



Program Document for CARE International in the Caucasus

Reducing Poverty and Social Injustice in Georgia's Rural Communities

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Executive Summary

The program approach represents an effort by CARE to better coordinate its activities to achieve a meaningful and sustainable impact on people's lives. The approach builds on CARE's Unifying Framework for Poverty Eradication and Social Justice. Poverty and social injustice have many causes and attempts to alleviate either will require actions in many parts of government, society and the economy. The program approach ensures that CARE's work in all of these areas seeks to achieve the common goal.

In Georgia the program is focused on alleviation of economic need and the enhancement of social justice and security amongst Georgia's poorest rural communities. After examining the underlying causes of poverty in these communities we highlighted four main domains where action could be most clearly directed in order to achieve that goal. These domains draw directly on CARE's unifying framework which seeks to achieve the three pillars of social equity, livelihood security and improvements in the governance environment. Following on from these the domains of action for our program are governance, civic participation, security and markets. By tackling key problems in each of these areas we believe we will be able to most effectively help our target communities.

The Current Situation

Most recent analyses of Georgia and poverty have agreed on a number of issues. First, that poverty is greatest in rural communities. The World Bank survey, conducted in 2007, shows urban poverty at 18% and rural poverty at 30%. This is confirmed by multiple sources and becomes even more extreme when one is examining isolated mountainous communities. For example, in 2009, about 11% of the population as a whole received means tested social assistance. In the mountainous region of Racha-Lechkhumi and Kvemo-Svaneti about 40% of households received it.

Second, while the agriculture sector provides (self) employment for over ½ of the population, it has been decreasing in size in both absolute and relative terms. The share of agriculture in GDP has dropped from 16% in 2004 to 9% in 2008. Agriculture has also seen meager investment. Foreign Direct Investment (FDI) in agribusiness represented about 1% of the total in 2007 and only 0.5% in 2008.

Combining analysis of the structure of poverty in Georgia and the failures in the agricultural sector, CARE has concluded that a large part of Georgia's current poverty problem is the result of low agricultural productivity. A range of obvious explanations for this weakness are commonly offered. Farms in Georgia are routinely under one hectare in size, spread over several plots with little or no irrigation. In addition, Georgian agriculture has seen the persistence of a low-input and low-output model of production. The majority of small farmers are unwilling or unable to invest in their crops by renting agricultural machinery, paying for irrigation, high quality seed, fertilizers or pesticides. For their raising animals, farmers make little use of high energy animal feed, veterinary services, artificial insemination or new animal breeds. Unsurprisingly, given the absence of these direct investments, farmers are even more unlikely to make indirect investments in paid-for education, advice or consulting services.

However, while the explanations have considerable merit, they are mainly a list of 'intermediate causes'. To identify and fix the problems it is necessary to better understand the 'underlying' causes of poverty. The underlying causes of poverty should help to answer the question of 'why the land market is not working so that land plots stay small', 'why irrigation does no work' and why farmers persist with an ineffective low-input/low-output model'.

Underlying Causes of Poverty

As we have already suggested, a great deal of poverty in Georgia can be explained by low agricultural productivity. Therefore the analysis of Underlying Causes of Poverty in Georgia will focus on the reasons for that low productivity. We looked at four main types of causes; governance, civic participation, security and markets.

In governance the analysis focused on two main issues. First, that the central government has not prioritised agriculture as a sector and second that there is very little responsibility for government planning or service provision at a local level. In terms of central government, the Ministry of Agriculture has not developed a comprehensive strategy document since the government came to power and without such a document, international organizations, that are responsible for the bulk of the spending in this area, do not have a clear framework within which to prioritise their activities. In addition, spending less than 1% of the consolidated budget, the Ministry of Agriculture has no resources with which to seriously involve itself in the sector.

In local government, Georgia has seen a considerable centralization of government power since the new government first came to power in 2004. The lowest level of elected government was scrapped and key responsibilities in service delivery (notably education and healthcare) and information provision were brought under central government. This was clearly done because of the low capacity in local government. However, it now leaves government in a position where engagement with local communities on local developmental priorities are extremely difficult.

In civil participation, we highlighted the fact that civil society organizations (CSOs) outside of Tbilisi are generally unsustainable without international financing. This is a problem. CSOs are vital because they can advocate for local needs, help manage local resources, provide services and act as communication and learning hubs. The lack of local CSOs means that advocacy is often driven by what the international community (who finance them) think communities need rather than what they say they need. Without CSOs there is no community organization to help manage irrigation and collective land or for facilitating collective buying and selling. And the lack of CSOs to inform on new practices or to act as a local knowledge base for sharing best practice has hampered the uptake of new methods.

We looked at insecurity separately because insecurity is debilitating for growth and poverty alleviation. The poor are inherently insecure as small increases in their consumption needs or small reductions in their incomes can be disastrous. However, in Georgia it is important to be clear that while about ¼ of the population lives in poverty probably as many again live in situations of vulnerability where external shocks like sickness, injury, crop failure or short-term unemployment can send families into a poverty trap from which it is hard to recover.

On top of this, we have considered particularly vulnerable groups. IDPs are economically vulnerable because the structure of their situation. 25,000 new settlement IDPs seem particularly vulnerable, but returned IDPs and those living in or near the administrative border are all under constant threat. The very old and young seem exposed because of their dependence and reduced mobility. Ethnic minority groups are vulnerable because they remain fairly separate with many communities lacking Georgian language skills or the resources with which to learn them. Finally, isolated rural communities are physically insecure, more so as they regions demographically age.

The analysis also looks at the types of markets that can be developed to try and help rural communities. We looked at the market for inputs like seed, fertiliser and extension services. This is essential but not really working. Then we looked at the types of markets that agricultural producers should be trying to target. By comparing local and international markets, and particularly by looking at imports and exports, it seems clear that an export oriented strategy not only has fewer opportunities than a strategy oriented to local markets, but also, that it is less likely to help small farmers.

Program Design

On the basis of the situational analysis and the underlying causes of poverty CARE International in the Caucasus developed an overview of the causal changes that will be necessary in each of the four domains in order to facilitate the goal of reducing poverty and insecurity and increasing social justice in poor rural communities in Georgia. This causal pathway is intended to highlight the way in which CARE imagines the improvements in each situation to build on each other and overlap. It also includes 'breakthrough' steps where it is believed that if a particular change can be created it will mark a lasting qualitative change.

There are four domains of intervention which relate to the four main underlying causes of poverty that we have identified.

These are:

- governance
- participation and civil society
- conflict prevention and security
- market linkages and market support

The first phase of interventions in all areas can be seen as a process of persuasion and the technical support and demonstration work that is necessary to make that case.

In government this will involve persuading both central and local government(s) that broader participation, greater decentralisation and more evidence-based planning of development support are all goals to which one should aspire. It will also involve capacity development in CSOs and local government to facilitate outreach and improved planning.

In markets the persuasion will be an effort to persuade farmers and investors of the viability of the sector in order to encourage them to put money into inputs and local resource management. In this first phase this may mean subsidizing demonstration plots, input providers or service providing CSOs but very much with an aim to generate clear examples of agricultural success that will not need long-term subsidy.

The second phase of intervention in each area assumes that people agree in principle about the need for greater government involvement, CSO participation and support for the vulnerable groups. It also assumes that we have persuaded some farmers that higher input agriculture can be profitable. The second phase builds on this agreement and the small successes of the first phase, in order to develop pockets of materially self-sustaining improvement.

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In government and CSOs this means identifying small areas where local service provision can be provided, particularly if it builds on the improved local government and CSO communication and outreach capacity. In CSOs this also means using the better outreach to start looking for small ways to diversity revenue, either by providing services or charging fees. In security it means building on basic security to facilitate active cooperation in some limited ways between potential conflict groups and in the market it means the adoption of some new techniques and practices without direct support.

The third phase of intervention in each area focuses on scaling up the successes. In central government, using the demonstration effect of successes in agriculture to encourage more support for the sector. In local government, using improvements in service provision as the basis for demands for further decentralisation. In security, better social support and better connections between conflicting groups should hopefully significantly reduce the sense that significant conflict is likely. In the economy, successes in agriculture should lead to an expansion of more input intensive practices to progressively smaller farms.

The programme strategy follows fairly naturally from the causal analysis above. The key social partners that CARE will work with will be local government, CSOs (particularly those representing the most vulnerable groups), economic CBOs and other agricultural service providers, farmers, IDPs, women and ethnic minorities.

At a central government level, CARE will largely focus their attention on providing information and facilitating discussion to ensure that their identified vulnerable target groups remain a government priority. At a local level the work will be more oriented towards technical assistance to ensure that development officers in municipalities and at a regional level have the skill sets necessary to support whatever development planning opportunities emerge.

CSOs will form an important part of our evolving project portfolio as community participation is essential to all of our other participation, justice and economic development goals. We will be particularly interested to work with CSOs that represent vulnerable and at risk groups.

We will first work with all CSOs to improve their communication strategy. For CSOs communication is essential if they are to be more effective advocates for the interests of their constituency. It is also essential if they are to widen their membership and engage in genuine community participation. With economic CSOs we will also try and develop their ability to manage local resources and provide services.

With farmers who want to stay as farmers we will offer a range of different kinds of support to improve the range of resources to which they have access and to improve the efficiency with which current resources are used. For each of the target sub-sectors we look to facilitate we will engage in detailed value-chain analysis to clarify the areas of difficulty that can be addressed first. By doing this with government and CSOs we will hopefully build up their development analysis at the same time.

For those who do not want to be dependent upon farming we will work with local communities to help individuals and groups to develop their business ideas and then we will offer some financing in order to help individuals start and run small businesses. We will also support training/retraining that is either connected to starting a business or necessary for individuals to move out of their current profession into paid employment.

Internally displaced people will be a particular focal point. We will continue to work with IDPs and those working in the areas that border Abkhazia and South Ossetia. First, where possible it will be our ambition, using similar strategies to those outlined for farmers and rural communities, to improve their economic situation and facilitate integration. This may be more difficult than normal in some cases because of the unusually restrictive resource constraints that IDPs operate under (particularly in terms of land availability). Therefore, we will be ready to offer direct humanitarian support where necessary.

However, beyond that we will support IDPs in their training and retraining to facilitate integration and work to facilitate communication between IDPs and their neighbouring communities so as to ensure that conflict does not emerge.

Where possible, and within the constraints of Georgian government policy we will also work to facilitate communication and movement over the conflict lines. CARE will also help these groups to communicate information about the practical hurdles to this kind of movement, so as to ensure that these hurdles can be addressed.

To ensure that all of Georgia's people have an opportunity to participate will continue to support non-ethnic Georgians and non-ethnically Georgian groups in their efforts to facilitate greater involvement in social and political decision-making. In addition, we will support organizations who try to offer practical solutions to the language barrier, whether that is advocacy for greater medium-term flexibility in Georgian language laws or greater training in the Georgian language.

Expanding the Program to the rest of the South Caucasus

The final section of this analysis concerns expanding the program to the South Caucasus. CARE International in the Caucasus plans to roll-out its program to the rest of the region over the coming year. This decision is driven by the realization that the similarities across the region, particularly in terms of the importance and decline of the rural economy, make CARE's approach particularly useful. In addition, CARE believes that there are definite governance, market and security concerns that are far more likely to be resolved if they have a cross-regional dimension.

However, before it is possible to expand activities it will be necessary to understand the differences across the region. Therefore, we highlight some key similarities and differences across the region in terms of economy, governance structure and participation. Clearly this is only a first step. Further examination will be needed before the details of CARE's program in the rest of the region can be clearly articulated but this section should set the initial scene.

In the very most general terms we can highlight a couple of key differences across the three countries. In Azerbaijan, dramatic oil led growth has resulted in very significant economic development programs, but as the most centralized of the three governments, it is unclear if the spending has reflected local needs. In Armenia physical isolation from key export markets has made it difficult to capitalize on agricultural growth. Finally, in Georgia, which was the hardest hit and the slowest to recover economically, has been dogged by difficulties in infrastructure and lack of access to the Russian market.

All three economies in the South Caucasus suffered dramatically in the aftermath of the Soviet Union. The Caucasus generally suffered worse than the rest of the region because in each of the countries general post-Soviet collapse was combined with war. Armenia and Azerbaijan had a war over Nagorno-

Karabakh that lasted from 1991-1993. In Georgia, the 1991 conflict over South Ossetia was quickly followed by the 1992-4 war with Abkhazia.

However, in spite of these similarities the size of the collapse and the speed of recovery differ significantly. In particular Georgia's decline was far greater and its recovery has been far slower than either of the other two. Georgia's GDP is still only about 60% its 1989 level, while Armenia is about a third bigger and Azerbaijan is double its pre-collapse level. Also, while Armenia and Georgia now have similar size economies and similar levels of GDP per capita, Azerbaijan is dramatically larger with GDP per capita that is around double and overall GDP that is around three times the size of the other two.

Having both grown far more and for far longer than Georgia it is perhaps unsurprising that poverty reduction efforts have generally been more successful in Armenia and Azerbaijan than in Georgia. It is hard to know how much one can depend on government figures in either country, however, Armenia's official figures show a drop from 60% poverty in 1999 to 22% in 2008 (though with a potentially significant increase since the financial crisis). In Azerbaijan it has gone from around 50% to 16% in about the same time.

In agriculture, in particular, neither of Georgia's neighbours suffered anywhere near Georgia's level of collapse, though neither one of them was as significant an agricultural producer in the Soviet system. That said, both of the countries now have a very similar profile of structural problems in agriculture since in all three countries the role of agriculture in employment has gone up at the same time as agriculture's role in the economy has gone down.

When one looks at governance, civil society and markets this also suggests some differences in the underlying causes of poverty. Azerbaijan seems to have large programs for agriculture and Armenia has also been targeting the sector but there is little clarity on the effectiveness of the programs. As for local government, elected local government cannot be said to meaningfully exist in Azerbaijan since its only responsibilities are park and cemetery maintenance. Armenia and Georgia are also divided because while Armenia has more formal responsibility assigned to local government, Georgian local government spends far more as a proportion of consolidated funds

Civic participation is low across the region, particularly outside of the capital. In Azerbaijan this is backed by legislation which gives the Azerbaijani government effective veto over civil society projects. There seem to be some indications that at least in terms of service providing community based organizations the picture may be better in Armenia.

Finally in terms of market provided inputs, Armenia and Azerbaijan seem to be facing a far rosier picture from an infrastructure point of view, with more farm machinery, better irrigation and more government support. However, sustainable provision to Armenian small farmers still seems to be difficult and in Azerbaijan farmers seem to rely heavily on large subsidies. For Armenia, therefore, the question is whether the benefits of commercial farming can be brought to small farmers. For Azerbaijan, the challenge is to make agriculture viable beyond the day when oil revenues can no longer support it.

1 The Program Approach

1.1 the Unifying Framework for Poverty Eradication and Social Justice and the Underlying Causes of Poverty

Care first adopted the program approach as a central component in the organization of its activities in 2008. CARE International defines a program as

a coherent set of initiatives by CARE and their allies that involves a long term commitment to specific marginalized and vulnerable groups to achieve lasting impact at broad scale on underlying causes of poverty and social injustice. This goes beyond the scope of projects to achieve positive changes in human conditions, in social positions and in the enabling environment.

Underlying this approach are three main concepts. First is the belief that development organisations are far more effective when they have a clearly defined focus that shapes the type of work they try and undertake and how they try and undertake it. By focusing on key vulnerable groups CARE can develop the expertise and understanding necessary to affect lasting change.

Second, a programmatic approach acknowledges that poverty and social justice are multifaceted problems that need a multi-dimensional response. Therefore, by focusing on particular groups, CARE can coordinate its activities to ensure the greatest possible synergies in areas that might otherwise be considered disparate, from advocacy, to community development work, market support and value chain development, government technical assistance or even humanitarian aid.

This in turn builds on CARE's Unifying Framework for Poverty Eradication and Social Justice. The unifying framework connects social issues, with economics and governance to ensure that work on equity and respect combine with work on livelihoods and participation.

Finally, the program approach builds on an explicit assessment of the underlying causes of poverty (UCP). Constructing a UCP allows those developing a program to identify the 'causal pathways' through which improvements can be made in any given domain of action. This helps the team to take a view which is both cross-sectoral, which actively looks for long-term synergies between projects.

