Strategic Human Capital Investments to Unlock Georgia’s Potential
Evidence shows that a significant amount of economic growth in the world’s strongest economies can be explained by investments in human capital. We also know that investing in human capital is far less costly in the long term than paying the price of poor health, low incomes, unemployment, and social exclusion. Therefore, while it is imperative to address the short-term challenges of today, global leaders must remain steadfast in advancing a longer-term human capital development strategy to meet the economic, social, and environmental goals of tomorrow.

After a decade of successful systemic reforms, the Government of Georgia remains committed to advancing its productivity and competitiveness and countering the negative impact of a downward population trend. We believe that making strategic investments in human capital is the way forward. Our aim is to be a leader in human capital development in the region by mirroring the best examples from the EU and the rest of the world.

Our ambitious vision for Georgia is articulated in the Georgia 2020 Platform: Freedom, Rapid Development, Prosperity. The goal is to continue developing into a market-based economy while focusing on prosperity for all and strengthening our regional position, security, and territorial integrity. The platform has four policy goals, referred to as “The Four Point Plan,” that are: economic reform, education reform, spatial arrangement and infrastructure, and governance.

These goals exemplify a human capital focus. The economic reforms will focus on the private sector and continue to make the business environment in Georgia attractive. Education reform has human capital development at its center, starting in early childhood. The spatial planning reform will pursue inclusive growth for all Georgians, in both urban and rural areas, and will focus on preserving the environment and highlighting the positive health effects of a clean environment. Finally, public governance reforms will aim to improve polices and services as well as to increase the effectiveness of individual agencies and local institutions.

Advancing human capital development will require additional radical and sustained reforms in the areas of education, health, social projection, and labor. We are prepared to undertake this challenge because we believe it is not only the basic human right of every Georgian to have the opportunity to live up to his or her fullest potential but also because united we can build a better future for Georgia.

These goals also demonstrate why Georgia decided to become one of the early adopters of the World Bank’s Human Capital Project. Georgia’s early adopter status presents it with an excellent opportunity to collaborate with the World Bank and stakeholders to make transformational progress towards better human capital outcomes in the country. As an early adopter, we participated in the World Bank’s 2018 Annual Meetings in Indonesia and expressed our commitment to accelerating investments in human capital. We developed a working group composed of high-level cross-ministerial government officials and World Bank representatives committed to promoting Georgia’s human capital initiatives. Collectively, we solidified this commitment to human capital development by preparing the Georgia Innovation, Inclusion, and Quality project, which aims to fundamentally transform the quality of the education system and increase access to early learning in the next six years. In the health and social protection sectors, Georgia has also partnered with the World Bank to introduce necessary reforms to the public administration of these services.

We are pleased to continue to engage with the World Bank to drive the human capital agenda forward. This report is the culmination of our combined and concerted efforts so far toward achieving this goal, but it is also a starting point. It is my hope that together we will realize the findings from this assessment by adopting sustainable solutions not only for Georgia but also for other countries who are faced with similar challenges and opportunities.

Ivane Matchavariani
Minister of Finance of Georgia
In 2018, the World Bank Group launched the Human Capital Project (HCP), a global effort that supports countries through data, policies, and research to accelerate more and better investments in people for greater equity and economic growth. Without strategic investments in human capital, countries will not have a workforce that is prepared for the highly-skilled jobs of the future and will not be able to effectively compete in the global economy. Human capital development is urgently needed in the South Caucasus, a region confronted with aging populations, net emigration, chronic health conditions, growing skills mismatches in the labor market, high unemployment rates among youth and women, and inequitable household income levels.

The HCP presents a viable opportunity for the World Bank to support the region in addressing these challenges and accelerating growth in a sustainable and inclusive way. Recognizing this opportunity, the Government of Georgia has prioritized human capital development, through the early adoption of the HCP and ensuring high-level political leadership of the human capital agenda by the Minister of Finance Ivane Matchavariani. This year, the Government of Georgia and the World Bank launched the Innovation, Inclusion and Quality project (I2Q), a $102.7 million project, which aims to support investments in Georgia’s human capital through improved access to preschool education and enhanced education quality and relevance in secondary and higher education. This report, Survive, learn, thrive: strategic human capital investments to unlock Georgia’s potential, builds on the ongoing country engagement. The report puts a spotlight on the state of human capital outcomes in Georgia, explores the remaining challenges to building and activating human capital, and recommends specific investments to overcome these challenges.

The World Bank is committed to the ambitious human capital agenda that the Government of Georgia has adopted. Through our close collaboration, we will build on this initial stock-taking with deeper analyses to operationalize these recommendations and with financing for high-impact investments in Georgia’s people. Together, we can ensure rapid progress towards a Georgia in which all children arrive in school well-nourished and ready to learn, can expect to attain real learning in the classroom, and are able to enter the job market as healthy, skilled, and productive adults.

Sebastian-Molineus
World Bank Regional Director for the South Caucasus
This report was written in collaboration with the Government of Georgia, under the supervision of Sebastian Molineus (Regional Director, South Caucasus), Fadia Saadah (Regional Director, Human Development), Mercy Miyang Tembon (Former Country Director, South Caucasus), Lire Ersado (Program Leader, Human Development), Harry Anthony Patrinos (Practice Manager, Education Global Practice), Tania Dmytraczenko (Practice Manager, Health, Nutrition, and Population Global Practice), and Cem Mete (Practice Manager, Social Protection and Jobs Global Practice).

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EXECUTIVE SUMMARY

Human capital is the stock of accumulated knowledge, experience, and attributes that workers bring to and use in the production of goods and services in an economy. Investing in people through quality healthcare, education, social services, and job opportunities develops human capital, which is key to ending extreme poverty and creating more inclusive societies. While the advantages of investing in human capital may seem indisputable, it can be difficult for governments to persuade decision-makers to do so because the results of these investments take a long time to materialize. Nevertheless, human capital investments are crucial for ensuring that economic development stands the test of time.

The Government of Georgia knows the importance of human capital for its continued success. Its own vision, as encapsulated in Georgia 2020 Platform: Freedom, Rapid Development, Prosperity, highlights the importance of investing in human capital. In addition, the Government of Georgia was one of the first adopters of the World Bank’s Human Capital Project, and sent representatives to the World Bank’s 2018 Annual Meetings in Bali, Indonesia to outline its concrete commitments to human capital investments moving forward.

Georgia’s Human Capital Index (HCI) value is 0.61, meaning that a child born today in Georgia will be 61 percent as productive as she could be as an adult if she had enjoyed full health and had benefited from a complete education. While Georgia has already made impressive progress, there is still much to be done in the areas of education, health, social protection, and jobs to increase Georgians’ productivity and realize their full human capital potential.

In education, the government has announced plans to increase education spending up to 6 percent of GDP by 2022, but challenges still plague the sector. Enrollment rates in early childhood education and care (ECEC) are low, and the quality of education at this level is poor. Teachers at all levels of the education system are not as well-trained or capable as they could be. The curricula need updating to improve learning outcomes and ensure that students are better prepared for work or higher education. Finally, systematic reforms are needed to improve the quality of VET and higher education.

