

## Rural non-farm employment and development in transition economies. Proceedings of a workshop held at the Old Royal Naval College, University of Greenwich, London 6-7 March 2002

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# **RURAL NON-FARM EMPLOYMENT AND DEVELOPMENT IN TRANSITION ECONOMIES**

**Proceedings of a workshop held at the Old Royal Naval College,  
University of Greenwich, London**

**6-7 March 2002**

**by Tiago Sequeira Wandschneider and Dr. Junior R. Davis  
(Natural Resources Institute, UK) with Jim Hancock**

**May 2002**



## **ACKNOWLEDGMENTS**

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The views expressed in this report are those of the workshop participants and may not represent those of their agencies or the workshop sponsors.

## **LIST OF ABBREVIATIONS**

CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
DFID	Department for International Development, United Kingdom
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
LPFRD	Lodeinoye Pole Foundation for Rural Development
NGO	Non-Government Organisation
NRI	Natural Resources Institute
RNFE	rural non-farm economy
UK	United Kingdom

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## **SECTION I**

### **BACKGROUND**

The non-farm sector plays an important role in sustaining and enhancing rural livelihoods, both in developing and transition economies, accounting for a significant share of rural employment and income. Given a favourable policy environment, the most dynamic segments of the rural non-farm economy (RNFE) can moreover become important engines of growth at the regional and even national level.

In Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), the significance of the RNFE contrasts with the lack of systematic knowledge about its structure and dynamics. The profound changes in rural areas during the transition and the dramatic shifts in the institutional environment have made it difficult to capture such processes.

Unsurprisingly, full understanding and awareness of the policy conditions and the type of interventions most likely to unfold the RNFE potential is still lacking. While there is some consensus on many policy and intervention areas that are critical to the performance of the RNFE, much needs to be learned about enabling policy processes, institutional requirements and linkages, effective partnerships, and best practices.

Comprehensive research on these issues has only recently started. While several regional and national surveys have now been completed, in many cases collected data have not yet been fully processed and analysed, and the dissemination of emerging findings is still at an incipient stage. Concurrently, although many rural development initiatives have been implemented in different transition economies and contexts, learning from these experiences has been far from satisfactory. Insufficient attention has been paid to assessing and disseminating their impact and sustainability. When available, this evidence often tends to remain within the country or promoting agencies, making it difficult for other countries and institutions to replicate successes and avoid failures.

More than one decade after the start of the reforms, it is time to develop a proper understanding of past RNFE trends and the current situation in the CEE/CIS region. Based on this evidence, there is a need to initiate a broad-based, action-oriented and region or country-specific process of analysis and consultations aimed at bringing about positive change and developments.

This workshop should be seen in this context. Its main objective was to bring together key stakeholders to share and discuss information and insights from current, RNFE-related research and development initiatives in the CEE/CIS region. The workshop was organised by the Natural Resources Institute (NRI) of the University of Greenwich, United Kingdom (UK) with funding and support from the UK's Department for International Development (DFID) and World Bank Collaborative Programme for Rural Development.

These proceedings reflect the findings and information shared during the workshop and the discussions held. They are structured as follows. After this introduction, section II outlines the sequence of workshop presentations and working group themes.

The main findings and conclusions are then presented in section III. Workshop participants are listed in Annex 1 and the workshop programme is shown in Annex 2. The workshop presentations, discussions and working group recommendations are summarised in Annex 3. Finally, Annex 4 compiles all the workshop papers or power point presentations.

## SECTION II

### WORKSHOP OVERVIEW

Held on 6-7 March 2002 at the University of Greenwich, the workshop gathered over 40 participants from academic institutions, multilateral and bilateral development agencies, rural development programmes and projects, and international consultancy firms. Participants were from Armenia, Georgia, Romania, Bulgaria, the Czech Republic, Russia, Ukraine, Moldova, the UK, the United States of America, and Germany.

