

Social Effect of Tax Benefits in Mountainous Regions

Ketevan TCHANIDZE

Doctor of Economics
Batumi Shota Rustaveli State University
e-mail: ketevan.tchanidze@bsu.edu.ge

Natela TSIKLASHVILI

Professor
Batumi Shota Rustaveli State University
e-mail: natia.tsiklashvili@gmail.com

Zeinab SURMANIDZE

Doctor of Economics
Batumi Shota Rustaveli State University
e-mail: zeinab.surmanidze@bsu.edu.ge

Abstract: *The research is carried out within the framework of Targeted Scientific Research Project of Batumi Shota Rustaveli State University “Impact of Internal Migration on Some Economic Parameters of the Autonomous Republic of Adjara” (on the example of Khulo municipality).*

Key words: *Demography, Tax Benefits, Migration...*

JEL codes: *F02*

1. Introduction:

Internal migration is an important demographic process that negatively affects a country's demographic balance. It can be both voluntary and forced. In the first case, the migration of people from the village to the city is due to socio-economic reasons. In the second case, people are forced to leave their homes and move during natural disasters and conflicts (eco-migrants and displaced persons). The problem can be considered in a regional context and highlight a number of trends that are relevant for the Autonomous Republic of Adjara. The reduction of the population of regions is importance for ensuring demographic security, both for using the potential of economic development and for the population in the regions adjacent to the state border. Since the internal migration flows are large, this can lead to an increase in labor flows from the regions. In addition, in the case of vulnerable groups, such as displaced persons and eco-migrants who live in different municipalities, additional problems arise in terms of integration resettlement. According to experts, the control of internal migration processes was practically destroyed in the post-Soviet period. The movement of the population within the country is no longer controlled; accordingly, the issue is less studied in the scientific direction. Management of internal population flows caused by armed conflict, socio-economic and environmental problems requires more attention from the state. It is especially important to develop and implement policies that encourage the use of accumulated human and financial resources for sustainable development, which will allow local residents to stay in their places of residence. This will affect not only urbanization / emigration trends, but also general macroeconomic indicators, income levels and living standards.

For a country's demographic balance, the demographic process is the most important – the internal migration, during which residents voluntarily or forcibly leave their homes and move to a new place. The main reasons for voluntary migration are improved social and economic conditions as well as better education, and in case of forced migration people are forced to leave their homes in the event of natural disasters and conflicts (eco-migrants and internally displaced persons).

These trends may lead to a depopulation of the rural population - a gradual drain of so-called intelligence, which is likely to be driven by the migration of the more motivated and educated part of the population from the villages and small towns to the big cities. Stopping the downward trend in the number of populations in the regions is crucial to ensuring demographic security - both to exploit the potential for economic development in the regions and to maintain population in the areas adjacent to the state border. As the internal migration flows are large, they are expected to increase. This could lead to more outflows of workers from the regions.

The reasons for the external and internal migration processes are mainly economic factors, therefore, it is important to analyze them in the context of the broader social and economic development of the country. The management of population movements within the country caused by armed conflicts, socio-economic and environmental causes needs more attention. It is especially important to develop and implement policies that encourage the usage of sustainable economic environment for creating human and financial resources accumulated as a result of migration, which will enable local residents to stay in their places of residence and will affect urbanization / emigration trends.

In recent years, a lot of people have come from rural to urban areas, which is related to the low income from agriculture. In order to meet the needs of the family, to receive an education, they do not have to pay for land, so economically active members of the family come from the countryside to the city in search of suitable employment. Thereby competing with the local labor market. The reason for moving from village to town may also be a family split. It is well known that the highlands of Adjara have long been characterized by high birth rates (three or more children) and homesteads are often insufficient for family distribution, so moving from village to town for this reason is quite frequent. At various times, surveys by different private foundations have revealed that the main area of activity of Khulo population is agriculture, the population is mainly occupied with livestock and different cultures. However, due to the lack of sufficient financial resources, they find it difficult to sell the crops, so they mainly produce agricultural products for their own consumption. It should also be noted that “50.9% of the population of Khulo receives only a subsistence income from agriculture, and the share of households that easily meet their needs is very small, 1.6%.” (Social,.. 2016). Therefore, the motive for migration is high, if we add the danger of ecological disasters, the reasons for emptying the villages are serious enough.