In health, the introduction of the Universal Health Care program has benefited Georgians, but out-of-pocket (OOP) expenditures remain high. Moreover, the health system is still aimed at emergency rather than preventive care, which does not appropriately treat non-communicable diseases (NCDs) and cardiovascular disease (CVD), both of which account for high shares of Georgia’s burden of disease (BOD). As a result, NCDs and CVD continue to plague individuals later in their lives.

With respect to social protection and jobs, Georgia’s Targeted Social Assistance (TSA) program has been very successful in targeting and assisting the poorest, and since 2010, labor income has come to compose a higher share of household incomes. Nevertheless, poverty remains high, labor inactivity rates are high, especially among women and youths, and the social protection system is characterized by fragmentation and disincentives to work.

Moreover, Georgia finds itself in an important but precarious position. It has made incredible progress since its “rebirth” in 1991 by implementing important economic and governance reforms, reducing poverty from 35 percent in 2006 to 20.1 percent in 2018, improving infrastructure, decreasing barriers to doing business, and even overcoming extreme conflicts, but the government still struggles with limited fiscal space. As Georgia prepares to embark on its next wave of development, concerns are arising about what to do next, where to invest, and how to move forward. These uncertainties may be unsettling, but they need to be considered for Georgia’s inclusive growth to continue.

This report highlights the state of and trends in human capital development in Georgia today. Its aim is to acknowledge Georgia’s accomplishments, address ongoing challenges, and outline key interventions to help the country in taking the next step in its growth by investing in its most important resource – the Georgian people. Moving from ideation to the implementation of strategic human capital investments will require a whole-of-society approach, an increase in financial commitments, continuous monitoring and learning from results, and the exploitation of technology.
CHAPTER 1: The Case for Human Capital Investments
Investing in people through the provision of quality healthcare, education, social protection, and jobs develops human capital, which is the key to ending extreme poverty and creating more inclusive societies. Human capital transforms how governments understand wealth. While produced, natural, and physical capital has traditionally been given more weight in the estimation of wealth, a recent World Bank analysis, *The Changing Wealth of Nations*, shows that human capital constitutes the lion’s share of a country’s wealth. The study showed that it accounts for 64 percent of global wealth – up to 70 percent of wealth in high income countries but only 41 percent in low-income countries (Figure 1). Thus, it is a much larger driver of economic growth and poverty reduction than was previously understood.

For individuals, human capital investments have high economic returns, especially in early childhood (Figure 2). Providing a child with adequate health and nutrition enables him to develop cognition, which is a pre-requisite for optimal learning. A healthy child can gain foundational skills through schooling and training that will increase her job readiness in adulthood. Social protection provides vulnerable individuals with access to supplemental health and education services, thus playing a crucial role in reducing inequalities in human capital formation. Therefore, the productivity of an adult worker is a function of the quantity and quality of investments in the human capital built during infancy, childhood, and adolescence. Also, continuing to invest in people’s human capital in adulthood sustains the gains made by prior investments over the long term.
Households, through their decisions about healthcare and education spending, contribute significantly to human capital formation. The amount that a household spends depends on their income and their perception of the likely returns to be gained. The cost of investing in health and education may exceed the means of low-income families. Furthermore, households may underestimate the returns to human capital formation. Thus, poverty and incomplete information may reduce household investments in health and education. Regardless of the cause, underinvesting in human capital contributes to intergenerational cycles of low human capital accumulation and of poverty. When household investments in human capital are below optimal levels, there is a clear rationale for state intervention, given the positive externalities for society that result from having a productive workforce.

How much governments invest in health, education, and social protection depends on how much fiscal space they have for these investments, which will depend on the country’s economic growth or GDP, public spending as a share of GDP, and the percentage of public expenditure allocated to human capital. These investments fund interventions in the health, education, and social protection sectors that build human capital if they are of sufficiently high quality. While investments in physical capital, such as roads and bridges, have immediate, tangible results, investments in health and learning do not result in increases in economic productivity until the high-skilled and healthy recipients join the workforce and are matched with jobs in higher-productivity sectors. However, without a healthy, educated, and skilled workforce, countries cannot compete in the global marketplace of today or the technology-driven world of tomorrow. Therefore, political commitment to investing in human capital development, formation, and activation is essential to creating sustainable economic growth.

This framework of human capital formation – shaped by state investments, household spending, and the quality and coverage of human capital interventions – is shown in Figure 3.
The World Economic Forum's 2019 Global Competitiveness Report lists ill-equipped human capital as the biggest challenge to doing business in Georgia.

The state of Georgia's human capital is of significant concern as it threatens to hold the country back from reaching its growth potential. Recognizing this urgency, the government has begun to set national priorities for accelerating human capital development. This report aims to support the government in this respect by assessing the current state of human capital formation in Georgia and identifying the factors at the societal and household level that explain these outcomes. We conclude with recommendations for catalytic investments related to health, education, social protection, and jobs to build the knowledge, skills, and health of Georgia's next generation of workers to create a stronger and more inclusive economy.
CHAPTER 2: The State of Human Capital Formation in Georgia
Imagine the health and learning trajectory from birth to adulthood of a child born in Georgia today. Consider the risk that the child does not survive until her fifth birthday. If she does survive until school age, she may not start school or complete the full cycle of 14 years that is the norm in rich countries. If she is poorly nourished as a child and adolescent, her brain is unlikely to be sufficiently developed to support learning and creativity. Depending on the quality of her learning experience, the years that she spends in school may or may not translate into the knowledge and skills that she will need to compete in the labor market. By the time she reaches 18 years old, she may carry with her the lasting effects of her poor health and learning that will limit her physical and cognitive abilities as an adult. The Human Capital Index (HCI) has been developed to quantify this health and learning trajectory in each country and the consequences for the future productivity of a given cohort of the population.8

1. **HCI:** A Human Capital Index (HCI) designed to capture the amount of human capital that a child born today could expect to attain by the age of 18 to make the case for investing in the human capital of the next generation.

2. **Measurement and Research:** Improvements in the measurement and research of human capital outcomes and in analysis to support investments in human capital formation.

3. **Country Engagement:** Support for early adopters and, ultimately, all countries to prepare national strategies to accelerate progress towards human capital formation.

The HCI measures the amount of human capital that a child born today can expect to attain by the end of secondary school given the education and health risks that prevail in the country in which she was born.9 The index is a proxy for the productivity of the next generation of workers relative to their full potential and consists of three components: survival, schooling, and health.10 The values of the HCI range from 0 to 1, with a value of 1 implying that the future productivity of a child born today is 100 percent of what it could be with full health and a complete education.

**Survival**

Component 1 (Survival) answers the question: “Will children born today survive until school age?” This component reflects the unfortunate reality that not all children born today will survive until the age when the process of accumulating human capital through formal education begins. Survival in the HCI is measured using under-5 mortality rates taken from the United Nations Child Mortality Estimates.

**Schooling**

Component 2 (Schooling), answers the question: “How much school will a child complete and how much will they learn?” This component measures expected learning-adjusted years of schooling by combining information on the quantity and quality of education. The quantity of education is measured as the expected number of years of primary and secondary school that a child born today can expect to attain given the prevailing pattern of enrollment and completion rates across grades. The quality of education is based on the performance of students in major international student achievement testing programs.