1.2 Program Approach in CARE International Georgia

In Georgia the program is focused on alleviation of economic need and the enhancement of social justice and security amongst Georgia's poorest rural communities. To achieve this we examined the underlying causes of poverty in these communities. These causes are multifaceted and, as a result, the activities needed to alleviate that poverty are also multifaceted.

Therefore to work on the different causes of poverty simultaneously our program focuses on four distinct domains; governance issues, civic participation, security and market issues. Each of these has distinct activities associated with it, however, it is our belief that by focusing on each with a clear set of unified objectives, the interconnections between these different areas can be enhanced to serve the one over-arching goal.

2 Situational Analysis

Georgia has seen significant reform and economic success since the so-called 'Rose Revolution' of 2003 brought a new government to power. From 2003-2007, before internal political conflict, a war and financial crisis undermined investor confidence, Georgia had seen dramatic increases of FDI inflows, the rehabilitation of key business sectors and the stabilization of tax collection. As a result, not only have the general level of public services improved, but day-to-day corruption has been almost eliminated, electricity supply has been restored across most of the country and pensions and social assistance have increased dramatically.

Nonetheless, the structure of development has been extremely uneven. Middle class, educated and English speaking Georgians have often seen dramatic increases in their income. However, large foreign inflows have increased prices across the board. At the same time, the liberalizing of Georgia's import regime has seen a dramatic increase in imports making competition far more fierce for Georgian producers while Russia, Georgia's biggest export market, has been closed. This has been partially off-set by large increases in the value of government hand-outs, but it has left even more people dependent on government support and unable to provide for themselves.

2.1 The Structure of Poverty in Georgia

There are many different ways of calculating poverty in Georgia. The Government calculation is based upon the information from Integrated Household Survey (IHS).¹ This has two basic poverty levels, 40% and 60% of median income and shows a slight decrease in the incidence of poverty from 2004 to 2007 and a slight increase in 2008.

Figure 1: Incidence of Poverty in Georgia (2004-2008) Based on Official Data

	2004	2005	2006	2007	2008
Below 60% of median income	24.6	24.1	23.3	21.3	22.1
Below 40% of median income	10.9	10.1	9.4	9.2	9.5

Ref: GeoStat (2010), *Poverty Indicator by Years*

http://www.geostat.ge/index.php?action=page&p_id=188&lang=eng, (reviewed 17th May 2010)

Another alternative source on poverty is the World Bank. They conducted a large Living Standards Measurement Study (LSMS) in 2007 (which was released in 2009). This looks at both income and consumption per adult equivalent (PAE) and concludes that the poverty 'headcount' shows 23.6% of the population to be 'poor' and 9.3% 'extreme poor'.²

This level, the WB argues, is slightly lower than it was in 2003. However, their projections suggest that from 2007 a fairly significant increase in poverty is to be expected. They attribute this increase to the war and the financial crisis.³

¹ This survey has been considered problematic in the past, mainly because of the low level of resourcing and regular turn-over of staff at the department of statistics (now called Geostat). Under a project for the Millennium Challenge Corporation, which is attempting to track the impact of its interventions, the size of this survey has been doubled.

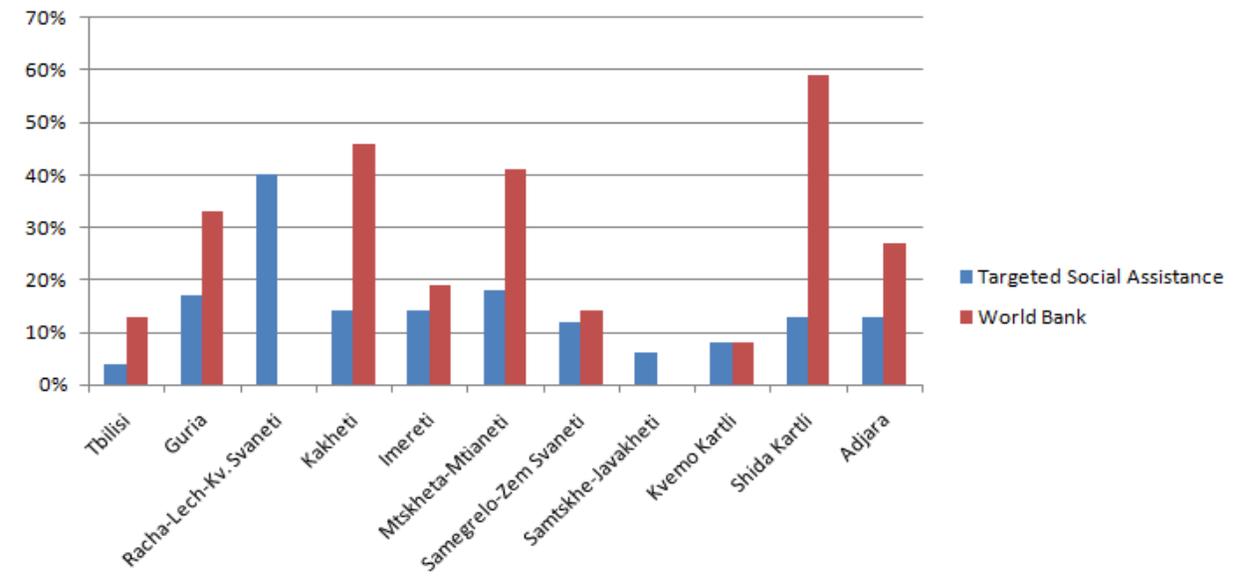
² World Bank (April 2009). *Georgia Poverty Assessment*, p4

³ Ibid. p2

However, the picture is far more complicated than these slight aggregate increases or decreases in poverty would suggest. Differences in the level of poverty from region to region or from municipality to municipality, is enormous. According to the assessment of the World Bank Shida Kartli is the poorest region in the country with a poverty headcount of 59% while Kvemo Kartli, its immediate neighbor, has a poverty headcount of only 8%.⁴

Another source of information on poverty is the government system for distributing targeted social assistance. About 11% of the Georgian population receive targeted social assistance and to receive it a family has to be individually assessed as needy by the Social Service Agency (a department of the Ministry of Labour, Health and Social Assistance). The SSA releases a list of the number of recipients, by number and by district. This can then be compared to the break-down offered by the World Bank.

Figure 2: Percentage of Households Receiving Social Assistance Compared to Percentage of Households Counted as ‘Poor’.



Reference: Based on World Bank LSMS (2007) and Targeted Social Assistance Figures (2009)

Two obvious facts stand out from this graph. First, that Racha-Lechkhumi is by far the largest recipient of TSA suggesting that this is probably the poorest region in Georgia. Second, there is a massive difference between the assessments of the two organisations. Shida Kartli, for example, is the poorest region according to the World Bank, but it is not a particularly high recipient of TSA.

This is, of course, partially the result of different systems of measurement and calculation. However, the discrepancies of regional distribution probably reflect more than that. In Georgia while around ¼ of the population may live below the poverty line, many more live very close to that line. As a result small changes in measurement can lead to large discrepancies in the calculated rates of poverty so that while one could say that 25% of the population are ‘poor’ one may be able to say that as many as double that number of ‘vulnerable’ to poverty.

⁴ However, it is important to note that Racha-Lechkhumi, which other indicators suggest to be the poorest region in the country, is not included in their analysis as it is too small.

This vulnerability is further compounded by the increase in dependency amongst the poor. According to the World Bank the only reason poverty has gone down in recent years is because of a dramatic increase in social payments. If one removed increases in pensions and targeted social assistance then poverty would have gone up. These increased payments are obviously a good thing but they have also mean that more of the population is dependent on government support. This can impact participation and democracy as dependant people are less likely to challenge the political status quo.

2.2 Unemployment

The official level of unemployment in Georgia for 2008 (the government did not release official unemployment figures for 2009) was 16.5%. The official breakdown is that out of 4.5 million population 1.9 million are 'economically active'. Out of this over 1 million, mostly farmers, are 'self-employed', while 572,000 are 'hired' and 315 thousand are unemployed.⁵

However, this number is problematic because it is based on a very broad definition of employment. According to the official barrier someone is considered employment if they engaged in 'over 1hr of economic activity in the previous week'.⁶ By this definition someone who spent 15 minutes milking a cow every day would be considered 'employed' whether or not they sold the milk.

As a result, these figures represent significant under-employment. Geostat provided a breakdown of level of employment and they suggested that of those who are 'employed,' 19% state that they worked fewer than 20hrs per week and another 21% say that the level of their work depends on the season.⁷ As a result of this method of calculating employment, according to the 2008 official statistics, unemployment is 29% in urban areas but only 7% in rural areas.⁸

Conversely, if one looks at the how people answer questions about their own employment, we find that extremely few people count themselves as 'employed' in rural areas. A recent CARE survey that assessed IDP and their surrounding communities found about 12% of the neighbouring population classifying themselves as 'employed'.⁹

The most obvious reason for this discrepancy is that most people only consider themselves 'employed' if they have formal, salaried jobs. However, only about 30% of the overall 'economically active' population have a formal job and that proportion would almost certainly be lower in rural communities.

2.3 The Significance of the Agricultural Sector

According to government statistics agriculture accounts for 53% of Georgian employment and unemployment is (as mentioned above) officially relatively low in rural areas. At the same time there is

⁵ Department of Statistics under the MoED (2009). *Statistical Yearbook of Georgia*. Tbilisi, Georgia, p42.

⁶ This is consistent with the International Labour Organization definition of employed. See Thirteenth International Conference of Labour Statisticians (1982), *Resolution Concerning Statistics of the Economically Active Population, Employment, Unemployment and Underemployment*, Geneva, Switzerland. This information was provided following email exchange with Zsolt Dudas, Chief Technical Officer, Project Office Caucasus, International Labour Organization (February 2010)

⁷ Provided by Geostat by email, April 2010

⁸ GeoStat (reviewed 26th May 2010), *Distribution of Population aged 15 and above by Economic Status in Urban-Rural Areas* http://www.geostat.ge/index.php?action=page&p_id=146&lang=eng

⁹ CARE International in the Caucasus (2010). *Baseline Survey of the IDP Settlements and their Neighbouring Communities in Kvemo Kartli and Shida Kartli*. Tbilisi, p19

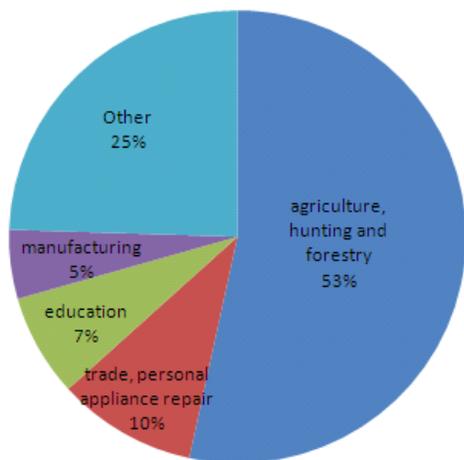
little question that poverty is higher in rural than in urban areas. The World Bank assessment has poverty at 29.7% in rural areas compared to 18.3% in urban areas. As a result, the World Bank, along with many other sources, clearly states that the failure to combat poverty in Georgia is principally a failure to increase *rural* incomes. For that reason CARE International has taken the decision that the focus of its activities is the rural poor. For the rest of this paper, therefore, we will focus on the agricultural sector.

Although agriculture accounts for more than half of employment (see below) it has seen its importance decrease in absolute and relative terms. Absolute output is significantly down in many sectors since 2003.¹⁰ In relative terms the decrease is even more obvious. The share of agriculture in GDP has dropped from 16% in 2004 to 9% in 2008. Agriculture has also seen meager investment. Foreign Direct Investment (FDI) in agribusiness represented about 1% of the total in 2007¹¹ and only 0.5% in 2008.¹²

In export terms, only two categories of agricultural products export in significant volumes. In the first four months of 2010, nuts constituted 3.8% of exports and wine and grapes were 2.2%.¹³ Live animal exports have also increased dramatically in recent years, totaling USD 34 million in 2009 (1-2%).

In employment terms there is no question that the agricultural sector is important. It is commonly cited that more than half the labour force are employed in the agricultural sector.

Figure 10: 2007 Breakdown of Employment by Activity¹⁴



Reference: Department of Statistics under the Ministry of Economic Development (2009), Statistical Yearbook of Georgia, p 43.

¹⁰ Department of Statistics (2009). *Quarterly Bulletin*. Tbilisi, Georgia Volume 2

¹¹ United Nations Development Programme (2008). *Georgia Human Development Report 2008: the Reforms and Beyond*. Tbilisi p29

¹² Ministry of Economic Development (Sept 19 2009), *Weekly Economic Digest*, p6

¹³ Geostat (viewed 26 May 2010), *External Trade Tendencies of Georgia Jan-April 2010*, p8.

http://www.geostat.ge/index.php?action=page&p_id=137&lang=eng

¹⁴ In the 2009 statistical Yearbook, 2008 information was not released by sector. The 2009 information will be released by sector when the new Yearbook comes out later this year.

However, the agricultural sector's role in *formal* employment is extremely small. According to the Business Survey also conducted by GeoStat, there are around 350,000 people who are formally employed in the private sector (excluding finance) in total. This is about 22% of those who are considered 'employed' by the broader definition. But agriculture only provides for about 1% of formal employment.¹⁵

This, by itself, is highly suggestive of a range of the problems we will discuss below. Low formal employment in the sector reflects the small size of the farms and the low productivity/investments in the sector. It also highlights the extremely limited nature of formalization since few of these farmers are even registered as self-employed preferring to exist in a fairly grey economy.

3 The Symptoms of Agricultural Failure in Georgia

3.1 Low Inputs and Low outputs

At the core of Georgian agricultural problems has been the persistence of a low-input and low-output model of agricultural production. While there are many exceptions, the majority of small farmers are unwilling or unable to invest in their crops by renting agricultural machinery, paying for irrigation, high quality seed, fertilizers or pesticides. For their animals they make little use of high energy animal feed, veterinary services, artificial insemination or new animal breeds. Unsurprisingly, given the absence of these direct investments, they are even more unlikely to make indirect investments in paid-for education, advice or consulting services.

One of the most obvious reasons for the low-input and low-output environment is that they are simply not present. Of course, in one way this is just a restatement of the same symptom rather than a statement of any underlying cause since the question then clearly becomes, 'why are resources not available'?

But in understanding the environment it is worth highlighting the lack of resources that face agricultural communities in Georgia. This lack of resources is evident in almost any input that one would expect farmers to need, physical, knowledge based and financial. Local communities do not have ready access to quality seed, fertilizer or pesticides. There are pockets of agricultural equipment, usually left over from government or NGO supported projects, but the vast majority of those interviewed in the survey carried out by CARE, as part of this research, did not have access to agricultural machinery at all.

In terms of knowledge and expertise there are no sources that farmers regularly depend upon for advice in how to treat diseased crops or sick animals, let alone to advise on market opportunities or suggest new farming methods that might be more efficient.

Finally, there is a lack of financial resources, particularly credit. This is most obvious in the interest rates which are extremely high and would probably undermine the viability of most agricultural projects. However, more than that, since the banks are not prepared to take land, animals or farm machinery as collateral most farmers would not have access to credit even if they were prepared to pay the high prices.

¹⁵ Department of Statistics, Ministry of Economic Development (2009). *Entrepreneurship in Georgia*. Tbilisi, Georgia p128

3.2 The structural environment

3.2.1 Land Plots

One of the deepest sources of difficulties in the agricultural sector has been the structure of land-holdings. According to David Giorgadze, the Director of the Association for the Protection of Land-Owners Rights (APLR), the average land-holding in rural Georgia is 1.25 hectares, which is spread over 3-4 land plots.¹⁶ In practice, according to surveys conducted by CARE, amongst others, the figure may be even lower than that.

In essence the problem is simple. Agricultural plots are extremely small with many farmers working an area of land that is significantly smaller than one hectare. In addition, this small quantity of land is often located in different places so that the farmer has 0.2 hectares in one place and 0.1 hectares in a second place and 0.3 hectares in a third.

Both of these structural problems result from the first round of privatization that began in 1992 and were intended to create an equitable outcome and a degree of personalized food security. Part of the idea behind the privatization was to ensure that, where necessary, individual families could grow the food needed to provided for their own subsistence. However, they have made large scale intensive farming extremely hard to develop, limiting the benefits from mechanization or the motivation to maintain infrastructure like irrigation.

