

Project

Economic Crime and Money Laundering

Topic: "Pensions Provision System as a Stimulant of a Shadow Economic Sector"

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“Pensions Provision System as a Stimulant of a Shadow Economic Sector”

Governmental course for maximally liberalizing entrepreneurial environment in no reason deserves positive estimation. Logical aspect of the liquidation of unjustified administrative barriers, total quantities of taxes and significant reduction of the rates in industrial sphere is in no reason proved by the definite tendencies of recent period pointed out in country's macro economic performances and in general parameters of important growth of state budget (see table #1). Data shown in the table clearly prove the progress achieved in the activities of the fiscal services of the country. However important growth of budget incomes should not promote the government to be calm and to have baseless peaceful attitude towards the shadow Economy. Moreover, considering the fact, that in the nearest historical past, in some definite fields of state economy the quantity of none registered activities reach almost 50-60 percent. ¹

Despite the fact, that during recent period the government of the country and relevant (among them the Department of Statistics of the Ministry of Economic Affairs of Georgia) bodies are obviously trying to avoid all kind of talks concerning the existence of sector of shadow economy and the problems connected with them, there should be no doubt that shadow economy and together with this, economic crime exists in the country on a relevant level.

The above mentioned is proved in the detailed analysis of the official statistical information published by the Ministry of Finance of Georgia, National bank of Georgia and the Department of Statistics of Georgia. The thing is that the data mentioned in Table #1 of the Growth of GDP of the country of 2004-2006 implicates the growth tendencies of newly created value-added taxes and therefore mobilized in state budget.(see graphic #1).

¹ “Non observable Economy in Georgia” Tbilisi 2001 pg. 43

Dynamics of the general parameters of Georgian GDP and State Budget 2 (mln Lari)

Table #1

State budget Parameters	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP in Market Prices	3868,5	4554,9	5022,1	5668,7	6043,1	6674,0	7456,0	8564,1	9824,3	11621,0	13783,0	–
<i>Growth rate *, 1996=100</i>	100	117,7	129,8	146,5	156,2	172,5	192,7	221,4	253,9	300,4	356,3	–
Total income and grants	555,1	686,1	761,8	922,5	874,4	843,3	1039,9	1239,2	1424,4	1945,8	3068,6	3712,3
<i>Growth rate, 1996=100</i>	100	123,6	137,2	166,2	157,5	151,9	187,3	223,2	256,6	350,5	552,8	668,8
<i>Per share with GDP</i>	14,3	15,1	15,2	16,3	14,5	12,6	13,9	14,5	14,5	16,7	22,3	–
<i>Tax incomes</i>	–	419,4	476,8	561,7	572,3	720,3	804,7	945,3	1112,5	1554,8	2263,1	2968,1
<i>Growth rate, 1997=100</i>	–	100	113,7	133,9	136,4	171,7	191,9	225,4	265,2	370,7	539,6	707,7
<i>Per share with GDP</i>	–	9,2	9,5	9,9	9,5	10,8	10,8	11,0	11,3	13,4	16,4	–
State budget expenses – taxes	784,6	886,1	938,8	1231,9	1264,1	1120,9	1259,5	1479,0	1731,5	2260,7	3285,4	4077,8
<i>Growth rate, 1996=100</i>	100	112,9	119,7	157,0	161,1	142,9	160,5	188,5	220,7	288,1	418,7	519,7
Limited quantity of deficiency	299,5	200,0	177,0	309,4	389,7	277,6	219,6	239,8	307,1	314,9	216,8	365,5
<i>Growth rate, 1996=100</i>	100	-33,2	-40,9	3,3	30,1	-7,3	-26,7	-19,9	2,5	5,1	-27,6	22,0
<i>Per share with GDP</i>	7,7	4,4	3,5	5,4	6,9	4,1	2,9	2,8	3,1	2,7	1,6	–
Limited quantity of State Loan	111,6*	200,0	177,0	4983,0	5292,0	5430,0	5657,0	5569,4	5755,5	5890,0	5181,9	4511,6
<i>Growth rate, 1996=100</i>	100	179,2	158,6	4465,1	4741,9	4865,6	5069,0	4990,5	5157,3	5277,8	4643,3	4042,6
<i>Per share with GDP</i>	2,9	4,4	3,5	87,9	87,6	81,4	75,9	65,0	58,6	50,7	37,6	–
Internal loan volume	–	97,6	90,0	1173,0	1340,0	1450,0	1557,0	1614,0	1600,0	1640,0	1640,0	1490,0
<i>Growth rate, 1997=100</i>	–	100	-7,8	1201,8	1372,9	1485,6	1595,3	1653,9	1639,3	1680,3	1680,3	1526,6
<i>Per share with GDP</i>	–	2,1	1,8	20,7	22,2	21,7	20,9	18,8	16,3	14,1	11,9	–
Foreign loan volume	–	102,4	87,0	3810,0	3952,0	3980,0	4100,0	3955,4	4155,5	4250,0	3541,9	3021,6
<i>Growth rate, 1997=100</i>	–	100	-15,0	3720,7	3859,4	3886,7	3003,9	3862,7	4058,1	4150,3	3458,9	2950,8
<i>Per share with GDP</i>	–	2,2	1,7	67,2	65,4	59,6	55,0	46,2	42,3	36,6	25,7	–
Parameters of State budget	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007

