

## ***SOCIO-ECONOMIC CONDITIONS AND HOUSING POLICY FRAMEWORK***

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### **A. General information**

#### ***Geographic situation***

Georgia is strategically situated at the dividing line of Europe and Asia, also known as the Silk Road. It is part of the Caucasus region, and is bordered by the Black Sea in the west, Turkey and Armenia in the south, Azerbaijan in the east, and the Russian Federation in the north. It covers an area of about 69,700 km<sup>2</sup>, has land boundaries totalling 1,461 km, and has a 310-km-long coastline.

Georgia is largely mountainous with the Greater Caucasus Mountains in the north and the Lesser Caucasus Mountains in the south. The two largest rivers, the Mtkvari (Kura) and the Rioni, flow in opposite directions: the Mtkvari flows generally eastward into the Caspian Sea, while the Rioni empties into the Black Sea to the west.

#### ***Political system***

State independence was proclaimed on 9 April 1991. The highest legal act is the Constitution, adopted on 24 August 1995, with further amendments contained in the Constitutional Law of Georgia, adopted after the “Rose Revolution”.

The Parliament consists of 235 members, 150 of whom are elected by proportional system and 85 elected by majority system (one elected delegate per territorial unit), for a term of four years. According to changes in the Constitution made in 2005 (article 49), the number of parliament members will be reduced to 150 from 2008 onwards. The Parliament exercises legislative power and general control over the Government as well as determining domestic and foreign policy. Executive power is vested in the President – who is elected for a term of five years – the Prime Minister and the Government. The President is the Head of State and the Parliament is the country’s highest representative body.

Georgia consists of nine regions, and includes two autonomous republics: Ajara, situated in southwest Georgia, and Abkhazia, in the northwestern part. Both autonomous republics include stretches of the Black Sea coast. The conflict region known as South Ossetia is also in Georgia, and is located in the north-central part of the country.

### **B. Socio-economic conditions**

#### ***Overall economic development***

Since 1995, Georgia’s economy has been growing at an average rate of 6.25 per cent. This can be attributed primarily to the introduction of a new currency, the Georgian lari, replacing its provisional currency, the Coupon. In 1998, the same year that major hostilities in Abkhazia had again broken out, economic growth took a sudden dip with the Gross Domestic Product (GDP) posting a low 3.1 per cent growth rate as compared to the previous year’s 10.5 per cent. Georgia’s gross national income (GNI) per capita amounts to US\$ 736.<sup>1</sup>

Georgia’s economy suffered severely with the collapse of the former Soviet Union at the beginning of the 1990s. The economic situation further worsened with the armed conflicts and civil strife that followed its independence in 1991.

The disruption of established trade patterns in the country, deterioration of infrastructure, massive unemployment, high inflation and energy crises were only some of the country’s economic woes. Under such conditions, the Government of Georgia recognized the need for structural reforms aimed at alleviating economic conditions, which could in turn improve the life of its people. With the help of international organizations, a series of reforms were implemented with stabilizing and positive results for the economy.

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<sup>1</sup> World Bank. Country Brief 2006.

Figure 1.1. Map of Georgia



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

Even so, Georgia's recovery trails behind other countries from the former Soviet Union such as Armenia and Azerbaijan (see table 1.1), although the economic structure of these countries is not fully comparable.

Economic growth started to accelerate again after 2000, reaching a two-digit growth rate in 2003 for the first time in five years.

Agriculture is an important sector of the economy, and is a large contributor to Georgia's GDP. This sector's output trend, however, has shown a steady decline since 1998. The share of industrial output has been stagnating since 1997.

### *Income, poverty and employment*

Based on 2003 data, more than half of the population of Georgia lives below the official subsistence level of 131 lari and nearly half have incomes below 50 lari. Poverty rates in the urban areas are higher than in the rural areas. In 2003,

the proportion of rural households falling below the official subsistence level increased from 49 per cent to 56 per cent.

Household income derived from contractual employment accounts for only about one fifth of the total. The percentage of income derived from sale of assets or use of savings had grown since 1998, replacing income from self-employment as the second most important source of income. Income from the sale of agricultural products is also a major contributor to total income. The minimum and real average monthly wages grew during the period 1997–2002 and also after 2003, especially in the public sector, although nominal averages remained very low.

