

POVERTY ANALYSIS (SUMMARY)¹

A. Recent Trends in Poverty

1. **Income poverty.** Georgia's strong economic performance has had a limited positive impact on poverty reduction because growth was largely driven by increases in labor productivity and attendant income growth was concentrated among the top 10% of income earners. The percentage of the population living below the relative poverty line decreased from 24.6% in 2004 to 21.4% in 2013.² The poverty headcount ratio based on the absolute poverty line declined from 18.0% in 2006 to 14.8% in 2012, and the percentage of the population living in extreme poverty fell from 5.4% to 3.7% over the same period.³ So-called registered poverty, which is the percentage of the population officially registered as poor, rose from 6.4% in 2007 to 9.7% in 2013. The poverty headcount ratio at \$2.0 a day at purchasing power parity declined from 36.7% in 2003 to 35.6% in 2010, but the percentage of the population living on less than \$1.25 a day at purchasing power parity increased from 17.7% to 18.0% during the same period.⁴ With the rate of officially recorded unemployment at 11.5% in 2003, 15.0% in 2012, and 14.6% in 2013, the reduction in poverty mostly resulted from declines in food prices in 2012 and increases in social transfers, such as social assistance allowances and old-age pensions, and remittance inflows.

2. **Non-income poverty.** Progress in reducing non-income poverty has been mixed. The under-five mortality rate (per 1,000 live births) dropped from 35.7 in 2000 to 13.1 in 2013. The net primary school enrollment rate rose from 89.8% in 2004 to 98.3% in 2012. The percentage of the population with access to an improved water source increased from 89.2% in 2000 to 98.7% in 2012, and life expectancy rose from 71.6 years to 73.9 years over the same period. However, the maternal mortality rate (per 100,000 live births) decreased from 60 in 2000 to 41 in 2013 according to the World Bank's modeled estimates.⁵ The proportion of the population with access to improved sanitation facilities remained unchanged at about 95% during this period (footnote 4).

B. Profile of Poverty

3. **Household characteristics.** Households headed by women are more likely to be poor than those headed by men.⁶ At the same time, a higher proportion of women (both of working age and retired) in the household is associated with a lower risk of poverty. Larger families are also more likely to be poor. Households with seven or more members are more than twice as likely to be poor than households with four or fewer members. Household poverty rates are significantly higher in rural areas; poverty affects about 40% of rural households compared to 31% of urban households. Poverty is higher in the households that have children. Some 25% of those living in poor

¹ This summary is based on the Government of Georgia. 2014. *Socio-economic Development Strategy of Georgia (Georgia 2020)*. Tbilisi; K. Pearce. 2011. *Poverty in the South Caucasus*. Caucasus Analytical Digest No. 24. Washington, DC.; United Nations Children's Fund (UNICEF). 2012. *Georgia: Reducing Child Poverty. Discussion Paper*. Tbilisi; World Bank. 2012. *Georgia: Poverty Assessment Update 2011*. Washington, DC; and World Bank. 2011. *Georgia: Poverty Dynamics since the Rose Revolution*. Washington, DC. All documents available on request.

² The relative poverty line is equal to 60% of median consumption.

³ The absolute poverty line is equal to the cost of a consumption basket consisting of (i) food items providing at least 2,260 calories a day, and (ii) some nonfood items. The extreme poverty line is equal to the cost of a fixed food bundle providing minimal nutritional requirements. In 2007–2012, growth elasticity of poverty based on the absolute poverty line was 0.6 and based on the extreme poverty line was 1.0. The average growth elasticity of poverty in developing countries is 3.

⁴ World Bank. World Development Indicators Dataset. <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed 11 October 2014).

⁵ According to government estimates, the maternal mortality ratio (per 100,000 live births) dropped from 52.0 in 2003 to 14.1 in 2008, before rising to 52.0 in 2009. The government estimate is 22.9 in 2012.

⁶ National Statistics Office of Georgia. 2013. *Women and Men in Georgia Statistical Publication*. Tbilisi.

households are children, and 9.4% of all children still lived in extremely poor households in 2011.⁷

4. **Occupational and educational characteristics.** Households with unemployed or inactive heads have the highest poverty risk. The poverty risk declines considerably for households whose head has a technical, vocational, or other post-secondary degree. Only 10% of those households whose head has a tertiary education are reported to be in poverty, compared with nearly 30% of those with no education or an incomplete primary education.⁸

5. **Regional characteristics.** The incidence of poverty is higher in rural areas than in urban areas, with two-thirds of the poor living in rural areas. Moreover, the World Bank poverty analysis suggests the rural–urban disparities have been increasing since 2003. In 2010, some 25% of the rural population was classified as poor, compared to 17% of the urban population. Poverty is reported to be most severe in mountainous, rural regions (about 50%) and less severe in large cities (about 13% in Tbilisi). The poverty incidence in regions such as Kakheti, Kvemo Kartli, Mtsketa-Mtianeti, and Shida Kartli, where agriculture predominates, was twice as high as in the Samtskhe-Javakheti region and Tbilisi in 2010.