In addition to the small size of land-plots there is also an issue of land-ownership. Out of the 3 million hectares of agricultural land in the Georgia only about 1/3 of that is classified 'intensive agricultural land'. That land is classified as follows:

Figure 3 : Agricultural Land Usage by Regions (2008) Thsd. Ha

Region	Cultivated	Uncultivated	Permanent meadows and pastures	Land under permanent crops	Total
Adjara AR	7	0	6	6	19
Imereti	52	14	9	13	88
Samegrelo-Upper Svaneti	45	3	8	24	80
Shida Kartli	29	20	2	18	69
Kakheti	114	44	120	37	315
Kvemo Kartli	35	22	65	3	125
Samtskhe-Javakheti	26	7	18	1	52
Other regions	21	20	36	13	90
Georgia Total	329	130	264	115	838

Reference: GeoStat, Annual Publication *Agriculture of Georgia 2008*, p24
<http://www.geostat.ge/index.php?action=wnews&lang=eng&npid=8> (Reviewed May 5, 2010)

Most of this land is privately owned. In the first round of land privatization starting in 1992 about 1.25 hectares of land was given, free of charge, to rural households. However, most of the land was still

¹⁶ Interview with David Giorgadze, Director, Association for the Protection of Land-Owners Rights, 3rd June 2010

controlled by the government and leased to farmers with the result that it was often used with little thought for the long-term.

In an effort to correct this situation, in 2005, the *Law on State-Owned Agricultural Land Privatisation* was passed and there was a second big push to privatise the land. The remaining land was then offered to existing tenants and sold at auction if that were not possible. As a result, according to official statistics, from 2006 to 2008 division on holdings of the 900,000 or so hectares of land went from 60% private and 40% public to around 80% private and 20% public.¹⁷

However, this story only offers a partial explanation. While the registered central government owned land is now privatized, this only accounts for about 1/3 of the actual agricultural land available. Around two million hectares, or 2/3 of the 'agricultural' land, has not been privatized and is unlikely to be.

It is hard to get a clear picture of what this two million hectares exactly includes since it is rarely mentioned in government stats. The most likely explanation for its use, according to the Director of the Association for Protection of Landowners Rights, is that this land is communally held 'grazing' land formally held by the municipality. This land is informally divided between the villages that have traditionally used it. Since it is owned by the municipalities, they could privatise it if they chose to do so. But there is a strong sense that this is unlikely to happen because it would be extremely unpopular in the villages.

3.2.2 Irrigation and Drainage

The second major structural problem facing the agricultural sector is irrigation. Georgia is a water-rich country with three or four times as much rainfall per hectare than its neighbours.¹⁸ Much of this falls in the form of snow and is stored over the winter, from where it is gradually released over the spring and summer.

Owing to the uneven distribution of this precipitation the east and south of the country tend to need irrigation and is prone to droughts while the West tends to need drainage and is prone to flooding. Irrigation/drainage, therefore, not only provides improvements in productivity in a normal year, it is also a protection against drought and flooding. Georgia experiences drought during the growing season every 3-4 years and in the absence of irrigation this makes large expenditures on inputs an extremely risky proposition. This, in turn, encourages a 'low-input, low-output' approach to agriculture since low-input also means low risk.

However, the irrigation system in Georgia is currently extremely ineffective. Under the Soviet system, at its peak as much as 469,000 hectares of land were covered by irrigation and 163,000 hectares had improved drainage. At the time of the fall of the Soviet Union 386,000 hectares were still under irrigation with 291,000 hectares depending on gravity systems of irrigation and 95,000 relying on 120 pumping stations lifting water from rivers.¹⁹ During the drought of 2000, according to official figures, only around 110,000 hectares were being supplied by the Department of Amelioration and Water Economy (DAWE), with most receiving significantly less than needed, with perhaps another 50,000

¹⁷ GeoStat, Annual Publication *Agriculture of Georgia 2008*, p23

<http://www.geostat.ge/index.php?action=wnews&lang=eng&npid=8> (Reviewed May 5, 2010)

¹⁸ Georgia (2006). *The Georgian National Food and Agriculture Strategy: 2006-2015*. Tbilisi, p64

¹⁹ World Bank (2010). *Implementation, Completion and Results Report for the Irrigation and Drainage Community Development Project* Tbilisi, Georgia

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hectares irrigated without contract from DAWE. The World Bank suggests that the current level could be as low as 70,000 hectares that are properly irrigated.

The significant collapse of the system is attributed to a number of elements. Most importantly, the system requires maintenance and management which all needs financing. After the collapse of the soviet system there was a disruption in the institutions that managed this system and a dramatic drop in its financing. Since that time the system has gone through several forms of financing, but none of them have provided sufficient central government money to maintain the system, or developed the local networks to facilitate local payment.

4 The Underlying Causes of Poverty in Georgia

As we will outline below CARE International in the Caucasus has chosen to focus their attention in Georgia on poverty in rural communities. Agriculture is by far the largest employer and rural communities experience the highest levels of poverty. Furthermore, there is a sense that CARE's community based approach is more naturally suited to working with rural communities. Therefore, the analysis of the Underlying Causes of Poverty will focus on the agricultural sector.

This analysis will also focus on the reasons for the 'symptoms' above. In essence the question is, 'why do farms in Georgia persist in the low-input, low-output model'. The reasons for this are many and complicated and there is never an 'ultimate' cause. The collapse of the Soviet system certainly set the terms of almost all of the current problems. In particular the de-mechanisation of farming, the gradual collapse of the irrigation system and size of the land-plots were all the immediate result of the collapse of the Soviet structure and the chaos that followed.

However, Georgia has seen a far steeper decline than the rest of the region and a far more gradual recovery (as will be explained when discussing the other Caucasus countries below) and 20 years later, it is no longer appropriate to blame the soviet legacy and leave it at that. Therefore, the underlying causes of poverty that are discussed below are explicitly articulated in terms of different aspects of the social and economic system that exists now. These are divided into four categories governance, civic participation/social capital, security and market problems.

None of these are 'ultimate causes' since any of these different causes can themselves be the focus of further explanation. Land-holdings are supported by the rules of the property market but those same rules are limited by existing land-holding. Low social engagement can be blamed for lack of rural engagement in politics but the structure of the political system can undermine trust and collective action. An inability to collectively organize can be blamed on history or insecurity but also serves to perpetuate the conditions of both.

4.1 Governance

Governance structures in Georgia have improved dramatically since the new government came to power in 2003/2004. The ability to collect taxes and enforce the rule of law have direct benefits to the poor. Increasing pensions significantly improved the lives of the elderly. Once the poorest and most vulnerable group in Georgian society, pensioners now live more secure lives. Targeted social assistance has helped around 12% of Georgian families with cash assistance and around 20% with health insurance.

On top of that a range of physical infrastructure improvements have improved the situation for many of Georgia's poor families. Improved roads have helped connect farmers to markets and have reduced isolation in general, consistent electricity supply has made life more reliable and improvement in the physical infrastructure in terms of water supply, sewerage and irrigation have opened up lifestyle improvements to many.

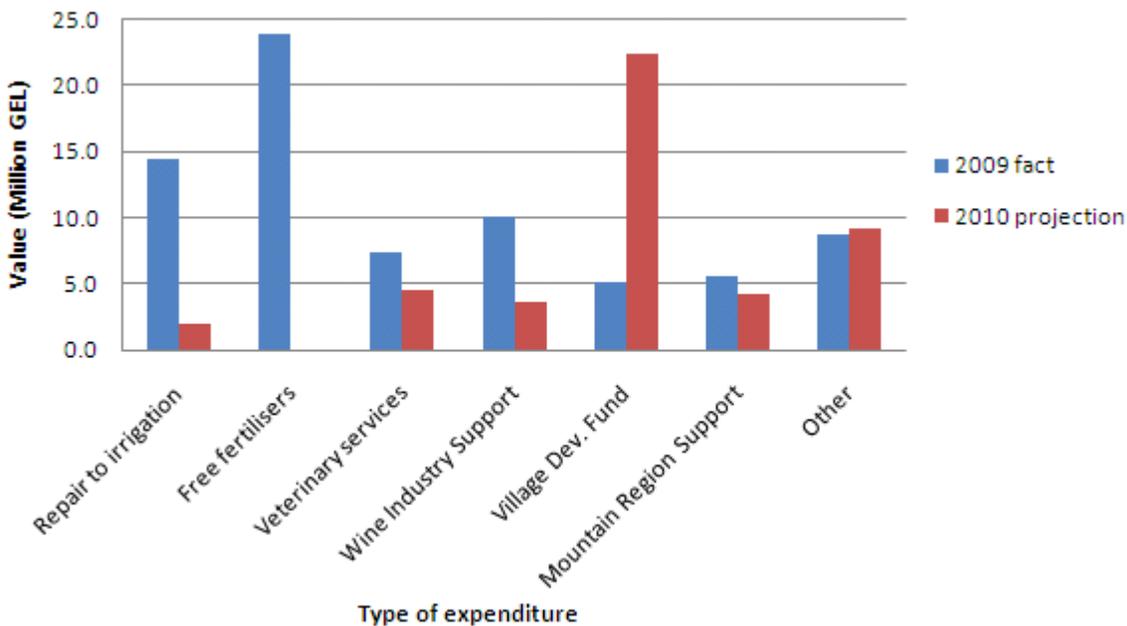
It is also important to be clear what is meant when one says that governance is a 'cause' of poverty. Clearly it is not directly responsible for crops failing or the choices that farmers make on how to raise their animals, governments cannot be blamed (directly) for closed markets or inefficient production. However, government policy does provide an enabling environment for market choices and is often seen as the principle responsible agent for correcting market failures. In the following section, therefore,

we will consider that 'cause' by looking at the structure, priorities and problems in central and municipal government as they related to agricultural communities. We will focus on two issues. First, the low importance that central government seems to have placed on developing agriculture. Second, the persistent weakness of local government and, consequently, the inability for government to set development policy locally,

4.1.1 Central Government Policy Towards Agriculture

Agriculture has not been a government priority in recent years. This fact can be expressed in a number of ways. In 2009 spending on agriculture represented about 1.5% of overall government spending. In 2010 that amount was essentially halved and projected spending for 2010 is around 0.8%.²⁰ The breakdown of that spending is shown below.

Figure 4: The Budget of the Ministry of Agriculture (2009-2010) by category of expenditure



Ref: Ministry of Finance of Georgia, June 2010

In addition, the Ministry of Agriculture has not produced a detailed agricultural development plan in many years. A plan is currently being developed but this will probably limit itself to broad goals and will not have any kind of detailed action-plan.²¹

That is not to say that the Georgian Government has entirely ignored agriculture. At various points, they have organized the distribution of farm machinery, fertilizers and subsidies to particular sectors. The problem is that even when funds were provided they were generally connected to short-term goals and never consistent with a clearly articulated vision. For example, in 2009, the bulk of the ministry's funds were spent on distributing large quantities of fertilizer and buying grapes. Both of these may have been useful, but neither was connected to an analysis of the likely viable long-term businesses in agriculture.

²⁰ Ministry of Finance Administrative Budget, June 2010

²¹ Conversation with individual working for INGO who has seen the draft of the plan.

As a result they have almost certainly created smaller long-term impact than they would have done if they had been part of a more long-term strategic plan.

The failure of government to focus on agriculture is not a mere oversight. The government has philosophical objections to the idea of sectoral support generally. The key political players in the government are extreme economic libertarians who believe that governments have no real place picking businesses or sectors for development.

The problem with this position, however, is that in the absence of plan massive amounts of support are going on anyway, they are simply uncoordinated. In the aftermath of Georgia's war with Russia around USD 4.5 billion was pledged to help Georgia's post war recovery. This has led to a significant increase in agricultural projects financed by many international organizations including the USAID, the EU, World Bank, Asian Development Bank, Japanese International Cooperation Agency (JICA), SIDA and many others. In the absence of a central government plan these projects have each generated their own priorities which will continue make them less effective than coordinated policies would be.

4.1.2 Persistent Weaknesses in Local Government

There are two *de facto* levels of local government in Georgia. Georgia has 11 regions including Tbilisi but not including the occupied territories and 69 municipalities. The regional level does not, strictly speaking, have a regional government as the 'regional governor' is formally called 'the Presidents Representative'. However, *de facto*, the regional governor is generally seen as the buffer between municipal and central government. The 69 municipalities have municipal councils and municipal 'mayors' or *gamgebelis*. Georgia had an even smaller level of local government that operated at the village level, but this was abolished in 2006.

Local government has three main problems; legal responsibility, funding and institutional capacity. Local government has very few legal responsibilities in development planning, social service provision and social assistance. All of the healthcare system, except a very small part of public health, all of the education system, except for preschool, and all pensions and targeted social assistance are run by central government. On top of this, local government no longer has any responsibility in the collection of information.

In terms of financing, local government faces two problems. The first problem is autonomy in the allocation of the finances. Municipal government spending in 2008 was 22% of consolidated spending (although Adjara and Tbilisi between them took about half of that). This is high compared to Armenia and Azerbaijan but practically they have little autonomy in deciding how to spend this money. The second problem is that money largely comes from central government since local government has very few avenues for fund-raising. This system has its benefits as central allocation allows for a more equitable balance of financing. However, it leaves local government highly dependent on the center.

Finally, local government is extremely institutionally weak. Of course, this is both the cause and the result of the first two problems. Since they have very little responsibility and little financial autonomy there is no impetus to create capacity. Since they have very little capacity the central government always has a good reason for not extending their power.

Nonetheless there has been some movement on the issue of local government recently and there is massive international support for decentralisation. For a start, the Ministry for Regional Development

and Infrastructure has just finished a long research process which examined the different ways in which the municipal and regional governments could decentralize.

In addition the regional (rather than municipal) government does seem to have some responsibility for regional development planning. Supported by INGOs and bilateral organizations most of the country has now been covered by some form of local economic development plan. Some of these plans have operated at the level of the larger regions. Urban Institute, for example, conducted a Regional Development Project with the Adjara Regional Government, CARE International conducted them with Samtskhe-Javakheti and UNDP conducted them with Kakheti and with Kvemo-Kartli.

Others plans have operated at the level of municipalities. CHF have conducted twenty plans with municipal governments across Shida-Kartli, Guria, Imereti and Mtskheta Mtianeti. UNDP assisted municipal government in producing plans in all of the regions of Kvemo Kartli and CARE International worked with the municipal governments do the same thing in Samtskhe-Javakheti. Urban Institute also helped Poti municipality.

However, the biggest problem with these plans is that they lack any mechanism or resources for securing their implementation. As a result, they were simply not used. With the exception of Adjara little local government finance was allocated for the kind of changes that the plans envisaged. In 2009 GEL 20 million was put aside for village support programs that was intended to be spent the way that the villages wanted but given that there are 69 municipalities this is less than GEL 300 thousand per municipality which is certainly not enough to support any major development strategy.

The role of local government in agricultural development is also negligible. The organic law on local self-government gives no responsibility for developing agriculture to the municipal government and while the regional governor is given some economic oversight role, the exact responsibilities that go with that are not clearly laid out or financed. Municipal government does devote some funds to the support of agriculture, but these are fairly small. The total regional and municipal budget for 'agriculture' was GEL 7.8 million for 2008 though this is currently concentrated in a very few areas. The region with the largest agricultural support program was Adjara that is currently projected to spend GEL 4.5 million.²²

4.2 Community Participation/Social Capital

The second underlying cause of agricultural poverty is the low level of community participation and social capital that seems to exist in rural communities. In its most obvious form, civic participation is characterized by the existence and operation of Civil Society Organizations and community groups of different kinds.

The absence of these CSOs in local communities is extremely problematic because the role they can play in a society can help to connect a wider network of people and interests into a participatory democracy, they can help groups of individuals pool or manage resources so that they are used more effectively, they can provide services and finally they can provide a network for information provision.

As a result of this wide range of possible activities, the failure of CSOs to operate effectively in rural communities can be connected to many of the problems of the rural poor and the creation and development of these CSOs can help to resolve these problems.

²² Material provided by David Basiashvili (September 2009), Working Group on Regional Finance, Task Force on Regional Development.

4.2.1 Social Capital and Trust

In the Former Soviet Union generally, the lack of social capital is often considered to be a major problem. This may seem odd. Georgian communities are extremely traditional and depend heavily on kinship networks. However, ironically, the flipside of kinship network seems to be a fundamental distrust in strangers or those with whom one does not have a strong familial relationship. Similarly, there is very little trust that the various larger institutions can be relied upon to help or are worth engaging with.

The level of social capital and participation reflects two broader social issues; trust and the desire to 'get involved'. Georgian communities are generally poor on both of these, not very socially active generally and not really trusting those outside of a small circle of family and close friends.

