CHALLENGES OF DEVELOPMENT OF DEMAND-ORIENTED LABOR MARKET IN GEORGIA

DAVID NARMANIA, GIULI KESHELASHVILI, EKA CHOKHELI, VASIL KIKUTADZE

Abstract:
The article discusses the challenges in Georgia at the current stage of labor market formation. In particular, employment opportunities caused by low levels of economic development, sharp imbalances between supply and demand, low labor mobility, low labor costs, high percentage of people with higher education and youth in the unemployed market, high share of informal employment.

The paper analyses the imbalance between labor demand and supply in the labor market as main causes of unemployment and as one of the main impediments to business development. There is an imbalance between labor skills with professional opportunities and the demand on labor market. The problems of compatibility between the education and employment systems in the country has been identified. It is established that a weak link between these two systems and the lack of an agreed policy contribute to the deterioration of education, the random distribution of labor in the labor market, which does not correspond to the professional qualifications of the individual and prevents the creation of innovative work directions. Study results show that the underdevelopment of labor market infrastructure in Georgia has hampered the economic development of the country and has created many socio-economic problems in the form of unemployment, poverty and illegal migration.

Keywords:
employment, labor market, demand-supply, labor force, educational system.

JEL Classification: J00, J01, J08

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Introduction

Georgia, on the border between Europe and Asia, has undergone significant socio-economic and political changes since gaining independence from the Soviet Union in the 1990s. The ongoing changes in the country's social policy over the last 25 years have been significant. The changes were taking place so quickly and radically that it is difficult to find an analogue in this respect among the post-Soviet countries. As early as the early 1990s, most independent Commonwealth countries responded to rising unemployment and economic restructuring by beginning to shift labor market institutions established in Western developed economies that were not adapted to countries with economies in transition. The reforms were largely in line with the recommendations of international financial institutions. Georgia, which had similar problems, abolished labor market institutions and programs altogether and radicalized the Labor Code. Interference in labor market policy The government decided after the economic and political crisis of 2008, when reducing social spending in developed and developing countries became the leading policy. Since 2012, the Georgian government has been paying special attention to the idea of re-establishing labor market institutions and has even begun to return them. One of the main challenges for the Georgian economy today is to increase employment and reduce unemployment. The difficulty of solving employment problems stems from the fact that the labor market in the country is not actually developing, no new jobs are created, which is directly related to the problems of development of productive sectors of the economy. Mass labor migration arose. Informal employment has become widespread. An important part of Georgia's socio-economic development strategy is a radical change in the state employment policy, which should be aimed at increasing the welfare of the population. This strategy envisages three main directions for the development of human resources, which require the active implementation of reforms by the state. These areas are: development of labor market-oriented labor force, improvement of the social security system and provision of quality and affordable health and education systems [Georgian Socio-Economic Development Strategy (2020): 63-64]. It is a priority for the Government of Georgia to form a quality and accessible education system at all levels of education in the country (general, vocational and higher). Education is a fundamental factor in development and it is impossible to achieve sustainable economic development without investing in human capital. Only under a strong and socially just education system can the social, cultural and economic challenges of the country be addressed. Increasing the employment opportunities of the Georgian population is an important basis for overcoming poverty and improving living standards. The Government of Georgia links the future development of the country to inclusive economic growth, one of the most important factors of which is the development of human resources and the most efficient use of existing potential. To achieve this goal, as outlined in the Georgia Socio-Economic Development Strategy - Georgia 2020 [1], it is necessary to step up efforts to develop a labor force focused on labor market demands, as promoting job creation and inclusive employment is highly effective in overcoming poverty. The aim of the research is to identify the needs of the labor market and economic sectors with growth potential, to assess the demands and needs of employers in the labor market, as well as to identify educational and employment programs that will facilitate the employment of young people. The survey was conducted from March to November 2021, using qualitative and quantitative research tools. Secondary information was obtained based on existing statistical data and processing of research...
The study surveyed 511 students and 137 company representatives, including senior, middle and lower-level managers. The study assessed the general situation in the labor market, employment opportunities in the private and public sectors. Based on the analysis of the information obtained during the research, some problems were identified in terms of employment opportunities and labor market development.

