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Growth and Poverty Dynamics in Georgia

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PMMA2 - Dynamics



Growth and poverty dynamics in Georgia

Revised

RESEARCH PROPOSAL

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By

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1. Abstract

Georgia is a quickly reforming transition country, which places fight with poverty and inequality on the top of its list of priorities. Poverty has been a major issue in the country for more than a decade following the breakdown of the Soviet System. After the Rose Revolution of 2003, the Government has stepped on the road of serious reforms, with reformation of social security nets being among the most important. Our goal is to develop a research team that will help the Government in measurement of poverty level, tracking its dynamics over time and over regions of Georgia. In addition, we intend to perform careful analysis of factors that drive households in and out of poverty. Decompose changes of poverty into growth and income redistribution components, observe the relative affects of economic growth and reduction of income inequality on alleviation of poverty ; hoping to provide the policy makers with information that will help in development of policies better tailored to tackle poverty.

This project will be very important for capacity building in the area of poverty research and policy making in Georgia, since it will involve young scholars who will be working in close cooperation with local and international specialists in this area.

2. Main research questions and objectives

When did poverty become a “headache” for Georgia? The level of poverty and income inequality of Georgian population escalated after the collapse of the centrally planned Soviet system. After gaining independence in 1991, Georgian economy collapsed under the impact of the civil war in 1992-1993 and loss of both preferential accesses to Former Soviet Union (FSU) markets and large budget transfers from Moscow. These processes led to severe deterioration of socio-economic and political conditions in the country. In 90s, according to official Statistics half of the population of Georgia was living in poverty¹. The level of poverty was so high that it quickly became a very serious problem, which needed urgent attention.

In the beginning of 1994, the Government of Georgia, supported by the international organizations like IMF, WB, launched its programs against poverty and inequality. As a result of those programs the agony of 90’s has subsided somewhat but this was not sufficient for substantial reduction of poverty. The country still had underdeveloped industry, high level of unemployment, which continued contributing to the tense social conditions and most importantly high level of poverty.

In November 2003, as a result of Rose Revolution, Georgian government took a new, more reform oriented course of development for the country. Because of very tense socio-economic conditions, a special emphasis was placed on social assistance programs, such as pensions program, creation of short-term jobs for unemployed citizens, and other.

¹ “IMF Warns Georgia on Inflation,” Statistic Department of Georgia, 2002

Currently, poverty alleviation continues being a top priority for the government. In addition to socio-economic consideration, fight against poverty is also driven by political considerations. As Georgia aims at integration into NATO and at becoming a member of the European Union in some future time, the country should continue to fight against poverty and inequality. Therefore, poverty reduction in Georgia was, is, and will remain an important issue on the government's agenda.

The evidences for many countries show that economic growth benefits nearly all citizens of a country and therefore reduces poverty. A pro-poor growth economic strategy does not have to only focus on economic growth, but could also be combined with an active policy of income redistribution. In order to observe quantitatively their importance to alleviate the poverty in Georgia the changes of poverty into growth and redistribution components should be decomposed. The key question that follows is the orientation of growth process, which sectors of growth should be concentrated, which are the strategic elements that contribute to reduced poverty.

To better target policy measures to poverty reduction it is vital to have proper methodology for measuring poverty level over time and over space. It is also very important to understand factors that are driving households into poverty. Combined together these two peaces of information will be very useful in policy formulation and implementation and will help Georgian government in its quest against poverty.

3. Scientific contribution of the research

Despite the fact that poverty issues are very actual for Georgia, there is little research done on this and related topics. There are very few studies that concentrate on poverty dynamics and its determinant in Georgia and its separate regions.

It is important to analyze how various characteristics of households affect their poverty status and what can be one to help households overcoming poverty. Gender and age composition of the family, educational attainment of its members, special conditions of the household are among factors driving in and out of poverty. In addition to individual or household characteristics there are different macroeconomic factors that also have strong affect on poverty status. In times of economic downturn and as a result of certain government policies the level of poverty might go up. Finally, there are many local factors that are driven by regional aspects, such as geographic features of the locality, the state of infrastructure, cultural differences, to name a few. One of the goals of our project will be to study the effect of the above mentioned factors on probability of entry into and exit out of poverty.