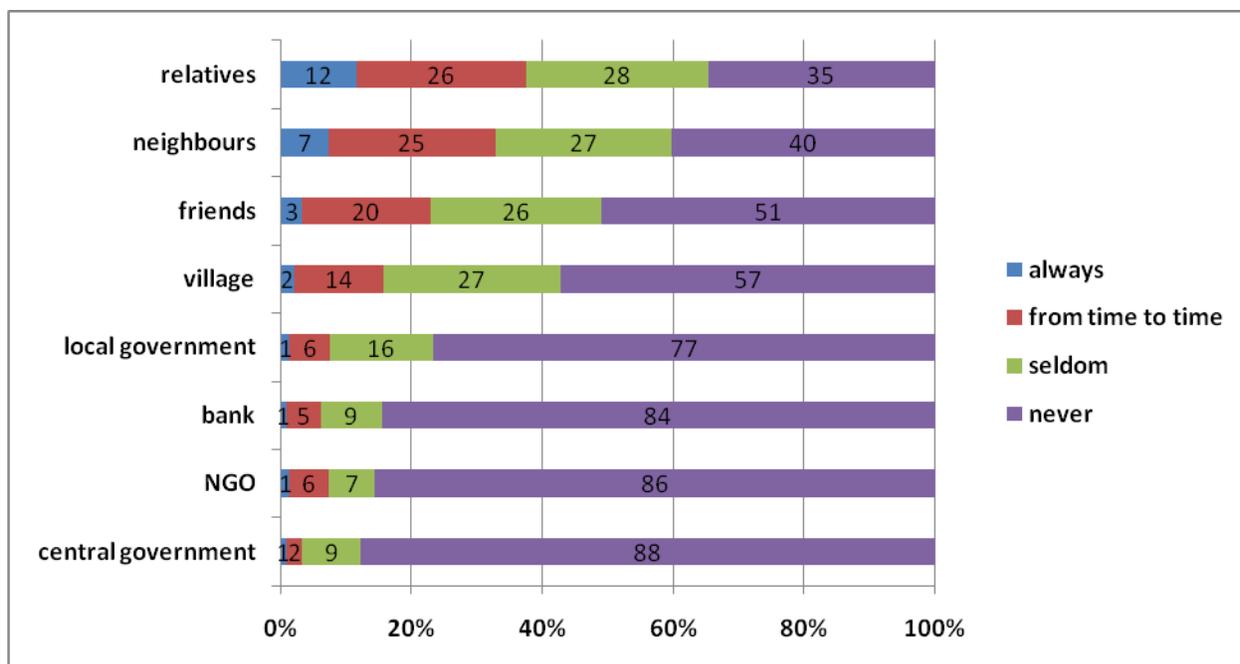
In terms of social activeness generally, the Caucasus Research Resource Center conducts a Caucasus-wide poll across the country every year. In this poll they ask a number of questions about social involvement. Two answers stand out. First, only about 6% of the respondents said that they had attended a public meeting, including a parents/teachers meeting at a school. Second, only 5% said they had engaged in volunteer work.²³

In terms of general trust and mutual dependence one can easily see that Georgians generally do not trust or rely on many groups outside of their immediate network. According to a range of surveys the level of 'trust' in formal institutions is fairly high, but in a society that used to be characterized by high levels of corruption 'trust' usually simply means that individuals no longer believe the institution to be corrupt.

If one thinks about trust in terms of the ability to depend on someone else or turn to them for help, levels of trust are far lower than general questions simply phrased 'do you trust...'. In the CARE UCP survey, CARE asked people who they felt they could turn to for help and as one would expect, the further away, both institutionally and physically, one moves from the family, the lower the level of perceived dependability.

Figure 5: Answers to the question 'Who do you turn to when you need help?'

²³ Caucasus Research Resource Centers, Data Initiative 2007, Tbilisi, Georgia



Reference: CARE International in the Caucasus Underlying Causes of Poverty Survey 2010

4.2.2 The problems facing Civil Society Organisations

Facing an environment of both low participation and low trust, civil society organizations have found it extremely difficult to organize or maintain themselves, particularly outside of Tbilisi. This situation is, of course, compounded by resource considerations. It is extremely hard to gain an active unpaid membership in a CSO. It is even harder to try and maintain that CSO by charging a membership fee. At the same time, in the Georgian environment, there are many different sources for CSOs to try and connect to and international organisations are almost certainly an easier source of funds, dollar for dollar, than a mass membership and fee based organization.

The dependence on foreign financing creates three problems for the organization as a whole. First, they tend to be very top-down and run to fit the agenda of the international organization and the people running them, rather than any particular constituency. Second, and connected to the first, there is little motivation to build up this kind of constituency, to engage in effective communication and outreach or to focus the organization on local needs. Finally, there is a problem with sustainability. Many CSOs, assuming they lack the ability to line-up multiple grants in succession, will cease to exist at the end of the time financing them. As a result, they rarely develop a long-term vision for their activities as they remain obsessed with fulfilling short-term objectives.

The question of why these organizations do not emerge independently or persist after international funding has ceased is a very difficult one. As we have already suggested, there is clearly an issue of trust. Particularly where money and security are involved, Georgians do not by default trust other members in their community.

However, on top of that there are at least three other issues. First, there is a general distrust of anything called 'communal' as this seems to be reminiscent of the soviet past. Second, there is little belief amongst citizens in the regions that their voice will be listened to. Third, there is also a strong sense (that is also perhaps a soviet legacy) that all public goods should be provided by the government and

little desire to provide services oneself that one feels the government should provide. For example, the absence of agricultural support services like veterinary services or advisory services is seen as the fault of the government and not something that can be locally fixed.

4.2.3 The Roles of Civil Society Organisations

Failing CSOs are a problem because CSOs can provide four main categories of service; they can work as advocacy groups, they can help to manage or more efficiently utilize communal resources, they can provide services that the market and government do not and they can act as centers of information and communication. We will deal with each of these in turn.

Advocacy

One of the areas for which CSOs are most well known is working as advocacy groups to try and persuade either the government or society at large to adopt certain policies or behaviour. These groups can serve general social goals. In Georgia, for example, Transparency International is focused on ensuring government transparency and the Georgian Young Lawyers Association is focused on trying to examine and improve the Georgian legal and judicial system. These organizations can, of course, have regional offices.

However local CSOs generally will advocate for more narrow themes. One would expect members of a local CSO to have certain interests in common as a result of their similar social position. This can include everything from ethnic groups or IDP associations, to parents groups and cattle breeders associations. Alternatively, they may represent a group who are representing a group unified by geography or philosophy. Usually it is a combination of both.

Advocacy groups have three target audiences. Members may be the target of advocacy on themes that relate to mutual interests. A pig breeders association, for example, may try and persuade its members to adopt a particular strategy for managing swine fever. The group can focus on society at large, so an environmental group may try and persuade society at large to adopt different behavior vis-à-vis the environment by, for example, trying to persuade people not to drop litter. Finally, they may target different parts of the government to lobby for policies or resources to be allocated to them.

Managing Local Resources and Providing Services

CSOs can be useful in the management of local resources in a range of ways. The most obvious form of local resource management is the way that certain groups of farmers can, through farmers associations or co-operatives, buy inputs or sell outputs more effectively. For example, by pooling their cash resources farmers may be able to buy inputs like seed, fertilizer and pesticides in bulk at a lower costs. They may also be able to buy equipment like tractors that they can all collectively use, but which no individual would be able to afford alone. On the other side, if farmers are producing the same kind of products, then they may be able to save on transportation costs of getting the good to market, or may be able to collectively package goods so as to gain a higher price.

Equally, if not more importantly, CSOs can potentially help to manage local resources. One very obvious example of this is that local organizations could help in the management of the irrigation system by collectively maintaining large equipment and channels and making clear what the responsibilities of individuals are in maintaining their part of the system. Similarly, CSOs can try and ensure that resources are not damaged or put at risk by managing the response to common threats. For example, farmers groups can try to agree on policies for combating disease or maintaining flood defences.

Providing services is really just an extension of the 'managing local resources'. Particularly where CSOs, like a farmers association, may have a large and clearly defined set of needs, it may be possible for them to pool resources in the provision of those needs and, at the same time, leverage the fact that they want the services themselves to make services available to others. In Georgia in recent times, it has become common for organizations working in agricultural development to try and provide extension services in this way. Therefore a farmers association may group together to buy seed, fertilizer, a tractor or an artificial insemination unit, but in the process, they may as well try and cover some of their costs by making these available to others for a fee.

Communicating Information and Developing Skills

The final role that CSOs can play is that they can help to fill the skills vacuum by providing a network through which new ideas can be tested, communicated and duplicated. It is commonly accepted that the agricultural skill-sets of small farmers tend to be fairly low. While there are certainly structural reasons for the low-input and low-output system it is also the result of a lack of knowledge about new farming techniques or the ability to calculate the benefits of small investments.

The most obvious way to assess agricultural training is to look at the courses that are currently taught in Georgia. The main educational institute which provides education in agriculture is the Georgian State Agrarian University. This currently has up to 5,000 students who are involved in seven departments of the university. The university offers undergraduate and graduate courses, including doctorate. In addition to its facilities in Tbilisi, it also own teaching-experimental labs in Mtskheta (Mtskheta-Mtianeti region), Dedoplistskaro (Kakheti region), Lanhckhuti (Guria region), Samtredia and Kutaisi (both in Imereti region).

The work of the University is supplemented by the work of several Vocational Education and Training centres in regions. In the academic years of 2009- 2010 there were around 900 people accepted into agricultural training programs at VET centers. These covered a wide range of different skill sets as shown below.

Figure 6: Agricultural courses at Public Vocational Education and Training Centers

Course type	Length of course			Grand Total
	1-6 months	1-1.5 yrs	2 and over	
Agricultural products specialist	32	37		69
Beemaster	25	32		57
Environment protection		30		30
Farmer	89	171	188	448
Gardener	13			13
Mechanic		22		22
Medical Herb Grower		55	19	74
Plant Protection		18		18
Veterinary	39	54		93
Wood Specialist		84		84
Grand Total	198	503	207	908

Ref: Derived from information provided by the Ministry of Education and Science (January 2010)

In addition to these courses there are a handful of training courses for cheese-maker and wine makers. The courses are distributed across the country but are most heavily concentrated in Imereti, Khaketi, Shida Kartli and Samtskhe-Javakheti.

In addition to these courses a new VET training center, operating under the umbrella of the Gori University opened at the beginning of the year and is now the largest VET centre oriented towards agriculture in the country. Gori University combines a regular 4 year program university, 2 year community college, and a VET centre. Together with other courses, the community college offers the 'agricultural business management' course. The VET centre is funded by the European Union and is very well equipped. In addition to studying facilities, the VET centre also owns a small milk factory and a lab where they can test milk products.

These courses, between them, clearly have value. However, they are limited in at least two ways. First, there are not enough of them to have an impact on a significant number of farmers directly. Second, this type of course is unlikely to be taken by a small farmer. What is far more important is that the small farmer gains access to this information and advice.

In this role CSOs and the 'knowledge networks' that they bring with them are a more immediate source of information that does not require a great deal of time and formal training and that can be accessed to particular purposes.

4.3 Insecurity

Insecurity is one of the most debilitating features of the Georgian environment and is a significant contributor to the low-input low-output system. It is also almost certainly both cause and consequence of poor resource management and low levels of social engagement. Security can be understood in a number of different ways, but for our purpose we will simply equate it with 'vulnerability to external shocks'. The nature of the 'vulnerability' will differ depending on the threat, but generally speaking it should be seen as a vulnerability to physical safety, economic prosperity/subsistence or social position.

Security is more of a concern for some groups than others in Georgia. The most common form of that insecurity is economic but in an ethnically diverse country that has recently been to war, physical security is also important.

The poor are one of the most obvious insecure groups since they are extremely vulnerable to small reductions in their consumption possibilities or small increases in their needs. However, in addition to those who are considered technically speaking 'poor', there are many others who are close to the poverty line and so are also fairly insecure.

Based on multiple surveys, including our own UCP survey, we believe that as much as half of the population could be close enough to the poverty line to be considered 'insecure'. For these families, an illness or injury, reduced level of employment or a failed harvest can push them into poverty from which it is hard to then recover. As we will discuss below, one of the reasons why many families hold on to agricultural land that they no longer use is that it offers a final 'safety-net' whereby a family can at least be confident of its ability to provide for its own subsistence needs.

In addition, it is worth briefly considering those groups who are particularly vulnerable. In the section below we will consider IDPs, the very old and the very young as well as ethnic groups and the physically isolated.

4.3.1 Internally Displaced Persons (IDPs)

There are around ¼ of a million registered IDPs in Georgia, or around 6% of the population. This makes Georgia in the top ten countries in the world in terms of IDP concentration. However, in discussing IDPs a clear distinction needs to be made between around 25, 000 'old-caseload' IDPs who were displaced by the August 2008 war with Russia, and the rest who have been IDPs for around 16yrs and who are fairly well integrated in many places.

IDPs are extremely vulnerable and worthy of special attention. There is very little information on the employment and poverty situation of IDPs generally. However, amongst the new caseload IDPs unemployment and under-production are significantly higher than in the rest of rural Georgia.

In a survey of new caseload IDPs conducted recently by CARE in Shida Kartli and Kvemo Kartli the level of those who characterize themselves 'unemployed' was very high. Only 8% of the individual IDPs questioned and 12% of non-IDPs said they had formal employment, and most of those were working in government or as teachers. On a household level 18% of IDP households and 25% of non-IDP households said their family received income from a 'job' in the preceding month. Perhaps even more importantly only 41% of the families said they were involved in agricultural activity compared to 71% in the neighbouring communities.²⁴

However, all IDPs, and even those who have been IDPs for a long-time receive a state allowance. This is fairly small. IDPs living in locations where they get support for their utility bills receive GEL 22 per person per month. Those who do not get help with their utilities bills get GEL 28 per person per month. Those living in new settlements can instead currently opt for Targeted Social Assistance payments and while these are only marginally higher, they do come with medical insurance.

4.3.2 The old and the young

As will be discussed at some length below, there are a range of different groups that are worth particular note in poverty terms. In particular, it is worth considering the situation of children, the elderly and IDPs.

UNICEF also produced an assessment of Child Poverty in Georgia using the World Bank's LSMS data. They highlighted the fact that in Georgia one of the indicators for poverty is the number of people in a household and that as a result, children are higher at risk of poverty than the average.

This report also acknowledges the beneficial effects of social transfers on child poverty. As they highlight 'almost one half of children in pension recipient households were lifted out of extreme poverty'.²⁵ However, Targeted Social Assistance fails less well from a child's point of view. They also argue that

²⁴ Geowel Research and Caucasus Research Resource Centers (2010). *Baseline Survey of the IDP Settlements and their Neighbouring Communities in Kvemo Kartli and Shida Kartli*. Tbilisi, Georgia, CARE International in the Caucasus.

²⁵ UNICEF (2008). *Child Poverty in Georgia*. Tbilisi p12

'though children are more likely to live in poverty, they are less likely to be in families that receive the TSA'. Though, those that did receive social assistance were likely to be poor.²⁶

Traditionally, pensioners, and particularly single pensioners living alone, were one of the poorest categories in the country. The fact that pension recipients are more concentrated amongst the poorer sections of society, suggests that in spite of higher pensions, the elderly and three-generational households remain poorer than average.²⁷

Now, however, the volume and breadth of pension provision has gone up so much that pensions are by far the largest form of social assistance and act as a de-facto family and child social support. 835, 327 pensioners received the state pension in April 2010.²⁸ The overwhelming majority of pension recipients receive GEL 80 per person per month, though the average is GEL 77.6. According to the World Bank poverty assessment over 50% of households receive pensions and more of it is received on average amongst the poorest groups.

