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The Effects of the Saakashvili Era Reforms on Informal Practices in the Republic of Georgia

Huseyn Aliyev*

Abstract

Since the 2003 Rose Revolution, the Georgian government implemented a number of major institutional reforms which have succeeded in modernising Georgia's state institutions, reducing corruption and 'formalising' the public sector. While the effects of Saakashvili's reforms on state and institution-building, corruption and the rule of law have been examined by a large and growing body of academic literature, there has been little discussion about the impact of institutional changes on the previously widespread culture of informality in Georgia. This article explores the effects of Georgian institution-building from such aspects of informality as the use of informal networks and connections in exchanges of favours, gift-giving and other types of informal activities. The findings of this study, based on the analysis of recent surveys and in-depth interviews, conclude that the reforms succeeded in undermining the overall importance of informal practices in dealings with state bureaucracy, education system, healthcare, law enforcement, judiciary and some other areas previously dominated by informality. However, the reliance on informality did not disappear, and informal networks are still employed as coping mechanisms and as social safety nets.

Keywords: informal practices, institutional reforms, Georgia, Rose Revolution, informal networks.

Introduction

The victory of the 'Georgian Dream' coalition at the 1st October 2012 parliamentary elections officially marked the end of the Saakashvili era in the Republic of Georgia. Brought to power as a result of the first 'colour revolution' in the post-Soviet space, the Western-educated lawyer Mikheil Saakashvili embarked on an ambitious campaign of reforms that was unprecedented in its scale. Praised and criticised by politicians and academics alike, the post-Rose Revolution reforms were the first efforts of their kind to modernise Georgia and to undermine traditions of corrupt patrimonial governance inherited from the Soviet past. Despite all its drawbacks and weaknesses, the process of institution and state-building, initiated under Saakashvili, has changed Georgia's political and social landscapes. Much has been written about the effects of Saakashvili's reforms on different aspects of political, social and economic spheres. However, the literature to date has failed to offer a detailed account of the relationship between institutional reforms, implemented during Saakashvili's time in office, and a phenomenon deeply rooted in the Georgian society culture of informality – the reliance on informal kinship and friendship networks, exchanges of favours, gift-giving and other informal practices.

According to the 2008 estimate (Schneider, Buehn, & Montengro, 2010), the size of Georgia's informal economy decreased from over 69% (2000) of the GDP to around 60% (2007). Notorious for its high levels of corruption before the Rose Revolution¹, over the last several years Georgia has

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1 On the eve of the Rose Revolution, Georgia was ranked by Transparency International as the most corrupt post-Soviet republic.

been ranked by the Transparency International Corruption Perception Index as the least corrupt country among other non-Baltic former Soviet states. Unofficial payments to institutions, bribery and clientelism, among other forms of rent-seeking behaviour, have notably decreased during the last decade. However, as of yet there have been no attempts to estimate the impact of Georgia's institutional reforms on the reliance on informal practices. With that in mind, this article explores the following question: What effect did the Saakashvili era institutional reforms have on Georgia's culture of informality? This question builds on claims made in the literature about the relationship between institutional changes and informality, which insist that reforms aimed at modernising and strengthening democratic institutions decrease the importance of informal practices (Helmke, 2003; North, 1990; Sindzingre, 2006, September). The study presented here is the first to explore the effects of the comprehensive institution-building of Saakashvili's era on the role of informal practices that extend beyond the definition of informal economy.

This study employs qualitative analysis as its method of inquiry and derives its data from close-ended representative surveys and open-ended interviews. This analysis draws on survey data collected by the South Caucasus-based institute – The Caucasus Research Resource Centres (CRRC). The bulk of survey data is also borrowed from 'Life in Transition' surveys conducted by the European Bank for Reconstruction and Development (EBRD) in 2006 and 2011. Some of the survey data used throughout this article is taken from the cross-national, longitudinal, large-scale survey programs conducted by the World Value Survey (WVS). The second source of data is face-to-face open-ended expert (elite) interviews. A total of 16 in-depth interviews with scholars, NGO officials, researchers, policy makers and area experts were conducted by the author in Georgia during the year 2013.² The competence of interview participants has been determined based on their publications, relevant work experience and their internationally acknowledged expertise on the topic of informality. The main research technique used to carry out the interviews was elite interviewing. Snowball or referral sampling methods were used to select interview participants. Described by Burnham, Gilland, Grant and Layton-Henry (2008, p. 233), the snowball sampling method is employed by identifying the key informants from the literature or through internet searches and by subsequently asking them to suggest other key individuals relevant for the study.

Concepts and definitions

This article examines informality³ by focusing on the use of inter-personal networks, as well as other types of informal groups and structures, defined in literature by the term 'informal networks' (Grødeland, 2007; Rose, 2000; Sik, 1994). Described as power networks (Ledeneva, 2013), weak-tie networks (Granovetter, 1973), social capital networks (Rose, 1995) and network capital (Sik, 1994), informal networks are centred on kinship or friendship ties or consist of work colleagues and individuals with common interests, who share common socio-economic and/or socio-political goals (Morris, 2012). Among the multitude of existing definitions, this study borrows its definition of an 'informal network' from Grødeland (2007, p. 220) who describes it as "an informal circle of people able and willing to help each other."