The average wage per month in 2002 was still below the official minimum subsistence level of 125 lari. A major cause of poverty in Georgia is unemployment, which continues to be a big problem in the country. The total unemployment rate in 2005 was 13.8 per cent.

*Table 1.1. GDP at prices and purchasing power parities of 2000, growth rate*

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Georgia	2.6	11.2	10.5	3.1	2.9	1.8	4.8	5.5	11.1	6.3	9
Armenia	6.9	5.9	3.3	7.3	3.3	5.9	9.6	15.1	14	10.1	13.9
Azerbaijan	-11.8	1.3	5.8	10	7.4	11.1	9.9	10.6	11.2	10.2	26.4

Source: UNECE statistical database

The unemployment rate among males (14.8%) was higher than females (12.6%). However, these figures may underestimate the actual unemployment situation, as 2005 data show that approximately 66 per cent of the employed in Georgia were self-employed, and around 37 per cent of these were in the agricultural sector. The agricultural sector accounts for more than half of Georgia's total employment (54.3%).

### C. Population and migration

#### *Total population*

The population of Georgia, based on its last two Population Censuses, fell 19 percentage points, from 5.4 million in 1989 to 4.4 million in 2002. Less than half of the population lives in rural areas. About 52 per cent of the population lives in urban areas, of which 47 per cent live in Georgia's capital and largest city, Tbilisi (figure 1.2). Hence the population of Tbilisi accounts for about a quarter of the national total. Georgia's population in 2005 was estimated at 4.3 million.

The 2002 Population Census showed following ethnic origin composition: 83.3 per cent Georgian, 6.5 per cent Azerbaijani, 5.7 per cent Armenian, 1.5 per cent Russian, 0.9 per cent Ossetian, 0.5 per cent Kurd, 0.3 per cent Greek, 0.2 per cent Ukrainian, 0.1 per cent Abkhaz, and 0.1 per cent Jewish.

#### *Demographic trends*

Georgia experienced a considerable decrease in the population growth rate after 1989. Increased out-migration brought about by the collapse of the former Soviet Union and exacerbated by the continuing decline of the population's natural growth, had a big impact, causing both the population's total and growth rate to fall sharply.

The decrease was more evident in urban areas than in rural areas, as most emigrants come from the cities. Georgia's population structure shows the proportion of people under the age of 15 in a downward trend, dropping by one third between 1970 and 2002 from 31 to 21 per cent. The proportion of those over age 65, on the other hand, increased during the same period

#### *Migration*

The civil war and armed conflicts over the demand for independence by South Ossetia and Abkhazia that followed Georgia's independence in 1991 resulted in the loss of thousands of lives and displacement of large numbers of the population. The United Nations High Commissioner for Refugees (UNHCR) places the number of internally displaced persons (IDPs) by the end of 2005 at approximately 234,000.<sup>2</sup>

Net migration figures in Georgia have been negative since 1970, but there was no decrease in the total population until before 1990 because natural population growth more than compensated for emigration. Since 1990, however, we see a decline in the population of Georgia because the immigration and natural growth could no longer compensate for emigration (table 1.3).

Aside from forced migration, unfavourable socio-economic and political conditions in the country, continued unemployment, and education abroad are the major factors that account for the large number of people migrating from Georgia.

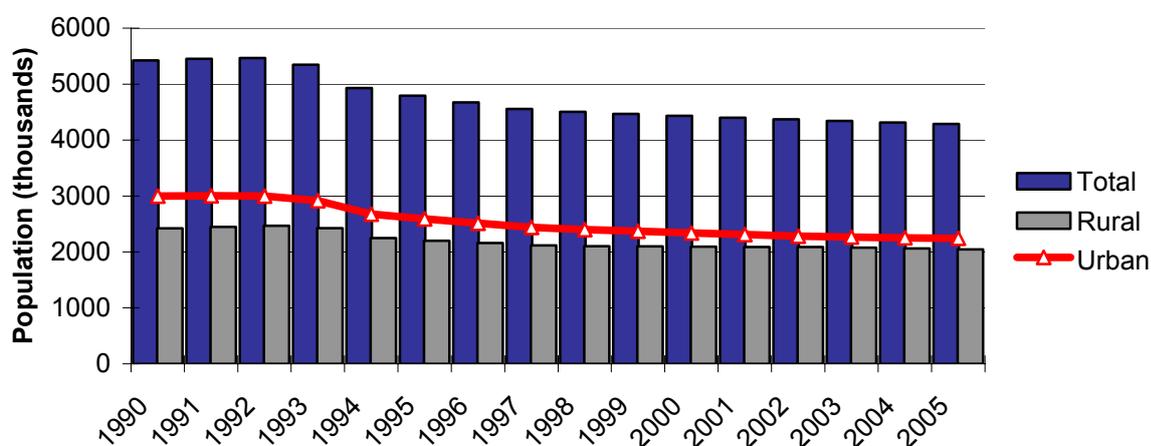
<sup>2</sup> United Nations High Commissioner for Refugees (UNHCR). Global Refugee Trends. 2006.