**Health**

Component 3 (Health) answers the question: “Will children leave school in good health and be able to thrive as adults?” Health is measured by two proxies. Adult survival rates measure the fraction of 15-year-olds that survives until the age of 60, capturing the range of fatal and non-fatal health outcomes that a child born today would experience as an adult if current conditions were to continue into the future. The rate of stunting in children under the age of 5 reflects the prenatal, infant, and early childhood health environment and summarizes the risks to good health that children born today are likely to experience in their early years – with important consequences for their health and well-being in adulthood.
What does the Human Capital Index tell us about the state of human capital formation in Georgia?

In Table 1 below, we describe Georgia's performance on the HCI and its components. There are gaps in human capital formation overall – a child born in Georgia today will be 61 percent as productive when she grows up as she would be if she had full health and a complete education. These gaps are predominantly driven by underperformance on learning outcomes. Children complete 12.5 out of 14 total years of schooling and score 445 on average in harmonized test scores relative to a benchmark of 625 for advanced attainment. Health outcomes in children are relatively good, with a nearly 100 percent probability of surviving to the age of 5 and 11 percent probability of being stunted. Beyond childhood, 85 percent of 15-year-olds survive until 60 years of age.

### Table 1: The State of Human Capital Formation in Georgia

<table>
<thead>
<tr>
<th>Human Capital Index</th>
<th>Probability of Survival to the Age of 5</th>
<th>Expected Years of School</th>
<th>Harmonized Test Scores</th>
<th>Learning-adjusted Years of School</th>
<th>Adult Survival Rate</th>
<th>Fraction of Non-stunted Under-5 Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>A child born in Georgia today will be 61 percent as productive when she grows up as she could be if she enjoyed full health and a complete education.</td>
<td>Ninety-nine out of 100 children born in Georgia survive to the age of 5.</td>
<td>In Georgia, a child who starts school at the age of 4 can expect to complete 12.5 years of school by her 18th birthday.</td>
<td>Students in Georgia score 445 on a scale where 625 represents advanced achievement and 300 represents minimum achievement.</td>
<td>Factoring in what children actually learn, the expected number of years of school is only 8.9 years.</td>
<td>Across Georgia, 85 percent of 15-year-olds will survive until the age of 60. This is a proxy for the health outcomes that a child born today would experience as an adult under current conditions.</td>
<td>Eighty-nine out of 100 children are not stunted. Eleven out of 100 are stunted and at risk of cognitive limitations that can last a lifetime.</td>
</tr>
</tbody>
</table>

These gaps in human capital formation have direct negative implications for future productivity in Georgia. In the long run, Georgia's per capita GDP could be 1.64 \(\left(\frac{1}{\text{HCI}}\right)\) times higher if it achieved complete education and full health. The 2017 HCI also indicates that the current expected deficit in the future productivity of Georgian boys is higher than the deficit for girls. Georgian girls have higher expected years of school, better harmonized test scores, and a higher rate of adult survival. However, child survival is equally high among boys and girls, with 99 percent of Georgian children surviving to the age of 5. Between 2012 and 2017, harmonized test scores fell by 22 points among boys and by 16 points among girls. The other indicators and the overall HCI remained relatively constant (Table 2).

### Table 2: Time Trends in Georgia's HCI by Gender

<table>
<thead>
<tr>
<th>Component</th>
<th>2012</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>Female</td>
<td>Overall</td>
</tr>
<tr>
<td>HCI Component 1: Survival</td>
<td>0.98</td>
<td>0.99</td>
</tr>
<tr>
<td>Probability of Survival to Age 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HCI Component 2: School</td>
<td>12.1</td>
<td>12.1</td>
</tr>
<tr>
<td>Expected Years of School</td>
<td>457</td>
<td>471</td>
</tr>
<tr>
<td>Harmonized Test Scores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HCI Component 3: Health</td>
<td>0.77</td>
<td>0.92</td>
</tr>
<tr>
<td>Survival Rate from Age 15-60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraction of Children Under 5 Not Stunted</td>
<td>0.89</td>
<td></td>
</tr>
<tr>
<td>HCI</td>
<td>0.56</td>
<td>0.63</td>
</tr>
</tbody>
</table>

Source: World Bank

Note: The large circle represents Georgia, the small circles represent other countries, and the thick, vertical lines and colored circles reflect quartiles of the distribution.

In Table 2 below, we describe Georgia's performance on the HCI and its components by gender. These gaps in human capital formation have direct negative implications for future productivity in Georgia. In the long run, Georgia's per capita GDP could be 1.64 \(\left(\frac{1}{\text{HCI}}\right)\) times higher if it achieved complete education and full health. The 2017 HCI also indicates that the current expected deficit in the future productivity of Georgian boys is higher than the deficit for girls. Georgian girls have higher expected years of school, better harmonized test scores, and a higher rate of adult survival. However, child survival is equally high among boys and girls, with 99 percent of Georgian children surviving to the age of 5. Between 2012 and 2017, harmonized test scores fell by 22 points among boys and by 16 points among girls. The other indicators and the overall HCI remained relatively constant (Table 2).
Human capital formation among Georgian children is lower than in its regional peer countries. In 2017, Georgia's HCI at 0.61 was lower than the average for the transition countries of the former Soviet Union (FSU) (0.71) and the average in the Europe and Central Asia (ECA) region (0.7). The relatively low value of the HCI in Georgia is driven by the country's poorer performance in schooling as seen in its lower expected years of schooling and harmonized test scores than the averages in the FSU and in ECA (Figure 4). However, the HCI for Georgia is higher than might have been predicted for its income level.

Figure 4: Benchmarking Georgia's HCI Components

The HCI is a meaningful tool for measuring the productivity of human capital development, but it does not show the full story. In health, the high adult survival rates in Georgia underestimate the non-fatal health risks that children today will be exposed to as adults. These risks can lead to absenteeism, presenteeism (working while sick), and disability, all of which reduce productivity. When disability-adjusted life years (a weighted combination of death and disability) is taken into account, the burden of chronic diseases is high in Georgia, and the incidence of heart disease and stroke is even higher than in other countries with similar social and demographic indicators. While the HCI does not consider tertiary education, a highly skilled workforce with a solid post-secondary education is a prerequisite for innovation and growth. Recent evidence suggests that, globally, the private rate of return to schooling is higher for tertiary education than it is for primary or secondary education. The HCI will be updated periodically to monitor countries’ progress, and its components will be progressively tailored to different country contexts.

Georgia's performance on the HCI indicates that its children are being exposed to risks that will have negative implications for their productivity as adults. The risks are especially high in terms of schooling, performance on harmonized tests, and protection from non-fatal health risks beyond childhood. Georgia is an early adopter of the World Bank’s Human Capital Project, which commits the government to investing in human capital development for inclusive growth. In Chapter 3, we will examine the determinants of human capital formation in Georgia to inform national priorities for ensuring the future productivity of Georgian children.
Meet the Jakeli Family

A fictitious family in Georgia whom we will follow as they experience risks to health and learning, as they make household-level decisions about investing in their human capital, and as they benefit from government interventions to close gaps in human capital formation.

The Jakelis live in Kobadze—a small town between Tbilisi and Tsinadali in Georgia. The family consists of a husband and wife and their two small children:

Levan is a 30-year-old man who completed secondary education. However, he is mostly unemployed except for the occasional odd job. Levan has signs of cardiovascular disease.

