			2005			2006			2007			2008			2009		
	% of THE from Public Sources	% of THE from Private Sources	% of THE	% of THE from Public Sources	% of THE from Private Sources	% of THE	% of THE from Public Sources	% of THE from Private Sources	% of THE	% of THE from Public Sources	% of THE from Private Sources	% of THE	% of THE from Public Sources	% of THE from Private Sources	% of THE	% of THE from Public Sources	% of THE from Private Sources	% of THE
Hospitals	54.7	34.1	35.6	42.6	34.1	35.1	40.7	36.8	36.5	43.3	36.4	37.7	54.4	37.0	39.1	49.4	31.1	34.6
Providers of ambulatory Health care	27.7	14.7	16.1	25.1	14.9	16.7	25.7	16.8	18.4	26.3	17.1	18.7	27.8	14.8	21.9	29.2	20.4	23.1
Retail sale and other providers of medical goods	0.0	50.4	39.5	0.0	50.6	39.3	0.1	46.5	34.0	0.3	46.3	33.8	0.4	46.5	34.2	1.6	43.0	35.0
Provision and administration of public health programmes	1.5	0.0	1.3	2.7	0.0	1.5	1.2	0.0	0.4	2.1	0.0	0.4	2.5	0.0	0.4	2.9	0.0	0.4
General health administration and insurance	13.9	0.0	2.1	26.4	0.0	5.2	26.7	0.0	5.8	6.7	0.2	1.3	7.2	1.5	2.3	8.6	0.0	5.5
Unknown Expenditure (no detailed information)	2.2	0.8	5.4	3.2	0.4	2.2	5.6	0.0	4.9	21.3	0.0	8.1	7.7	0.2	2.1	8.3	5.5	1.4

Source: National Health Accounts and Ministry of Labour, Health and Social Affairs.

The distribution of public funds across different service providers allows for an evaluation of resource allocation according to the "declared priorities" of the government. According to Table 29, the first three government priorities for 2001-2009 were: hospitals, ambulatory health care and general health administration/insurance. The distribution of funding between public and private sources could be used to evaluate the relative effectiveness of different state programs. However, all these findings deserve a cautious interpretation.

It must be noted that the figures in the table do not reflect the full costs of other inputs in the health care provision process, such as drugs purchased for hospital services and other medical items brought to the hospital by the patients. Besides this underestimation, these numbers do provide information about the costs that are born by the patients.