However, the cost of medical treatment continues to be a source of insecurity for old people. About 40% of the population are covered by a fairly comprehensive Medical Assistance Program (MAP). MAP does not cover the costs of medicine, which has increased in cost significantly in recent years, but it does cover visits to the doctor and most of the commonest procedures. While pensioners have the protection of this coverage, those who are elderly but who have not quite reached retirement age are correlated with high out of pocket expenses in medical costs.²⁹

4.3.3 Ethnic Minority Groups

Although Georgia has become a significantly less ethnically diverse place since the end of the Soviet Union, it continues to have large ethnic minority populations, particularly Armenians and Azeris. According to the 2002 Georgian Census around 12% of the Georgian population is either ethnically Armenian or Azeri.³⁰ More than half of this population is located in the two regions of Samtskhe-Javakheti and Kvemo-Kartli. The concentration is even higher if one looks at some of the municipalities. In the municipalities of Akhalkalaki and Ninotsminda over 90% of the population are Armenian while in Tsalka it is over half. Azeris are very heavily concentrated in four regions, Marneuli (83%), Dmanisi (67%), Bolnisi (66%) and Gardabani (44%).³¹

In these communities the population as a whole has fairly low Georgian language skills as they are more likely to speak Russian or the ethnically native languages of Armenian and Azeri. According to a survey conducted by the European Centre for Minority Issues in 2008 around 80% of the minority groups in Akhalkalaki, Ninotsminda, Tsalka, Marneuli and Gardabani could not understand Georgian at all or, if they could, could only understand a few words.³²

²⁶ Ibid.p12

²⁷ Ibid. p15

²⁸ According to the Social Services Agency of the Ministry of Labour, Health and Social Affairs. See <http://www.ssa.gov.ge/index.php?id=933&lang=2>

²⁹ World Bank (April 2009). *Georgia Poverty Assessment* p14 and p116

³⁰ International Crisis Group (November 2006). *Georgia's Azeri and Armenian Minorities* Tbilisi, Georgia, p1

³¹ Georgian Population Census (2002).

³² Jonathan Wheatley (September 2009). "The Integration of National Minorities in the Samtskhe-Javakheti and the Kvemo Kartli Provinces of Georgia". *European Center for Minority Issues: Working Paper* 44. p6

This is particularly problematic because, while there have been some attempts to improve the teaching of Georgian in these areas, the educational system has made it hard for students to advance without the appropriate level of Georgian. The national entrance exams, which were introduced in 2005, required that all students get a basic pass mark in Georgian language and literature, history and geography in order to qualify for university. Furthermore, the Law on General Education, passed in the same year, required that a range of key subjects would be taught in Georgian across the country no later than 2010. One effect of this, according to Jonathan Wheatley, writing for ECMI, is that very few of the Armenian groups have been accepted into Georgia's main universities.³³

These regions (particularly Samtskhe-Javakheti) are also fairly cut-off from the rest of Georgia. Samtskhe-Javakheti and bits of Kvemo-Kartli are physically remote from Tbilisi and the roads connecting them used to be some of the worst in the country. Since the Rose Revolution roads and connection times to Tbilisi have improved dramatically, and there have been efforts to improve the Georgian language training available to ethnic minority groups.

The involvement of these groups in local government is mixed. In Ninotsminda and Akhalkaliki the local municipal mayors (or gamgebeli), chief of police and chief prosecutor are usually Armenian though in the Azeri municipalities they are generally Georgian with an Azeri Deputy. However, the individuals who run these municipalities recognize their strong dependence on the center, on whom they depend for power.³⁴

In national politics the involvement is low. Language difficulties essentially exclude them from following the local media, the Law on the Political Association of Citizens makes regional parties illegal and opposition parties have historically shown little interest in campaigning there.

As a result, while these regions, and the ethnic groups they contain, have seen their material life-style improve they remain largely excluded from Georgian political life. This is bad in itself, but it also heightens the insecurity of those living in the regions as they continue to exist in a relationship of dependency on the central government.

4.3.4 Isolated Rural Communities

Isolated rural communities in Georgia face a separate set of problems in Georgia in particular access to markets, demography and difficulties created by climatic conditions. Because of Georgia's mountainous terrain many regions of Georgia are significantly further away from major urban areas than simple geography would suggest, separated from the rest of Georgia by mountain roads that are long and slow at the best of times and extremely hard to traverse in the winter. Some of them are effectively deserted in the winter.

It is hard to gain an accurate picture of the situations in these communities for two reasons. First, they generally have very small populations and are too small to separate out in any of the nationwide surveys that have been undertaken in recent years. For example, the 2007 World Bank LSMS offers no indication

³³ Ibid. p13

³⁴ Ibid. p26

of the level of poverty in Racha-Lechkhumi and Kvemo-Svaneti.³⁵ The 2009 UNICEF survey blocks it together with the largely low-land region of Imereti.³⁶

The second reason it is hard to get a sense of the situation is that there is no clear sense of the general level of the population as there are many people in Georgia who are officially resident in villages in the mountains but unofficially located elsewhere. This creates distortions in a number of ways. For example, according to official statistics out of the 51 population of Racha-Lechkhumi and Kvemo-Svaneti, around 14,000 receive old-age pensions. This is about 28% of the population compared to a national average of 19% and significantly the oldest region in Georgia. However, anecdotal evidence seems to suggest that even this number is too low because many of the younger members of the officially registered population may well be living elsewhere.³⁷

Nonetheless, the problems of market access, demography and environment are well recognised. These regions have huge difficulty accessing Georgia's main markets because physical distance makes the transportation of food both expensive and damaging to the final product. This is made even more difficult because the close neighbours of many of these regions are Russia to the North and the other Caucasus countries to the south, but unfortunately the Russian market is closed and Armenian markets are hard to access for administrative reasons.

Second, these regions face difficulties because of demographic shifts. For a range of regions the younger and more productive elements of the society often leave and as a result the regions face an ageing population. This is already a problem for some of those left behind, impacts on the productivity of households and will eventually become a problem for the sustainability of the communities.

Finally, high mountainous regions are often vulnerable and insecure simply because of the facts of their physical location. Crops are harder and more expensive to grow at higher altitudes and the growing season is shorter (though there may be compensating considerations like low prevalence of pests). Those in more isolated villages may be a considerable distance from medical facilities. They are also more likely to be exposed to weather related problems, from snow and rock-slides blocking roads to the general difficulties created by cold winters, particularly the greater need for resources to warm and feed oneself.

4.4 Access to Markets and Market Failures

The notion of market failures in the Georgian context is extremely broad. Almost all of the problems that we have discussed so far could be understood as market failures, from the low-input and low-output structure of the overall environment, to the low levels of physical capital, the low availability of financial capital. However, in this section we will divide the analysis into two different categories. First, we will look at the provision of resources. Second we will look at the broader market failures that happen within Georgia.

³⁵ World Bank (April 2009). *Georgia Poverty Assessment*

³⁶ 'How Do Georgian Children and their Families Cope with the Impact of the Crisis', Presented by UNICEF at *Poverty in Georgia: Features Causes Responses*, a Conference Organised by CARE International in the Caucasus (16 June 2010). Annex 1

³⁷ Raw data retrieved from the website of the Social Services Agency (29 June 2010). Population numbers available at <http://www.ssa.gov.ge/index.php?id=932&lang=2> and information on pension at <http://www.ssa.gov.ge/index.php?id=933&lang=2>

4.4.1 Market provision of resources

The lack of resources in rural community, whether that is the right kind of seed, input, machinery, veterinary or access to credit, can be seen in a number of ways. Lack of support for them can be seen as a failure of government support or a failure of civil society. However, that these resources need to be supported in the first place is clearly a reflection of some kind of market failure since in a well-functioning market-place with signals and information flowing one would expect resources to flow wherever demand exists.

In the CSO section we discussed at length the way in which local CSOs can help provide certain kinds of resources and services by pooling community resources. However, in a market economy another alternative would be for these things to be provided by a private business. That it is not already clearly reflects some kind of market failure because there is overwhelming evidence that better use of inputs would generate considerable economic benefits, particularly in some sectors. Clearly part of the problem is a strong risk aversion and conservatism on the part of farmers themselves which leads to low or inconsistent demand for inputs.

However, there are certainly instances where demand exists, but where it goes unsupplied because of imperfect information or capital availability amongst entrepreneurs. Therefore, clearly one way to correct this problem is to help make the business case for the private provision of these resources and subsidise start-up costs.

4.4.2 Access to Markets

Another significant barrier to agricultural development in Georgia is market access/competition. This can be broken down into three separate problems. First, the ease with which farmers can get their produce to markets inside Georgia. Second, their access to markets outside of Georgia. Third, the competition that Georgian producers face from foreign competitors, particularly as the Georgian market has become more open.

Access to Georgian Markets

The access to Georgian markets for producers has been traditionally restrained by the difficulties of the road network and the physical isolation of certain area. In terms of poor roads, this incurs two costs. First, poor roads increase the time involved in taking goods to the market. Second, poor roads damage both the goods and vehicle taking the goods and so increase the costs and lower the price of the goods when they finally get there. This is particularly problematic for easily bruised fruits and vegetables.

Improvements to the road system have been one of Georgia's main priorities. In 2005 under the Millennium Challenge Corporation Compact USD 295 million was committed to Georgia and this received a supplemental USD 100 million as part of the assistance package after the war with Russia in August 2008. Out of this sum, USD 203.5 million is being spent on the Samtskhe-Javakheti Road Rehabilitation project which is repairing a range of different roads in the region, but most significantly, it is repairing the road that connects Ninotsminda to Tbilisi. According to MCC work already undertaken has already cut the driving time to Tbilisi from around 5.5hrs (three or four years ago) to 2.5hrs.

Out of the USD 4.5 billion of post-war assistance USD 659 million was pledged for road reconstruction, not including the road rehabilitation taking place under the municipal development fund. USD 410 million was pledged to renovate the East-West Highway, USD 119 million for a bypass in Adjara, USD 60

million for improving the Varziani-Telavi road and USD 70 million on local roads.³⁸ As a result of these improvements, the access to markets has increased dramatically for most of the country.

Clearly the next hurdle is the quality of local roads, which still remain fairly poor and occasionally leave some villages isolated. In addition, in the short to medium term some of the more physically isolated regions, particularly Racha and Svaneti, are likely to remain separated from Georgia's main markets as their mountainous location puts a fairly clear upper limit on the extent to which driving times can be reduced.

The second main access difficulty is whether farmers can physically find a market where they can sell that they can access to sell their goods. Market stalls in Tbilisi, even on wholesale markets, are highly valued and farmers complain that they find it extremely hard to find spaces at which to sell. In addition, over the last five years or so, the government has gradually clamped down on unlicensed road-side vendors which, for years, had provided an outlet for farmers trying to sell directly to market.

As a result of this difficulty in access, farmers may have to work through several 'middle-men' (both wholesale and retail) before the product gets to market and, as a result, the payment they receive is significantly diminished.

Access to Foreign Markets

Providing the Georgian economy with access to foreign markets has been a long-term objective of the Georgian government. Georgia has been a member of the WTO since 2000. It is no longer a member of the CIS but still enjoys bilateral free-trade agreements with many of the CIS countries as well as with Turkey. Georgia also has GSP+ provisions that give a particular list of goods preferential access to European and American and it is currently engaged with the EU to try and develop a deep and comprehensive free trade agreement.

However, Russia, its most natural and traditionally largest trading partner has been effectively closed to Georgian goods since the Russians put an embargo in place in 2006. Beyond wine, assessing the overall impact of the Russian embargo on the agricultural market as a whole is difficult. The official statistics for agricultural good exports do not seem to register an impact on agricultural goods because large amounts of those goods were probably moving into Russia through the Tskhinvali region (now occupied South Ossetia). One large international development organization conducted an in-house assessment that suggested that the lost export revenue in agribusiness could total over USD 200 million per year.

In the area of wine, where large volumes were traded, the drop between the second half of 2006 (after the ban) and 2005 was nearly 85%.

Figure 7

³⁸ George Welton (July 2009). *The Loan Component of the Post-War Pledge: an Evaluation*. Tbilisi, Open Society Georgia Foundation. p17



Reference: [Department of Statistics Food Security Situation](#) (Issue 39 p13 and issue 40 p14)

The situation with wine exports is illustrative because although there has been some recovery the shift away from the Russian markets, this has also changed the nature of the trade so favouring large companies rather than small artisanal producers.

This is suggested by the increase in prices of wine since the ban. The average liter of wine sold before the Russian wine ban was exported at \$1.95 per liter (\$1.46 per bottle). The average liter sold in 2006 after the wine ban exported at \$3.61 per liter (\$2.70 per bottle). The overall price has dropped a little since that time, but not much.

However, more expensive wine is generally made by the big producers who are the only ones able to produce to international standards. For these larger producers the wine ban may have been something of a blessing since it has allowed them to focus on the far more profitable end of their market. However, it suggests little or no recovery for the majority of small wine producers.

This lesson also applies to other agricultural sub-sectors and it is unclear whether an export-oriented strategy (in the absence of Russia) would be particularly poor-oriented. This fact is made even more clear when one looks at the categories of foods that are currently exported in large volumes. In 2009 there were five large categories of 'agricultural' export, nuts (USD 70 million), wine (USD 32 million), spirits (USD 54 million), live animals (USD 34 million) and citrus (USD 16 million).³⁹ Of these, wine, fruit and nuts are highly concentrated in a few large firms and so seem to offer little opportunity for small farmers.

The limited benefit of export markets to small producers is particularly true when one considers the cost that may come with breaking into certain markets. For example, at the current time Georgia is involved in discussions with the European Union to develop a deep and comprehensive free trade area with the EU. It is generally accepted that this would require Georgia to adopt European food safety standards.

Adopting these standards is both economically and politically complicated. A *Law on Food Safety and Control*, that was intended to put into effect European-style food safety standards at every step in the

³⁹ Based on detailed breakdowns of export statistics provided directly by GeoStat (May 2010)

production process was passed in 2005. Its enactment has been delayed as a result of limited technical capacity and political will.⁴⁰

However, what is unclear is the extent to which enacting these food standards would assist Georgian development. As Transparency International argue, enacting comprehensive food-safety standards of the kind envisioned would mean processors incurring fairly large up-front consultancy and capital costs. This would almost certainly make small scale and home production impossible (though artisanal production was originally excluded from the law). As TI point out, when Poland brought its food processing into line with EU standards, even with massive support from Brussels, 'the number of companies in the Polish meat industry went down from 7,000 in 2001 to 3,000 in 2006.'⁴¹

However, as TI further argues, while the cost of adopting European Standards may be prohibitive the cost of adopting no standard may be unacceptable too. Georgia has one of the highest rates of botulism in the world and, since 2004, has seen reported rates of food poisoning increase dramatically.⁴²

Access to markets is certainly easier when dealing with Georgia's immediate neighbours since Georgia has free trade arrangements with Armenia, Azerbaijan and Turkey. However, while exports to Azerbaijan have grown in a few areas, agricultural exports to the other two countries are not significant.

First, a project recently conducted by CARE, looking at border communities between Georgia and Armenia suggested that exporting to Armenia was administratively cumbersome, particularly for small farmers.⁴³ On top of that an earlier project conducted by UNDP suggested that bribery was a problem for Georgian exporters.⁴⁴ Finally, perhaps the biggest problem for exports between these neighbouring countries is that they produce a very similar profile of goods, demand a similar profile of goods and pay similar price. There are some slight seasonal variations depending on the exact micro-climate of the regions, but this only produces slight and occasional comparative advantage.

Of course, the ability of Georgia to export to neighbouring countries is not a simple function of access to those markets. Even the largest Georgian producers are fairly small in international terms and so there are very few farms that will be able to offer the volume and diversity of supply that international buyers often demand, particularly for supermarket chains. As the Director of USAID's AgVantage Program said in 2008,

Georgian farmers do not engage in the kind of commercial planning and contracted relationships necessary to supply export markets. Even in Moscow [a less Westernized market space] there are only 5 or 6 major retailers, and they want suppliers who can provide reliable products year round – and they are pretty vicious in pricing. Georgia is just not able to provide them with the quality and consistency of product they demand.⁴⁵

⁴⁰ Transparency International (2009). *Food Safety in Georgia*. Tbilisi, Georgia, p2

⁴¹ *Ibid.*, p4

⁴² *Ibid.*, p5

⁴³ Davit Narmania, (May 13-14, 2010), Presentation of 'Cross Border Cooperation Study', *Joint Project on Improved Responses to Economic Development and Rural Livelihood Problems in Bordering Regions of Armenia and Georgia*, Tbilisi, Georgia

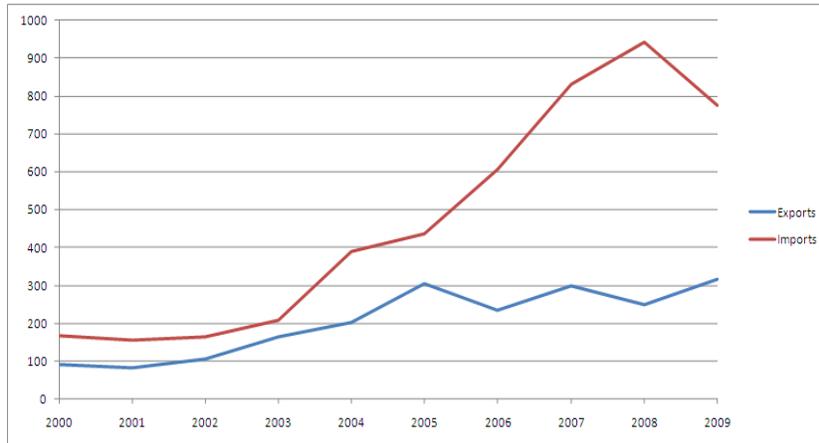
⁴⁴ United Nations Development Program (2007). *Study of Economic Relations Between Georgia and Armenia: The Development of Regional Trade-Related Growth in Samtskhe-Javakheti*. Tbilisi, Georgia

⁴⁵ United Nations Development Programme (2008). *Georgia Human Development Report 2008: the Reforms and Beyond*. Tbilisi

International Competition

One commonly noted characteristic of the Georgian economy since the Rose Revolution is that imports into Georgia have increased far faster than exports out of Georgia. This is particularly true in agriculture.

