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## **THE SOCIAL PROTECTION SYSTEM OF GEORGIA AND ITS FINANCIAL ASPECTS**

**Abstract.** The social protection system is critical to the well-being of any country's population and the country's socioeconomic development. The main goals of Georgia's social protection system are to improve the population's health, equalize financial burden distribution, protect against financial risks, and make effective use of existing financial resources.

**Keywords:** Social protection system, pension provision, State insurance, budgetary financing, cumulative pension system.

The issue of reforming the social security system and adapting it to the social security systems of developed countries was on the agenda after Georgia gained independence (the last decade of the twentieth century). The social insurance model was initially used to finance social protection programs (Bismarck model). With the introduction of the social insurance system, the funder gained the right to select the medical institution of his choice, which increased competition among them and, as a result, improved service quality.

The unfavorable economic situation, the low level of income of individuals and legal entities, and the lack of a unified database of payers' data posed significant challenges in the process of reforming the social security system.

Since 2007, the transition to a tax-based model (Beveridge model) has begun, which is related to the fact that the tax-based system has an advantage over

the social insurance model for developing countries. A tax-based model has the potential to take hold more quickly in developing countries with a more developed informal sector. The tax-based system, on the other hand, places a strain on the state budget and contributes to an increase in budget expenditures.

Furthermore, unequal financing is observed, which may result in subsidizing self-employed individuals who do not fall into the low-income category.

It is well understood that population health protection is an important component of the country's social protection. As a result, Georgia has launched a state program of universal health care since 2013, with the goal of increasing financial access to medical services for the population. Basic medical services are provided to all citizens through both state and private insurance programs.

It is important to note that the implementation of the universal health care program provided signifi-

cant social guarantees to the Georgian people. However, risks associated with program implementation include: an increase in state budget costs; effective program management; and the development of private insurance business. “One of the country’s top priorities is to maintain and further develop a quality and universally accessible health care system based on the principle of social justice” [1, 37].

The Georgian pension system effectively employs a three-pronged approach: 1. old-age pensions; 2. disability benefits; and 3. targeted social assistance (TSA).

**Component 1** – consists of old-age pensions. In Georgia, social protection, particularly old-age pensions, accounts for more than 70% of budget resources. The priority is a universal, tax-funded redistribution scheme in which all citizens receive a pension: males 65 and up, females 60 and up. The state pension is funded by the state budget, which is funded by various types of income paid by individuals and legal entities. The state budget’s size and capabilities are constrained. For its universality, effective targeting, and well-organized administration, the system has received international acclaim.

**Component 2** – Benefit coverage for people with disabilities. Persons with disabilities can have their medical conditions evaluated by qualified medical personnel. The state provides social protection for people with disabilities and creates the conditions for the development of creative and productive abilities as well as individual growth. If a disability falls into one of the three categories, the individual is eligible for the appropriate benefits. Coverage for people with severe disabilities (groups I and II) is nearly universal, and coverage for people with moderate disabilities reaches 75% (group III).

**Component 3** – Personalized Social Assistance (TSA). Personalized Social Assistance program is not connected to the life cycle. It provides cash transfers from the country’s state budget to low-income families. After an adult family member applies for the program or is referred by social workers, the family’s situation is assessed using the income (needs) assessment (PMT).

Poverty scores are calculated using consumption, socio-demographic factors, location, and income. The lower the score, the less wealth is demonstrated.

Priority – contribution-funded pension. To ensure an improved standard of living for the population when they reach retirement age, Georgia launched a cumulative pension scheme on January 1, 2019, which applies to employed and self-employed Georgian citizens, as well as foreign citizens permanently residing in Georgia.

The second priority of the pension system is a new, mandatory, defined contribution funded pension model. It is known that the system has reached 100% of the target participants, from whom a mandatory 2% deduction is made from their accrued salary. Aside from the fact that employee contributions are not taxed, they are also paid by the employer (2%) and the state (2%), depending on income level. Ideally, this would provide a much-needed incentive for people to enter the formal labor market. Many employees, however, are skeptical of the scheme, viewing it as yet another tax with no immediate benefits.