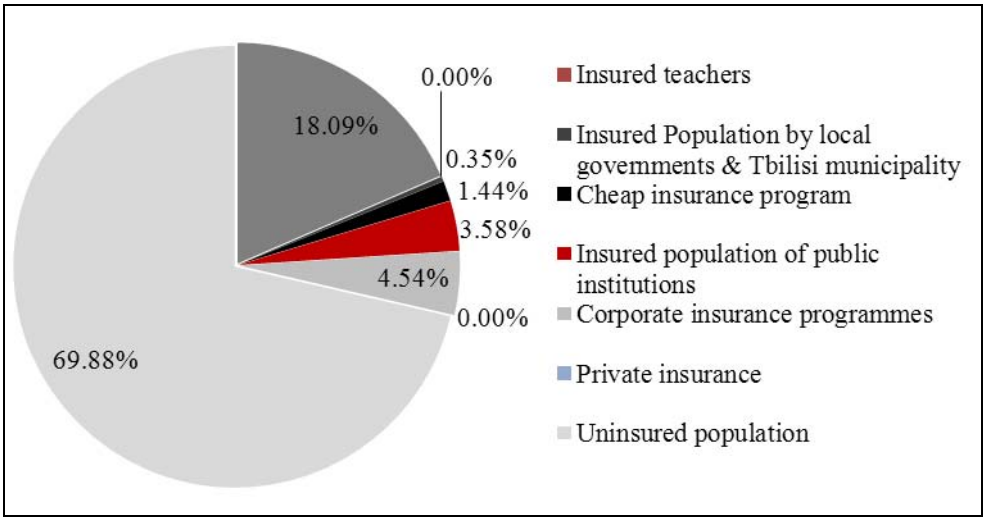
3.7. Health insurance system

Georgia has no mandatory healthcare insurance system. The Government has taken on the responsibility of insuring the poor (the healthcare insurance program for households below the poverty line was established in 2007) and a selected group of public servants (teachers, law enforcement officers and military servicemen and women) for essential health services. The state purchases insurance for these groups from private insurance companies. (Before 2007, the state provided the poor population with medical vouchers; expenses were covered by the Health and Social Programmes Agency under the MoLHSA). Currently 53,497 households, with 173,238 individuals living below the poverty line benefit from the Medical Insurance Programme. Problems associated with this programme are related to identifying the poor population and the lack of sufficient awareness among the poor about their basic health insurance.

Two major groups lacking medical insurance in Georgia are people above 60 years of age (private insurance companies do not target them because of the high risk factor) and a portion of the self-employed population (not belonging to those living below the poverty line), for whom corporate insurance is not affordable.

In 2009, the state decided to subsidize insurance of the second category mentioned above by introducing the Cheap Insurance Program. This program subsidizes private voluntary insurance for defined essential health services for the rest of the population (particularly the population between 3-60 years of age). The Cheap Insurance Program covers a basic package of services (emergency care, urgent care and basic primary healthcare) and at a very low price, 19.80 GEL annually (the Government finances almost 66% of the program's value). This program aims to promote insurance, make it more affordable, reduce private health expenses, and foster the use of pre-payment, rather than out-of-pocket payment, as the dominant mode of private health expenditure. In spite of the low price, the number of insured people in 2009 was only 122,000, while the Government expected it to vary from 300,000 to 500,000. Such a low demand results mainly from low public awareness about the programme. Discussions about insuring people above the age of 60 are still ongoing. No decision has been taken yet as to this matter.

Figure 33. Insured Population by Insurance Type in 2009



Source: State Financial Supervision Agency.

The number of insured people is increasing every year, but the percentage of uninsured people is still very high: 75.52 % of the population remained uninsured in 2008, compared to 69.88% in 2009.The insurance market is still in its emerging phase and the Government is trying to encourage the further development of this system.

Conclusions

The occupation of the Georgian territories by Russia in August 2008 and the global financial crisis significantly changed the current macroeconomic environment in Georgia. The August 2008 conflict undermined investor and consumer confidence, put pressure on public finances, damaged physical and other infrastructure and undermined the banking system with a large volume of deposit withdrawals. The deepening of the international financial crisis put further pressure on currency and foreign investments. However, the coinciding of the global financial crisis and the war in Georgia makes it difficult to measure the exact impact of each on the down streamed economy.

After the Rose Revolution, substantial changes started happening in the education sector and decentralization was named a top priority. Radical reforms destroyed the old remnants of the Soviet period and made headway towards a Western style education system. Since then several documents and laws were adopted by the Georgian government and parlament which aimed to create a national education system with streamlined and transparent governance.

The education management system has been rehabilitated during the last 5 years. Several separate institutions were established, such as educational resource centres, an accreditation agency, a national examination centre, a teachers' professional development centre, and other new entities which helped to revitalize the education sector in Georgia and the results have been reflected in the quality of education to some extent.

The financing system was also completely changed, and then later modified. The main change was that financing from the budget was allocated to individual students and pupils who are authorized to use it at the institution of their choice. This scheme applies to all levels of the educational system. In the general education system it's called the "voucher" system, which is calculated per pupil and is different for urban, rural and high mountain region pupils. In higher education it is called a "Government Grant", which covers either total (100%) or partial (70%, 50%, 30%) tuition.

The consequences of the financial crisis were reflected in budget expenditures in the education sector. Beginning in 2003, education financing was continuously increasing by about 40% a year, except for 2008-2009, when it experienced a

drop. At the same time, the financing of education increased as a percentage of GDP and in 2009, it reached 2.7% from 2.2% in 2008.

Recently, the financing system for general education schools was modified. More research is needed to evaluate the correctness of the new financing model of public schools in order to avoid making mistakes again. The following questions remain unanswered: what happens if too many pupils apply to a good school and too few pupils apply to a bad school? How is selection in the good school going to be implemented? And would the bad school (with no students applying) be closed, even if it is the only school in a village?