Nino is a 28-year-old woman. She completed VET and works as a primary education teacher. Nino also cares for the home and looks after her and Levan’s two children, Keti and Dato.

Keti is a 5-year-old girl who is beginning to navigate school-readiness. She is in her first year of preschool.

Dato is the newest addition to the Jakeli family, a 6-month-old boy.
CHAPTER 3: The Drivers of Human Capital Development
To understand the drivers of trends in Georgia's human capital development, we draw on the framework described in Chapter 1 and examine the roles played by political commitment, fiscal space, household spending, and state programs in shaping the access of children and youths to learning, health, and skills in Georgia.

**Political Context**

Georgia is a semi-presidential republic situated in the South Caucasus region that borders the Black Sea (to the west), Turkey, Azerbaijan, Armenia, and Russia. The country is 69,700 square kilometers in size and has an estimated population of 4 million. Georgia is administratively divided into nine regions, one city (Tbilisi - the capital), and two autonomous republics. Georgia has been steadily working towards sustainable development since its independence from the Soviet Union in 1991, and its story has been characterized by progress and success.

Although Georgia struggles with political and economic turbulence as well as territorial conflicts, which have resulted in large numbers of internally displaced people, the government has pursued deep reforms in economic management and governance. In the past, Georgia relied heavily on traditional methods of economic development with a heavy focus on developing its physical and natural capital, including infrastructure and hydropower.

However, the government’s new growth strategy, Georgia 2020 Platform: Freedom, Rapid Development, Prosperity, puts human capital development at the center. Its goal is to continue developing a market-based economy while focusing on achieving prosperity for all and strengthening the country’s regional position, security, and territorial integrity. The platform has four policy goals, referred to as “The Four Point Plan,” which are: economic reform, education reform, spatial arrangement and infrastructure, and governance.

Over the past decade, Georgia’s economy has grown robustly at an annual growth rate of 4.8 percent in 2018. This was achieved despite numerous shocks, including the global financial crisis of 2007-08, the conflict with the Russian Federation in 2008, and the drop in commodity prices since 2014 that has impacted its key trading partners. The government’s deep reforms in economic management and governance have earned Georgia the reputation of being a “star reformer.” To bolster the private sector, the government has introduced rules and regulations that make it easier to do business, and the country’s international ratings on governance and the investment climate have soared.

Despite this recent economic growth, Georgia's fiscal space remains constrained. This is due in part to years of prudent fiscal spending and a countercyclical fiscal policy. Productivity-driven constraints have also contributed to the limited fiscal space. These include a lack of sufficient transport and information and communication technology, capacity gaps in public administration, limited access to credit, tax policy changes, an emphasis on capital expenditures, and, most notably, skills deficiencies. Georgia's productivity constraints are a direct cause of its lack of global competitiveness.

Georgia has the potential to double its GDP by 2030 if it can maintain an average annual growth increase of 5 percent. This could create a solidly middle-class society in Georgia. One viable pathway to this growth is through increased total factor productivity (TFP), which is a measure of productivity that refers to how efficiently inputs are used in the production process. Increased TFP can stimulate economic growth despite current and forecasted downward demographic trends. If TFP rose from 1 to 2 percent, this would allow for the kind of growth that Georgia needs to double its GDP by 2030.

Because the focus of TFP is on the efficiency of productivity, improving TFP will require an increase in human capital investments. The government increased its share of GDP spent on education by nearly 2 percentage points between 2012 and 2017 to 3.9 percent. As a share of GDP, health spending also increased by more than 1 percentage point between 2012 and 2017 and is above average for a country of Georgia's income level. Georgia's social protection programs have been effective in reducing poverty despite reducing
the government’s fiscal headroom. Social protection investments have the potential to improve health and increase skills and employment, which in turn will grow the economy, which is a potential win-win for Georgia.

Nevertheless, Georgia is still struggling to reach its highest potential for human capital development. Georgia’s population has declined by nearly a quarter since 1993 and today remains stagnant because of low fertility rates. Further compounding the challenge with the supply of labor is the high youth unemployment rate of 30.9 percent compared to the 16.6 percent average for ECA in 2019. Quality is also an issue, as employers report a lack of critical skills among graduates, especially from VET. Moreover, high out-of-pocket costs for individuals are leading to an avoidance of healthcare use, which is contributing to an increase in non-communicable diseases. Also, socioeconomic inequities persist. Thus, a new direction is needed to ensure that economic development is also human development for all Georgians.

The poor have benefited considerably from the government’s social policies, as well as from increased labor market opportunities. Although inequality remains high by regional standards, it has been declining in recent years as a result of significant improvements in the welfare of households in the bottom 40 percent of the income distribution. The unemployment rate declined to 12.7 percent in 2018, which helped to lower the poverty rate (measured at the national poverty line) to 20.1 percent. The shared prosperity premium in Georgia is positive with a Gini coefficient of 0.37 in 2018 down from 0.42 in 2011. However, household spending among the bottom 40 percent of the population has grown at a slower pace than the average consumption of all Georgians. In 2018, rural households spent only 1 percent of their income on education and 16 percent on healthcare, while urban households spent 4 percent on education and 11 percent on healthcare. Consequently, Georgia continues to rank among the most unequal countries in ECA.

State Interventions in Education, Health, Social Protection, and Jobs

Education

Interventions: The government is implementing a student-centered curriculum in select schools, while also modernizing school governance and increasing their autonomy. It is also working towards increasing equity in education by providing free transportation to rural school students, free textbooks in public schools, free portable computers in primary schools, and special needs education programs. The government has committed to increasing enrollment in early childhood education to 95 percent by 2023. By 2024, the government is aiming to have increased test scores, including reducing the number of low-performing students on PISA, PIRLS, and TIMSS by 10 percent. Furthermore, Georgia’s recent partnership with the World Bank on the Innovation, Inclusion, and Quality (I2Q) project is aimed at increasing access to preschool education and improving the quality of education and the learning environment by 2026.

Achievements: Georgians enjoy relatively wide access to education. Educational enrollment is near universal at the primary level, and enrollment in secondary education is above the averages for the EU and ECA (Figure 5). Even in tertiary education, Georgia has caught up in recent years. Its tertiary gross enrollment is one of the highest in the region at 64 percent, and about 35 percent of the population aged between 25 and 64 years old have completed tertiary education, which compares well even with high-income European countries. Gender parity has generally been achieved at all levels of education enrollment.
**Figure 5:**
**Net Enrollment Rates by Level of Education for Georgia and Comparators, 2018 or latest**

Challenges: An existing and growing gap between the skills taught in schools and the expectations of the labor market is one of the biggest constraints to Georgia’s growth. Overall, students in Georgia perform less well than their peers in other countries at a similar income level. The skills gap begins early on in Georgia with only 70 percent of 2 to 5-year-olds and 80 percent of 5 to 6-year-olds being enrolled in early childhood education, which is a stark contrast with the 95 percent of children aged between 4 and the compulsory starting age for primary education who are in early childhood education in the EU. Despite making modest improvements in their scores on international student assessments over the last decade, Georgian students remain two and a half years behind the average for countries in the EU and in the Organisation for Economic Cooperation and Development (OECD) across all three subjects in the Program for International Student Assessment (PISA). Students in Georgia also do not acquire basic proficiency in reading, math, and science, and between 2015 and 2018, these proficiency levels dropped even further (Figure 6). There are gaps between students of different income levels, with those from the top income group outperform their peers from the bottom income group by about two years of schooling. Thus, many Georgian students fail to develop the foundational cognitive and socioemotional skills needed to succeed in the workforce. This situation is exacerbated by the low prestige and salaries given to teachers, as well as by the limited professional development opportunities available to them and the aging of the teacher workforce.

