CHILD WELLBEING AND SOCIAL SECURITY IN GEORGIA:

THE CASE FOR MOVING TO A MORE INCLUSIVE NATIONAL SOCIAL SECURITY SYSTEM

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ACRONYMS

CRC	Convention on the Rights of the Child
ECD	Early Childhood Development
GDP	Gross Domestic Product
HBS	Household Budget Survey
HH	Household
OECD	Organisation for Economic Co-operation and Development
PMT	Proxy means test
PPP	Purchasing power parity
TSA	Targeted Social Assistance
UNICEF	United Nations Children's Fund
WMS	Welfare Monitoring Survey

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EXECUTIVE SUMMARY

In recent years, Georgia has made impressive progress in tackling poverty among children, with the child poverty rate falling from 49% to 28% between 2009 and 2013. Yet poverty rates at a particular point in time disguise the real challenges facing populations, and, as this paper shows, the majority of children in Georgia have families with highly insecure incomes and living conditions that are not propitious for child development. In any society, household consumption and income are highly variable over time, as families experience crises and shocks and respond to opportunities. Any analysis of poverty that aims to inform social policy needs to take into account the dynamic nature of household consumption and incomes.

Georgia's Welfare Monitoring Survey (WMS) panel data set tracked the same households across the country in 2009, 2011 and 2013. As a result, it is able to show the changes over time experienced by surveyed households, thereby permitting a much deeper analysis of the challenges they face than could be achieved by the analysis of a household survey that collected data for only one particular point in time.

Challenges faced by children in Georgia

The WMS indicates significant changes in expenditure among households with children between 2009 and 2013; 64% of households in the poorest expenditure quintile in 2013 were not in that quintile in 2009, while 19% of households in the poorest quintile in 2013 had previously been in the richest two quintiles of the population in 2009, a significant fall in wellbeing. At the same time, the relative situation of many of the poorest households in 2009 had improved and, by 2013, 22% were among the richest two quintiles of the population.

The dynamic nature of household wellbeing means that at least 67% of children spent some time living in poverty between 2009 and 2013. Indeed, 31% spent one year living in poverty, 23% spent two years and only 13% experienced all three years in poverty. Furthermore, although 33% of children did not experience periods of poverty between 2009 and 2013, this does not mean that they were secure. In fact, only 4% of children managed to remain in the richest quintile of the population across all three years.

By analysing consumption dynamics in the WMS, it is possible to categorise households with children into different economic classes: 13% of children could be regarded as ***living in chronic poverty***; 23% are ***highly vulnerable to poverty***; 31% are ***insecure***; 29% are ***resilient***; and only 4% could be regarded as ***affluent.*** So almost 70% of children in Georgia could be regarded as "at risk". This is similar to the perceptions of households with children themselves; in 2013, 58% of children lived in households that felt they could not satisfy their basic needs.

Further analysis of the WMS data set enables deeper insights into the livelihoods of children and their families across the income spectrum and demonstrates that highly vulnerable and insecure households face a wide range of challenges. For example, 35% of insecure households – and around half of those that are highly vulnerable – struggle to purchase clothes, and, particularly worryingly, between 29% of insecure households and 37% of the highly vulnerable experience hunger (as do 19% of those classified as resilient). Overall, nearly 40% of households with children, including a significant share of families classified as resilient, experience at least five different challenges related to their living environment. In fact, the vast majority of families in Georgia face at least one challenge with regard to access to utilities or housing conditions.

The challenges faced by the children of vulnerable and insecure families are linked, in part, to their carers' relationship to the labour market. Very few adults in highly vulnerable and insecure households with children are in regular employment that provides a predictable monthly income. In fact, among insecure households, around 40% of adults are not economically active, while 36% either live off the land or are self-employed. The nature of this employment does not deliver income security, meaning that these households are more likely to be exposed to the risk of falls in income, perhaps due to poor harvests, the death of livestock and illness.

Therefore, the vast majority of children in Georgia are in households which, at best, are insecure and unable to adequately provide for their children. As a result, they would benefit from access to social transfers and other forms of social protection. Therefore, the national social security system in Georgia needs to be designed to respond to the dynamic nature of household wellbeing and ensure that adequate provision is made for the needs of children.

Social security in Georgia and its effectiveness in addressing the challenges faced by children

Across the world, most social security systems are designed to address the challenges faced by people over their lifecycle, including childhood, working age and old age. Therefore, the most common social security schemes in developed and developing countries are old age pensions, disability benefits, child benefits and unemployment schemes. As a result, these social security systems address some of the key causes of insecurity across the lifecycle. Among countries with more advanced social security schemes, investment in social security schemes for "the poor" in general – which address only the symptoms of poverty – is limited.

Georgia's social security system is gradually moving towards an inclusive lifecycle system, in particular through its commitment to old age pensions and disability benefits. Where Georgia is different from other countries is in its relatively high investment in "poor relief" through the Targeted Social Assistance (TSA) programme and the limited scope of its transfers for children.

Until early 2015, the main avenue of income support for children in Georgia was through the TSA, although support was indirect, since it was provided to the household. Around 0.93% of GDP was invested in the TSA in 2014, which is significantly more than the investment by other middle-income countries in similar Poor Relief schemes. For example, Brazil invests only 0.4% of GDP in the *Bolsa Familia* programme.

However, despite the high level of investment in the TSA, it is not particularly effective in reaching its target group of 15% of households. In 2013, only 56% of the poorest 15% of households – when measured against expenditure – were able to access the TSA while, when measured against income, the success rate was only 34%. In fact, only 15% of those households with children living in chronic poverty received the TSA across all three years of the WMS panel survey, despite the fact that they were consistently living in poverty. There are also indications that the TSA discourages some recipients from engaging in the labour market, particularly single mothers.

In fact, Georgia's old age pension is much more effective than the TSA in offering income security to children. Overall, nearly half of households with children (46%) have at least one pensioner in the household, while 47% of children live with a pensioner. Among chronically poor, highly vulnerable and insecure households, the pension contributes around 20% of household income. In fact, the pension contributes to 69% of the reduction in child poverty. Yet tackling child poverty is not the role of old age pensions and the reliance of Georgia on the pension to reduce child poverty undermines the ability of the pension to satisfy the needs of older people.

In response to the challenges faced by children, in May 2015 the government of Georgia introduced a Child Benefit of GEL10 per month targeted at around the poorest 40% of children between the ages of 0 and 15 years. The total cost of the benefit is around 0.1% of GDP, which is a small investment compared to other high- and middle-income countries. The introduction of the Child Benefit did bring about a reduction in child poverty, although it was limited due to the low value of the benefit, its relatively low coverage and inaccuracies in the identification of the poorest children. In fact, although coverage of children in the poorest quintile of the population improved significantly with the introduction of the Child Benefit, the coverage across insecure and highly vulnerable families is much lower, with the majority of children continuing to miss out on support, despite their needs.

Policy options for strengthening child wellbeing

If Georgia is considering extending the Child Benefit, it could take lessons from its old age pension, which is one of the most successful schemes across developing countries. These key lessons include the effectiveness of universal provision and the scheme's relatively generous benefit value. The paper examines a range of options for increasing the impacts of the national social security system on children.

A more generous Child Benefit

One option for further reducing insecurity and poverty among children is a more generous Child Benefit. Simulations were undertaken of Child Benefits offering a transfer of GEL25 per month and either 70% or universal coverage of children under 16 years. Two options were financed either fully or partially by reducing investment in the TSA, while one option – with 70% coverage – was additional to the TSA. The cost of the Child Benefit options would be only between 0.46% and 0.65% of GDP, again less than middle-income countries such as Argentina, South Africa and Mongolia, which invest more than 0.8% of GDP in similar schemes. The options are set out in Table ES1.

Table ES1: Proposed child benefit options for Georgia

Option	Monthly value of transfer	Proportion of children under 16 years	Monthly child benefit budget	TSA budget	Annual cost of child benefit as % of GDP	Annual cost of TSA as % of GDP	Additional funding required as % of GDP
1.	GEL25	70%	11,735,000	12,000,000	0.46%	0.46%	0.00%
2.	GEL25	70%	11,735,000	23,735,000	0.46%	0.92%	0.46%
3.	GEL25	100%	16,744,000	12,000,000	0.65%	0.46%	0.19%

All three options would bring about a reduction in child poverty compared to the current situation, and, unsurprisingly, Option 2 – which implies the largest increase in budget – delivers the most significant decrease in child poverty, at 16.2%. But of great interest is the finding that Option 1 – which implies no increase in budget on the status quo yet reaches almost twice as many children – performs slightly better than the current status quo, reducing child poverty by a further 0.5%.

However, impacts on poverty rates provide only a limited picture of the true impacts of schemes. All three options would mean that a significantly higher percentage of highly vulnerable and insecure households with children would benefit from the TSA and Child Benefit, with the universal option ensuring that all children would be reached. This could be achieved by an increase in budget of only 0.19% of GDP, if a decision were taken to reduce expenditure on the TSA to 0.46% of GDP (in line with other middle-income countries).

Maternity and unemployment insurance

Two of the major "shocks" that can hit working age families are the birth of a child and unemployment. Yet Georgia provides no protection to its citizens when either of these contingencies occur. As a result, the chances are significantly increased that childbirth and unemployment will push families into poverty. As countries develop, maternity and unemployment benefits are two of the key social security schemes that should be established.

Georgia does not yet have a social insurance system in place, although the next step in strengthening the national old age and disability pension system would be to establish a social insurance scheme that enables employees to self-finance higher levels of protection than can be provided by the State. It would be possible

to incorporate maternity and unemployment insurance within this system, potentially financing the schemes through a payroll tax of between 2% and 4% of GDP. If this support were offered for up to six months following unemployment or the birth of a child, many households would be in a much stronger position to care for their children during times when they would be particularly vulnerable.

Childcare services for working families

There is growing evidence across developed countries that a key component to lowering child poverty is free childcare. It enables caregivers – usually mothers – to return to work after the birth of a child. As a result, they can maintain their family incomes at a time when they are facing additional costs related to caring for their child. If caregivers have to pay for childcare, they have minimal incentives to return to work, since a high proportion of their salaries must go towards paying for childcare. This is the case in particular for caregivers with lower incomes. Therefore, Georgia should consider establishing universal, free childcare for mothers of young children, which could be linked to Early Childhood Development (ECD) centres. This would likely bring the same benefits as in other countries, increasing family incomes and enhancing the wellbeing of children. It would also offer employment to many women within the childcare centres and could be self-financing through the additional income and indirect taxes that are generated by women returning to the workforce.

Conclusions

Georgia's introduction of a Child Benefit in 2015 was a significant step forward for children. Yet much more is needed. This paper shows that the vast majority of children in Georgia experience insecure lives and are in need of additional support from the State. The expansion of the Child Benefit to the majority of children would take the pressure off the pension system and bring significant benefits to many children. The introduction of a Child Benefit should be complemented by other reforms in the national social security system, including the introduction of maternity and unemployment insurance – as part of a broader social insurance pension system – as well as the extension of free childcare services. If these policies were introduced, they would significantly enhance the wellbeing of children while bringing further advantages to the nation as a whole, such as an increase in employment, a more productive labour force and an important stimulus to the economy.

A country's future is its children and it is the role of the State to step in and help secure their future. Politicians willing to take up this challenge and offer support to working age families across Georgia would almost certainly reap the political benefits.

CONTENTS

1. INTRODUCTION

In recent years, Georgia has made impressive progress in tackling poverty among children, as well as across the broader population. The extreme poverty rate among children has fallen from 12% in 2009 to 6% in 2013, while the poverty rate fell from 49% to 28% over the same period. Much of this reduction has been the result of an expansion of the national social security system; in fact, social transfers themselves are responsible for a 29% reduction in the child poverty rate (from a pre-transfer poverty rate of 40% to a post-transfer poverty rate of 28% in 2013). However, this paper will show that much of this progress in tackling child poverty is due to Georgia's investment in its old age pension. The majority of Georgia's children continue to live in households with highly insecure incomes and in conditions that are not propitious for their development.

Therefore, as a middle-income country with ambitions to further strengthen its economy and continue national development, it is time for Georgia to develop a more inclusive focus for its social policy and to address the challenges faced by the majority of children and working age families, not only those living in extreme poverty. The nation's children are its future, and if Georgia is to compete in regional and world markets, it needs to develop a highly skilled and productive labour force, which begins by investing in children. Furthermore, a vast majority of working age families have aspirations for better lives and higher standards of living, yet only a tiny proportion of the population could currently be classified as a secure middle class. A progressive and ambitious nation should not only tackle poverty, but also offer the majority of its citizens the opportunity to realise their aspirations to achieve more prosperous and secure livelihoods.

The World Bank has recognised the need for countries to offer citizens a more inclusive social policy agenda by complementing its long-standing poverty reduction objective with the broader aim of ***shared prosperity***. This implies ensuring greater equity and redistribution across society, so that both those living in poverty and those in the middle of the income distribution are able to share in a nation's prosperity through a more inclusive social policy focus. Indeed, if countries are successful in reducing inequality across society, they will necessarily also be effective in tackling poverty.

This paper will demonstrate the importance of an inclusive social policy agenda by showing that the concept of a fixed group of "poor" in Georgia – corresponding to the national poverty rate – is, to a large extent, an imaginary construct. In reality, household consumption and income are highly dynamic, rising and falling as households experience shocks and crises and respond to opportunities. Social policies, therefore, need to be responsive to this dynamism by not only supporting those living in poverty, but by also protecting others from falling into poverty. In fact, key policy objectives for any country should be ensuring greater income security and higher standards of living for the majority of families.

In certain respects, Georgia has a social security system that is the envy of many other developing nations and that translates into significant benefits for the nation. In particular, Georgia's old age social pension – which offers every older person GEL160 per month – is the best performing social pension in the developing world, ensuring that all older people have access to a minimum pension and can live out their final years in dignity (although Georgia could further improve its broader pension system by introducing contributory pension schemes).[1] Furthermore, 124,000 people with disabilities – including children – are able to receive a disability benefit. These are significant achievements.

However, in other respects there is a range of weaknesses in Georgia's social security system that need to be addressed. For example, despite significant investment in the Targeted Social Assistance (TSA) programme, a high proportion of families living in poverty are unable to access the scheme. And of particular concern is the fact that the majority of children do not receive any direct income support from the state, which undermines their development and long-term prospects as well as the nation's competitiveness. Recent reforms by the government have introduced a small Child Benefit into the broader social security system, and while this is welcome, as the analysis in this paper demonstrates, its value is insufficient to have a significant impact on

1 See Kidd (2015) for a further discussion on how to design effective pension systems.

child wellbeing and around 60% of children remain excluded. Furthermore, many households rely on the old age pension to invest in their children, which, in effect, undermines the pension and negatively affects the wellbeing of older people.

The aim of this paper is to examine the challenges faced by children in Georgia, by adopting an inclusive framework of analysis that incorporates all children. It will consider the challenges families face in offering their children a secure home environment and providing for their basic needs. Based on this analysis, the paper will then examine the national social security system and assess the extent to which it effectively addresses the challenges faced by children. Finally, it will propose potential reforms to the national social security system that could address the challenges faced by children – and working age families – and ensure that all children are able to access the universal right to social security that is stipulated in the Convention on the Rights of the Child (CRC), ratified by Georgia in 1994.

Box 1: Sources of data used in this report

The main data set used in the analysis of this paper is the national Welfare Monitoring Survey (WMS), a biennial longitudinal household survey which included three rounds of data collection: in 2009, 2011 and 2013. As the focus of this paper is on income and consumption dynamics, the analysis is restricted to a balanced panel of 3,586 households that were successfully interviewed in all three rounds of the survey to date. Observations are weighted using a balanced-panel weight that accounts for the presence of attrition between different survey rounds. More detailed analyses of each of the three data sets can be found at UNICEF and the University of York (2010, 2012 and 2013), although these reports do not examine consumption dynamics. In addition, micro-simulations of the impacts of different policy options were carried out using data from the Household Budget Survey (HBS) implemented by GeoStat in the third quarter of 2013, supplemented with information collected in early 2014 to develop a new proxy means test (PMT) to attempt to identify families living in poverty.

2. CHALLENGES FACED BY CHILDREN IN GEORGIA

An extreme child poverty rate of 6% and a child poverty rate of 28% in 2013 disguise the extent of the challenges facing the majority of children in Georgia. These poverty rates offer a snapshot in time and hide the large number of children living in or vulnerable to poverty. The reality for families is that their incomes are not static, and indeed, can vary significantly over time, meaning that over longer periods a much higher proportion of children can spend some time living in poverty than the figures suggested by one-off static poverty rates. Furthermore, low and insecure incomes can also lead to living environments that are not conducive to child wellbeing. This chapter, therefore, will examine the dynamic nature of child wellbeing in Georgia and look more broadly at the challenges faced by children, moving beyond income security.

Box 2: Poverty lines used in Georgia

There are three poverty lines that have been used by UNICEF for the analysis of poverty rates.

- The ***extreme poverty line*** refers to per adult equivalent expenditure below US$1.25 per day (PPP), or GEL71.2 per month in 2013.
- The ***general poverty line*** refers to per adult equivalent expenditure below US$2.50 per day (PPP), or GEL142.4 per month in 2013.
- The ***relative poverty line*** is set at 60% of national median consumption and was GEL137.2 per month in 2013.

In this paper, when the term ***poverty rate*** is employed it refers to the general poverty line.

In this analysis, measures of income and expenditure are adjusted using a set of equivalence scales to compare households of different sizes and compositions, according to methods used by the Georgia National Statistics Office. First, household members are classified by age and gender and assigned an equivalent adult coefficient: 0.64 for children below 8 years of age; 1 for children above 8 and below 16 years of age; 1 for males above the age of 16 and below the age of 65 years; 0.84 for females above the age of 16 and below the age of 60 years; 0.88 for males above the age of 65 years; and 0.76 for females above the age of 60 years. The sum of these coefficients represents the number of equivalent adults in the household (PAE). To correct for economies of scale in larger households, the number of equivalent adults is then raised to the power “a”, where a=1 for a single person household, and a=0.8 where household size is greater than one.

A wide range of equivalence scales are used by different countries and there is no single universally accepted method. However, the choice of equivalence scale when analysing household surveys has a significant influence on the prevalence of poverty, as illustrated in Table 2.1. For example, if all individuals in Georgia, including children, were given equal weight – as happens in Indonesia – the national child poverty rate would rise to 56%. In contrast, if the modified OECD scale were used – which assigns a value of 1 to the household head, of 0.5 to each additional adult member and of 0.3 to each child, this would result in a poverty rate of 20% for children under 18 years. In selecting a particular equivalence scale, it is therefore important to be aware of its potential effect on the level of inequality and poverty. Furthermore, it indicates that poverty rates are relatively arbitrary and can be easily changed by using different – and equally valid – assumptions. It is, therefore, important to examine more broadly the challenges facing children, which is what this paper aims to do.