In view of these problems, the Parliament of Georgia adopted the Law on the Development of Highland Regions on July 16, 2015. The purpose of this law is to identify benefits for stimulating the socio-economic progress of the mountainous regions, which will ensure the well-being of people living in the mountainous regions, raising their living standards, promoting employment, improving their social and economic status. The law provides for the following social benefits: supplement to pension, 20% of the pension provided by law, a supplement is appointed for those employed in the medical institution who receive remuneration from the state budget, who are paid from the state budget – double amount of the state pension for doctors, the state pension for nurses, providing heating for 6 months a year, also pay 50% of the monthly electricity bill (not exceeding 100 kWh). The Social Assistance category also includes monthly allowances for first and second children in the amount of GEL 100 for one year, and for the second and next child in the amount of GEL 200 for two years. 35% of the supplement to the salary is given to teachers employed in the public schools of the mountainous regions and 50% of supplement is paid to teachers employed in the special education program. As for tax exemptions, a person permanently residing in the Highlands is entitled to income and property tax exemptions under the Tax Code. In addition, an entrepreneur who is granted the status of a high-mountain settlement enterprise in accordance with the legislation of Georgia shall be exempt from taxes for the term and in accordance with the Tax Code of Georgia. (10 years after granting a status).

The economic effects of this law are not yet known even on the fourth year after the "Mountain Law" came into force. According to the information obtained, research is mainly concerned with obtaining social benefits, but it is difficult to talk in terms of stopping economic impact and stopping internal migration which is the subject of our next study. Although emptying the villages has always been the subject of debate and has been the issue of the agenda – in demographic and economic terms, despite government

intervention, people from highland areas still flow to the city every year, and this process seems almost impossible.

The object of our research is Khulo, one of the highlands of Adjara, Georgia, and we have obtained information from the Census Bureau based on the 2014 census. Population is divided into three age groups: 0-17 age group, 18-64 years-old and over 65 years of age group. As it turns out, 18-64 age group, i.e. working asset, prevails in the general population, however, because of lack of jobs, this category comes from the village to the city. Most of the migrants throughout Georgia are settled in Adjara, followed by Kvemo Kartli, Guria, Samtskhe-Javakheti. As for the Autonomous Republic of Adjara, the biggest number comes here. Batumi, then Kobuleti, Khelvachauri, Shuakhevi and Keda. In our research we identified two target groups and sought to find out the economic situation of each after the migration. The first group - internally displaced persons, ie eco-migrants, and the second group - voluntarily displaced persons. In the framework of the survey we applied to Khulo Municipality and the Ministry of Health and Social Affairs of the Autonomous Republic of Adjara. We asked for information about eco-migrants. A total of 111 eco-migrant families have left the Khulo municipality in 2016-2019. Each family received material assistance or was provided with a living space. The Government of the Autonomous Republic of Adjara aids eco-migrant families in three areas:

1. “The program of providing eco-migrants with safe housing” of the Ministry of Health Care, which provides GEL 25,000 in financial support for the purchase of safe homes.
2. Providing financial support for the construction of dwellings on geologically sustainable land area owned by eco-migrants.
3. Distribution of living spaces in social houses.

As we can see, the satisfaction of IDPs is really a matter of government care, the ways in which assistance is differentiated, but whether they are able to adapt socially, economically, psychologically to the new housing area and whether they have migrated to the country and the region in the long run is a positive outcome for the region. Given the current difficult economic conditions, it is difficult to say, so we consider it important to continue our research in this direction.