The means and methods employed by informal networks to achieve their ends are understood as 'informal practices.' The most widespread informal practices in the post-Soviet spaces are the reciprocal exchanges of favours or *blat* (Ledeneva, 1998), informal protection (*krysha*), the culture of

2 All interviews were conducted in confidentiality and the names of interviewees are withheld by mutual agreement.

3 This study understands 'informality' in North's (1991, p. 97) terms as a system of 'informal constraints' that "structure political, economic and social interaction." More specifically, the 'culture of informality' is used here as a composite or generic term, similar to its use in Grødeland's (2007) study, which covers the concepts of informal networks and informal practices.

gift-giving and the reciprocal signs of attention (*znaki vnimaniia*). Although this current definition of informality covers unofficial payments to institutions, exchanges of monetary favours and monetary, as well as material, gifts and commodities, it places no specific emphasis on studying corruption and bribery. Instead, the main focus of this research is on the networks' use of informal connections and contacts, which may or may not entail distribution of bribes.

This study focuses primarily on non-economic functions of informal networks, although most such groups are, of course, also involved in profit-seeking activities. This excludes from the scope of this study such typical activities for informal economy as informal self-employment, informal payments at formal work places, cash-in-hand work, moonlighting, informal entrepreneurship, informal household incomes, informal profit-seeking enterprises of all types, underground markets and other profit-generating forms of informal activities. Instead, this article focuses on such functions of informal networks as the use of contacts and connections, exchanges of reciprocal favours and gift-giving, and the population's reliance on social safety nets. Although some of the above activities are undertaken with the ultimate goal of material gain, they may also be employed to achieve political or social goals. Though often understood as part of corruption, gift-giving and favour-based practices, in most cases, do not involve money changing hands and, therefore, are not easily punishable by law.

Post-communist informality beyond the informal economy

Much of the literature on the post-communist informal sphere has focused on informal economy, and little has been written on informality as a sociological phenomenon extending beyond the economic sphere. While many theorists in literature on informal post-communist economy have argued that the informal sector in the former Soviet Union depends on networks and practices which function in different areas of day-to-day life (Morris & Polese, 2014a; Round & Williams, 2010; Smith, 2006; Williams, 2005; Williams, Round, & Rogers, 2013), research on post-Soviet informality that occurs in social or political spheres is less common than studies on informal economy. Notable exceptions are the studies by Ledeneva (1998, 2009, 2013), Sik (1994), Misztal (2000), Morris and Polese (2014b), and Grødeland (2007) who present the concept of post-communist 'informality' as both a socio-economic and a socio-political phenomenon and emphasise that the informal economic sectors in the post-communist context are often 'embedded' into civil and political spheres. In other words, to ensure the smooth operation of informal economy, its actors and institutions are bound by unwritten rules and regulations, linking for-profit activities with social and political behaviour. Therefore, informal networks, as well as the various practices employed by them, function as inseparable components of the post-communist informal economy (Humphrey & Hugh-Jones, 1992).

Indeed, most post-communist informal practices, although often engaged in entrepreneurial activities, are not limited to profit-seeking and encompass not only economic but also social and political spheres. For instance, the post-Soviet culture of the exchanges of favours, known by the Soviet-Russian term *blat*, provides both material and social public goods. As argued by Ledeneva (1997, p. 153), "what was exchanged were neither things for things, nor the relative values people quantified in things, but mutual estimations and regards." She also emphasised that *blat* practices extend beyond basic economic exchanges and rather that "*blat* is a distinctive form of non-monetary exchange, a kind of a barter based on personal relationship. It worked where money didn't" (Ledeneva, p. 152). Similarly, in his study on informal practices in Uzbekistan, Rasanayagam (2011, p. 682) argued that "informal economic activity is just one expression of a more general informalisation of state, society and life-worlds." Additionally, Polese (2008) in his research on informal payments in Ukraine suggested that the socio-economic practices, defined by the term 'corruption,' are often a part of broader reciprocal culture of gift exchanges. In the same vein, Patice (2002, p. 346) presents in her research on informal gift exchanges in Russia that the post-Soviet informality has to be understood as part of social culture

“in which people ... establish, perceive, and reproduce measures of social commonality and difference in the midst of unsettling economic developments.” Informality as a phenomenon embedded in the social culture of post-socialist spaces was also presented in studies by Morris (2011, 2012) on informal workers in Russia. As Morris and Polese (2014a, p. 8) argue, “informality is tactical,” it is “embedded in social life rather than part of rationalist economic thinking.” Hence, understanding the post-Soviet informal practices requires expanding the concept of informality well beyond the definition of ‘informal economy’ into social and political spheres.