Table 2.1: Sensitivity of the poverty rate to the choice of equivalence scale, 2013

	Headcount poverty rate		
Commonly used scales	**Households**	**Population**	**Children**
Per capita	41	48	56
Square root scale	13	12	12
OECD modified scale	19	19	20
OECD original scale	28	31	34
Georgia PAE scale	**22**	**25**	**28**

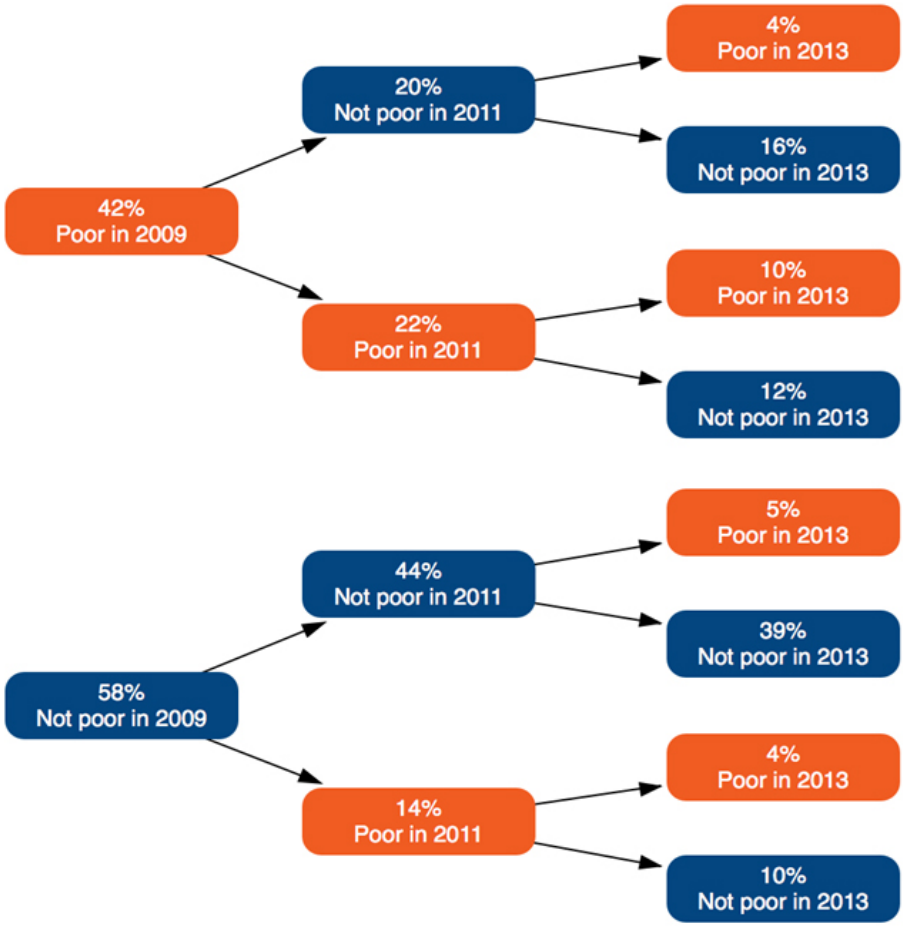
2.1. Dynamic nature of child wellbeing in Georgia

Household wellbeing in Georgia – as measured by household expenditure – is highly variable over time. Figure 2.1 shows the population by expenditure quintile in 2013 – from poorest to richest – and indicates in which expenditure quintile the same households could be found in 2009. Around 64% of those in the poorest quintile in 2013 were not in the poorest quintile in 2009, indicating a large increase in the relative poverty of those households over a period of five years. Indeed, 19% of households in the poorest quintile in 2013 had previously been in the richest two quintiles of the population in 2009, a significant drop in wellbeing. At the same time, the relative situation of many of the poorest households in 2009 had improved, and by 2013, 22% were among the richest two quintiles of the population. There was also significant movement of households between all quintiles, in particular across those in the middle of the expenditure distribution; in 2013, only 26% of households in the third quintile had also been in the third quintile in 2009. A similar level of movement of households across expenditure quintiles has been found between 2009 and 2011 and 2011 and 2013 (these results can be found in Annex 4).

Figure 2.1: Movement of households across expenditure quintiles between 2009 and 2013

The dynamic nature of household wellbeing means that a high proportion of children have spent some time living in poverty between 2009 and 2013. Figure 2.2 shows how households moved in an out of poverty during this period. So although 42% of households were living in poverty in 2009, in total 61% of households experienced poverty during at least one survey year and only 10% of households were living in poverty in each of the three years. If a more relative poverty concept is adopted that examines whether households spend some time among the poorest 40% of households, it can be estimated that 67% of households have spent some time living in poverty between 2009 and 2013 (see Annex 5).

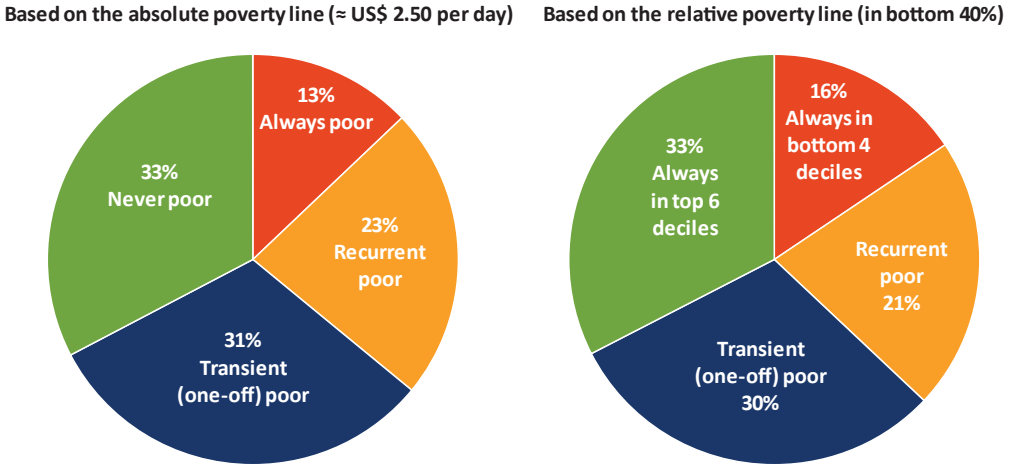
Figure 2.2: Movements of households in and out of poverty across 2009, 2011 and 2013, using the general poverty line of US$2.50 per day (PPP)



Looking specifically at children, a high proportion have spent some time in poverty between 2009 and 2013.[2] Figure 2.3 shows that, irrespective of the measure used – the poverty line or a relative poverty line equivalent to the 40th percentile – 67% of children have spent at least one year in poverty over the five year period. When using the poverty line as the measure, 31% have spent one year living in poverty, 23% have spent two years in poverty and only 13% experienced all three years in poverty. When the relative poverty line is used, only 16% of children were consistently in the poorest 40% of households. However, overall, a significant proportion of children have experienced periods of time living on less than US$2.50 PPP per day, an amount that is unlikely to enable families to invest sufficiently in their children's wellbeing. If data had been available for 2010 and 2012, it is likely that the proportion experiencing poverty for at least one year would have been even higher.

2 In the analysis used in this paper, "children" refers to children aged 0-17 years at the time of the third wave of the WMS panel in 2013.

Figure 2.3: Classification of children depending on the number of years spent living under the poverty line between 2009 and 2013



Although 33% of children did not experience periods of poverty between 2009 and 2013, this does not mean that they were secure. In fact, only 4% of children managed to remain in the richest quintile of the population across all three years, a tiny proportion of the total. Indeed, it could be argued that it is only this small number of children who, over five years, have experienced a level of income security that enables their carers to consistently and adequately invest in their wellbeing. Around 96% of children are not in this fortunate position.

Box 3: The drivers for moving in and out of poverty

Regression analysis was undertaken of the WMS's panel data set to examine the association between a range of explanatory variables and the likelihood that households either move into or exit poverty. The detailed results are presented in Annex 6.

The results indicate that the number of **children** in a household is significantly and consistently associated with poverty transitions. All other factors being equal, adding an extra child to the household sharply increases the probability of falling into poverty and reduces the likelihood of moving out of poverty. The coefficient for the number of **pensioners** largely works in the opposite direction. Adding a pensioner to the household increases the conditional probability of escaping poverty, which is probably the result of the increased income security from the receipt of the universal old age pension. Similarly, having pensioners in the household is associated with a decreased risk of falling into poverty, though not in all years.

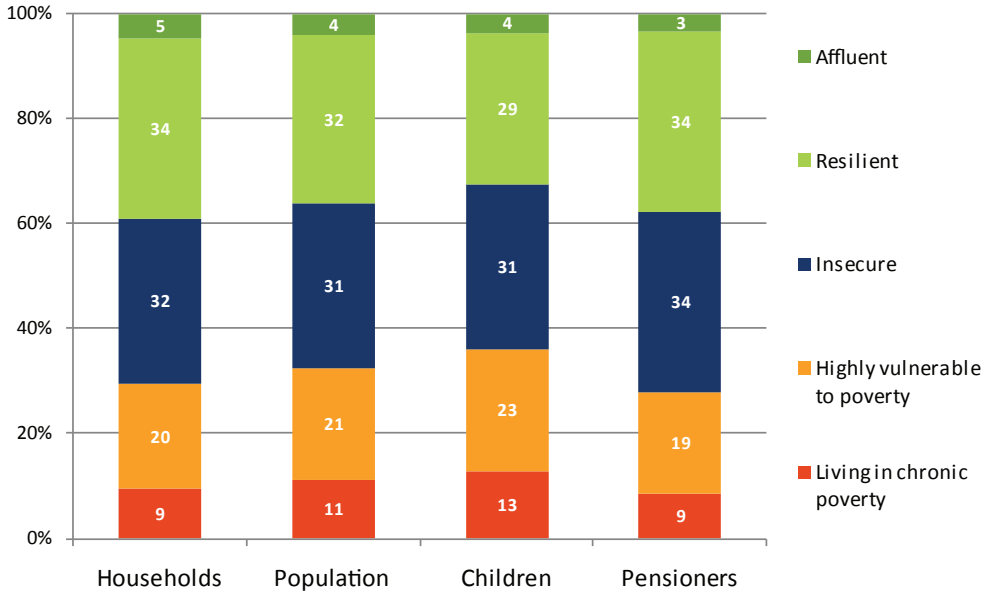
There are a number of other correlates of poverty transitions. Higher and vocational **education** is strongly associated with a lower probability of falling into poverty and a higher likelihood of moving out of poverty. Similarly, **land ownership** is associated with an increased likelihood of staying out or moving out of poverty between 2009 and 2011 (although the size and direction of its effect is not consistent across other years). An increase in the number of **livestock** or poultry owned by the household tends to have a small but significant effect on poverty transitions. Finding employment and receiving a salary increase are associated with moving out of poverty, while losing a job increases the chances of falling into poverty. The type of job held by the household head also plays an important role: regular wage employment seems to offer the best protection against falling into poverty and significantly increases the likelihood of climbing out of poverty. The **ill-health** of a family member is associated with an increased risk of falling into poverty between 2009 and 2013, but the size and direction of the effect is not consistent across all years.

Using expenditure dynamics, therefore, it is possible to move beyond a classification of the population that employs a simple dichotomy of "poor" and "non-poor" to produce a more disaggregated and sophisticated understanding of economic classes, which can be used as the basis for developing social policy:

- Those households with children living in poverty across all three rounds of the survey could be regarded as ***living in chronic poverty***;
- Those living in poverty over two rounds of the survey and experiencing recurrent poverty could be classified as ***highly vulnerable to poverty***;
- Those living in poverty over one round of the survey could be classified as ***insecure***;
- Those who have never experienced poverty but also were not consistently among the richest 20% of the population over the three rounds could be referred to as ***resilient*** to reflect that they are beginning to have a degree of income security that enables them to consume and invest more, but fall short of being entirely secure; and,
- The ***affluent*** would be the group that managed to remain in the richest quintile of the population over the three rounds and, in reality, it is only within this group that households could be found that could be classified as middle class.

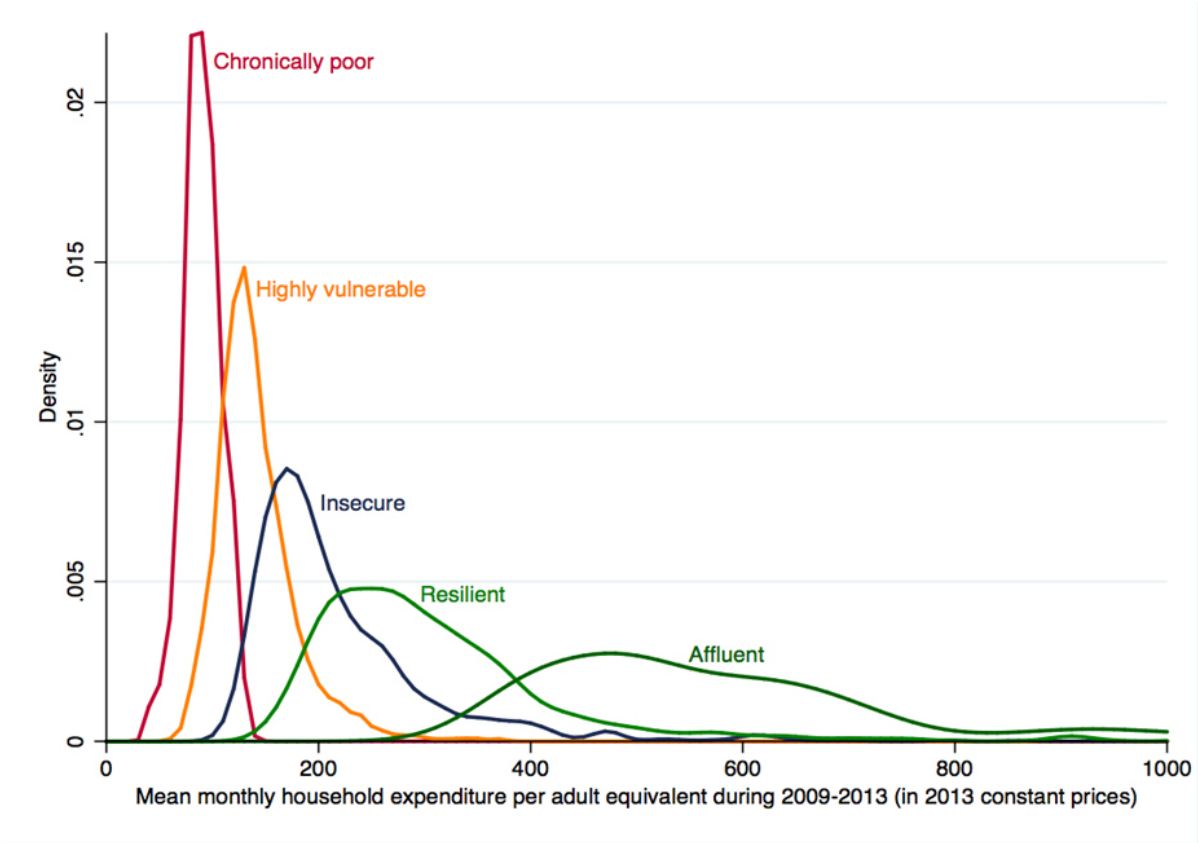
Figure 2.4 offers a representation of these economic classes across households, the population, children and pensioners. While static representations of poverty suggest that only a small proportion of children live in poverty – and, therefore, could be regarded as in need of access to social security – the incorporation of a dynamic perspective demonstrates that the majority of children in Georgia are living in or vulnerable to poverty or have not yet gained some form of income security. These children – almost 70% of the total number of children – should be regarded as "at risk" and would benefit from social transfers and other forms of social protection.

Figure 2.4: Percentage distribution of the balanced panel by economic class in Georgia using a dynamic perspective



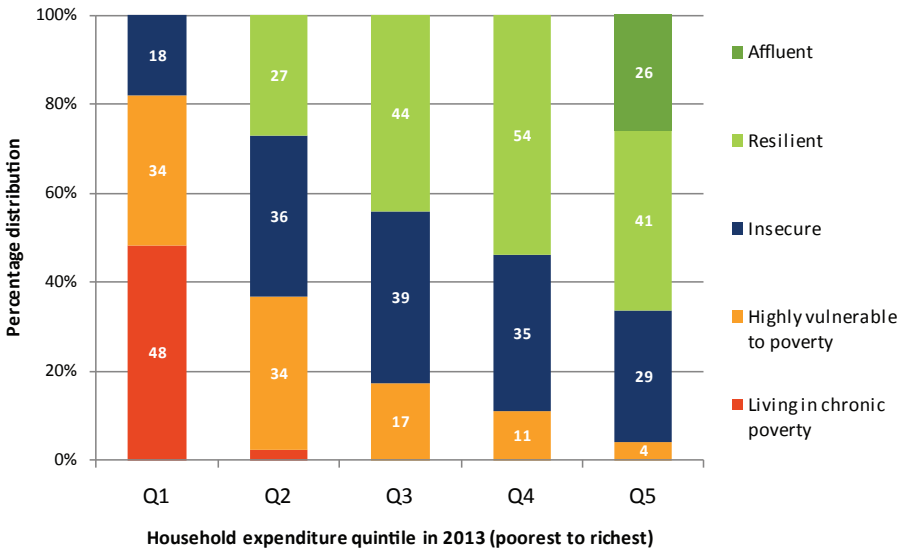
However, the economic classes indicated in Figure 2.4 should not be conflated with a specific level of household expenditure or income at a particular point in time. They are based on the level of security of households over a period of time, in this case five years (2009-2013). In terms of actual expenditure, the classes overlap. Figure 2.5 indicates the average household expenditure per adult equivalent of these classes over the three periods of the WMS panel survey (focusing on households with children). Two patterns emerge: the less secure the economic class, the lower the average expenditure and the narrower the spread of households within the classes. Furthermore, average expenditure overlaps between the classes, indicating that at any point in time, household expenditure of a more secure household may be less than that of a less secure class. However, as is shown below, the higher the level of exposure of households to risk, the less secure the household.

Figure 2.5: Density curves of household expenditure by economic class (for households with children)



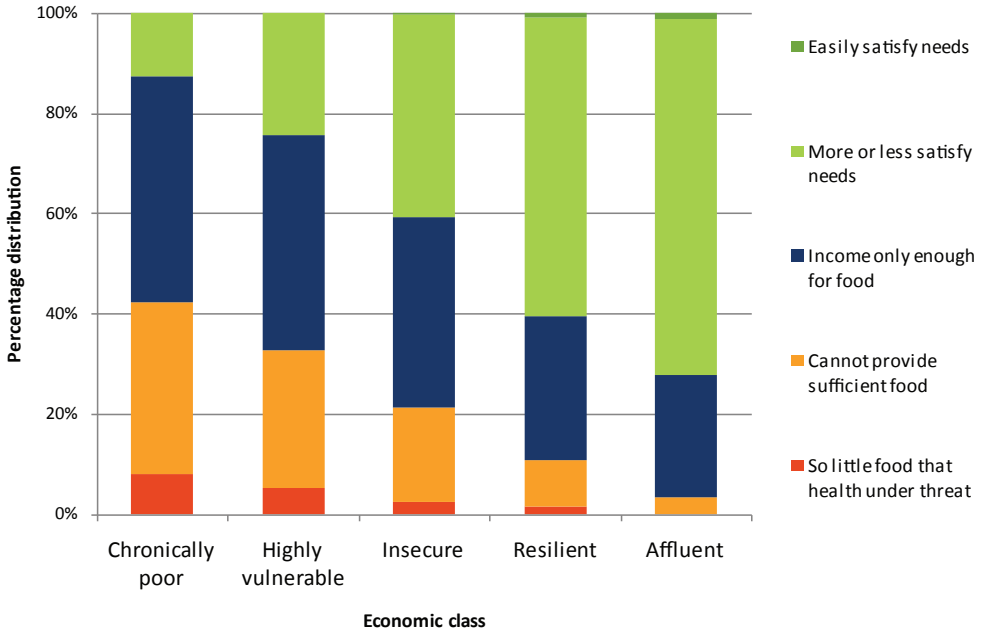
The same point is also illustrated by Figure 2.6, which examines the distribution of economic classes across expenditure quintiles for households with children, but this time only focusing on 2013. While those living in chronic poverty and the affluent are restricted to the bottom and top quintile, respectively, the other economic classes are spread across all quintiles, further emphasising the dynamic nature of household wellbeing and the insecurity of the majority of households with children. Indeed, the main characteristic of "resilient" households is that they are not found in the poorest quintile. Nonetheless, many of them have relatively low expenditures, suggesting that their resilience is marginal and that they may well fall into poverty in the future. Furthermore, nearly a third of households in the richest quintile in 2013 were insecure, meaning that they had experienced poverty in either 2009 or 2011.

