

# Proposal of an Unemployment Insurance System and its implications for the Georgian labour market

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## Introduction

This paper aims at assessing the potential impact of the proposed Unemployment Insurance (UI) scheme in Georgia. The scheme was developed by ILO in cooperation with Expertise France in 2023 and it offers three options as outlined in the figure 1 below. All three options assume monthly contributions from the employer and employee and set the minimum for contributory earnings at the national subsistence minimum. As indicated in the concept paper setting such a low minimum serves the purpose of including the low-wage earners in the system. Maximum contributory earnings are defined as 1.5 times the national average wage in Option A, 2 times the national average earnings in option B and 2.5 times the national average earnings in option C. Qualifying periods as well as benefit levels and duration of the benefits differ accordingly in three options, with option A being the most modest and option C being the most generous one. Given the level of generosity (benefit duration of 9 months) option C requires highest rate of contribution (1.7% of the contributory earnings) and option A requires the least contribution rate (1.1% of the contributory earnings).

Figure 1: Proposed options for unemployment insurance in Georgia

	Option A	Option B	Option C
<b>Qualifying period</b>	6 months in the 12 months preceding unemployment	12 months in the 24 months preceding unemployment	12 months in the 36 months preceding unemployment
<b>Maximum benefit duration</b>	4 months	6 months	9 months
<b>Benefit level</b>	50% of the average contributory earnings	<ul style="list-style-type: none"> <li>60% of the average contributory earnings for the first 3 months;</li> <li>40% of the average contributory earnings for the remaining 3 months</li> </ul>	<ul style="list-style-type: none"> <li>65% of the average contributory earnings for the first 3 months;</li> <li>45% of the average contributory earnings for the next 3 months;</li> <li>The subsistence minimum for the remaining 3 months</li> </ul>
<b>Waiting period</b>	7 days	7 days	7 days
<b>Contributory earnings</b>	Maximum: 1.5 times the national average earnings Minimum: The subsistence minimum	Maximum: 2 times the national average earnings Minimum: The subsistence minimum	Maximum: 2.5 times the national average earnings Minimum: The subsistence minimum
<b>Total contribution rate</b>	1.1 percent of the contributory earnings	1.4 percent of the contributory earnings	1.7 percent of the contributory earnings
<b>Recommended rate for employers</b>	0.55 percent of the contributory earnings	0.7 percent of the contributory earnings	0.85 percent of the contributory earnings
<b>Recommended rate for workers</b>	0.55 percent of the contributory earnings	0.7 percent of the contributory earnings	0.85 percent of the contributory earnings

Source: ILO, 2023

### Anticipated benefits of introducing Unemployment Insurance

There are at least two areas in which positive impact is to be anticipated with the introduction of UI scheme. Firstly, unemployment benefits have been historically devised as a measure of social protection for hired employees. As stated in the recent assessment by ILO and UN Women in Georgia<sup>1</sup> social protection benefits/measures exist for almost all groups of population in Georgia except for workers (hired employees). This is a crucial gap in the system, as it is the hired employees who finance the bulk of social protection system by paying income taxes and social contributions. However, in case of dismissal they are left without any support. Unemployment benefits will serve as a safety net for workers providing them with the feeling of security during unemployment spells. It will also prevent them from falling deeper into poverty after losing a job, thus improving overall socio-economic condition in the country. The unemployed may feel less pressure to accept any job immediately upon dismissal and can take time to invest in re-training and seeking better employment. This may lead to increased worker qualification levels – one of the bottlenecks faced by employers nowadays.

Another important issue is increasing the attractiveness of formal employment and thus reducing the share of informal employment. In several studies workers (including informal workers) in Georgia<sup>2</sup> have expressed readiness to forgo a share of their income in the exchange of income security during the period of unemployment. Thus, UI scheme may contribute positively to pulling more workers from informal into formal employment.

Last but not least, introduction of the UI scheme will also positively affect the quality of employment services in Georgia. At the moment State Employment Support Agency offers job seekers assistance in finding a job (job mediation) or inclusion in Active Labour Market Measures. All of this usually requires minimum of two to three weeks before actual placement into a job. Given the level of precariousness on the labour market unemployed often cannot afford spending time on self-development (enrolling in ALMPs or sifting through the jobs together with the employment counsellor) and turn to informal work, which yields immediate financial gain. Motivation to cooperate with the employment service may well improve when job seekers are offered monetary benefit during the period of job search.

### Potential negative effects on the labour market

#### *Coverage: who stays outside of the system?*

Usual challenges associated with the introduction of Unemployment Insurance systems in less advanced economies with large informal sector relates to the issue of coverage. By design UI scheme will only cover workers who are in formal, hired employment. These represent 68% of the employed population in Georgia<sup>3</sup>. There are at least 3 other major groups of workers which will remain outside of the system (at least initially): self-employed, informal workers and non-standard workers. Acknowledging that there is a large overlap between these three categories of workers in real life, analytically they are distinct with each of them having specific needs and difficulties for inclusion in the UI system.

