

# Salary Increases in the Public Sector and Bureaucracy



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## Main Findings

- ✓ Considering the announced salary increases in the public sector before 2026, the forecast figure for labor compensation expenses in the 2026 state budget is 2.55 billion GEL, which is about 900 million GEL (55%) higher than the actual figure of 2021.
- ✓ As a result of the increase in salaries announced in the public sector, the burden of labor costs in the state budget will increase by approximately 2%.
- ✓ In 2021, 301.5 thousand people were employed in the state sector, the highest figure in the last 10 years.
- ✓ In terms of freelancers, the share in the public sector reached 36% in 2021, which is the highest figure since 2012.
- ✓ In 2018-2021, despite basic official salaries remaining unchanged, the costs of labor compensation from the state budget were increasing annually. For example, in 2021, compared to the previous year, labor costs increased by about 7%.
- ✓ In 2021, 359.6 million GEL was spent on contracted employees, which is 63 million GEL higher than the previous year. Such costs have been increasing by an average of 20% annually since 2013.
- ✓ According to data from 2021, 163,069 persons were employed at state NNLEs and LEPLs. Among these, 50,561 (31%) were freelance employees.
- ✓ In 2021, state LEPLs and NNLEs (excluding public schools) disbursed labor compensation costs of 443.5 million GEL from their own revenue, which is about 10% higher than the figure of 2020.
- ✓ Aggregate data on the bureaucratic apparatus of municipal NNLEs and state companies is available only through 2019. During this period, 61,401 employees were employed in municipal NNLEs, and 37,142 employees were employed in state companies.

## Introduction

One of the main determinants of the effectiveness of a bureaucratic system is the system of labor remuneration in the state sector. The largest share of bureaucratic costs falls on the salaries of public sector workers. Accordingly, it is particularly important to have a system in the country that would ensure, on the one hand, the existence of adequate and fair wages in the public sector, and, on the other hand, would eliminate irrational spending of budget funds.

Adequate compensation for labor in the public sector is an integral part of anti-corruption policy. At the same time, it ensures competitiveness with the private sector and the creation of appropriate conditions for qualified personnel. The entry into force of the Law of Georgia "On Remuneration in Public Institutions" in 2018 contributed to some regulation of the labor remuneration system in public institutions of Georgia. Specifically, the maximum amount of salary supplement issued during the year was limited to 20% of the annual salary, and the monetary reward (bonus) was limited to 10% of the annual salary. In addition, it was forbidden to give both salary supplements and bonuses (monetary rewards) to state-political and political officials. Under the new law, against the background of restrictions imposed on bonuses and salary supplements and in the process of forming a fair system of labor remuneration, the new system of coefficients for determining the monthly official salary became a challenge. The system determined the remuneration coefficients and their threshold amounts to be given to different categories of employees/officials. According to the hierarchies of the positions, the head of the institution ensures that the category of the coefficient determined by the position hierarchy is assigned to the employed person, which is multiplied by the base official rate and is reflected in the staff list.

Since 2018, studies conducted by the IDFI showed that even under the new law, most of the officials retained in the form of official severance pay the amount of labor compensation that had been paid for years under the conditions of the irregular salary policy. Additionally, the effect of this law did not extend to a number of agencies and positions. For example, employees with special and military ranks of the Ministry of Internal Affairs, employees of the Special Penitentiary Service, employees of regulatory commissions, employees of the National Bank, and others.

In 2018, in accordance with the new law, the basic official salary in the state budget was determined in the amount of 1,000 GEL, which was not changed until 2022. In the 2022 state budget, the base salary increased by 10% and was set at 1,100 GEL. When announcing this change, the Minister of Finance of Georgia stated that salaries in the public sector lagged significantly behind those in the private sector, which posed a threat to the retention of qualified personnel, as an argument for the change. In addition, the Minister explained that the salary increase in the public service would continue in the following years, and by July 1, 2022, the basic principles would be established, according to which the salary increase in the public service would be regulated. On July 18, 2022, the Minister of Finance of Georgia [informed](#) the public that the basic principles according to which the salary increase in the public sector would be regulated were determined at a government meeting. Specifically, until 2026, salaries in the public service would increase annually by approximately 10%, and after 2026, in proportion to the increase in salaries in the private sector.

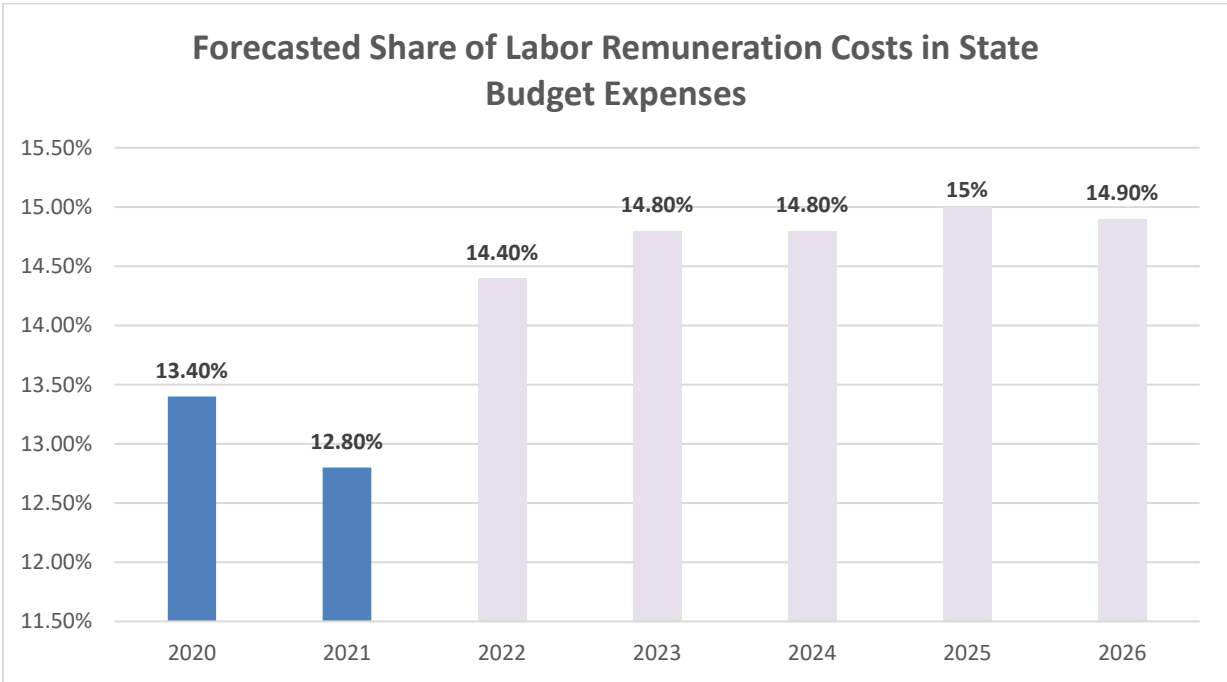
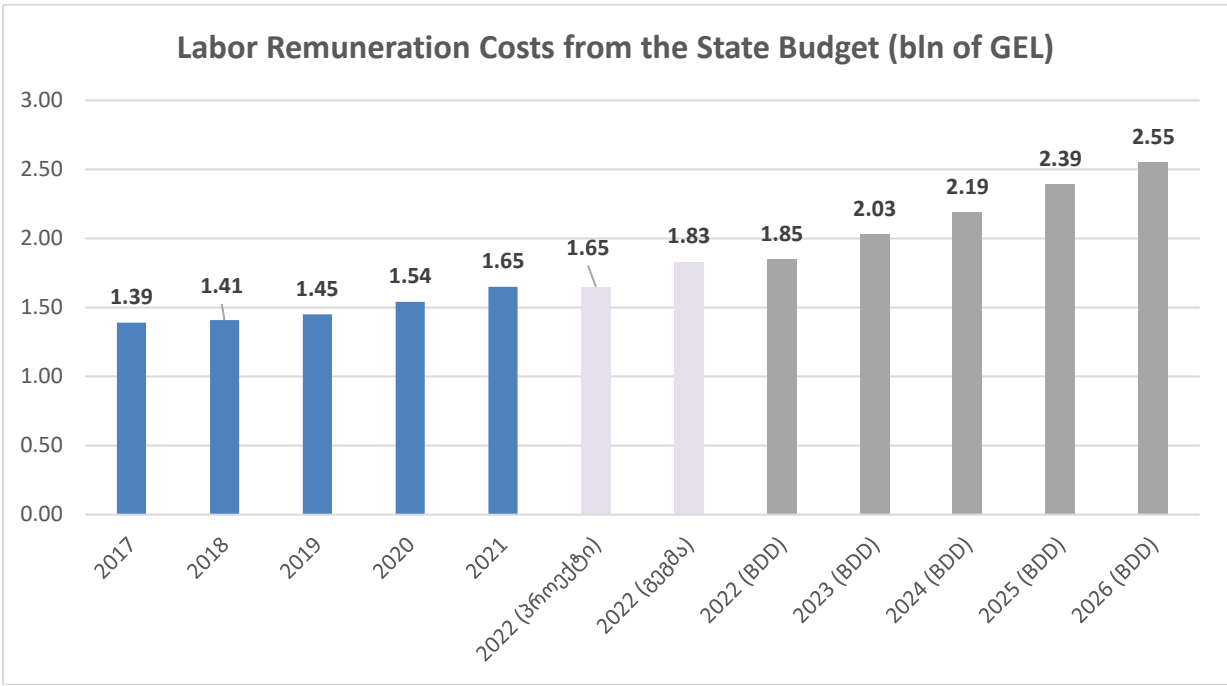
Based on publicly available data, the present study reviews the practices of the Georgian bureaucratic apparatus and related labor costs. In addition, the study evaluates the rationale for the planned salary increases in the public sector and its impact on the burden of bureaucratic costs.