Figure 2.6: Distribution of economic classes of households with children by quintile in 2013



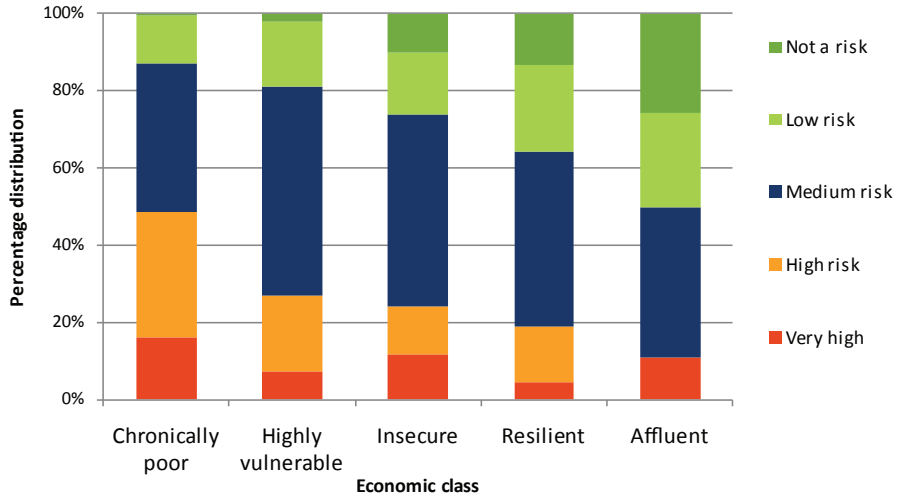
In fact, the perceptions expressed by households themselves resonate with the findings on insecurity set out in this section. A high proportion of families feel highly insecure and unable to cope, irrespective of their present incomes. Figure 2.7 examines households with children, outlining their own assessment of their economic situation: in 2013, the majority of highly vulnerable and insecure households with children felt, at best, that they could only provide food for their families. Many felt unable to do even that. Indeed, even among those classified as resilient or affluent, there is a reasonably high proportion of households with children believing that they could do no better than only satisfy their food needs. This does not give the impression of children living in secure environments; in fact, overall, 58% of children lived in households that did not feel they could satisfy their basic needs.

Figure 2.7: Self-assessment of economic wellbeing among households with children by economic class, 2013



When looking to the immediate future, a reasonable proportion of households were relatively pessimistic about their prospects. In 2013, a total of 26% of households with children believed that they faced at least a high risk of not being able to satisfy their minimum needs, which could significantly impact on the wellbeing of their children. Figure 2.8 shows that the households with the highest perception of risk were, unsurprisingly, those living in chronic poverty, around a fifth of households that were highly vulnerable, insecure and resilient were also very pessimistic about their prospects. Indeed, a significant fear of the immediate future could also be found among around 11% of affluent households.

Figure 2.8: Perceived level of risk that the household will be unable to satisfy its minimum needs during the next 12 months by economic class, 2013



2.2. Challenges faced by highly vulnerable and insecure families

Analysis of the WMS data set enables further insights into the livelihoods of children and their families across the income spectrum and demonstrates that highly vulnerable and insecure households face a wide range of challenges. This section describes in more detail the situation for children in Georgia, with a particular focus on those that are highly vulnerable and insecure.

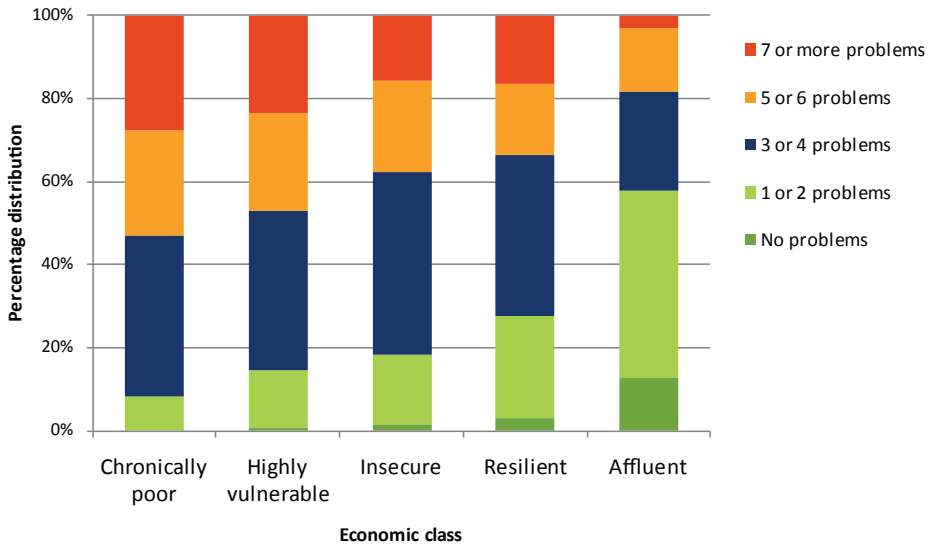
Table 2.2 outlines a range of challenges that households with children have highlighted they face, examining differences across economic classes. It is evident that challenges are not only experienced by those living in chronic poverty but also by those that are highly vulnerable and insecure. Indeed, many resilient and affluent households also experience these challenges, indicating that even they recognise a need for higher incomes if they are to satisfy their minimum needs. For example, 35% of insecure households and around half of those that are highly vulnerable struggle to purchase clothes; 19% of insecure households and 23% of those that are highly vulnerable find it difficult to buy essential school items for their children; and, particularly worryingly, between 29% of insecure households and 37% of the highly vulnerable experience hunger (as do 19% of those classified as resilient). Furthermore, effective child development also requires that children be able to access leisure and other entertainment activities, yet over 40% of insecure households and 46% of those in resilient household find this difficult, indicating how much household incomes are squeezed even among those that appear to be more secure.

Table 2.2: Percentage of households with children experiencing selected problems and challenges by economic class, 2013

	Economic class				
Problems/challenges	**Chronically poor**	**Highly vulnerable**	**Insecure**	**Resilient**	**Affluent**
Hunger	48	37	29	19	7
Buying medicines	70	73	66	54	37
Unemployment	93	85	78	71	44
Medical services	45	50	46	43	15
Buying school items	27	23	19	18	10
Housing conditions	52	43	32	28	22
Furniture	35	30	24	25	10
Buying clothes	55	49	35	32	24
Leisure, entertainment	42	36	40	46	32
Paying debt/bank loans	24	26	31	38	37
Paying utility charges	30	29	30	38	20

In fact, as Figure 2.9 indicates, almost all households with children face at least one of the challenges outlined in Table 2.1. Furthermore, even the vast majority of resilient households face at least three challenges, while over 40% of highly vulnerable and insecure households experience more than five of these problems. Indeed, it could be argued that the vast majority of households believe that they are insecure in some way and are facing a struggle in raising their children.

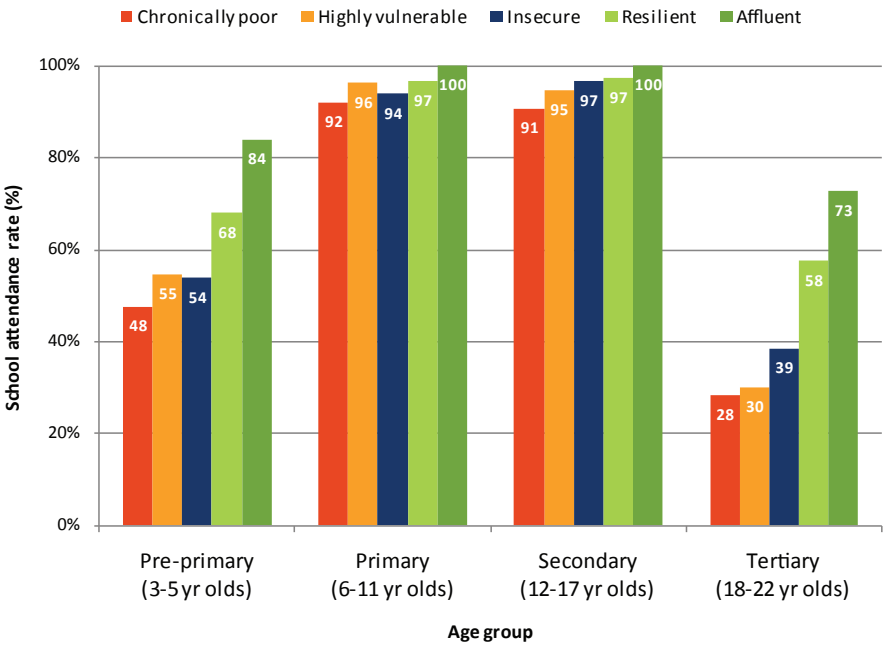
Figure 2.9: Average number of challenges reported by households with children in Table 2.1 by economic class, 2013



Although, in 2013, almost all children between the ages of 7 and 15 years in Georgia were able to attend school, many younger and older children were not so lucky, and the challenges are not restricted to those living in chronic poverty. Figure 2.10 demonstrates that only among children living in affluent households were the vast majority able to access pre-primary school — many children in less secure classes were excluded. Similarly, it is only among the affluent class that all children were able to access primary and secondary school. Furthermore, the majority of children from households living in chronic poverty, high vulnerability to poverty or insecurity were unable to access tertiary education. Almost certainly, this reflects the broader vulnerability

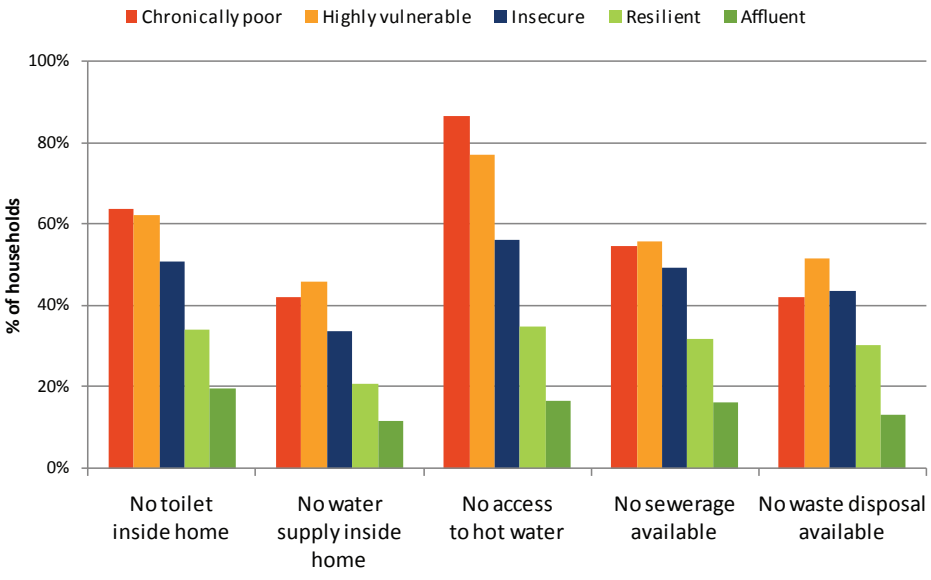
and insecurity of these households. More importantly, the more limited access of these children to education will affect their longer-term prospects and reduce their productivity as future workers. Ultimately, this will negatively affect the economic wellbeing of the nation.

Figure 2.10: School attendance rates by level of education and by economic class, 2013



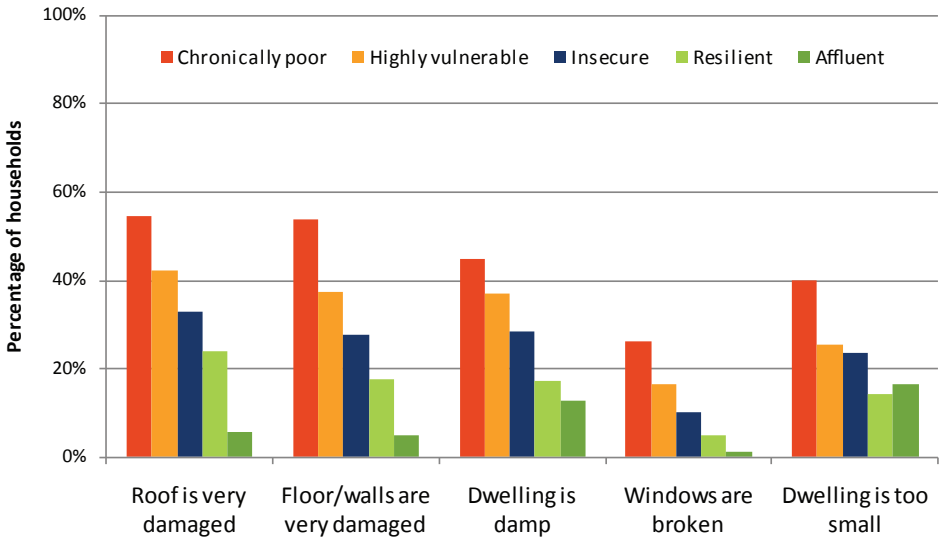
A high proportion of vulnerable and insecure households with children are unable to access essential utilities and experience poor quality housing conditions. Yet a good quality home environment is a key factor in child development. So, while the vast majority of households with children have access to improved water sources and electricity or gas, as Figure 2.11 shows, many are deprived of other essential utilities. For example, over half of highly vulnerable or insecure children cannot access hot water and around half live in houses without sewerage.

Figure 2.11: Lack of access to selected essential utilities among households with children by economic class, 2013



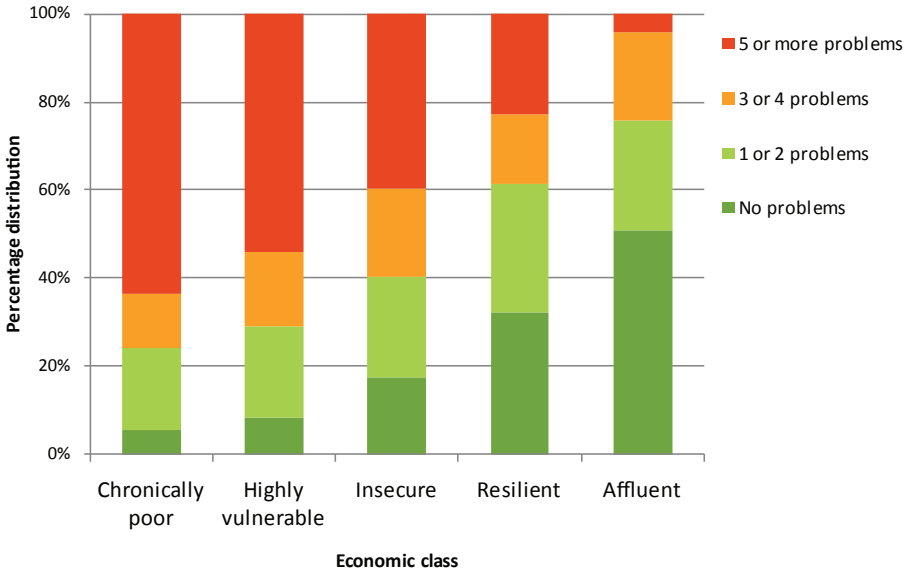
Furthermore, many children in highly vulnerable and insecure households live in poor quality housing. Figure 2.12 shows that a third of insecure households with children live in houses with a very damaged roof, some 28% are in dwellings with very damaged walls and/or floors and nearly 30% live in dwellings that are damp. It is only among the affluent that housing conditions are consistently much better yet, nonetheless, some live in poor quality housing.

Figure 2.12: Quality of housing in households with children by economic class, 2013



However, Figures 2.11 and 2.12 underestimate the real extent of the challenges facing families with regard to access to utilities and housing conditions, since they only examine individual difficulties. As Figure 2.13 indicates, a much higher proportion of families with children are facing multiple challenges. Overall, nearly 40% of households with children experience at least five different challenges related to their living environment, including even a significant share of families classified as resilient. The vast majority of families face at least one challenge with regard to housing conditions or access to utilities.

Figure 2.13: Average number of challenges with regard to housing conditions and access to utilities among households with children by economic class, 20133

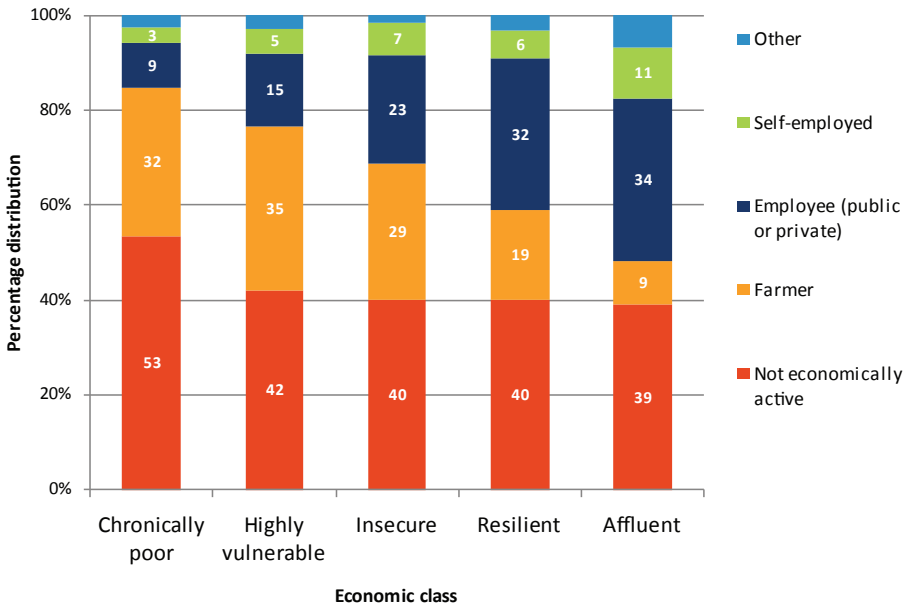


3 This table only uses the challenges outlined in Figures 2.11 and 2.12.

If children are to develop well and become fully productive members of society, they should be brought up in houses meeting a minimum set of conditions. A good home environment is critical for children's health and their ability to study outside school. Yet many children in Georgia miss out, hindering their development. While the situation is worse for children living in chronic poverty, a high proportion of those that are highly vulnerable to poverty or insecure also experience these deprivations. Indeed, poor housing is a clear indication of the continuing financial challenges facing the vast majority of households in Georgia.

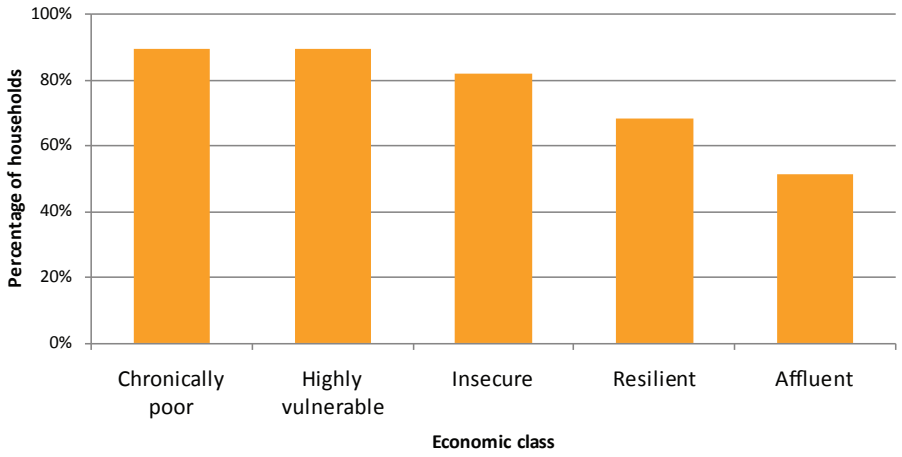
The challenges faced by the children of insecure families are linked, in part, to their carers' relationship to the labour market. As Figure 2.14 indicates, very few adults in highly vulnerable and insecure households with children are in regular employment and receiving a predictable monthly income. In fact, among insecure households, around 40% of adults are not economically active while 36% either live off the land or are self-employed. The nature of this employment does not deliver income security, meaning that these households are more likely to be exposed to the risk of falls in income, perhaps due to poor harvests, the death of livestock or illness.

Figure 2.14: Employment status of working age adults in households with children by economic class, 2013



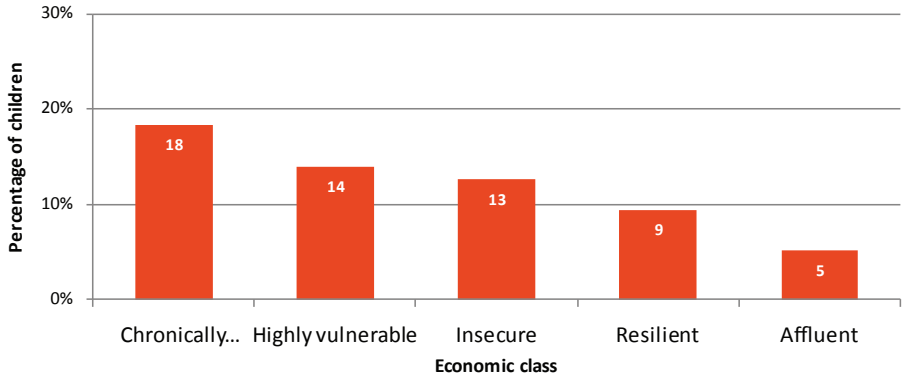
Furthermore, unemployment is a challenge experienced by the vast majority of households in Georgia. Overall, around 79% of households with children perceived unemployment to be an issue for their households, likely meaning that either an adult in the household was unemployed, had been recently unemployed or was fearful of unemployment. As Figure 2.15 shows, unemployment is a particular challenge even for those classified as resilient and affluent and, necessarily, reduces household income and restricts the ability of households to invest in their children.