Following a welcome address by Prof. Rick Trainor, Vice-Chancellor of the University of Greenwich, an introductory presentation by Junior Davis (NRI) and a keynote address by Prof. Paul Hare (Heriot-Watt University) set the scene for the workshop. Junior Davis introduced the workshop topic, described the research NRI has been conducting on the RNFE in transition economies, and explained the workshop objectives and expected outcomes. Prof. Paul Hare provided some thinking on institutional reform and change in transition economies and its implications for the development of the rural economies in these countries.

The workshop was then structured in four sessions. The first focussed on non-farm employment patterns and policy issues. Sophia Davidova (Wye College) presented a paper on changes in the structure of rural incomes and employment in three Central European countries (the Czech Republic, Hungary and Poland) during the transition, the characteristics of diversifiers, and the role of policy in these processes. Based on preliminary analysis of survey data, Gertrud Buchenreider (Hohenheim University) discussed preliminary findings on household-level attitudes towards agriculture and non-farm employment and reasons behind farm diversification in Bulgaria, Macedonia and Slovenia. Findings from an NRI-led survey on non-farm rural enterprises in Armenia, conducted in collaboration with Wye College and local teams, were also presented. The features of diversifying enterprises were highlighted and key enterprise development needs discussed. The session concluded with an analysis by Jorge Nuñez-Ferrer from the European Commission (EC) of critical national policy issues and their implications for rural development, with special reference to Poland.

Session 2 focussed on lessons learned from rural project interventions with close links to the non-farm economy. DFID-funded rural livelihoods programmes in Russia, Ukraine and Moldova were described, with emphasis given to their micro-enterprise development components and innovative institutional partnership models. Chris Rock (NRI) then discussed lessons from an on-going, DFID-funded pilot project in Russia, which seeks to integrate sustainable livelihood interventions into national park management plans and to identify best practices for replication and scaling-up. These presentations were complemented by a discussion of participatory rural appraisal methods and their appropriateness for project design in the context of Bulgaria.

Session 3 was dedicated to social analyses of household participation in the RNFE. Nigel Swain (University of Liverpool) introduced the concept of social resources and discussed their role in enabling individuals to exploit non-farm opportunities, drawing on a number of case studies from various CEE countries. Social capital and access to non-farm livelihood opportunities were also the focus of the four subsequent

presentations, of which three presented findings from qualitative baseline research conducted by NRI and local collaborators in selected rural communities of Romania, Georgia and Armenia.

In the final session, three working groups identified intervention opportunities for the RNFE. The first two groups focussed on diversification by poor households in CEE and the CIS, respectively. The third group addressed options for enhancing demand-driven, higher-return opportunities in the RNFE in both regions.

During the workshop there were two plenary sessions for discussion of key issues. In addition, most presentations were followed by an open session, in which participants asked questions, presented their views on specific issues and shared experiences. Despite time constraints, these sessions proved a useful complement to the presentations.

## SECTION III

### WORKSHOP FINDINGS AND CONCLUSIONS

The workshop was felt by the organisers and participants to have been very successful. New evidence on the structure and dynamics of the RNFE was presented. Most speakers did not limit themselves to a simple characterisation of the RNFE in CEE/CIS countries, but also explored important policy issues and interventions. The lively debates and working group discussions that followed raised many challenging issues, especially with regards to policies and interventions for the development of the RNFE, thereby serving as a useful complement to the presentations.

This concluding section aims to highlight the main findings and issues emerging from these presentations and debates. Care must be taken, however, when interpreting and applying these general findings and conclusions in the context of specific CEE/CIS countries. Some identified patterns and features are common to many countries and regions. However, wide variations also exist between and within countries. Although some of these differences are highlighted below, no analysis or summary of issues specific to individual countries was undertaken.