The financial crisis did not affect Georgian households' monthly expenditures on education, cultural activities and leisure, which have increased in absolute figures as well as a percentage of total expenditure after 2003. In the 2008-2009 academic year, the number of pupils at private schools increased by 11-12% at the basic and primary levels, which is a significantly larger increase in numbers as compared to the previous two years. At the same time, the number of pupils at public schools decreased by 3-4% at the basic and primary levels.

More research is needed to determine whether or not the government has achieved the main goal of the reforms implemented in the education sector, which is an increase in education quality. The number of pupils in public schools has decreased over the last ten years while it has been sharply increasing in private schools. The ratio of pupils in private schools to pupils in public schools was 2.4% in 2003, and it was 9.6% in 2010 with a continuously increasing trend. One of the reasons is the comparatively low education quality provided by public schools. In spite of the fact that education financing is increasing, it still is quite low as a percentage of GDP compared to European and Central Asian countries.

In 2008-2009, the government cut financing for the rehabilitation of Georgian public schools by about 85% on average. In addition, other governmental programmes in the education sector suffered due to the financial crises. In 2005, the national program for complete computerization and internet connectivity of schools ("Deer Leap") was launched. As was planned in 2007, the program's total budget for 2007-2011 should equal 49 million GEL but because of the financial crisis, the actual budget for this program decreased to 37.5 million GEL.

The pupil-teacher ratio in public general education schools decreased in 2009, which should be a signal to the government to pay attention to education quality in public schools. The Ministry of Education and Science does not publish data about system performance indicators, such as the promotion rate, repetition rate, drop-out rate, percentage of repeaters, survival rate etc. There is not any objective and representative research related to these topics. Analyzing these coefficients could give policymakers a better idea about the direction in which more work needs to

done to improve system performance and to finally increase the quality of education.

During the financial crisis, the number of pupils was increasing in nearly all the regions of Georgia (except occupied regions), The only exception was the Samtskhe-Javakheti region, where we continuously observed a decrease in the number of pupils over the last 4 years, while the number of schools there has remained the same and the population has not decreased. The recommendation to the government would be to find out the reasons for the decreasing school enrolment rate and to increase the government's control mechanisms in this region. One of the reasons for such a low enrolment rate could be the fact that Samtskhe-Javakheti is populated with a number of different ethnic groups (most of them Armenian) and a lot of children from there do not speak Georgian.

To foster competitiveness between schools, the Ministry plans to introduce the concept of "Branding of Schools" starting in the 2010-2011 academic year. Schools will evaluate themselves and they will get a certain number of "stars" from the Ministry after the monitoring and evaluation.

Recently, the Ministry has been working on enhancing the learning of the Georgian language by the non-Georgian population. At the same time, the Ministry is continuing the "Teach and Learn with Georgia" project, and for the 2010-2011 academic year, it plans to recruit 1,000 native English speakers who will be willing to help Georgian schoolchildren learn the English language.

The number of private HEIs was increasing up until 2007 (to 148); After that it decreased to 108 in 2009-2010. Not surprisingly, most of the private HEIs were situated in Tbilisi with an increasing agglomeration coefficient. The recommendation to the government is to stimulate the private sector to establish or move private HEIs to the regions, especially to Kakheti, Samegrelo-Zemo Svaneti, Shida-Kartli and Imereti regions, where some private HEIs were closed during the global financial crisis. This would have a much more significant effect on the economy of those regions. HEIs in different regions of Georgia would create new life and economic activity. Higher education would become accessible for those who are unable to come to HEIs in Tbilisi because of family, job or other reasons.

Creating good infrastructure and stimulating new private HEIs to be established in the regions will constitute a huge direct and indirect investment in the regions. The stimulus for establishing private HEIs could come in the form of reduced taxes, a stimulus which gained importance especially after the financial crisis. Additionally, the government can simplify accreditation rules for regional private HEIs.