Although often associated with clientelism and corruption, informality, nonetheless, also serves as a coping mechanism (Sik, 1994) and provides social safety nets for post-communist populations facing economic shortages and struggling with the ineffectiveness of formal institutions (Gibson, 2001). In Misztal’s (2000, p. 217) description, “informal networks often grew full of distrust of outsiders and evolved into egoistic and closed groups, oriented towards the reciprocal provision of scarce goods and services exclusively to their own members.” Informality is often understood as both positive and negative. On the one hand, informal networks are known to provide post-Soviet citizens with a wide range of public goods, including but not limited to, assistance with employment, communal services, access to healthcare and civil services (Rose, 2000). In the absence of a civil sector that is independent from the state, or due to the weakness of civil society, informal structures are also known to serve as niches for civic association (Howard, 2003), generating social capital and providing the population with opportunities to exchange ideas and to participate in civic life (Rose, 2000). On the other hand, public goods and services provided by informal institutions are distributed unequally on a selective basis (Aliyev, 2013). The distribution of public goods through informal networks is usually determined by individuals’ kinship ties, ethnicity, social standing or position in a society. More broadly, apart from presenting a challenge to democratisation, this further deepens social inequality and undermines the institution-building processes.

Reliance on informal practices has also transformed the meaning of reciprocal gift exchanges in post-Soviet societies (Polese, 2008). Such practices, although defined in Western societies as bribery and corruption, are often seen as positive and even necessary in post-Soviet countries (Morris & Polese, 2014a). As explained by Misztal (2000, p. 215), corruption “became judged in less straightforwardly negative terms and was seen as a sign of societal life and energy.” Yet, there is no consensus in the academic literature on whether the overall effect of informality on post-Soviet societies is negative or positive. For instance, Ledeneva (2013, p. 11) argued “against the stigmatization of informal practices and suggested the importance of distinguishing between their supportive and their subversive effect on political economic development.” With that in mind, this study is in accord with Grødeland’s (2007, p. 222) assumption that “informal networks are in themselves neither positive nor negative.”

Institutional reforms and informality

Almost forty years after the concept of ‘informal sector’ was first coined by Hart (1973), in the literature on informality there is a rough consensus that the processes of building a democratic state and its institutions affect the strength of the informal sector (de Soto, 2000; Loayza, Oviedo, & Servén, 2005; North, 1990). Many scholars have noted that the weakness or authoritarian design of formal institutions and the deficit of good governance result in the strengthening of informal practices not only in post-communist countries but also in other developing states (Chong & Gradstein, 2007; Gel’man, 2003; Kim, 2011; Rose, 1995; Sik, 1994). Of the plethora of studies on the correlation between informality and institutional transition (Chen, 2006, September; Hart, 2006, September; Loayza, et al., 2005; North, 1990), the majority have shown that the decline or weakness of formal institutions leads to the growth of informal practices (Chowdhury, 2005; Kim, 2011; Loayza, 1997). For instance, a study

by Chong and Gradstein (2007, p. 160) has found that, in conjunction with other determinants of the informal sector's strength, "institutional quality is a statistically significant and robust determinant of the relative size of the informal sector."

Much of the literature has also argued that strengthening formal institutions in the process of democratisation undermines the support for informal practices and reduces the size and spread of the informal sector (Gel'man, 2003; North, 1990; Schneider & Enste, 2000). For instance, Grødeland (2007, p. 218) argues that after effective institutional changes "...one may expect it [informality] to gradually wither away as 'chaos' is replaced by institutional order and clear rules and regulations allowing for the formal solution of problems." According to Helmke and Levitsky (2003, p. 21), "given that [substitutive] informal institutions are created in response to a failure of particular formal institutions to achieve the objectives for which they were designed, an increase in the effectiveness of formal institutions may reduce actors' incentive to operate through those informal structures." Although transformation and demise of informal practices may also occur as a result of cultural causes and a diverse selection of other factors (Helmke & Levitsky, 2003, p. 22), it most often happens due to socio-economic and socio-political changes implemented by governments and other political and economic actors. As argued by de Soysa and Jütting (2006, p. 12), "governments can have a major impact on informal institutions based on the capacity and willingness of a government to enforce its will." This suggests that informal practices change when they become "ineffective and unnecessary" (de Soysa & Jütting, p. 8).

However, most of the theorists in literature on institutional change have warned that the transformation of informal practices almost never occurs instantaneously (North, 1990; Sindzingre, 2006, September). Helmke and Levitsky (2003, p. 19) emphasise that "informal institutions are often characterized as highly resistant to change," and "...when change does occur, it is generally expected to be slow and incremental." A similar observation has been made by North (1997, p. 6), who concludes that "changes in informal constraints – norms, conventions, – have the same originating sources of change as do changes in formal rules; but they occur gradually and sometimes quite subconsciously as individuals evolve alternative patterns of behaviour consistent with their newly perceived evaluation of costs and benefits."

