

Applied Social Research Program

'The new welfare agenda – missing the most vulnerable once again?'¹

Dimitri Gugushvili
University of Kent, Canterbury, U.K.

Affiliated Fellow
Centre for Social Sciences

¹ The author would like to thank Professor Peter Taylor-Gooby for very useful comments on the draft paper.

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Abstract

Shortly after winning elections the new government of Georgia has announced a number of important measures aimed at strengthening the social protection system. These include increasing pensions, doubling the levels of means-tested social assistance, introduction of tax allowances for low earners, strengthening labour regulations and provision of universal basic health insurance. In this paper we project the possible impact of increased social transfers on poverty by using data from the Integrated Household Survey, carried out by Geostat. We argue that while increased transfers will considerably reduce poverty, a third of poor families will see no improvement as at present they are excluded from the social protection system. To fill this gap we propose alternative means-testing criteria, whereby households' eligibility is defined by their income-generating capacity and actual needs rather than by hypothetical welfare scores primarily defined by possession of durable items.

Introduction

Shortly after winning parliamentary elections in October 2012 the new government of Georgia has announced its intention to embark on a considerable reform of the welfare system. Increasing the levels of social transfers and expanding the coverage of state health insurance programme occupies a central place in the agenda, though some important systemic innovations are also planned. These include introduction of privately managed mandatory funded pensions, establishing tax allowances for low earners and revision of the labour code. Each of these reforms is indeed a step towards building a much-needed welfare state in Georgia; however in this paper we are mainly concerned with the increase of social transfers since this will have an immediate effect on poverty. We project the possible impact of increased transfers on poverty using the data from Integrated Household Survey (IHS), the most comprehensive source of data on welfare of Georgian households. We argue that while planned increase will have considerable effect on poverty, the urgent priority should be extending means-tested social assistance to those groups who are currently excluded from the system. The paper is organised as follows: in the first section we assess the extent of poverty in Georgia; the second section maps out existing welfare programmes and measures their impact on poverty; in the third section we project the impact of increased transfers; in the fourth section we propose a reform of the means-tested social assistance programme. The final section concludes by summarising the main findings.

1. Poverty in Georgia

Measuring poverty is always a rather controversial undertaking given that there is no single 'objective' or 'scientific' method which would gain universal acceptance among social policy researchers.² There are unresolved debates on whether poverty should be measured in absolute or relative terms, that is against a specified minimum required for bare subsistence or general living standards prevailing in the given society.³ Neither can researchers agree on whether poverty should be measured through incomes, consumption or assets and whether it should be researchers or survey respondents who should decide thresholds beyond which individual or family is to be considered poor. In addition several influential authors have proposed innovative ways of assessing individual welfare within a broader concept of individual capabilities.⁴ While each of these approaches has its merits and drawbacks, there seems to be a general consensus that relative income measures are more applicable in affluent societies, whereas in developing countries absolute consumption measures are usually used. Given that meeting basic needs is a major challenge for a big proportion of Georgia's population and many Georgian families derive their livelihood through subsistence farming, we will adopt an absolute definition of poverty and measure it through consumption. For the threshold we will use the costs of minimum basket of goods and services essential for maintaining physiological well-being as defined by Geostat.⁵

Our main source for data analysis is the Integrated Household Survey - a nationally representative survey of households carried out by Geostat on a quarterly basis. The survey collects detailed information about households' demographic characteristics, incomes, consumption, access to utilities and social services, employment and housing conditions. In order to make households of different size and composition comparable, income and consumption measures are adjusted to amount per adult equivalent (PAE). The method also compensates for the economies of scale in living as a household.

Analysis of IHS data reveals that despite considerable economic growth over the past decade poverty continues to be a major problem for Georgian society. 39 per cent of all Georgian families

² Bradshaw Jonathan and Finch Naomi, "Overlaps in Dimensions of Poverty". *Journal of Social Policy*, 32, 4 (2003), 513-525; Alcock Peter, *Understanding Poverty*. 2nd edn. (Basingstoke: Palgrave, 1997); Lister Ruth, *Poverty*. (Cambridge: Polity Press, 2004).

³ Alcock, 1997.

⁴ See for example Sen Amartya, *Capability and Well-being*. In: Nussbaum Martha and Sen Amartya, eds. *The Quality of Life*. (Oxford: Oxford University Press, 1993); Nussbaum Martha, *Women and Human Development: a Study in Human Capabilities*. (Cambridge: Cambridge University Press, 2000);

⁵ For detailed information on how Geostat calculates subsistence minimum please see Geostat, http://geostat.ge/index.php?action=page&p_id=176&lang=eng.

consume less than what is required for maintaining a minimum standard of living (chart 1). The poverty gap is also quite large – consumption of an average poor individual is 56 GEL (36%) less than the subsistence minimum (chart 2). Geographic location appears to have a considerable effect - poverty is nine percentage points higher in rural than in urban areas, and an average rural poor individual consumes six GEL less than his urban counterpart. Having a child also increases the risk of family’s poverty by five percentage points. On the other hand households containing at least one pensioner are slightly less likely to be poor than those which contain no pensioners. The small size of the IHS sample does not allow us to make statistically significant estimates about poverty rates among vulnerable households (for example internally displaced (IDP) families or those having disabled members). However, the sheer scope of poverty in Georgia clearly indicates that it is a mainstream problem, not confined to any particular vulnerable group.

Chart 1. Poverty rates for different types of households, 2011.

