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PABSEC**

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CULTURAL, EDUCATIONAL AND SOCIAL AFFAIRS COMMITTEE

REPORT

on

The Social Problems of the Transition Period

in the PABSEC Member Countries

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"...a new social overcoat, replacing the old red one, which never fitted well and is now worn beyond all repair. The new overcoat on order will be a long time saving for and longer in the making, but one may hope it will be of durable social fabric, proof against the stiff winds of market forces - and of modern fashion, in a choice of colours and styles, tailored to each country's needs and serviceable to every individual wearer. It is also fervently hoped that, unlike poor Akaky Akakyevich's overcoat in Gogol's classic short story the new social overcoat will be one that, no matter what the wearer's station in life, no amount of personal misfortune and no bureaucratic arrogance or indifference will ever take away"

"Labor Markets and Social Policy in Central and Eastern Europe", Oxford University Press, 1994

1. Introduction

Social problems have acquired a primary importance for the post-communist world. Social issues related to providing the population of the countries in transition with basic food and financial means are moving to the top of the agendas of many international and national organisations. Therefore, our priority assignment today consists in elaborating a common concept and in defining main areas and issues in the social field which are relevant for the PABSEC member countries in transition. For this reason, the Cultural, Educational and Social Affairs Committee during the Fifth Meeting in Cheboksary on 20-21 September, 1995 decided to discuss this issue at its next meeting.

The Rapporteur found himself in a difficult position since no delegations, except for Azerbaijan, sent information. Unfortunately, we have developed a poor practice when the Rapporteur has to prepare his or her report practically on the basis of information from two or three countries. This does not allow to have a comprehensive picture of matters we are dealing with. Therefore, the Committee at its Tbilisi meeting endorsed a draft decision to be adopted by the Standing Committee concerning a timely provision and circulation of documents, so that these situations so awkward for the Rapporteur would be avoided in future .

Following the transformations in central and eastern Europe since 1989, the collapse of the USSR and formation of new independent states, we have been witnessing practically identical processes. So Rapporteur deemed it possible to base the Report mostly on the information received from Georgia and Azerbaijan. Some materials at the disposal of the International Secretariat concerning the activities of the Council of Europe, as well as statistical data from Armenia and Romania, have also been used. The Rapporteur has used the opportunity of the debate during the Committee meeting to revise and supplement the Report.

2. The Social Consequences of Transition

Reform in central and eastern Europe and in CIS countries towards a market-oriented economy has turned out to be far more painful and complex than previously thought. The

transformational recession - economic decline, rising unemployment and high inflation - has worsened beyond expectations and risks to undermine popular and political support for further reforms. In recent years, following the collapse of the USSR and formation of new independent states, as well as processes under way in Europe, the social situation of the population has dramatically worsened. The deepening economic crisis, a fall of production in many industries and budget deficits are creating a favourable environment for aggravating the social hardships of the population.

In central and eastern Europe, the number of those living below the poverty threshold rose from 8 to 58 million between 1989 and 1993. Today over 90% of the population in the CIS countries have incomes that are lower than the minimum consumption budget. Poverty has affected not only traditionally disadvantaged groups of the population with limited possibilities for employment, but also a considerable part of individuals working in budget-financed establishments (those employed in education, science, culture), pensioners, as well as the employees in industries which are in a difficult financial situation (for example, miners). This situation has led to more frequent outbreaks of social actions, such as miners' and teachers' strikes in Russia and Ukraine.

As a result of increased prices, the minimum consumption budget in Azerbaijan has grown 251-fold within the last three years and practically 500-fold in Georgia. In the same period, the average monthly salary in Azerbaijan has increased by 76 times while the minimum one only by 22 times. About the same picture can be seen in Georgia. If converted into US dollars, the minimum consumption basket would be \$55.6 in Azerbaijan while the average salary is \$14.3 and the minimum salary only \$1.2. For Georgia, these indicators are as follows: the minimum consumption basket is 98 lars (about \$79), the average salary is about \$ 8 and the minimum salary is only \$2.2.

In Armenia, the average salary in the public industrial sector was \$7.2 monthly in 1993 and \$8.5 monthly in 1994. Non-productive (subsidised from the state budget) public sector salaries were only \$3.10 in 1994. Salaries are so low compared to minimal basic needs that they are no longer considered compensation for work. Even subsidised urban transport cost for a person going to his or her workplace is higher than an average monthly salary.

We are witnessing an unwelcome trend in the correlation between the average salary and the minimum consumption budget. In Azerbaijan, the average salary contained 1.4 minimum consumption budgets in 1990. In December 1992 this indicator was 0.85, in 1993 - 0.53, in 1994 - 0.28, in 1995 - only 0.26. Almost identical figures are in Georgia. However, if minimum salaries and consumption budgets are compared, the ratio is simply catastrophic.