The lack of institutional reforms or their failure and inconsistency are also identified as the key causes leading towards the strengthening of informality in post-Soviet spaces (Chavance, 2008; Helmke & Levitsky; Way, 2002). As argued by Rose (1994, p. 22), the entrenchment of informal practices in post-Soviet societies is closely associated with institutional weakness under the communism and "the pathologies and irrationalities of the communist system spawned an 'underground' or 'unofficial' network of social relations, as leaders of major institutions regularly violated formal party precepts in order to get things done." Gel'man (2004, p. 1024) lamented that in the post-communist period "under these circumstances [institutional weakness] informal institutions filled the gap." Similarly, Misztal (2000, p. 219) claims that "[post-communist] people, without being able to rely on state regulation and institutions, try to fulfil their particular needs and aspirations through their own contacts, access and wit." Not only is the spread of informal practices associated with institutional weakness and the lack of effective reforms in post-Soviet countries, but the failure of implementing such reforms is also blamed for the persistence of informality. Ledeneva (2013, p. 225) argues that "the existence in post-communist societies of a multiplicity of networks, ranging from 'old nomenklatura networks' – through small producers' networks – to ordinary people's daily exchanges, has not helped the process of democratization and marketization because they are 'too clan-like' and they are unable to promote dynamism in the long run."

The recent literature on modernisation and institutionalisation in post-Soviet regimes suggested that informality presents a challenge to institution- and state-building processes (Börzel & Pamuk, 2011; Closson, 2012; Gel'man, 2008; Isajiw, 2004, October 15-16; Polese, 2008; Round & Williams, 2010; Williams et al., 2013). It has been argued by scholars of informal economy that failed institution-building

and incomplete reforms in some of the post-Soviet countries in fact resulted in the strengthening of informal institutions. For instance, Round and Williams (2008) argue that inconsistent economic and institutional reforms in Ukraine have failed to undermine the informal sector, instead increasing the population's reliance on informality. A similar conclusion has been drawn by Gel'man (2004) in his study of informal networks in Russia and by Mykhenko and Swain (2010) in their research on economic reforms in Ukraine.

Although many post-Soviet regimes have never succeeded in implementing reforms aimed at democratising, decentralising and modernising their political and economic institutions (Gel'man, 2004), the hybrid post-Orange Revolution Ukraine, Saakashvili's Georgia and Moldova under the Alliance for European Integration (AEI) have struggled to implement institutional reforms designed to improve not only the quality of their institutions but also their democratic values. While the Moldovan reforms are currently still limited in scale and effectiveness, Ukraine's institution-building has been described by the scholars as insufficient and incapable of reducing the population's reliance on informal institutions (Round & Williams, 2010; Williams, 2005). This leads toward the key research question of this study: what are the effects of institutional reforms on the culture of informality in Georgia? Have the Saakashvili era reforms, which had allegedly nearly eradicated the small-level corruption, created functioning transparent institutions and modernised Georgia, have they managed to affect the importance of informal practices in the country?

Informality before the Rose Revolution

Though Georgia's tradition of relying on informal networks and practices predates the Bolshevik revolution, it wasn't until the Soviet rule that the culture of informality became deeply entrenched in the everyday life of many Georgians. Due to almost a century of Russian and Soviet domination, "Georgians became alienated from the central state. Their ethnic identity, family and immediate community became central, a tradition that fostered nepotism" (Shelley, Scott, & Latta, 2007, p. 1). The lack of trust towards communist state institutions fostered reliance on informal networks, which prospered in Soviet Georgia. Not only "Georgians played a major role in the shadow economy of the entire USSR" (Shelley, Scott, & Latta, 2007), but also the informal practices in Georgia were more complex and widespread than in other parts of the Soviet Union. Many Sovietologists have argued that Georgia's informal or 'second' economy was the most sophisticated and efficient one in the entire socialist bloc (Feldbrugge, 1984; Mars & Altman, 1983; O'Hearn, 1980; Ofer, 1980). Greenslade (1980, p. 49) reported that over half of total urban housing in the 1960s Georgia was privately built and owned. O'Hearn (1980, p. 225) described that over 98% of household and furniture repairs in the urban areas of Soviet Georgia and 99% in rural areas were conducted informally. However, much of the research on informality in Soviet Georgia has only focused on informal economy or corruption, and far too little attention has been paid to a vast array of informal networks that sustained the 'second' economy of Soviet Georgia. Studies by Mars and Altman (1983) and Altman (1983) have emphasised that Georgia's informal economic sphere relied on that invisible ensemble of inter-personal contacts and that "it is the degree to which networks in Georgia are institutionalized as a means of linking individuals through trust-based honour commitments that form the corner-stone of Georgia's second economy" (1983, p. 559).

