

erty reduction than any other urban area. Although Baku has a lower level of poverty than other regions, the gap between the capital and the rest of the country has narrowed during the last 5–6 years. Uneven regional poverty reduction is explained by the lack of a unified nationwide labor market, poor infrastructure (e.g. unreliable water, gas, and electricity supply, and the lack of reliable transportation), as well as the lack of mechanisms to connect government expenditures by region to specific regional priorities.

Poverty Metrics

The main critique of current poverty reduction metrics is that they utilize an absolute poverty line, whether it is the national poverty line or the international poverty line of 2.15 USD PPP per day. Although poverty dropped in Azerbaijan as measured by these metrics and is now much lower than in the neighboring countries, the comparative subjective assessments of well-being portray a very different picture. About 14% and 35% of Azerbaijan's population consider themselves very poor and poor. This is close to the 14% and 34% of Georgians who consider themselves very poor and poor. Likewise, about 10% of Azerbaijan's population believes that their household belongs to the lowest strata of society as compared with 12% of the population in Georgia. These data demonstrate that people in Azerbaijan, as in many other countries, have a tendency to measure their own

poverty in comparison with the economic situation of friends, co-workers, and neighbors across the country. In other words, regardless of Azerbaijan's impressive absolute poverty reduction, it is now time to pay attention to relative poverty and inequality.

Indeed, approximately 55% of Azerbaijan's population believes that poverty is caused by factors beyond the direct control of individuals, such as the failure of the socio-economic system or a lack of equal opportunities in society. Only 22% believe that bad luck is the main cause of poverty and 11% believes that causes of poverty are individualistic such as loose morals, lack of effort and responsibility, and drunkenness. The widespread acceptance of the structural explanation for poverty highlights the existing support for poverty and inequality reduction strategies. It is not surprising against this backdrop that 87% believe that the state should be strongly involved in reducing the gap between the poor and the rich.

In the light of the above evidence, we can conclude that Azerbaijan achieved remarkable progress in poverty reduction since the collapse of the Soviet Union and the beginning of the transition. Nevertheless, much more needs to be done. The main agenda for reforms includes increasing the effectiveness of the educational system and ensuring equal access to education; improving the social protection system and restoring social services for children, the sick, disabled, and elderly; gender mainstreaming poverty reduction, and reducing regional inequalities.

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Understanding Poverty in Georgia

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Abstract

Over the last two decades, the profile of the poor has been evolving in Georgia, but the poverty level has remained consistently high. If the official subsistence minimum is taken as the poverty line, slightly more than two-fifths of the population is poor according to the latest estimations. Arguably, persisting high poverty levels can be explained by jobless economic growth and low agricultural productivity. The institutionalisation of a targeted social assistance scheme has yet to demonstrate its efficacy. Instead of using perverse estimates of relative poverty, the government should acknowledge deprivation as the major challenge for the country and must more eagerly attempt to cure its root causes—inappropriate human capital and narrow labour markets.

Poverty Profile in Making

The poverty profile, which describes the typical charac-

teristics of the poor, has been in constant flux in transitional Georgia. The analysis of the Central and Eastern

Eurobarometer, to our knowledge the earliest nationally representative survey data since independence, reveals that in the beginning of the 1990s respondents' education and, contrary to popular beliefs, age did not affect the probability of being poorer. On the other hand, women and the residents of urban areas were more, while farmers, along with professional job holders, less likely to find themselves on the bottom of the income distribution ladder. It is also important to remember that just before the transition started, Georgia was lagging behind other Eastern European Soviet republics with higher poverty levels, and therefore certain social groups were already experiencing poverty before the crisis arrived.

In the second half of the 1990s, the poverty profile was evolving along with political, economic and social transformations. A higher proportion of the urban population still was poorer, however the incidence of poverty in rural areas began to vary in relation to adverse weather conditions. Males continued to have lower chances of being poor than females. It also appears that owning assets did not affect the poverty much as most of the households maintained TVs and refrigerators. One of the main explanations of poverty was how many persons had to live on each breadwinner's income. Age started to correlate with poverty, and by the year 2000, children were the group with the highest poverty risk. The most disadvantaged became those who could not qualify for formal and informal social safety nets and at the same time were excluded from market opportunities that required geographic mobility and physical health.