The current situation has led to dramatically increased differences in personal wealth. While before the beginning of reforms, in 1990, the ratio of the most wealthy to the least wealthy in Trans-Caucasian republics was only 5-6, it had grown to 20-30 by the end of 1995. Differences in salaries by sectors and categories of workers have reached unjustified levels. The difference of average salaries between the branches of economy with highest average salaries and those with the lowest ones is 4-6 times in the public sector. The proportion between the highest and lowest salaries in the private sector is even larger.

A low level of salaries leads to a decline of professional skills. It is all the more deplorable that the low-salary group includes those employed in education, science and culture, the fields with which our Committee is directly concerned. Strikes by teachers and cultural sector workers have become more frequent. Youth tends not to choose academic research and those young people who already work there leave their jobs. This leads to a loss of qualifications in the academic community. The older generation is leaving while there is a meagre enrolment of new young forces. Unless this situation improves in the nearest future, I am afraid that science and culture would be dealt a mortal blow and then we would have to start anew all over again.

Taking this situation into account, the Government of Georgia has requested the national academy of Sciences to accelerate reforms and to adopt a more efficient contract system. This work has begun, however, it has a dark side since part of workers will be made redundant. The current national budget envisages redundancies for 10,000 posts. This year about 20,000 persons from the field of activities that our Committee deals with will join the already numerous army of the unemployed. Unless urgent measures are taken for their re-employment, re-training and social support, the situation will be further aggravated.

The lack of electrical power supply in the Trans-Caucasian countries is one of the destabilising factors. Power shortages have become customary. In spite of the completion of the 'Kavkasioni' Power Transmission System coming from the Russian Federation over the Caucasus Range, Georgia has not received energy as promised. Out of its own resources, Georgia regularly supplies the Autonomous Republic of Abkhazia with 1,200,000 kW. But what is received in exchange? The Inguri Hydroelectric Power Plant situated on the territory controlled by Abkhaz separatists continuously falls short of supplying Georgia by 500 megawatts.

Consequently, the social situation of the population in some countries has been aggravated by a prolonged energy crisis. For example, in Georgia, the supply of electrical power for household use satisfies only one third of the consumption need. In Armenia, distribution of natural gas has been completely suspended, household electricity is rationed at 2-4 hours a day and approximately 80% of the urban population has no central heating..

At the same time, there have been positive trends in 1994 and 1995. For example, in Armenia, salaries which previously constituted all of an individual's income are now being supplemented by interest from investment and other income sources. In general, the decrease of salary proportion in total incomes has been registered in all transition countries due to land and housing privatisation, entrepreneurial activities, sales of company shares to employees and other market-oriented measures. In Romania, the population purchasing power - the ratio between the average salary index and the consumer price index - has increased, for the first time since 1990, by 21.2 % in 1994. In Ukraine, the average salary in real terms grew by 15.2 % in the first eleven months of 1995, for the first time since 1991.

This can be attributed to an overall macro-economic stabilisation which is slowly gaining ground, for example, consumer prices in Romania grew by almost 400 % in 1993 and by

160 % in 1994, annual consumer price increase levels in Ukraine went down from 10250% in 1993 to 400 % in 1994 and to 181.7 % in 1995.

3. Unemployment

Emerging unemployment is a new painful phenomenon in the PABSEC countries in transition. For example, Romania had 1.2 million unemployed in 1994, or 10.9 % unemployment rate as compared to 3 % in 1991. In CIS countries, much of unemployment is hidden from statistics: there is an increase in the number of people who work reduced working weeks and go on unpaid leaves for months on end. In Russia, for example, there are about 2 million officially registered unemployed, but poverty is widespread and there are perhaps some 50 million people who have to spend more than two-thirds of their incomes on food.

In Azerbaijan which was traditionally considered a republic with excessive labour resources, due to a loss of 250,000 jobs and a massive emergence of refugees as a result of the armed conflict, hidden unemployment is rising and rapidly changing into an open one. The problem of unemployment is much more acute for refugees. Since most of them are farmers, they do not fit into the urban labour pattern and mostly resort to petty trade, buying and re-selling goods.

With regard to unemployment, programmes of social protection need a comprehensive and urgent reform, including the introduction of properly targeted unemployment benefits. A survey of job seekers carried out by the ILO (International Labour Organisation) in eighteen districts of Russia in 1993, showed that only a minority of those who had managed the complicated process of registering as unemployed were receiving any benefits. And that minority on average collected less than the equivalent of \$ 3 per month.