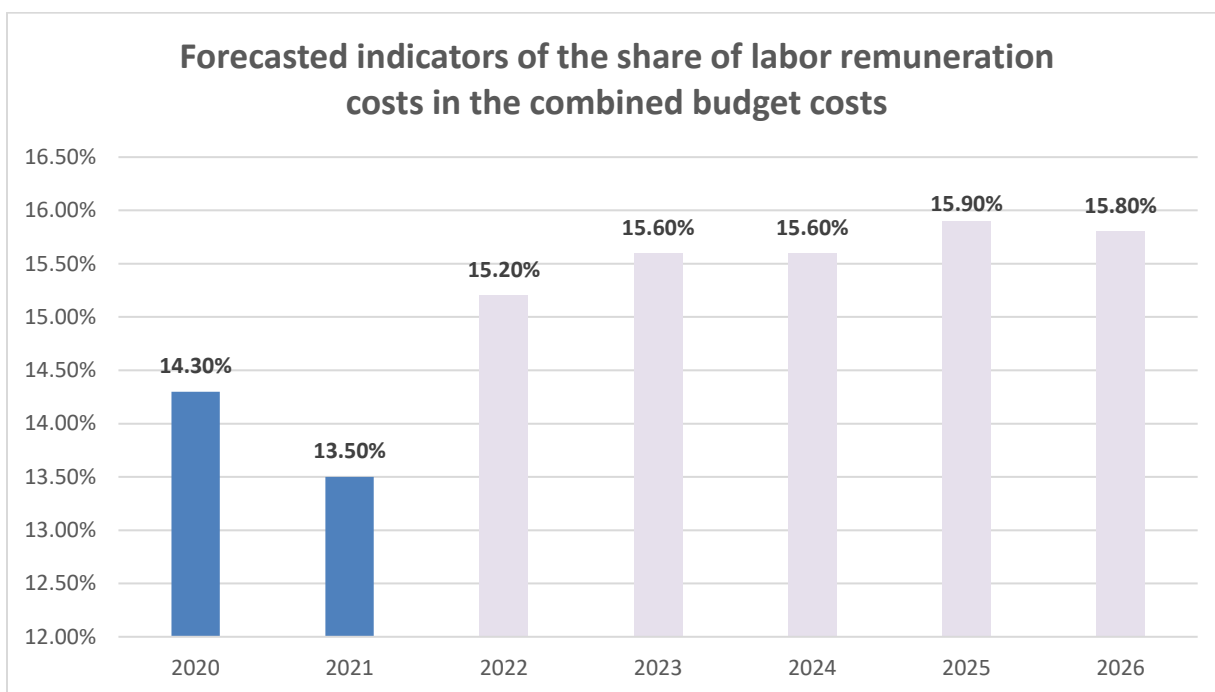
## The Basis for Salary Increases and Their Impact on Labor Remuneration

In 2018-2021, according to the State Budget Law, the basic salary for officials was determined in the same amount for all (1000 GEL). However, according to budget documentation, labor remuneration expenses were increasing every year. For example, in 2018, labor remuneration expenses from the state budget amounted to 1.4 billion GEL, 2019 - 1.45 billion GEL, 2020 - 1.54 billion GEL, and 2021 - 1.65 billion GEL. As such, despite an unchanged basic salary, in 2018-2021, the labor remuneration expenses incurred from the state budget increased by approximately 250 million GEL.

In 2018-2021, under the conditions of unchanged basic official salary, the current trend of increasing labor costs can be attributed to various circumstances. Among these are: the increasing size of the bureaucratic apparatus, salary increases in agencies outside the scope of the Law on Remuneration (including the police, teachers, etc.), and others.

According to the initial draft of the 2022 state budget, labor remuneration costs were assumed to be approximately the amount of the actual costs in 2021. Later, however, the decision of the Georgian government regarding the 10% increase in salaries in the public service led to an increase of 180 million GEL in 2022 labor remuneration costs. Based on the amount of change in the initial amount provided for labor remuneration in the 2022 state budget draft (+180 million GEL, +10.9%), one can assume that the 10% increase in salaries in 2022 will be fully applied to the organizations managing budget allocations, including labor compensation of persons employed in agencies/positions outside the scope of the law. According to the decision of the Government of Georgia, salaries in public service will increase by approximately 10% annually until 2026, which will require significant financial resources. The country's main data and directions document (BDD) published by the Ministry of Finance presents the main indicators of the forecast budget for 2023-2026, according to which, by 2026, labor costs from the state budget are expected to rise to 2.55 billion GEL. This indicator is about 900 million lari (55%) higher than the factual indicator from 2021. Taking into account the forecast indicators presented in the same document, the share of labor remuneration in state budget expenses will fall between 14.8% and 15% in 2023-2026. This indicator was 12.8% in 2021, and therefore, the burden of labor costs in the state budget will increase by approximately 2%.