**Figure 6:**
**Student Performance by Proficiency Levels, 2015-2018**

*Level 2 is the baseline level of proficiency at which students begin to demonstrate the competencies that will enable them to participate effectively and productively in life as continuing students, workers and citizens (OECD 2017)*
**Health**

**Interventions:** To increase access to care and widen financial protection, the Government of Georgia introduced the Universal Health Coverage (UHC) program in 2013. Within the package of benefits under the UHC, more comprehensive coverage is provided to pensioners, children aged 0–5 years and households registered as living below the poverty line. Basic primary care and some diagnostic services, as well as urgent outpatient and inpatient care (with a cost ceiling), elective surgery (with 10–30% co-payments), oncological services and obstetric care, are available for those above the poverty line, but earning less than the highest income bracket. The Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health, and Social Affairs (MoILHSA) has also developed a health management information system (HMIS). Additionally, an e-prescription system has been introduced in Tbilisi, and there are plans to roll it out nationwide in the short-term. Policymakers have also taken a whole-of-government approach to matters of health by raising the public’s awareness of the dangers of air pollution and the need for road safety.

**Achievements:** Georgia has made notable strides in the area of health care. Between 1999 and 2018, the percentage of non-stunted children dropped from 16.1 percent to 11.1 percent, and the mortality rate for children under 5 dropped from 37.5 to 10.8 deaths per 1,000. Immunization coverage has remained high and is above 90 percent for most vaccines. Additionally, Georgia has made excellent progress in increasing access to health services and financial risk protection in the past five years. The introduction of the UHC program gave all Georgians, especially the most vulnerable, access to a defined package of health services, and by May 2017, it covered 95 percent of the population. As a result, out-of-pocket spending as a percentage of current health expenditure, which had been so high that it had the potential to impoverish some individuals and households, declined from 73.4 percent in 2012 to 55.6 percent in 2016. Moreover, excellent headway has been made in eliminating Hepatitis C across Georgia.

**Challenges:** Despite increased spending on health as well as the introduction of the UHC program, the Georgian healthcare system still faces major challenges. The sector’s HMIS is mostly used for the reimbursement of costs and does not collect data about the performance of health care providers. Additionally, the current health service delivery model is biased towards hospital/emergency services and less centered on primary care. OOP health expenditures are high, accounting for 55.6 percent of total health expenditures and 36 percent of total health expenditures on pharmaceuticals. In some cases, OOP health spending on pharmaceuticals has caused households to fall deeper into poverty or to be unwilling to fill prescriptions for otherwise necessary medications. This has both short-term and long-term negative effects on individuals’ welfare as well as often increasing their health spending later in life when their conditions become more acute. As a result of inefficiencies in the health system, Georgia does not receive the full value of its health spending. For example, approximately 42 percent of the Georgian population suffers from at least one chronic condition, and the overall probability of survival from the age of 15 to the age of 60 decreased slightly as of 2017. Effective management of chronic conditions requires a strong primary care system and widespread coverage of essential drugs. At the same time, system-wide healthcare costs are a major challenge. Currently, the UHC program accounts for one-quarter of all social transfers and constituted 75 percent of total public health spending in 2017, including yearly budget overruns. As Georgia’s population ages and decreases, the costs associated with having a growing number of elderly people in the program will continue to rise.
**Social Protection and jobs**

**Interventions:** Since 2012, the government has worked hard to invest in social protection. First and foremost, it has been continually updating and improving the Targeted Social Assistance (TSA) program. More recently, it also implemented a mandatory pensions savings system that became effective on January 1, 2019, which requires 2 percent contributions of each worker’s wage from the employee, the employer, and the government respectively for a total of 6 percent. The government is strongly committed to linking TSA beneficiaries to employment activation services to put them on a path to self-sufficiency and to fulfil their human capital potential.

**Achievements:** Georgia’s social protection programs have been effective in reducing poverty, which dropped from 32.5 percent in 2006 to 17.1 percent in 2016. Before 2010, social transfers accounted for the majority share of household income, but after 2010, they dropped to 41 percent as labor income grew. Georgia’s TSA program is one of the best performing social protection programs in the region in terms of targeting outcomes and its coverage of the extreme poor. Georgia’s pension system guarantees the provision of universal non-contributory benefits to men at the age of 65 and women at the age of 60.

**Challenges:** The administration of social protection benefits across ministries is fragmented and could be improved. While the TSA has reduced the incidence of poverty by 6 percent and has been effective at lifting people out of extreme poverty, there is scope to improve its administration as well as its integration with other social benefits and active labor market measures. Improvements in management are needed, specifically regarding outreach, communication, and coordination across government levels (municipal and federal). Furthermore, the universal social pension amount is just above the poverty line, representing only 18 percent of the average wage and is inadequate for current needs. The indexation policy to preserve the benefit value over time is lacking, but related discussions are ongoing. While there has been good progress on establishing the Pension Administration office and corresponding contribution collection and record keeping system for the new defined contribution pension program, significant effort will be required to ensure proper governance, management, and supervisory structure. Additionally, the job portal (Worknet) is not automatically linked to the TSA registry so it is difficult to monitor, manage, and evaluate the access that work-abled TSA beneficiaries have to job offers and their labor market trajectory over time. There are also not enough active labor market programs (ALMPs) targeted to vulnerable jobseekers (such as TSA beneficiaries, internally displaced people, and youths), and there is no system for assessing the effectiveness of these programs. Since the employment department of the Social Service Agency (SSA) is at an initial stage of development, its capacity to meet its core mandate is very limited. It manages the Worknet online portal, but the portal is small and provides general rather than targeted information about available job vacancies and ALMPs, which makes it difficult for many employment seekers to use, especially those in certain difficult to place groups.

**This assessment identifies the factors that enable and constrain human capital formation in Georgia.** There is high-level commitment by political leadership to building human capital in Georgia and to identifying and delivering programs to vulnerable groups. However, the limited fiscal space for human capital investments, particularly in the health, education, and employment sectors, makes it difficult to fulfil those commitments. Concomitantly, there are inequities in household spending on healthcare and education. While the government has implemented interventions in health, education, and social protection that have facilitated improvements in survival and learning, addressing the persistent and emerging challenges to future productivity in each sector will be a necessary step towards ensuring the future well-being and productivity of Georgia’s children.
Despite being only 30, Levan has started having heart palpitations from time to time caused by high blood pressure. However, he has gone without his blood pressure medicine for the past six months because of its high out-of-pocket cost. Without the blood pressure medicine, he has been unable to work at times. He also is not sure where to go to find out about job opportunities as he relies on word-of-mouth so lately he has not been as active. Thus, Levan is caught in a vicious cycle.

Nino is worried about Levan. She would like to find a higher paying job than part-time teaching so that she can help him, but teaching gives her the flexibility to pick up Keti from preschool, pick up Dato from her mother’s home, and be able to cook dinner for her family. Levan’s sickness has led to Nino missing work to take care of him.