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<sup>1</sup> UN Women/ILO (2020): Assessment of the Social Protection System in Georgia: <https://shorturl.at/qFIM5>

<sup>2</sup> UN Women (2021): Regulatory Impact Assessment of ILO C189 – Domestic Workers Convention: <https://shorturl.at/mGQY4>

<sup>3</sup> National Statistics Office of Georgia (2023): <https://www.geostat.ge/ka/modules/categories/683/dasakmeba-umushevroba>

The ILO proposal acknowledges that self-employed will not be covered by the system and also notes that there are opportunities for the scheme to open up to include them later on once the system is well-established. This is indeed a common practice worldwide and can be well-applied in Georgia. The main issue with self-employed is that there is a higher risk of moral hazard since there is no “employer” present. Therefore, an UI system designed for the cases when the worker is dismissed against his/her will becomes difficult to administer as it is not possible to determine when the “dismissal” takes place. Nevertheless, self-employed are often invited to join the system voluntarily covering the share of employees’ as well as employer’s contribution.

Things get more complicated in case of disguised self-employment<sup>4</sup> however, when worker is formally registered as self-employed, but in reality, finds him/herself in “*employment like relationship*” with another party controlling the working time and conditions. A recent research<sup>5</sup> found that the share of such workers is sizable in Georgia and spans many layers of workers from platform workers (app-based drivers, couriers) to workers in the beauty industry, freelancing, etc.

Last but not least, (nonagricultural) informal workers represent 28% of the labour force in Georgia<sup>6</sup>. Thus, together all of these three categories of workers make up significant share of the labour force, who cannot join the UI system. On the one hand, this will limit the base for contributions undermining system effectiveness and on the other hand, it will further increase the segmentation on the labour market – an issue which is outlined in more detail below.

#### *Increasing the segmentation on the labour market: winners and losers*

Given the fact that UI benefits are proportionate to the contributions it is logical that high-wage earners will have better benefits compared to low-wage earners (because high wage-earners contribute more than low wage-earners). Therefore, the contributory systems usually reinforce existing inequalities on the labour market. This is a primary line of criticism of the continental (Bismarckian) welfare state, which is highly dependent on social insurance systems for providing welfare to its citizens<sup>7</sup>. Critical issue in case of Georgia is that low-wage earners represent about one fifth of all hired workers. More precisely, according to the PMCG Employment Tracker<sup>8</sup> the share of workers earning less than GEL600 per month constituted 18.6% of all workers (see figure 2 below) in September 2023, with another 20% earning wages in the range of GEL 600 – 1199. Thus, little less than the half of the hired employees in Georgia receive less than the national median wage, which stood at GEL 1040 in 2022<sup>9</sup>. This points towards a high degree of segmentation on the labour market between a small pool of well-paid jobs and a much larger pool of jobs paying less than the national median wage.

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<sup>4</sup> ILO (2016): The Rise of the “Just-in-time workforce” -

[https://www.ilo.org/travail/info/publications/WCMS\\_443267/lang-en/index.htm](https://www.ilo.org/travail/info/publications/WCMS_443267/lang-en/index.htm)

<sup>5</sup> Social Justice Centre (2021), Informal & Nonstandard Labour in Georgia: <https://shorturl.at/rGIU8>

<sup>6</sup> National Statistics Office of Georgia (2023): <https://shorturl.at/AUV16>

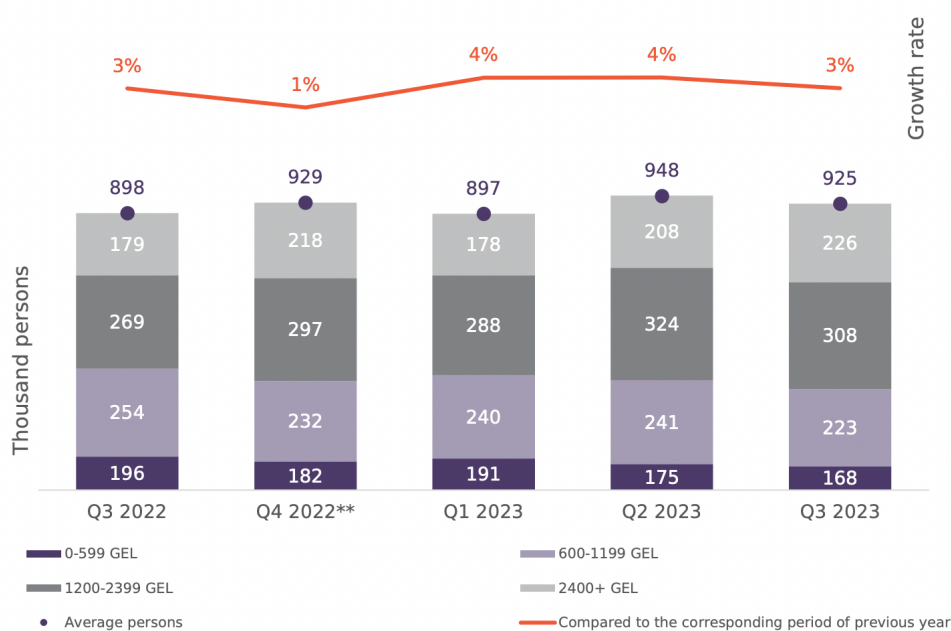
<sup>7</sup> For more details on this see Hemerijck & Eichhorst (2009): Whatever Happened to the Bismarckian Welfare State? - <https://docs.iza.org/dp4085.pdf>