#### *Trends and dynamics in the RNFE*

In the CEE/CIS regions, the transition from a centrally planned to a market economy led to remarkable change in the RNFE. Workshop presentations provided much insight into this process, revealing common patterns and distinguishing features across countries and regions. The following emerging findings are noteworthy:

- **Wage income in rural areas contracted severely across the whole CEE/CIS region** as a result of the privatisation and restructuring of collective farms and state enterprises, the erosion of real salaries in the public sector, and economic decline. Enterprise development in rural areas has been generally slow and failed to generate significant wage employment.
- **Subsistence farming has been playing a buffer role.** Rural households have retreated into subsistence farming following the restructuring of collective and state farms, the collapse in agricultural service provision, falling salaries in government administration and services, and the lack of local wage employment opportunities. In some CEE and Balkan countries, agricultural income support policies have also contributed to retaining a very high proportion of the rural population in farming.
- **Diversification into the non-farm sector has been largely distress-push.** Many households pursue casual or part-time self-employment opportunities within the non-farm sector to complement meagre and highly seasonal farming incomes.
- **Still, examples of successful diversification into higher-return activities exist.** Moreover, cases of rural firms catering for export markets were found in CEE and the Balkans. Foreign direct investment has played a key role in enabling these firms to access external markets.



- In most countries, **unearned income from migration and government transfers has gained much importance** owing to declining or stagnant rural incomes and opportunities, and an ageing population. Favourable agricultural income support measures partly explain the rising importance of government transfers in CEE and some Balkan countries.
- In many countries **the flexible and diversified nature of rural household livelihoods strategies has become more evident during transition** following an increasingly unstable and uncertain economic environment.
- **Assets inherited from previous state enterprises, collective farms and co-operatives have played an important role in the development of new businesses.**
- **Rural-urban linkages have weakened during transition**, following the decline in transport infrastructure and services, the disruption of pre-reform marketing networks, a retreat to subsistence production in rural areas, and lack of marketing skills amongst the rural population. Rural areas have become more isolated and markets for its goods and services increasingly localised. Because of local demand and cash constraints, sales on credit and barter transactions are widespread, especially in Russia and the CIS.
- **Linkages between farm and non-farm sector show wide variation across transition economies.** Despite the precarious situation of primary sectors, especially agriculture, marketing and processing of their products and other supporting services account for a considerable share of rural non-farm employment and income in many transition economies. In CEE, however, these activities were found to be relatively marginal. Apparently, competition from imported Western European food products partly explains this situation.

#### ***Determinants of access to non-farm income generating opportunities***

Most workshop presentations provided evidence on the determinants of access to non-farm income earning opportunities. Special emphasis was given to the following factors:

- **Relational capital.** The role of social networks in enabling people to exploit economic non-farm opportunities cannot be overemphasised. Managers and employees of former state-owned enterprises have profited from contacts developed during the socialist period, therefore being well positioned to exploit market opportunities and access assets and resources. Ethnic minorities and displaced populations lack access to social networks; as a result, they face considerable obstacles in pursuing self or wage employment opportunities in the non-farm sector. Opportunities for migration are often associated with contacts and relations abroad.
- **Skills.** Although education levels are generally high and reasonably well distributed in the rural areas of CEE/CIS, existing skills are generally out of touch with the needs of a market economy. Entrepreneurial, managerial and marketing

skills acquired in former state enterprises or abroad have therefore proved invaluable in the new and rapidly changing market environment.