Because of the financial and physical burdens that Levan and Nino are facing, they are considering removing Keti from preschool until next year when she will turn 6 years old and can attend primary school for free.
CHAPTER 4:
Catalyzing Human Capital Formation in Georgia
As an early adopter of the Human Capital Project, the Government of Georgia has committed to making the catalytic investments that will close the gaps in productivity that arise from exposure to health and education risks. These investments must overcome constraints to accessing and improving the quality of essential interventions in health, education, and social protection within the Georgian context (Figure 7). In consultation with policymakers in each sector, we have identified interventions that have been empirically demonstrated to be effective in alleviating critical challenges to human capital accumulation and that are also feasible to implement in the Georgian context.

**Figure 7: When is an investment Catalytic?**

**Education**

Human capital investments in education have the potential to yield substantial cumulative benefits over time. In consultation with the Ministry of Education, Science, Culture, and Sport, we have identified three interventions for increasing human capital development in Georgia in the short to medium term: (i) expanding high-quality early childhood education and care; (ii) improving the quality of teaching and learning in general education; and (iii) increasing the labor market relevance of postsecondary education, especially in vocational education and training (VET).

1. **Expanding high-quality early childhood education and care**

   In Georgia, expanding ECEC coverage and improving its quality will be critical for laying the foundation for the cognitive and socioemotional skills that will be relevant in the labor market. Evidence suggests that increasing one or more years of early childhood education for Georgian children results in higher performance on PISA. For Georgia to reach its target of 95 percent ECEC enrollment, Finland provides a good example of how to develop a child-centered ECEC program that also involves the cooperation of vested stakeholders.

   Finland’s ECEC system is rooted in its history and based on a welfare model that values universalism, social rights, and equality and equity. At its core is a powerful narrative predicated on a principled, personalized, and child-centric ECEC system drawn from the
nation’s commitment to citizens’ universal rights to education, health, and welfare. The state’s responsibility to provide and promote education, health, welfare, and security is written into the Finnish Constitution, and citizens are guaranteed the right to income and care.

These values are also reflected in the nation’s embrace of a collective responsibility for young children, which has evoked a range of policies over the last 8 decades. Today, universal and integrated ECEC services ensure that children and their families, wherever they live and whatever their social, economic, ethnic, or cultural background, have access to nationally defined ECEC services. There is a wide array of ECEC services for children and their families in Finland, almost all of which are publicly subsidized, and many of which are publicly provided; however, there has also been an increase in private provision of ECEC services. Center-based ECEC is the most common form of ECEC, but children may also attend family-based ECEC or more informal “open” care services. All center-based ECEC and all preprimary schools must follow the national core curricula for ECEC and pre-primary, which are then tailored at both the municipality and the center levels.

Finnish ECEC pedagogy underscores the intrinsic value of childhood and child-centered pedagogy. The curricula do not specify standardized learning or performance goals for children. Instead, each child’s learning and development is monitored in accordance with their Individual Education Plan (IEP), crafted at the beginning of the school year through collaboration between the teacher, parents, and child. Also, teachers, including ECEC teachers are also highly valued in Finland, and teacher education programs offered by universities are highly competitive.

National legislation obligates the municipalities to evaluate the quality of ECEC programs and ensure compliance with the nationally defined minimum program standards. Rather than a strict national monitoring apparatus, the Finnish system relies heavily on the proficiency of ECEC teachers and other personnel, with limited program evaluation or inspection occurring. Parents are also viewed as important and knowledgeable “overseers” of ECEC programs and are seen as capable of filing complaints if they perceive violations of legal program standards such as student to teacher ratios or classroom safety.

Generally, ECEC services for children aged 0-6 are funded jointly by the state (i.e., the central government), municipality, and parents. Importantly, the state’s funding to municipalities is not earmarked to ECEC but covers all public services that the municipality is legally required to deliver, allowing the municipalities flexibility in the expenditure of state funds. Though there is some local variation in fees charged families for ECEC services, the state enforces a maximum fee, which, at present, is about $340 USD per month for full-day provision. Parents’ fees are typically means-tested depending on the size and income of the family, although some municipalities charge less than the maximum or nothing at all. In broad terms, parents’ fees for municipality organized ECEC services cover around 13 percent of the total spending on ECEC, with the rest coming from state/municipality budgets. Families who choose to place their children in private ECEC provision are eligible for a private day care allowance and income-adjusted care supplement.

2. Improving the quality of general education with a focus on teachers

Teachers are key to improving the quality of general education, as focusing on teachers has been proven to have a consistently high rate of return in terms of student learning outcomes. International evidence suggests that the quality of teaching and learning provision have by far the most salient influence on students’ cognitive, socioemotional, and behavioral outcomes of schooling regardless of their gender or background.

Having well-trained teachers in schools can reduce the amount of tutoring that a family considers necessary for their children and can improve students’ test scores over the long term. Georgia’s PISA scores lag those of other countries that began scoring consistently high on PISA tests only after making sustained investments in
human capital (Figure 8). Working towards similar human capital outcomes in Georgia’s education system will require policies that attract the best and the brightest candidates to the teaching profession using recruitment campaigns that offer strong incentives to attract strong candidates and that highlight the benefits of teaching, including stability, flexible schedules, extended vacations, and guaranteed health benefits. Finally, it will be necessary to adopt policies to address the oversupply of teachers and to tie renumeration with teachers’ professional development to maintain the gains yielded by the other reforms aimed at building human capital in the sector.

Figure 8: PISA Performance of Georgia and Countries with Aspirational Scores

Source: OECD PISA database

The current technical and professional skills shortages in Georgia must be addressed by strengthening the labor market relevance of VET and higher education programs. Since 2007, the government has repeatedly invested in improving VET infrastructure and curriculum development, including fostering closer integration between schools and universities and creating opportunities for greater private sector involvement in VET. One way in which the private sector could play a stronger role in VET would be to participate in government-coordinated business associations. Making post-secondary education more relevant to the skills demanded by the labor market will also require attracting, training, and/or re-training a new cadre of VET teachers in line with new VET curricula and approaches.

It will also be necessary to change public perceptions of VET so that more students consider it as a reputable choice for their post-secondary education and long-term employment. This should include taking a more meritocratic approach to entry to and performance in VET education as well as making information publicly available about which VET institutions are the most effective and competitive. Communicating relevant labor market information to high school students and their parents has also been shown to be effective at guiding students’ choices about their tertiary field of study. This can be done through guidance and career counseling programs and timely tracer studies that inform students of career pathways while in secondary school.

In consultation with the Ministry of Health, Labor, and Social Affairs of Georgia,
Health

1. Re-orienting from hospital and emergency service-based care to preventive and primary care

Changing incentives and reorienting Georgia's healthcare system towards primary care has the potential to improve health outcomes and reduce costs. Currently, the health delivery system skews towards hospital and emergency services by incentivizing doctors to push high risk patients or those with multiple chronic conditions towards hospital care, and hospitals are incentivized to pull patients towards inpatient care. Changing treatment incentives would be an important first step towards reorienting the health system away from hospital care and towards primary and preventive care. This would ensure that most conditions, especially common NCDs, could be prevented or treated early, thus avoiding the expensive treatment needed when these diseases reach a later stage. Ways to re-orient towards primary health care, include: i) revising guidelines that expand scope of primary health care services for prevalent conditions and clarify appropriate circumstances for referrals; ii) innovative payment mechanisms like bundled payments that reward primary health care-centric delivery; iii) monitoring via the e-health system if patients are being treated at the right level and identifying outliers. Achieving this reorientation for all patients will also necessitate integrating the rural doctor program into the UHC.