6. **Conflict and displacement.** The households directly affected by the 2008 armed conflict with the Russian Federation also face a high risk of poverty. The armed conflict resulted in some 247,000 Internally Displaced Persons (IDPs) and an additional 106,000 people living in IDP-like situations. Access to the breakaway regions remains problematic, and many vulnerable people in these areas lack access to basic services.⁹

7. **Regional variations in non-income poverty.** There are also some regional variations in non-income poverty. For example, access to and the quality of water supply and sanitation services is better in urban areas than in rural areas. In 2012, 90.7% of the rural population had access to improved sanitation facilities, compared to 95.5% of the urban population.

C. Poverty Determinants and Challenges

8. Poverty in Georgia has four major causes: lack of economic opportunity; isolation; insufficient skills, capabilities, and assets; and income shocks due to adverse health events or disasters. The primary ways to address poverty, therefore, are to (i) further expand the economy while making the growth process more inclusive, (ii) continue to build human resources, and (iii) protect poor and vulnerable households from economic shocks.

9. **Jobless growth.** Economic growth has done little to reduce poverty mainly because it has created few jobs. Georgia's unemployment rate worsened during the growth years of 2003 to 2007. The main reasons for this were (i) the substantial down-sizing of the civil service; (ii) a foreign investment focus on banking and real estate, which created few jobs; and (iii) modest growth by small and medium-sized enterprises and agricultural enterprises due to productivity, finance, and market access constraints. The rate of open unemployment rose from 12.6% in 2002 to 16.9% in 2009, before moderating to 14.6% in 2013.¹⁰ Another 20% of the labor force is underemployed.¹¹ In the 2009 UNICEF survey, job loss was cited most commonly as a reason for hardship.

⁷ UNICEF. 2012. *The Well-Being of their Families in Georgia, Georgia Welfare Monitoring Survey Second Stage 2011*.

⁸ World Bank. 2011. *Georgia: Poverty Dynamics since the Rose Revolution*. Washington, DC.

⁹ United Nations Development Programme. 2012. *UN Development Assistance Framework for Georgia*. Tbilisi.

¹⁰ Open unemployment refers to complete joblessness rather than underemployment.

¹¹ Some 500,000 farm households are involved in subsistence farming, many of whom are under-employed for large segments of the year. In addition, provision of public pensions, targeted social assistance and intra-family transfers keep large numbers of individuals who would be willing to work out of the labor market. See United States Agency for International Development. 2012. *Country Development Cooperation Strategy for Georgia: 2013–2017*. Tbilisi.

10. **Segmented labor market.** The labor market is segmented into those with productive jobs and the large number of unemployed and under-employed who lack the skills or experience demanded in the labor market. For those with paid jobs, wages have steadily increased. During 2000–2009, the average real monthly wage increased more than four-fold. This increase, however, was driven by a few sectors that employ only a fraction of the labor force.

11. **Inequality.** High-income earners benefitted most from Georgia's recent economic growth, which is reflected in an increase of income inequality. The Gini coefficient by total incomes has improved from 0.45 in 2006 to 0.42 in 2013. Over the same period, the Gini coefficient by total consumption expenditures has remained stable at 0.40¹² Much of the gains in income and consumption registered during the 2000s have been concentrated among the top quintile of Georgia's population. During 2003–2009, the top 20% of the population saw their income and consumption increase by more than 26%, while the bottom 20% saw theirs increase by only 10%. For the bottom 20% of the population, much of the gain occurred during 2007–2008 due to the introduction of higher public pensions and a targeted social assistance program (footnote 8).

12. **Agricultural stagnation.** Low incomes and productivity in agriculture trap a large segment of the rural population in poverty. Some 53% of the population derive their income from agriculture, yet the sector contributes just 10% to aggregate gross domestic product (GDP). Agriculture has not contributed significantly to Georgia's economic growth since 2004, and three-quarters of the farmers work on small plots of less than 1 hectare. Factors hampering agricultural productivity and investments include fragmentation of land, poor connectivity to markets, weak support services, and degraded rural infrastructure.¹³

13. **Access and quality of social services.** While the poor may have access to essential social services, they are often of low quality or prohibitively expensive. Public expenditure on education, at about 2.5% of GDP, is among the lowest in the region. Preschool education remains underdeveloped and basic education is hampered by poor quality, high dropout rates, and significant levels of violence in schools. Total health care expenditures were 9.2% of GDP in 2012. Of this, nearly 65% of total spending came as out-of-pocket expenses (footnote 4). The high out-of-pocket spending requirements render essential health care unaffordable for the poor, and expose a large segment of the population to a high risk of incurring catastrophic health care expenses.¹⁴