Table 1.2. Sector output, percent to GDP

	1995	1997	1998	1999	2000	2001	2002	2003	2004
GDP, million lari	3,694	4,555	5,022	5,669	6,043	6,674	7,456	8,564	9,970
Agricultural output, million lari	1,851	1,880	1,899	2,070	1,816	2,063	2,161	2,484	2,388
Percent to GDP	50.1	41.3	37.8	36.5	30.1	30.9	29.0	29.0	24.0
Industrial output, million lari	524	815	806	989	1,132	1,155	1,308	1,550	1,754
Percent to GDP	14.2	17.9	16.0	17.4	18.7	17.3	17.5	18.1	17.6

Source: Ministry of Economic Development of Georgia (MED). Department of Statistics. Main social and economic indicators for Georgia.

Figure 1.2. Population of Georgia



Note: Population for 1994-2005 exclude the population of Abkhazia and Tskhinvali region (South Ossetia).  
Source: MED of Georgia. Department of Statistics.

#### D. Privatization and housing policies

One component in the restructuring process that is underway in Georgia is privatization. It began in 1992 with small- and medium-sized enterprises. The current State privatization targets large-scale entities. Income derived from privatization of 267 units in 2004 amounted to 72.7 million lari.<sup>3</sup>

The privatization of the housing stock has progressed over the past decade and a half without direction and without reference to a coherent legislative framework. Indeed, in crucial areas legislation from past periods has persisted due to the inability of the new political system to enact comprehensive new laws. The Constitution of Georgia of 1995 provides that those legislative acts from the Soviet period that do not contradict

with the Constitution and that have not yet been abolished or changed remain valid. Article 106.2, however, imposed upon the President and Parliament an obligation to determine the compliance of old normative acts with the Constitution within a two-year period. This was not done. Indeed, a decree of the Minister of Urbanization and Construction of Georgia from 5 February 2002 on the *Prolongation of the Terms and Validity of Construction Norms and Rules and Other Normative Acts* actually provides that normative acts from the Soviet period shall only be abolished upon the enactment of appropriate new rules.

Many of the legislative acts that were repealed have not been replaced. In 1997, the Housing Code of the Soviet Republic of Georgia was abolished. In the same year, the *Law on the Principles of State Housing Policy* was drafted but never adopted. Many of the normative documents that have been passed have only a declarative character. Furthermore, and of perhaps greater

<sup>3</sup> Ministry of Economic Development of Georgia (MED). Department of Statistics.

Table 1.3. Demographic indicators, 1989–2004

	Resident population by 1 January (thousands)	Average annual population growth rate	Natural increase (thousands)	Net migration (thousands)	Total increase (thousands)
1989	5,401	0.79	41.0	-18	24
2000 <sup>3</sup>	4,435	-1.78	1.4	-35	-34
2001 <sup>3</sup>	4,401	-0.77	1.4	-31	-30
2002 <sup>3</sup>	4,372	-0.66	0.0	-29	-29
2003 <sup>3</sup>	4,343	-0.66	0.1	-29	-29
2004 <sup>3</sup>	4,315	-0.64	0.8	-27	-26

<sup>1</sup> 1979 – 1989.

<sup>2</sup> 1989 – 2000.

<sup>3</sup> Excluding territories not controlled by the central Government of Georgia.

Source: Ministry of Economic Development of Georgia. Department of Statistics. Social Trends in Georgia.

importance, institutions and procedures that existed have been abandoned without any replacement.