Figure 8: Growth in agricultural exports and imports (2000-2009) USD Million



Reference: Based on GeoStat export figures (May 2010)

The overall structure of imports and exports, *prima facie*, seems to suggest a considerable opportunity for import substitution. However, there are other reasons why competing more effectively with importers may be a better, and more poor-oriented strategy, than targeting export markets.

First, the goods that are being imported in large volumes are often goods that Georgia already produces. The biggest raw agricultural import categories are meat. In 2009 Georgia imported USD 37 million in poultry (mostly from the US), USD 12 million of pork (mostly from Brazil and Canada) and USD 10 million of beef from India. After that the next biggest category of imports is dairy, with USD 24 million. Finally, though the volumes in vegetables have been gradually reducing, they are still considerable with Georgia importing USD 2.6 million of potatoes, USD 3.5 million of tomatoes, USD 3.7 million of pulses and USD 3.8 million of onion and garlic.

Second, these categories of product are grown across the country and so represent a diversified market.

Third, the local market is naturally beneficial to Georgia for a number of reasons. There are no artificial barriers to entry, the market is more naturally acclimatized to the quality of good that is produced and the 'made in Georgia' brand may help the sale by appealing to local pride.

5 Program Design

5.1 Impact Group

The impact group for CARE International in the Caucasus' projects in Georgia is the rural poor. This will have particular emphasis on those within that groups which CARE considers to be most vulnerable which included IDPs and those living in border communities, mothers and children, ethnic minority groups and isolated rural communities.

5.2 Theory of Change

5.2.1 Impact Goal

The impact goal is to reduce the level of poverty and social injustice and to increase the level of security for the target group. In the process it is hoped the work will contribute to peace and stability in the region.

5.2.2 Domains of Intervention

There are four domains of intervention which relate to the four main underlying causes of poverty that we have identified. These are:

- governance
- participation and civil society
- conflict prevention and security
- market linkages and market support

5.2.3 Pathways and Breakthroughs to Poverty Reduction

The pathways and breakthroughs are based on our underlying causes of poverty analysis and can be classified in terms of three stages.

Breakthrough 1: Making the argument and proving the case

In general terms, the first set of different breakthroughs in the different domains can be seen as a process of persuasion and the technical support and demonstration work that is necessary to make that case.

1.1 Improved interaction between CSOs and Local Government Improves the Quality of Local Priority Setting in Social Services and Economic Planning

In government this will involve persuading both central and local government(s) that broader participation, greater decentralisation and more evidence-based planning of development support are all goals to which one should aspire. In a number of areas part of this act of persuasion will ideally work alongside practical technical assistance that will serve as a necessary first step for achieving all of these goals.

From local government to improve its outreach and data collection will require improved communication. To help local government to start its argument for decentralisation and greater role in planning, it will have to develop its capacity and identify areas where it thinks that local service delivery should be localized.

This would in-turn be supported by the development of civil society which as it improves its own outreach would become a natural touch-point for local participation and an advocate for local priorities which we believe would put a high priority to agricultural support and, in some areas, greater inclusion of ethnic minorities in decision making.

1.2 CSOs and local government are more sensitised to minority rights and security issues

The CSO development would also support the first stage of the security domain. CSOs that operate in areas with large non-Georgian populations are likely to push for local language capacity and more localized government. IDP groups and those living on the border of the conflict zones are likely to push both local and central government to, at the very least, stabilize their situations economically and physically. In some situations this should create pressure for more stable humanitarian assistance alongside strategies for economic and social integration. In other situations it will involve pressure for resolving technical issues to allow people to more easily and safely move over the lines of control.

1.3 Economic security is provided to small rural communities

As a goal for both economic development and conflict management the first step should clearly be to improve the economic security for those in the most difficult situations. CSOs in vulnerable areas should advocate for this from the start, and clearly before development work can be effective it is necessary that economic security is at least provided to the majority of a given community.

As a 'breakthrough' this will not, of course, be finally achieved until one reaches the overall end-state but improved security for some of the most vulnerable should be an early priority and improving that security will help to facilitate economic development and participation more broadly.

1.4 A range of promising market opportunities for new agricultural products and services are identified

The final first breakthrough point will be when NGOs, local government and local businesses can agree on a couple of specific agricultural sub-categories that they think can be usefully supported and that show promise. This will require the identification of value chains and will probably mean a number of sectors with government and NGO support, even if those fail.

This has clearly taken place in some areas already and should be helped by the regional development plans that most municipalities now have.

Breakthrough Two: Practical successes are self-sustaining in some elements of each domain

Step two will see the expansion of the activities in the first phase and the movement into sustainability for the first activities undertaken.

2.1 Local Government and CSOs provide a greater range of services at a local level and work together to prioritise local UCPs. Agriculture is more of a priority in this discussion

Following on from the identification of local priorities and the improvement in outreach, local government should then be in a position to argue for some (possibly small) increase in its responsibilities particularly in areas like development planning, information provision or outreach in some public service areas. Building on work first stage work in agricultural market any local development work would have an agricultural focus. It would also, hopefully involve more intensive work with CSOs.

2.2 Increased ethnic involvement in Government and civil society

In terms of security one would hope that early lobbying from vulnerable, and particularly ethnic-minority groups could see early successes in terms of broader participation at least at a local government and local CSO level. This would hopefully also build on and help to develop advocacy about the importance of language issues in non-ethnically Georgian areas.

2.3 Increased ease of movement over conflict lines and great community dialogue between conflict communities

On a parallel track one would also hope that the steps taken to make life more secure and to facilitate economic development would also gradually help to normalize the situation around the borders of the conflict zones so that at least those communities that have strong family or economic connections in the neighbouring territory can easily move back and forth between them. This easing would both be helped by active attempts to facilitate dialogue between neighbouring communities over conflict lines, but practical easing of movement would also help this dialogue develop naturally.

2.4 Agriculture in Georgia starts to diversify and economic MFIs, including those providing infrastructure management become self-sustaining rural service provide

The second 'breakthrough point' in the economic sector is one of the most important because it will help to provide the material resources and some of the impetus for further developments in many areas. Having tested a range of techniques, supported the purchase of inputs and analysed value chains in the first phase, the second breakthrough point will be when significant new sectors, techniques are utilized on a commercial basis in a lot of poor communities.

This will almost certainly both produce and require that a range of different inputs are provided more effectively and will hopefully occur when these are also provided on a commercial basis. It is unclear at this point what will be most important and it will almost certainly depend upon the agricultural sub-sector but this would be helped by sustainable economic CSOs or businesses providing inputs, better land management at a local level and a supportive tax regime.

Breakthrough 3: Practical successes are expanded to ensure the broadest possible social inclusion and the widest impact.

The final stage of the causal process to achieve our overall goal is that successes are identified and expanded upon so that the limited self-sustaining successes become country-wide

3.1 Significant expansion of local government and CSO service delivery and development planning and implementation delivery

Having identified some small areas where local government can expand and having developed the capacity to effectively provide public services in this area, local government should then be in a strong position to argue for a more serious expansion of its responsibilities. Similarly, having provided economic services in a few areas it should now be possible for economic CSOs to expand the services they expand to include more difficult paying services, for example charging for advisory or business development services.

3.2 Ethnic groups well represented in government and regional conflicts are resolved.

Obviously the ultimate goal in ethnic participation and conflict avoidance would be equitable participation of ethnic groups in government. The resolution of the regional conflicts is also clearly a long-term goal for the country as a whole though, in the short term, more embedded and intensive interaction is a more likely short-term goal.

3.3 Development brings most small farmers out of poverty and improves the livelihood of most. Growth allows wider social protection for those who have not yet benefited

Again this is largely a matter of building upon the work of breakthrough 2. Expanding the limited diversification should happen through markets once the viability of agriculture as a profitable business is shown. Governments and CSOs should, at that point, mainly operate to facilitate planning and the communication of information. As this occurs, government, CSOs and NGOs should really shift their focus to ensure that the resources this process generates can be utilized to extend the social safety net to all of those who need it.

5.3 Programme Strategy

The programme strategy follows fairly naturally from the causal analysis and the theory of change above. The key social partners that CARE will work with will be local government, CSOs (particularly those representing the most vulnerable groups), economic CBOs and other agricultural service providers, farmers, IDPs, women and ethnic minorities.

Government Technical Assistance and Advocacy

At a central government level, CARE will largely focus their attention on providing information and facilitating discussion to ensure that their identified vulnerable target groups remain a government priority. As a result they will facilitate research and analysis on poverty reduction, agricultural development, government decentralisation, social support policy, IDP integration and national minority policy.

At a local level the work will be more oriented towards technical assistance to ensure that development officers in municipalities and at a regional level have the skill sets necessary to support whatever development planning opportunities emerge. CARE will also work, directly with local government where necessary, but indirectly as a component of all of their other projects, to try and ensure that communication and outreach is improved between municipalities and local communities, and to help local and regional government to be heard on the national stage.

CSO Development for Advocacy and Service Delivery

CSOs will form an important part of our evolving project portfolio as community participation is essential to all of our other participation, justice and economic development goals. We will work with all CSOs to improve their communication strategy. For CSOs communication is essential if they are to be more effective advocates for the interests of their constituency. It is also essential if they are to widen their membership and engage in genuine community participation.

Working with economic CSOs, we will help them to provide agricultural extension services, or to maintain resources at a local level. This will include:

- working with farmers associations to provide a wide range of services
- helping groups of small farmers work together to buy inputs as well as collect, package and sell their goods
- helping different types of farmers associations, like bee-keepers, cattle breeders, potato growers etc. to organize as networks for effective advice, communication and advocacy as well as supporting them in trying different techniques and developing demonstrations for their members

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- supporting the training of individuals within particular economic CSOs so that they can act as advisors to a wider community

Working with CSOs that represent vulnerable groups like IDPs, ethnic minorities or women we will particularly focus on their advocacy skills so that they are better able to make the case for their group to the Georgian government and Georgian society.

Farmers and rural businesses

We will work with farmers and rural communities to make them more productive in the activities they currently engage in, to help them investigate new methods for developing those businesses, in developing new skill sets and in developing entirely new businesses.

With farmers who want to stay as farmers we will offer a range of different kinds of support to improve the range of resources to which they have access and to improve the efficiency with which current resources are used. For each of the target sub-sectors we look to facilitate we will engage in detailed value-chain analysis to clarify the areas of difficulty that can be addressed first. By doing this with government and CSOs we will hopefully build up their development analysis at the same time.

For farmers our analysis will generally focus on improving productivity by giving access to information and training about techniques and CARE shouldering the risk when new ideas are tested (in demonstration plots). We will also offer co-financing for the set-up cost for people or organizations (particularly CSOs) who want to provide agricultural extension services.

For those who do not want to be dependent upon farming we will work with local communities to help individuals and groups to develop their business ideas and then we will offer some financing in order to help individuals start and run small businesses. We will also support training/retraining that is either connected to starting a business or necessary for individuals to move out of their current profession into paid employment. In the process we will look to work through vocational education centers to ensure that any training we instigate results in long-term improvements.

Internally Displaced People and those bordering the conflict zones

We will continue to work with IDPs and those working in the areas that border Abkhazia and South Ossetia. First, where possible it will be our ambition, using similar strategies to those outlined for farmers and rural communities, to improve their economic situation and facilitate integration. This may be more difficult than normal in some cases because of the unusually restrictive resource constraints that IDPs operate under (particularly in terms of land availability). Therefore, we will be ready to offer direct humanitarian support where necessary.

However, beyond that we will support IDPs in their training and retraining to facilitate integration and work to facilitate communication between IDPs and their neighbouring communities so as to ensure that conflict does not emerge.

Where possible, and within the constraints of Georgian government policy we will also work to facilitate communication and movement over the conflict lines. CARE will also help these groups to communicate information about the practical hurdles to this kind of movement, so as to ensure that these hurdles can be addressed.

Non Ethnically-Georgian Groups

We will continue to support non-ethnic Georgians and non-ethnically Georgian groups in their efforts to facilitate better participation and integration. Central to this will be attempting to increase both participation and representation of non-ethnic Georgians in government and civil society. In addition, we will support organizations who try to offer practical solutions to the language barrier, whether that is advocacy for greater medium-term flexibility in Georgian language laws or greater training in the Georgian language.

5.4 Learning and Impact Measurement System

CARE's monitoring and evaluation strategy calls for monitoring impact at three levels; input/activity/output, effects and impacts. In this division, input/activity/outputs relates to the short term measurement of resources used (inputs), work undertaken (activities) and the most immediate effect of those activities (output). If we just take the example of a civil society development project, the inputs would be something like the time of the trainers and associated costs, the activities would be the number of meetings held and the output would be the number of people trained.

'Effects' are changes to the enabling environment or, put another way, they are changes in the major 'pathways' to our overall goals. So, an increased number of civil society organizations, a better capacity in the civil society organizations or a demonstrable change in government policy towards them would be an effect.

Finally, the 'impact' is the ultimate sustainable goal. So, in the case of CSOs, the number of CSOs who have broader participation and more sustainable client level financing will be an impact. When it comes to service delivery CSOs the final impact will be the improvement in economic situation or social service provided by the effective operation of the CSO itself.

In order to develop a monitoring framework for the program, one would have to decide exactly what the indicators of success are in each of the domains and the priorities in terms of final goals. This will generally provide one with a set of 'effect' and 'impact' indicators and goals. Of course, this is only a necessary and not sufficient condition for developing an overall M+E strategy, but it will be the focus of our analysis here.

However, many of the goals are not objectives for which CARE could take responsibility. Many are also national. This creates a problem because where goals are geographically constrained it is possible to undertake 'control' surveys to see if ones work is creating a change but when they are national the comparatives are more or less impossible. Nonetheless, it is important to assess program components in order to see where one is on the causal pathway.

5.4.1 Goals and Indicators

The general indicators can be connected to the particular goals that the program as a whole has now articulated.

Domain 1: Government

1.1 Increased efficiency of local government and greater role for local government in public service provision

This goal clearly breaks down into two; efficiency and level of responsibility. Level of responsibility can be assessed in two main ways, first the legal and formal responsibility and second, practical responsibility. Legal responsibility is simply shown in statute and fairly easy to track. The easiest way to

assess practical responsibility is to look at budgets as, generally speaking, an increase in budgets will reflect an increase in responsibility of a given agency.

Assessing efficiency can be done with surveys which ask people about their experience of those services. This should not be general questions on 'trust of local government' or 'efficiency of local government' but should be specific questions about level of delivery. Clearly, in this case, one cannot assume that the public understands the demarcation of public service responsibility, therefore any surveys undertaken need to make sure they only survey about the services which local government actually provides.

1.2 Coordination between levels of government improved, particularly on development planning

The most obvious way to ask about coordination is to focus on the intensity of interaction, or the regularity with which communication and meeting occurs. Of course, this is a poor judge of the effectiveness of that interaction and does not tell one how one-sided the conversation is but it is a start.

1.3 Agriculture is a greater government priority

The easiest way to assess this is money. What percentage of the government budget is spent on agriculture, either through local or central government.

Domain 2: Participation

2.1 Improved interaction between local government and CSOs

There are two ways to assess this. One can simply survey the attitudes of the CSOs/local government representatives or one can try and catalogue the number and scale of joint activities they have engaged in. The second method would certainly be important if one were assessing the scale of social contracting.