4. The Social Consequences of Armed Conflicts

The social plight has been made worse by the consequences of armed conflicts in some of the countries of the region. These conflicts have resulted in the destruction of industrial and social potentials in the zones of conflict which further worsened conditions for our citizens. The situation of the Trans-Caucasian countries should be especially emphasised in this regard. The separatist regimes in Abkhazia and Chechnya have practically cut off these countries from the north for the past five years. In spite of numerous international agreements, all efforts to open up the north railway have failed. Due to this, Armenia and Georgia have suffered most. The international community has often condemned the economic blockade and sanctions against Abkhazia. Nobody has ever noted in what kind of isolation Georgia has found itself because of Abkhazian separatism. The opening of the railway line passing through Abkhazia would allow us to increase our volume of trade which would favourably influence the social situation.

Particular hardships are faced by refugees from Abkhazia and the so called South Ossetia whose total number today has reached 400,000 with 300,000 out of them living in Georgia. They receive benefits and allowances, however, the difficult financial situation in the country does not permit to compensate them for the losses incurred by the horrors of war and ethnic cleansing. Let me cite just one example. The estimated total damage equals

223 million laras (about 220 million US dollars). The central budget has only provided for this budgetary item one million this year.

Out of 300,000 refugees and displaced persons in Georgia, 60,000 are war invalids and members of the families of those perished or missing in action. The problems of the social adaptation of refugees remain unresolved. The only hope for these people lies in the recently established state department of social adaptation which was set up within the institutional framework of the ministry of social security. But this department cannot achieve much without assistance from government and foreign aid.

The plight of the population in Trans-Caucasian countries has been dramatically exacerbated by the so called ethnic conflicts. The number of the disabled has grown and now this group of the population has become a large army including the invalids of the Second World War, Afghan war, Chernobyl disaster, labour accidents and those disabled from childhood. In Georgia, this group consists of 300,000 persons; they need special attention. Some steps are being taken: rehabilitation centres, prosthetic and orthopaedic centres, rest and work homes have been set up. However, these establishments are few and far between. The disabled need urgent help - wheelchairs, prostheses, medicine, housing and food. We have to draw the attention of international organisations to this urgent problem and request their aid.

5. Crime

An overall decline in oil and natural gas production coupled with the disruption of traditional trade and economic links among the former USSR republics has created conditions for the mafia structures which flourish especially in oil industry and in the distribution of oil products. Corruption and the mafia have infiltrated the upper echelons of government structures, that is why combating corruption and the mafia becomes a primary, challenging task for governments. Georgia has already embarked on resolving this task and has achieved a lot, however, the fight against this evil of the 20th century should be waged more resolutely. Mafia structures often stretch beyond national borders, therefore, at this stage we should join forces to conduct this fight together. The mafia, corruption and drug trafficking can only be defeated by our joint efforts and one of our most important tasks is to support this fight with a relevant document of the Assembly. Without defeating the mafia first, any improvement in the social field would be hard to reach.

Crime is also a strong obstacle to the improvement of the social situation. All the Black Sea countries in transition are focusing attention on this problem. In Georgia, for example, the situation in this field has dramatically improved. Disarming and disbanding of such non-government, practically illegal, formations as *Mkhedrioni* and *the Guard*, as well as the suppression and detention of some armed groups, have improved the climate in the republic; however, much remains to be done. An atmosphere must be created when no criminal should ever feel safe. This is especially relevant for terrorism which is on the surge throughout the world. The PABSEC should express its stand with regard to this evil of our time. A terrorist from one country should not find an asylum in another country of our community. We should put everybody on high alert about this issue of primary concern for all of us. This issue has to be addressed by the PABSEC Legal and Political Affairs Committee in order to elaborate a common concept of measures to combat

corruption, drug trafficking and terrorism. I am sure that by joining our efforts, we could do away with this evil and the huge means spent to fight crime could be used for social needs.

6. Legal and Political Framework for Social Protection Measures

Given the plight of economy and political instability in our countries, the governments should do their utmost to organise social protection of the population. First and foremost, our parliaments should provide a legal framework for social protection. Little has been done yet in this field. In particular, the Parliament of Azerbaijan has enacted laws “On pension provisions for the citizens”, “On the social protection of the disabled”, “Law on veterans”, “Law on leaves”. The Parliament of Georgia has adopted laws on war and labour veterans, on annual paid leaves, on forced or compulsory labour. Unfortunately, we are not informed about the situation in other countries, but we may presume that matters there are not best possible either.