Following the collapse of the Soviet Union and Georgia's independence in 1991, the country's standard of living significantly declined. The economic crises of the 1990s, massive unemployment, as well as the devastating effects of separatist conflicts in Abkhazia and South Ossetia were further exacerbated by the absence of reforms and the continuity of Soviet era forms of governance. From 1990 to 1995, Georgia's GDP declined by over 70%. In 1992, Eduard Shevardnadze, the former First Secretary of the Communist Party of Georgia and Gorbachev's minister of Foreign Affairs, took over as the head of state after the failed nationalist government of Zviad Gamsakhurdia. The return of

Shevardnadze heralded the restoration of his Soviet era nomenklatura networks, which lead to the spread of corruption and nepotism to the degree that “the entire state apparatus was organized along the lines of a pyramid of corruption” (Bernabè, 2012, p. 6).

By 1999, the size of Georgia’s shadow economy accounted for about 70% of the official GDP. Over 56% of the Georgian work force in urban areas was employed informally; in rural areas, informally employed persons comprised over 60% of all employees (Bernabè, p. 19). According to the WVS survey conducted in 1996-1997, over 90% of its respondents in Georgia reported relying heavily on their family and kin, and over 85% of the public felt that they were unsatisfied with their household’s financial situation. In addition, the survey also revealed that over 96% of the public in Georgia thought that a larger share of the people in their country is living in poverty today than ten years ago. When asked by the Corruption Survey (2003) conducted by the Georgian Opinion Research Business International (GORBI) whether “in order to successfully solve one’s problem is it likely or is it not likely to give gifts or do favours to officials,” about 70% of respondents said that they would prefer giving gifts or doing favours for officials in order to receive preferential treatment, and only 17% said that they would not rely on informal practices. Similarly, a research study by Belli, Gotsadze, and Shahriari (2004) has shown that around 70-80% of total health expenditure in Georgia was paid informally through out-of-pocket payments. The study by Belli et al. (2004) has also concluded that a significant proportion of informal payments for health services in Shevardnadze’s Georgia was conducted through networks and often done in the form of gifts or reciprocal favours and services, rather than bribes.

A number of studies have described the spread of informal practices in Shevardnadze’s Georgia and their penetration in virtually all areas of social, political and economic life of the post-communist republic (Belli et al. 2004; Dershem & Gzirishvili, 1998; Kukhianidze, 2009; Shelley, 2007). A study on social safety nets in the 1990s Georgia by Dershem and Gzirishvili (1998, p. 1828) argues that:

Informal social networks are a financial safety net by way of borrowing, identifying and gaining access to scarce goods and services, and obtaining remittances and gifts. Not only do informal social networks provide food and financial assistance, but they also provide physical and labour support.

Dershem and Gzirishvili (1998, p. 1834) reveal that during the 1990s, “overall informal social networks remain vital resources to individuals and households in post-Soviet Georgia.” The informal networks of the 1990-s Georgia not only relied on informal economic practices developed during the Soviet period– which continued to function during the immediate post-communist period as indispensable social safety nets and economic coping mechanisms – but also included criminal networks, mafia-type groups and a diversity of other illegal and semi-legal networks, which performed both legal and illegal functions in politics, economy and everyday life (Shelley, 2007). As mentioned by an informant, under Shevardnadze’s government “a problem – whether it was a random problem like fighting on the street or some property-related issues – would often be solved through connections with criminal or semi-criminal individuals and, not necessarily, mafia-like, but informal groups: they would help solving many different problems informally.”

In post-Soviet Georgia, informal networks were referred to by a variety of terms, of which the most widely used one is *natsnoboba* (ნაცნობობა) which translates as ‘acquaintances.’ The majority of Georgians, particularly in rural areas, were unfamiliar with the Soviet-Russian term *blat*.⁴ As observed by Altman (1983, pp. 6-1) in his study on the informal economy of Soviet Georgia, most of his informants recognised neither the term *blat*, nor the Russian term *tolkach* (‘pusher’ or ‘fixer’), which was well-known in the Soviet Union. However, numerous informal practices synonymous to *blat* that performed identical functions were practiced during the post-Soviet period.⁵

4 Although both terms are well understood in present-day Georgia, they are rarely used in practice.

5 Some of this study’s informants suggested that *blat*’s equivalent in the modern Georgian language is *krtami* (ქრთამი) which is translated into English as ‘bribe.’ However, it must be acknowledged that both terms are embedded in different cultural settings and due to the lack of research on *krtami* it is difficult to equal this term to *blat*.

Similarly to the Soviet period, sustaining this system of informal practices required maintaining and expanding personal contacts, connections and active social bonding within individual kinship and friendship networks. Hence, rather than losing their significance or disappearing with the end of Soviet rule, Georgia's informal networks became even more widespread and indispensable than during the communist period. A number of insignificant reforms undertaken during the Shevardnadze's presidency, in particular reforms in the health sector and education, not only failed to rid the Georgian institutions of systemic corruption, embezzlement and nepotism but instead, according to the literature, exacerbated the existing problems (Orkodashvili, 2010). By 2003, the Georgian state had been overtaken by informal networks that had nearly replaced dysfunctional formal institutions and took over many of their public functions.