The second target group of our study is people who voluntarily leave the village, the main reasons for leaving their village are unchanged, though a small number of respondents do not rule out returning. Most of them are satisfied with internal migration and do not see the need to emigrate in the short term. It should be noted that rural-to-urban populations who do not compete in the local labor market for various qualifications go to work in another region of Georgia or move to a neighboring republic for a short period in Turkey.

In order to investigate the social effects of tax benefits, local residents of Khulo were surveyed. The study was conducted in June - September. The result is the following: The majority of respondents are 31-40 years-old (24%), followed by 51-65 years-old (21%). Then 41-50 years (20%), 26-30 years and over 65 (11% -11%), young people 16-20 years (4%). Both sexes were interviewed, most of them male (75%), female (25%), most of the respondents were married (80%).

The number of family members is also interesting: most of their families consist of more than 5 members (40%), 5-member families (23%), 4-member families (15%), 3-member families (12%), 2-member families (8%). As for education, the majority of respondents have general secondary education (63%), vocational (11%), higher education (23%). Most of the respondents by profession have no profession (52%), lawyer (18%), engineer (17%), teacher (9%), doctor (2%).

Figure 1. Source: Survey materials

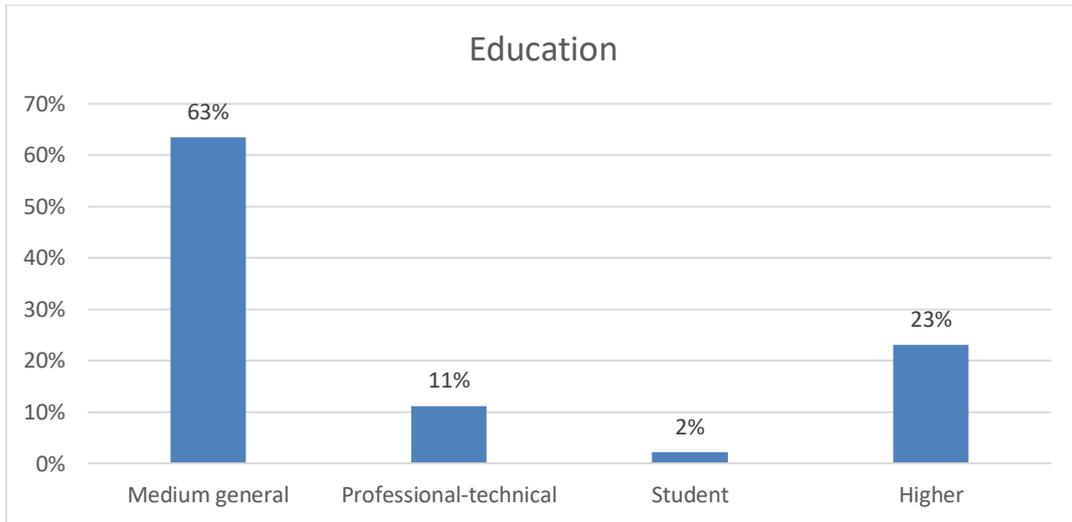
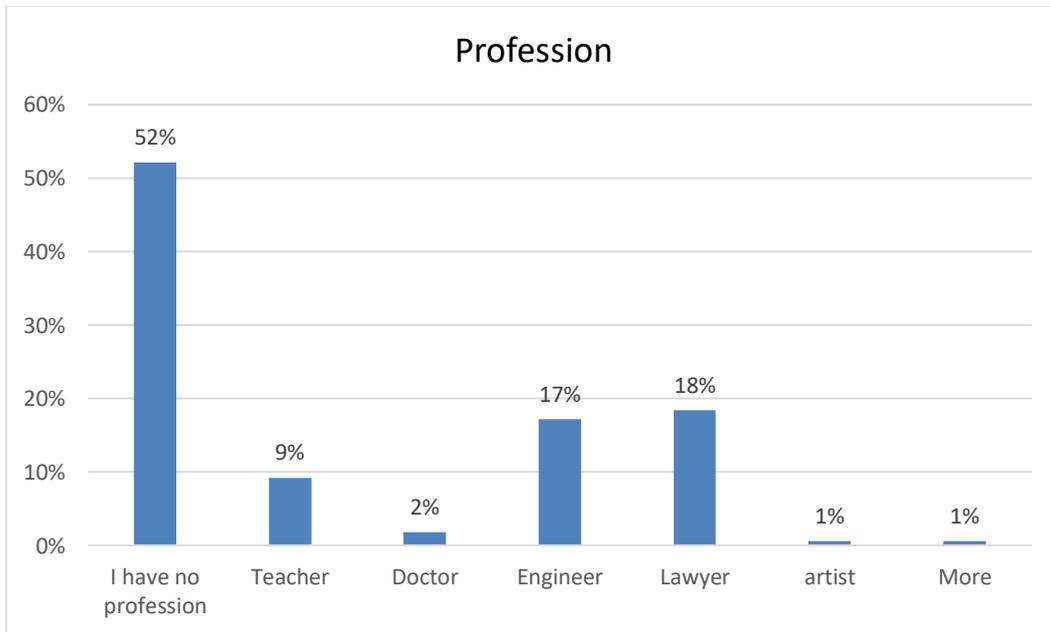