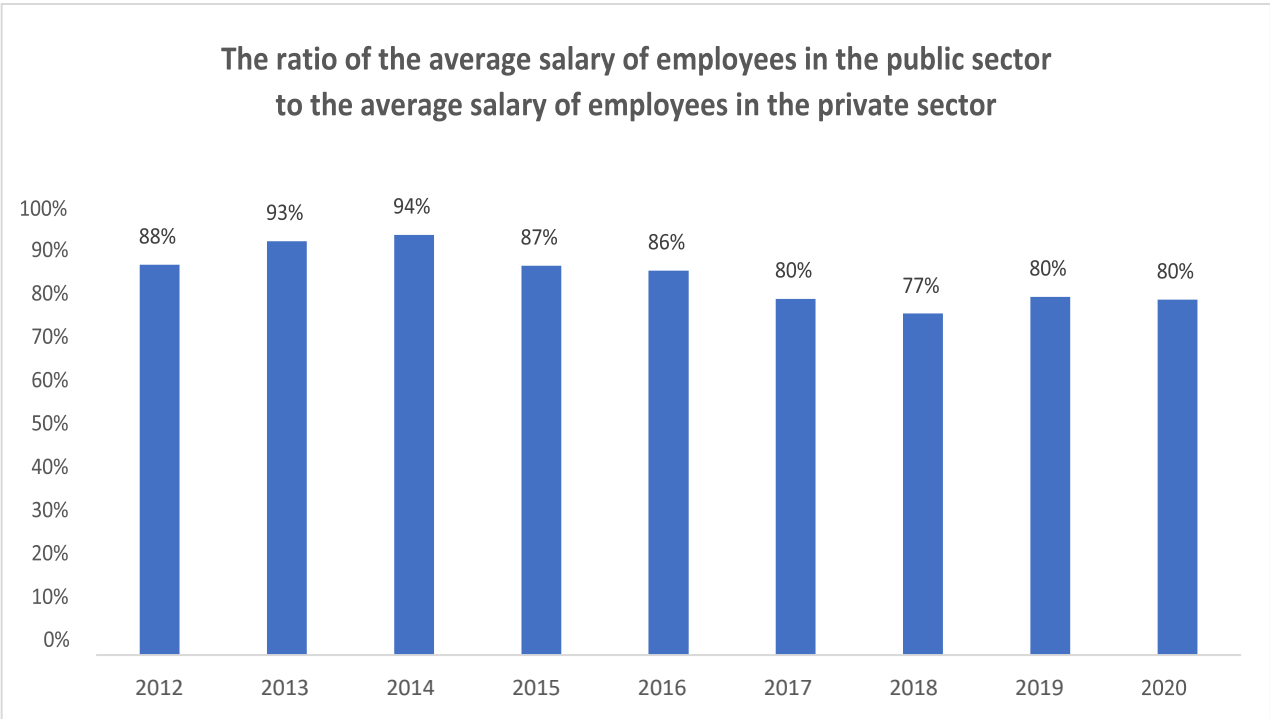
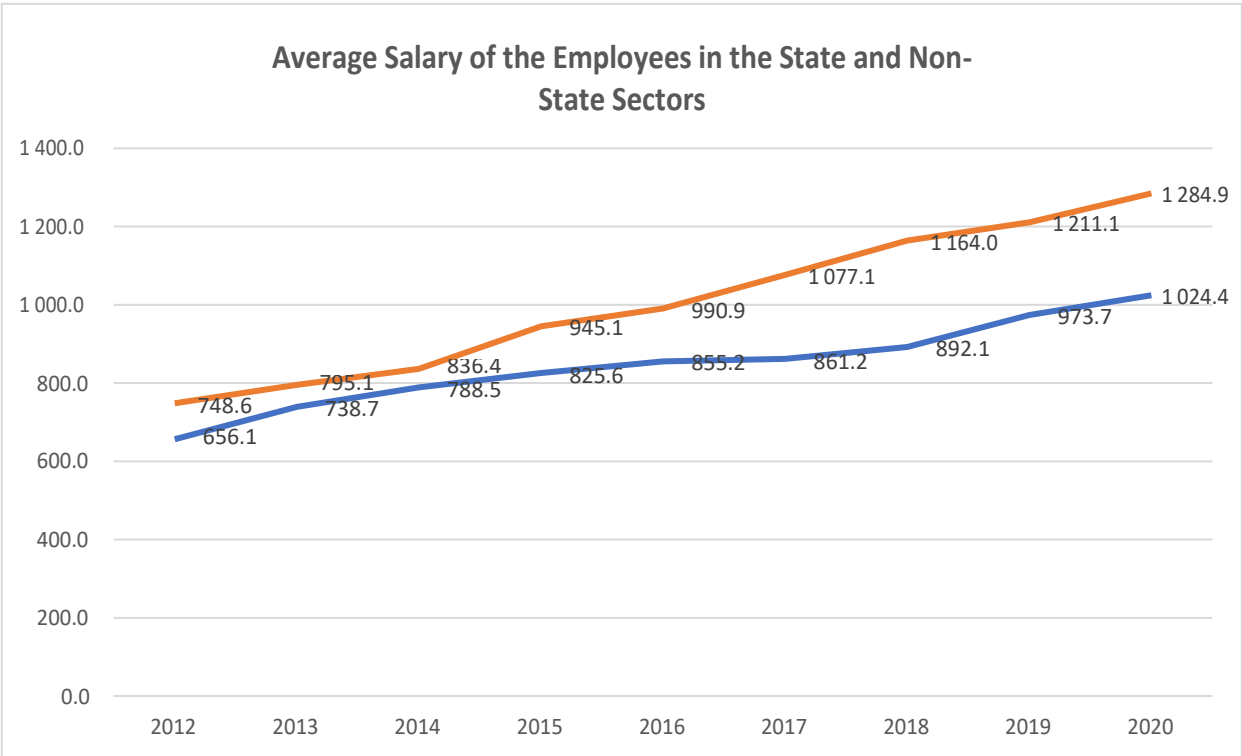




The annual increase of salaries in the public sector requires significant state resources. Therefore, the rationale for it requires significant justification. The primary reason for the decision to increase salaries was that the salaries in the public sector were not competitive compared to the private sector. In particular, according to the Minister of Finance, as of today, the average salary of employees in the public sector is 74% of that of employees in the private sector, and the planned salary increase in the public sector in the following years will serve to bring this parameter between 80% and 90%. On the website of the National Statistics Service, the latest statistical information about salaries according to employment sector is available through the year 2020, the data showing that the average monthly salary is 1024.4 GEL in the state sector and 1284.9 GEL in the non-state sector. Accordingly, as of 2020, the average salary in the public sector was 80% of the average salary in the private sector.