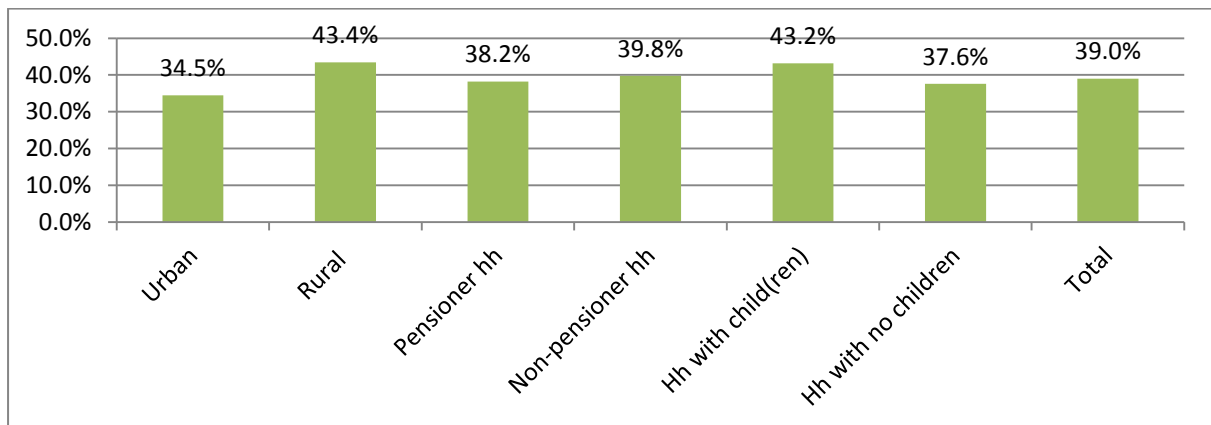
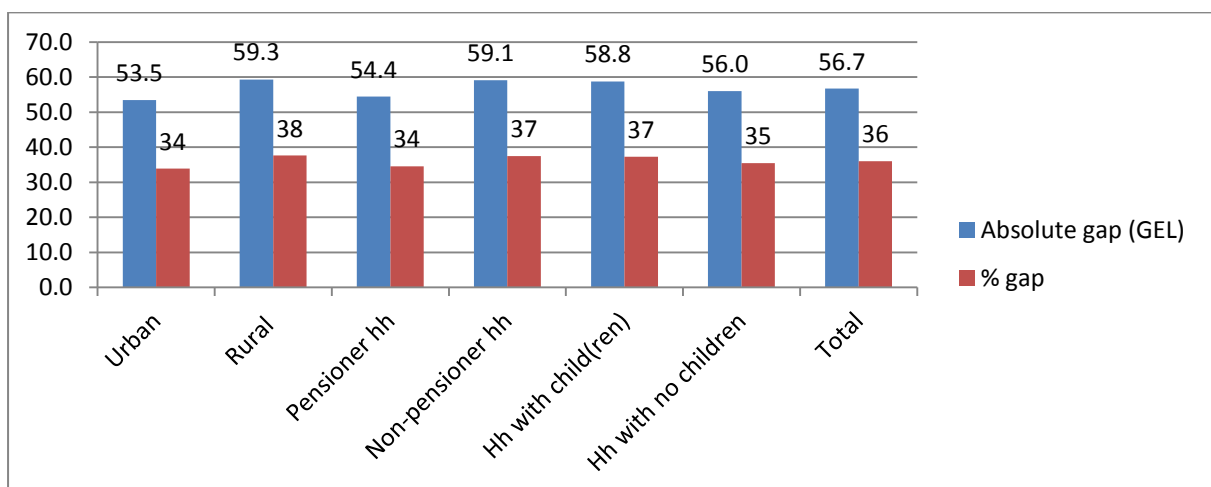


Chart 2. Poverty gap for different types of households, 2011.



Poverty in Georgia has multiple structural causes of which two are particularly important – high rates of unemployment in urban areas and low productivity in rural settings. 26 per cent of active workforce is idle in cities while more than half of the labour force employed in agriculture produces only eight per cent of national GDP.⁶ Hence any major attempt to tackle poverty requires a comprehensive strategy for addressing the inherent weaknesses of Georgian economy, especially its low producing capacity and lack of a competitive edge in global economy. However, as the ever growing body of empirical evidence shows economic growth alone is never sufficient for eliminating or even significantly reducing poverty.⁷ Even in most advanced economies poverty rates would be much higher if these countries did not possess comprehensive welfare systems.⁸ We expect that despite its limited scope, the Georgian welfare system also has a tangible effect on poverty; describing it and measuring its impact is the subject of the next section.

⁶ Geostat, “Employment and Wages”. Available at:

http://geostat.ge/index.php?action=page&p_id=143&lang=eng. Accessed 15 December 2012; Geostat, “Gross Domestic Product”. Available at: http://geostat.ge/index.php?action=page&p_id=119&lang=eng. Accessed 15 December 2012.

⁷ United Nations, *Rethinking Poverty: Report on the World Social Situation 2010*. (New York: UNDESA, 2010); UNRISD, *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (UNRISD: Geneva, 2010); Ortiz Izabel, Daniels Louise Moreira and Engilbertsdottir Solrun. eds. *Child Poverty and Inequality: New Perspectives*. (New York: UNICEF, 2012).