2. The table is based on the data of the Department of Statistics of the Ministry of Economic Development of Georgia, of the National Bank of Georgia ([http://www. Statistics.ge](http://www.Statistics.ge). [http://www.nbg.gov.ge/NBG New Geo/Pablications/Buletin/](http://www.nbg.gov.ge/NBG>New%20Geo/Pablications/Buletin/)) and on the data mentioned in the "Law on Georgian State budget" of the relevant years.

* Growth rate of GDP is based on nominal performances without considering inflation.

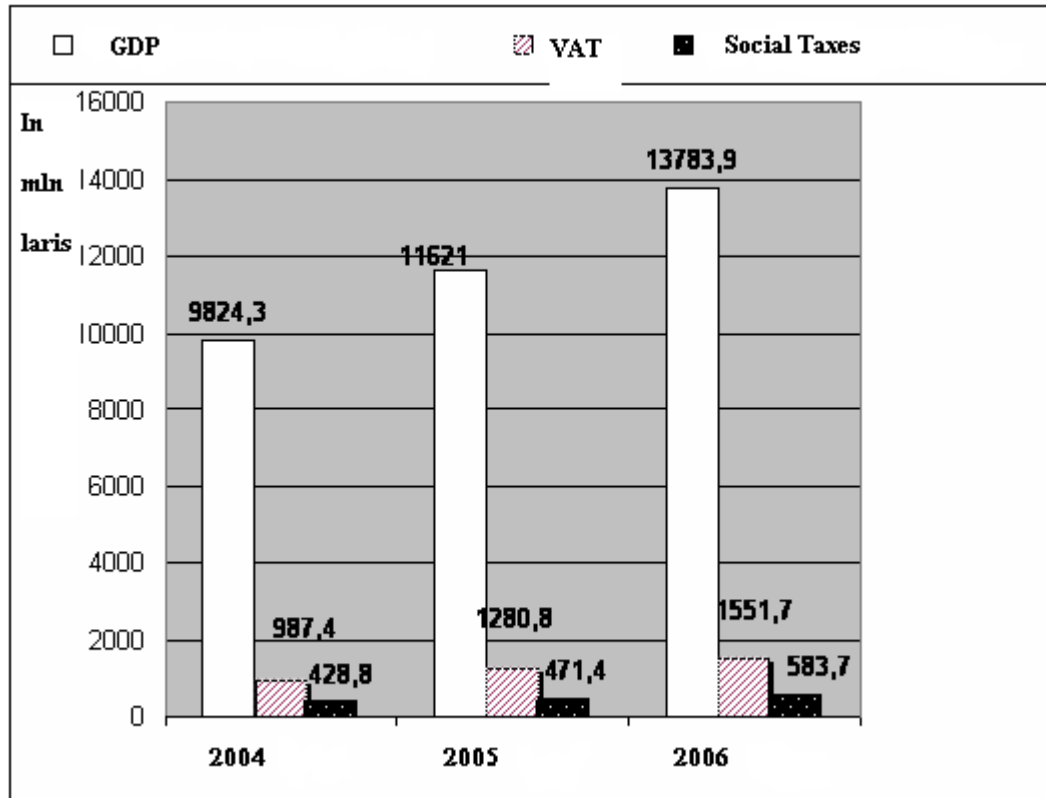
* "In the Law of Georgia of February 8, 1996 "On State Budget of Georgia of 1996" limited volume of State (including internal and external) loan is not defined clearly. Data presented in the table are based on the formulations of the 6th article of the mentioned law.