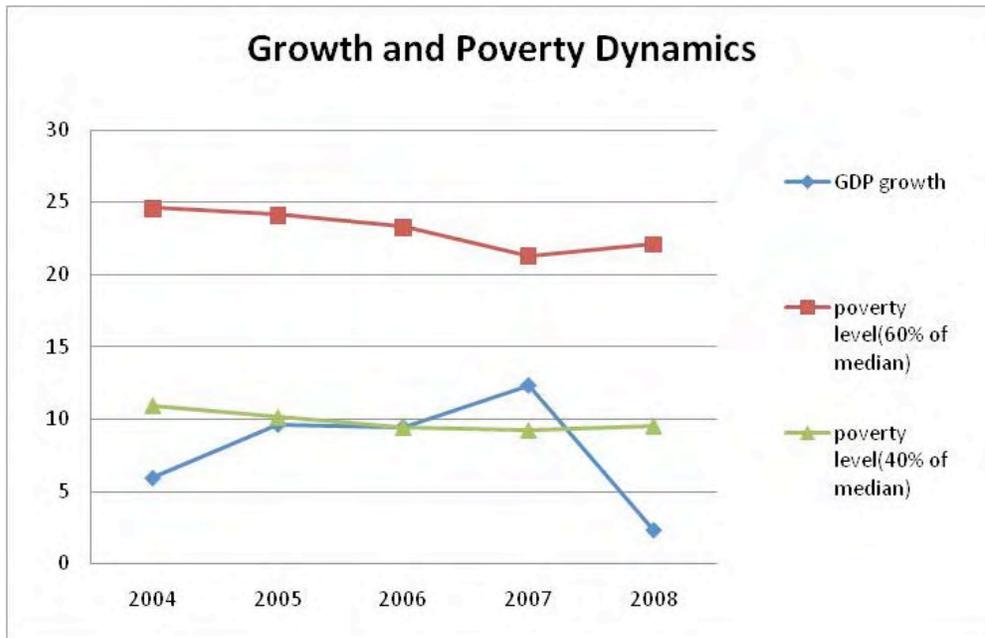
The objective of the project is to address the following issues:

1. Using various measures of poverty track poverty dynamics over time and over regions of Georgia.
2. For households and/or individuals that are classified as poor obtain and track various statistics (i.e., family structure, employment status of household members, other).
3. Estimate how different factors influence poverty status of households in order better to understand the causes and consequences of poverty.
4. Assess the effects of social assistance programs on reduction the poverty

5. Evaluate the tax and transfer systems effect on reduction of poverty rate
6. Suggesting policy recommendations aimed at reducing the incidence and/or impact of events leading to poverty entries or increasing exits from poverty, in order to reduce the poverty levels prevailing in the country.
7. Observe the dynamic of economic growth during the corresponding period
8. Find out the effects of growth on alleviation the poverty
9. The incidence of inflation inducing entries to or preventing exits from poverty
10. Propose pro-poor policies and programs

According the data of State Department of statistics the chart 1 done bellow shows the negative relationship between growth and poverty dynamics. It will be interesting to compare our results, which we are going to survey and evaluate, with available data.

Chart 1: Growth and Poverty Dynamics



Review of related literature

There exists series of papers, which concentrate on poverty topic in various directions, like measurement of poverty, its dynamics, and the affects of growth on poverty reduction.

Knight and Shi (2006) use cross-sectional HH survey to study the new urban poverty. In this paper, different types of poverty in Urban China are distinguished and the reasons for those types of poverty are explored. By combining income and consumption criteria, these authors distinguish three types of poverty in Urban China: “Income and consumption”-with both income and consumption below the poverty line, “income not consumption”- with income below the poverty line and consumption above that and “consumption not income” - vice versa. In Knight and Shi’s study to find out what sort of people are likely to fall into the poor category, the predicted probability of being in each of the three poverties for individuals with different characteristics has been estimated, using a Multinomial Logit Model. According to the paper, high consumption relative to income is due partly to consumption smoothing (income being temporarily low) and partly to special needs (particular consumption expenditures being high). If the latter were not briefly high, there would be a strong case for poverty targeting. The paper also discusses the effects of economic, social and educational reforms on HH’s consumption behaviour.