⁸ Caminada Koen, Goudswaard Kees and Koster Ferry. “Social Income Transfers and Poverty: A Cross-Country Analysis for OECD Countries”, *International Journal of Social Welfare*, 21, 2(2012), 115-126; Behrendt, Christina. *Holes in the Safety Net? Social Security and the Alleviation of Poverty in a Comparative Perspective*. Luxembourg Income Study Working Paper Series 259. (Luxembourg, 2002); de Neobourg Chris, Castonguay Julie and Roelen Keetie. *Social Safety Nets and Targeted Social Assistance: Lessons from the European Experience*. (World Bank Social Policy Discussion Paper No 0718, 2007)

2. The Georgian welfare system and its impact on poverty

Georgian welfare system consists of three main components: pensions, social assistance and public health care. In addition there are residential and community-based services for children experiencing problems with parental care and programmes for disabled, but these are quite limited in terms of both coverage and funding. Pensions are the largest spending item, accounting for 15 per cent of public expenditure and four per cent of GDP in 2012.⁹ There are several types of pensions. All citizens, stateless persons and foreign nationals residing in Georgia for the last 10 years who are over the retirement age (60 for women and 65 for men) are automatically entitled to *old-age pensions* without any contribution or means-testing requirements.¹⁰ The level of benefit is 125 GEL for those aged 65 to 67 and 140 GEL for those above 67.

The second type includes *disability pensions* which range from 70 to 129 GEL, depending on the level of disability, also whether or not a person became disabled during armed conflicts.¹¹ The third category includes *survivor pensions* available to children under 18 who have lost one of the parents. The level of this benefit is 55 GEL. The fourth type of pensions is reserved for the victims of soviet repression and their immediate relatives and as such is a phasing-out benefit. In addition to these four categories, there are *compensations* and *academic stipends* which despite the titles serve the same function as pensions. *Compensations* are available to various groups of retired public servants, (such as judges, diplomats, senior level public administrators, etc.) and employees of law enforcement agencies.¹² Similarly, *academic stipends* are for scholars made redundant during restructuring of higher education system in 2005-2007. Unlike other pensions, *compensations* and *academic stipends* are not flat rate – they are calculated by the number of years in service and final salary. However, the maximum amount of *compensation* is capped at 560 GEL. Beneficiaries of *compensations* are also allowed to retire early, starting from the age of 55, though in this case they get smaller benefits.

Social assistance is a mixture of means-tested and categorical benefits, though from time to time (during specific contingencies and/or before elections) some universal in-kind and cash transfers are

⁹ Ministry of Finance, “Law on State Budget 2013”, Available at: <http://www.mof.ge/5109>. Accessed 10 January 2013.

¹⁰ “Law on State Pensions”, Available at: http://ssa.gov.ge/index.php?sec_id=716&lang_id=GEO. Accessed 20 December 2012.

¹¹ In July 2012 all pensions except old-age and various categorical benefits outlined below were merged into a rather ambiguously termed single benefit - *social package*. However, the levels of these benefits and eligibility criteria have not changed and in reality they continue to be separate transfers with different functions. Thus in the analysis we treat various components of the *social package* as separate transfers.

¹² Law on State Compensations and State Academic Stipends, Available at: http://ssa.gov.ge/index.php?sec_id=716&lang_id=GEO. Accessed 20 December 2012.

also distributed.¹³ In 2012 total spending on all social assistance programmes was 273 million (one per cent of GDP and four per cent of public expenditure).¹⁴ The largest programme is *subsistence allowance* which is a proxy means-tested social assistance programme. In order to qualify for this benefit households have to apply to Social Services Agency (SSA) and register at the database of socially vulnerable families. SSA will then send a social agent to record the pre-specified characteristics of the household, most importantly the possession of various durable items. The collected data is then entered into a software which automatically defines the household's welfare score. Families with a score below 57 001 get cash assistance. The amount of benefit is 30 GEL for the head of households plus 24 GEL for each additional member. The second largest social assistance transfer is *IDP benefit*, received by individuals forced to leave their homes in Abkhazia and South Ossetia regions in the 1990s. The level of this benefit varies from 22 to 28 GEL per person depending on whether the household resides in collective centres or private accommodation. The third type of assistance, *utilities subsidy*, was introduced in 2007 to replace electricity allowances for particular groups, such as war veterans, victims of soviet repressions, children of military personnel killed during armed conflicts, etc. The level of this benefit ranges between 7 and 44 GEL, depending on the category. The number of recipients is gradually decreasing as the benefit is closed for new entrants. The fourth type, *family assistance* is a phasing-out transfer too. It provides 22 to 44 GEL to different categories of vulnerable individuals, such as single pensioners, pensioner couples, blind persons, orphans and disabled children. In 2012 the fifth type, *state assistance* was established. This benefit is for survivors of military personnel killed during recent wars. The maximum amount of this benefit is 309 GEL.

Public health care provision consists of two main components which together accounted for 1.3 per cent of GDP and five per cent of state expenditure in 2012.¹⁵ The first includes a combination of public health programmes (immunisation, early diagnosis and screening, epidemiological monitoring, etc.), disease-specific programmes (mental health, infectious diseases, tuberculosis, dialysis and kidney transplantation, cardio surgery, etc.) and urgent medical assistance and primary care services (the latter for rural population). The second component is state funded health insurance. The state purchases health insurance for the following groups: households registered at the database of socially vulnerable families with a score below 70 001; IDPs displaced after the 2008 war with the Russian Federation; social care and education system employees; individuals under

¹³ "Law on Social Assistance", Available at: http://ssa.gov.ge/index.php?sec_id=716&lang_id=GEO Accessed 20 December 2012.