2.2-2.3 Service-providing CSOs improve their capacity, increase the services they provide and succeed in achieving greater participation.

The easiest way to assess this is to try and assess the volume of service provision and the size of membership of the CSOs with whom one works.

Domain 3: Security

3.1 Greater ethnic harmony

Can be assessed negatively by looking for a reduction in conflicts or positively by looking for an increase in social attitudes (can be assessed with polling) or practical integration

3.2 Greater security for IDPs and those bordering the conflict zone

Actual security and perceived security are both important indicators to measure. Perceived security can be polled for. Actual security will probably be demonstrated by an increase in movement over the 'administrative boundary' lines without an corresponding increase in incidents.

3.3 Greater economic security for vulnerable families

This will be measured in two main ways. First, with improvements in the consumption possibilities of the very poorest. Second, with an assessment of how well the population is provided with some kind of social safety net that protects them from unexpected events like sickness, crop failure or unemployment.

Domain 4: Economy and markets

4.1 Poverty reduction and increase in income

Will be shown by any number of the surveys that are undertaken by the government and international organizations, but will also be shown in income changes against CARE's own baseline.

4.2 Increase in agricultural productivity

Again, this can be done in the communities with whom CARE works against the baseline survey already undertaken or it can be done with national statistics.

6 Expanding the Program to the Caucasus

Up until this point the program document has focused on Georgia. The reason for this is that CARE has, over recent years, focused heavily on the Georgian environment. However, CARE in the Caucasus will be expanding their program over the coming year to include a wider range of regional projects. Working regionally makes sense for three reasons.

First, there are many similarities between the three countries and the problems they face. Not only do the country's face considerable similarities in terms of the post-Soviet legacy, but seen in terms of employment sectors, they are all agrarian, facing an agricultural sector in decline. CARE's long experience and its operational methodology should prove extremely useful.

Second, activities that aspire to have an explicitly cross-country component have obvious advantages. This includes not only the conflicts, but also environmental issues like water management issues and trade relations. While it is extremely unrealistic to expect Armenia/Azerbaijan cross-border activities anytime soon there are potential opportunities for Georgia-Armenia and Georgia-Azerbaijan relationship building.

Third, while the similarities between the three countries make it useful to examine them together, the differences also provide a great opportunity for examining and researching the underlying causes of poverty. For example, if the three countries are dramatically different in part of politics, economics or society more generally then attribute cannot be explained simply in terms of the 'post-Soviet legacy'. Also, the countries are likely to be at different developmental levels in some areas and this can offer insights about how one might expect the developmental trajectory to move forward.

That said, it is clear that in order to move forward in its regionalizing efforts, CARE in the Caucasus needs to develop a clear understanding of the differences between the three countries. Below, is an initial piece of research that was conducted on the differences between the three countries. This was largely desk research and highlights the areas where further investigation are still needed.

6.1 *The Overall Environment*

All three economies in the South Caucasus suffered dramatically in the aftermath of the Soviet Union. The Caucasus generally suffered worse than the rest of the region because in each of the countries general post-Soviet collapse was combined with war. Armenia and Azerbaijan had a war over Nagorno-Karabakh that lasted from 1991-1993. In Georgia, the 1991 conflict over South Ossetia was quickly followed by the 1992-4 war with Abkhazia.

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<p>Armenia⁴⁶</p> <p>Real GDP (1989=100)</p> <p>Legend: Armenia (Orange bars), Average, transition countries (Purple line)</p>	<p>General Overview⁴⁷</p> <p>Armenia's economy reached its low-point following the war in 1993 and has grown steadily since that time.</p> <p>Following a sharp decline caused by the financial crisis, according to the IMF GDP per capita in PPP was USD 4,966 in 2009. This places it 109th in the world.</p> <p>Overall GDP (PPP) is USD 18.7 billion</p>
<p>Azerbaijan</p> <p>Real GDP (1989=100)</p> <p>Legend: Azerbaijan (Orange bars), Average, transition countries (Purple line)</p>	<p>Post-war growth, though initially slow, increased dramatically as the country geared-up to increase oil and gas production. Growth in Azerbaijan has continued in spite of the global financial crisis.</p> <p>In GDP per capita in PPP was USD 9,563 in 2009. This places it 81st in the world.</p> <p>Overall GDP (PPP) is USD 74.7 billion</p>
<p>Georgia</p> <p>Real GDP (1989=100)</p> <p>Legend: Georgia (Orange bars), Average, transition countries (Purple line)</p>	<p>Georgia's low point in 1994 was around ¼ its 1989 level and recovery has been far slower. At its high-point in 2008 its GDP per capita was only 60% the soviet level.</p> <p>According to the IMF in GDP per capita in PPP was USD 4,757 in 2009. This places it 114th in the world.</p> <p>Overall GDP (PPP) is USD 21.3 billion</p>

⁴⁶ European Bank of Reconstruction and Development (reviewed July 2010), *Key Development and Challenges* (Armenia - <http://www.ebrd.com/downloads/research/economics/armenia.pdf>, Azerbaijan - <http://www.ebrd.com/downloads/research/economics/azerbaijan.pdf> Georgia - <http://www.ebrd.com/downloads/research/economics/georgia.pdf>)

⁴⁷ International Monetary Fund (April 2009), *World Economic Outlook Database*

This highlights significant differences between Azerbaijan on the one side and Armenia and Georgia on the other. Azerbaijan is now twice as rich, relative to population size, and about 3x as rich overall as the other two countries. Curiously, even though Armenia grew faster and collapsed less than Georgia they are now at about the same level in per capita terms because Georgia was far richer in the Soviet system.

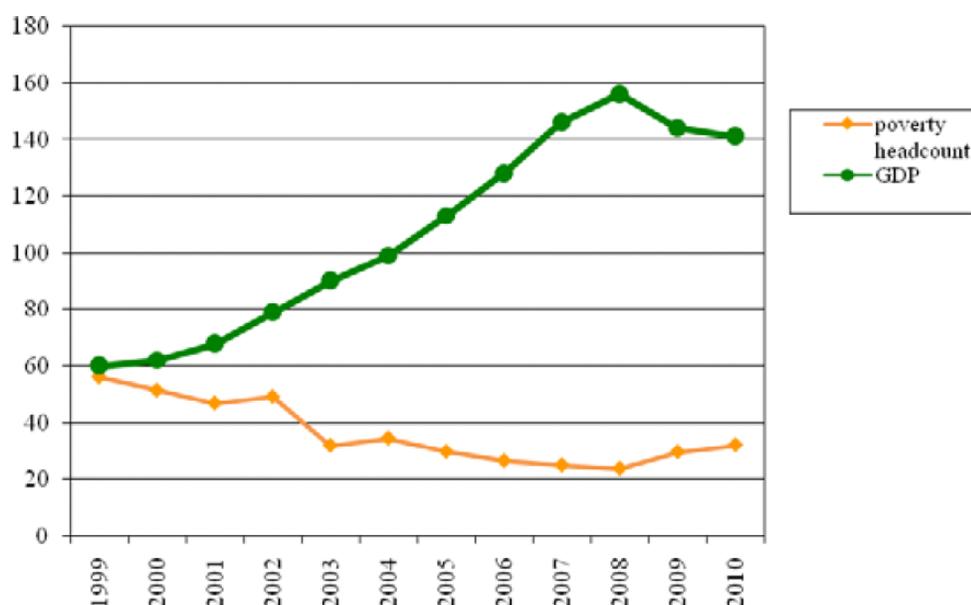
6.2 The Structure of Poverty

Assessing the structure of poverty in all of the Caucasus countries is difficult and meaningfully comparing this information across countries is even harder. In addition, in all three countries consistent concerns are expressed about the reliability of the information.⁴⁸ However, in Armenia and Azerbaijan there seems to be consistent suggestion that poverty generally has dropped more quickly than in Georgia, though the structure of poverty and its vulnerabilities are fairly similar.

6.2.1 Armenia

The table below shows the fairly dramatic improvement in the poverty situation suggested by official statistics from 1999-2010 (projected). This suggests that poverty went from almost 60% in 1999 to 22 in 2008, going up again since then as a result of the financial crisis.

Figure 9: Changes in GDP versus incidence of poverty in Armenia (1999-2010)



Source: World Economic Database, 2008 and Integrated Living Conditions Surveys for 1989-2007⁴⁹

However it also shows that the world financial crisis, that has hit Armenia fairly hard, the World Bank projects that will go up to 28% by 2010.⁵⁰ The official gini coefficient has also shown extremely strong improvements, though there are particularly good reasons to doubt this calculation.⁵¹

⁴⁸ In Georgia and Armenia the household data survey that is used to calculate poverty are both consistently questioned. In Armenia see, for example, M. Tumasyan, (2007) Poverty Reduction in Armenia, New Life with Old Standards, White Paper #2, Economic Research Development Center, p. 3-4.

⁴⁹ World Bank (May 2009), Country Partnership Document

⁵⁰ Ibid

In Armenia GDP growth has been highly concentrated in the capital. According to the IMF, Yerevan now accounts for 58% of the country's GDP, even though it only accounts for about 1/3 of its population.⁵² From 2000 to 2006, Yerevan's growth rate averaged 16.8%, against the national average of 11.5%. At the same time, the average growth rate outside Yerevan in the same period was 6.3%, with 7.6% in urban settlements and 5.4% in rural ones.

As a result, unsurprisingly levels of poverty are far higher outside of the capital than inside it. That said, in the regions outside of the capital official statistics seem to suggest that the greatest poverty is generally urban and not rural. In a document co-produced by the World Bank and the Government of Armenia, the poverty headcount not only differed significantly across the regions, but also tended to be higher in urban areas than rural in 7 regions and only worse in rural areas in 3.

Figure 10: Rural/Urban Divide in the Poverty Headcount by Region

	Rural	Urban	Difference
Armenia	33.2	35.6	-2.2
Aragatsotn	29.3	42.1	-12.8
Ararat	26.4	53.0	-26.6
Armavir	31.5	41.4	-9.9
Gegharkunik	41.5	44.8	-3.3
Lori	26.0	41.2	-15.2
Kotayk	33.0	40.0	-7
Shirak	53.1	49.4	3.7
Sjunik	27.3	43.2	-15.9
Vayots Dzor	31.7	22.2	9.5
Tavush	33.9	28.8	5.1

Source: World Bank and Government of Armenia (June 2007), *Armenia: Geographic Distribution of Poverty and Inequality*

However, as one might expect, since the growth rate for rural communities is slower than in urban communities (even if one exclude the capital), this gap is narrowing.

6.2.2 Azerbaijan

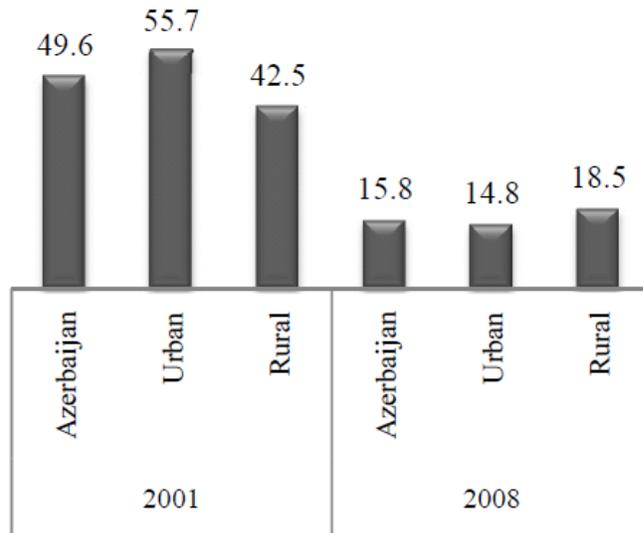
In Azerbaijan official statistics suggest a similarly impressive improvement in poverty rates over the last ten years or so. It is estimated by the World Bank that overall poverty has dropped by 34% between 2001 and 2008, fuelled by oil-led growth and redistribution policies.

⁵¹ Aghassi Mkrtchyan (May 2006), 'Poverty and Inequality in Armenia', *Development and Transition*, London School of Economics and UNDP (reviewed June 2009)

(<http://www.developmentandtransition.net/index.cfm?module=ActiveWeb&page=WebPage&DocumentID=619>)

⁵² http://www.preventionweb.net/files/9211_armeniaPRSP.pdf p.162

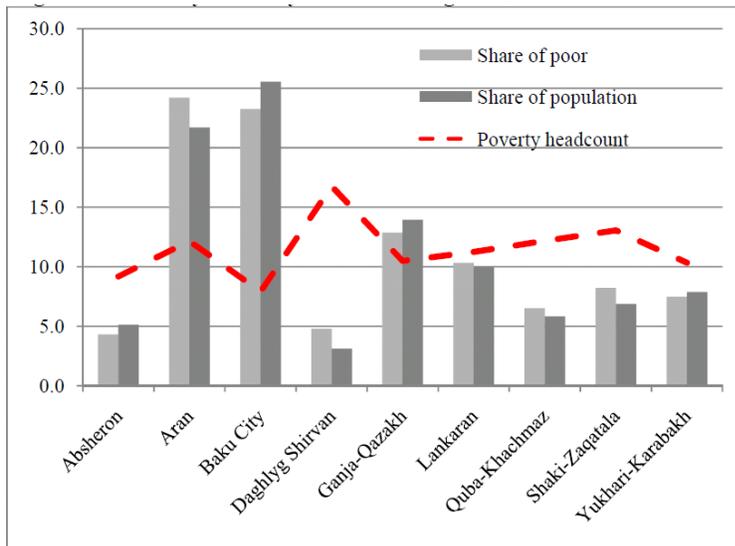
Figure 11: Improvements in poverty level between 2001 and 2008



Source: World Bank (March 2010), *Azerbaijan: Living Conditions Assessment Report*, pxi

Therefore, it is clear that poverty has been falling fastest in urban areas. Although, like Armenia one can usefully distinguish between the capital and other urban areas since the capital has seen a far greater increase in wealth. As we can see below, the rate of poverty is significantly higher in some regions than it is in Baku City.

Figure 12: Poverty Rate in Azerbaijan by Region



Bank (March 2010), *Azerbaijan: Living Conditions Assessment Report*, p24

6.3 The Role of Agriculture

As has already been commented, all three of the Caucasus countries have seen considerable growth in recent years and nationally appear to have helped to improve the situation of the poor and particularly

the extremely poor. However, they have also seen a growth in the percentage of the population engaged in agriculture at the same time as the significance of the agricultural sector has declined.

A 2009 World Bank report compared the growth rates in a range of services between Armenia, Azerbaijan and Georgia:

Figure 13: Comparison between Armenia, Azerbaijan and Georgia

	2005				1999-2005 average annual growth rate			
	Agriculture	Industry	Services	Total	Agriculture	Industry	Services	Total
Azerbaijan	2,349	47,451	5,251	9,217	1.3%	17.4%	1.9%	9.8%
Georgia	2,117	19,882	10,743	6,887	-1.8%	11.2%	11.3%	7.3%
Armenia	5,376	34,799	11,099	12,105	4.7%	24.0%	13.1%	13.4%
Kazakhstan	2,995	28,621	14,777	13,239	n.a.	n.a.	n.a.	n.a.
Ukraine	7,919	19,745	13,871	14,138	3.4%	9.8%	7.0%	7.2%
Turkey	8,972	21,420	31,424	22,329	0.3%	0.7%	0.6%	2.2%
Latvia	9,209	23,500	33,857	28,101	14.2%	3.8%	6.4%	7.1%

Reference: World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification* p15

Consistent with the earlier analysis, Georgia scores poorly in most sectors for this period but most significantly, for our purposes, this suggests a clear hierarchy in terms of development over that period with Armenia doing the best, Azerbaijan showing modest growth (though this has increased significantly since 2005) and the Georgian agricultural sector in decline. Connected to this, in each of the three countries, agriculture remains amongst the lowest paying part of the economy.

6.3.1 Armenia

Unlike Georgia, in the Soviet system agriculture had not been a high priority in Armenia as the vast majority of the agricultural land available is high-mountain grazing. However, since the collapse of the Soviet Union the number of people who rely on agriculture for their employment has been steadily increasing. In 1991 the employment level in agriculture was only 26% but by 2008 this had increased to 45%.