Figure 2.15: Proportion of households with children experiencing the challenge of unemployment by economic status, 2013



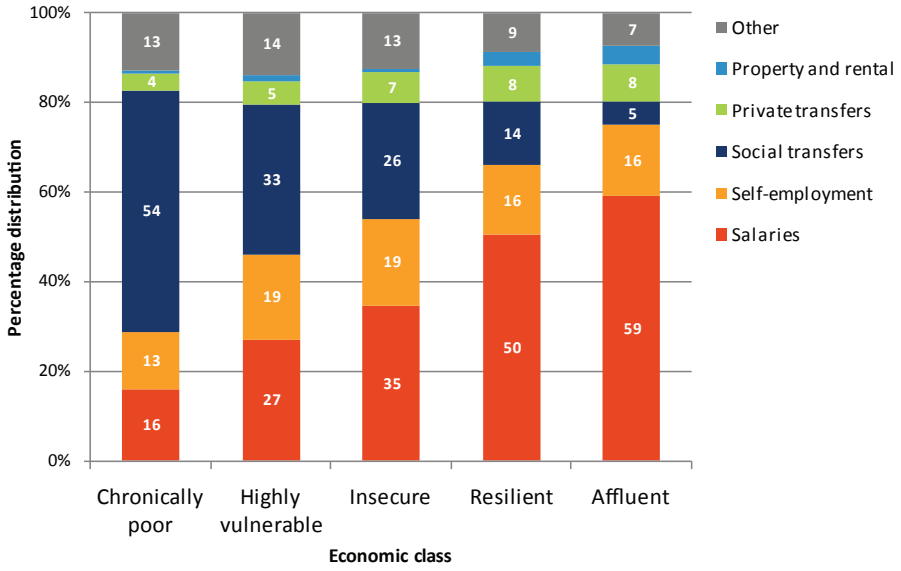
In fact, around 12% of children live in households without any employed working age adult, either due to the disability or unemployment of adults. As Figure 2.16 shows, the more insecure the household, the more likely they are not to have a working age adult in employment. All of these households will either experience some heightened degree of risk or, as discussed below, will be dependent on social transfers, in particular old age pensions.

Figure 2.16: Percentage of children living in households without an employed working age adult by economic class, 2013



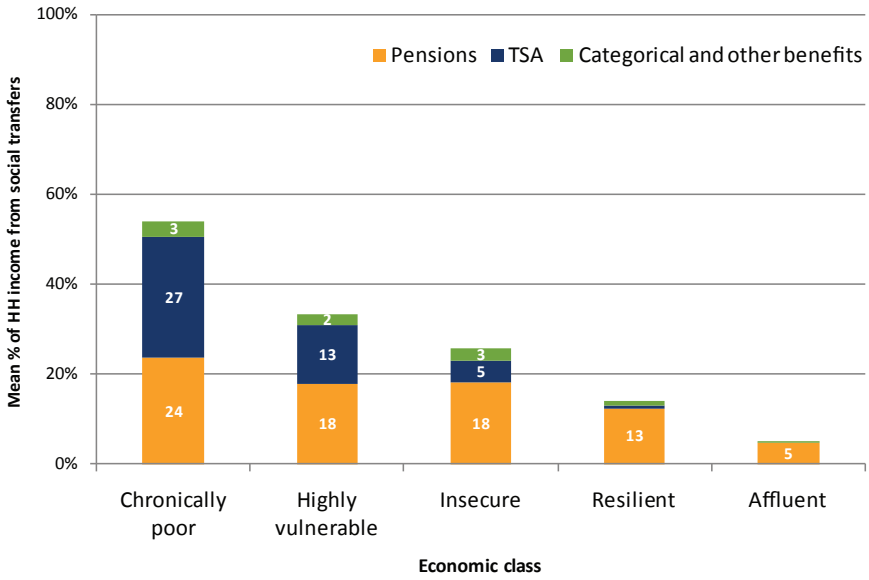
As with employment, the main sources of income for households with children vary across economic classes. Figure 2.17 demonstrates that, while there is a significant dependence among those living in chronic poverty on social transfers – where it comprises over half of all income – the proportion is reduced among those that are insecure, although is still relatively high at just over a quarter of total income (and 33% for those highly vulnerable to poverty). In fact, only 35% of household income among the insecure and 27% among the highly vulnerable comes from salaried employment. The reliance on more unpredictable income from self-employment is highest among those who are either highly vulnerable or insecure. In fact, a key factor characterising resilient and affluent families is their greater dependence on salaries and reduced reliance on social transfers. Furthermore, the more resilient and affluent households with children also have greater access to support from others, classified here as "private transfers". It is the poorest and most vulnerable households that are likely to experience greater social exclusion, as indicated by their lower access to support from their wider kinship networks.

Figure 2.17: Sources of income for households with children by economic class, 2013, as a proportion of average income for that class



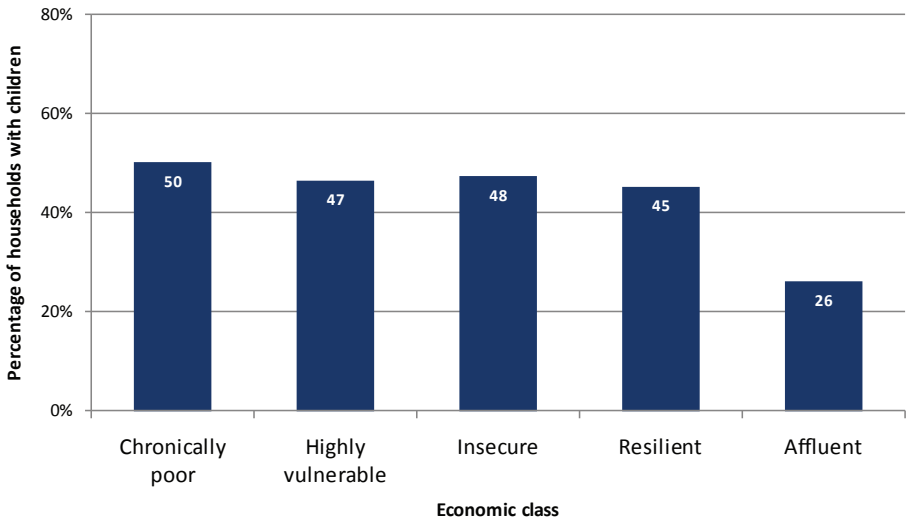
Those living in chronic poverty, the highly vulnerable and the insecure have a relatively significant degree of dependence on social transfers, however the nature of this dependence varies. As Figure 2.18 demonstrates, those households living in chronic poverty have the greatest dependence on the TSA rather than on pensions (although pensions are still a significant source of income). However, as households become more secure, old age pensions play a more prominent role. Indeed, without access to old age pensions, many insecure households with children would be in a much more difficult position.

Figure 2.18: Average share of income derived from social transfers in households with children by economic class, 2013



The dependence of households with children on old age pensions is related to the demographic composition of households, as illustrated in Figure 2.19. Overall, nearly half of households with children (46%) have at least one pensioner in the household, while 47% of children live with a pensioner. It is only among the affluent that the prevalence of both children and pensioners in the household drops significantly. In fact, it may be possible that children are moving in with old age pensioners due to the greater income security provided by access to a pension; 35% of insecure households with children receiving the TSA are headed by a pensioner, while this rises to 44% among those not in receipt of the TSA. This dependence on old age pensions among highly vulnerable and insecure households with children is discussed further in Chapter 4.

Figure 2.19: Households with children that contain at least one pensioner by economic class, 2013



2.3. Summary

As this chapter has shown, static poverty rates can lead to misunderstandings by policymakers when trying to understand the challenges faced by citizens. Although the child poverty rate in 2013 was 28%, in reality over a five-year period, from 2009, a total of 67% of children had spent at least one year living in poverty. These households experience high levels of vulnerability and insecurity, and indeed, the proportion of children living in secure, affluent households is no more than 4%. Social policy needs to be designed to respond to the dynamic nature of household wellbeing.

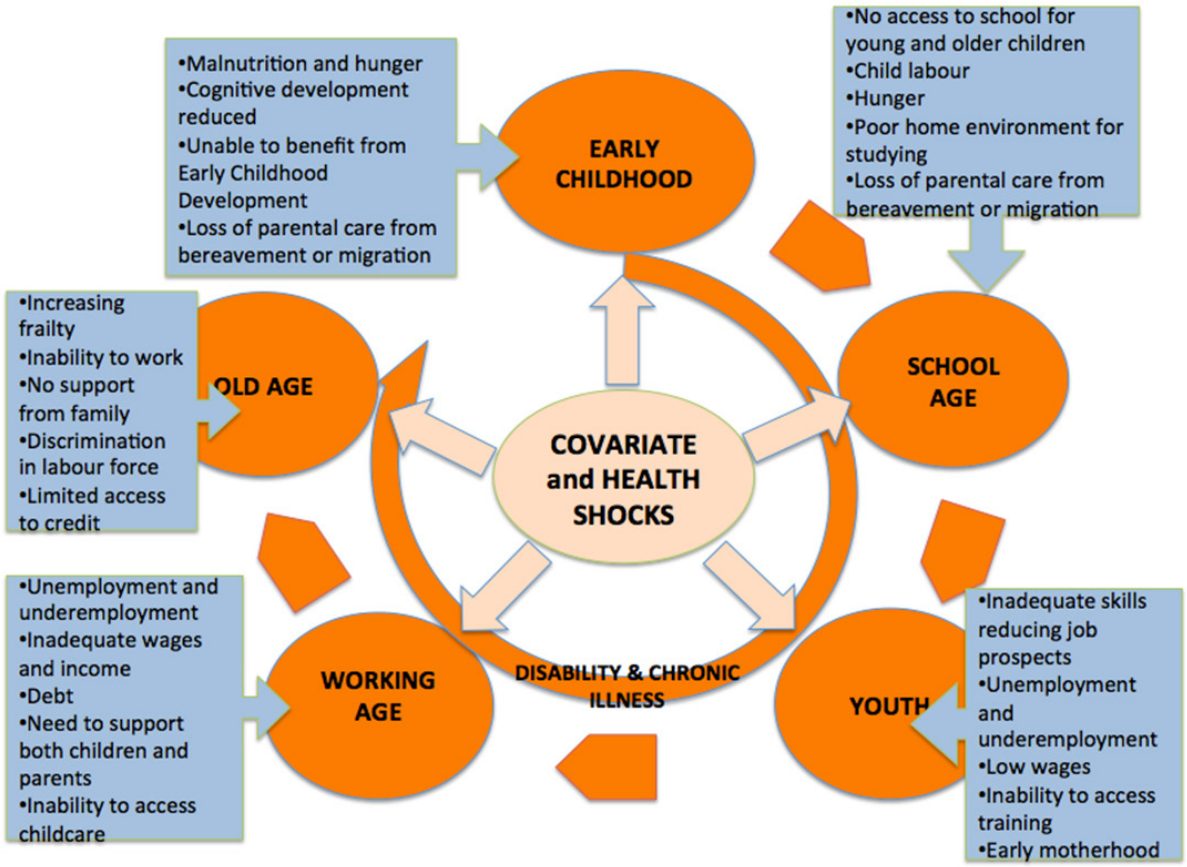
The poverty, vulnerability and insecurity experienced by the majority of households with children in Georgia is reflected in poor housing conditions and concerns expressed by families about making ends meet, with many vulnerable and insecure households struggling to feed themselves and provide for their basic needs. These households have limited access to regular employment and salaries, and many depend on old age pensions. The following chapter will assess the extent to which the current social security system in Georgia is responding to the challenges facing the majority of families with children.

3. SOCIAL SECURITY IN GEORGIA AND ITS EFFECTIVENESS IN ADDRESSING CHALLENGES FACED BY CHILDREN

During the past century, an international consensus has been reached that an effective social security system is an essential component of a successful market economy. As a result, over this period developed countries have invested a significant proportion of their national wealth in social security, currently averaging around 14% of Gross Domestic Product (GDP). This investment has grown steadily since the 19th century and has underpinned the social and economic success of developed countries, ensuring greater harmony and social cohesion, playing a key role in tackling poverty and inequality, facilitating the labour market engagement of people, reducing the exposure of individuals and families to shocks and crises, and stimulating economic growth by generating greater consumption and demand in the economy. National social security systems have been developed that enable innovators and entrepreneurs to enjoy the fruits of their labour while redistributing a portion of the nation's wealth to those who are less fortunate or face significant disadvantages.

The social security systems of developed countries have evolved to address the main risks and contingencies faced by individuals throughout the lifecycle. There are many causes of poverty and insecurity but many are related to stages in an individual's lifecycle, from childhood to old age. Indeed, the challenges faced by individuals vary as they move across the life course. Figure 3.1 summarizes the type of challenges faced by individuals in Georgia that could be addressed by social security schemes. Furthermore, the challenges faced by an individual also impact other people within their families, households and broader kinship and social networks. So, for example, the growing frailty of an older person impacts their children, who often divert resources from their own children to care for the parents; similarly, the birth of a child may lead a mother to leave work, reducing family income just at the time when costs are rising.

Figure 3.1: Risks across the lifecycle that could be addressed by social security schemes



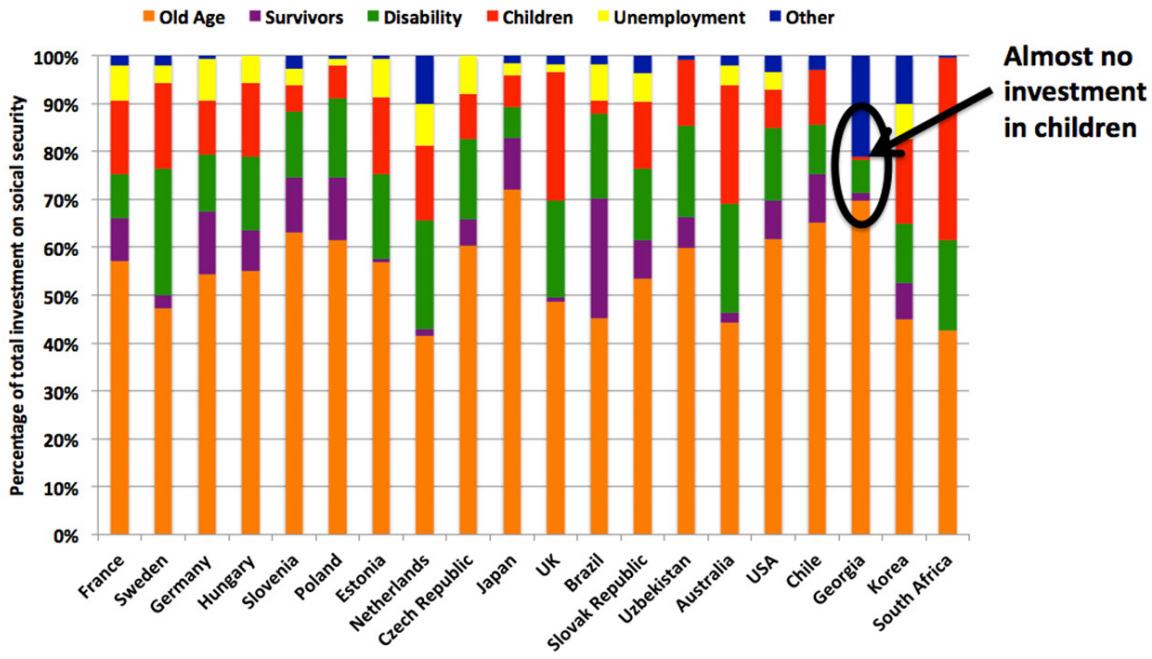
The main lifecycle contingencies addressed by the social security schemes of developed countries are childhood, disability, widow(er)hood, old age and unemployment. As a result, the main schemes offered tend to be child benefits, disability benefits, old age and survivors' pensions and unemployment benefits. In addition, developed countries usually establish small Poor Relief schemes for those living in extreme poverty, which tend to be tiny residual programmes, with minimal investment. In fact, as Box 4 explains, many developed countries have moved away from a focus on Poor Relief, which dominated social security spending in the 19th century, towards building inclusive lifecycle systems.

Box 4: Poor relief in nineteenth century Europe

In the 18th and 19th Centuries, a number of European countries established social security schemes targeted at the "poor" in general (often known as Poor Relief). For example, England's Poor Laws required an investment of 2.7% of GDP by 1820 (Lindert 2004). These Poor Relief schemes were developed while these countries still had authoritarian governments. However, as democracy strengthened, the levels of investment in Poor Relief fell, with expenditure in England, for example, falling to 0.75% of GDP by 1880. The fall in investment was the result of the middle class gaining the vote and opposing their taxes being spent on the "poor," while they themselves were excluded. In response to the demands of the middle class, developed countries began to move towards an inclusive lifecycle model of social security that also benefitted the middle class, with Poor Relief eventually comprising only a tiny proportion of investment in social security transfers. The first lifecycle schemes introduced were old age pensions, but eventually other schemes such as child, disability and unemployment benefits were introduced. Eventually, access to social security came to be recognised as a basic human right in the Universal Declaration of Human Rights of 1948, with a focus on its capacity to address lifecycle contingencies.

In recent decades, a number of middle-income countries have also begun to introduce lifecycle social security systems. Georgia is among them, in particular through its strong commitment to old age pensions and disability benefits. Figure 3.2 indicates the distribution of investment in social security across a number of high- and middle-income countries. In general, the highest levels of investment are on old age pensions, but most countries also have significant spending on disability benefits, survivors' pensions, unemployment benefits and child benefits (see Annex 8 for a graph showing absolute levels of investment in these countries).

Figure 3.2: Relative proportion of investment by developed and middle-income countries in lifecycle schemes4



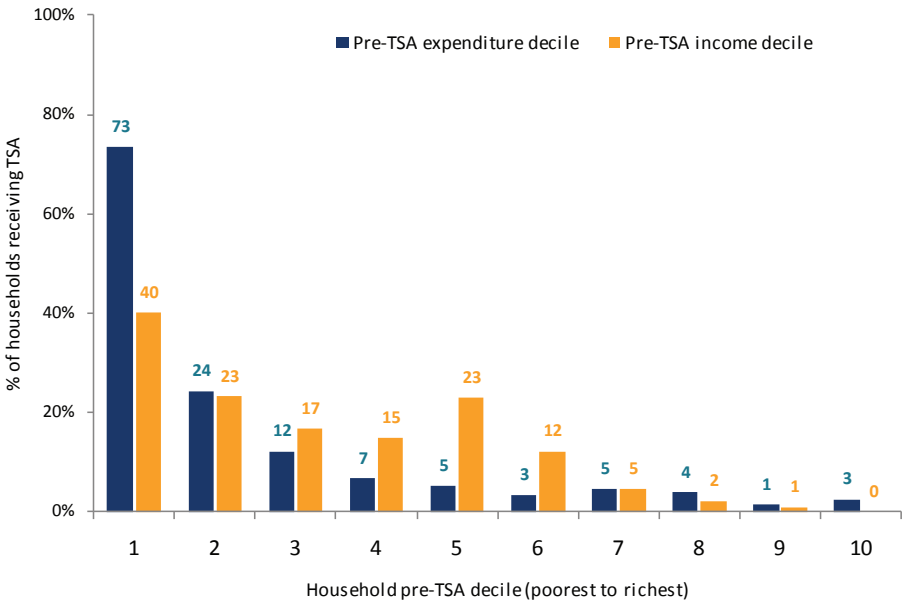
4 Sources: OECD social expenditure database

However, Georgia stands out as an exception due to its very limited investment in social security benefits for children, which, in 2014, was only 0.04% of GDP. Yet, as Figure 3.2 indicates, it is normal for developed countries to have extensive systems of income support for children while a number of other middle-income countries have, in recent years, also begun to invest in child benefits such as: Brazil (0.3%), Argentina (0.5%), Chile (0.7%), South Africa (1.1%), Mongolia (1.5%) and Uzbekistan (1.5%). In developed countries child benefits are complemented by additional investment in children through maternity benefits, childcare services, early childhood development centres and child protection.