GDP in market prices	3868,5	4554,9	5022,1	5668,7	6043,1	6674,0	7456,0	8564,1	9824,3	11621,0	13783,0	–
<i>Growth rate *, 1996=100</i>	100	117,7	129,8	146,5	156,2	172,5	192,7	221,4	253,9	300,4	356,3	–
Total grants and incomes	555,1	686,1	761,8	922,5	874,4	843,3	1039,9	1239,2	1424,4	1945,8	3068,6	3712,3
<i>Growth rate, 1996=100</i>	100	123,6	137,2	166,2	157,5	151,9	187,3	223,2	256,6	350,5	552,8	668,8
<i>Per share with GDP</i>	14,3	15,1	15,2	16,3	14,5	12,6	13,9	14,5	14,5	16,7	22,3	–
Total tax incomes	–	419,4	476,8	561,7	572,3	720,3	804,7	945,3	1112,5	1554,8	2263,1	2968,1
<i>Growth rate, 1997=100</i>	–	100	113,7	133,9	136,4	171,7	191,9	225,4	265,2	370,7	539,6	707,7
<i>Per share with GDP</i>	–	9,2	9,5	9,9	9,5	10,8	10,8	11,0	11,3	13,4	16,4	–
Taxes—expenses of State income	784,6	886,1	938,8	1231,9	1264,1	1120,9	1259,5	1479,0	1731,5	2260,7	3285,4	4077,8
<i>Growth rate, 1996=100</i>	100	112,9	119,7	157,0	161,1	142,9	160,5	188,5	220,7	288,1	418,7	519,7
Limited quantity of deficiency	299,5	200,0	177,0	309,4	389,7	277,6	219,6	239,8	307,1	314,9	216,8	365,5
<i>Growth rate, 1996=100</i>	100	-33,2	-40,9	3,3	30,1	-7,3	-26,7	-19,9	2,5	5,1	-27,6	22,0
<i>Per share with GDP</i>	7,7	4,4	3,5	5,4	6,9	4,1	2,9	2,8	3,1	2,7	1,6	–
Limited quantity of State Loan	111,6*	200,0	177,0	4983,0	5292,0	5430,0	5657,0	5569,4	5755,5	5890,0	5181,9	4511,6
<i>Growth rate, 1996=100</i>	100	179,2	158,6	4465,1	4741,9	4865,6	5069,0	4990,5	5157,3	5277,8	4643,3	4042,6
<i>Per share with GDP</i>	2,9	4,4	3,5	87,9	87,6	81,4	75,9	65,0	58,6	50,7	37,6	–
Internal loan volume	–	97,6	90,0	1173,0	1340,0	1450,0	1557,0	1614,0	1600,0	1640,0	1640,0	1490,0
<i>Growth rate, 1997=100</i>	–	100	-7,8	1201,8	1372,9	1485,6	1595,3	1653,9	1639,3	1680,3	1680,3	1526,6
<i>Per share with GDP</i>	–	2,1	1,8	20,7	22,2	21,7	20,9	18,8	16,3	14,1	11,9	–
External Loan volume	–	102,4	87,0	3810,0	3952,0	3980,0	4100,0	3955,4	4155,5	4250,0	3541,9	3021,6
<i>Growth rate, 1997=100</i>	–	100	-15,0	3720,7	3859,4	3886,7	3003,9	3862,7	4058,1	4150,3	3458,9	2950,8
<i>Per share with GDP</i>	–	2,2	1,7	67,2	65,4	59,6	55,0	46,2	42,3	36,6	25,7	–

Based on this, the fact, that the tendencies of general economic growth should be reflected on social-economical condition of the population, namely on the growth of salary funds of the country is absolutely logical. So, the tendencies drawn up according to official statistical information and presented in graphic # 1 have quite a logical form.