The gap in the average salary in the public sector compared to the private sector has been gradually increasing after 2014. For instance, in 2014, the average salary of employees in the public sector was 94% of the average salary of employees in the private sector.





Current trends in average salaries of the state and private sectors can be considered as an important prerequisite for the increase of salaries in the public sector. Nevertheless, assessing the rationality of salary increases in equal proportions for employees at any hierarchical level in the public sector or employees of different professions requires statistical analysis based on additional detailing of the labor market. In this regard, the website of the National Statistics Service presents only information on the remuneration of employees in the state and non-state sectors according to the type of professional activity. The mentioned data show that, in case of some specific types of activity, the average salary of employees in the public sector exceeds the average salary of employees in the private sector. For example, in financial and insurance activities, the average salary in the state sector is 4,616 GEL, while in the private sector it is 2,121 GEL. According to the national classifier of economic activity in Georgia, financial and insurance activities include financial service activities, including insurance, reinsurance, and pension fund activities. Additionally, in the field of construction, the average salary is 2,116.2 GEL in the state sector and 1,706.2 GEL in the private sector. The average salary of employees in the state sector that exceeds the equivalent average salaries in the private sector the most, more than twice, is in professional, scientific, and technical fields.

Average monthly salary of employees hired in the state and non-state sectors by type of activity			
Activity	State	Non-State	Difference
Agriculture, forestry and fish farming	533,3	910,5	-377,2
Mining and quarrying	...	1 779,4	...
Manufacturing industry	1 278,7	1 108,5	170,2
Supply of electricity, gas, steam and air conditioning	1 598,7	1 474,6	124,1
Water supply; Sewage, waste management and decontamination activities	685,1	1 335,9	-650,8
Construction	2 116,2	1 706,2	410,0
Wholesale and retail trade; Car and motorcycle repair	1 359,2	1 034,7	324,5
Transportation and storage	1 267,8	1 594,0	-326,2
Accommodation and food delivery	781,0	821,1	-40,1
Information and communication	1 720,6	1 903,6	-183,0
Finance and insurance	4 616,0	2 121,2	2494,8
Real estate	1 269,9	1 179,1	90,8

Professional, scientific, and technical activities	1 015,5	2 083,9	-1068,4
Administrative and support services	757,3	875,4	-118,1
State governance and defense; Compulsory social security	1 425,8	...	...
Education	709,2	921,3	-212,1
Healthcare and social services	1 083,0	1 105,4	-22,5
Art, entertainment, and leisure	651,4	1 302,3	-650,9
Other types of activities	910,7	1 109,3	-198,5

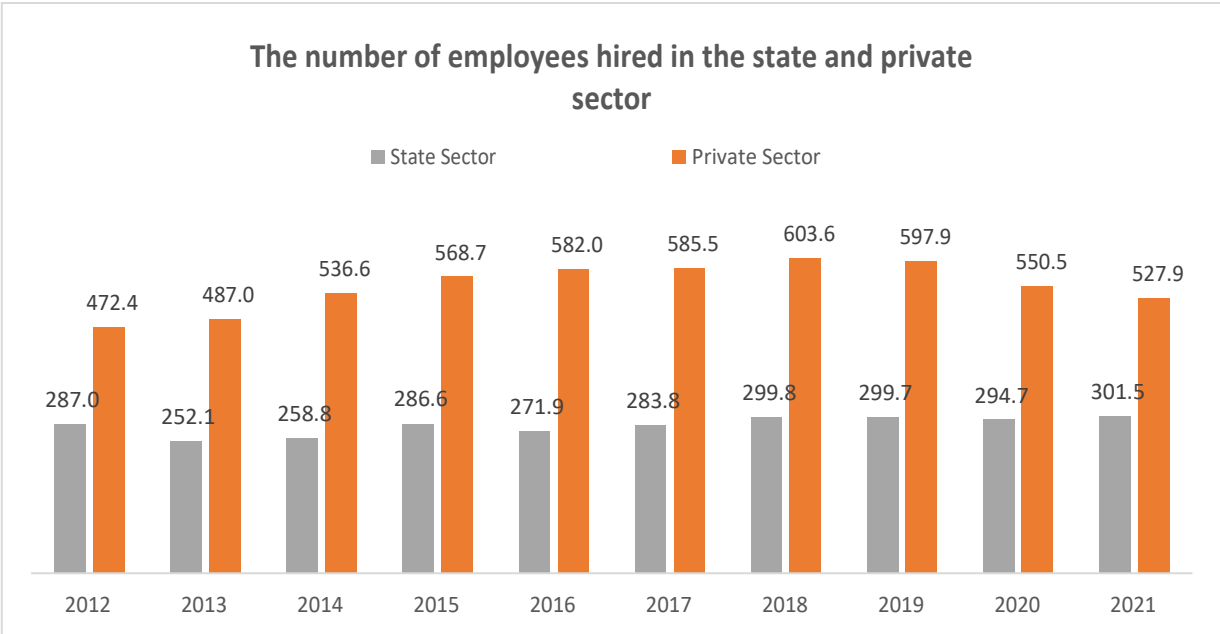
In order to maintain the competitiveness of the remuneration in the public sector, significant practical steps need to be taken. However, with the preservation of the existing bureaucratic apparatus, the increase in the announced salaries requires significant financial resources. IDFI believes that the burden of the state budget caused by salary increases can be significantly alleviated through the optimization of the bureaucratic apparatus. In order to evaluate the available resources in this regard, the analysis of the development trends of the bureaucratic apparatus is presented below.

## The Bureaucratic Apparatus

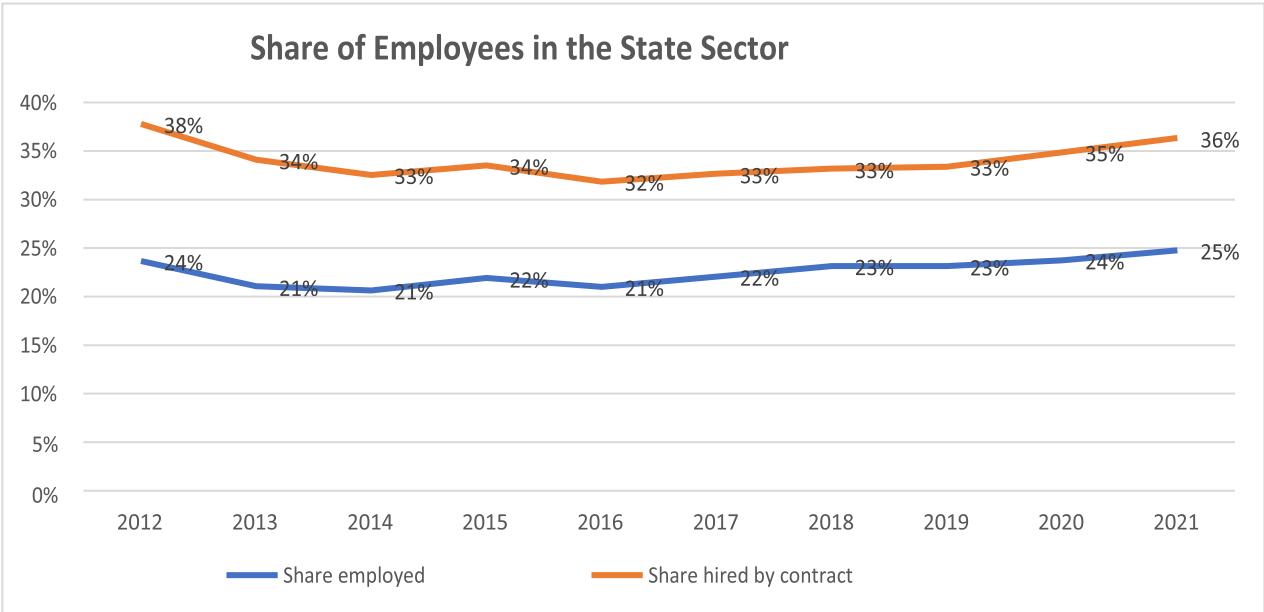
A full assessment of the size of the Georgian bureaucratic apparatus and the trends therein is fairly complicated, since complete and uniform records of such data is not produced in the country. Information about employees in the public sector is covered with relative completeness in the statistical data published by the National Statistics Service. This information is obtained according to the integrated survey of households and represents approximated data. In addition, the mentioned data does not provide the opportunity of viewing it according to the type of public institutions.