Until early 2015, the main avenue of income support for children in Georgia was through the Targeted Social Assistance (TSA) scheme, although support was indirect, since it was provided to the household. The TSA programme has grown since its inception in 2006 and, in early 2015, reached around 15% of households (144,000 in total), although only 104,000 children – 14% of children aged 0-16 years – were incorporated. Overall, in 2014, the programme cost around GEL284 million ($126 million), around 0.93% of Georgia's GDP.

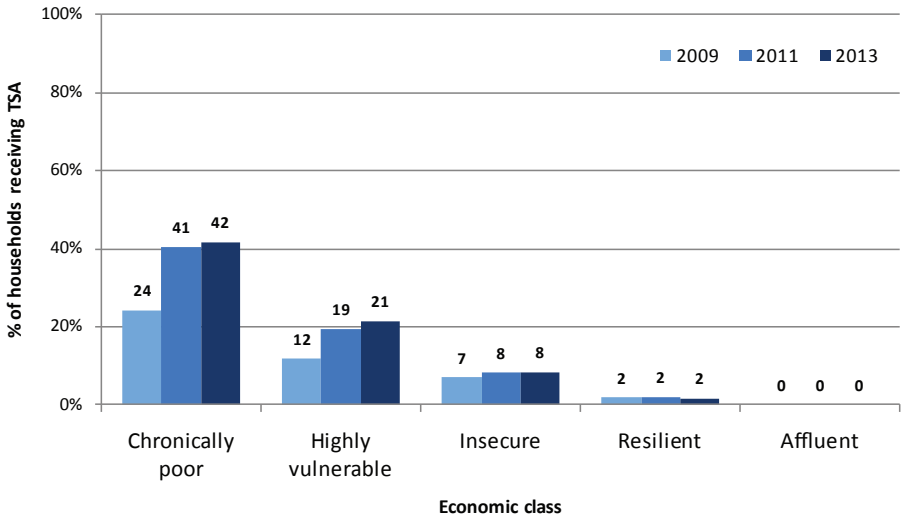
However, the TSA is not particularly effective at reaching its target group of 15% of households. In 2013, only 56% of the poorest 15% of households – when measured against expenditure – were able to access the TSA, meaning that 44% missed out. Furthermore, when measured against household incomes, 66% missed out. A similar picture is apparent in Figure 3.3, which shows that the coverage of the poorest households by the TSA – when measured by their income – is limited. Indeed, the coverage of the TSA between deciles two and six is relatively constant.

Figure 3.3: Percentage of households receiving the TSA by pre-TSA income and expenditure decile, 2013



Of even greater concern is the limited access of households with children living in chronic poverty – who should be a priority group – to the TSA. As Figure 3.4 indicates, in 2013, only 42% of these households received the TSA. Furthermore, only 15% of those in chronic poverty received the TSA in all three years of the WMS panel survey (2009, 2011 and 2013), despite the fact that they were consistently living in poverty. So even among this priority group, the vast majority of children missed out on the TSA, which will no doubt harm their long-term development.

Figure 3.4: Coverage of the TSA among households with children by economic class, 2009-2013



It is unsurprising that the TSA is relatively inaccurate in its selection of beneficiaries given that it uses a proxy means test methodology, which is well known for having significant built-in design errors (Kidd and Wylde 2011). Yet the TSA is one of the best-targeted Poor Relief scheme in developing countries. So, realistically, it is unlikely that the selection of beneficiaries could be improved much more.[5] Furthermore, the high rate of income dynamics in Georgia is likely to mean that the targeting effectiveness of the TSA will continue to vary year on year.

In fact, the TSA suffers from the challenge of estimating only static poverty and cannot be responsive to changes in household wellbeing. Since it uses a proxy means test, which measures fixed assets and proxies, it cannot measure short-term changes in income. So, if a family experiences a crisis and falls into poverty, unless it dispenses with its assets – which would undermine the family's long-term recovery – the proxy means test would not predict that it is poor. Such a family would, therefore, be excluded from the TSA by the PMT. A targeting mechanism that requires families to divest themselves of their assets to qualify makes little sense since families require their assets to recover from their crisis.

Indeed, the TSA only offers families protection once they have fallen into poverty. It does not ***prevent*** families from falling into poverty if they experience a crisis. In contrast, as a universal scheme, the social pension helps prevent people from falling into poverty since even those above the poverty line are able to receive it. So, if a pensioner family experiences a crisis, it already has access to a social security scheme that may well cushion any fall in income and help keep the family out of poverty. Furthermore, evidence from universal pensions around the world indicates that they offer a ***promotive*** function: the security of knowing that the pension will never be withdrawn encourages older people – and their families – to invest in micro-enterprises, further improving the wellbeing of families.[6] In contrast, the TSA could be withdrawn at any time – if a family is found to be no longer "poor" – undermining the long-term security that encourages families to invest.

In fact, a further disadvantage of the TSA is that it potentially creates disincentives to work, due to its poverty targeting. These disincentives are most pronounced among single mothers; overall, women who receive the TSA are 9 to 11 percentage points more likely to be economically inactive when compared to women living in

5 The World Bank developed the Coady-Grosh-Hoddinott index to measure the efficacy of targeting. It examines the proportion of beneficiaries that are in the poorest 40% of the population. In Georgia, 85% of beneficiaries were in the poorest 40%, which would give a score of 2.1, which is the second best targeted programme found by Coady et al (2004).

6 See Kidd (2015) for further information.

non-participants' households[7] (Kits et al 2013). Given that the value of the TSA transfer has risen significantly since 2013, this disincentive effect is likely to have also risen, since the marginal rate of taxation associated with taking work will have grown. Similar disincentives have been found with poverty targeted programmes in Europe: schemes that select people living in poverty often encourage them to remain in poverty so that they can continue to receive the benefit (Kidd 2012). In contrast, the social pension does not create this disincentive since it is universal and is not withdrawn if recipients invest the transfer and improve their situation. The social pension, therefore, encourages people to be more affluent, while the TSA is designed to inadvertently encourage people to remain poor (a strange objective for social policy). Box 5 explains how poverty targeting generates marginal rates of taxation that discourage people from entering work.

Box 5: Poverty-based selection and disincentives to work – a simple illustrative example

Let us assume that a country provides families with young children with a social protection benefit of $10,000 per year. Choices on the selection mechanism are likely to have a significant impact on the actual incomes of those families.

In a country that only selects families earning less than $10,000, a family earning $9,000 would receive an income of $19,000. However, a family earning $11,000 would have the entire social protection benefit withdrawn – an extremely high marginal rate of taxation – leaving them with only their income from work, in other words $11,000. It would make sense for them to work less and earn $9,000 since this would increase their income to $19,000.[8]

In contrast, in a country providing universal benefits, a family earning $9,000 would have an overall income of $19,000 while a family with an earned income of $11,000 would have an overall income of $21,000. There would be no disincentive to work. Instead, work would guarantee a higher income. Children in these families would be much better off.

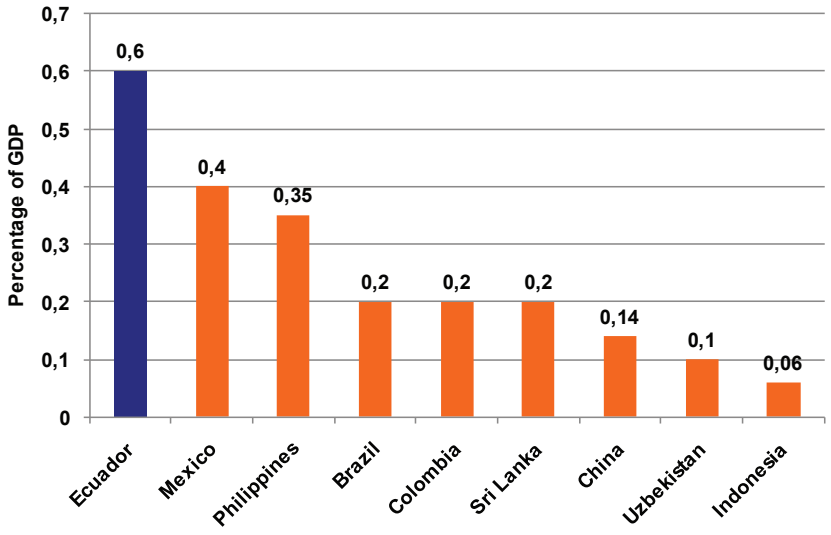
Despite its failings, the TSA is perhaps the largest and most generous Poor Relief scheme in the world. As Figure 3.5 indicates, its budget is significantly higher than other well-known Poor Relief schemes in developing countries. Indeed, the maximum budget in other countries is no more than 0.6% of GDP, which is only around two-thirds of the expenditure on the TSA, and the majority of countries invest less than 0.4% of their GDP. Yet some of these schemes have much higher coverage than the TSA, many reaching more than 20% of households. Furthermore, in general, the value of the transfers provided by other schemes is significantly lower than that of the TSA. While the TSA provides an average transfer equivalent to around 33% of GDP per capita, Brazil's famous *Bolsa Familia* scheme offers only 3.7%, China, 4%, the Philippines, 8%, and Indonesia, up to 7%.[9] This suggests that there is scope for Georgia to reduce the generosity of the TSA to bring it more into line with international experience and use savings in other more progressive schemes – such as a child benefit – that reach both TSA families and many others that are still insecure. Furthermore, given the targeting errors in the TSA, by allocating funds to more progressive schemes, the many households living in extreme poverty that are excluded from the TSA will be able to access to at least some assistance from social security. This is discussed further in Chapter 4.

7 Among men, there was no statistically significant effect.

8 Some developed countries try to use some form of tapering to reduce the benefit gradually and lower the marginal rate of taxation. However, this is very challenging to implement and, even in developed countries, can fail.

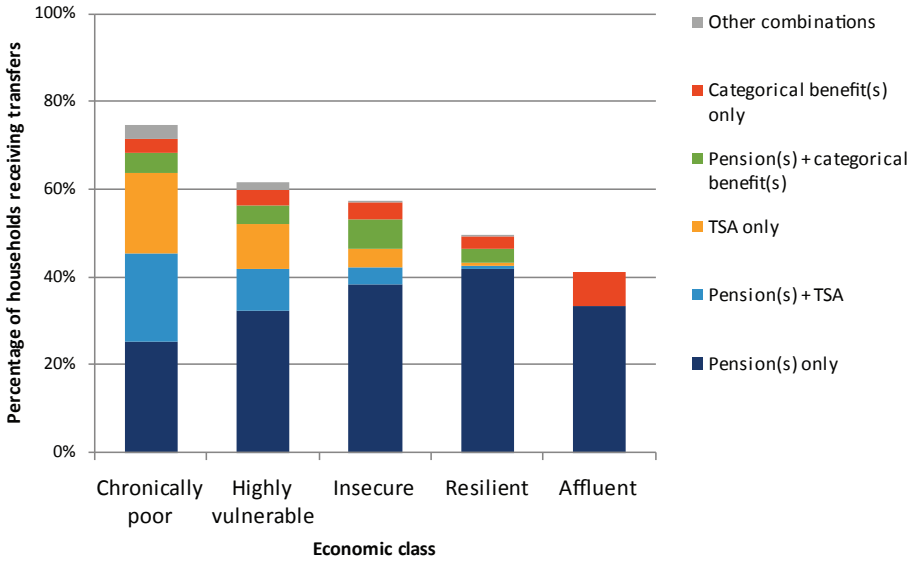
9 Kidd and Huda (2013) and Kidd and Damerau (2015). The value for Brazil refers only to the basic poor relief element of Bolsa Familia and not the additional child benefit.

Figure 3.5: Budgets of Poor Relief schemes in developing countries, as a percentage of GDP per capita[10]



Although the vast majority of children – including the highly vulnerable and insecure – do not have access to the TSA, they do still benefit from some social transfers. In fact, around 57% of children live in households receiving some form of social transfer. Figure 3.6 shows the proportion of households with children in each economic class receiving transfer income and the source of that income, in 2013. Among households living in chronic poverty, there was a similar level of dependence on old age pensions and the TSA. However, among highly vulnerable and insecure households, the pension was more important and the TSA much less so. Even among resilient and affluent households with children, a high proportion received old age pensions.

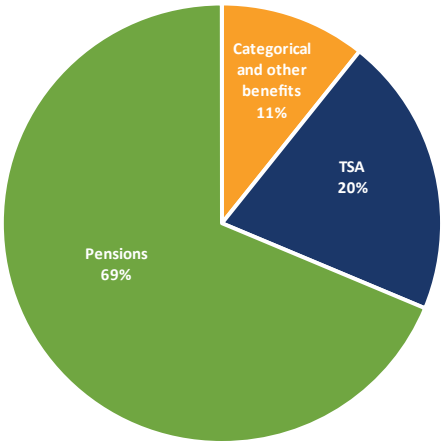
Figure 3.6: Percentage of households with children who receive social transfers by type of transfer and by economic class, 2013



10 Sources: Fiszbein and Schady (2009), Kidd and Huda (2013) and Kidd and Damerau (2015).

In fact, old age pensions are more effective than the TSA in tackling child poverty at the macro level. While social transfers overall reduced the national child poverty rate by 29% in 2013 (from a pre-transfer poverty rate of 40% to a post-transfer poverty rate of 28%), as Figure 3.7 shows, the pension contributed 69% of this reduction, while the TSA contributed only 20%. Yet it is not the role of pensions to tackle child poverty. The dependence of poor, vulnerable and insecure households with children on old age pensions should be a significant policy concern, since their use in supporting children detracts from their main purpose, which is to offer income security and dignity to older people. Indeed, the dependence of households with children on pension income is likely to undermine the wellbeing of many older people.

Figure 3.7: Relative contribution of different social transfers to reductions in the child poverty rate, 2013



Overall, in 2013, the vast majority of households with children were unable to access any form of social transfer meant specifically for children, despite their high levels of poverty, vulnerability and insecurity. Yet, as Chapter 2 indicated, if their children are to flourish, these households are in clear need of support from social security.

In response to this need, in May 2015, the government of Georgia introduced a Child Benefit of GEL10 per month for around 40% of children between the ages of 0 and 15 years (in other words, those with a proxy means test score of under 100,000).[11] The total cost of the benefit is around 0.1% of GDP, which – as indicated earlier – is a small investment compared to other high- and middle-income countries. Fiscal space for the Child Benefit was created by reallocating funds from the TSA budget surplus.[12] At the same time, the eligibility criteria of the TSA have been made more child-sensitive with the total number of TSA beneficiaries remaining the same, although the proportion of households receiving the TSA is likely to fall from 15% to 11%.[13]

According to Baum *et al* (2015) the combined TSA and new Child Benefit should reduce child poverty by around 11.5% – from 30.4% to 26.9% – while the national poverty rate should fall from 24.9% to 23.4%.[14] Figure 3.8 shows the likely change in poverty rates across age groups as the result of the reforms to the TSA (which is referred to as the status quo, since it is now implemented) when compared to no TSA and Child Benefit. The combination of the TSA and Child Benefit has brought about a significant improvement in the poverty rate among children, as well as across the working age population. Baum *et al* (2015) also provided evidence of how the introduction of the Child Benefit increased the impact of the previous TSA-only system.

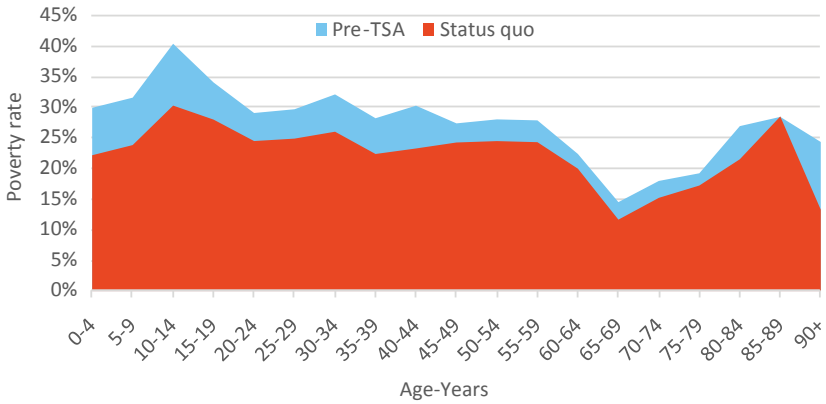
11 See Baum et al (2015) for further information on the introduction of the child benefit.

12 The TSA budget has a buffer and the child benefit is financed by this buffer.

13 This estimate is based on information in Baum et al (2015).

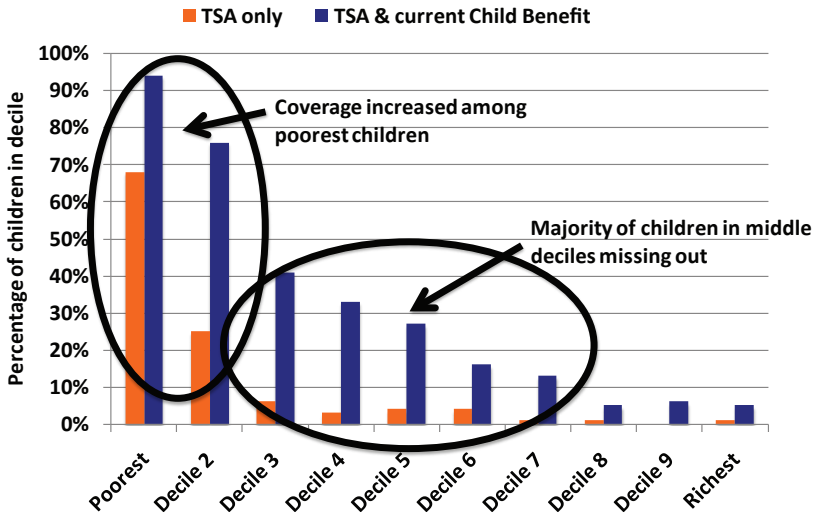
14 Baum et al (2015) used the Household Budget Survey data set – implemented by GeoStat – for these simulations which explains why the poverty rates are slightly different to those presented earlier, when the WMS data set was used.

Figure 3.8: Impacts across age groups of the current reforms to the TSA and the introduction of a Child Benefit



While the introduction of the Child Benefit to complement the TSA is an improvement over the TSA alone, it does not go far enough in addressing the real challenges experienced by the vast majority of the nation's children, which were highlighted in Chapter 2. As Figure 3.9 indicates, although the coverage of children in the poorest quintile of the population will improve significantly with the introduction of the Child Benefit, the coverage across deciles three to seven is relatively low, leaving out the majority of children and continuing to leave them both highly vulnerable and insecure. This is the result of the Child Benefit only reaching 40% of children under 16 years, despite many more children being in need.

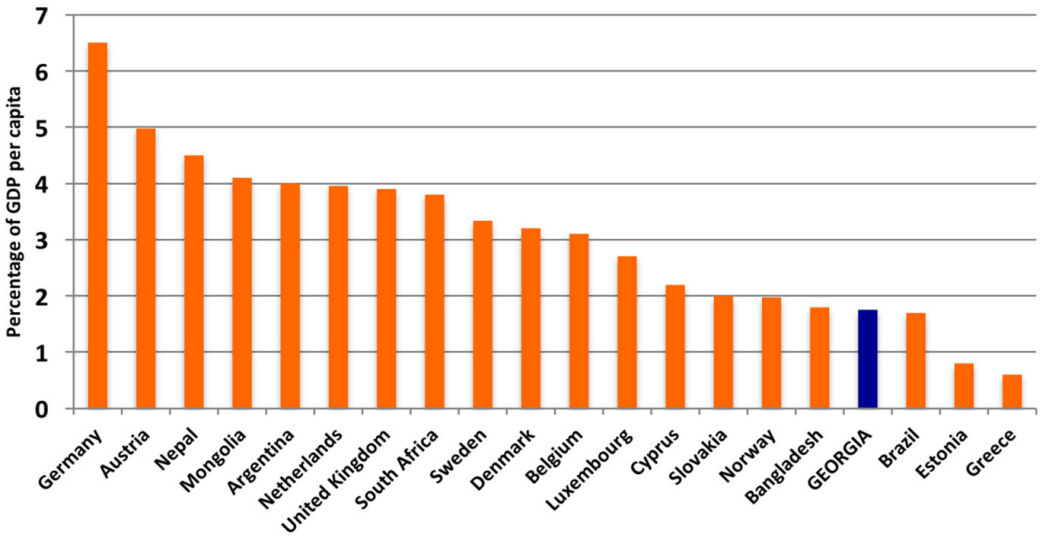
Figure 3.9: Comparison of coverage of children by the TSA only and the TSA with the new child benefit for children aged 0-15 years in eligible households[15]



Furthermore, the value of the Child Benefit at GEL10 per month is low by international standards and, as a result, its impacts on the wellbeing of children will be limited. Figure 3.10 compares the value of Georgia's Child Benefit – as a percentage of GDP per capita – with other child benefits across the world. Its value of 1.75% of GDP per capita is one of the lowest in the world and well below other middle-income countries such as Mongolia, Argentina and South Africa, and even Nepal, perhaps the poorest country in Asia. While it is on par with Brazil and Bangladesh, in both of these countries the value of the transfer is recognised as very low.