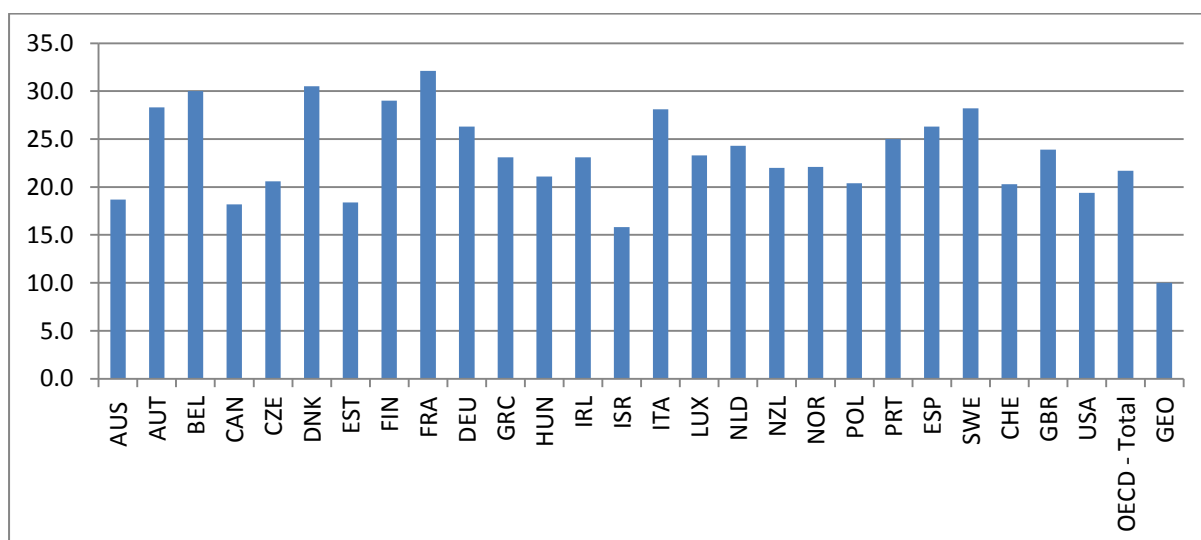
¹⁴ Ministry of Finance, "Law on State Budget 2012", Available at: <http://mof.ge/4979>. Accessed 10 January 2013.

¹⁵ *Ibid.*

some form of state care; and public actors, public artists and laureates of Rustaveli arts premium.¹⁶ The health insurance package covers a comprehensive set of inpatient and outpatient services, medical tests and child delivery costs. It also covers 50 GEL’s worth of several types of medicine.

The overall social spending (including education expenditure) is around ten per cent of GDP. This is more than twice lower than those of the OECD countries (chart 3). Moreover, several types of main benefits of modern welfare regimes, e.g. unemployment insurance/assistance, child benefits, fiscal benefits (for example tax credits) and active labour market programmes are completely absent. Similarly, the labour code is infamous for the absence of employee rights. For this purpose those few comparative studies of European welfare regimes that also cover former soviet countries usually locate Georgia in the cluster of the least developed welfare regimes.¹⁷

Chart 3. Social spending in selected OECD countries and Georgia, (% of GDP, 2012).



Source: OECD, http://www.oecd-ilibrary.org/social-issues-migration-health/government-social-spending_20743904-table1

If judged by the conventional criteria of de-commodification, strength of social citizenship, or protection from main social risks, Georgian welfare system is indeed far behind its advanced

¹⁶ Social Services Agency (SSA), “State Health Insurance Program”. Available at: http://ssa.gov.ge/index.php?sec_id=36&lang_id=ENG. Accessed 15 December 2012.

¹⁷ See for example Fenger H.J.M., *Welfare Regimes in Central and Eastern Europe: Incorporating Post-communist Countries in a Welfare Regime Typology*. (Rotterdam: Contemporary Issues and Ideas in Social Sciences, 2007); Bradshaw Jonathan, Mayhew, Emese and Alexander Gordon. (2012) “Minimum Social Protection in the CEE/CIS countries: the Failure of a Model” In: Marx Ivy. and Nelson Kenneth. eds. *Minimum Income Protection in Flux*. (Basingstoke: Palgrave Macmillan, 2012); Gugushvili Dimitri and Sundberg Trude. *Post-Soviet Welfare State Racing to the Bottom? A Case for Divergence*. Paper presented at EASP/SPA conference “Social Policy in an Unequal World”, York, 16-18 July, 2012.

counterparts. Nevertheless, it has several advantages which need to be taken into account when planning future reforms. Social transfers are promptly delivered through banking system and since 2003 there have been no arrears in any of the transfers. Costs of administration are low, even for the means-tested assistance. Entitlement to most benefits with the exception of *subsistence allowance* is simple, hence take up rates are high – overall 63 per cent of households receive some form of social transfer. The distribution of transfers is progressive since the lower the consumption quintile, the higher the incidence of transfers (chart 4). The absence of contributory benefits helps to avoid a negative redistribution – average poor household receiving social transfers gets 140 GEL compared to 136 GEL received by non-poor recipient families. Most importantly, social transfers have a large effect on reducing the scope and depth of poverty (chart 5). Without social transfers subsistence poverty would reach a staggering 51 per cent and the average poverty gap would be 102 GEL. As expected the effect is largest for rural households and those containing pensioners – the poverty rate for these would be 13 and 22 percentage points higher respectively.

Chart 4. Incidence of social transfers across pre-transfer quintiles.