Growth tendency of GDP and social taxes charged on salary funds stipulated by the growth of the created value-added taxes of the country 3

Graphic #1



General analysis of the tendencies shown in graphic quite logically reflect the improvement process of the economy, namely growth tendency of GDP and social taxes charged on salary funds stipulated by the growth of the created value-added taxes of the country.

Hence we have no official statistical data on total amount of the salaries issued in the country, we consider it is advisable to define the disproportion of the growth rate existent between the general macro-economic performance and the salary funds of the country following

3. G The graphic is based on on the data of the Departm,ent of Statistics of the Ministry of Economic Development of Georgia, of the Natioanal Bank of georgia (<http://www.Statistics.ge>. [http://www.nbg.gov.ge/NBG New Geo/Pablications/Buletin/](http://www.nbg.gov.ge/NBG>New%20Geo/Pablications/Buletin/)) and on the data mentioned in the "Lao on Geogian State budget" of the relevant years.

the calculations done according to official statistical data of the total amount of the employed personal and the amount of the nominal average salary. (See table #2).

Possible quantity of the salary funds of the country 4

Table #2

	2001	2002	2003	2004	2005	2006
Quantity of the employed persons (thousand person)	1 877,7	1 839,2	1 814,9	1 783,3	1 744,4	1 747,7
Average monthly nominal salary (Lari)	94,6	113,3	125,9	156,8	204,2	292,7
Conditional annual salary fund (thousand Lari) (number of employed persons X average monthly salary X 12 months)	2 131 565,0	2 500 576,3	2 741 950,1	3 355 457,3	4 274 477,8	5 389 906,8
Conditional annual social taxes (thousand Lari) Taxes in conditional salary funds. 31%+2% till 2004, 20% from 2005	703 416,5	825 190,2	904 843,5	1 107 300,9	854 895,6	1 077 981,4
Deviation from factual social tax size.	<u>551 916,5</u>	<u>669 190,2</u>	<u>684 143,5</u>	<u>785 100,9</u>	<u>553 735,6</u>	<u>654 281,4</u>
Social taxes * (thousand Lari)	151 500,0	156 000,0	220 700,0	322 200,0	301 160,0	423 700,0

As we can see in Table # 2, if we multiply the average salary amount, the amount of the employed personal and 12 months of the year, conditional salary fund calculated according to country scale, with the taxes defined under Georgian Tax Code (Including 2004, plus 31% of the salary fund taxes of the employer, and according to the tax code adopted for the January 1, 2005, 20% of the salary fund taxes of the employer) total social taxes received after taxation is importantly less then the amount of sums which are mobilized in State budget by using the same methods. This obviously talks about the fact that the above mentioned taxes are paid incompletely and that the shadow economic sector really exists.

Though, we should point out the fact, that the quantity of conditional social taxes shown in the table (calculated according to the statistical data) needs some distinct correction. The thing is, that according to Georgian Tax Code, some definite categories receiving salaries are released from depts. Namely, according to the Article 270 of the mentioned document, released from social taxes are: sums paid to persons placed in penalties assigned by the decision of the

4. The table is based on on the data of the Departm.ent of Statistics of the Ministry of Economic Development of Georgia, of the Natioanal Bank of georgia (<http://www.Statistics.ge>, [http://www.nbg.gov.ge/NBG New Geo/Pablications/Buletin/](http://www.nbg.gov.ge/NBG>NewGeo/Pablications/Buletin/)) and on the data mentioned in the "Lao on Georgian State budget" of the relevant years.