Figure 2. Source: Survey materials



One of our tasks was to study the validity of a so-called the “Mountain Law”, the examination of whether the population is aware of this law, whether they enjoy the benefits of the law, how they evaluate the operation of the law, whether this law is one of the conditions for improving their economic situation and a contributing factor to population growth. The analysis of the results showed that the overwhelming majority of the population is well aware of the Mountain Law (98%) and not (2%). This law provides

for various types of social benefits (utilities, pensions, wages, child benefits) for the population at large (61%), and 100% of respondents enjoy communal benefits.

Figure 3. Source: Survey materials

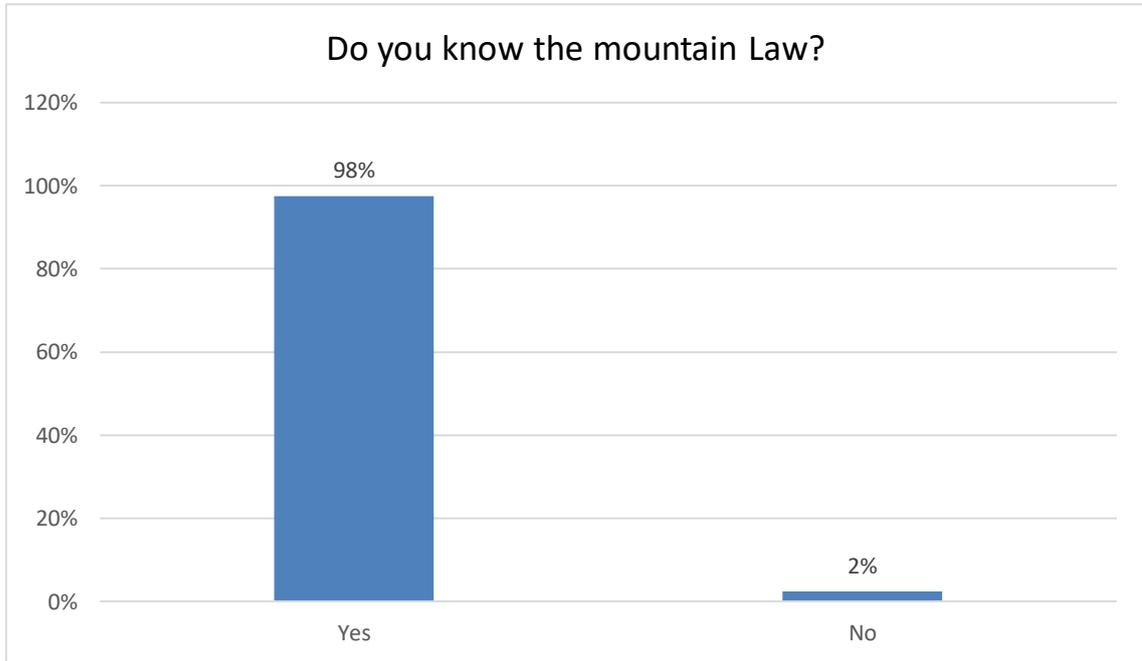
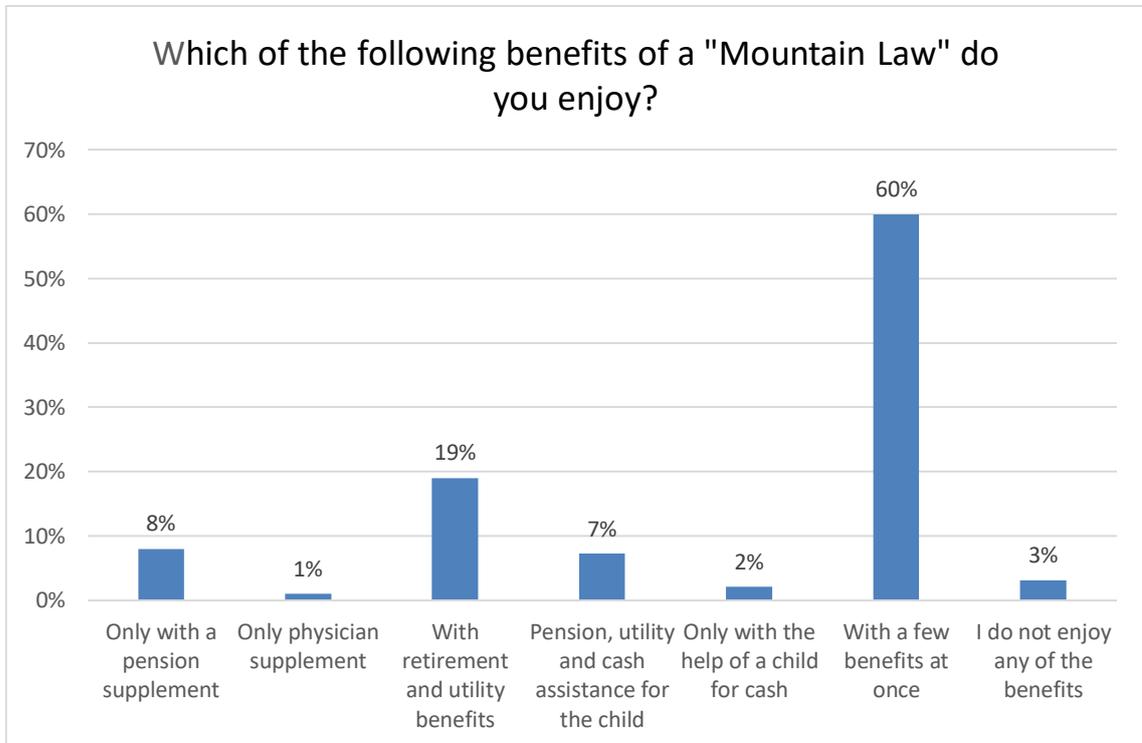
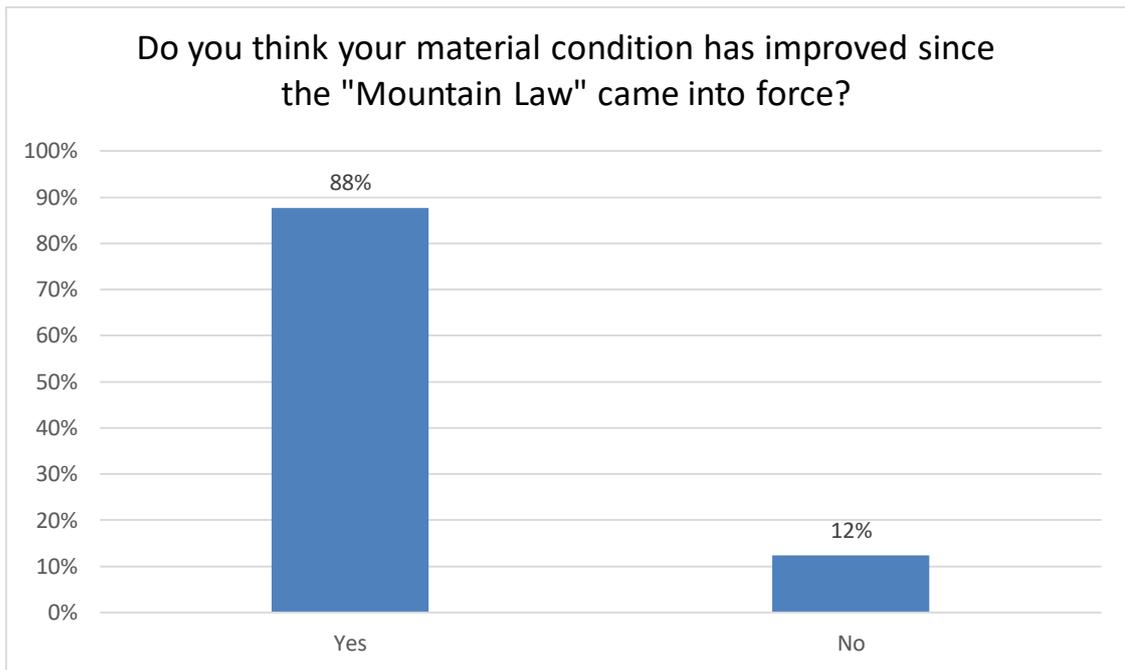