The Ministry of Education collects information on VET courses from individual VET centers, but at the current time, this information is provided in a format that makes it difficult to see the overall picture. This could be improved if

the courses were classified according to skill-based categories and organized according to academic years. As a result, the MoES, or future employers of VET graduates, would be able to easily see how many people are being trained in what skills nationwide.

Even though progress has been made in improving the main health indicators, some are still very far from optimal; Non-communicable diseases are the leading cause of death. A high mortality rate for neoplasms is largely due to the fact that the percentage of neoplasm cases diagnosed in the early, more treatable, stages (stages I and II) remains low, between 25% and 30%. The incidence and prevalence of some communicable diseases is still unacceptably high.

Disease prevention policies aimed at eliminating the main causes of morbidity and mortality should be enhanced. There is a need for more screening programs, in order to discover neoplasms in earlier stages. Healthcare polices should be aimed at reducing tobacco use, increasing physical activity and lowering the prevalence of overweight people. Efforts to reduce smoking would also help to reduce morbidity due to respiratory diseases.

There is a plan to reduce the excess supply of hospital beds by 50% by December 2011 according to the National Hospital Master Plan; Utilization rates for PHC have decreased dramatically; The productivity of medical personnel has increased in the last five years but it is still insufficient.

Additional analyses should be conducted to determine the extent to which the under-utilization of beds results from financial barriers to accessing healthcare services; Access to primary healthcare services for the population should be improved; Adequate and regular training of medical staff should be instituted and regional gaps in retraining primary health care personnel should be addressed.

There is a lack of a nationwide vision of PHC development. Two PHC Master Plans were developed, but not approved. A long-term health care policy, with a medium term strategy and a short term implementation plan, should be developed by the Government.

The Government chose to turn the deteriorated healthcare industry over to the private sector with the idea that this would lead to increased competition, higher investments into the sector and, finally, provision of better medical services. Increasing market forces in the sector, which is far from competitive, should be done with great caution and should be based on concerns about the feasibility and sustainability of the system, as well as on issues related to quality, efficiency and equity.

The Ministry of Economic Development is dealing with the privatization process of hospitals. The state agencies responsible for the reform of secondary healthcare should involve stakeholders in designing and implementing the reform. In

addition, hospital personnel should be allowed and encouraged to meet with investors. They should take part in the process of selection by analyzing investors' objectives and the ways they plan to achieve the proposed goals.

The Government of Georgia allocates a very low share of public spending to the health sector. More than ¾ of the total expenditures come from private sources. Priority should be given to increasing government investment in health, particularly in the areas of primary healthcare, public health and health promotion. The critical issue of out-of-pocket payments must be addressed within the financing process. The Government should ensure access to at least a basic package of benefits, which should include essential medicines.

The development of the private insurance market to compensate for the decline in public financing was a policy priority of the Government of Georgia after the Rose Revolution. Funding of preventive services should be increased since insurance companies are not interested in such an activity.

Two main groups remain uninsured: people who are above 60 years of age and self-employed who do not belong to the poor population, but for whom corporate insurance is not affordable. In 2009, the Government decided to subsidize insurance of the second group mentioned above by introducing a cheap insurance program, but the government's expectations failed with respect to the program's coverage. Awareness of the state funding programmes should be increased and comprehensive policies to ensure insurance of the over 60 age group should be developed.

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Appendix

Table A1. Demographics of Georgia

Area of the country	69,700 sq km
Land boundaries	1771 km
Coastline	310 km
Population	4,382.100 (01.2008)
Age structure:	
0-14	16,3%
14-65	67,1%
> 65	16,6%
Birth rate	11.2/1000 (2007)
Death rate	9,41/1000 (2007)
Net migration rate	-4,36/1000
Literacy	100%

Source: National Statistics Office of Georgia.

Table A2. Percentage Change of Pupils' Number

		2003/ 2004	**2004/ 2005**	**2005/ 2006**	**2006/ 2007**	**2007/ 2008**	**2008/ 2009**	**2009/ 2010**
Public schools	Primary	-6%	-8%	-6%	-2%	-4%	-4%	-5%
	Basic	3%	0%	-8%	-8%	-7%	-3%	-2%
Private Schools	Primary	8%	21%	64%	7%	7%	12%	1%
	Basic	10%	40%	38%	1%	3%	11%	6%

Source: National statistics office of Georgia.