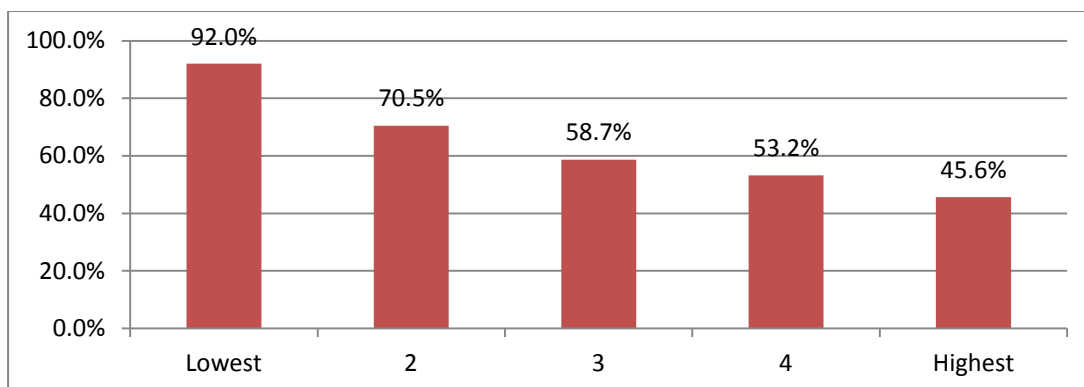
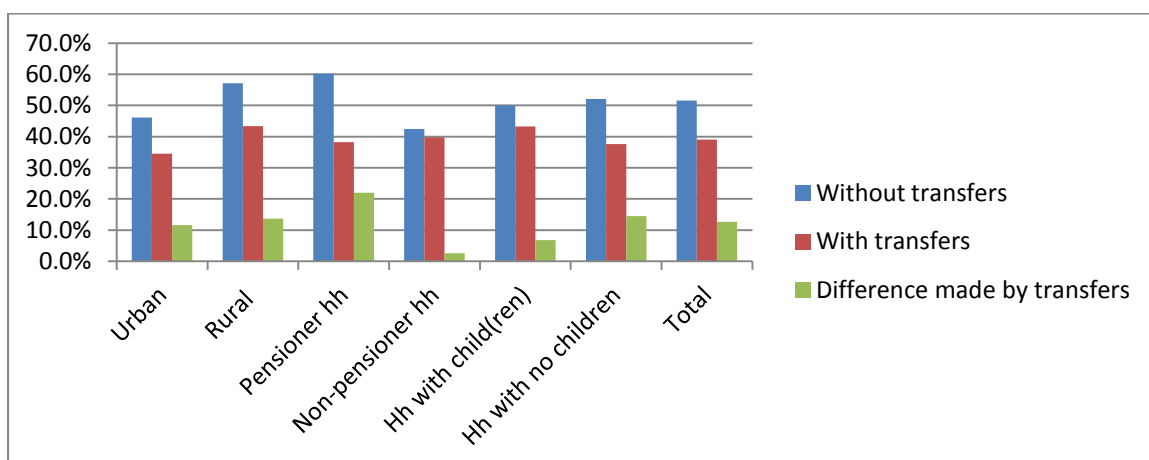
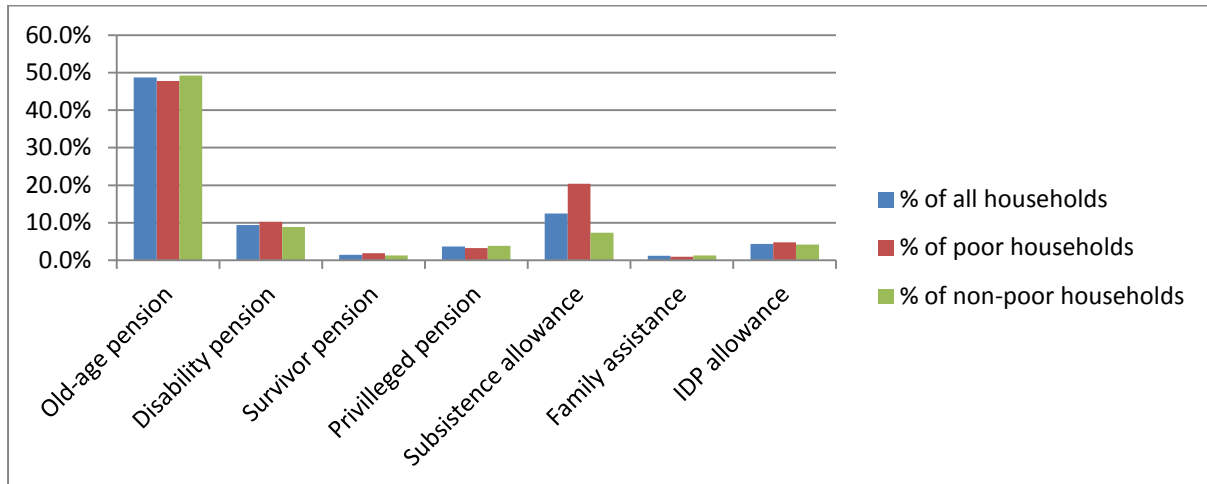


Chart 5. Poverty rates with and without social transfers for different types of households.



Within social transfers, *old-age pensions* have the highest incidence, with almost half of all poor and non-poor families receiving this transfer (chart 6). Interestingly, while most benefits are designed for vulnerable groups, both poor and non-poor families have an almost equal probability of receiving them - the only benefit which disproportionately accrues to the poor is *subsistence allowance*.