court; compensation received from state budget for persons who are not permanently able to work; compensation received from grant resources issued by the organizations receiving the grant; incomes of non resident persons employed in diplomatic institutions; incomes of non residents working in Georgia for less than 90 days of the calendar year and incomes of foreigners employed in gas and oil manufacturing operations; Together with the above mentioned, following those small employers are released from social taxes: who on a limited area, practically in their own flat, without using hired personnel, are occupied in the production of carpets, sawing pullovers, underwear and similar products, also are producing musical instruments, besoms and brushes, providing technical services for automobiles; repairing domestic goods and jewelries; washing linen, cutting hair and others. Together with this discharged from taxes include primary incomes of physical persons occupied in agricultural activities, if the obtained primary products does not exceed 100 000 lari. Considering all the above mentioned, for estimating the sufficiency of the real situation of the country with the sums mobilized in State Budget received from social taxes, it is very important to define the quantity of the categories discharged from taxes (see table #3).

Distribution of the employed personal according the economical activities, presumable quantity of persons released from discharged from taxes and per share of total amount of employed personal 5

	2000	2001	2002	2003	2004	2005	2006
Total amount of employed persons (thousand person)	1 839,3	1 877,7	1 839,2	1 814,9	1 783,3	1 744,4	1 747,7
among them	100	100	100	100	100	100	100
Agriculture, hunting and forestry (thousand person)	957,5	989,9	988,4	994,9	962,0	947,2	961,2
Per share of the total employed personal	52 ,1	52,7	53,8	54,9	54,0	54,3	55,0
Trade; Repair services of automobiles, domestic products and personal products (thousand personal)	183,8	181,5	215,4	198,5	196,9	188,4	162,5
Per share of the total employed personal							

5 The table is based on the data obtained from the Department of Statistics (<http://www. Statistics.ge.>).

	10,0	9,7	11,7	10,9	11,0	10,8	9,3
House hold and domestic industry connected with the production of goods and services for personal use (thousand persons)							
<i>Per share to total amount of the employed persons</i>	3,4	4,1	8,2	7,8	8,7	8,7	8,7
	0,2	0,2	0,4	0,4	0,5	0,5	0,5
Presumable quantity of employed personnel discharged from social taxes following the above mentioned categories of economical activities (thousand persons)	1144,7	1175,5	1212,0	1201,2	1167,3	1144,3	1132,4
<i>Per share of the total employed personal</i>	62,3	62,6	65,9	66,2	65,5	65,6	64,8

According to the data of the Table # 3, per share of the persons employed in hunting and forestry; trading; repairing services of domestic and personnel products, also employed in domestic service activities hesitates between 62/66% of total amount of employed personal. Considering the mentioned circumstances and the above mentioned standards of the Georgian Tax Code, we may suppose that almost 2/3 of the employed personal in Georgia are discharged from social taxes.

This mentioned consideration is absolutely absurd. It is unbelievable, that all agricultural product producers are occupied in providing only on primary basis, that no one (including winners, wheat producers and etc) makes industrial second hand treatment and the costs of the sold products do not exceed 100 000 lari. Together with this, if we take into consideration the fact, that the Department of Statistics of Georgia separately calculates the number of the workers employed in Trading (the most numerous field) and their number is included in the total number of the employees working on repairing cars, items of personal use, it is absolutely clear that total number of those discharged from social taxes presented in the table #3 should be cut down by at least 10%. Considering the above mentioned, most significant are the calculations presented in Table #4. Expert calculations presented in the table, obviously confirm the fact, that current performance of mobilizing social taxes in State budget significantly fall behind real potential. This, on its part, truly proves the existence of shadow economy in the country.

Considering the fact that during recent period in the result of the institutional and personnel reorganization of the fiscal institutes the effectiveness of these organizations has been importantly improved the investigation of reasons causing the created situation should be considered as very actual issue.