In spite of this fact over the same time the importance of agriculture as a share of GDP has been decreasing.⁵³ From 1996 to 2006, agriculture has decreased from 35% to 19% of GDP and productivity has declined relative to the non-agricultural sector from 77% to 26%. Exports have grown quickly but remain small standing at USD 27 million for agricultural exports in 2006.⁵⁴

⁵³ International Monetary Fund (December 2008), *Republic of Armenia: Second Poverty Reduction Strategy Paper* p141 (http://www.preventionweb.net/files/9211_armeniaPRSP.pdf)

⁵⁴ International Monetary Fund (December 2008), *Republic of Armenia: Second Poverty Reduction Strategy Paper* p141 (http://www.preventionweb.net/files/9211_armeniaPRSP.pdf), p144

In an Armenian context there is, of course, some question over whether this information is reliable.

6.3.2 Azerbaijan

There seems to be considerably less research on agriculture in Azerbaijan than in Armenia and Georgia. Agriculture is still the country's largest employer, accounting for 38% in 2008, though there has been some shift away from agriculture and towards construction in recent years.⁵⁵

The agricultural sector in Azerbaijan seems to have been doing fairly well over the last 15 years or so although, unsurprisingly, nowhere near as well as the country as a whole. Agriculture grew dramatically in the period from 1995-2005.⁵⁶ And the export of agro-products increased four-fold from 2001-2007. In 2007 it stood at USD 288 million USD.

That said, there seem to be some indications that the agricultural sector is still weak, using out-dated equipment and techniques and poorly placed to take advantage of its potential access to new foreign markets. Investments in agriculture have been falling in recent years and agriculture has demonstrated zero productivity growth.⁵⁷

6.4 *Underlying Causes of Rural Poverty in Armenia and Azerbaijan. Some first thoughts.*

Clearly, it is not possible to give a comprehensive view of the underlying causes of poverty in the region without undertaking far more research on Armenia and Azerbaijan. However, initial research suggests some interesting differences between the countries that highlight both the need for a cross-regional approach as well as the clear need for sensitivity to national and sub-national differences.

6.4.1 Governance Environment

One area where the three countries differ considerably is in the operation of government. In terms of support for agriculture at a national level the initial impression is that the level of involvement is far higher in Armenia and Azerbaijan than in Georgia.

Azerbaijan

In Azerbaijan, the considerable oil wealth has allowed it to adopt a fairly strong interventionist stance. This has manifested itself in two areas. First, it has been able to increase the national minimum wage, though average wages have increased even faster and have increase 6 ½ times since 2000.

At the same time they have been able to dramatically increase spending on both infrastructure projects and social assistance programs. Between 2001 and 2008 public spending increased 10 times and at AZN 12.5 billion (USD 15.6 billion) is now the equivalent of 70% of the non-oil economy.⁵⁸ Social expenditure has remained high as a proportion of that large total. Azerbaijan spends about the same proportion of its government spending on social assistance as Georgia, with around 4.8% of GDP going on social assistance in 2008 in Azerbaijan and 4.9% in Georgia.⁵⁹

⁵⁵ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification*.

⁵⁶ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification* p33

⁵⁷ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification* p15

⁵⁸ World Bank (March 2010), *Azerbaijan: Living Conditions Assessment Report*, pxi

⁵⁹ World Bank (March 2010), *Azerbaijan: Living Conditions Assessment Report*, p104

Partially based on the availability of finance and partly reflecting a difference in philosophy, Azerbaijan therefore appears more interested to finance development activities and to involve itself in encouraging particular sectors. This has been seen in support for a range of agricultural businesses and will continue with the new State Program for Agriculture.

The State Program for Poverty Reduction and Sustainable Development keeps agriculture as a priority area and lists a range of activities to support its development. These include, tax exemption for farmers, the expansion of an 'agroservice' network providing agricultural machinery and subsidized access to inputs, widening of veterinary services and an expansion of training for agronomists.

However, there are considerable problems in the provision of an enabling environment in Azerbaijan and Armenia. Corruption in the broadest sense is probably the most obvious problem that both countries face which Georgia generally does not. In Azerbaijan there seems to be a number of apparently contradictory trends. They were classified the 'best reformer' by the *World Bank Ease of Doing Business 2008*, particularly simplifying customs and business registration processes. However, the World Bank lists legislative problems, particularly the resolution of contractual disputes, lack of anti-monopoly legislation and barriers to investment as key hurdles to agricultural development.⁶⁰

6.4.2 Local Government

Local government is another area where there are both significant similarities and significant differences across the region.

Structure of government

In terms of similarities, all three countries suffer from local government that is impaired by weaknesses of autonomy, although for reasons I will outline below, this situation is far worse in Azerbaijan than in either Armenia or Georgia.

According to a recent analysis conducted for GTZ, local government the region is marked by very limited sources of local income generation and no long-term planning. In income terms there are two main issues. First, that the local governments have extremely limited spending capacity. Municipal government spending is low as either a proportion of GDP or as a proportion of government spending. It is around 7% of consolidated spending in Armenia and only 0.4% in Azerbaijan.⁶¹

In Armenia, the level of fiscal decentralization has remained largely the same for past few years. In Georgia, on the other hand, there is a strong tendency of centralization. Local budgets constituted

⁶⁰ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification* p34

⁶¹ Давид Туманян, Давид Лосаберидзе, Маис Гюлалиев (Ереван, 2009) Местное самоуправление в странах Южного Кавказа: Муниципальные финансы и услуги, взаимоотношения между органами центрального управления и местного самоуправления, (David Tumanyan, David Losaberidze, Mays Gyulaliev (Yerevan, 2009), Local self-governance in the countries of South Caucasus: municipal finances and services, relations between the bodies of the central government and local self-governments, p. 9)

22.8% of the consolidated budget and 6% of GDP in 2004, in 2008 the LG budget figures were down to 6% of the consolidated budget and 2.4% of GDP.⁶²

The second financing issue for local government across the region is tax raising. Even though Armenia and Georgia are spending a non-negligible percentage of the consolidated budget, their autonomy is clearly affected by their ability to raise taxes locally. In both Armenia and Georgia most of the money they spend is the result of central government transfers rather than tax-raising.

Figure 14: Local Government Tax Raising In proportion to Spending⁶³

	2005	2006	2007	2008
Armenia	24.7	23.9	21.7	22.5
Georgia	No Data	No Data	50.2	15.1

As we can see, in Armenia local tax raising is fairly consistent. In Georgia, however, the situation has gotten dramatically worse recently. Until 2007 a proportion of income tax raised locally was automatically transferred to the local government budgets. Amendments to the tax law in 2007 have made income tax the exclusive responsibility and right of central government and this has drastically reduced the income rights of the municipalities.

This is both good and bad. The inability to raise funds locally damages the autonomy of the municipal government. However, connecting local budgets and, therefore, local spending directly to local tax raising ensure that the richest parts of the country also get the largest local government budgets. Severing this link might be good for equity. For example, even though the Tbilisi budget remains by far the largest municipal budget, their budget has gone down and the budget for smaller municipalities has gone up since the 2007 amendment.⁶⁴

Finally, the responsibility of local government is very different across the region. Local government has fairly limited responsibility in all three countries though they are greatest in Armenia, then Georgia and unsurprisingly, they are practically irrelevant in Azerbaijan.

Figure 15: List of responsibilities of Local Government in Armenia, Azerbaijan and Georgia (2008)⁶⁵

Municipal services	Armenia	Azerbaijan	Georgia
Water supply and sewage	+	-	-
Irrigation	+	-	-
Central heating	+	-	-
Beautification and landscape gardening of settlements	+	+	-

⁶² Ibid

⁶³ Ibid. p6

⁶⁴ Interview with David Melua, Executive Director, National Associations of Local Authorities, July 2.

⁶⁵ David Tumanyan, David Losaberidze, Mays Gyulaliev (Yerevan, 2009), Local self-governance in the countries of South Caucasus: municipal finances and services, relations between the bodies of the central government and local self-governments, p. 10

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Solid waste management	+	-	+
Cemetery maintenance	+	+	+
Kindergartens	+	-	+
Specialized education (musical, sports, etc)	+	-	-
Cultural services (museums, libraries)	+	-	+
Public transport and local roads	+	-	+
Other			

As we can see the responsibility for local service provision is comprehensive in the Armenian case, less significant in the Georgian case and in the Azerbaijani case there is really only responsibility for local 'beautification' and cemetery management.

As a result of all of this, it seems as though, at the current time, both Armenia and Georgia would be far easier places to facilitate some improvement in local government while in Azerbaijan it would be considerably more difficult.

Also one sees a complicated cross-over of opportunities and risks in local government in the three areas. In Armenia, while there is clearly considerable local government financing and responsibility, things change very slowly. In Georgia, while there are often opportunities to move things quickly and, on paper, the government appears serious about decentralisation, in practice there is little evidence of this. In Azerbaijan, while central government seems extremely interested in supporting economic diversification, particularly into agriculture, and has considerable financing to support this, there is little interest in decentralizing or involving local communities in development decision making.

Participation and Civil Society Organisations

Outside of the capital cities civil society organisations are generally very weak across the whole region. Most of them are overly dependent on international donors, have poor community outreach, little expertise in service provision and difficulties in sustaining themselves

This document has generally distinguished between two main categories of CSOs; advocacy/human rights/educational CSOs and CSOs that offer community municipal services. In all three countries, the first category are usually funded by international donors though a small share of funding also come from the state. Membership fees are extremely rare.

In all three countries, service providing CSOs are relatively rare. However, they do seem to have a better mix of financing and, while they may still receive a significant proportion of their funding from international organisations, a number of them seem to be moving towards more sustainable financing models. Examples of this can be found in with the Federation of Agricultural Associations in Armenia, Ganja Agro-Business Association in Azerbaijan, and Municipal Service Providers' Association in Georgia. While their membership fees are still very low, quite a significant part of their finances come from the services they offer. These services differ across organisations but can include trainings, information provision, agricultural input provision as well as extension services and support.

Generally speaking, the civil society environment is very different in Azerbaijan compared to Armenia and Georgia. For a long time, it has been very difficult for new NGOs to register at the Ministry of Justice in Azerbaijan. All CSOs we spoke to from Azerbaijan mentioned that they were formed one or two years earlier than the date of their official registration. The situation became a little easier in 2005, as the Council of Europe started to apply pressure on this issue.⁶⁶

However, new changes were made to the law, which provides an additional mechanism for the government to control the activities of CSOs. CSOs are now obliged to declare any grant they expect to receive and cannot start work until it has been approved by the Ministry of Justice. The process creates significant delays, makes some projects impractical and gives the government veto power over anything they don't like.⁶⁷

That said, Azerbaijan's greater wealth does have benefits. Under the framework of the Extractive Industries Transparency Initiative (EITI), NGOs are given funds to conduct research on oil and gas industries in the country. This helped to establish a number of strong economic think tanks in Azerbaijan.⁶⁸

In Armenia and Georgia, there are fewer bureaucratic problems and the legislative environment for CSOs is better. Nonetheless government/NGO/society relations vary considerably in the two countries. In Georgia many government representatives have NGO backgrounds, which makes NGO/government communication easier. Georgian government representatives also seem fairly prepared to engage with CSOs, even if the CSOs still complain about the small impact of that engagement.

In Armenia, on the other hand, as stressed by the research of Counterpart International, there is low trust towards CSOs and CSOs have little high profile engagement.⁶⁹

Financial sustainability

In all three countries, one of the major problems for CSOs remains the excessive dependence on a single (usually international) donor. As a result of this dependence the CSOs, particularly outside of the capital cities, tend to come into existence for the lifetime of a given project and then disappear at the project's end. This model makes it extremely difficult for the CSOs to develop as institutions and tends to make them overly oriented towards the demands of the international community.

There are efforts to change this. Counterpart Armenia recently completed a study on the financial sustainability of Armenian CSOs. While the study acknowledged the problem of dependence, it also identified two new trends that seem to be positive for CSO financial sustainability. First, from the side of the CSOs themselves, they argue, there has been considerable effort to diversify revenue streams. To do this CSOs have started to solicit donations from individuals, corporations and government agencies. They are also increasing their use of membership fees and, in few instances, for-profit ventures.

⁶⁶ Interview with Hafiz Hasanov, Chairman, Law and Development Public Association, July 8

⁶⁷ Interview with Rena Safaraliyeva, Executive Director, Transparency International – Azerbaijan, July 2

⁶⁸ Interview with Rena Safaraliyeva, Executive Director, Transparency International – Azerbaijan, July 2

⁶⁹ Information provided by Lusine Hakobyan, Civic Advocacy Support Program Manager, Counterpart Armenia, July 1.

Second, there has been a growth in all three countries in the support of civil society by government. In Armenia there has been a growth in social contracting where government pays NGOs for the provision of welfare services.⁷⁰

In Azerbaijan this has also started to emerge. In 2007, the president signed the decree on enacting the Concept of the State Support to Non-Governmental Organizations of the Republic of Azerbaijan. This concept led to the creation of the Council of State Support to Non-Governmental Organizations under the President of the Republic of Azerbaijan (CSSN) which allocates funds to over 200 CSOs and has budget of nearly USD 3 million. This budget is expected to rise.⁷¹ In 2009 the Georgian Government also established a one million lari fund in 2009 to fund small NGO projects.

6.4.3 Resources, inputs and supply Chains

One of the areas where there seems to be the least well developed information is on the issue of supply chains, agricultural extension services and input provision in Armenia and Azerbaijan.

Armenia

Initial desk research seems to suggest that Armenia faces a better situation than Georgia in terms of farm machinery and irrigation but still has a weak environment in terms of extension services and certain key inputs.

In irrigation, the IMF summarise the situation,

Structural and management reforms of the irrigation sector, introduction and strengthening of participatory management in the last years have greatly contributed to the improvement of irrigation indicators. According to latest surveys, the size of the areas that are not irrigated due to the lack of access has decreased considerably, and so has the number of rural households, which believe that their key problem is the lack of access to irrigation.⁷²

Unlike most of other countries in CIS, Armenia managed to preserve and increase agricultural machinery. In 2008, there were 14,700 tractors and 1,700 combines compared to 13,400 tractors and 1,900 combines in 1989.⁷³

In Armenia, high quality and reasonable priced inputs continue to be hard to find for most Armenians. Since the 1988 earthquake destroyed the country's only fertilizer factory most farmers have not been able to afford fertilizer. As a result, as the World Bank highlights,

despite steady reforms in extension services, provision of higher quality seeds and improved access to credit. Persistent livestock diseases, such as brucellosis and African swine fever led to a decline in the livestock share in gross agricultural output.⁷⁴

⁷⁰ Information provided by Lusine Hakobyan, Civic Advocacy Support Program Manager, Counterpart Armenia, July 1.

⁷¹ Interview with Ilgar Avgasiyev, Chief of Party of the Civil Society Program, Counterpart Azerbaijan, July 9.

Information on CSSN, including the types of projects they fund and reports can be found at www.cssn.gov.az

⁷² International Monetary Fund (December 2008), *Republic of Armenia: Second Poverty Reduction Strategy Paper* p141 (http://www.preventionweb.net/files/9211_armeniaPRSP.pdf), p156

⁷³ Armenian Department of Statistics

⁷⁴ World Bank (May 2009), Armenia Country Partnership Document p17

Azerbaijan

In Azerbaijan the exact picture in terms of input availability and extension services is also unclear. In the World Bank's assessment of Azerbaijani agriculture they highlight a number of key weaknesses.⁷⁵ Some of these are legislative and mentioned above. Some relate more to critical infrastructure and inputs.

For example, the World Bank report highlights problems in irrigation, secondary roads and low availability of credit as central hurdles. At the same time, they argue that government efforts to supply better inputs have a poor track record. In some areas they say that government involvement has simply helped to subsidize inefficient activities. In other areas they say that the government has not invested enough, leaving Azerbaijan with poor access to seeds, low genetic stock of animals and poor quality farm machinery.⁷⁶

As a result, while the State Program for Agriculture aims to change all of these problems, the concern is clearly whether the government has the capability, or the self control to walk the fine line between strategic sector support and overbearing anti-market practices.

Added to all of this, the governance issues mentioned above, particularly in relation to monopolistic practices, also seem to be stiling the potential growth of the Azerbaijani market. In particular, a range of anti-competitive practices, combined with imperfect information in the Azeri market have ensured that farm gate prices for products have stagnated over recent years while market prices have increased.⁷⁷

⁷⁵ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification*, p34

⁷⁶ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification*, p34

⁷⁷ World Bank (December 2009), *Azerbaijan Country Economic Memorandum. A New Silk Road: Export Led Diversification*, p35