Banerjee and Duflo (2006), analyze the economic lives of extremely poor based on numerical results. The paper describes the pattern of consumption and income generation, access to markets and publicly provided infrastructure for extremely poor. The discussion of the economic lives of poor is built on the Living Standard Measurement Surveys (LSMS)

conducted by the World Bank and the “Family Life Surveys” conducted by the Rand Corporation. The 13 poorest countries were chosen for the survey, which provides detailed information on extremely poor households around the world, from Asia to Africa to Latin America. Banerjee and Duflo explore what kind of lives the extremely poor lead. The extremely poor population of poor countries lead the similar ways of life, the similar manner of behaviour, the similar preferences and choices.

Deaton (2003) analyzes the methods of measuring various kinds of poverty. The key questions the paper addresses are the following: how to identify who is poor and who is not? Is poverty the same as hunger? What is the relationship between economic growth and poverty reduction? Has the Millennium Development Goal, “The world free of poverty, promoting health and education” met, is the world poverty falling at all or not? To answer the above-mentioned questions Deaton discusses the various aspects of poverty. In the first part of the paper, poverty is discussed as the lack of income or consumption. To measure poverty from this point of view the following approaches are used: A Participatory Rural Assessments, National Poverty Count. The other measure for income or consumption poverty is the caloric –based approach. The author also discusses Headcount Ratio measure and Poverty Gap measures of poverty. In the second part of Deaton’s paper, the author determines poverty as not only the lack of consumption and income, but also as the lack of health, ability, education, political participation, or a full role in society, sanitary, environment. This tells about the need for multidimensional poverty analysis. Finally, the author states the idea that measuring poverty at the local level is straightforward, at the national level is manageable, but at the World level, it is extremely difficult.

As Duclos, Sahn and Younger (2005) state, the key possibilities of multidimensional poverty analysis are the interaction of the various dimensions of well-being in the poverty measure, and their correlation in the sampled populations. “A reasonable poverty measure should allow the level of deprivation in one dimension to affect evaluation how much poverty declines if there is an improvement in another dimension”.

U.Rendtel, R.Langeheine and R.Berntsen (1998) suggest that if survey offer two different measurements of household income, one can use them simultaneously to identify the potential effects of measurement error on the observed income mobility of the poor. Poverty dynamics are frequently analyzed in the framework of transition tables between subsequent income states; the authors investigate those transition tables. They use Latent Markov chain models with one or two manifest indicators in order to assess the reliability of the two measurements: the head of HHs self-assess the total HH income and HHs’ individual members assess of HH income. The authors also assess the impact of measurement errors on the observed income mobility of the poor. These models generalize the turnover tables between subsequent poverty states. The misclassifications are interpreted as measurement error or spurious changes that are not consistent with a simple transition table model. The empirical results for the German Socioeconomic Panel show that the observed transition tables overestimate the mobility between poverty states.

B.baulch and J.Hoddinott (2000) present an introduction to the special issue of the Journal of Development Studies on economic mobility and poverty dynamics in developing countries. It includes the analyses of six original empirical studies that, using HHs longitudinal data, examine poverty dynamics and economic mobility over periods of time ranging from 18 month to 18 years. The principle purpose of this overview is to provide the

conceptual framework that outlines factors affecting poverty dynamics and economic mobility. In addition to providing a conceptual framework, it outlines how the contributions fit into the extant literature. A series of regularities emerge across these studies. Poor consists of chronic poors- who are always poor and and transitory poor –who move in and out of poverty. Such movements in and out of poverty are apparent when looking at poverty in either absolute or relative terms. The number of people in transient poverty seems to be strikingly large. Changes in returns to endowments can be a potent source of increased incomes. Transitory shocks can have long term consequences. The study draws out the policy implications of these regularities.

R.Finnie and A.Sweetman (2003) reports the results of an empirical analyses of low income dynamics in Canada using the Longitudinal Administrative Database (LAT).It begins with a description of individuals' longitudinal poverty profiles over 1992-96 period .Then presents the estimation results for models that analyze poverty dynamics in terms of underline entry, exit and re-entry processes, that analyze poverty incidence in a given year as a function of individuals' past longitudinal poverty profiles ,and that use a fixed affect approach to provide an alternative perspectives of the impact s of HH transitions on poverty. Family status ,the number of years previously spent in low income and the most recent year spent in that state appear to be strong determinant of movements of out and into of low income.