In the more liberalised environment, since 2004, labour market status and educational attainment started to become increasingly important for avoiding poverty. Households headed by wage earners experienced the lowest, while households headed by unemployed or inactive individuals the highest poverty rates. Among the employed, self-employment and agricultural employment was associated with the highest poverty risk. Anything less than technical and vocational education was associated with significantly higher chances of being poor. In addition, the levels of poverty started to vary considerably across different regions. Last but not least, the households with the greater number of children were particularly in danger of being worse off, while for the first time there was an indication that female-headed households did not face higher poverty risk.

Absolutely Relative or Relatively Absolute?

The government started to evaluate poverty levels in 1997 with the Survey of Georgian Households. From the beginning, there were conflicting ideas about establishing an absolute poverty threshold which would distinguish the poor from the non-poor. Two suggested pov-

erty lines included an official line based on the nutrition norms inherited from the pre-independence period and a new recommended line based on a revised minimum food basket. In 2000 poverty by the official minimum and recommended lines reached up to 51.8 and 23.1 percent, respectively. However, after 2004, the new government decided to switch to a relative measure of poverty which defined the poverty level as a share of the population with incomes less than 60 percent of median consumption. This step literally overnight halved the poverty level to 24.6 percent in 2004 from the previous year's estimate of 54.5 percent without changing real welfare conditions on the ground.

Nevertheless, international institutions such as the World Bank, UNICEF, and the European Commission, continued to estimate absolute poverty levels. Based on their assessments, we can conclude that if there had been a decline in the absolute poverty level in 2003–2005, no major changes have occurred thereafter. If we use the subsistence minimum as the poverty threshold, then 41.2 percent of households were poor in 2009 (see Table 1). The conclusion that poverty is not retreating and continues to be a major problem facing Georgian society is confirmed by alternative international survey projects, such as the Life in Transition Surveys and the Caucasus Barometer. The latter dataset for 2010 indicates that 44 percent of households could only afford to buy food, 33 percent felt that their real incomes were lower than in 2009, while 18 percent had to limit consumption of bread (for more indicators of deprivation and their comparison with other South Caucasian countries see Pearce's contribution in this edition).

Evolving Welfare Mix

Detailed discussion and research on poverty in Georgia first took place during the elaboration of the Economic Development and Poverty Reduction Program in the beginning of the 2000s. This was followed by the baseline report on the Millennium Development Goals. But since 2004 most attention has been paid to economic growth as the end rather than the means of development. The declining importance of poverty in the public policy framework can be seen in the scarcity of attention paid to the major poverty-related progress reports.

However, the centrality of poverty was acknowledged at two critical junctures of socio-political life. First, after the 2007 social unrest and the resultant presidential campaign 'Georgia without Poverty' became the title of the government's program for 2008–2012. Second, as a result of the Russo–Georgian war in 2008 and the negative outcomes of the world economic recession, the country's appeal to international donors was largely based on actual and expected poverty consequences from the crisis.

In more practical terms, social schemes have been only a small fraction of the existing welfare mix employed to mitigate the problem of poverty. Public employment, migration, petty trade, family support networks and clans constituted its main pillars, especially in the 1990s. Not only had the government done little to help the poor directly but in some cases poverty was aggravated by the accumulation of arrears on salaries, pensions, and other social expenditures. Since 2004, the revolutionary governments employed, what seemed to be on first sight, a reasonable strategy. The downsizing of the public sector increased the welfare of the remaining public employees, while fighting corruption reduced the unfair distribution of resources, on a more general level. The same concept was later applied to the reforms of the social protection system, which sought to eliminate inefficient social benefit schemes and mobilise resources on a few better targeted welfare programs. Still, no major changes occurred in social expenditures' absolute and relative share in the total budget and GDP.

The assumption that the free market would allocate efficiently the existing labour force, reduce the deprivation level and decrease the need for public intervention did not quite live up to expectations. Those who were fired from the public sector had difficulties finding jobs in the private labour market at a time when the increasing official unemployment rate reached 16.9 percent in 2009. Most plausible explanations for this is the jobless economic growth driven mainly by trade services, construction and financial intermediation—the sectors which did not generate many new jobs and were also heavily affected by the macro-crisis from 2008. Nonetheless, maybe the most consequential aspect for poverty was the enduring inefficiency of the agricultural sector which greatly suffered by losing its major export market in Russia since 2006. All these developments cumulatively increased the need for formal social programs among a larger share of the population.