According to the data from the National Statistics Service, 301.5 thousand people were employed in the state sector in 2021, the highest figure in the last 10 years. In 2021, the number of employees in the state sector increased by 6.8 thousand compared to the previous year. In order to estimate the volume of employees in the public sector, the ratio of private and public sector employees is particularly important. In parallel with the increase in the number of employees in the public sector, the number of employees hired in the private sector has been decreasing significantly in recent years. As a result, the share of employees in the state sector in 2021 reached 36%, which is the highest figure since 2012.

In 2020-2021, the decline in the number of employees in the private sector can likely be attributed to a significant degree to the economic difficulties caused by the pandemic. However, the aforementioned challenges did not affect the state sector, where, instead of the bureaucratic apparatus being optimized, its size increased instead.



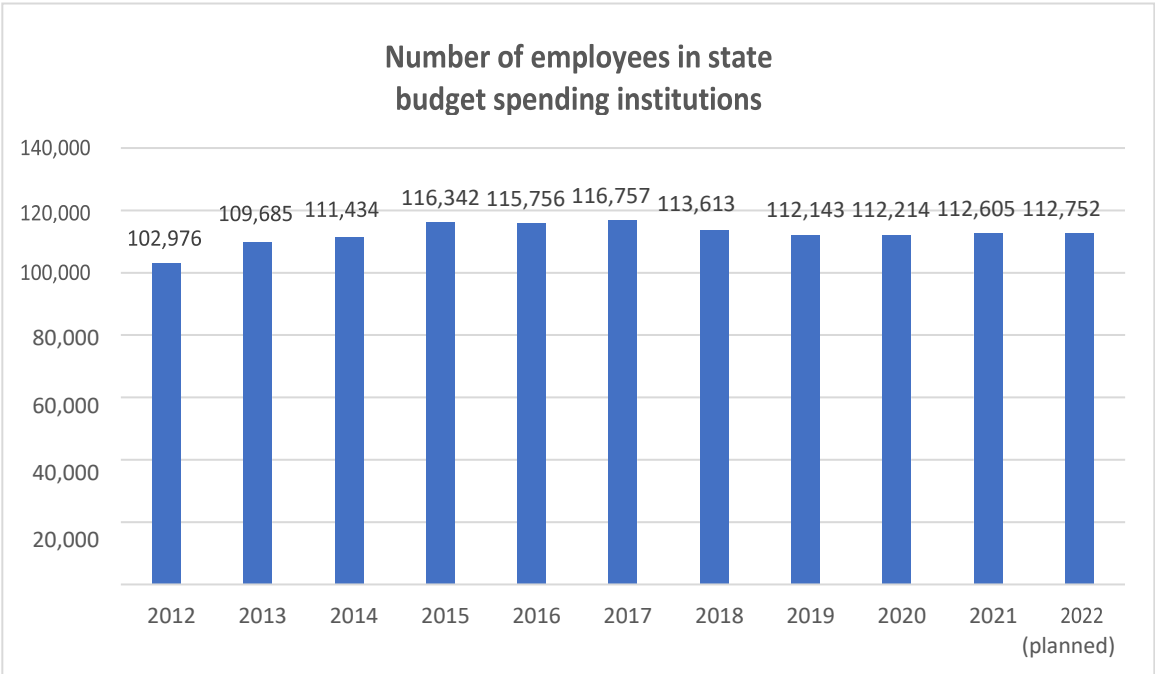
Source: National Statistics Office



Source: National Statistics Office

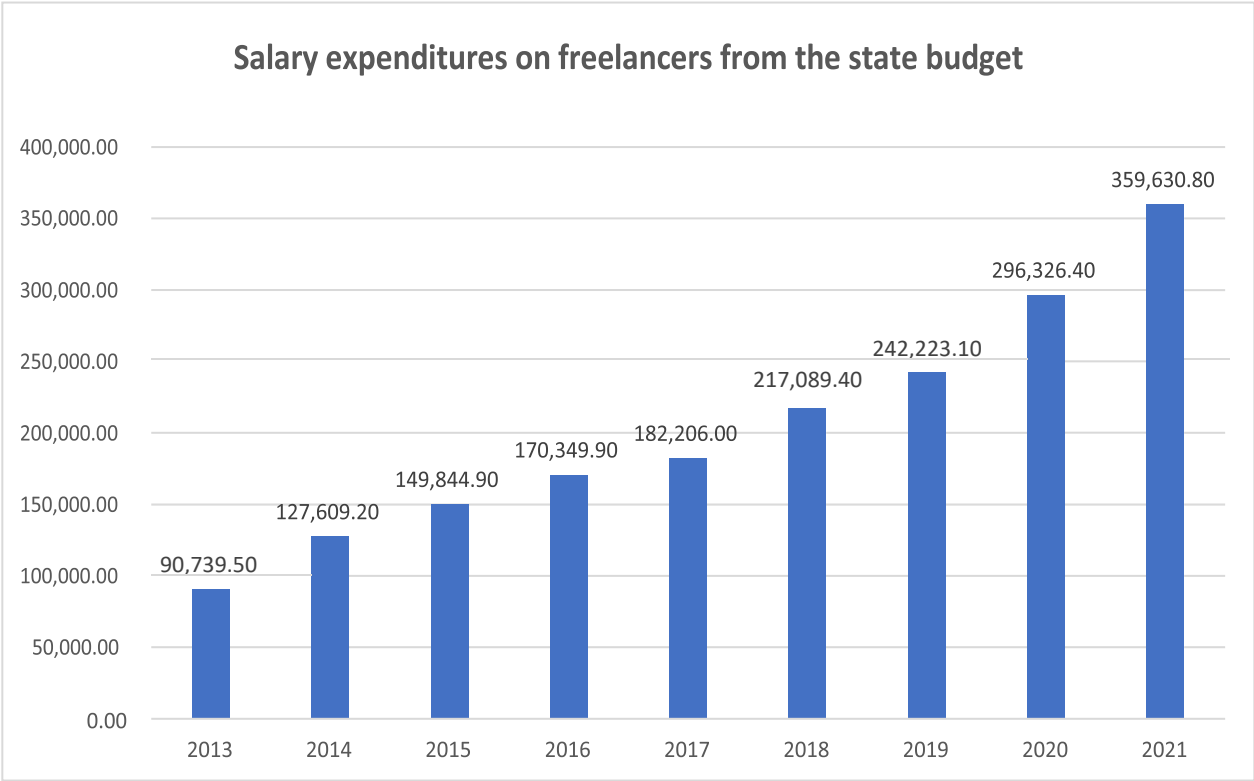
In addition to the reviewed data from the National Statistics Service, when assessing the size of the bureaucratic apparatus, it is particularly important to analyze the actual data regarding employees in public institutions. As such, it is important to consider the official collective data recorded by various state agencies. For example, the budget documentation of the Ministry of Finance presents the number of employees in budgetary organizations in conjunction with the data of LEPLs and NNLEs financed from the central budget, which have their own revenue. From the reports of the State Audit Service, it is possible to find data for a certain period that refers to the number of employees hired in municipal NNLEs. The Public Service Bureau also produces statistical data on employees in the public sector.