Chart 6. Incidence of different types of social transfers across poor and non-poor households.



Hence it is not surprising that a large proportion of social transfers goes to non-poor families – 59 per cent of all households who receive some kind of a transfer are not poor. This of course is not necessarily negative - not all social transfers are aimed at reducing poverty; pensions in essence are deferred payments designed to provide income security during old age, disability or loss of a breadwinner. However, when considering the increase of pensions it needs to be acknowledged that a large share will accrue to non-poor households, thus limiting its the poverty reducing effect. What is a more pressing issue though is that the system fails to capture a large proportion of poor families which do not contain pensioners – subsistence allowance captures only 20 per cent of the poor families and 33 per cent of all poor households (13 per cent of all families) do not get any cash transfers. This is a major defect which requires immediate reaction if increased social spending is to be effective in terms of minimising poverty.

3. Projection of the effects of proposed policies

Following the long-established tradition, both the law on state budget for 2013 and Basic Data and Directions 2013-16 (BDD, the main document outlining government's medium term strategic priorities) provide scant and incomplete information concerning planned welfare measures. Nevertheless, scanning these documents one can discern the following:

- Old-age and severely disabled pensions will be increased up to subsistence minimum level, estimated to correspond to 150 GEL in September 2013. From then on, they will be indexed in line with change in the level of subsistence minimum. Pensions for less severely disabled, survivors and victims of soviet repressions will be increased up to 100 GEL.
- Privately managed mandatory funded pensions will be introduced at some unspecified point in the future. It is not clear whether these schemes will be defined-benefit or defined-contribution. On the other hand the long-term vision seems to be that funded pensions will gradually become the main type of old-age insurance with the state providing social pensions to top up low earners' annuities up to subsistence minimum level.
- Targeted social assistance will be doubled in July 2013. There is also a vague commitment to increase the number of beneficiaries of the programme, though concrete dates or actual numbers are not specified.
- The health insurance programme will become universal, though at the time of writing it is not clear what services the basic package will cover. The package will be administered by newly established non-profit state insurance companies, while private insurers will be able to offer more comprehensive packages of additional services.
- Low earners (earning less than 500 GEL a month) will become entitled to tax allowances – they will pay income tax on their income minus the subsistence minimum.
- Labour legislation will be revised so as to restore the balance between the rights of employers and employees.

To facilitate the increase of social transfers and the expansion of public health insurance the budget of the Ministry of Labour, Health and Social Affairs is set to increase from 1.8 billion in 2012 to 2.34 billion GEL in 2013.¹⁸ As noted earlier we are interested in the impact of social transfers as they will have an immediate effect on poverty. To quantify the impact of increased benefits on poverty we increase poor households' consumption by the difference between planned and existing levels of benefits and recalculate the poverty rate with increased consumption. The main limitation of this

¹⁸ Ministry of Finance, 2012.

method is that available data for household consumption is for 2011, whereas the planned increases will take place in the second half of 2013. However, given that during this period the main factors affecting poverty (employment, wages, inflation) are not expected to change dramatically, our exercise will still yield rather accurate estimates.

The impact of tax allowances can be projected in a similar manner, but unfortunately the IHS does not contain relevant data on the amount of paid income taxes. In any case, the impact of this policy will probably be very small for two reasons: first, the vast majority of the working age poor are either unemployed or engaged in subsistence farming, hence they do not pay income tax; second, the amount of this benefit is 30 GEL a month for an employed family member, which is too low to have a tangible impact on household's total consumption. The simplest method for projecting the effects of the free health insurance is to add households' health expenditures to their total consumption, the assumption being that with free health care families would receive exactly the same amount of medical services and medicine as they are currently purchasing, which would allow them to increase spending on other items instead. However, given that the actual content of the insurance package is still under consideration, such estimates would be rather inaccurate.

As expected, the increase of social transfers will have a considerable effect – the poverty rate will drop by 6.1 percentage points (table 1). The reduction will mainly be driven by higher *old-age pensions* and *subsistence allowance*. Nonetheless, the overall scope of poverty will still remain very large, indicating the need for further and more innovative policy interventions.

Table 1. Poverty rates after increased transfers.

	Poverty rate after increase	Difference made by increase of transfers
Old-age pension	35.4%	3.6%
Disability pension	38.3%	0.7%
Survivor pension	38.9%	0.1%
Other pensions and compensations	38.9%	0.1%
Subsistence allowance	37.0%	2.0%
After all increases	32.9%	6.1%

4. Reaching out to the 'invisible' poor

As we have seen in the previous section the increase of social transfers will have a significant effect on poverty, but some recipient households will remain poor simply because their consumption is too low to be lifted above the poverty line by social transfers. But more importantly, a third of poor families will see no improvements in their conditions since they do not appear on the radar of the welfare system. Apart from poverty, the only common characteristic that these families share is that they have children and do not contain pensioners. Within the existing system the only way of reaching these families is through extending the coverage of the *subsistence allowance* programme since unlike all other programmes its beneficiaries are (or should be) selected based on actual, rather than perceived needs.