The central Government in effect transferred overall responsibility for the housing sector to the municipalities, while denying them the financial resources to maintain even the housing stock and infrastructure that remained in municipal ownership. Urban development evolved from a highly centralized, strictly hierarchical, cohesive system of planning and management to a policy vacuum. In conclusion, the result of decentralization and privatization was the transferal of property along with liabilities connected with such property to new owners by the State, without the simultaneous provision of the necessary legal and institutional support.

#### ***Privatization of the housing stock***

Privatization of housing in 1992 was not well planned and was done without an overall vision for urban development or for the future of the housing stock and the housing sector. The State failed to provide any information on ownership rights or housing management. Housing privatization was carried out without the land under the housing units and land adjacent to the housing properties being privatized.

As of 2001, approximately 90 per cent of Georgia's housing stock was privatized and about 450,000 families lived in multi-storey privatized housing. In addition to the *Civil Code* of 1997, a number of laws govern the privatization of land, housing, and enterprises, but none has the full

regulations on private ownership of multi-flat housing. The limited regulations on this type of housing that are included in the *Civil Code* are not sufficient to regulate this very important and major part of the housing stock.

Cabinet of Ministers issued *Decree No. 107 on Privatization of dwellings in the Republic of Georgia* on 1 February 1992, transferred the ownership of apartments to their residents. The free transition of houses or flats to citizens who occupy it was carried out at the municipal level, and citizens only had to pay a duty. The *Decree* failed, however, to specify the legal status of the land plots allocated under multi-flat houses, or the duties of the homeowners of multi-flat housing. The *Decree* simply foresaw that the Ministry of Urbanization and Construction would provide rules of maintenance. This has not occurred, and no law on the ownership of apartments has been passed imposing an obligation on flat owners to maintain their flats.

#### ***Privatization of land***

Perhaps the most fundamental problem impeding real estate development in general is the absence of a framework law for land ownership and use, i.e. a Land Code that clearly establishes land categories, their legal status, a procedure for the transfer of land, the principles of land management, and the status of land-use documentation. In the long term, the absence of a Land Code exacerbates problems in the creation of conditions for the rational use of land and the promotion of investment through land markets.

At present, land-related legislation merely operates, inconsistently, with two categories of land – land of agricultural designation, and land of non-agricultural designation – since no clear rules for reclassification exist. The only procedure provided by legislation for the reclassification of land is contained within the *Law on Privatization of Agricultural Land in State Ownership*; it is a decision that is made by the municipal government that must be confirmed by the Ministry.

In addition, land management in practice is hindered by the absence of the local government ownership of land. This absence has persisted despite the fact that the *Law on the Disposal of State Owned Non-Agricultural Lands* (hereinafter *Law on Disposal*) of 28 October 1998 stipulated that the Government was to submit to Parliament the draft law *On Delimiting State, Municipal, and Local Land Property* during 2000.

The privatization of urban land began in 1998 in accordance with *the Law on Disposal*, the aforementioned land encompassing all land identified legally as “non-agricultural land”. Urban land has been transferred upon the decisions of municipalities, such decisions being made without any competition, transparency or publicity. This transfer has proceeded both without the proper demarcation of land plots, and reference to either urban master plans or territorial zoning plans.

The privatization of urban land is therefore not related to the future use of the privatized plots, and privatization agreements do not contractually oblige the buyer to participate financially in building the infrastructure needed to support the future development of privatized land. Furthermore, different laws regulate the sale of State-owned land depending upon the type of land plot, i.e. the MED if the land in question has construction, and the municipal government if there is no construction.

In January 1992, the Government initiated the distribution of agricultural land to its citizens as one way of fighting poverty. The lack of adequate rules and regulations in the land distribution resulted in ownership of small (0.9 ha

per household on the average) and fragmented lands, hampering effective land use.<sup>4</sup>

As reported by the International Monetary Fund (IMF)<sup>5</sup>, 74.8 per cent of agricultural land and 2.5 million hectares of forests were still under State ownership as of 2005, although legislation supports the privatization of agricultural land.

### E. Housing policy developments

Several attempts have been made to initiate a housing policy framework, but so far only a limited set of general government commitments has been expressed towards the international community. They are displayed in table 1.4. However, such goals stand in contrast to the virtual absence of a government policy since Georgian independence from the Soviet Union.