Hence in our opinion it must be very interesting to carry out a thorough analysis of the legislative base regulating the existed mechanism of the social maintenance. The point is that we encounter disputable and in some individual cases even wrong decisions among the decisions having been made lately in the economy management by the authorities. We think that to such a category of decisions must be belonged the latest transformation practice of the legislative base regulating the pensions provision sphere. In particular on the December 23, 2005 by the Georgian parliament were revoked the following laws: “About obligatory social insurance”; “About obligatory insurance pensions” and “About introducing individual (personification) registration and personal accounts into the obligatory social insurance sphere”. Consequently in parallel with neglecting of the principle of the social justice in the organizing process of provision of pensions a certain stimulus was given to the rising tendency of the shadow economic sector.

Presumable quantity of personal released from social taxes 6

Table #4

	2001	2002	2003	2004	2005	2006
Social taxes* (thousand lari)	151 500,0	156 000,0	220 700,0	322 200,0	301 160,0	423 700,0
Quantity of employed persons (thousand person)	1 877,7	1 839,2	1 814,9	1 783,3	1 744,4	1 747,7

⁶ The table is based on on the data of the Department of Statistics of the Ministry of Economic Development of Georgia, of the National Bank of Georgia ([http://www. Statistics.ge](http://www.Statistics.ge). [http://www.nbg.gov.ge/NBG New Geo/Publications/Buletin/](http://www.nbg.gov.ge/NBG>New%20Geo/Publications/Buletin/)) and on the data mentioned in the “Lao on Georgian State budget” of the relevant years and following calculations done by the experts.

Per share of the persons released from social taxes towards to total quantity of the employed persons.	52,3	52,6	55,9	55,5	55,6	54,8
Quantity of personal discharged from social taxes (corrected) (thousand personal) (quantity of the employed personal – presumable quantity of personal released from taxes)	982,0	967,4	1014,5	989,7	969,9	957,7
Quantity of personal paying social taxes (thousand person) (Quantity of employed personal – quantity of personal released from depts.)	1 877,7-982,0 (52,3%)= 895,7	1 839,2-967,4 (52,6%)= 871,8	1 814,9-1014,5 (55,9%)= 800,4	1 783,3-989,7 (55,5%)= 793,6	1 744,4-969,9 (55,6%)= 774,5	1747,7-957,7 (54,8%)= 790,0
Average monthly nominal salary (lari)	94,6	113,3	125,9	156,8	204,2	292,7
<i>Conditional annual salary fund</i> (thousand person) <i>Quantity of social tax payers X on average monthly salary X 12 months)</i>	1 016 798,6	1 185 272,1	1 209 244,3	1 493 237,8	1 897 834,8	2 774 796,0
Conditional annual social tax (thousand Lari) (Tax from the conditional annual fund. 31%+2% including 2004, 20% from 2005)	335 543,6	391 139,8	399 050,6	492 768,5	379 567,0	554 959,0
Deviation from factual social tax size. (thousand lari)	<u>-184 043,6</u>	<u>-129 076,1</u>	<u>-178 350,6</u>	<u>-170 568,5</u>	<u>-78 407,0</u>	<u>-131 259,2</u>

As it is known in any country and in any era the most important precondition of the perfect functioning of a pension system is organizing its forming mechanisms by a justice principle for which a pension must be adequate to the contributions carried out in the pension fund in the period of active work. From this viewpoint the present situation in Georgia is characterized by certain peculiarities. The point is that now in Georgia there are two systems of pensions provision that are well approbated in the world practice, in particular, the state pensions provision system based on the so called “*Pay-as-you-go*” principle, i.e. on the rule of financing of a retired generation by working generation. It should be noted that the state pensions provision system either before adopting the above mentioned laws or after revoking them does not practically take into consideration an amount of pension contributions paid by a person in the period of work.

As we have mentioned, the Georgian legislation also considers the opportunity of using a private retirement insurance independent from the state provision of pensions. The non-governmental retirement insurance system is based on the so called Pre-funding principle and it gives the chance of getting a pension adequate to the sum of money paid in pension funds by a person in the period of work.

At a single glance the above mentioned mechanisms of provision pensions are satisfying modern requirements and do not give any grounds for criticism. However a thorough investigation of the existed situation is uniquely disclosing its deficiencies and what is worthy of special attention, its stimulating role for a shadow economic sector.