- **Attitudes.** In many countries there is widespread disillusion with the transition process and the way certain individuals were able to use their skills and contact networks to appropriate resources, access government and donor support services, and exploit the few remunerative opportunities available. The majority lacks the business skills and experience to successfully participate in a contracting, stagnant or at best slowly growing rural economy. This has led to a rather fatalistic attitude amongst the rural population, which is not conducive to beneficial participation in the non-farm economy. Dependency on migration remittances and government transfers also seems to have contributed to the apathy found amongst many rural households.
- **Financial resources.** Availability of bank loans, secure household resources or remittance income plays a key role in enterprise development. Those businesses that have benefited from bank loans seem to have performed better, although the possibility that banks select better skilled clients or more viable business activities cannot be discarded. Likewise, while regular sources of household income has proven instrumental in enabling individuals to develop their businesses, by providing a safety net in case of enterprise failure, they have also allowed them to engage in riskier but potentially more remunerative livelihood strategies. Finally, cases exist in which migration remittances have been successfully invested in non-farm income-generating activities.
- **Location.** Remote areas tend to face acute input and output market access problems. In contrast, areas closely located to urban centres or neighbouring richer countries enjoy improved market opportunities. These regions therefore offer better prospects for demand-pull diversification and the development of a dynamic non-farm economy. Proximity to higher income areas moreover puts them at a relatively advantageous position as investment and, in certain cases, tourist destinations.
- **Transport infrastructure and services.** The above reasoning applies as well to transport infrastructure and services. Well-connected areas enjoy improved market access and are better positioned to attract tourists and outside investment. However, easiness of access may also translate into greater competition from outside goods and services. While activities which enjoy strong comparative advantage will benefit from positive developments in transport infrastructure and services, other may be affected or displaced as a result.

### *Policies and interventions for the development of the RNFE*

Several critical policy and intervention areas were identified during the workshop. Some examples are discussed below:

- **Land.** While the dismantling of collective farms and state co-operatives has led to a relatively equitable distribution of land amongst the rural population, at the same time it has resulted in an overcrowded and unproductive farming sector. This has had negative effects on the performance of local and national economies in

general, and the agribusiness sector in particular. Thus the importance accorded to furthering land reform. It is important to note that land reform reinforces the need to develop the capacity of the non-farm sector to absorb surplus agricultural labour force.

- **Business and regulatory environment.** Enterprises in many transition economies still face a hostile business and regulatory environment. The legal, regulatory and tax environment merit special attention. Transparent and lean enterprise start-up provisions are also required.
- **Economic infrastructure.** The importance of economic infrastructure development, and the associated benefits and problems, were discussed above.
- **Credit.** There was a broad consensus on the need to develop rural financial services. This requires addressing supply as well as demand constraints. The former include establishing proper land registration systems, creating efficient property markets, enforcing clear rules governing default, and developing sustainable business support services. Co-operatives and associations can also play a role in improving the supply of credit in rural areas. On the demand side, it must be recognised that many rural entrepreneurs are not attractive to banks due to the lack of collateral and the high credit delivery costs associated with small loan amounts.
- **Enterprise development services.** The need for holistic approaches to business development, which make a wide range of services available to rural enterprises, received much attention during the workshop. Training to enhance business and entrepreneurial skills and initiatives to link enterprises with markets, credit institutions and other service providers are noteworthy. The latter are especially relevant in the context of very unequal access to social and market networks.

During the workshop it became evident that the two following issues must also be taken into account if interventions in the above areas are to have the desired impact:

- **Innovative forms of collaboration and dialogue between a wide range of stakeholders must be found and fostered at the local, regional and national levels.** Key stakeholders include national and local government institutions, donor agencies, service providers, NGOs, member-driven organisations, and the commercial sector. The appropriateness of different institutional arrangements and partnerships varies according to local and national contexts and the policy or intervention area under consideration. Such collaboration and dialogue is further reinforced if set within a national framework or strategy for rural development.
- **Market and demand considerations must inform policy decisions and resource allocation choices.** The perception that demand and market conditions are often neglected in policy and other interventions in many CEE/CIS countries came out strongly during the discussions. Growth and employment creation opportunities are missed as a result. For example, at a very practical level, the impact of direct support to enterprises in high potential sectors will be enhanced if accompanied by market linkage development. In contrast, direct support measures

to rural enterprises that face acute demand constraints may either fail to have an impact or benefit assisted businesses at the expense of competitors.