Experience from Germany, Denmark, parts of the United States, and Turkey has shown the importance of having a strong primary care system for reducing costs and improving health outcomes by reducing morbidity and would be good systems for Georgia to explore. A robust primary care system in Georgia would translate human capital investments into higher productivity by extending individuals' working lives and decreasing work absenteeism due to illness.

2. Using the UHC program to reduce OOP health spending

Gradually expanding outpatient drug coverage in the UHC program could reduce OOP spending. Although OOP spending in Georgia declined from 73.4 percent in 2012 to 55.6 percent in 2016, it is still significantly higher than the averages for other countries at a similar income level. Expanding the UHC outpatient drug benefit would help to reduce individuals' OOP costs for pharmaceuticals, which account for over two-thirds of OOP spending. While the costs of accomplishing this all at once are likely to be beyond the capacity of the UHC program budget, it could be expanded gradually beginning with a limited subset of patients and products, for example, the most common NCDs, which account for the highest burden of disease and expenditures. Expanding the outpatient drug benefit to include medication for cardiovascular disease, which ranks at the top of both the burden of disease and mortality, would result in significantly lower OOP spending for a large number of patients. The integrity of the benefit could be ensured by using the e-prescription system to monitor prescribing and dispensing. If planned carefully, this expansion could continue over time to cover more and more outpatient prescriptions. This would amount to a significant investment in all stages of life, including the middle of the lifecycle, which would in turn contribute to better health in old age, thus improving long-term social welfare and increasing cost savings.

3. Increasing the efficiency of health spending

It is possible to obtain better value for money from current spending by making systemic changes to the health system. In the short term, this first step would be to reduce duplicate coverage among those who have voluntary health insurance and who are covered by the UHC program. Strengthening the SSA's management and strategic purchasing capacity would also generate savings that could be used more productively within the sector. In particular, if the SSA's internal organizational structure were simplified and given more purchasing power, and its analytical capacity in day-to-day operations were increased, the SSA would be empowered to make more streamlined and efficient decisions for the health system. Some steps have already been taken to strengthen the role of the SSA, including the standardization of tariff-setting rules for critical and intensive care. The government is also currently in the process of piloting diagnostic-related
groups (DRGs) to increase the efficiency of hospital payments and is also considering implementing quality control measures.

Revising the payment models for inpatient care and piloting bundled payments for primary care could reorient incentives from more expensive hospital care to less expensive primary and preventive care. Shifting the health system towards primary care would increase prevention and early detection, resulting in better health outcomes and significant efficiency gains in the long term.

In collaboration with the Ministry of Health, Labor and Social Affairs of Georgia, we have identified two catalytic interventions to build and activate human capital: (i) digitizing and integrating the social protection delivery system to better serve all beneficiaries and (ii) creating the right incentives to encourage and enable inactive people to participate in the labor force.

Currently, many federal and municipal government social protection programs operate across the country independently from each other. Reducing the fragmentation and integrating these programs into a system will increase efficiency and effectiveness. This will require investments in both hardware and IT security systems as having a securely digitized system is a prerequisite for the integration of social services and benefit delivery processes and will also make it possible to ensure that benefits are accurately targeted to the poor and vulnerable. This will strengthen the TSA by providing reliable municipal-level information on work-able beneficiaries in employment, labor market intermediation services, and complementary social services including health and education fee waivers, energy and transportation discounts, and ECEC services. In addition, one important digitizing investment that will be needed is an automated link between Worknet and the Database of Socially Vulnerable Households in order to monitor, manage, and evaluate information about work-able TSA beneficiaries and their labor market trajectories over time. The digitization process will make the various federal and municipal social protection databases interoperable, which will make it easier to: (i) know which beneficiaries receive which services; (ii) ensure the benefits are accurately targeted; (iii) ensure no benefits disincentivize recipients from looking for work; and (iv) conduct advanced analysis to inform the creation of customized service packages for vulnerable households. Integrating the central and local social protection systems with health, nutrition, and ECD services will make it easier for policymakers and families to invest in the human capital of current and future generations.

In the short term, the government could expand women’s labor force participation
2. Creating the right incentives to encourage and enable inactive people including women, youths, and poor people to participate in the labor force and maximize their human capital potential

by encouraging employers to provide leave benefits, by allowing tax deductions for childcare payments, and by initiating communication campaigns. Those not in education, employment, or training (NEET) could be encouraged to participate by providing career guidance services in schools and by creating stronger links between education institutions and employers. The government has already started reforming the TSA by introducing income disregards, gradual phase-out measures, and conditions incentivizing participation in ALMPs and job search activities in order to reduce potential work disincentives among beneficiaries, but more is needed. Ultimately, in order to require social assistance beneficiaries to apply for training programs and look for work to continue receiving benefits, Georgia will have to transition from the TSA to a system of social protection comparable to a European Rights to Responsibility Approach or Mutual Obligations Approach.

It will also be necessary to invest in expanding the supply and effectiveness of ALMPs and
employment services, especially for vulnerable groups including TSA beneficiaries and the NEET. Policies to activate TSA recipients and reduce their dependency on benefits will need to be designed and developed. For example, possible measures might include introducing conditions requiring TSA recipients to accept suitable job offers and participate in ALMPs, sanctions, income disregards, and setting higher exit thresholds. Such measures will link work-able TSA beneficiaries with labor market integration services, thus making an important change to the delivery of social services in Georgia. To do this, it will be necessary to expand the staff and budget capacity of the SSA’s Employment Department and to provide training to SSA staff to enable the department to expand beyond its current limited scope. In addition, the government should map existing ALMPs in order to inform further expansion. Finally, while Worknet is well-connected to the SSA and its individual beneficiaries, ensuring that TSA recipients are included in Worknet and in the networks of the expanded ALMPs will be essential for reaching the most vulnerable populations.
CHAPTER 5:
Moving from Ideation to Implementation
Moving from the ideation of these catalytic interventions to their implementation will require collaboration between relevant stakeholders within Georgia, expanding the fiscal space for these investments, focusing strongly on learning from results, leveraging external partnerships, and deploying technology to accelerate access to these human capital interventions.

It takes longer than one political cycle to develop human capital. It requires a multi-sectoral commitment over many political cycles to work towards a particular goal. In Georgia, political instability is regularly cited as one of the most problematic factors for doing business and for ensuring the sustainability of policies. A whole-of-government approach that brings together government agencies, civil society, beneficiaries, the private sector, and other stakeholders will be essential for the success of these catalytic interventions. To this end, it would be useful for the government to consider setting up a working group to coordinate human development initiatives within a shared vision.
Creating the fiscal space for strategic human capital investments will require making more efficient use of resources but also coming up with new revenue mobilization strategies. The government has the potential to generate and collect public revenues through taxes and fees, both domestically and internationally, to finance the activities and services needed to improve healthcare, education, social protection and labor services for its citizens. For example, one way to use the tax system to provide incentives aimed at achieving better social outcomes would be to introduce taxes on tobacco and sugar-sweetened beverages and earmark that revenue to support social programs in education and health. Evidence suggests that taxes that are earmarked for a social or public good increase public and political support for the tax.\textsuperscript{27}

Expanding the evidence base to measure progress and inform policy design will be key to ensuring that the human capital investment strategy is succeeding. Collecting and analyzing data can help to determine which interventions have the highest returns to investment and can help policymakers to make key decisions about which interventions are most likely to be effective. For example, in Georgia, repeated labor market analyses have proven that women’s labor force participation rate is lower than men’s despite the common perception that more women than men are working or searching for work. Maintaining and expanding evidence on such topics will be key for designing effective policies as well as for assessing the progress of interventions and changing course where necessary over time.