1. Employment policy in modern Georgia

The problem of employment in Georgia has been on the agenda since 1991. The state has developed a number of legislations and employment programs. There were state bodies whose responsibilities were to reduce employment and unemployment in the country: for example, the Ministry of Employment, the State Employment Service, the Employment and Social Welfare Agency, and labor exchanges. However, the results achieved remain in question to this day. The reason for this is mainly the lack of a unified employment system. Prior to 2006, the Law on Employment was in force in Georgia, according to which private employment agencies were obliged to provide the Ministry of Labor, Health and Social Affairs of Georgia with information on the commencement of work and the work performed. In 2010, the Labor Code was adopted. According to the Code, the Ministry of Labor, Health and Social Affairs of Georgia was instructed to develop a rule for the register of private employment agencies. In June 2007, the Ministry of Economic Development started financing small and medium-sized businesses with low-interest loans to create new jobs, aimed at strengthening the infrastructure of the regions and activating the tourism sector. 2007-2008 There was an employment program for 100,000 people between the ages of 25 and 60, and it provided 3 months of professional training for staff. The state has allocated 60 million GEL for the implementation of the program. The state program "Cheap Credit" continued in 2008-2009. In 2009, the Ministry of Economic Development launched the Vocational Education for Employment program, which lasted until 2010 and aimed to increase the role of the private sector in vocational education. Despite the implementation of employment programs, unemployment rates were rising. Despite the resources spent under employment programs, employment rates have not increased. Employment programs implemented by the state have not yielded adequate results. In 2013, significant changes were made to the Organic Law of Georgia "Labor Code". The "State Strategy for the Formation of the Labor Market" was developed and the Action Plan for 2013-15 was prepared. The Ministry of Labor, Health and Social Affairs has established a Department of Labor and Employment Policy. In December 2013, the electronic employment portal www.worknet.gov.ge was launched. Since 2015, the focus has been on labor market demand research, the development of a state strategy for the formation of the labor market and the action plan for the implementation of the strategy, which is of great importance in the formation of the labor market and the development of social-labor relations. The economic policy of the Government of Georgia is based on three main principles. The first principle is to ensure rapid and efficient economic growth focused on the development of the real sector of the economy, which leads to solving the economic problem in the country, creating jobs and overcoming poverty. The second principle is to pursue an economic policy that promotes inclusive economic growth, which implies the universal involvement of the population in the process of economic development (including diaspora, migrants, ethnic minorities and other groups), the well-being of each member of society as a result of economic growth. The third principle is the rational use of natural resources in the process of economic development, ensuring
environmental security and sustainability, and avoiding the risks of natural disasters. Official statistics on the employment situation do not reflect the real situation, as these data include the category of the self-employed. This category includes small peasants, whose main source of livelihood is agriculture, and whose labor does not even serve to increase capital, but rather their own physical reproduction. This is indicated by the fact that the unemployment rate in rural areas is much lower (5%) compared to urban areas (22%). Smallholder farming is more of an active job seeker than an employee, although this is not actually recorded. According to experts, the real unemployment rate in Georgia is 30-35 percent. Our country was integrated into the market economy in the form of neocolonial development, which focused on the export of cheap raw materials and the import of manufactured and food products. This was happening at a time when the country’s domestic production was stagnant and could not compete. It is difficult to achieve an optimal balance between the demand-supply of labor in the labor market, which, in itself, prevents the decline in unemployment in our country.

2. Characteristics and problems of employment in Georgia

The modern labor market is not just a relationship between employer and employee. It is a rather complex dynamic system that combines the activities of the institutions involved in it and the role of the state in the implementation of relevant policies. The main source of employment growth in Georgia is the private sector. Promoting private sector activity and ensuring high economic growth is important for further employment growth. However, the growth of the business sector significantly lags behind its potential. In particular, due to low natural increases and increased migration flows, the able-bodied population has been declining over the last 20 years. Table 1, compiled based on the data of the National Statistics Office of Georgia, shows the level of employment and unemployment in Georgia.