M.Ravellion and G.Datt (1980) show how changes in poverty measures can be rigorously decomposed into growth and distributional effects and illustrate methodology with recent data for Brazil and India. Their approach differs from some recent attempts at poverty decomposition by not confounding the residual components with either the growth or

redistribution component. Redistribution alleviated poverty in India, though growth was quantitatively more important. However worsening distribution in Brazil, associated with macroeconomic shock mitigated poverty alleviation through the limited growth that occurred. So the decomposition allowed them to quantify the relative importance to the poor of the existing differences in means and inequalities.

M.ravellion and G.Datt (2001) use 20 HH surveys for India's 15 major states spanning 1960-1994 to study how the sector composition of economic growth and initial conditions interact to influence how much growth reduced consumption poverty. The results show that high farm yields, higher state development, non farm output and lower inflation were all poverty Also national rate of poverty reduction depended on the Geographic compositions of growth as well as its overall rate.

Bigsten and J.Levin (2001) provide a selective review of recent literature dealing with the relationship between growth, income distribution and poverty. The paper also discusses the effect of economic policies on these three factors. The evidences reviewed show that the countries that have been successful in terms of economic growth are also very likely to have been successful in reducing poverty. How strong the growth effect is depends on what happens on income distribution. The main point is that without growth in per capita income, poverty will persist in poor countries. Growth can be substantial if policy and institutional environment is suitable. Some aspects of the environment are hard to change and some politicians may be unwilling to change them. It is therefore largely in social and political arenas that poverty reduction results will be determined.

A.Bigsten, B.Kebede ,A.Shimeles and M.Taddesse (2003) aim to add the poverty-impact of growth in Africa by analyzing a panel data set for Ethiopia covering 1994-

1997. The analyses show land ownership, education, type of crops planted, occupations in urban areas, dependency ratios and location to be important determinants of poverty condition of HH. Decomposition of changes in poverty into growth and redistribution components indicates that potential poverty reduction due to an increase in real per capita income was counteracted by worsening income distribution. The paper also discusses the implication of the results for pro-poor policy.

4. Policy relevance

Poverty alleviation in Georgia appears to be extremely important on the government's agenda: the main slogan of the government after the Rose Revolution has been "Georgia without poverty".

Better understanding of factors that drive households in and out of poverty might be useful in formulating poverty reduction policies that are better targeted to help specific groups of households, geographic locations, and periods in time (seasons, business cycles, etc.). Poverty alleviation may be attributed by the demographic composition of HHs, changing the occupational status, benefits accrued through social policy. The differentiation of the contribution of various kinds of events is clearly relevant for policy design.

As one of the priorities of Georgian government is to carry out the social reforms the large portion of public budget is attributed to this direction. Before 2006 in Georgia so-called category-based system of social assistance was applied. Due to the extremely limited budget of social assistance and high level of absolute poverty it was important to design targeting benefit program. Social assistance was given to the following groups: pensioners, living alone / households, consisting of pensioners, fully blind people, disabled children, and

orphans, having neither of parents, Households including 7 or more members under 18. The government's other reforms to this direction were also increasing pensions, creating job opportunities. The study will analyze the effects of social assistance programs on alleviation poverty improving welfare of population. These analyses will provide valuable information for evaluation of policy effects and will help for better policy formulation in order to distribute the limited budget of government more efficiently.

The study of poverty dynamics is especially relevant for policy recommendations, since it will provide the policies aimed at taking HH out of poverty or preventing them from falling into the any of three categories of poor's: Income and consumption poor (IC-poor), Consumption but not income poor (C-poor), Income but not consumption poor (I – poor). It is also useful for identifying which characteristics of HH are crucial for falling into any kind of poverty zone. This study will help to make the policy recommendations that will focus either preventing the entry to or help to exit from poverty.

The apparently new approaches and measure proposed in the study will help to find fine-tune already existing policies by rendering them more operational or recommended policies. Also analyses of how income redistribution and growth effect on poverty reduction will provide valuable information for macroeconomic policy makers. The decomposition of these sources will inform public policy on effects of income factors and will facilitate programs aimed at enhancing HHs' wellbeing, asset endowment.