Means-testing is a frequently deployed method for targeting the poor – almost all OECD countries have such programmes in place to alleviate the conditions of low income families.¹⁹ Nevertheless, it has always been a subject of fierce criticism of many influential social policy researchers and practitioners. As one of the founding fathers of social policy discipline, Richard Titmuss, has argued forcefully in his seminal work, *Commitment to Welfare*, means-testing inevitably entails stigmatisation of its recipients.²⁰ Complex and unclear targeting criteria together with invasive and offensive procedures discourage many potential beneficiaries from applying, hence take-up rates are usually much lower compared to universal or contributory benefits.²¹ Means-testing is by default a costly procedure, reducing the amount of resources to be channelled to the poor. Targeting too is never perfect, resulting in inevitable inclusion and exclusion errors.²² More importantly, as Piachaud²³ and Deacon and Bradshaw²⁴ have pointed out, selective benefits tend to generate unemployment and poverty traps if withdrawn as soon as an individual finds employment or another source of income. These imply situations when individuals are better-off staying on welfare rolls rather than seeking employment.

Despite these inbuilt deficiencies, targeted benefits are more redistributive than universal, contributory or categorical benefits. The empirical evidence shows that a number of Anglo-Saxon

¹⁹ Ditch John, "Full Circle: a Second Coming for Social Assistance?" In: Clasen Jochen. ed. *Comparative Social Policy: Concepts, Theories and Methods*. (Oxford: Blackwell Publishers, 1999).

²⁰ Titmuss Richard, *Commitment to Welfare*. (London: Allen and Unwin, 1968).

²¹ Walker Carol, *Managing Poverty*. (London: Routledge, 1993); Fitzpatrick Tony, "Cash Transfers". In: Baldock et al. eds. *Social Policy*, 4th edn. (Oxford: Oxford University Press, 2012).

²² Currie Janet, *The Take-up of Social Benefits*. Discussion Paper 1103. (Bonn: IZA, 2004).

²³ Piachaud David, "Poverty and Taxation". *The Political Quarterly*, January-March (1971), 31-44.

²⁴ Deacon Alan and Bradshaw Jonathan, *Reserved for the Poor: the Means-Test in British Social Policy*. (Oxford: Basil Blackwell and Martin Robertson, 1983).

countries (Australia, New Zealand and Canada) have made considerable progress in reducing poverty and inequality through extensive use of selective transfers.²⁵ Given the large scope of poverty in Georgia together with a very limited amount of social spending, means-tested social assistance is inevitably the most effective way of targeting resources to the poor. Moreover, with careful design most of the problems associated with means-testing can be avoided. However first we need to consider the existing limitations of the *subsistence allowance* programme.

Some of the criticisms outlined above indeed pertain to it. The eligibility criteria is very ambiguous - means-testing is mainly based on households' assets (proxy means-testing) and the welfare score is generated by an electronic software which uses a complex formula. Hence, it is no surprise that for a vast majority of applicants (with the exception of perhaps a few professional mathematicians) it remains a mystery why they did or did not qualify for assistance. More importantly, the threshold below which cash assistance is granted (welfare score of 57 001) is absolutely arbitrary, not corresponding to any objective or at least a reasonable criteria. Rather it seems that this threshold is defined by the amount of available funding. For example the government allocates X amount of funding which is enough to cover Y amount of families. To capture precisely this amount of families the score below which the Y amount of families are located (in this case 57 001) is selected as threshold. Consequently a large proportion of poor families are disqualified, causing their legitimate disappointment with the system. In addition there have been numerous media reports of applicants being abused and mistreated by the SSA staff. The overall trust in the programme appears to be low as 63 per cent of poor households that did not apply for the programme explained their decision by the lack of hope that they would qualify.

To overcome these problems several measures need to be taken. First and foremost, the threshold needs to be raised as soon as possible. Since the family welfare score does not correspond to any quantifiable level of consumption it is difficult to propose a specific line, but if the threshold for cash assistance was raised to 70 000, over 60 000 families with over 190 000 individuals would automatically qualify (table 2). A technically more complex task is to revise the means-testing criteria. The main problem is that in a current context it is rather difficult to capture household's real incomes or consumption since only a small share of population relies solely on paid employment. For

²⁵ See for example Castles Frank and Mitchell Deborah, "Worlds of Welfare and Families of Nations". In: Castles Frank. ed. *Families of Nations: Patterns of Public Policy in Western Democracies*. (Dartmouth: Aldershot, 1993); Myles John, "When Markets Fail: Social Welfare in Canada and the United States". In: Esping-Andersen, Gosta. ed. *Welfare States in Transition: National Adaptations in Global Economies*. (London: Sage Publications, 1996).

this reason family's assets are used as main proxies for its welfare, but as practice shows these are rather inaccurate indicators. The SSA seems to acknowledge this as the list of items has been revised more than once and other proxies, such as chronic illness and local authorities' recommendations have also been incorporated in the formula. Nevertheless, this has not had any considerable effects as the number of families under different score bands has stayed roughly the same.²⁶

Table 2. Distribution of applicant families by score bands.

Score	Families	Individuals
<57001	176199	544939
57001-70000	61437	191922
70000 – 100000	159505	507246
100001-200000	119821	406207
200001>	14224	53479
Total	531186	1703793

Source: SSA (2012) http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=748

We propose an alternative method in which household's eligibility is defined by two rather simple monetary components: a) household's estimated income based on its productive capacities (for example in rural areas size of land plot, agricultural machinery and number of animals it owns; employment status, family members' age and level of education, possession of rentable property in urban areas, etc.); b) household's required minimum consumption defined by subsistence minimum for the type of family plus an average cost of any additional needs (e.g. related to disability, chronic illness of family member or lack of private accommodation). Thus instead of a hypothetical welfare score, families will automatically qualify if their basic needs exceed their estimated incomes. This could also help to grade benefits – for example the level of benefit might be the difference between the estimated needs and incomes. To be sure this method will not be absolutely accurate either, but it will be more transparent and objective than the existing one. Moreover, given the large scope of poverty the priority should be to make sure that all eligible families get support rather than avoiding leakage to non-poor households. To avoid the benefit trap, assistance should be withdrawn only after the household's income reaches a certain level, (for example one and half times its subsistence needs) and the new source of livelihood is stable (for example six months after a member has started a new job).