<table>
<thead>
<tr>
<th>Table 1. Employment and unemployment in Georgia in 2000-2020</th>
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<tbody>
<tr>
<td>Labour force (Active population), thousand persons</td>
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<tr>
<td>Employed, thousand persons</td>
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<td>Unemployed, thousand persons</td>
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<td>Unemployment rate, percentage</td>
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</table>

As can be seen from the table, in 2000-2020 in Georgia there are trends of reduction of economically active population, reduction of employees and growth of unemployed. In particular, in 2020, compared to 2000, the number of economically active population decreased by 525.5 thousand people, the labor force in the country decreased by 25.6% to 1523.7 thousand people, the total number of economically active population decreased by 595.4 thousand people, and the unemployment rate increased by 8.2%. The labor force activity rate during this period was 62%.
Over the years, the main challenge for the employment structure has been the high share of the self-employed in total employment. For the first time since 2000, in 2018, the number of employed persons exceeded the number of self-employed and its share in total employment was 50.8 percent, while the share of the self-employed was 49.2 percent. Characteristic trends in the employment structure were maintained in 2019-2020 as well.

A detailed study of the employment structure of the population shows that the share of people employed in agriculture is high in 2000-2018 years, which is a characteristic feature for developing countries. The level of employment in rural areas exceeds the level of employment in urban areas due to the increase in the number of rural self-employed, while in 2019-2020, conversely, the number of employed in urban areas increased at the expense of hired employees (see Table 2).

Table 2. Distribution of population by economic activity by urban-rural area (thousand people)

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<tbody>
<tr>
<td>Active Population</td>
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<tr>
<td>Urban</td>
<td>1624,9</td>
<td>1768,5</td>
<td>1748,8</td>
<td>1722,6</td>
<td>1725,4</td>
<td>1714,0</td>
<td>1728,9</td>
<td>1729,8</td>
<td>1706,2</td>
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<tr>
<td>Rural</td>
<td>1516,7</td>
<td>1377,3</td>
<td>1365,9</td>
<td>1296,5</td>
<td>1284,0</td>
<td>1298,3</td>
<td>1305,4</td>
<td>1307,3</td>
<td>1312,3</td>
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<tr>
<td>Labour force participation</td>
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<tr>
<td>Urban</td>
<td>910,1</td>
<td>997,2</td>
<td>999,7</td>
<td>1038,9</td>
<td>1027,5</td>
<td>993,8</td>
<td>985,2</td>
<td>937,6</td>
<td>920,4</td>
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<tr>
<td>Rural</td>
<td>1139,1</td>
<td>974,6</td>
<td>971,2</td>
<td>979,0</td>
<td>968,7</td>
<td>989,2</td>
<td>954,8</td>
<td>635,2</td>
<td>603,3</td>
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<td>Employed (thousand persons)</td>
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<td>Urban</td>
<td>742,5</td>
<td>710,4</td>
<td>730,7</td>
<td>803,1</td>
<td>798,6</td>
<td>767,5</td>
<td>795,1</td>
<td>766,6</td>
<td>733,7</td>
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<tr>
<td>Rural</td>
<td>1094,7</td>
<td>900,5</td>
<td>897,1</td>
<td>930,7</td>
<td>918,7</td>
<td>939,2</td>
<td>899,1</td>
<td>529,3</td>
<td>508,2</td>
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<td>Hired</td>
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<tr>
<td>Urban</td>
<td>478,8</td>
<td>479,4</td>
<td>498,7</td>
<td>587,0</td>
<td>594,2</td>
<td>585,7</td>
<td>609,1</td>
<td>634,8</td>
<td>599,7</td>
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<tr>
<td>Rural</td>
<td>205,1</td>
<td>155,1</td>
<td>170,1</td>
<td>211,2</td>
<td>207,2</td>
<td>238,5</td>
<td>251,1</td>
<td>262,7</td>
<td>245,5</td>
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<tr>
<td>Self-employed</td>
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<tr>
<td>Urban</td>
<td>223,7</td>
<td>230,0</td>
<td>230,4</td>
<td>212,6</td>
<td>201,5</td>
<td>181,3</td>
<td>185,6</td>
<td>131,4</td>
<td>133,4</td>
</tr>
<tr>
<td>Rural</td>
<td>817,6</td>
<td>745,2</td>
<td>726,2</td>
<td>715,4</td>
<td>708,0</td>
<td>700,3</td>
<td>647,9</td>
<td>266,4</td>
<td>262,5</td>
</tr>
</tbody>
</table>

An analysis of the specifics of the distribution of employees (see Table 2) shows that the share of the self-employed in the total number by 2018 significantly exceeded the share of employees, and in the last 3 years (2018-2020) the number of employees was 26.8, 499.7 and 449.3, respectively. The number of self-employed exceeds a thousand men. However, it should be noted that the number of self-employed in Georgia is still high and we should also note that a large share of the self-employed come from the agricultural sector, which is characterized by low productivity.