Findings of study will also evaluate whether macroeconomic policies put in place by the government are really pro poverty reduction or well-being equalizing or not. This is crucial because knowing policies that account for both inequality and poverty reduction will be harmonizing Georgian government's effort targeting at reduction both inequality and

poverty. Investigation of the tax and transfer systems effect on reduction of poverty rate will suggest the better strategic objectives to government to this direction.

This study will provide deep analyses of growth and poverty dynamics, will recommend what sectors to growth to concentrate in order growth to be pro- poor.

5. Methodology

Poverty measures usually depend on the choice of poverty line. Once an aggregate income, consumption or non-monetary measure of household wellbeing is defined at the household or individual level, the next step is to compare it with predetermined poverty line(s).

There are two main ways of setting poverty lines²:

1. **Using relative poverty lines:** These are defined in relation to the overall distribution of income or consumption in a country; for example, the poverty line could be set at 50 % of the country's mean or median income or consumption.

2. **Using absolute poverty lines:** based on estimates of the cost of basic food needs (i.e., the cost a nutritional basket considered minimal for the healthy survival of a typical family), to which a provision is added for non-food needs. For developing countries, considering the fact that large shares of the population survive with the bare minimum or less, it is often more relevant to rely on an absolute rather than a relative poverty line.

In our study, we will use poverty levels (for income and for consumption) set by the Statistics Department of Georgia (SDG). These levels are determined in the following way:

² see Deaton (1997), Ravallion and Bidani (1994), and Ravallion (1994)

- Official subsistence minimum for a working age person (15-65 years old), where subsistence minimum is established by the Ministry of Labour, Health and Social Affairs of Georgia. The minimal food basket consists of 38 different products, which provide 2200 kcal per day. The official subsistence minimum is calculated in current prices.
- Relative poverty lines of 60% and 40 % of median consumption calculated according to the median of the population distribution by total consumption.

With respect to selected poverty lines, we will estimate the following three indicators: poverty incidence, poverty depth, and poverty severity. Poverty incidence, also called the Headcount Ratio, is the share of poor in the population calculated by $P_1 = q/n$, where n is the size of the population (sample), and q is the number of poor, i.e. of those whose total consumption or income is below the poverty line. The indicator of poverty incidence can be used to track general tendency of poverty reduction in the country, but it does not capture the changes of the state of the poor themselves.

Another indicator, which we will estimate with respect to the poverty line, is poverty depth. It is the share of completely poor population distance to the poverty line in the consumption of the whole population at the poverty line level,

$$P_2 = \sum_{i=1}^q \frac{1 - y_i / z}{n} = \sum_{i=1}^q \frac{z - y_i}{nz}$$

where z is the threshold level of income (consumption) and y_i is individual i's income (consumption).

The third measure we will use is the severity of poverty. Unlike the depth of poverty, poverty severity shows inequality of poverty among poor families. This measure is

defined for example using the Gini coefficient³. In conditions of unchangeable value of the indicator of poverty depth, the higher is poverty severity the bigger is the number of extremely poor among poor families:

$$P_3 = \sum_{i=1}^q \frac{(1 - y_i / z)^2}{n}$$

These three measures together will reflect well the tendency of alleviation of poverty, the changes of the state of the poor and inequality among poor.

To classify a household as poor one could compare household income with a threshold income level or to contrast household expenditure with a threshold expenditure level. Each of these approaches has its advantages and disadvantages: poverty measurement by income is preferable for countries where the level of shadow economy is low and accordingly the incomes are recorded accurately. Estimation of poverty by expenditures is more efficient, because in that case the data of household survey are often used for measurement poverty. Respondents normally give information about incomes with less desire. Quality of information in this case is related to the level of shadow economy. Besides, it is necessary to measure poverty by consumption because the welfare of population is to be investigated. Welfare by its concept is a set of goods and services, which provide normal living conditions of an individual. Due to that, consumption is closer to welfare, since the income does not mean consumption. The analyses of impact of income change on income

3 “Poverty: An Ordinal Approach to Measurement”, A. Sen, *Econometrica*, 44, 1976

poverty and consumption expenditure change on consumption poverty are thought by many poverty specialists to be two different exercises with different messages for policymaker.

Although income and expenditure have each been used as the welfare indicators in poverty analysis, the choice has often been governed by the availability and reliability of survey data. In Ravallion and Chen's (1997) data set based on household survey from 67 countries, more than half is used expenditure as an indicator of welfare. The authors state that measurement errors are thought to be greater for income, particularly in developing countries.