Informality and the reforms of the Saakashvili era

In November 2003, a wave of mass protests against rigged parliamentary elections – known as the Rose Revolution – resulted in an overthrow of Shevardnadze's government and brought to power Mikheil Saakashvili's United National Movement (UNM). Modernisation, westernisation, decentralisation and the fight against corruption were high on the reform agenda of Saakashvili's government from its first days in power. Soon after the success of the Rose Revolution and his landslide presidential election victory, Saakashvili embarked on a series of comprehensive reforms in the public sector, education, law enforcement, the security sector, the judicial system, the financial arena, as well as in the economic sphere. A considerable amount of literature has been published on Saakashvili's institutional reforms and on their effects on the education system (Orkodashvili, 2010), police (Kupatadze, 2012; Light, 2013), healthcare (Gotsadze, Zoidze, & Vasadze, 2005), the public sector (Shelley, 2007), the economy (Bernabè, 2002) and other aspects of the political and economic performance of the Georgian state. Accordingly, there is no need to revisit the Georgian institutional reforms in detail for the purpose of this study. However, so far no academic study has analysed the effects of Georgian institutional changes on informal structures and practices. Hence, the objective of this paper is to examine the culture of informality in present-day Georgia by analysing two types of data: close-ended quantitative surveys and open-ended qualitative interview data.

Survey analysis

As detailed in the previous section, assistance in job searching, obtaining official documents such as passports, visas and land registers, as well as preferential access to healthcare and education were among the key functions of informal networks in Georgia for decades. To measure the impact of reforms on these functions of the networks, this study examined the recent survey data for such indicators as the use of contacts and connections, gift-giving and reliance on social safety nets.

The role of necessary 'contacts,' acquired through informal networking or kinship connections, was always crucial in securing such scarce public goods as good jobs. A series of CRRC's Caucasus Barometer (CB) surveys from 2006 to 2011 asked a question on the importance of connections in job seeking in Georgia. Although no survey data is available for the pre-Rose Revolution period, surveys conducted from 2007 to 2013 present a decline in the importance of connections in job seeking during the last years of UNM's administration (2007-2012), followed by its increase from 2013 (Figure 1).

A significant decrease in the role of connections, gifts and informal payments in dealings with formal institutions was also captured by two consecutive EBRD surveys conducted in 2006 and 2011 (Figure 2). This shows that, in contrast to findings by Dershem and Gzirishvili (1998) and Belli et al. (2004) in Shevardnadze's Georgia, informal networks, as well as the payments and gifts distributed through such connections, are no longer used by the majority of Georgians to access services and

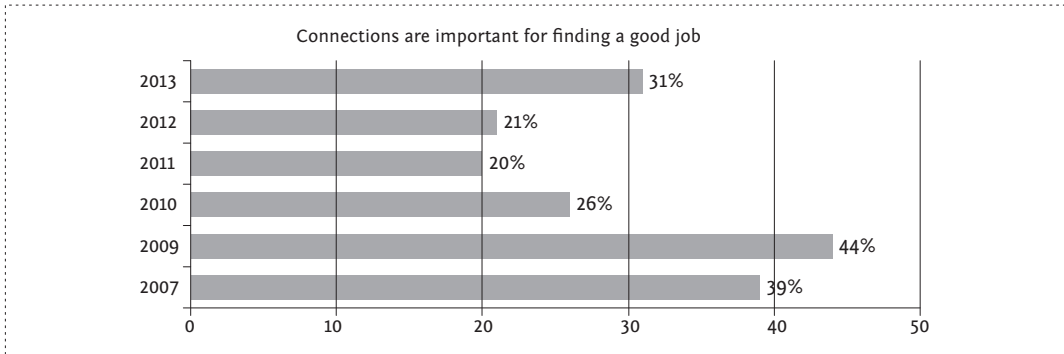


Figure 1: Use of connections in job seeking, %

Source: CRRC, 2007-2013.

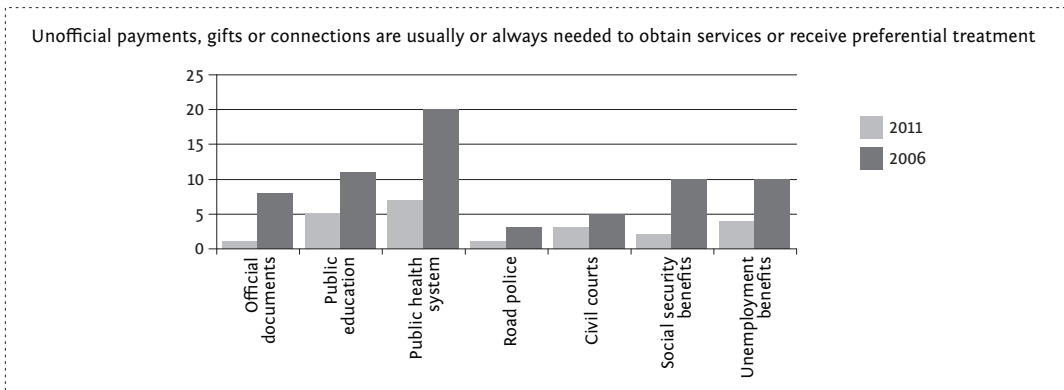


Figure 2: Reliance on informal practices, %

Source: EBRD, 2011

public goods provided by formal institutions. Dominated by the informal practices during the 1990s and the early 2000s, Georgia's formal institutions and the employment market became much less dependent on informality by the end of the UNM era.