The distribution of employees according to the forms of ownership shows that the main source of employment in Georgia is the business sector. The trend established over the years continued in 2020 and the share of employees in the private sector was 76%, while the share of employees in the public sector was 24%.

The growth and development of cities is directly related to the process of urbanization. Urbanization is a multifaceted economic, socio-demographic and geographical process. Tbilisi is
the most urbanized administrative unit of the country. Half of the country’s GDP is produced in Tbilisi. At the same time, the share of GDP is significantly higher in the regions where large cities are located (Kutaisi - Imereti, Rustavi - Kvemo Kartli, Batumi - Adjara, Poti and Zugdidi - Samegrelo) than in rural areas, with the latter large cities and major transport Despite its proximity to highways.

Analysis of employment in the regional context shows that the highest employment rates are in Guria, Kakheti and Samtskhe-Javakheti. Georgia is also characterized by distinct regional agricultural production, which means that the regions specialize in growing a specific product (eg, they produce wine in Kakheti, potatoes in Samtskhe-Javakheti and citrus fruits in Adjara). In the past, the population of western Georgia was engaged in growing tea and citrus fruits, while in the east they produced more wine and wheat. There is a major regional difference in the Georgian labor market between Tbilisi and the rest of the country, although there are some differences between different regions (eg, in Adjara, where there is a pronounced shortage of agricultural land, the unemployment rate is twice as high as in Kvemo Kartli). An obvious explanation of these regional differences can be found in the urban and rural characteristics of different regions. Formal unemployment is much lower in rural than in urban type settlements. This difference is about 20%. It should be noted that a large share of rural employment comes from self-employed farmers.

The difference in per capita income between families living in specific regions of Georgia far exceeds the difference between the regions. Nevertheless, the average per capita income in the city of Tbilisi is much higher than the same rate in any other region except Adjara, Imereti and Samtskhe-Javakheti (higher per capita income is observed in urbanized regions). There is a significant imbalance between the regions of Georgia, even when the connection between the administrative regions of the country is less. There is a significant imbalance between the city of Tbilisi and the rest of the country. Also, there are obvious differences in the conditions found in urban and rural areas. At the same time, the conditions in the mountainous regions are completely different from the conditions in other parts of Georgia. Social welfare should be equally provided to the entire population of Georgia.

Infrastructure development is a necessary precondition for increasing investment in the business sector. Including the use of high technology, which has specific requirements for telecommunications, electricity, water supply sustainability and quality. However, the development of any infrastructure must respond to specific local needs. Business development support and employment are needed. Significant emphasis should be placed on training human resources and improving the delivery of business support services. Support needs to be tailored to the specific needs of different areas. Increasing the capacity of regional and local authorities is an important need to promote regional development.

An important feature of the modern labor market is that it operates in the context of the coronavirus pandemic, which covers all aspects of public life and manifests itself in declining production, declining investment, an unstable financial and credit system, and a labor-supply imbalance. Among many other factors, the wage system is disorganized, which is manifested in the redistribution of most industries and sub-sectors. High inflation rates reduce the purchasing power
of the population, the minimum wage is low, the subsistence level is low, the professional qualification level is low, which leads to low labor productivity.

Employees employed in the Georgian labor market do not have the means to fully realize their social rights and interests due to the breakdown of regulatory institutions. The slow growth of the labor market is seriously hampering the country’s progress and, along with the decline in employment, manifests itself in the form of unemployment, poverty, demographics and related problems. The issue of youth employment is especially acute, because in this case, along with material difficulties, there are also social and psychological problems.