<sup>8</sup> PMCG Employment Tracker (2023): <https://pmcg-i.com/publication/employment-tracker-october-2023/>

<sup>9</sup> National Statistics Office of Georgia (2023): <https://www.geostat.ge/ka/modules/categories/39/khelfasebi>

An important question to ask is whether the low-wage earners (receiving less than GEL 600 per month) can get adequate social security from the UI system and whether these benefits will be attractive enough for people in informal sector to opt for formalization. For the low-wage earners monthly unemployment benefits will range between GEL 300 to GEL 360 (depending on the chosen option). This is significantly lower than reported wages in certain areas of informal employment: e.g. a study on domestic workers found that average monthly wage of nannies and babysitters is between GEL 800 to 1000 per month<sup>10</sup>. Therefore, while all types of earners will be covered by the UI system, low wage-earners will benefit less, thus, existing inequalities on the labour market will be reproduced in the social security system. Moreover, people may still choose informal employment compared to low-wage formal sector jobs, as the perspective of meagre unemployment benefits may not be appealing.

Figure 2: Wage distribution in Georgia



Source: Revenue Service for PMCG Employment Tracker, 2023

Based on existing studies one could safely assume who would fall in the group of so called “losers”. We know that women and youth are disproportionately represented among the low wage-earners in Georgia. For instance, the share of female employment is higher in sectors like *Education* and *Wholesale and Retail*<sup>11</sup>. “*Education*” has the lowest median wage compared to other sectors standing at GEL 747 in 2022, while median wage for “*Wholesale and Retail*” stood at GEL 950 in 2022<sup>12</sup>. Although no age disaggregated wage data is published by the Statistics Office, it can be assumed that the lack of experience and qualifications puts young people at the lower end of wage distribution. For instance, supermarket chains which are known for notorious working conditions and low pay in Georgia primarily rely on the labour of young workers/students.

<sup>10</sup> UN Women (2021): Regulatory Impact Assessment of ILO C189 – Domestic Workers Convention: <https://shorturl.at/mGQY4>

<sup>11</sup> UN Women (2020): Gender Pay Gap in Georgia - <https://shorturl.at/iIS38>

<sup>12</sup> National Statistics Office of Georgia (2023) - <https://www.geostat.ge/ka/modules/categories/39/khelfasebi>

Last but not least, introducing unemployment insurance contributions will increase the non-wage cost of job creation. This will be a particularly heavy burden for the low wage-earners as they will have to pay UI contributions on top of income tax and pension contributions. This is a well-known issue for continental welfare states, which had to introduce a range of policy measures to overcome the negative effect on job creation (for instance, Germany allowed emergence of mini jobs, which are not subject to social security contributions). Alternatively, other countries (notably, Scandinavian welfare states) manage to relieve the burden by means of progressive taxation and exempting the low earners from income tax, while maintaining their obligation to pay social security contributions.

### Conclusion

Based on the above discussion it can be concluded that introduction of the Unemployment Insurance system in Georgia has a strong potential for improving workers' income security and supporting the decrease of informal employment. Nevertheless, the impact on low wage earners, which constitute large share of the Georgian workers, needs to be examined more carefully. More precisely, as argued in this brief, there is a risk of the system not producing attractive enough benefits for the (informal) workers to opt for low-paying formal sector jobs. Considering that the contributory insurance system will replicate existing income inequalities on the labour market it is important that low wage earners are given extra support. This can be achieved, for instance, by reintroducing the system of minimum non-taxable income as practiced in Georgia several years ago. This would decrease the non-wage cost of job creation and increase the redistributive capacity of the UI system. Last but not least, once the system is well-established additional measures should be taken to include self-employed and other types of atypical workers whose inclusion in the system is not envisaged at the initial stage.