According to the figures of the state budget published by the Ministry of Finance, the number of people working in spending institutions according to the 2022 plan is determined at 112,752 people, which is 147 more than the previous year. The number of employees reflected in the state budget includes only the number of employees in organizations managing state budget allocations, which actually reflects only about a third of the employees in the public sector. For example, the abovementioned data does not cover the data of local self-governments, a number of LEPLs and NNLEs that do not represent the organizations directly implementing the program within the framework of state budget financing, and others.



In the numerical data of employees reflected in the documentation of the state budget allocations, there is no separation between the data of persons employed by staff and labor contracts. Taking into account the annually increasing indicators of the costs incurred for their remuneration, however, we can assume that the practice of contract employment in the budget-managing agencies is increasing significantly. For instance, according to the 2021 budget implementation report, 359.6 million GEL was spent on contract employees, which is 63 million GEL more than the previous year. Expenditures for compensation of freelancers have been increasing by 20% on average every year since 2013, as a result of which such expenses have increased from 90.7 million GEL to 359.6 million GEL in the mentioned period.

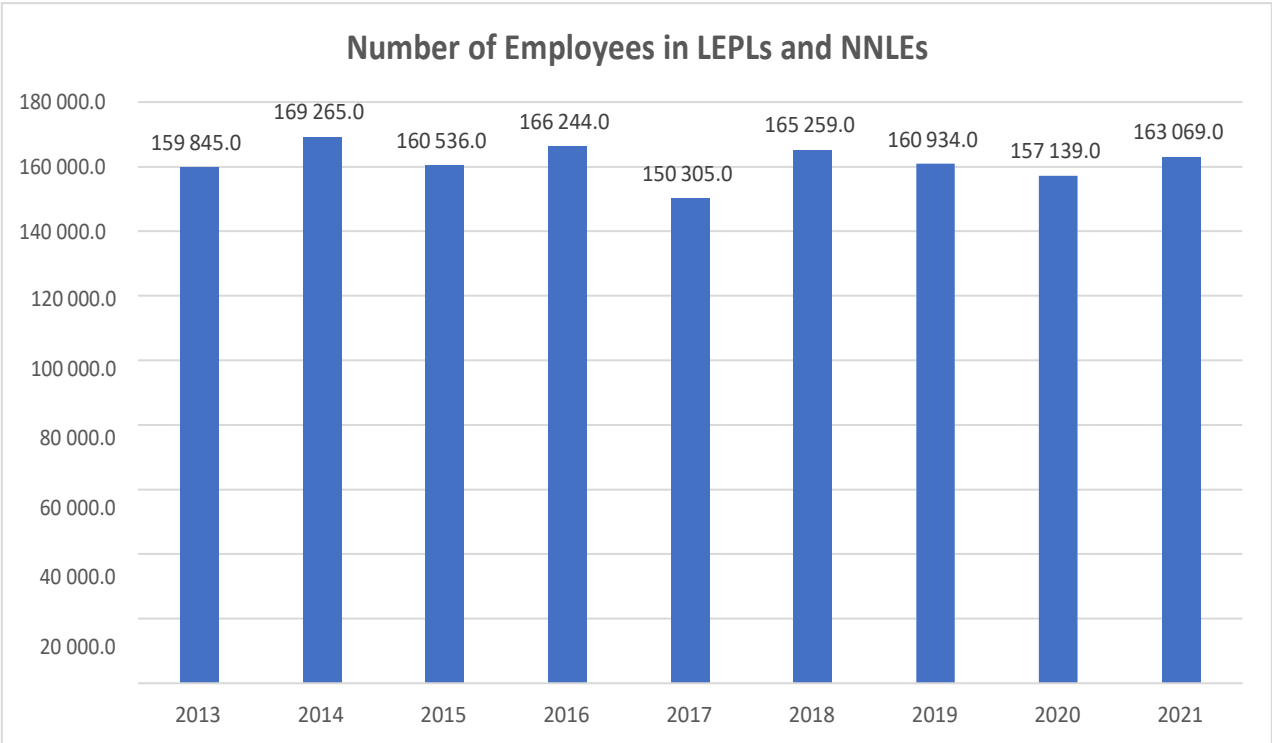
According to the Law on Remuneration of Labor in Public Institutions, the maximum amount of official salary of a person employed under an employment contract is 4,000 GEL, although the law also allows for some exceptions to be made. In the case of contract employment, unlike civil servants, a simpler selection process applies, and in many cases their functions and duties are described in vague terms. A simplified public competition for the employment contract is declared and the decision is made by the authorized person only on the basis of an interview. Consequently, the risks of nepotism and irrational management of budget funds are higher in this area. An indication of such risks are the annually increasing costs incurred for the remuneration of freelancers.