The government's answer to new welfare concerns was the system of targeted social assistance (TSA) introduced in 2006. The number of beneficiaries has been slowly increasing to 12.8 percent of all households in the beginning of 2011. Although, the estimations suggest that TSA reaches the poorest well and increases their disposable income, its overall effect on the poverty level is not clear-cut. The available assessments for 2007 show that TSA accounted for about a 1 percentage point reduction of poverty. In comparison, pensions lead to a 9 percentage point reduction. It is reasonable to think that the impact of TSA has increased in more recent years as it currently covers at least 50 percent more individuals than in 2007. (In fact, Unicef reports that TSA pulls 4 percent of the population above the

61.1 GEL per person poverty line.) It also has to be mentioned that the discontinuation of other social programs meant that TSA is also employed to address social risks derived from long-term unemployment, possessing low or obsolete skills, single parenthood, and the like.

'Lest We Forget'

It is important to remember that in Georgia the fortunes of people largely depend on circumstances beyond their control. There are no doubts that poverty is an intergenerational phenomenon, which means that those people who come from disadvantaged families are much more likely to end up in poverty themselves. Indeed, the available data indicate that intergenerational stratification was high in Soviet Georgia and sharply intensified since the 1990s. This means that some social groups for various reasons, such as the decline of certain occupations, erosion of skills and direct involvement in military confrontations, became poorer than those groups which avoided these shocks. It is reasonable to expect that in the long-run poverty will be, at least partially, reproduced among a new generation of 'old' poor unless the links between parents' and children's socioeconomic status are weakened through more equal access to assets important for life chances, such as skills and education.

The current transparent enrolment practices in higher education solve only a small part of the greater puzzle. Research has shown that the initial formation years are much more important for children's educational performance, which means that investment in pre-primary, primary and secondary education can have a much higher effect on poverty reduction. Relying only on TSA neither creates conditions, nor provides potential for overcoming poverty in the long-run, because the system was not designed to remedy the major determinants of poverty. Because only about one fourth of applicants actually receive benefits, the participants might feel privileged to be part of the system and do not expect or demand other more fundamental assistance. On the other hand, the state should not consider that its obligations are fulfilled towards the poor but instead social investments should be increased in kindergartens, schools, training programs, active labour market policies, as the most sustainable way to minimise poverty levels in the future.

Concluding Remarks

Our analysis of primary and secondary data revealed that poverty is increasingly shaped by traditional stratification factors such as education and labour market status. Although this shows a potential for overcoming poverty, it also indicates that it is a challenging and lengthy process. More research is required to understand what are

the precise mechanisms through which the disadvantages are generated and sustained. Newly available international survey data might be extremely helpful for this purpose, especially when the national official channels of data are restricted. So far the most notorious aspect of research has been the confusion over appropriate poverty levels. The observed tendency that the private labour market cannot absorb the available labour force indicates

a need for greater public involvement in human capital formation, especially among children and youth and the provision of targeted vocational training for adults. Last but not least, society as a whole must not overestimate the role of TSA, but rather should untiringly seek ways through which the poor and their offspring will overcome poverty and have equal opportunities to lead productive lives according to their interests.

Table 1: Absolute and Relative Poverty Levels Estimated by Different Agencies in 1997–2009, Percent of the Population

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Official subsistence minimum*	46.0	50.0	52.0	51.8	51.1	52.1	54.5	–	–	–	–	–	–
Recommended poverty line**	13.7	19.8	23.2	23.1	–	–	–	–	–	–	–	–	–
Relative poverty level*	–	–	–	–	–	–	–	24.6	24.1	23.3	21.3	22.1	21.0
Official subsistence minimum***	–	–	–	–	–	–	–	–	41.4	43.0	46.0	40.4	41.2
Monthly 122.2 GEL, 2.5 USD per day****	–	–	–	–	–	–	–	–	–	–	–	–	41.5

Sources: * Government of Georgia (2011), ** World Bank (2002), *** European Commission (2011), **** UNICEF (2010), UNDP (2004). Pre- and post-2004 official minimum poverty levels still are not comparable because the value of minimal basket was reduced in 2003. The estimating institutions are shown in parentheses.

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