We suggest using both income and expenditure in determining household status, since both types of data are available. However, both the errors in income data from households and the level of shadow economic activity are very high in Georgia⁴, hence income based approach should be treated with care.

Building on work of J.Knight, L.Shi "Three poverty in China" we will define three kinds of poverty and divide Georgian households into three categories

1. Income and consumption poor (IC-poor): families with both income and expenditure below the poverty line.
2. Consumption but not income poor (C-poor): income may be maintained above the poverty line but consumption is below the poverty line.
3. Income but not consumption poor (I –poor): consumption may be maintained above the poverty line when income falls below it.

⁴ According to "Shadow Economies of 145 countries all over the world", Schneider (2005), the size of shadow economy in Georgia was the highest among all transition countries, and indeed among all considered countries, and was estimated to be more than 60% of official GDP in 2003.

Our aim is to count what percentage of households of Georgia is in each of these categories and to understand why. We also want to track changes in the level of poverty (by categories) over time to see if there are any significant changes in the situation for the years that followed the Rose Revolution compared to earlier years.

The next step in our analysis will be to explain why certain families end up in specific poverty groups. The empirical model we propose to use will have poverty as the dependent variable and household characteristics, location factors, and time specific factors as explanatory variables.

Since we are interested in different kinds of poverty, we define poverty as a categorical variable: $Y=0$ if the household is not poor, $Y=1$ if it is I-poor, $Y=2$ if it is C-poor, and $Y=3$ if it is IC-poor. The total number of poor families will be defined as the sum of households in each of these poverty groups. Hence,

$$P(Poor | X) = P(y = 1 | X) + P(y = 2 | X) + P(y = 3 | X) \quad (1)$$

where \mathbf{X} is the vector of explanatory variables.

Since the dependent variable is a categorical variable we will use multinomial logit model for estimation, which will allow us to see if there are differences in behavior pattern of poor and non-poor households and to investigate how these could be taken into consideration by policy maker.

As our next step, we plan to estimate consumption function for the overall sample and separately for I-poor, C-poor, IC-poor households. To explain consumption behavior of each of these categories, we specify the consumption as a function of the household income, precaution, investment, ownership, and other family characteristics.

We will consider current income itself determined as the function of permanent and transitional income:

$$Y^C = Y^P + Y^T \quad (2)$$

where Y^c is current income, Y^P is permanent income and Y^T transitory income. So we will estimate the following consumption function:

$$C = \beta_0 + \beta_1 Y^P + \beta_2 Y^T + \beta_3 O + \beta_4 P + \beta_5 I + \beta_6 FC + u \quad (3)$$

where Y^P is as before permanent income, including pensions, employment income, self employment income. Y^T is transitory income including bonus payments, remittances and other kinds of temporary income; O is the set of variables measuring the ownership of household property, such as land, domestic animals, comfort items; P is the set of precautionary variables, such as the number of household members in poor health. I is the set of variables capturing investment effects, such as expenditure on education and on property. FC denotes family characteristics such as number of children, young males, young females, etc.

From (2) we can express transitory income as $Y^T = Y^C - Y^P$ and plug it into equation (3). As a result we will get the following consumption function:

$$\begin{aligned} C &= \beta_0 + \beta_1 Y^P + \beta_2 (Y^C - Y^P) + \beta_3 O + \beta_4 P + \beta_5 I + \beta_6 FC + u = \\ &= \beta_0 + \beta_2 Y^C + (\beta_1 - \beta_2) Y^P + \beta_3 O + \beta_4 P + \beta_5 I + \beta_6 FC + u \end{aligned} \quad (4)$$

We will use the consumption function to predict the consumption of the I-poor, C-poor, IC-poor families. We want to investigate the difference between actual consumption and predicted consumption and determine how this difference can be explained.

We want to investigate the effect of economic growth on reduction the poverty in Georgia. For this reason we decompose changes of poverty into growth and redistribution components. To follow the methodology used by the M.ravellion and B.Datt(1991).

We are thinking to investigate the characteristics of HHs who are always poor and the characteristics of HH in transient poverty, test whether both of this poverty is determined by the similar process or no is under the question. This can be done using robust semi parametric methods and HH panel, but the thing is that data is very small, accounts only 600hhs and we are not sure about its representativeness of whole population. For evaluating chronic and transient poverty we follow the methodology used by J.jalan and M.Ravellion (2000)

This is the methodology according to which we intend to asses poverty in Georgia.