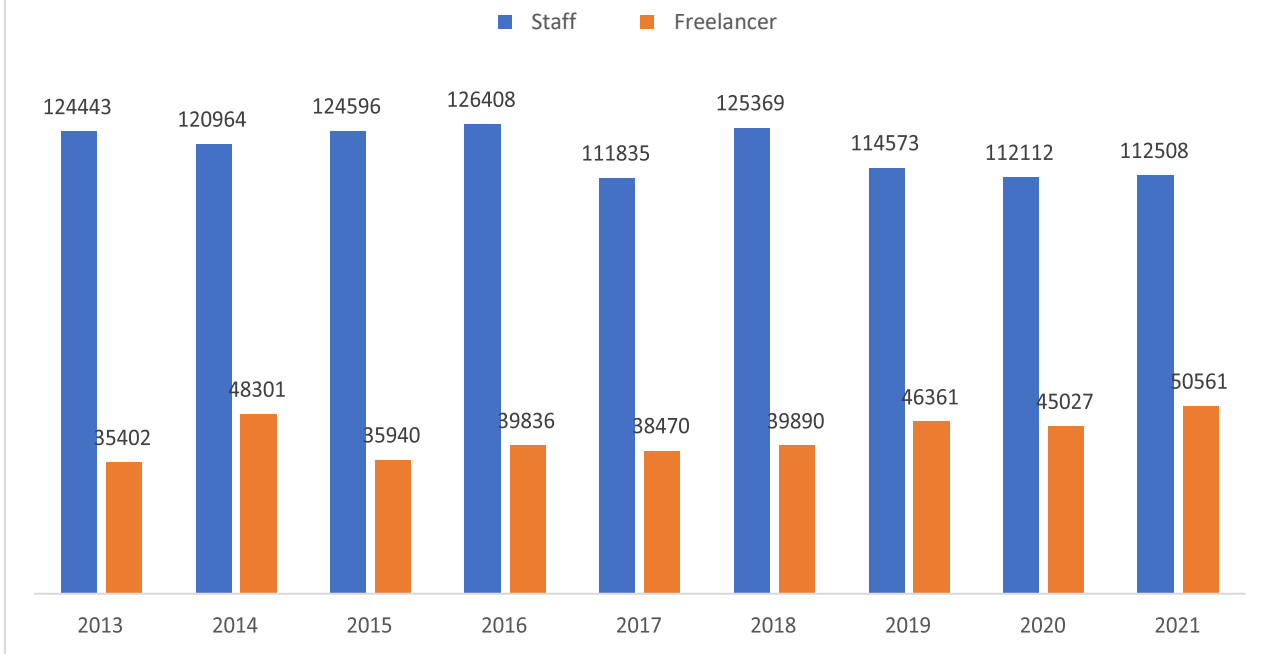
In the 7th chapter of the state budget performance reports, information is presented about LEPLs financed from the central budget and NNLEs that have their own revenue. In addition to financial information, the aforementioned document also presents information about the number of employees working in these agencies. According to the data for 2021, 163,069 people are employed in the state LEPLs and NNLEs, of which 50,561 (31%) are freelancers. As of 2021, the number of employees in state-owned enterprises and private enterprises is 5,930 more than the previous year. The number of freelancers employed in such agencies in 2021 (50,561) was the highest since 2013. For example, compared to the previous year, the number of freelancers increased by 12%.

The documentation presented by the Ministry of Finance also includes information on the labor remuneration expenses incurred by the state LEPLs and NNLEs within the framework of their own revenue. In 2021, these expenditure amounted to 1.24 billion GEL, of which 797.7 million GEL represents the cost of labor remuneration for educational resource centers (public schools), which are issued within the framework of funds transferred from the state budget in the form of vouchers.

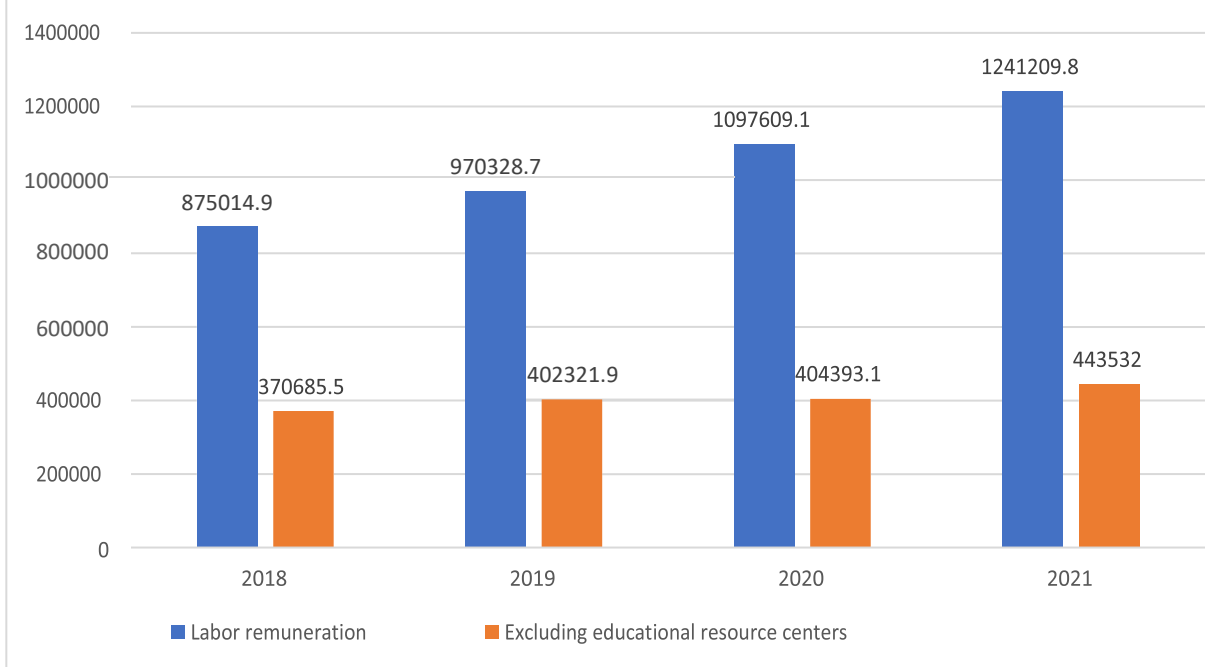
In recent years, the increase in the labor costs of LEPLs and NNLEs is mostly related to the increase in labor costs in public schools. However, even excluding public school data, analysis of the data shows that in 2021 such costs had increased significantly. In particular, in 2021, the labor remuneration costs incurred by LEPLs and NNLEs (excluding public schools) from their own revenue are 443.5 million GEL, which is approximately 10% higher than the 2020 figure.



### Number of Employees in LEPLs and NNLEs



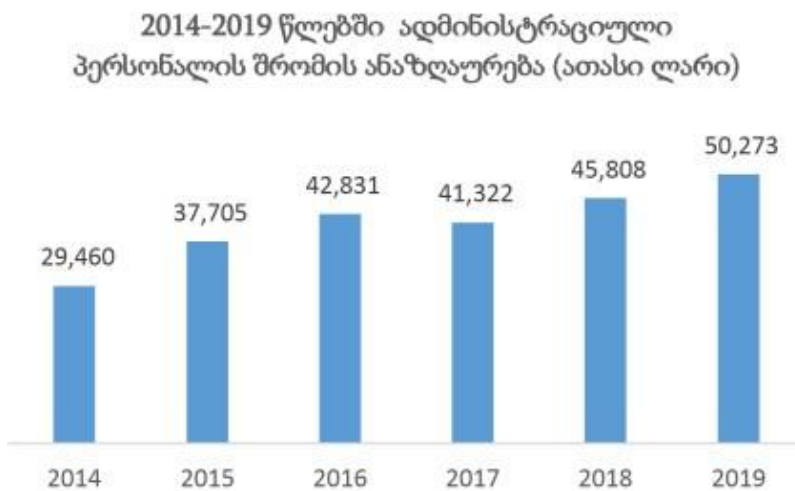
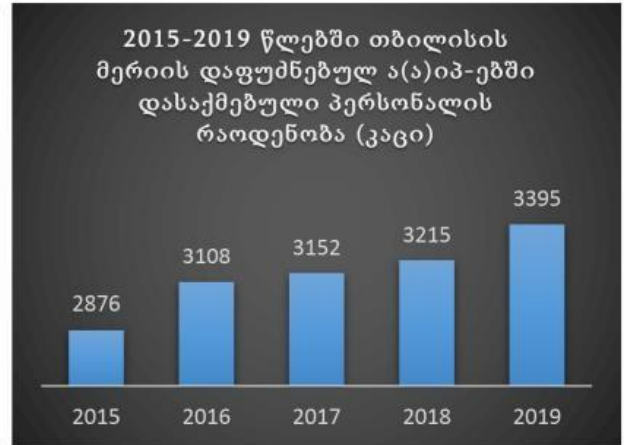
### Labor remuneration costs in LEPLs and NNLEs (thousands of GEL)





Employees in municipal NNLEs and state companies also occupy a significant share among the employees in the state sector. Unfortunately, the availability of complete and consistent collective data of employees in such agencies is significantly limited.