15 Eligible households are those with a proxy means test score of under 100,000, which is approximately 40% of children under 16 years.

Figure 3.10: Comparison of value of Georgia's child benefit with other countries[16]



Therefore, although Georgia's social security system is moving towards a lifecycle system, it still has significant gaps, in particular among children. Although the recent introduction of a Child Benefit has been a positive step forward, it is still insufficient to meet the needs of the vast majority of children who, as Chapter 2 indicated, are living in highly vulnerable and insecure households, with insufficient income to adequately care for and support them. The following chapter will, therefore, examine policy options for offering additional support to families in Georgia – in particular those of working age – to ensure that they are in a better position to give their children the best lives possible, while also reducing the burden on the old age pension, which, to a large extent, is taking on the role that should be performed by a child benefit.

Indeed, if Georgia is considering extending the Child Benefit, it could take lessons from the old age pension, which is one of the most successful schemes across developing countries (see Box 6). These key lessons include the effectiveness of universal provision and more generous values of benefits. If these lessons were adopted by Georgia for its Child Benefit, it would make a significant move towards the type of scheme that has been very successful in developed countries. In fact, 27 countries worldwide offer universal child benefits (ILO 2014).

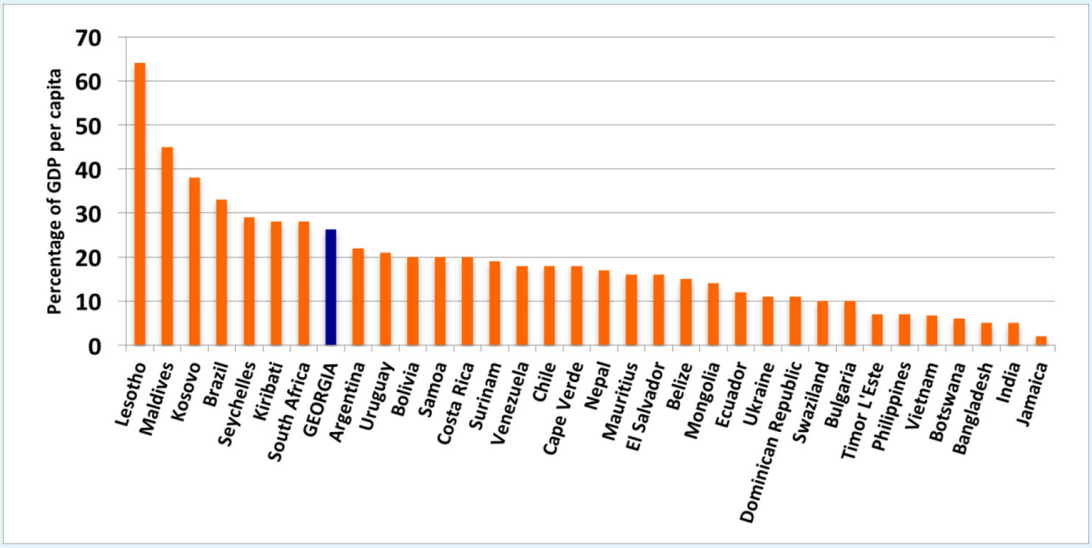
Box 6: Georgia's old age social pension – a lesson in success

Georgia's old age pension is, without doubt, the most effective social pension among developing countries. Georgia's investment of 4.3% of GDP in the pension is significantly higher than other developing countries and, as Figure 3.11 indicates, the value of the pension – as a percentage of GDP per capita – is also among the highest in the world.[17] Given that the older population will continue to increase, it is probably sensible for Georgia to limit any further increases in the value of the pension to inflation and invest additional resources in other social security schemes, such as the Child Benefit.

16 Source: Source: Kidd and Huda (2013), SASSA (2011), Baum et al (2015) and authors' calculations based on information provided by Hideyuki Tsuruoka, who obtained information from national government websites and the Eurostat database at: http://ec.europa.eu/eurostat/data/database.. The values of many of the European child benefits are for the first child only. For subsequent children, it is common for the value of the benefits to increase, per child.

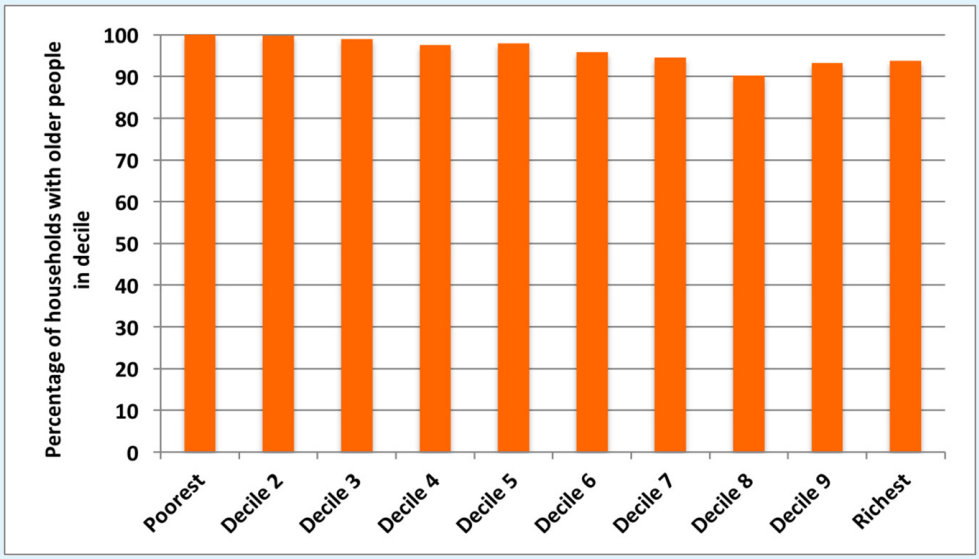
17 The increase in the pension value from GEL150 per month to GEL160, in September 2015, may have increased the cost of the pension as a percentage of GDP.

Figure 3.11: Value of Georgia's old age pension in comparison to other social pensions in developing countries[18]



The old age pension is particularly effective in its selection and includes almost all older people, in particular those living in poverty and who are highly vulnerable and insecure. Figure 3.12 shows the coverage of the pension across consumption deciles – using only households with older people – and demonstrates that almost all older people are able to access the programme, including those living in the greatest poverty, due to the universal nature of the scheme. This contrasts markedly with the relatively low coverage of the TSA and current Child Benefit, which exclude many of their target households and children in need.

Figure 3.12: Percentage of households with persons above the pension age that receive the old age pension, by expenditure decile (pre-transfer)



Of course, the pension could be improved in a number of ways. For instance, Georgia could introduce a contributory pension that enables those with higher incomes to save for old age themselves, and ensure they receive a higher value pension (see Kidd 2015 for more information on developing pension systems). Nonetheless, the effectiveness of the pension in addressing the needs of older people in Georgia provides important lessons on how to address the needs of children, in particular by offering universal or high coverage and a value of benefit that is in line with international good practice.

18 Source: Baum et al (2015), Kidd, Abu-el-Haj et al (2015) and Pension Watch database at: http://www.pension-watch.net

4. POLICY OPTIONS FOR STRENGTHENING CHILD WELLBEING

As discussed earlier, Georgia has begun to follow the path of most countries in building a lifecycle social security system. While progress has been made in developing effective and inclusive old age and disability pensions, the social security provision for children and working age families is much more limited. This chapter, therefore, will examine how Georgia can further strengthen its lifecycle social security system by expanding support to these two groups. Options that will be considered are an inclusive Child Benefit that aims to reach all children experiencing poverty, vulnerability and insecurity; maternity benefits, for women in work who give birth; unemployment insurance; and childcare provision for caregivers who want to return to employment after the birth of their children.

4.1. An inclusive child benefit

While Georgia's introduction in 2015 of a child benefit is a positive step forward, it still exhibits a range of weaknesses. As indicated earlier, the value of the transfer is low in international comparison while its coverage – at 40% of children under 16 years – means that a large number of children experiencing lives of insecurity and vulnerability to poverty are excluded from the scheme. Indeed, due to the inaccuracies of the proxy means test, even some of the poorest children will miss out. This compares to the efficacy of the universal pension, which reaches almost all older people, in particular those living in poverty and insecurity, while offering some of the most generous benefits in the world. As indicated by Box 6, its successful provision of high value transfers and high coverage is a model to be followed by the Child Benefit.

This section considers three options for expanding the Child Benefit, as set out in Table 4.1. Two options propose reducing the cost of the TSA to finance the Child Benefit, while the other proposes not cutting the TSA but providing a Child Benefit in addition to the TSA. The Child Benefit is proposed at a value of GEL25 per month – or 4.4% of GDP per capita – which, as Figure 3.10 indicated, is around the international norm used by more progressive child benefits. In all three options, the cost of the TSA would remain above that of the vast majority of other Poor Relief schemes in developing countries, so it could still be regarded as generous. And, of course, all TSA beneficiaries with children would receive the Child Benefit, in addition to the TSA benefit.

Table 4.1: Proposed child benefit options for Georgia

Option	Monthly value of transfer	Proportion of children under 16 years	Monthly child benefit budget	TSA budget	Annual cost of child benefit as % of GDP	Annual cost of TSA as % of GDP[19]	Additional funding required as % of GDP
1.	GEL25	70%	11,735,000	12,000,000	0.46%	0.46%	0.00%
2.	GEL25	70%	11,735,000	23,735,000	0.46%	0.92%	0.46%
3.	GEL25	100%	16,744,000	12,000,000	0.65%	0.46%	0.19%

The Child Benefit itself would cost between 0.46% and 0.65% of GDP, which is significantly less than what Mongolia and South Africa invest in their child benefits[20] (both also provide almost universal old age pension coverage and disability benefits). Furthermore, since the number of children is falling as a proportion of the total population, the Child Benefit should become even cheaper over time, as a percentage of GDP. The total additional cost of the options would vary: there would be no additional cost with Option 1, a small increase of 0.19% of GDP if the universal child benefit option were chosen (alongside a reduction in the TSA budget) and an increase of 0.46% of GDP if there were no reduction in the budget of the TSA.

19 The value of the TSA as a percentage of GDP is – at 0.92% of GDP – slightly lower than the figure reported earlier for the cost of the TSA in 2014 (at 0.93% of GDP). This is because the analysis has used the IMF's prediction for Georgia's GDP for 2015. See: the IMF's World Economic Outlook Database at http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx

20 Mongolia invests around 1.4% of GDP in its universal child benefit and South Africa invests around 0.9% of GDP.

The three options vary in terms of their coverage of the Child Benefit. Two of the options propose offering coverage to 70% of children aged 0-16 years, while the other proposes universal coverage. The 70% coverage is chosen because, as Figure 2.3 indicated, around 70% of children spent at least one year living in poverty between 2009 and 2013. Box 7 describes how 70% of children could be targeted. However, to accommodate the need to reduce the TSA budget under options 1 and 2, the TSA coverage is reduced slightly to around 10% of households (but remains the same as the status quo, under Option 2). The values of the TSA benefit and the proposed Child Benefit are explained in more detail below:[21]

- **Option 1: Expansion of the Child Benefit to cover 70% of children, funded through a reduction of the TSA programme.** Households receive TSA benefits of GEL37 and GEL30 for each member of the household if their proxy means test scores are below 30,000 and 57,000, respectively (this would limit coverage of the TSA to 10% of the population).[22] The value of the Child Benefit increases to GEL25 per month and its coverage is 70% of children, corresponding to children living in households with a proxy means test score below 151,550.
- **Option 2: Expansion of the Child Benefit to cover 70% of children and no change to the TSA programme.** Households receive TSA benefits of GEL60, GEL50, GEL40 and GEL30 for each member of the household if their TSA scores are below 30,000, 57,000, 60,000 and 65,000, respectively. The value of the Child Benefit increases to GEL25 per month and its coverage is 70% of children, corresponding to children living in households with a TSA score below 151,550.
- **Option 3: A universal Child Benefit, partially funded through a reduction of the TSA programme.** Households receive TSA benefits of GEL37 and GEL30 for each member of the household if their proxy means test scores are below 30,000 and 57,000, respectively (this would limit coverage of the TSA to 10% of the population). The value of the Child Benefit increases to GEL 25 per month and covers all children under 16 years of age.

Box 7: The mechanism for selecting 70% of children

If the 70% coverage option were chosen, the scheme could use a form of affluence testing to identify beneficiary children (although, in the simulations used in this paper, the proxy means test is replicated). An affluence test is different to poverty targeting in that it implies identifying those who are wealthier, rather than trying to identify those living in poverty. It is easier to identify those who are wealthier than those living in poverty since, as Figure 4.1 indicates, at the upper end of the wealth spectrum, there is greater differentiation in per capita consumption between households, whereas among the majority of the population, there is minimal difference.[23] It is, therefore, potentially easier to exclude those who are wealthier. South Africa's Child Support Grant reaches around 60% of children and uses a form of affluence testing.[24] Nonetheless, affluence testing does not entirely eliminate errors and is less effective than universal coverage in ensuring that all those eligible for the scheme are included. However, it does increase the chances of including the poorest children, compared to the much narrower targeting that is currently employed in Georgia.

21 The status quo is that households receive TSA benefits of GEL60, GEL50, GEL40 and GEL30 if their TSA scores are below 30, 000, 57,000, 60,000 and 65,000, respectively. Additionally, a child benefit of GEL10 per month is paid out for each child in households with a TSA score below 100,000.

22 As indicated earlier, with the introduction of the Child Benefit and the new TSA PMT formula, it is expected that the coverage of the TSA will fall to 11% of households anyway.

23 The greater differentiation between households begins at around the 90th percentile, so there are likely to be errors regarding households around the 70th percentile. Furthermore, due to income dynamics, accurately identifying households in any form of means test is not possible, even with an affluence test.

24 The South African Child Support Grant selects children using a means test with a high eligibility threshold. The means test is not verified.

Figure 4.1: Distribution of consumption among children, indicating how affluence testing could be employed

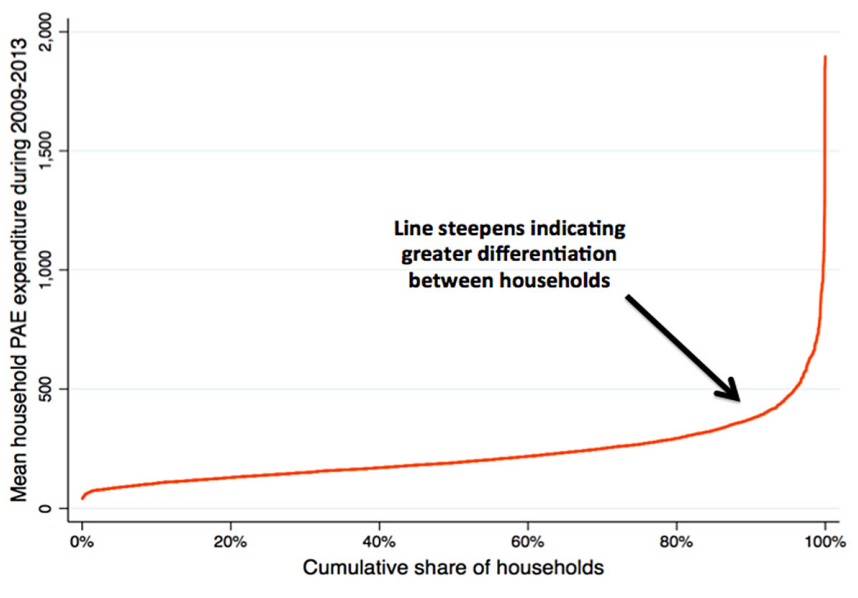


Table 4.2 compares the impacts on child poverty rates of the different TSA and Child Benefit options set out in Table 4.1, as well as the current status quo – the Child Benefit of GEL10 for 40% of children under 16 years.[25] All options bring about a decrease in child poverty compared to the current situation, and, unsurprisingly, Option 2 – which requires the largest increase in budget – delivers the most significant decrease, at 16.2%. But, of great interest, is the finding that Option 1 – which entails no increase in budget on the status quo yet reaches almost twice as many children – performs slightly better than the current status quo, reducing child poverty by a further 0.5%. Option 2 would also bring about a decrease in inequality compared to the status quo.

Table 4.2: Impacts of the Child Benefit options on child poverty rates and Gini co-efficients compared to the status quo[26]

Option	Poverty rate after Child Benefit	Poverty rate reduction compared to status quo	Gini co-efficient after Child Benefit	Gini co-efficient reduction.
Option 1.	24.1	- 0.5%	0.365	+ 2.3%
Option 2.	20.3	- 16.2%	0.350	- 2.0%
Option 3.	23.7	- 2.2%	0.365	+2.3%

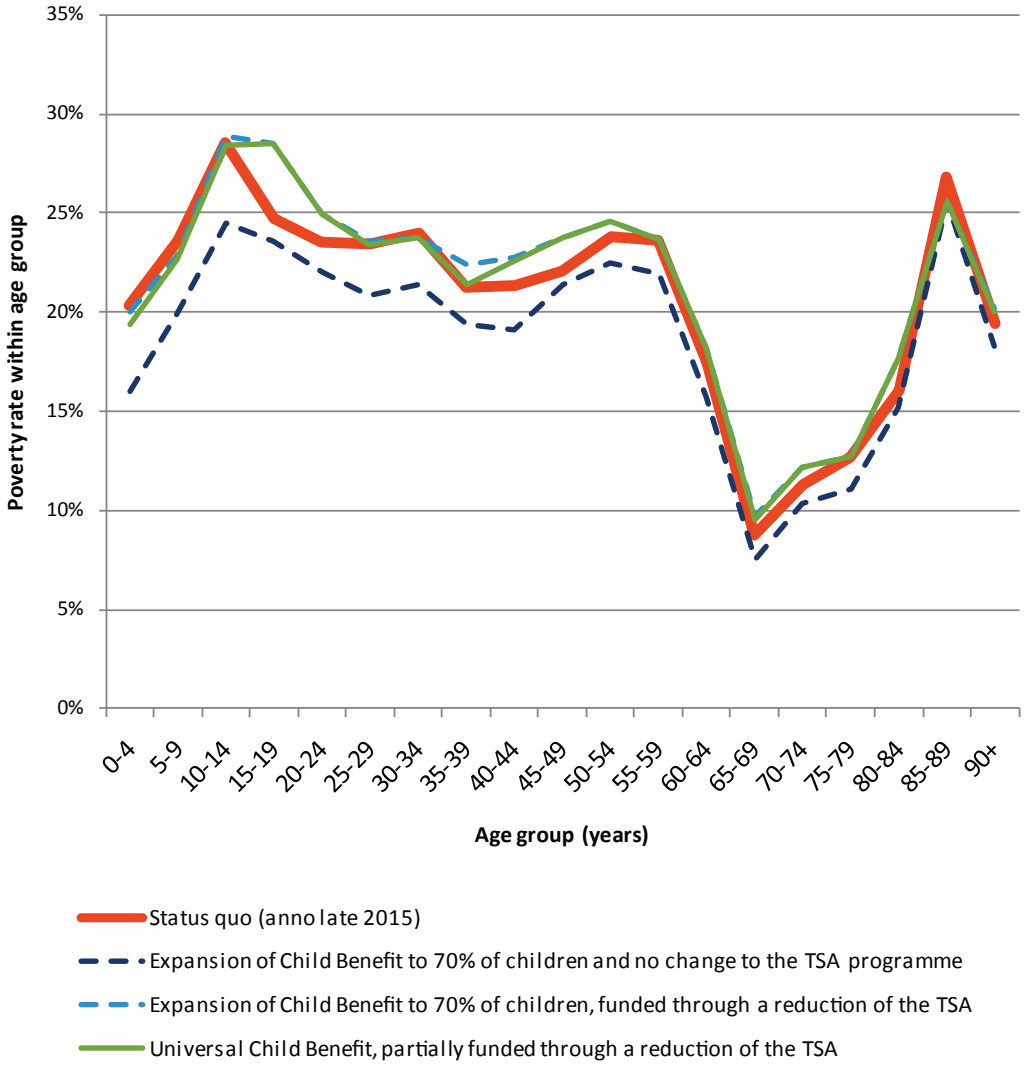
Figure 4.2 shows the impacts of the different options across age groups compared to the status quo. As indicated in the previous paragraph, all three options reduce the child poverty rate, although the status quo

25 The micro-simulations of the different policy options use consumption data from the Household Budget Survey (HBS) implemented by GeoStat in the third quarter of 2013 as well as information collected in early 2014 that was used to develop a new proxy means test formula to identify households living in poverty. The simulations use this new formula developed for TSA targeting, as it has been implemented since May 2015. The value of the old age pension has been increased to GEL160 in the computations to reflect the latest increase in September 2015.