6. Data requirements and sources

During the recent years there has been an increasing supply of data from various household surveys which can be used to perform analysis described in this proposal.

In particular we plan to employ household survey data collected by the Statistics Department of Georgia. These data encompass the quarterly survey of households for 2003-2008 and gives good possibility to investigate the scale of poorness in Georgia and its causes. The surveys were conducted in Tbilisi (the capital) and in nine regions of Georgia. In each region urban cities, rural cities, and villages are distinguished. The data have been collected based on a very comprehensive questionnaire, which includes questions needed for our research.

Approximately 3000 households participate in each quarter. Data are constructed in the following way: each quarter one quarter of surveyed families are replaced with new households. So each quarter consists of new and old families. In the beginning of each new year all the households are replaced by a new sample. Given this structure of the data, one could build a simple cross-section of the households by randomly choosing one observation per year for households that participate in the survey. Also, one could potentially construct a panel data by pooling together households that have multiple observations in a given year. This approach will allow controlling for household specific unobserved factors and will reduce the bias in the estimates.

The survey collects data on different kinds of income that households receive (i.e. individual income from various jobs, remittances, social assistance, property income, late payments for work done earlier, income from additional sources, financial aid from friends, etc). Consumption is reported at a very disaggregate level, including data on consumption on food (further itemized for each family), household items, durable goods, education, health, etc. For our analysis we will need to aggregate both income and consumption data.

Additionally, we plan to use annual survey data collected by the Caucasus Research Resource Center (CRRC). Finally, we have data collected by the Social Subsidy Agency of Ministry of Labour, Health, and Social Affairs of Georgia (SSA). SSA maintains the unified database of poor households in the country as a part of the proxy means testing system that is up and running since 2005. The primary goal of the system is to identify needy households for targeted social assistance (TSA) programs providing various publicly funded benefits such as cash allowances, gas and electricity subsidies, health insurance, education vouchers, and so on. According to the enacted legislation any household living in Georgia and

perceiving itself poor can apply to be registered with the SSA database. Upon application a specially trained “social agent” visits the household and examines its socio-economic standing through direct observation, interviewing and filling-in a special questionnaire (see Annex 1). The survey instrument is then brought to the SSA local office and turned into an electronic record of the household. A complex system of weights and coefficients is applied to the obtained data to calculate a so-called “rating score” for the household. The rating score - a multi-dimensional measure of relative poverty – is used as the eligibility criterion for qualifying for the benefits provided under various central or municipal TSA programs.

On the one hand a high prevalence of poverty in Georgia and on the other hand the importance of the rating score for receiving publicly funded benefits made it possible that more than 500 000 households (almost one third of Georgia’s population) have already applied to the SSA and have been assessed since 2005. The fact that the SSA database contains records on more than 1700000 individuals makes this dataset a valuable source for analyzing poverty related issues even though the sample cannot be considered as representative. The importance of this source will only increase over time since the second wave of assessment of those households that are registered with the database and are considered poor is to be carried out pursuant to the legislation in force in the near future.

There is also possibility to use also the dataset from the living standards measurement study commissioned by the MoHLSA and performed in 2007 with the technical and financial assistance of the WB. A representative sample of more than 5000 households throughout Georgia has been assessed by the LSMS team using a standardized methodology adapted to the needs of the monitoring of the public health insurance program. In contrast to the SSA

questionnaire the LSMS survey instrument is much more comprehensive, although incorporates significant chunk of the SSA questionnaire.

7. Consultation and Dissemination Strategy

We plan to be in close contact with government agencies that are collecting household data and are using it to produce various statistics, including poverty measures. These agencies include the Ministry of Labour, Health, and Social Affairs of Georgia, which is responsible for computing official poverty statistics and is in charge of designing and implementing policies aimed at poverty alleviation. We have been in touch with the Ministry and, if approved for the grant, will strengthen our cooperation with it. Another government agency we plan to work with is the Statistics Department, which collects household data and does some general analysis of it.