3. Problems of youth employment in Georgia.

Youth employment is a serious problem for any country and Georgia is no exception. In the last twenty years, the mechanism of relations between the vocational education system and organizations has been disrupted, and specialists have been trained without any requirements. It is true that in a market economy it is impossible to achieve full compliance of the professionally qualified staff of higher education specialists with the ever-changing demands of the economy, but the education received must guarantee employment and a full life. Employment of young people requires special assistance and support. They are distinguished from other socio-demographic groups of the population by their health, level of education, vocational training, mobility, high demands on work, which determine their behavior in the labor market.

Solving youth employment problems requires a special approach, as youth are the most active part of society that reacts strongly to social injustice. In order to solve the problem, it is important for the youth to have the right professional orientation and training of staff, to implement reforms in the field of education. It is important to regulate the imbalance between the demands of the labor market in Georgia and the professional-qualified composition of young people.

The most concerning issue is that the most trained, educated and hardworking young people go abroad. The migratory mood is observed in the elite student-youth, whose academic achievement and professional training are characterized by high characteristics.

As the research showed, the unemployment rate in Georgia during the years (2000-2020) is quite high (10.3-18%). Unemployment is particularly striking among young people aged 15-29. Unemployment among young people is twice as high as the rest of the population. The age composition of employed and unemployed youth was analyzed to get a complete picture of the employment and unemployment situation of young people (16-29 years old).

To characterize the employment and unemployment situation of young people, we analyzed the statistics of the National Statistics Office of Georgia for 2002, 2010, 2014, 2018 and 2020, which highlights the acute problems facing young people and puts on the agenda the need for their immediate solution at the state level. The analysis revealed a very unfavorable situation, which was primarily manifested by a decrease in the number of young people. It is very unfortunate that in Georgia, recently, there is a tendency to decrease the number of young people. If in 2002, the number of able-bodied young people aged 15-29 was 821.6 thousand, in 2010 it was 815.2 thousand, in 2014 - 739.8 thousand, in 2018 - 687.5 thousand, and in 2020 - 622.2 thousand. The
decrease in the number of able-bodied young people, among other factors, was due to external migration processes. The most acute problem for Georgia is the intensive emigration of young people from the country. Mostly young people aged 25-29 leave the country. The reduction of young people of this age in the total population is the biggest loss for the country. It is noteworthy that the vast majority of these citizens have received higher education, abroad they work mainly in non-specialties and perform low-skilled work, which in the long run leads to their non-competitiveness in the labor market.

As in the total number of employed in Georgia as a whole, the share of self-employed is high among employed young people. However, it decreased from 172.1 thousand to 62.7 thousand in 2002-2020 at the expense of employment growth. During the same period, the number of employees increased from 98 thousand to 159.8 thousand. It is noteworthy that most of the self-employed are unable to earn even a meager income. They are either part-time or secretly unemployed. Particularly alarming is the fact that a large proportion of the unemployed are unable to find work for long periods of time, further exacerbating the already dire state of youth unemployment. In 2002-2020, youth unemployment in Georgia increased from 27.3% to 35.1%.

With the high unemployment of young people, Georgia has taken the position of "leader" in the world. Among young people aged 15-19, 20-24, 25-29, in 2020 the highest unemployment rate was observed among young people aged 15-19 - 43.9%. Unemployment in the age category of 20-24 years in 2020 was marked by an increase in unemployment from 31.9% to 38.3% compared to 2002. During the same period, the unemployment rate among young people aged 25-29 decreased slightly from 26.1% to 23.2%. However, the situation is deplorable. High youth unemployment rates reflect the difficulties faced by young people in finding jobs. The youth unemployment rate in Georgia is significantly higher than not only in developed countries, but also in North Africa, where the unemployment rate is 28.6%. The youth unemployment rate in Georgia is 2.3 times higher than the EU average (15.2%).

Georgia's higher education system has undergone a significant transformation over the last decade. Despite reforms and significant changes, employers and graduates of higher education institutions are facing serious problems. On the one hand, employers are constantly complaining about the hunger of qualified personnel, and on the other hand, we have a lot of highly educated people who are unable to find employment.

Great attention is paid to the creation of a demand-oriented education system in the world and in Georgia. The main goal of our research was to evaluate the results of education received at the university. The research focused on the employment problems of students and alumni of TSU Faculty of Economics and Business.