In 1996, the Ministry of Urbanization and Construction elaborated a Programme for Analyses of the Current Situation of Housing and its Stimulation and Improvement. This programme took into account different aspects of housing, including legislation, State programmes, housing rehabilitation and modernization and State assistance for low-income and vulnerable people in improvement of their housing conditions. The programme was not financed and accordingly, was not carried out.<sup>6</sup>

The Economic Development and Poverty Reduction Programme (EDPRP) was developed in close consultation with the civil society, international organizations such as the United Nations Development Programme (UNDP) and UNHCR, and donor countries. The EDPRP was discussed and approved in June 2003, and the Government of Georgia committed to its implementation. The EDPRP is a comprehensive and a long-term strategy paper.<sup>7</sup>

<sup>4</sup> United Nations Economic Commission for Europe (UNECE). Land Administration Review, Georgia. 2001.

<sup>5</sup> International Monetary Fund (IMF). Country Report No. 05/113. March 2005.

<sup>6</sup> Jokhadze, N. Concept of social (government-sponsored) housing establishment and development in Georgia. 2004.

<sup>7</sup> UNCT in Georgia (adopted by the Government of Georgia). Progress Report, Economic Development and Poverty Reduction Programme. Tbilisi, 2005.

In June 2004, the Ministry of Infrastructure and Development announced a tender for the elaboration of Document on “Backgrounds of State Housing Policy”. The Ministry of Infrastructure and Development was created in February 2004 by merging two former ministries, the Ministry of Urbanization and Construction and the Ministry of Transport and Communications. In July 2004, the Ministry of Infrastructure and Development was abolished and its functions were transferred, together with the Ministry of Economy, into the new Ministry of Economic Development. The Ministry (Division of Housing Policy and Urban Infrastructure) elaborated the context of the Housing Policy to be fulfilled, studied and

evaluated by the winner consultants. After the abolishment of Ministry, Tender on State Housing Policy was rejected. No further attempts to elaborate a comprehensive housing sector policy were made.

However, the acceptance of the EDPRP principles and priorities by the new Government was reflected in strategy documents developed following the “Rose Revolution”. The government plan of 2004-2009 and the statement of the Government of Georgia at the donor conference in Brussels in June 2004 expressed the Government’s commitment to target the national development policy on overcoming poverty and achieving sustainable and rapid economic growth.

Table 1.4. Housing policy objectives and commitments

Source	Housing policy commitments, targets and indicators
Millennium Development Goals in Georgia, Progress Report for 2004-2005 (goal 7, target 16) <sup>8</sup>	<ul style="list-style-type: none"> <li>• Harmonization of the housing sector with international standards, including the development of municipal (social) tenure component</li> <li>• Elaboration of legislative framework for the housing sector, including the social housing component</li> <li>• Elaboration of country specific habitat indicators</li> </ul>
Economic Development and Poverty Reduction Programme Progress Report 2005 <sup>9</sup>	<ul style="list-style-type: none"> <li>• Public housing policy principles must be developed</li> <li>• The model of social housing must be introduced as part of a single national policy on housing</li> <li>• The legislative framework must be consolidated</li> <li>• Modern mechanisms must be established for housing rehabilitation and management</li> <li>• A single State database on housing must be created</li> </ul>
The Government’s Strategic Vision and Urgent Financing Priorities in 2004-2006 <sup>10</sup>	<ul style="list-style-type: none"> <li>• Adopt social housing policies</li> <li>• Create conditions for public/private partnerships for housing development and introduce new financing schemes (mortgage)</li> </ul>

<sup>8</sup> United Nations Country Team (UNCT) in Georgia (in cooperation with the Government of Georgia). Millennium Development Goals in Georgia, Progress Report for 2004-2005. Tbilisi, 2006, p. 7.

<sup>9</sup> UNCT in Georgia (adopted by the Government of Georgia). Progress Report, Economic Development and Poverty Reduction Programme. Tbilisi, 2005, pp. 22-24.

<sup>10</sup> Government of Georgia. The Government’s Strategic Vision and Urgent Financing Priorities in 2004-2006. Donors’ Conference, Brussels, 2004, p. 33.