We have done little and what has been adopted is not implemented. For instance, Georgia has adopted the law “On pensions for the veterans of the Great Patriotic War”(WW II). The same issue has been discussed on several occasions at various CIS meetings. A special decree was adopted by which Russia guaranteed Russian level-pensions to all war veterans. But the decree has remained on paper and our veterans have not received anything at all. So we have to make sure that all decrees and agreements concerning social programmes must be implemented on a priority basis.

It is necessary to create a legal basis for a social protection system, so that large sections of the population could receive though a minimal, but stable salaries, pensions, allowances, student grants, compensations, etc. These payments should meet at least the basic criteria of minimum living expenses. Our experience today shows that the average salary in our countries is several times lower than the minimum living expenses. Maybe in some countries this indicator is higher, however the official statistics show that in almost all the post-communist countries the average monthly pay is lower than the subsistence level.

7. The Current Social Security System

In the CIS countries there is a well-established tradition of industry performing a social role: enterprises provide employees and former employees (pensioners) with numerous facilities such as accommodation, medical services, nurseries, holidays and food parcels. However, although this industrial policy plays a major role in social protection and remedies some of the present shortcomings of the state system, it is a factor of social inequality, in particular, in the case of old people outside the industrial system.

Taking into account price liberalisation and hyperinflation, the governments have provided low-income citizens with certain benefits, such as free and partially compensated communal services and city transport. Georgia, for example, has several times reviewed bread price subsidies.

Today the system of social guarantees in Azerbaijan is covering 1.2 million pensioners, about 300,000 disabled persons, over 1 million refugees and displaced persons, 2 million children and 100,000 students. The same indicators for Georgia are as follows: 1.3 million pensioners, 200,000 disabled persons out of whom 14,000 are children, 100,000 destitute people, 22,500 destitute elderly people. Out of this army of pensioners, 30,000 need a complete state-provided coverage, while the state can only make provisions for 1200 persons.

The national budget of Georgia envisages one fourth of all budget outlays for social security of the population. Besides, special 200,000-laras funds are being established under the ministries of social welfare and the ministry for the accommodation of refugees and displaced persons to handle case-by-case assistance to socially ill-protected persons. Other national funds - of social welfare and health care - are being set up to provide similar kinds of assistance. The social welfare and medical insurance fund has been provided with 38 million laras, the road fund with 6 million, and the health care fund with 17 million laras. Regional budgets also make allocations for the social welfare of the population.

Today, with the rate of inflation at 29%, pensions, allowances for children, student grants, aid for refugees and displaced persons, and salaries for low-paid employees grow by 10-17% a year. This indicator is exceedingly low and is not sufficient to meet even the basic needs of the population, however, other ways to combat the prolonged crisis are not available. High inflation which has hit all the post-communist countries is also affecting our budgets. So increases, whether expressed in percentages or in big figures, do not really reflect the situation. For example, in Azerbaijan, the average pension increased ten-fold, from 1900 to 19000 manats only in 1995, however, it produced little effect on the real conditions of the population.

In Georgia and other CIS countries, the social welfare system is mostly financed through the social security funds formed by the mandatory social security taxes of companies and organisations. Part of finances come from the national budget. The levels of minimum salaries are periodically adjusted taking into consideration the cost of living and inflation. Following changes in the minimum salaries, all salaries, student grants, pensions and various benefits also get adjusted. However, efforts have failed in Georgia to stop a further decline of the living standards.

8. Protection of the Elderly

The general demographic trend of ageing population in the PABSEC countries in transition presents an exceptionally difficult social problem. In Russia, there are 20 million citizens aged over 65, Romania has 3.5 million elderly out of its population of 23.5 million. There are 13.6 pensioners in Ukraine. Many of the elderly live below the poverty line. A number of steps are needed to a new social policy for the elderly, such as pensions guaranteeing an adequate income, appropriate medical care, aid and services, adjustment of social security systems and financial support for families and voluntary associations.

The latter can play a prominent role. For example in Romania, the Academy of Medical Science, the Romanian Gerontological and Geriatrics Society and the Anna Aslan

Foundation issued a joint declaration on the socio-medical problems of the elderly, criticising the lack of effective social provision by the state for the elderly, stressing the need to protect their fundamental rights and recommending the setting up of a national programme. "The national programme to improve the health and the quality of life of the elderly" drawn up by the Anna Aslan Foundation was presented in Bucharest in October 1992 and submitted to the World Health Organisation. It is a part of a social-democratic movement to support the elderly and when implemented, this plan will also contribute to the democratisation of Romanian society.