The research tool was a quantitative research questionnaire. A total of 511 TSU students and alumni and representatives of 137 companies participated in the survey. Undergraduate, graduate and doctoral students, as well as undergraduate and graduate students were interviewed during the research process. 64.6% of respondents in the quantitative survey are employed. Most employed graduates work full-time by qualification in the private or public sector. The ratio of their remuneration, qualifications and work performed by employed graduates is positive. The study also revealed TSU's education deficiencies, which graduates cited as primarily improving
components in terms of increasing TSU alumni competitiveness in the labor market. It is noteworthy that similar problems were pointed out by employers. It is necessary to strengthen the practical component, the possibility of internships, the improvement of textbooks and teaching materials and the so-called Exemption from "unnecessary items".

In order to support young professionals and create decent living conditions for them, it is important to: stimulate the involvement of business entities in the development of youth employment policies and employment programs by the Government of Georgia, develop state support measures for small and medium businesses, develop entrepreneurial skills in young people, creating start-up conditions for starting your own business by establishing cheap loans and tax benefits, organizing vocational training, retraining and advanced training courses for young people.

4. Directions in the development of the state employment system

There is not only a quantitative but also a serious structural (by profession) and qualitative (by qualification) imbalance between the demand for labor and the supply of labor in the Georgian labor market. Demand-supply imbalance as one of the main impediments to unemployment and business development. The low degree of orientation of the labor market system in the labor market, the underdevelopment of the education system lead to the limitation of the elasticity of the labor market and the distance of the skills and abilities of the labor force from the market demands.

Lack of data analysis on the labor market determines the low mobility of the labor force, which in turn leads to the separation of the labor force from the demands of the labor market. Income from employment is less than the subsistence level for a certain category of workers. The average wage of employees has increased significantly in recent years, but in the face of high wage differentiation, the wages of a significant proportion of employees are still insufficient to survive.

According to statistics, 1/3 of the unemployed in Georgia have higher education. The large proportion of people with higher education in the population and their increased demands on working conditions further deepen the structural and qualitative imbalance between labor supply and demand. This in turn leads to overproduction of staff with higher education in specific specialties and limited employment opportunities in the specialty. A market saturated with popular professions increases competition and makes it harder to find a job, and despite the demand for certain professions, there is no adequate staff. One of the peculiarities of the Georgian labor market is the high share of informal employment. Most self-employed people engage in informal, unregistered activities. The large scale of informal employment in Georgia is due to the complex socio-economic processes that have developed in the country since the 90s. The growth of informal employment is the reaction of the population to the deterioration of employment conditions, the rise in unemployment, the decline in living standards. According to official statistics, almost 2/3 of the employees in Georgia are self-employed. The above has a negative impact on the functioning of the Georgian labor market.

It is important for the implementation of the state policy on labor market development in Georgia:
Creating and developing a legal framework that takes into account the interests of both the hired worker and the employer;

- Introduction of international labor safety standards;
- Formation of a unified labor market information system and their institutionalization at the level of state structures;
- Development of labor market research and forecasting methods;
- Supporting the development of a vocational training system focused on labor market needs;
- Regulation and management of labor migration processes;
- Development of cooperation-oriented social partnership.

Conclusions Recommendations

Based on the research conducted, solving the problems of labor market-oriented labor force development in Georgia requires the implementation of the following measures by the state:

- Development of a unified state employment strategy;
- Strengthen the efforts of the Social Services Agency to improve the registration process of the unemployed, so as not to waste resources inefficiently;
- Enhancing the motivation of the population to participate in the state employment program;
- Increasing the awareness of public employment services and ensuring access to services by the Social Service Agency;
- Taking into account the specifics and specifics of the labor market at the stage of planning and delivery of vocational training programs;
- Promotion and encouragement of deficient professions in the education market by the state;
- Encourage the involvement of business entities in the process of developing youth employment policies and employment programs;
- Development of state support measures for small and medium businesses;
- To develop entrepreneurial skills in young people, to create starting conditions for starting their own business by establishing cheap loans and tax benefits;
- Organizing vocational training, retraining and advanced training courses for the youth.

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