However, in spite of a decrease in reliance on informality in dealings with formal institutions, informal networks continue to serve as social safety nets. For instance, as recorded by the EBRD survey (2011), over 60% of the population in Georgia rely on private social safety nets. Similar results are presented by the CB 2011 survey on volunteerism and civic participation: 95% of respondents said that in difficult times they would turn to their families for help, an additional 83% thought of asking for assistance from their friends, and only 30% mentioned state agencies or local governments. In asking "how would you pay for damage in a car accident," 42% of respondents mentioned family, 29% thought about borrowing money from a friend or relative, and only nine per cent said that they would borrow from a bank. In addition, when asked "if there are enough people you can rely on when you have problems," the majority of survey participants (88%) answered positively and only 13% felt that they do not have enough relatives and friends to rely on in times of crisis.

While measuring the population's attitude towards informal practices is a direct method of calculating the strength or weakness of informal networks (Ledeneva, 1998), analysing the levels of popular trust towards formal institutions, in particular those known for their reliance on informal practices, is known as a less direct approach to studying informality. Having established from the literature that healthcare, the education system, the police, the courts and the financial sector were

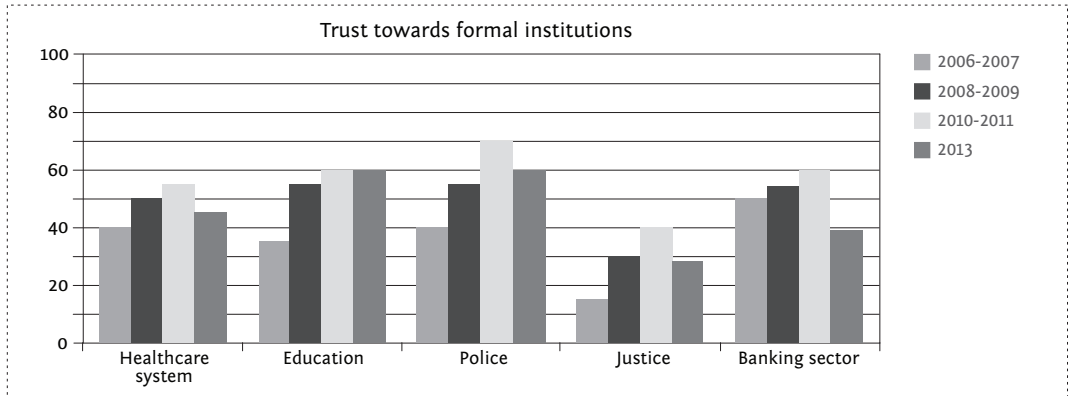


Figure 3: Institutional trust

Source: CRRC, 2007-2013

known as the most corrupt institutions and highly reliant on informality in Georgia before the Rose Revolution, it is now possible to examine the change in popular trust towards these institutions in present-day Georgia. As revealed by the survey results, the pace of change is notable in the levels of public trust towards all of the above-mentioned institutions (Figure 3). According to the CB surveys, the most evident increases in the levels of trust towards formal institutions occurred in the education system, the police and the justice system.

The key observation to emerge from this analysis of survey data is that the reliance on informal practices in job seeking, as well as in dealings with formal institutions, continued to decline over the past decade. By contrast, the levels of institutional trust were steadily growing and institutions that were so widely distrusted under Shevardnadze, such as the police, the education and healthcare system, have reached record high levels of trust in the post-communist history of Georgia. The survey findings, however, also demonstrated that reliance on informal connections and the use of informal practices have not disappeared completely:⁶ nearly one third of the respondents still rely on connections when looking for jobs, and around ten per cent of the public continue using informal practices to access healthcare and education services.

Interview Data

In order to understand what happened to informality in post-Saakashvili Georgia, apart from the analysis of recent surveys, this study relies on qualitative interview data collected for the purpose of this research. Interviews, structured as semi-formal discussions, were used to learn about the informants' opinion on topics such as the impact of institutional reforms on the culture of informality and the role of informal practices in the contemporary Georgian society. What happened to informality in present-day Georgia? Do informal practices still matter? When and why do Georgians still use informal networks and contacts?