### *The challenges ahead*

It became evident during the presentations and discussions that improved performance of the RNFE in the CEE/CIS is critically dependent on policies. It also became apparent that policy processes and interventions raise complex issues and difficult choices. The analysis below illustrates some of these issues:

- **Whilst policy design and implementation is a function of governments, the latter also play a key role in designing and implementing rural development interventions.** However, weak institutional and technical capacity at the state level limits its ability to effectively address the complexity of the rural economy and wider rural development. Developing state capacity and institutions at the local, regional and national levels is especially problematic in the poorest countries, where real salaries in the public sector and administration are very low and have generally declined significantly over the past decade.
- **Governments in the region are confronted with overloaded and complex reform agendas** associated with the transition to a properly functioning market economy. Faced with tight budget constraints, governments face difficult and tough choices regarding which areas to prioritise and the adequate sequencing of interventions. While in some cases selective interventions may have the desired impact on the RNFE, a holistic approach that simultaneously addresses several areas may be required in other cases.
- Although the picture is far from uniform within the CEE/CIS region, **in many countries corruption and patronage at government level are widespread.** This limits the scope for equitable and effective government choices, adequate enforcement of laws and regulations, proper targeting of public services and investments, and the development of a genuine process of collaboration and consultation with civil society. Unsurprisingly, mistrust in government institutions is prevalent in many CEE/CIS countries.
- **The political economy of policy-making implies that policies are to some extent endogenous.** There will always be winners and losers from policy decisions, and the relative strength of one group vis-à-vis the other will influence policy outcomes. For example, the strength of the agricultural lobby in countries such as Poland has led to policies that benefit the agricultural sector in a disproportionate manner, potentially inhibiting efficient and pro-growth structural change in the economy. Reversing inappropriate policies that favour particularly vocal groups within society may be difficult.
- **The development of the RNFE requires a clear and long-term vision for rural development,** including a clear perspective on the role of rural towns as growth centres. Likewise, given the long-term nature of structural change, visible changes in the RNFE may take a long time to materialise. However, long-term processes may not fit well into the political cycle and the time frame of donor and NGO interventions.



- **A fine balance between support to low-potential and high-potential activities in the RNFE is required** but may be difficult to achieve. Undue prioritisation of low-productivity activities and areas may reduce the negative impact of transition on the poor but compromise long-term growth and poverty reduction. Excessive emphasis on high-potential activities and areas may enable dynamic sectors to emerge and develop, and eventually translate into significant employment creation outside the household, but at a high social cost.

Despite the above, there is much scope for improvement and optimism. For example, innovative models of rural non-farm enterprise development are starting to emerge in many countries. The development of partnerships between different government and non-government stakeholders is intrinsic to these models. Learning from pilots and disseminating successful approaches for adaptation, replication and scaling-up within country and elsewhere is a priority. In the process, special attention needs to be paid to local realities and contexts to ensure the relevance of implemented models and solutions.