Figure 4. Source: Survey materials



Most of the respondents positively assess the law and believe that their material situation has improved since the enactment of this law (88%), with only a small number believing that this law does not change anything (12%).

Figure 5. Source: Survey materials



According to the survey, also as a result of the interviews taken at the site, it can be said that the tax losses are negligible compared to the social and economic effects, moreover, it can be assumed that the long-term social and economic effects will exceed tax losses, because this law creates income on the spot, improves the material condition of the population, which in turn will improve the socio-economic conditions of the population, and in this case, the state will reduce the budgetary expense it has in the form of other social insurance or assistance.

References:

1. Problems with demography and sociology. Collection of Proceedings. Iliia State University, Institute of Demography and Sociology, Tbilisi, 2017
2. Totadze A., Adjara Population. Publishing house "Universal" Tbilisi, 2012
3. Lortkipanidze V. Problems of demographic development of historical Meskheti. Tbilisi, 1998
4. Migration # 1. Migration Research Center, Tbilisi, 2007
5. Migration # 3. Migration Research Center. Tbilisi, 2009
6. Tsuladze G., Sulaberidze A. Demographic Characteristics of Georgian Regions, Iliia State University, Institute of Demography and Sociology, Tbilisi
7. Putkaradze T. Modern migration processes in the Adjara highlands. Batumi, 1996
8. Tukhashvili M. 1998. Georgia's Labor Potential. TSU Publishing House, Tbilisi
9. Market Research of Highlands of Adjara, Institute of Social Research and Analysis, 2016
10. Materials of Ministry of Health and Social Affairs of Adjara <http://adjara.gov.ge/Branches/description.aspx?gtid=547170&gid=3#.XP5mTtIzaUk>
11. Geostat 2017 - National Statistics Office of Georgia. <http://www.geostat.ge/>