26 Since a different dataset was used to estimate the results here, compared to those earlier in the paper, the poverty rate for children under the status quo is lower, at 24.2%.

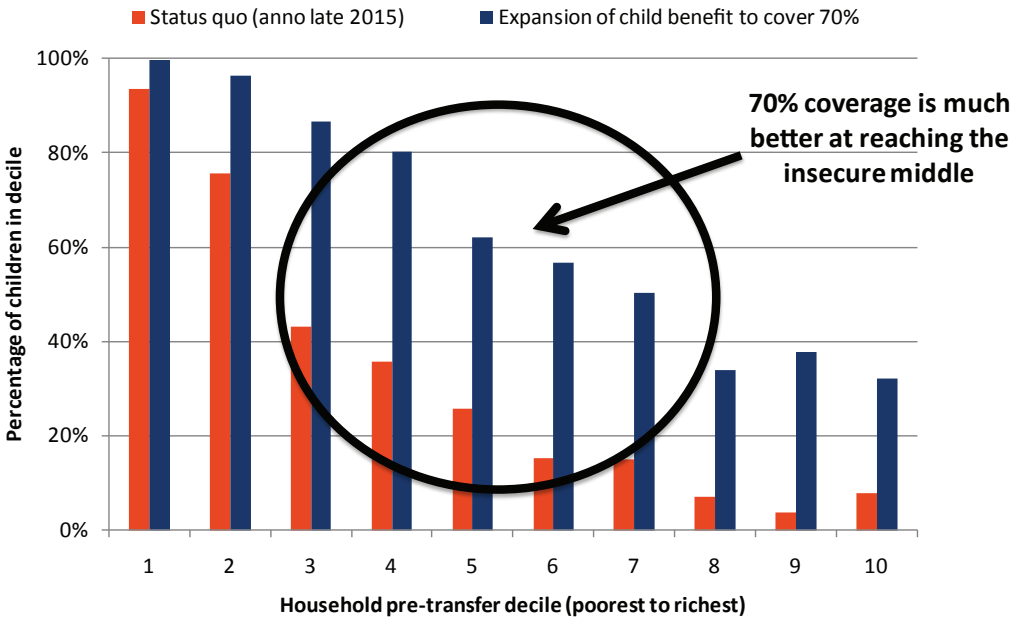
performs better than Options 1 and 3 among younger people (15 to 24 years) who are not reached directly by the Child Benefit and those aged between 35 and 50 years. Of course, if the Child Benefit were extended to incorporate 16 to 18 year olds, it would have a greater impact on older adolescents. The best performing option across all age groups is the Child Benefit for 70% of children, with no decrease in the TSA budget.

Figure 4.2: Impacts of the various child benefit options compared to the status quo



However, examining impacts on poverty rates provides only a limited picture of the true impacts of schemes. As this paper has shown, a high proportion of children in Georgia are insecure and in need of additional financial support from the State. One challenge with the status quo option – with a Child Benefit reaching only around 40% of children under 16 years – is that a high proportion of these insecure children receive no support at all. Figure 4.3 illustrates this point by showing the coverage across the consumption deciles – from poorest to richest – of the status quo and the options set out in Table 4.1 (apart from the universal Child Benefit). The status quo does not even reach all households in the poorest decile, despite being targeted at the poorest. Yet, when the Child Benefit is expanded to 70% coverage, a much higher proportion of the poorest households are reached. Furthermore, over 50% of those in the middle consumption deciles are reached, corresponding to many of the insecure children. In reality, if a new and more effective affluence test were designed, coverage would likely be even higher among insecure households.

Figure 4.3: Coverage of children by TSA and/or Child Benefit by household decile under different policy options



The most effective option is without doubt the universal Child Benefit, which is not shown in Figure 4.3, as it would ensure that ***all*** children in Georgia receive financial support, in particular the poorest and most insecure children. As demonstrated earlier, this could be achieved by an increase in budget of only 0.19% of GDP, if a decision were taken to reduce expenditure on the TSA.

4.2. Maternity and unemployment insurance

Two of the major "shocks" that can hit working age families are the birth of a child and unemployment. Yet Georgia provides no protection to its citizens when either of these contingencies occur. As a result – and as Box 3 indicated – the chances are significantly increased that childbirth and unemployment will push families into poverty. As countries develop, maternity and unemployment benefits are two of the key social security schemes that should be established.

While, in theory, maternity and unemployment benefits could be financed from general government revenues, it is also possible for employees to finance their own protection through social insurance mechanisms. Georgia does not yet have a social insurance system in place, although the next step in strengthening the old age and disability pension systems would be to establish a social insurance scheme that enables employees to self-finance higher levels of protection than can be provided by the State. Social insurance schemes are financed by employees' contributions through compulsory payroll taxation, and can be collected alongside income taxes. Georgia could either develop maternity and unemployment insurance alongside the development of a broader old age and disability pension system, or they could be developed as a precursor to contributory pensions. An additional advantage of a social insurance mechanism is that the funds generated can be used for investment in business and/or infrastructure, thereby stimulating economic growth while also increasing the overall value of the fund.

Actuarial calculations would have to be undertaken to determine the value of contributions that employees would have to make to deliver maternity and unemployment insurance that is worthwhile and effective. First of all, the government would have to decide the length of support that would be provided; for example, it could decide to pay both for six months. This might be sufficient time for the unemployed to find a new job

and for women to be in a position to return to work – although, as the next section explains, this may depend on the availability of childcare services. Furthermore, government would have to decide on the value of the benefits, as this would also influence the size of the contributions. It is likely that contributions could be in the range of 1-3% of salaries. It would be important for both men and women to contribute to maternity insurance; if not, employers would be likely to discriminate against taking on female employees, since they would imply higher costs.

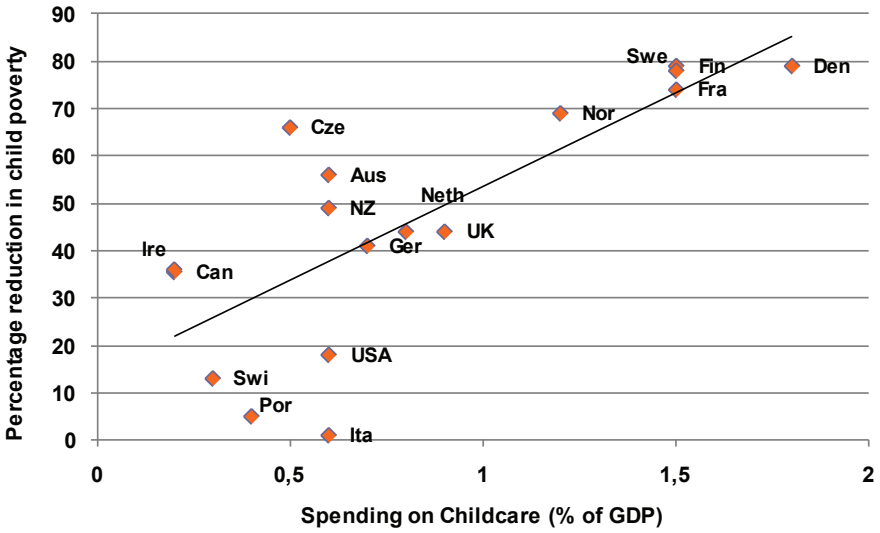
In developing the scheme, the government could create a parastatal social insurance institution to manage the schemes and take responsibility for collecting contributions and disbursing payments. The institution could be placed under the responsibility of an appropriate ministry, such as the Ministry of Finance or Ministry of Health, Labour and Social Affairs, which would exercise oversight. However, the social insurance institution would also be responsible for its investment decisions, as it seeks to grow the size of the fund to benefit its members. If both unemployment and maternity benefits were financed by social insurance, the cost to government would be zero.

Maternity and unemployment benefits would make an enormous difference to the wellbeing of children. They would address two of the main risks faced by working age families, preventing them from falling into poverty and giving them time to put their affairs back in order. Families would, therefore, be in a much stronger position to return to employment and ensure that their incomes are re-established and that they can increase their investment in their children. Furthermore, if a maternity benefit were in place for six months, it would – in combination with the Child Benefit – ensure that children received the best start at life, just at the point when they are most vulnerable. However, once the maternity benefit stops, mothers must be able to return to work to maintain family incomes, if they so desire. To ensure that this is possible, childcare services need to be available, which are discussed in the next section.

4.3. Childcare services for working families

There is growing evidence across developed countries that a key factor in lowering child poverty is free childcare. As Figure 4.4 indicates, there is a clear relationship between government investment in childcare services and the percentage reduction in child poverty in developed countries. Free childcare enables caregivers – usually mothers – to return to work after the birth of a child. As a result, they can maintain their family incomes at a time when they are facing additional costs as a result of caring for their child. In developed countries, the main beneficiaries of free childcare are single mothers, since they find it most difficult to return to work without support from the State (Kidd 2012). If caregivers have to pay for childcare, they have minimal incentives to return to work, since a high proportion of their salaries may be absorbed by childcare, in particular for those with lower incomes.

Figure 4.4: Relationship between poverty reduction and childcare in developed countries27



However, it is also evident from Figure 4.4 that childcare has the greatest impact when it is offered on a universal basis, and not just targeted at those on low incomes. It is in the Nordic countries – where childcare provision is free – that the greatest impacts on child poverty are found. This means that all caregivers wanting to return to work are able to do so.

Childcare services also offer employment to mothers of young children. State childcare provision requires carers, and these can be mothers themselves. Therefore, childcare can act as a form of employment programme, which, through its design, generates further employment for many others.

Furthermore, childcare can be self-financing if an effective income tax system is in place. Studies in the United Kingdom, Denmark and Quebec (Canada) have shown how the increased participation of women in employment generates tax revenues that can fully cover the cost of childcare and even deliver a profit for the State (Ben-Galim 2011). They also help generate economic growth, in particular when they enable skilled workers to return to the labour market. For instance, almost free childcare in Quebec added 1.5% to the province's GDP growth.

Based on the international evidence, Georgia should consider establishing universal, free childcare for mothers of young children, which can be linked to Early Childhood Development (ECD) centres. It should bring the same benefits as in other countries, increasing family incomes and enhancing the wellbeing of children. It should offer employment to many women and could be self-financing through both income and indirect taxes.

27 Source: Whiteford and Adema (2007) and OECD.StatsExtract at http://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG. The Y Axis shows the proportion that poverty is reduced as a result of child benefits and taxation.

5. CONCLUSION

Georgia's introduction of a Child Benefit in 2015 was a significant step forward for children. Yet much more is needed. This paper has shown that the vast majority of children in Georgia experience insecure lives and are in need of additional support from the State. Indeed, if alternative – but valid – assumptions were used in the analysis of the national household survey, the poverty rate for children would be 56%. The current Child Benefit offers coverage that is too low to reach all those in need and has a very low benefit value.

In the absence of an effective system of social security support for children and working age families, Georgia's old age pension plays an important role in offering security to many families. Yet this should not be the role of an old age pension, and the reliance of children and working age people on the old age pension undermines the wellbeing of older people.

The expansion of the Child Benefit to the majority of children would help take the pressure off the pension system. Its introduction could be financed either by reducing investment in the TSA – while ensuring it remains one of the most generous Poor Relief schemes in the world – or by investing only an additional 0.46% of GDP (which is the equivalent of a small proportion of the increase in investment in the pension in recent years). The expansion of the Child Benefit should be complemented by other reforms in the national social security system, including the introduction of maternity and unemployment insurance, as part of a broader social insurance pension system, as well as the extension of free childcare services.

If these policies were introduced, they would significantly boost the wellbeing of children while bringing further advantages to the nation as a whole. By investing in children now, the country will improve its prospects by enhancing the quality of its future workforce. Furthermore, by enabling more women to return to the workforce after giving birth, the country could maximise its productivity and limit the loss of skilled labourers. Finally, an expansion of the Child Benefit could offer a further stimulus to the economy, generating greater consumption and offering opportunities to entrepreneurs.

A country's future is its children. At present, the vast majority of Georgia's children are experiencing insecurity, with families unable to fully invest in them. It is the role of the State to step in and help secure their future. Politicians who are willing to take up this challenge and offer support to working age families across Georgia will almost certainly reap the political benefits.

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Annex 1: Household poverty transition matrices for the balanced panel

Using the general poverty line (≈ US$ 2.50 per day)

		Wave 2 (2011)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	51	49	100
	Non-poor	24	76	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 2 (2011)	Poor	36	64	100
	Non-poor	14	86	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	33	67	100
	Non-poor	14	86	100

Using the extreme poverty line (≈ US$1.25 per day)

		Wave 2 (2011)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	16	84	100
	Non-poor	8	92	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 2 (2011)	Poor	10	90	100
	Non-poor	2	98	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	7	93	100
	Non-poor	3	97	100

Using the relative poverty line (60% of national median consumption)

		Wave 2 (2011)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	49	51	100
	Non-poor	22	78	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 2 (2011)	Poor	36	64	100
	Non-poor	13	87	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	31	69	100
	Non-poor	13	87	100

Source: Calculations using Georgia WMS waves 1, 2 and 3. Observations weighted using balanced panel weight.

Annex 2: Proportion of balanced sample in each cell of the poverty transition matrices

Using the general poverty line (≈ US$ 2.50 per day)

		Wave 2 (2011)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	22	21	42
	Non-poor	14	44	58
	Total	35	65	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 2 (2011)	Poor	13	22	35
	Non-poor	9	56	65
	Total	22	78	100
		Wave (2013)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	14	29	42
	Non-poor	8	49	58
	Total	22	78	100

Using the extreme poverty line (≈ US$1.25 per day)

		Wave 2 (2011)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	1	8	9
	Non-poor	7	84	91
	Total	8	92	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 2 (2011)	Poor	1	8	8
	Non-poor	2	90	92
	Total	3	97	100
		Wave (2013)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	1	9	9
	Non-poor	2	89	91
	Total	3	97	100

Using the relative poverty line (60% of national median consumption)

		Wave 2 (2011)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	20	21	41
	Non-poor	13	46	59
	Total	33	67	100
		Wave 3 (2013)		
		Poor	Non-poor	Total
Wave 2 (2011)	Poor	12	21	33
	Non-poor	9	58	67
	Total	20	80	100
		Wave (2013)		
		Poor	Non-poor	Total
Wave 1 (2009)	Poor	13	28	41
	Non-poor	8	52	59
	Total	20	80	100

Source: Calculations using Georgia WMS waves 1, 2 and 3. Observations weighted using balanced panel weight.

Annex 3: Three-wave poverty paths for the balanced panel, 2009-2011-2013

Using the general poverty line (≈ US$ 2.50 per day)

Poverty paths	% of HH
PPP	9.5
NNN	39.1
PPN	12.2
PNN	16.5
PNP	4.3
NPP	3.4
NPN	10.2
NNP	4.9
Total	**100.0**

Using the extreme poverty line (≈ US$1.25 per day)

Poverty paths	% of HH
PPP	0.2
NNN	82.2
PPN	1.2
PNN	7.3
PNP	0.4
NPP	0.6
NPN	6.3
NNP	1.7
Total	**100.0**

Using the relative poverty line (60% of national median consumption)

Poverty paths	% of HH
PPP	8.6
NNN	41.6
PPN	11.3
PNN	16.8
PNP	3.9
NPP	3.2
NPN	10.1
NNP	4.6
Total	**100.0**

Note: P stands for poor and N stands for non-poor.
Source: Calculations using Georgia WMS waves 1, 2 and 3. Observations weighted using balanced panel weight.

Annex 4: Quintile transition matrices for the balanced panel

		Wave 2 (2011) quintiles					
		1	**2**	**3**	**4**	**5**	**Total**
Wave 1 (2009) quintiles	**1**	39	24	18	12	7	100
	2	25	25	23	16	10	100
	3	18	23	24	21	14	100
	4	12	15	22	26	24	100
	5	5	12	13	25	44	100

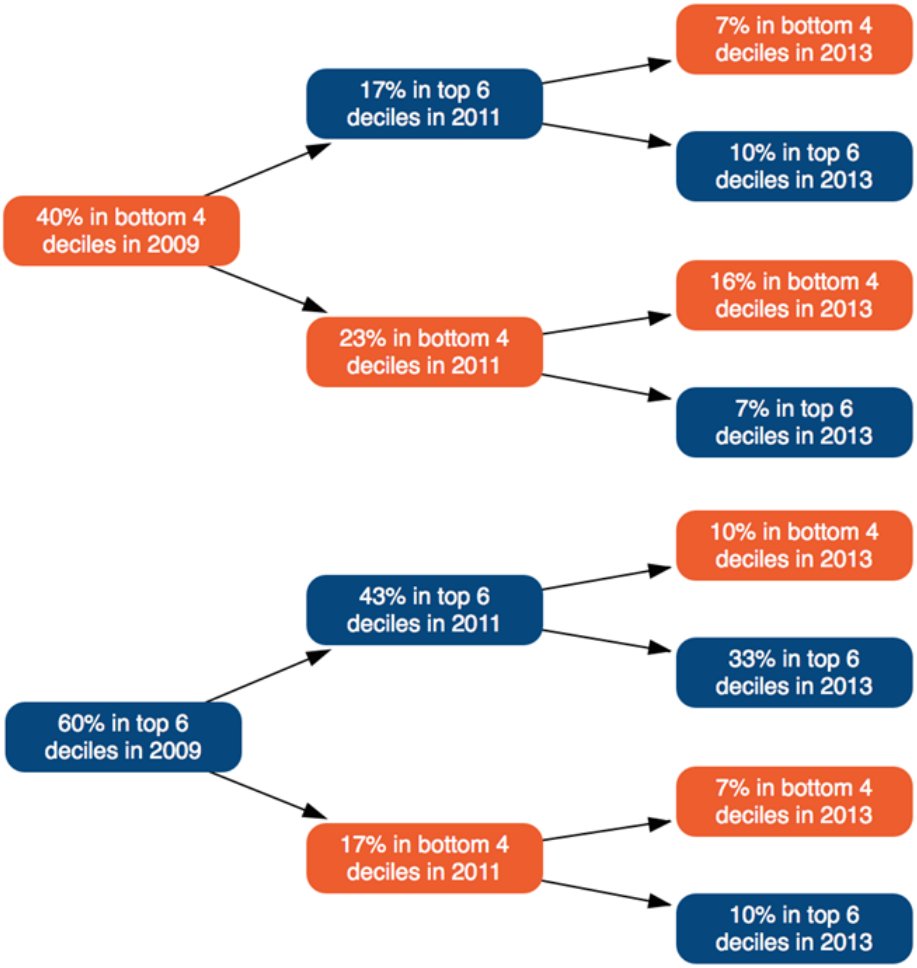
		Wave 3 (2013) quintiles					
		1	**2**	**3**	**4**	**5**	**Total**
Wave 2 (2011) quintiles	**1**	40	27	16	10	5	100
	2	25	23	21	19	12	100
	3	17	23	24	23	13	100
	4	11	16	23	24	26	100
	5	7	11	16	23	43	100

		Wave 3 (2013) quintiles					
		Q1	**Q2**	**Q3**	**Q4**	**Q5**	**Total**
Wave 1 (2009) quintiles	**1**	36	26	16	13	9	100
	2	25	24	20	18	13	100
	3	20	20	26	21	13	100
	4	12	19	21	24	24	100
	5	7	10	17	24	41	100

Note: The quintiles are based on household expenditure per adult equivalent; quintile 1 contains the poorest 20% of households, and quintile 5 contains the wealthiest 20%.