## **ANNEXES**

# ANNEX 1

## Workshop Participants

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## ANNEX 2

### Workshop Programme

	<b>6 March 2002</b>
9:00-9:30:	Registration/coffee/tea
9:30-9:35	Tony Clayton (Director, NRI) introduces Prof. Rick Trainor
9:35-9:45	Welcome Address Prof. Rick Trainor (Chancellor, University of Greenwich)
<b>Introduction</b>	
9:45-10:00	The rural non-farm economy and its role in transition economies: An overview and programme outline Dr. Junior Davis (NRI)
<b>Keynote Address</b>	
10:00-10:45	Institutional reforms during the transition: Lessons for the rural economy Professor Paul Hare (Heriot-Watt University)
10:45-11:00	Coffee/Tea Break
<b>Session 1</b>	<b>Rural Non-farm Employment and Livelihood Diversification in Transition Economies</b> Chairperson: Dr. Junior Davis
11:00-11:30	Non-agricultural diversification of farm households and corporate farms: Lessons from Central Europe Sophia Davidova and Hannah Chaplin (Imperial College at Wye)
11:30-12:00	Household determinants of access to rural non-farm employment in the Balkans Prof. Gertrud Buchenreider and Judit Knupfer (Hohenheim University)
12:00-12:30	Rural non-farm enterprises in Armenia: Characteristics, needs and constraints Dirk Bezemer (Imperial College at Wye)
12:30-13:00	National and EU policy mix: Economic efficiency in the rural areas of CEECs Jorge Nuñez-Ferrer (European Commission)
13:00-14:00	Lunch
<b>Session 2</b>	<b>Lessons Learned from RNFE Projects and Programmes in Transition Economies</b> Chairperson: Prof. Paul Hare
14:00-15:00	DFID Rural Livelihoods Programmes in Moldova, Russia and Ukraine Ian Houseman, Svyatoslav Fyodorov, Maria Ozipova, Victoria Borachenko (ADAS and DFID)
15:00-15:30	Sustainable livelihoods and rural non-farm enterprise in Russia: Lessons from a pilot project to establish a series of SL programmes in Russian National parks Chris Rock (NRI), Jonathan Rudge (RHS Associates) and Maria Travkina (Biodiversity Conservation Centre, Moscow)
15:30-16:00	Rural non-farm employment initiatives in Bulgaria and participatory rural appraisal methods Diana Kopeva (University of National and World Economy, Bulgaria) and Docho Mihailov (IME)
16:00-16:30	Coffee/Tea break
16:30-18:00	Plenary session
19:00-22:00	Dinner

	<b>7 March 2001</b>
<b>Session 3</b>	<b>Social factors and household participation in the rural non-farm economy</b> Chairperson: Dr. Junior Davis
9:00-9:30	The role of social resources in the development of the rural non-farm economy in the CEE/CIS Dr. Nigel Swain (University of Liverpool)
9:30-9:45	Social factors affecting household level involvement in the RNFE in Romania, Armenia and Georgia Monica Janowski (NRI)
9:45-10:05	Household livelihood strategies in rural Romania: Policy implications Vintila Mihailescu (National School of Political Sciences and Administration, Bucharest)
10:05-10:20	Social factors affecting involvement in non-farm activities in Romania Ana Bleahu (Institute of Quality of Life, Romania)
10:20-10:45	Non-farm activities and policy directions in Armenia Hranush Kharatyan (University of Yerevan)
10:45-11:30	Plenary session
11:30-11:45	Coffee break
<b>Session 4</b>	<b>Policy and intervention options for rural non-farm diversification in the CEE/CIS region: Working group recommendations</b>
11:45-12:00	Formation of working groups
12:00-13:00	Working group sessions
13:00-14:00	Lunch
14:00-16:00	Working group sessions (continuation)
16:00-16:30	Presentation of working group findings
16:30	Closure of Workshop

### ANNEX 3

## WORKSHOP PRESENTATIONS AND GROUP RECOMMENDATIONS

### INTRODUCTION

#### *The RNFE and its role in transition economies: An overview and programme outline*

Dr. Junior Davis (NRI)

Junior Davis introduced the workshop topic. He defined the RNFE as comprising incomes earned from wage work or self-employment in non-agricultural, rural-based activities as well as non-earned income inflows from remittances or state pensions and benefits. While primary production in agriculture, forestry, fisheries and mining is excluded, value addition through marketing and processing of primary products is an integral part of the RNFE.

The RNFE is rather heterogeneous. It consists of various types of employment (self and wage; private and public); activities (manufacturing, trading and services); enterprises (micro, small, medium and large); and incomes (cash and in-kind; earned and non-earned). An increasing emphasis on the RNFE reflects the realisation that rural households and areas are highly diversified, and has led to more holistic perspectives on rural development.