²⁶ Social Services Agency, "Database of Socially Vulnerable Families". Available at: http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=748. Accessed 17 December 2012.

Another challenge will be to persuade the discouraged applicants to re-apply. A well-designed comprehensive nation-wide information campaign will be essential for this end. Last, but not least the SSA will need to be particularly responsive to applicants' complaints about humiliating or disrespectful treatment by its staff. Together with high rates of take-up, a benevolent attitude from the programme administrators will certainly make the programme less stigmatising.

Overall, we estimate that under a perfect scenario, that is if all poor families who currently are not receiving any transfers applied and qualified for subsistence allowance programme, there would be an even larger reduction in poverty – the rate would drop from the estimated 32.9 per cent to 24.2 per cent. Such a scenario is of course implausible in reality, but our estimates confirm that means-testing is far more effective in allocating resources towards the poor than any other form of targeting.

More important than improving the targeting mechanism is of course ensuring sufficient funding. Implementation of this proposal will inevitably require a major increase of programme budget as well as of the total social spending. In 2012 the total expenditure on subsistence allowance programme was 141 million GEL as it covered ten to twelve per cent of all Georgian families.²⁷ Under a realistic scenario this proportion should double if the majority of hitherto excluded poor families applied and qualified for the programme. With a doubled level of benefits, that will require an additional 280 million GEL, which is little more than one per cent of national GDP. Such a substantial increase will indeed require re-considering present spending priorities; however the only alternative to expanding the programme is to continue neglecting the most vulnerable members of Georgian society.

Finally, we should emphasize that increasing social transfers is not and should not be considered as the main means for tackling poverty. As our analysis has shown, even with a considerable increase of social transfers poverty will still remain high. Employment that provides an adequate income is the surest way out of poverty for most Georgian families. One of the main reasons why poverty is so widespread is that the neoliberal growth model wholeheartedly endorsed by the previous government has failed to generate new jobs – as a matter of fact unemployment grew by 3.6 percentage points between 2003 and 2011, and the number of employed decreased by 150 000.²⁸

²⁷ Social Services Agency, "Statistical Data on Subsistence Allowance 2012". Available at: http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=749. Accessed 24 January 2013.

²⁸ Geostat, "Employment and Wages". Available at: http://geostat.ge/index.php?action=page&p_id=143&lang=eng. Accessed 15 December 2012.

While critics may argue that most of these were lost as a result of downsizing the bloated public sector, it is also very difficult to deny that private sector has clearly failed to even absorb the redundant workforce. The sheer magnitude of present poverty makes it imperative for the government to develop a comprehensive strategy for broad-based, employment-enhancing economic growth. The actual contents of such strategy should of course be a subject of a well-informed national debate involving social partners, academia and wider civil society. However, no matter what the new economic priorities are, the experience of advanced economies clearly shows that any successful modern market economy requires a strong welfare system. Hence we argue that a well-designed welfare system that both corrects market's allocative deficiencies through redistribution and enhances growth potential through investment in human capital should be an integral part of any future development strategy. Building such welfare system obviously requires more fundamental and far-reaching reforms, which again need to be a subject of intensive national debate.

Conclusion

Poverty is the main social problem facing Georgia – two-fifths of Georgian families live below the subsistence minimum level. The welfare system plays an important role in reducing poverty – without pensions and different forms of social assistance it would reach 51 per cent. Against this background increasing the levels of social transfers is certainly laudable. We estimate that planned increases will reduce poverty by six percentage points. However not all poor families will benefit from these. Despite its wide outreach the welfare system still misses one-third of poor families who constitute 13 per cent of the total population. The only available tool for reaching these families is the means-tested social assistance. Raising the existing thresholds below which cash assistance is granted would immediately help to capture some of these families and hence it should be carried out as a matter of urgent priority. However, for the programme to incorporate the rest of the missing families more fundamental changes are needed. At present household's assets are the main proxies which by and large define its eligibility for assistance. As practice shows this is a rather inaccurate method. Moreover, narrow targeting has considerably undermined public confidence in the fairness of the programme. To overcome these problems we have proposed a new targeting method which defines households' eligibility based on its earning capacity and actual needs. Such targeting would be more inclusive, transparent and objective. We estimate that expanding the programme will require additional 280 million GEL or little more than one per cent of GDP. However, this cost is more than outweighed by the benefit of achieving almost nine percentage point drop in the poverty rate.

About the Author

Dimitri Gugushvili is a social policy researcher, specialising in welfare states and poverty studies. He is currently undertaking PhD research at the University of Kent which seeks to understand the impact of Neoliberal development model on poverty in Georgia. Prior to joining the University Dimitri worked at UNICEF and the Ministry of Labour, Health and Social Affairs of Georgia for several years. He holds two master's degrees, in Policy Studies (obtained at the University of Edinburgh) and Social Sciences (obtained at Tbilisi State University). In addition to academic papers and articles Dimitri has produced a number of policy documents and reports for various organisations, including UNICEF, WHO, Ministry of Labour, Health and Social Affairs and EveryChild.