In Azerbaijan, measures are taken to provide assistance to elderly people at their homes. Differently from Azerbaijan, this kind of assistance in Georgia is provided through the private sector, but it is minimal. The government has opened only one establishment for this category of people where our lonely, elderly citizens can live in comfortable conditions. Unfortunately, this kind of assistance is reaching very few people.

The new social protection system for the elderly should take account of economic and administrative changes, new funding methods and a tax system that is still to be elaborated. There is also a need for a system of private-sector pensions.

9. International Cooperation and International Legal Instruments

The Black Sea Economic Cooperation with its flexible structure and membership which includes both countries in transition and those with developed market economies (Greece and Turkey), apart from intra-regional trade and economic cooperation among the participating states, can also facilitate the flow of expertise in the market economy and its social mechanisms to the PABSEC member countries in transition.

There is no doubt that the most important outside contribution to the success of the transition would be an open international trading system, especially as regards access by transition economies to western markets. In this regard, association agreements (Romania) and partnership and cooperation agreements (Russia, Ukraine and some other countries) with the European Union can play an important role in integrating the PABSEC countries in transition into the world economy. At the same time, the EU is pursuing the PHARE and TACIS technical assistance programmes targeting respectively central and eastern European countries and CIS countries.

A number of international and European bodies pursue programmes related to social issues in the transition economies. The European Bank for Reconstruction and Development whose primary aim is to promote private and entrepreneurial activities in the transition countries is also committed to projects which create employment opportunities. A \$300 million fund, half coming from bilateral donors and half from the Bank's own resources, will be targeted at small firms in Russia. The project is currently in a pilot phase in Tula, Tomsk and Nizhni Novgorod.

The UN Economic Commission for Europe which carries out programmes of technical and legal assistance to transition economies has set up a Trust Fund for Assistance to Countries in transition. At present, nearly half of the ECE's fifty-five member countries

are receiving technical assistance aiming to help them make the difficult transition from centrally-planned to market-oriented economies.

The Social Development Fund of the Council of Europe is designed to help member states to solve such problems as social integration of jobless and homeless people, refugee problems, vocational training, low-cost housing and schemes to promote education and health care.

The Council of Europe has an important role to play in helping to formulate new social policies of the countries in transition. Considerable progress in the social field could be made if the countries adopted the Social Charter of the Council of Europe which would lead to improved standards and more equal forms of social protection. Other legal instruments developed by the Council of Europe (the European Code of Social Security, the European Convention on Social Security) and by other international organisations, such as ILO, can serve as a model for legislators in the countries in transition.

10. Conclusions and Recommendations

The social costs of the first years of reforms and of the transition towards a market economy have proved to be exceedingly high. The population of our countries is entitled to express their demands for stabilising and improving their standard of living on the basis of a greater social orientation of the economy. Without a link between economic reform and social protection, one cannot expect better living standards. Only this link can ensure public consensus on the social costs of the transition towards a democratic society and a market economy.

Human resources should become the central component of the reforms under way. Building a market economy is only a way, though inevitable and necessary, to reach the purpose of greater political and economic freedom, realisation of our people's human, political and social rights, better standard of living, political stability and peace. A greater social orientation of market reforms should become the order of the day in the countries in transition.

The establishment of the rule of law as a reality, not just a declaration, is essential both for safeguarding human rights and for smooth running of the market economy. It is difficult to overestimate the role of national parliaments in this field. Redefined social policies need legal framework in the form of new laws on social protection. Social-oriented measures should also become part and parcel of all legislation concerning further economic reform.

The economic situation in the Trans-Caucasian countries aggravated by the emergence of huge numbers of refugees does not inspire hope for any additional resources to increase the real-terms incomes of the population. Under these conditions, the social protection of the disadvantaged citizens can only be realised through a redistribution of incomes and changing the mechanism of incomes' formation. The matters of the social protection of the population should become a priority.

International cooperation in the social field should be developed in the BSEC and PABSEC framework, as well as with the European Union, the Council of Europe, OECD,

the World Bank, the European Bank for Reconstruction and Development, UN Economic Commission for Europe, UN Development Programme, ILO, and other international bodies concerned with economic and social development. In some countries, the improvement of economy and social standards seems hardly possible without a substantial aid from outside sources. Only then steps could be taken there for a gradual rise in state guarantees for salaries, pensions, education grants and other benefits.

At the same time, we should take into consideration the introduction of private-owned health care, educational and cultural schemes and increased rates of housing rent, communal services and transport. All these factors have to be considered by governments when setting their labour remuneration standards.

Only a comprehensive approach towards social issues can enable us to achieve a meaningful reduction in the scale of poverty and to take our countries out of the grip of the prolonged crisis.