In the CEE/CIS a significant proportion of the population is rural-based and non-farm sources typically account for 30 to 50 percent of rural household income. In many countries, remittances are an important source of income. This often reflects increased rural poverty, the slow expansion of the private sector in rural areas, and the ageing of the agricultural labour force.

Following these introductory considerations, Junior Davis described the involvement of NRI in several RNFE research projects in transition economies. This work seeks to provide a better understanding of dynamics and trends in the RNFE in order to inform relevant policy processes. Emphasis is given to the determinants of access to non-farm employment and income opportunities. In each country, NRI collaborates with a range of local institutions. Several donor agencies have provided financial support and stimulus to this research, including DFID, the World Bank, the Food and Agriculture Organisation (FAO) and the EC.

Junior Davis then introduced the workshop objectives and its expected outcomes. The workshop aimed to:

- improve information flow and data exchange at the country and international level;
- identify research and information gaps regarding the RNFE in CEE/CIS countries;
- strengthen the links between current research work and in-country policy and programme processes;
- enhance understanding of lessons learned from innovative projects and programmes and identify opportunities for improving and replicating current initiatives;

- identify strategic inter-institutional linkages and effective public-private partnerships to improve RNFE policy processes; and
- build up networks of research institutions, project implementing bodies and stakeholder organisations.

## **KEYNOTE ADDRESS**

### ***Institutional reforms during the transition: Lessons for the rural economy***

Professor Paul Hare (Heriot-Watt University)

In his keynote address, Prof. Paul Hare provided some background analysis on the institutional reform process in transition economies. He started by stressing the complexities and difficulties of managing the transformation of centrally planned economies, operating under a socialist system, into market economies, operating under a capitalist system in a democratic political framework. Governments were confronted since the start of the process with overloaded reform agendas. Reform challenges were all the more daunting given the weak state capacity in many countries and the fact that economic theory at the beginning of the reforms provided poor guidance on how to best develop an institutional framework suited to the needs of a well-functioning market economy. It was often thought that the opening up of markets would naturally lead to the rapid development of the institutional structures needed to make the new market system function effectively. This has not happened.

Following these introductory remarks, Prof. Hare went on to present some key concepts and definitions regarding institutional change. Because many economic institutions have a public good character, markets may not supply the socially efficient level and/or type of institutions, the implication being that there is a role for governments in creating missing institutions and improving those that exist, through regulation or other means. This role is all the more evident in the case of transition economies, where many of the institutions normally present in a mature market economy are either absent or perform poorly.

Possible private sector responses to an environment characterised by missing institutions and incomplete, poorly enforced and/or controversial laws were also discussed. The development of private means of contract enforcement and illicit demands for “protection” money are examples of such responses. These may lead to efficient as well as predatory outcomes. In the latter case, expansion of existing firms and new business formation is hampered.

Drawing on the above analysis, Prof. Hare explored some institutional requirements for developing the rural sector and raising the living standards of rural populations in transition economies. With respect to the RNFE, the relevance of information provision and networks for accessing jobs and developing businesses was stressed. So was access to banking services, although collateral problems are difficult to overcome in the absence of proper land registration systems, well-functioning property markets and clear rules governing default. Training and education for skill enhancement was also considered essential, requiring a number of institutional developments tailored to local realities. Finally, the development of economic infrastructure taking into account local needs and opportunities was deemed essential, even though this may end up hurting some rural sectors and areas due to increased outside competition.

Positive developments in these areas were considered essential to enable rural firms to exploit market opportunities in large urban centres or abroad. Because rural areas are usually characterised by low incomes, the export of goods and services to outside markets is the most effective RNFE growth strategy.

Migration and the associated remittances constitute another route to improved incomes in rural areas, especially where economic opportunities are lacking or limited. Important conditions for smooth migration flows include access to information about job opportunities in different areas, a functioning house market in destination areas, availability of credit to cover initial migration costs, and support in case migrants fail and need to return home.