The analysis of interview data confirms the survey findings on the decreasing importance of informal practices in present-day Georgia. When asked to compare the role of informal practices in present-day Georgia with Shevardnadze's period, the predominant opinion was that "informality decreased a lot after the Rose Revolution". As mentioned by an informant, if previously to obtain a passport or some other formal document "you would either pay a bribe or use informal networks to find someone who

⁶ An alarming trend reported by the latest CRRC (2013) survey is that the levels of institutional trust began decreasing in 2013 and the reliance on contacts and connections at the employment market is growing.

will give you something that you are entitled to get for free or for a lesser fee,” now “it is impossible to get an official document through informal networks. It is all very much formalised, very transparent and very quick.” The majority of informants emphasised that while previously in Georgia “to obtain many goods and services one had to depend on personal networks,” after the reforms “the importance of informal connections decreased because things are no longer done through them.” Owing to the massive crime-fighting campaign conducted by Saakashvili’s government, informal practices have also lost their significance in problem solving and dispute resolution. According to the opinion that is predominant among the experts, informal semi-criminal mechanisms of problem solving, described by Shelley (2007) as widespread during the 1990s, have now become obsolete.

Some experts insisted that the reforms, regardless of their effectiveness in eradicating informality, succeeded in influencing the attitudes and mentality of the population, in particular of the younger generation. As pointed out by one of the interviewees, reliance on informal practices becomes more and more “socially inappropriate among younger people,” explaining that during the last ten years using informal favours and connections became ‘unacceptable’ for a significant part of the youth.

However, the culture of informality did not completely disappear. As noted by the majority of informants, regardless of the fact that informality has disappeared in some areas, informal practices still exist and their various functions are still needed. For instance, “in getting jobs it is important to have personal networks, political parties depend on personal networks.” While the government’s efforts to outlaw illegal practices and eradicate the notorious Georgian criminal world “definitely managed to achieve some positive results,” its efforts to undermine the importance of informal networks in, for instance, searching for jobs, in the experts’ opinion “have not been particularly effective.” In terms of the impact of institutional reforms on informality, according to the observations of a senior policy maker in Georgia:

Personal contacts still matter. Because in spite of the state introducing official channels for administrative procedures, the fees are often very high and, therefore, doing things informally is still very attractive. As a matter of fact, in many areas the state took over the role of individual informal actors. (Attaché of the European Union to Georgia, Tbilisi)

Similarly to the survey findings, most of the interview participants confirmed that informal networks are still used as social safety nets and mutual support mechanisms. However, “they are limited to very traditional things: birth and death issues, wedding and family issues. Participation is voluntary, but these practices are also very reciprocal, because people expect return favours.”

Although survey findings have demonstrated that the population’s reliance on informal practices in day-to-day dealings with formal institutions has markedly decreased over the past ten years, most of informants believe that the informal practices within formal institutions were not eradicated. Rather:

On the lower levels of governmental bureaucracy, when you want to obtain a certain document or you need an ID, on that level the reforms were effective, they worked and there is no corruption, because the process is so de-individualised and so automatised. But it [informality] switched to higher levels and now it is more of an issue of politics than a social issue.⁷ (Director of a local NGO, Tbilisi)

Why do informal practices persist? According to an informant, the culture of informality continues to flourish because people, “similarly to the Soviet times, need it.” Investing time and effort in sustaining informal networks is still seen as ‘rational’. Besides, socio-economic insecurity continues to encourage the use of connections in the search for jobs or in securing business deals. Although

7 A similar observation has been made by Börzel and Pamuk (2011) in their study on institutional corruption in Georgia.

the UNM's efforts of undermining the culture of informality are widely seen as positive, in the words of one expert, "no one believes that informality disappeared and, therefore, long-term and effective working of those institutions which substituted informal networks is necessary to make informal practices irrelevant."

Conclusion

The key objective of this study was to examine the effects of Georgia's institutional reforms on informal networks and practices. The findings of the current study are consistent with those of North (1990), de Soto (2000) and other scholars who argued that institutional improvements affect informality and reduce its pernicious effects on formal institutions. This study has shown, first, that the institution-building processes in Saakashvili's Georgia achieved a notable success in weakening such deeply-rooted informal practices as gift-giving and reciprocal favours offered in return for preferential treatment in formal institutions.

Findings from interviews and the analysis of survey data have demonstrated that the importance of connections and contacts in the daily lives of Georgians has notably decreased. However, this study has found no significant reduction in the reliance on connections in alleviating unemployment or in dealing with emergencies and crises. Instead, informal kinship and friendship networks continue to serve as important coping mechanisms in areas neglected by the government's reforms, such as the search for jobs, social inequality and communal support. It appears that the reliance on informal practices has only decreased in dealings with those formal institutions that were effectively reformed and modernised by the government. This study has also shown that the use of informal networks is not always a negative phenomenon: in Georgia, networks function as social safety nets, assisting the population in emergencies and in times of financial difficulties. Overall, the culture of informality is far from being rooted out in Georgia, and the failure of implementing effective institutional reforms on a continuous basis may still result in the revival of informal practices.

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