Source: Calculations using Georgia WMS waves 1, 2 and 3. Observations weighted using balanced panel weight.

Annex 5: Movement in and out of the poorest 40% of the population between 2009 and 2013



Annex 6: Drivers of moving in and out of poverty

Table A6.1 presents the results of logistic regressions modelling the probability of falling into poverty given a set of regressors between 2009 (wave 1 of WMS) and 2011 (wave 2), 2011 (wave 2) and 2013 (wave 3), and 2009 (wave 1) and 2013 (wave 3). As the conditional switch happens only for households who were non-poor in the base year, the sample is restricted accordingly. The model incorporates the values of explanatory variables in the base year (for example, the gender, education and employment status of the household head), while information on shocks refers to negative or positive events experienced by households in the 12 months preceding the second and third wave of the WMS. Table A6.2 presents similar results, except that now the dependent variable is a dummy for transitioning out of poverty. The estimation sample is restricted to those households who could have moved out of poverty – that is, those who are poor in the base year.

From the analysis it is clear that the number of **children** in a household is significantly and consistently associated with poverty transitions. All other factors being equal, adding an extra child to the household sharply increases the probability of falling into poverty and reduces the likelihood of moving out of poverty. The coefficient for the number of **pensioners** largely works in the opposite direction. Adding a pensioner to the household increases the conditional probability of escaping out of poverty, likely as a result of the increased income security from the receipt of the old age pension. Similarly, having pensioners in the household is associated with a decreased risk of falling into poverty, though not in all years.

The **educational attainment** of the household head is an important correlate of poverty transitions. Higher education, in particular, is consistently associated with having a lower conditional probability of falling into poverty and a higher likelihood of moving out of poverty. But, having vocational qualifications also consistently reduces the risk of falling into poverty compared with having completed only primary or incomplete secondary schooling. The **gender** of the household head does not have a statistically significant effect after controlling for other factors.

Land ownership is associated with an increased likelihood of staying out or moving out of poverty between 2009 and 2011, but the size and direction of its effect is not consistent across other years. An increase in the number of **livestock** or poultry owned by the household tends to have a small but significant effect on poverty transitions.

Labour market events are a key driver of poverty transitions. Finding employment is associated with a significantly greater likelihood of moving out of poverty and a decreased likelihood of falling into poverty. Receiving a salary increase has a similar effect, although the coefficient is not statistically significant in all years. Conversely, experiencing job loss tends to increase the likelihood of descending into poverty, while households with no economically active adults have a much lower conditional probability of moving out of poverty. The type of job held by the household head also plays an important role; regular wage employment seems to offer the best protection against falling into poverty and significantly increases the likelihood of climbing out of poverty.

The results regarding the effects of different types of shocks are less conclusive and should be treated with caution (due to the relatively small number of households in the sample reporting them). For example, the **ill-health** of a family member is associated with an increased risk of falling into poverty between 2009 and 2013, but the size and direction of the effect is not consistent across all years. Somewhat counterintuitively, households experiencing a decrease or suspension in **remittances** from abroad appear to be more likely to move out of poverty, all else being equal, perhaps because of a reduced dependence on external support. **Paying debt** is associated with a reduced probability of transitioning out of poverty, but does not consistently increase the likelihood of falling into poverty.

Table A6.1: Results of logistic regression model to analyse factors associated with falling into poverty

Variables	2009 (NP) to 2011 (P)				2011 (NP) to 2013 (P)				2009 (NP) to 2013 (P)			
	Coef.	SE	P-value		Coef.	SE	P-value		Coef.	SE	P-value	
Household size												
Number of children	0.281	0.078	0.000	***	0.206	0.083	0.013	**	0.206	0.084	0.014	**
Number of working age adults	-0.045	0.122	0.709		-0.189	0.105	0.074	*	0.036	0.109	0.742	
Number of pensioners	0.098	0.110	0.374		-0.273	0.114	0.017	**	-0.187	0.114	0.101	
Location												
Urban	(dropped)											
Rural	0.749	0.211	0.000	***	0.421	0.221	0.057	*	0.050	0.249	0.841	
Landownership												
0 ha	(dropped)											
Less than 0.25 ha	-0.015	0.207	0.943		0.276	0.213	0.196		0.188	0.226	0.405	
0.25 - 0.50 ha	0.052	0.233	0.822		0.048	0.245	0.845		0.042	0.341	0.902	
0.50 - 1.0 ha	-0.110	0.261	0.674		-0.068	0.244	0.780		-0.202	0.335	0.547	
1.0 or more ha	-0.473	0.281	0.093	*	-0.212	0.307	0.491		0.073	0.406	0.858	
Livestock												
Number livestock or poultry owned	-0.010	0.005	0.031	**	-0.011	0.006	0.057	*	-0.004	0.005	0.380	
Gender of household head												
Male	(dropped)											
Female	0.012	0.147	0.934		0.079	0.153	0.607		-0.094	0.178	0.599	
Education of household head												
Less than secondary	(dropped)											
Secondary	-0.706	0.182	0.000	***	0.029	0.206	0.887		-0.340	0.227	0.135	
Vocational	-0.597	0.213	0.005	***	-0.413	0.227	0.069	*	-0.779	0.275	0.005	***
Incomplete higher	-0.864	0.709	0.223		-2.133	1.041	0.041	**	-2.075	1.145	0.071	*
Higher	-1.206	0.263	0.000	***	-1.310	0.259	0.000	***	-1.563	0.330	0.000	***
Employment status of household head												
Farmer	(dropped)											
Employed (in public/private sector)	-0.360	0.241	0.136		-0.757	0.296	0.011	**	-0.834	0.308	0.007	***
Self-employed	-0.197	0.339	0.563		-0.471	0.326	0.149		-0.349	0.372	0.350	

Other	0.706	0.535	0.187		0.460	0.506	0.364		-0.659	0.553	0.234	
Not economically active	-0.061	0.182	0.738		-0.131	0.177	0.462		0.008	0.211	0.970	
Employment of household members												
No employed working age adults	-0.002	0.243	0.994		-0.114	0.237	0.631		-0.123	0.261	0.639	
Demographic changes between base/end year												
Household size increased	0.248	0.156	0.112		0.157	0.183	0.391		0.344	0.185	0.064	*
Reported negative events between base/end year												
Loss of the bread-winner	-0.004	0.410	0.991		0.236	0.564	0.676		-0.373	0.381	0.329	
Serious illness of a family member	0.220	0.206	0.285		0.089	0.226	0.693		0.410	0.178	0.022	**
Loss of job by household member(s)	0.487	0.301	0.107		0.871	0.416	0.037	**	0.239	0.305	0.433	
Decrease of total income	-0.344	0.216	0.112		0.008	0.246	0.976		-0.137	0.229	0.550	
Price increase	0.440	1.227	0.720		0.704	0.756	0.352		0.978	0.840	0.245	
Paying debt	0.290	0.181	0.109		0.080	0.271	0.769		-0.065	0.188	0.728	
Decrease/suspension of remittances	0.259	0.261	0.323		-1.245	0.532	0.020	**	0.086	0.233	0.714	
Decrease in subsistence production	0.000	(omitted)			-0.307	1.376	0.824		-0.415	1.114	0.709	
Reported positive events between base/end year												
Household member(s) found employment	0.837	1.059	0.430		-1.228	0.585	0.036	**	-2.313	0.758	0.002	***
Salary of a household member(s) increased	-1.899	1.171	0.105		-1.846	1.090	0.091	*	-0.078	0.629	0.901	
Household started a private business	0.000	(omitted)			0.000	(omitted)			-0.797	1.093	0.466	
Profit of the household business increased	0.000	(omitted)			-1.115	1.164	0.338		-0.757	0.788	0.337	
Pension has been appointed/increased	0.000	(omitted)			0.927	0.468	0.048	**	0.317	0.511	0.536	
Remittances from relatives/friends from abroad	0.000	(omitted)			-1.136	1.100	0.302		-0.897	0.842	0.287	
Assistance from relatives/friends in Georgia	0.000	(omitted)			0.000	(omitted)			0.946	0.913	0.301	
Social assistance	0.000	(omitted)			0.483	0.576	0.403		1.151	0.495	0.020	**
Other												
Constant	-0.861	0.453	0.058	*	-1.356	0.413	0.001	***	-1.399	0.465	0.003	***

Note: Coef = coefficient. SE = standard error. The district of each household was controlled for in all regressions, though these coefficients and standard errors are not reported here. Each of the regressions was weighted using the balanced panel weights.
*** p < 0.01, ** p < 0.05, * p < 0.1.

Table A6.2: Results of logistic regression model to analyse factors associated with moving out of poverty

Variables	2009 (P) to 2011 (NP)				2011 (P) to 2013 (NP)				2009 (P) to 2013 (NP)			
	Coef.	SE	P-value		Coef.	SE	P-value		Coef.	SE	P-value	
Household size												
Number of children	-0.193	0.063	0.002	***	-0.266	0.071	0.000	***	-0.125	0.058	0.032	**
Number of working age adults	-0.103	0.097	0.286		-0.156	0.103	0.130		-0.016	0.095	0.862	
Number of pensioners	0.121	0.099	0.220		0.258	0.109	0.018	**	0.201	0.101	0.048	**
Location												
Urban	(dropped)											
Rural	-0.117	0.218	0.590		0.364	0.215	0.090	*	0.017	0.219	0.939	
Landownership												
0 ha	(dropped)											
Less than 0.25 ha	0.292	0.190	0.125		-0.092	0.212	0.666		0.192	0.186	0.303	
0.25 - 0.50 ha	0.459	0.223	0.040	**	-0.275	0.281	0.327		-0.271	0.229	0.237	
0.50 - 1.0 ha	0.839	0.284	0.003	***	-0.062	0.290	0.831		-0.003	0.265	0.990	
1.0 or more ha	0.362	0.283	0.202		0.009	0.343	0.980		0.601	0.304	0.049	**
Livestock												
Number livestock or poultry owned	0.011	0.005	0.045	**	0.003	0.006	0.644		0.002	0.006	0.766	
Gender of household head												
Male	(dropped)											
Female	-0.108	0.140	0.440		-0.025	0.151	0.866		0.028	0.143	0.847	
Education of household head												
Less than secondary	(dropped)											
Secondary	0.201	0.199	0.313		0.037	0.189	0.844		0.430	0.204	0.036	**
Vocational	0.221	0.226	0.328		0.244	0.225	0.280		0.471	0.225	0.037	**
Incomplete higher	1.218	0.756	0.108		0.237	1.003	0.813		1.427	1.182	0.228	
Higher	0.458	0.251	0.069	*	0.885	0.324	0.007	***	0.976	0.306	0.002	***
Employment status of household head												
Farmer	(dropped)											
Employed (in public/private sector)	0.385	0.314	0.220		0.624	0.355	0.079	*	0.672	0.317	0.034	**
Self-employed	0.258	0.371	0.487		0.072	0.426	0.865		-0.056	0.405	0.890	
Other	-0.128	0.344	0.709		-0.314	0.440	0.476		-0.186	0.373	0.618	

Not economically active	0.480	0.192	0.013	**	0.097	0.197	0.624		0.237	0.186	0.202	
Employment of household members												
No employed working age adults	-0.479	0.226	0.035	**	-0.667	0.222	0.003	***	-0.315	0.229	0.171	
Demographic changes between base/end year												
Household size increased	0.327	0.162	0.045	**	-0.230	0.237	0.333		-0.088	0.169	0.601	
Reported negative events between base/end year												
Loss of the bread-winner	-0.124	0.443	0.780		0.918	0.540	0.090	*	-0.059	0.310	0.848	
Serious illness of a family member	0.407	0.186	0.029	**	-0.011	0.227	0.962		0.149	0.154	0.333	
Loss of job by household member(s)	-0.452	0.363	0.214		-0.018	0.393	0.963		-0.509	0.256	0.048	**
Decrease of total income	-0.940	0.233	0.000	***	-0.507	0.302	0.094	*	0.079	0.219	0.718	
Price increase	0.697	0.802	0.386		-1.637	0.888	0.066	*	-0.646	0.552	0.243	
Paying debt	-0.163	0.188	0.385		-0.406	0.319	0.203		-0.329	0.172	0.057	*
Decrease/suspension of remittances	0.065	0.274	0.813		0.824	0.495	0.096	*	0.455	0.294	0.123	
Decrease in subsistence production	-1.017	0.764	0.184		2.179	1.593	0.172		-0.277	0.757	0.715	
Reported positive events between base/end year												
Household member(s) found employment	1.493	0.855	0.082	*	2.273	0.698	0.001	***	1.282	0.442	0.004	***
Salary of a household member(s) increased	2.536	1.062	0.017	**	0.488	0.950	0.608		1.998	1.090	0.067	*
Household started a private business	1.311	1.319	0.321		2.374	1.588	0.136		-0.420	0.717	0.558	
Profit of the household business increased	0.000	(omitted)			0.000	(omitted)			0.000	(omitted)		
Pension has been appointed/increased	0.000	(omitted)			0.394	0.597	0.510		0.103	0.442	0.816	
Remittances from relatives/friends from abroad	1.143	0.789	0.148		0.000	(omitted)			0.796	0.857	0.353	
Assistance from relatives/friends in Georgia	-3.788	2.196	0.085	*	0.000	(omitted)			-0.246	1.223	0.841	
Social assistance	-0.100	0.960	0.917		-0.510	0.438	0.245		-0.356	0.368	0.334	
Other												
Constant	-0.156	0.392	0.690		1.090	0.390	0.005	***	0.569	0.378	0.133	

Note: Coef = coefficient. SE = standard error. The district of each household was controlled for in all regressions, though these coefficients and standard errors are not reported here. Each of the regressions was weighted using the balanced panel weights.
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Annex 7: Impact of national social transfers on poverty and inequality in Georgia, 2013

	% of households below poverty line		
	Before **social transfers**	***After*** **social transfers**	**Reduction in poverty rate (%)**
Extreme poverty line	23	3	87
Relative poverty line	40	20	50
General poverty line	42	22	47

	% of population below poverty line		
	Before **social transfers**	***After*** **social transfers**	**Reduction in poverty rate (%)**
Extreme poverty line	21	4	82
Relative poverty line	39	23	41
General poverty line	40	25	39

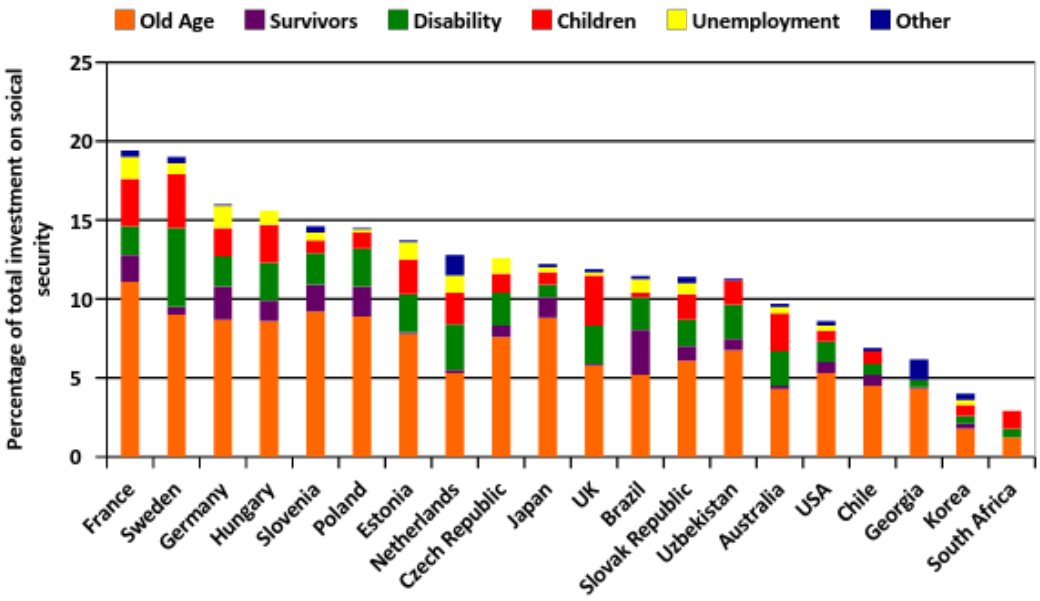
	Income Gini coefficient		
	Before **social transfers**	***After*** **social transfers**	**Reduction in Gini coefficient (%)**
Households	0.59	0.41	30
Population	0.56	0.42	25

Note: Social transfers include pensions, targeted social assistance (TSA), and categorical and other benefits.

Source: Calculations using Georgia WMS 2013. Observations weighted using household and population weights.

Annex 8: Investments in social security across a range of high- and middle-income countries

Figure A8.1: Investments in social security across a range of high- and middle-income countries by lifecycle contingency



Annex 9: Results from micro-simulations of different policy options for the Child Benefit and TSA

	Status quo (anno late 2015) - TSA: Benefits of GEL60, GEL50, GEL40 and GEL30 below new TSA cut-off scores at 30,000, 57,000, 60,000 and 65,000, respectively. - Child Benefit: GEL10 per month for each child in households with TSA score below 100,000. - Pension set at GEL160/ month.	Option 1 Expansion of Child Benefit to 70% of children, funded through a reduction of the TSA - TSA: Coverage restricted to the poorest 10% of the population with benefits of GEL37 and GEL30 below new TSA cut-off scores at 30,000 and 57,000, respectively. - Child Benefit: GEL25 per month for poorest 70% of children (corresponding to children in households with TSA score below 151,550). - Pension set at GEL160/month.	Option 2 Expansion of Child Benefit to 70% of children and no change to the TSA programme - TSA: Benefits of GEL60, GEL50, GEL40 and GEL30 below new TSA cut-off scores at 30,000, 57,000, 60,000 and 65,000, respectively. - Child Benefit: GEL25 per month for poorest 70% of children (corresponding to children in households with TSA score below 151,550). - Pension set at GEL 60/month.	Option 3 Universal Child Benefit, partially funded through a reduction of the TSA - TSA: Coverage restricted to the poorest 10% of the population with benefits of GEL37 and GEL30 below new TSA cut-off scores at 30,000 and 57,000, respectively. - Child Benefit: GEL25 per month for all children. - Pension set at GEL160/month.
General poverty rate				
Households	19.9	20.7	18.5	20.5
Population	21.2	22.0	19.1	21.8
Children	24.2	24.1	20.3	23.7
Pensioners	12.9	13.8	11.7	13.8
Poverty gap index				
Households	5.6	6.7	5.1	6.7
Population	5.7	6.9	5.0	6.9
Children	6.4	8.0	4.9	7.9
Pensioners	3.2	3.7	2.9	3.7
Percentage of households covered by TSA and/or Child Benefit by (pre-transfer) decile				
1 (poorest)	71	72	75	72
2	40	45	51	47
3	22	39	40	45
4	19	41	42	53
5	10	24	24	40
6	7	22	23	39
7	6	18	19	36
8	3	12	12	35
9	1	8	8	27
10 (wealthiest)	2	7	7	26
Total	**18**	**29**	**30**	**42**
Weighted number	**184,921**	**293,595**	**307,626**	**430,011**

Percentage of population covered by TSA and/or Child Benefit by (pre-transfer) decile				
1 (poorest)	80	83	86	83
2	50	58	63	61
3	28	53	54	59
4	22	53	53	67
5	15	35	35	56
6	9	33	34	57
7	9	29	29	55
8	4	19	19	50
9	2	14	14	42
10 (wealthiest)	4	12	13	43
Total	**24**	**41**	**42**	**59**
Weighted number	**876,070**	**1,494,651**	**1,535,155**	**2,123,727**
Percentage of children covered by TSA and/or Child Benefit by (pre-transfer) decile				
1 (poorest)	94	100	100	100
2	76	96	96	100
3	43	87	87	100
4	36	80	80	100
5	26	62	62	100
6	15	57	57	100
7	15	50	50	100
8	7	34	34	100
9	4	38	38	100
10 (wealthiest)	8	32	32	100
Total	**40**	**70**	**70**	**100**
Weighted Number	**265,386**	**469,391**	**469,391**	**669,767**