Table A3. Number of Schools

	2002/ 2003	**2003/ 2004**	**2004/ 2005**	**2005/ 2006**	**2006/ 2007**	**2007/ 2008**	**2008/ 2009**	**2009/ 2010**
Public	3174	3175	3167	2470	2282	2215	2178	2179
Private	131	156	176	261	257	247	270	283

Source: National Statistics Office of Georgia.

Table A4. Number of Pupils at Public Schools by Gender and by General Education Levels

	Pupils			
		Primary	Basic	Secondary
Males				
2002/2003	342556	194005	103921	44630
2003/2004	335523	183023	106974	45526
2004/2005	321552	168379	106771	46402
2005/2006	303712	157029	96978	49705
2006/2007	309773	158423	90641	60709
2007/2008	299119	152143	84738	62238
2008/2009	312027	147048	82941	82038
2009/2010	299981	138850	81051	80080
Females				
2002/2003	328351	183011	99073	46267
2003/2004	319501	171152	101710	46639
2004/2005	305746	157977	101018	46751
2005/2006	297650	150148	94995	52507
2006/2007	289914	143041	86513	60360
2007/2008	277505	136703	80064	60738
2008/2009	285793	129951	76358	79484
2009/2010	276822	125023	75126	76673

Source: National Statistics Office of Georgia.

Table A5: Percentage Change in Number of Pupils

	2006/2007	2007/2008	2008/2009	2009/2010
GEORGIA – Total	0.2%	-3.4%	4.7%	-2.9%
TBILISI	2.5%	-2.0%	7.2%	-3.1%
ABKHAZ AR	-7.7%	-7.1%	2.3%	-5.8%
ADJAR AR	1.4%	-3.1%	5.3%	-2.4%
GURIA	-1.7%	-2.0%	5.5%	-4.5%
IMERETI	-1.5%	-4.7%	5.4%	-4.2%
KAKHETI	-1.4%	-3.0%	4.4%	-2.3%
MTSKHETA-MTIANETI	1.1%	-5.1%	1.8%	-3.0%
RACHA-LECHKHUMI AND KVEMO SVANETI	-4.5%	-6.4%	4.2%	-7.6%
SAMEGRELO-ZEMO SVANETI	0.2%	-5.0%	4.2%	-5.4%
SAMTSKHE-JAVAKHETI	-0.7%	-4.6%	-0.4%	-0.3%
KVEMO KARTLI	-0.6%	-3.6%	2.7%	0.1%
SHIDA KARTLI	-0.9%	-2.5%	1.1%	-3.3%

Source: National Statistics Office of Georgia.

Table A6: Higher Education Institutions and Enrolment by Type of Study at the Beginning of School Year

	Number of institutions, unit	Number of students, persons	Of which:			
			Women	Day-time	Evening	Distance learning
Public institutions, total						
2000/2001	26	105822	49834	77149	650	28023
2001/2002	26	115546	54887	87958	531	27057
2002/2003	26	122223	58451	94132	364	27727
2003/2004	26	123866	61224	97122	209	26535
2004/2005	26	137021	66504	110012	0	27009
2005/2006	25	113801	57935	97507	0	16294
2006/2007	18	110846	55875	94612	0	16234
2007/2008	19	81189	43223	74833	149	6207
2008/2009	20	66498	35527	66380	118	0
2009/2010	21	74056	40495	74056	0	0
Private institutions, total						
2000/2001	145	33138	18160	32041	0	1097
2001/2002	153	31887	18425	31012	0	875
2002/2003	154	31465	16305	29641	0	1824
2003/2004	150	29388	15984	27558	0	1830
2004/2005	172	35440	20157	33250	0	2190
2005/2006	140	30078	17402	27057	0	3021
2006/2007	148	29961	17346	29640	0	321
2007/2008	137	30914	18290	30334	411	169
2008/2009	109	27139	15825	26817	310	12
2009/2010	108	28654	16125	28654	0	0

Source: National Statistics Office of Georgia.