One very important resource that we have at our disposal is the faculty and staff of two leading academic institutions in the region: International School of Economics (ISET) and CRRC. Both institutions employ well known researchers that specialize in various socio-economic issues, including poverty and income inequality. For example, Peter Lambert, ISET visiting faculty member, has vast experience in poverty and inequality research (see <http://www.uoregon.edu/~plambert/cv0909.pdf> for a list of his publications). Peter has expressed his interest in advising our team, if our application for the grant is successful.

For dissemination of our research results we plan several activities. Firstly, we will produce a country report that will describe the methodology used by our team to assess and explain poverty level and will lay out our main findings. The report will be developed with close consultations with your specialists and with local specialists in the area and will be disseminated through a series of meetings and workshops involving interested stakeholders.

A separate document (policy brief) will be developed based on country report that will lay out policy recommendations. Finally, we plan to launch a periodical titled “Poverty Watch” that will be disseminated through ISET’s website (at www.iset.ge).

8. List of team members

(1) Team leader: Tamar Jugheli (under 30; female), MA in Economics from ISET.

Prior experience: Tamar’s MA thesis was on issues of poverty in Georgia and has touched upon issues of poverty measurement and analysis of factors contributing to poverty in Georgia.

(2) Team member: Nino Shukakidze (under 30; female), MA in Economics from ISET.

Nino has been analyzing the level of shadow economic activity in Georgia by studying income and expenditure structure for Georgian households.

(3) Team member: Karine Torosyan (33; female), PhD from Oregon State University.

Karine specializes in econometrics, specifically in micro-econometrics and survey data analysis.

9. Expected capacity building

We strongly hope to develop better understanding of poverty measurement, policy development and implementation, and evaluation of policy impacts. By becoming better experts in this area, we will be able to contribute to local policy makers on a continuous basis. Being a Transition Country, Georgia still lacks experts in so many areas and by

helping to develop our knowledge in poverty issues you will hugely contribute to local capacity building in this very important area of socio-economic life.

It is important to mention that our host institution will be ISET – a relatively young Western style MA program in Economics that attracts and graduates very talented individuals. ISET is very supportive of fostering various research initiatives undertaken by its graduates, since it allows building research profile of the School as well as providing graduates with an opportunity to improve their research skills and gain valuable experience in their area of expertise.

Our intention is to build a research unit within ISET that will continue researching poverty related issues and advise policy makers in that area. A constant inflow of new ISET graduates with interests in poverty will allow us to transfer our knowledge and experience to more people and will strengthen the capacity of our research unit.

A. Capacity building:

(1) Tamar Jugheli

- Improve research skills, skills of report and paper writing, and presenting in seminars.
- Deepen Knowledge of poverty and growth theory.
- Deepen the knowledge of econometrics techniques in regression analysis (including software's such as STATA) and data processing.
- Become integrated into the network of local as well as international specialists working in this area.
- Become better acquainted with current literature on the topic and utilizing it in practical applications

(2) Nino Shukakidze

- Improve research skills, English language, skills of report and paper writing, and presenting in seminars.
- Become better acquainted with current literature on the topic and utilizing it in practical applications
- Improve data handling and analysis skills
- Become integrated into the network of local as well as international specialists working in this area.

(3) Prof. Karine Torosyan

- Become better acquainted with current literature on the topic and utilizing it in practical applications
- Help other team members improve the research skills and knowledge of econometrics and statistics.
- Become integrated into the network of local as well as international specialists working in this area.

B. Task Division

The specific tasks that will be assigned to each team member in the execution of this project are also worked out. Our team currently includes 3 members; however the project will make use of advising by ISET faculty, local stakeholders, and international community, if possible. Tasks will be divided between team members the following way:

- Our team leader, Tamar Jugheli, will be responsible for coordination of efforts in preparation of written documents (report and policy brief), contacts with local stakeholders, and presentation of results to local and international audiences.
- Nino Shukakidze will be responsible for data collection and initial analysis, writing up the report and in production of periodicals.

- Karine Torosyan will help with literature review, data analysis, review of documents produced during the project, consultations with external advisors.

Depending on work load, we plan to add research assistants for short-term tasks. These will mostly be ISET students and graduates who have appropriate training in Economics and express their interest in our work.

10. Any ethical, social, gender or environmental issues or risks that should be noted.

N/A

11. List of past, current or pending projects in related areas involving team members

N/A

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