In accordance with Georgian law, the Pension Agency may invest the mobilized funds in highly liquid (government) securities. “Pension assets can only be invested in accordance with the requirements of this law, in order to maximize their real growth (taking inflation into account) over the investment horizon, in accordance with the interests of the participants, and in accordance with sound investment principles” [2]. As a funded pension system (as opposed to the prepayment-based German system), it has yet to make significant payments, so its reach and impact on beneficiaries are currently unknown. “After establishing a specialized depository and other trading infrastructure, the investment service actively began investing in local and foreign capital markets in the first half of 2022 in order to achieve the maximum diversification of a less risky portfolio within the legal limits” [3, 7].

Furthermore, there is close collaboration and consultation with experts from international donor

organizations, such as the Asian Development Bank, World Bank, French Development Agency, American International Development Agency, and International Monetary Fund.

**Universal Health Insurance.** Georgia has implemented the Universal Health Care Program (UHCP) since 2013, which covers health care for approximately 90% of the population with or without a needs assessment. Emergency care, childbirth, outpatient services, some surgeries, and cancer and infectious disease treatment are all part of a universal health care program for the poor or low-income, as well as retirees, the disabled, children, and veterans. “Georgia’s current social security system is largely funded by tax revenues’, as stated above [4, 9]. In 2020, the universal health care program covered roughly 90% of the population. Approximately 9% of the population had private health insurance, and less than 1% had no coverage (public or private health insurance). Families with the highest incomes (roughly 1% of the population defined as families (households) earning more than 40.000 GEL or \$12.300 USD per year) have been excluded from the universal health care benefits since 2017, but they continue to have access to certain services through vertical programs. They are likely to purchase private health insurance. “Amount of state grants in 2019–2021 – In total, the state grants provide more than 7.604.000.000 GEL per month for 1.100.000 beneficiaries: more than 7.604.000.000 GEL were issued for their various necessities” [5, 20].

**Programs for vertical healthcare.** Vertical programs for prevention, early detection and screening, disease management, and risk reduction counseling are also available (such as diabetes management or tuberculosis control, rural doctor and referral services). The methodology for assessing the socioeconomic status of socially vulnerable families, as well as the procedure for issuing subsistence allowances, have been improved; effective mechanisms for encouraging and promoting employment of able-bodied members will be developed and implemented.

“Georgia’s planned expenses for the 2022 state budget totaled 15.342.926.8 GEL. Social protection programs account for approximately 40% of these costs, totaling 6.115.804.1 GEL” [6]. It is important to note that Georgia’s biggest challenge in terms of social protection financing is undoubtedly the structure of the labor market, which is characterized by both informality and a high level of unemployment. This, in our opinion, is a challenge because it reduces income tax revenues and impedes the development of effective contribution systems.

The Georgian government has announced a reform called the Social Code, which aims to improve the state’s social policy.

Germany is one of the main examples that the Georgian government considers successful. The German Social Code (Sozialgesetzbuch) is made up of 12 main articles, which cover topics such as state pensions, health care, disability, and unemployment insurance. Contributions from employees and employers fund this social security system.

The reform is being planned with European Union funding and the support of French and Czech development agencies. The creation of the code is linked to the step planned for 2024 to apply for EU membership.

**Conclusion:** Every country, developed or developing, has taken its own unique path toward the creation of a universal social system. The models of universal coverage differ across countries, and their successful implementation is heavily influenced by the country’s economic situation and government policy.

As a result, the role of the state budget in the development of the country’s social system is critical. As a result, the implementation of fiscal policies aimed at improving the country’s social situation plays an important role in improving the population’s well-being and the country’s socioeconomic development. Taking best global practices into account, the Georgian government is improving the country’s social security system and harmonizing it with the social security systems of EU countries.

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