Table A7: Number of Higher Education Institutions by Regions of Georgia, Unit

	Public					Private				
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
GEORGIA – total	25	18	19	20	21	140	148	137	109	108
TBILISI	14	10	9	9	9	91	103	100	80	75
ABKHAZ AR	1	1	2	2	2	4	3	5	5	5
ADJARA AR	4	2	2	2	2	12	13	5	3	5
GURIA	0	0	0	0	0	1	1	1	1	1
IMERETI	2	2	1	1	2	15	12	10	9	9
KAKHETI	1	1	2	2	2	5	2	2	1	1
MTSKHETA-MTIANETI	0	0	0	0	0	1	1	1	1	1
SAMEGRELO-ZEMO SVANETI	0	0	1	1	1	2	2	2	1	1

	Public					Private				
	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010
SAMTSKHE-JAVAKHETI	0	0	1	2	2	2	2	2	2	2
KVEMO KART-LI	1	0	0	0	0	4	5	5	4	6
SHIDA KARTLI	2	2	1	1	1	3	4	4	2	2

Source: National Statistics Office of Georgia.

Table A8: Number of Students Admitted to Higher by Type of Study Education Institutions at the Beginning of School Year, Persons

	Number of students admitted	of which		
		day-time	evening	distance learning
In Public institutions, total				
2000/2001	23009	19192	150	3667
2001/2002	25930	22134	0	3796
2002/2003	26396	22448	0	3948
2003/2004	25036	21831	0	3205
2004/2005	31663	27946	0	3717
2005/2006	13270	12782	0	488
2006/2007	15079	15055	0	24
2007/2008	15601	15601	0	0
2008/2009	17004	17004	0	0
2009/2010	20926	20926	0	0
In Private institutions, total				
2000/2001	7304	7163	0	141
2001/2002	7653	7524	0	129
2002/2003	6947	6425	0	522
2003/2004	6279	5927	0	352
2004/2005	9125	8736	0	389
2005/2006	2873	2873	0	0
2006/2007	6078	6078	0	0
2007/2008	11281	11196	85	0
2008/2009	7266	7139	115	12
2009/2010	9263	9263	0	0

Source: National Statistics Office of Georgia.

Table A9: National Expenditure on Health (GEL)

National Health Accounts	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure on health in Millions (MoLHSA)	521.5	650.7	724.8	835.9	998.3	1,159.6	1,386.6	1,660.7	1,818.5
General government expenditure on health in Millions (MoLHSA)	93.8	106.5	108.3	128.8	194.8	250.1	249.2	271.7	246.5
Private expenditure on health in Millions (MoLHSA)	381.4	465.1	562.5	655.4	775.2	849.3	1,010.3	1,219.9	1,468.6
Rest of the world funds / External resources in Millions (MoLHSA)	46.3	78.9	54	51.7	28.2	60.2	127.2	169.1	103.4
Rest of the world funds / External resources as % of THE	8.9	12.1	7.5	6.2	2.8	5.2	9.2	10.2	5.7
General government expenditure on health (GGHE) as % of THE	18.0	16.4	14.9	15.4	19.5	21.6	18.0	16.4	13.6
GGHE as % of General government expenditure (WHO)	7.5	7.5	6.7	5.3	5.9	5.6	4.2	4.9	
Private expenditure on health (PvtHE) as % of THE	73.1	71.5	77.6	78.4	77.7	73.2	72.9	73.5	80.8
Social security funds as % of GGHE (WHO)	43.2	46.3	64.1	62.8	45.5	51.3	60	66.8	
Out of pocket expenditure as	88.1	85	90.8	91.7	95.6	92	86.8	83.6	

National Health Accounts	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
% of PvtHE (WHO)									
Private insurance as % of PvtHE (WHO)	1.1	0.5	0.5	0.9	0.9	1.4	1.9	1.8	

Source: WHO 2010, National Health Accounts and Ministry of Labour, Health and Social Affairs, National Health Accounts OF Georgia.