As it was already mentioned there are two pension systems in the country but due to the present situation neither of them plays a preventing role for the shadow economic sector. The point is that the non-governmental system of provision of pensions essentially includes important elements of preventing the shadow economic sector but considering a low level of trust in it from population and its non-coercive character the existence of the mentioned system does not change cardinally the situation created in the country. As for the state pensions provision system apart from the fact that it cannot provide pensioners with minimal necessities of life, its realization mechanism and lots of factors existed in the country are loading it with a stimulating function of a shadow economic sector.

The fact is that according to the law “About a state pension “dated on the 23rd of December 2005 a pension is granted to permanent residents of Georgia, aliens having been lived permanently on the territory of Georgia for the last 10 years and persons not having citizenship who is 65 (60 for women) years of age or those who have lost a breadwinner or are disabled persons. Besides the above mentioned persons a pension is also granted to those who died in the war for the territorial integrity of Georgia, or those recognized as victims of political repressions and persons of other categories. Basing on the format of the present research the object of our study is not the above mentioned pensioners and those envisaged by the Georgian legislation having the right to get a pension. Our attention will be focused upon the most common in the country and the most

important defects from the economic viewpoint existed at this stage in the mechanisms of granting and calculating of an age pension.

The fact is that according to Article 7 of Chapter III of the Georgian law “About state pension” a minimal amount of pension even at present is considered to be 28GEL. However according to paragraph 8 of Article 50 of the law about a state budget of 2006 adopted by the parliament of Georgia on the 23rd of December 2005 (from the 1st of September 2006) an amount of minimal pension is 38GEL and according to decree #258 of the Georgian government dated the 24th of the current year (from the 1st of December) an amount of minimal pension is 55GEL. Hence the existence of the above mentioned formulation in the Georgian law “About state pension” obviously reveals the attitude of the legislative and executive authorities towards the issues of provision of pensions. Though as a main problem of this situation we must consider quite different thing.

The point is that the most Georgian citizens after reaching a pension age are granted a pension in amount of 55 GEL in spite of the fact what their income was during years and how much social payment they paid. Apart from fact that the mentioned occurrence is contrary to the justice principle of provision of pensions, it represents a stimulating factor of the shadow economic sector. In the created situation neither an employer nor an employee is absolutely interested to pay a social payment; on the contrary this payment is quite unacceptable for both of them, because by paying it production costs of the employer are rising and for the employee it makes no difference because whatever amount of money he will pay during years, his pension will be 55GEL. This situation becomes harder and is charged with a psychological antagonism to paying of payments by conditions of provision of pensions set for high rank officials of the executive, legislative and juridical authorities being in conditions that are quite different (obviously privileged) from those set for the main part of population. In particular, the following laws are adopted by the government of Georgia and are acted: “About compulsory insurance of life and health and provision of pensions of a member of parliament “; “About guarantees of social protection of family members of former high-ranking political officials”; “About guarantees of social and juridical protection of judges”; “About social maintenance of persons (and their family members) transferred to the reserve from special services of military, internal affairs authorities and state guard”; “About social protection guarantees for members of the constitutional court of Georgia” and “About social

protection guarantees for members of the Supreme Court of Georgia”. It’s true that persons mentioned in these laws are granted pensions according to the same principle, i.e. without taking into consideration an amount of payments of social insurance paid by them during years, but their pensions are extremely higher compared to the pensions of the main part of personal.

All the above mentioned facts to the great extent stipulate avoiding a generally established practice of paying social payments in the productive sphere which in its turn is causing a rise of unregistered output (service) or scales of the shadow economics. The point is that giving a salary to an employee if social and income payments have not been paid under the norms given by a tax code of Georgia is practically impossible without existing of unregistered service. By this reason by using various tricks and methods a certain part of producers does not completely fix an income got from the production activity so that with this registered amount of money without an appropriate accounting report they will do salary accounting with the employee. As a result besides not paying social and income (only income from the 1st of January 2008) tax (es) it also causes not paying other kinds of tax (VAT, excise) and as we have already mentioned, it makes a rise to scales of the shadow economic sector. This problem becomes heavier because in the present situation law-abiding producers have to act by the same “schemes”; otherwise they won’t be able to withstand competition.