As of 2019, information about the employees in municipal NNLEs and their labor remuneration costs is available in the audit report on the effectiveness of management of NNLEs established by municipalities, as published by the State Audit Service. According to the audit service report, as of December 31, 2019, a total of 61,401 employees were employed in legal entities established by municipalities, and 262,210.1 thousand GEL was paid for the salaries of employees in the same year. At the same time, the report mentions that the increase in salary expenses for administrative staff in 2014-2019 was mainly caused by the hiring of additional staff. Despite the fact that the municipalities reduced the number of operating NNLEs during this period from 772 units to 723 units, the number of administrative employees increased by 1,435 instead of decreasing. It should be stressed that the municipalities merged or dissolved NNLEs in order to reduce/optimize administrative costs. Nevertheless, with the reduction of organizations, the administrative staff increased by 25%, and salaries increased by 71%.

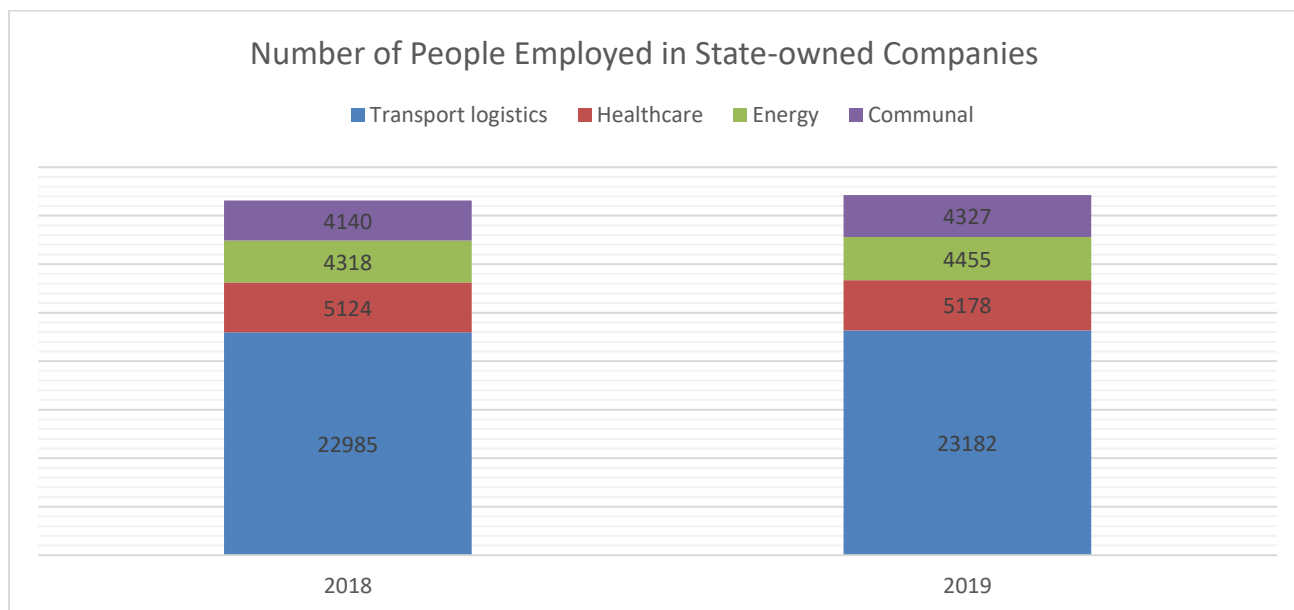


\*გარდა თბილისის მერიის მონაცემებისა.

Note: Excerpt from the audit report on the effectiveness of the management of NNLEs established by municipalities, published by the State Audit Service on November 22, 2021

Information about employees in state-owned enterprises and their labor costs is available in the 2020 financial risk analysis [document](#). According to the data of the Ministry of Finance, as of 2019, 37,142 people were employed in state enterprises. Despite financial problems in state-owned companies, the rising trend of employment was maintained in all branches of enterprises. Specifically, in 2019, the number of employees increased by about 2% compared to the previous year (+575 employees). In addition, according to the financial reports of the 14 state-owned companies with the highest turnover [studied](#) by IDFI, in 2019 their expenditures on employee salaries amounted to 428 million GEL, which was 9% higher than in 2018 (392 million).

Unfortunately, in the financial risk analysis documents published later by the Ministry of Finance, aggregate data of employees in state companies is no longer available.



## Conclusion/Recommendations

In the public sector, the salary increases planned from 2022 require significant state resources, which creates the need to increase the burden of bureaucratic expenses on the state budget.

It is worth highlighting the fact that, despite the annual increase in total labor remuneration costs, ensuring a fair and competitive compensation system for civil servants is still a significant problem. IDFI believes that the main determining factor of this is the presence of a non-optimized bureaucratic apparatus, without proper reforms of which it is impossible, on the one hand, to bring bureaucratic costs in line with economic challenges in the country, and on the other hand, to maintain a competitive public service.

The annual increase in public sector wages announced by the government while maintaining the current size of the bureaucratic apparatus raises doubts that this is an attempt to gain the loyalty of the public sector. According to the analysis of the data of the bureaucratic apparatus, the unreasonably high indicators of the number of employees of the state and municipal LEPLs and NNLEs and the growing trend in employment of persons in these agencies can be assessed as especially problematic. The existing practice of employment under a labor contract and the annually increasing costs of their compensation is an additional problem.

IDFI believes that in order to alleviate the budgetary burden expected due to the planned salary increase in the public sector and to ensure a fair salary increase process, it is important to consider the following circumstances:

- The increase of salaries in the public sector should be carried out in a marginal volume that would not lead to an increase in the burden of labor costs in the state budget. Among them, the possibilities of freeing up the funds with maximum optimization of the bureaucratic apparatus should be discussed.
- Salaries in the public sector should be increased while taking into account the needs revealed by a detailed study of the labor market, and not in equal proportion for all employees. In order to ensure the aforementioned, together with the basic salary, the possibilities of matching the coefficients/monthly salaries determined at the level of specific agencies should be considered.
- The government of Georgia (both at the central and local level) should ensure the optimization of the bureaucratic apparatus. Among other measures, special attention should be paid to the unreasonably high numbers of employees of state and municipal LEPLs and NNLEs, the existing practice of contract employment, and others.
- The State Audit Service should engage more actively in the monitoring of the effectiveness of the bureaucratic apparatus of Georgia and the costs incurred for its maintenance, until the bureaucratic system reaches a proper optimization level.