The Government of Georgia may also need to form strategic partnerships with external stakeholders who are aligned with the objective of human capital development, have a comparative advantage in terms of technical expertise for the design of the proposed interventions, and can provide financial support for the catalytic human capital investments. The World Bank Group is such a partner. Its Country Partnership Framework FY19-22 for Georgia identifies human capital development as a priority investment in the medium term. Given its extensive experience in structuring and implementing strategic investments globally, the World Bank Group is well-placed to build the technical capacity necessary to undertake catalytic investments in health, education, and social protection in Georgia. The Bank can also engage other development partners and local stakeholders to support the strategy and can commit significant financial resources to these investments.

Technological development and its efficient integration into the global economy is regarded as one of the cornerstones of Georgia’s social and economic development and is outlined in various legal and policy documents, including the Georgia 2020 Platform: Freedom, Rapid Development, Prosperity. The country’s well-developed telecommunications sector can help to solve challenges in education, health, social protection, and labor. For instance, schools can use online learning platforms to facilitate and enhance the learning process, especially for vulnerable students, and to enable teachers and school leaders to share knowledge across schools. In the health sector, telemedicine can help to tackle both chronic and preventable illnesses through video consultations between patients and medical providers, the remote monitoring of patient data (for example, heart rate or blood pressure), and the provision of information to the patient about how to manage their conditions. Technology can also be used to provide prospective workers with information about job opportunities as well as to improve their skills through online learning. Finally, technology can be used to increase the connectivity between and streamline the processes of government agencies and service providers to enhance the efficiency of human capital interventions.
CHAPTER 6:
Towards a Strategic Focus on Human Capital Development
After Singapore became independent, its economic outlook was uncertain as a small island country with no natural resources that was home to 2 million people. In the decades that followed, Singapore would develop into one of the world’s most competitive economies with a GDP of US$58,248 per capita in 2018. The rapid growth of Singapore’s economy was primarily driven by the expansion of the manufacturing and services sectors that was enabled by a strategic focus on human capital investments (see box below).28 Singapore now ranks as the best country in the world in terms of human capital development. The Singaporean case illustrates what can be achieved in terms of economic growth by ensuring that the population is healthy, knowledgeable, skilled, and matched to high-productivity jobs.

The Singaporean Growth Miracle: Powered by Strategic Human Capital Investments

Singapore is a small country that is home to about 5.6 million people. Lacking in natural resources, Singapore’s growth has been driven by its focus on human capital investments. The results are astounding. Between 1965 and 2017, Singapore’s per capita GDP in constant 2010 US dollars has increased from US$ 4,000 to US$ 58,248.

From the early 1960s to the late 1990s, an educated and skilled labor force facilitated economic diversification and export upgrading. Initial investments in education focused on increasing coverage of basic education for labor-intensive manufacturing. However, the government progressively shifted its focus from the coverage of basic education to improving the quality of upper-secondary, tertiary, and vocational education, which facilitated the growth of technology-intensive manufacturing. The development of human resources was a core element in every strategic economic plan during this period. A government institution – the Ministry of Manpower – was set up with the objective of leading policy development for building human capital. The “Manpower 21” blueprint outlined a plan to enable Singapore to become the talent capital of the world through the constant improvement of employee skills and knowledge. For example, through the skills development fund, employers were compelled to contribute to skills development.

Investments in learning were paralleled with efforts to develop a health system that facilitated access to care. Government regulation exerted downward pressure on healthcare costs and reduced financial barriers to access. Health facilities are largely public, physicians are employed by the state, and reimbursable medication are pre-specified. The extensive formalization of the rapidly growing economy allowed Singapore to implement health insurance funded through payroll taxes to individual-level health savings accounts. Limiting coverage to hospitalization and capping government expenditures further contained health expenditures from these “Medisave” accounts. Through “Medishield,” funds are pooled across all the insured to cover the expenses of major or prolonged illness, and through “Medifund,” vulnerable groups are covered by general government expenditure.

Singapore is now a high-income country and has the best human capital outcomes in the world. A child born today in Singapore will attain 88 percent of her full productivity as an adult given the current health and learning environment. The Singaporean example illustrates the potential gains that can be reaped by adopting a strategic focus on human capital investments.
This assessment provides a starting point for developing, planning, and financing an intersectoral agenda to harness this resource. We have examined the state of human capital formation, highlighting successes in terms of child survival and nutrition, while flagging the gaps in enrollment, learning outcomes, and healthy life expectancy that limit productivity in adulthood. We have highlighted the opportunity to accelerate human capital development, while acknowledging the constraints presented by fiscal space limitations, gaps in the coverage and quality of essential health, education, social protection, and jobs interventions, and inequities in household spending on human capital. Finally, in partnership with national policymakers, we have identified some important catalytic investments that have the potential to overcome the binding constraints to improving health and increasing learning in Georgia.

The next phase of the human capital policy dialogue in Georgia should focus on putting this agenda into practice. This will involve: (i) developing a plan for implementing the proposed catalytic interventions; (ii) undertaking costing exercises for each intervention; (iii) defining the mechanisms for monitoring progress in implementing the strategy and subsequent changes in human capital outcomes; (iv) specifying the criteria and mechanisms for targeting investments to social groups or regions with poorer human capital outcomes; and (v) identifying ways to finance these reforms including improving tax administration, introducing new taxes, prioritizing human capital spending in the state budget, and increasing the efficiency of sectoral spending. The World Bank Group remains committed to providing technical and financial support for operationalizing and implementing this ambitious strategy.

There will be costs to failing to take action to build human capital in Georgia. As the global knowledge economy continues to demand higher levels of innovation and productivity, Georgia faces the prospect of losing the momentum that it has worked so hard to build by not fully investing in the catalytic areas of education, health, social protection, and labor. As discussed in this assessment, the biggest constraint that businesses face in doing business in Georgia is a lack of appropriate human capital. Meanwhile, education outcomes are declining, chronic diseases affect nearly half of the population, and youth unemployment is high. These issues exacerbate the problems associated with having an aging population and will cause significant growth and innovation challenges in the medium to long term in the absence of efforts to build human capital. Therefore, Georgia stands at an important crossroads. Strategic human capital investments can reduce inequalities, stabilize demand during economic shocks, smooth consumption, and protect vulnerable groups during structural changes. For families like the Jakelis, the decision to invest in human capital development today will determine their ability to lead productive lives for generations to come.

As the Singapore case demonstrates, Georgia has much to gain from investing in its most valuable resource—its people.


17 Ibid.