As it is seen from the experience of many countries one of the effective instruments of getting over this hard situation is to put in action the so-called system of insurance pensions and introduction of a system of individual (personification) registration and individual accountability. But the point is that besides the fact that the introduction of this system of individual accountability is maximally appropriate to the justice principle of the pension system, it itself creates an impartial active public mechanism for controlling a fight with the shadow economic sector. In such conditions an employee as a rule is controlling an employer himself because he himself is interested in the properly defining of the tax added on his salary and hence in the increasing of the amount accrued on his/her personal account.

Just on this elementary truth was based adoption of the following laws by the parliament of Georgia on the 20th of June, 2003: “About obligatory social insurance”; “About obligatory

insurance pensions” and “About introducing individual (personification) registration and personal accounts into the obligatory social insurance sphere”. Activation of this legislative base was planned from the 1st of January, 2006. In order to be put these laws in act properly by the Ministry of Health, the Ministry of Social Protection and the Ministry of Finance there were carried out important organizational, methodological and other types of work for starting of the system of individual registration and individual accounts. However a few days earlier before starting the above mentioned legislation, on the 23rd of December, 2005 the Georgian parliament revoked these laws.

The main reason of the taken decision there might have been the necessity of avoiding financial obligations hard to perform for the state budget. At a single glance despite its logicity, this consideration cannot be counted as a solid argument, because putting into action a system of individual registration and individual accounts would have stimulated coming of the existed wages fund out of the unregistered (shadow) sphere and would have caused rising of budget incomes and hence possibility to increase expenses. Furthermore controlling of the problem of avoiding of the considerably increased (in the form of pensions) financial obligations of the state might have been possible by amending of a basic part of pension envisaged by the Georgian law “About obligatory insurance pension”.

To inevitability of amending of the unjust system of granting equal pensions to the basic part of population without taking into consideration the length of their service and an amount of money paid by them in the pension fund during years and which, as it was already mentioned, is the stimulating factor of the shadow economic sector, is pointed by #181 decree of the Georgian government dated on the 29th of August of the current year: “About defining an addition to a state pension granted on the basis of a pension age taking into account the length of service”. From the viewpoint of the social justice according to this document connecting of the pension amount with the length of service should be taken as a logical decision, though it is worthy of notice that its realization is creating some danger of corruptibility because according to Article 2 of the document: “As a confirmative document of the length of service is accepted any document issued by a competent authority (i.e. an agency of social subsidies – subjected to the Ministry of Labor, Health and Social Protection) which covers the information about the labor activity period of a

person”. The fact is that in reality in Georgia as a confirmative document of the length of service is accepted a work record card. Work record cards have been sold at markets for a long time and there is no problem to make any entry in this document, because every producer knows that according to paragraph “h” of Article 41 of the Tax Code of Georgia keeping documents on the basis of which money is stopped from wages is obligatory only during 6 years. Therefore it is quite clear that under the conditions of individual registration and individual accounts any producing structure will practically have an opportunity without a risk to fix any length of service antedated (6 years earlier) and wages in the work record cards bought at markets.

As one of the considerable argument confirming problems existed in defining the length of service and impossibility of fixing pensions by these criteria at present can be accepted a phrase fixed in Article 2 of Decree 258 of the government of Georgia dated on the 24th of November of the current year, according to which in calculating of social additional pay is not considered the length of work.

In order to get over the created situation, in particular, putting a social justice principle into act in the system of pensions provision and what is the most important, to neutralize factors stimulating the shadow economic sector, in our opinion it is reasonable for our legislative authority to start work for preparing normative acts necessary for introducing individual registration and individual accounts, and for the corresponding executive authorities, in particular the Ministry of Labor, Health and Social Protection, agency of social subsidies, the Ministry of Finance of Georgia and the Income Service of the Ministry of Finance to start work to provide an institutional, normative and methodological base necessary for introducing individual registration and individual accounts.

Literature

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