14. **Social protection.** Pensions, health insurance, and targeted social assistance (TSA) are important poverty reduction tools in Georgia. Social transfers, which amounted to 6.3% of GDP in 2013, comprise pensions (4.3% of GDP); TSA (1.8%); and IDP support (0.2%). In 2013, 684,000 people (15% of the population) received an old-age pension, which provided a basic level of income security to about a half of Georgia's households. From September 2012, all pensioners and children up to 5 years of age had state-funded medical insurance. About 1.5 million people were insured at end 2012, or about one-third of the population, about half having incomes below the poverty line. In 2014, the insurance program for teachers and the population below the poverty line was merged with the universal healthcare program. The insurance program of children up to five years of age, pensioners and students was also transformed into the universal healthcare program. State schemes cover about 92% of population.¹⁵ In 2013, 443,000 people received TSA, and the government increased the amounts of old-age pensions and TSA. Social protection needs

¹² National Statistics Office of Georgia. Gini Coefficients. http://www.geostat.ge/cms/site_images/files/english/households/Gini%20Coefficients.xls (accessed 14 October 2014).

¹³ P. Sommerville et al. 2011. *Agriculture*. Tbilisi.: United States Agency for International Development—Georgia.

¹⁴ World Bank. 2012. *Georgia Fact Sheet*. Washington, DC.

¹⁵ Social Service Agency of Georgia. Some 386,000 people have private or corporate insurance packages. http://ssa.gov.ge/index.php?lang_id=ENG&sec_id=610

to be better targeted as only 40% of the population in the poorest decile receive TSA.

D. Government's Poverty Reduction Strategy

15. The government's poverty reduction strategy is imbedded in its Socio-economic Development Strategy of Georgia (Georgia 2020), approved in June 2014. Georgia 2020 targets an average annual real GDP growth of 7.0% in 2014–2020, a reduction in the percentage of the population living below the national relative poverty line to 18% by 2020, and a decrease in the Gini coefficient to 0.35 by 2020.¹⁶ Georgia 2020 aims to foster inclusive economic growth and reduce poverty by enhancing private sector competitiveness, developing human capital, and improving access to finance. Private sector competitiveness is sought through improvement of the business environment (including better protection of property rights), innovation and technological development, growth and diversification of exports, infrastructure development and full utilization of the country's transit potential. In infrastructure development, the priorities are improving transport infrastructure; integrating into international and regional transport systems; developing agricultural infrastructure; improving water supply, sanitation, and solid waste management; and enhancing energy security. Human capital is to be developed by improving the quality of general education, developing vocational education, strengthening social protection, and providing affordable and quality health care services. Efforts to increase domestic savings, attract more foreign investment, and develop the finance sector aim to improve private sector access to finance.

E. Asian Development Bank's Strategy

16. Under the country partnership strategy (CPS), 2014–2018, the Asian Development Bank (ADB) will support the implementation of the government's poverty reduction strategy, focusing on the first pillar (high and sustainable growth to create and expand economic opportunities) and the second pillar (broader access to economic opportunities, including jobs, especially for the poor and disadvantaged) of inclusive growth. In particular, ADB will foster inclusive growth and contribute to poverty reduction in Georgia by helping the country (i) improve internal and regional market connectivity; (ii) make water supply and sanitation services more accessible and reliable, particularly in smaller towns and secondary cities; (iii) improve the security and stability of power systems, benefiting communities in the regions; and (iv) enhance access to financial services, particularly by small and medium-sized enterprises and consumers outside the capital city. Infrastructure investments, combined with policy reform and capacity development support, will improve social conditions and economic opportunities in Georgia's smaller towns and cities, stimulating investment, job creation, and incomes where these are needed the most.

17. The CPS addresses the third pillar of inclusive growth (provision of adequate social protection to reduce poverty and vulnerability) through its support for public sector management reforms, and specifically the reform of Georgia's pensions and contractual savings and insurance system. The CPS has not focused on health and education because other development partners, such as the European Union, the United States, and the World Bank, are providing robust grant and loan support to the government's expanded social development agenda (health, education, social protection, and IDPs). The Millennium Challenge Corporation has committed a \$140 million grant for primary, secondary, university, and technical and vocational education and training. The World Bank focuses its multiyear policy-based lending of up to \$80 million annually to promote reforms in education, universal health care, and social protection. The European Union has similar policy-based and project grant support for education, social protection, and governance reforms.

¹⁶ By the end of the country partnership strategy period in 2018, the government envisages the percentage of the population living below the national relative poverty line at less than 20%, and a decrease in the Gini coefficient to less than 0.38.