Individuals who have little or no earned income, and cannot or are reluctant to migrate, must rely on income support from others or the state. Although modest and incapable of sustaining a thriving rural economy, state subventions to poor individuals in rural areas generate much-needed local income and provide a source of demand for locally produced goods and services.

Prof. Hare closed his presentation by stressing three points:

- Attempts to develop agriculture and rural non-farm sectors in remote and resource-poor regions may ultimately fail. For these regions, migration may constitute the only viable alternative over the long run.
- Successful agricultural reforms may significantly reduce labour demand in farming due to productivity gains. In such situations, job creation in other sectors of the rural economy must be actively promoted and in some cases complemented with measures to encourage displaced labour to migrate.
- It is important that economic policy and institutional reforms are guided by the need to improve living standards as a whole while taking into consideration the long-term viability of promoted activities. This implies maintaining a difficult but fair balance between rural and urban areas, in which neither the former nor the latter are given undue preference.

Following this presentation, there was a short session for comments and questions. Ways to develop local institutions was one of the issues discussed. The lack of straightforward answers to this challenge was noted. Incubator projects, in which further funding is dependent on good project performance, were mentioned as one of the means to develop such institutions.

The time required for bringing about significant economic change in transition economies was also discussed. There was some agreement that this will be a slow and potentially painful process. In Western Europe and the UK, for example, industrial restructuring has taken 20 to 30 years and workers displaced from contracting sectors were not necessarily the ones benefiting from job creation in expanding sectors. Hence, seeking measures to support displaced workers was felt important.

The concern that an excessive emphasis on the RNFE could artificially retain people in low-income rural activities and hamper the process of economic growth was expressed. Yet this need not be the case. There are opportunities for the development



of profitable activities in rural areas, and even low return activities can co-exist with more dynamic sectors. The real challenge lies in finding the “winners” and developing an enabling environment and adequate support for growth of these high-potential sectors.

## **THE WORKSHOP SESSIONS**

### **SESSION 1: Rural Non-farm Employment and Livelihood Diversification in Transition Economies**

Chairperson: Junior Davis

#### ***Non-agricultural diversification of farm households and corporate farms: Lessons from Central Europe***

Sophia Davidova and Hannah Chaplin (Imperial College at Wye)

Sophia Davidova presented findings from an EC-funded research project involving six European academic centres and looking at the impact of diversification on the development of rural areas in the Czech Republic, Hungary and Poland. The importance attached to diversification in these countries arises from evidence pointing to low returns from farming and the need to boost rural incomes and create more robust rural economies. The research aims to contribute to the debate on the future of rural areas in CEE in view of their accession to the European Union (EU).

The presentation focussed on the incidence and types of farm diversification, the characteristics of diversifiers and non-diversifiers, the factors affecting diversification, and the impediments to diversification. A distinction was made between employment diversification and enterprise diversification. The former is common in small farms where surplus labour and low farm incomes push individuals into off-farm employment. The latter characterises many large commercial farms, where excess capacity of production factors such as land, buildings and financial capital is often employed in on-farm non-agricultural activities.

Between 1990 and 2000 the number of farm households earning income from agriculture rose markedly whereas agricultural paid employment declined considerably. Poland is an exception to these trends due to the prevalence of private farms prior to the reforms. Non-agricultural paid employment also fell in the three countries, albeit much less abruptly. In contrast, unearned income from remittances, government transfers and farm income supporting policies rose significantly in all three countries. Declining diversification at the individual farm level was largely a result of land reform, which led many households to shift from agricultural and non-agricultural paid employment into farming.

While the number of farm and off-farm family enterprises rose during the 1990s, detailed analysis shows a significant decline in their number once agricultural contracting, biomass and woodland activities are excluded. Moreover, because diversified family enterprises essentially use household labour they have not been a major source of new jobs. There is little evidence that this situation will change in the coming future.

An analysis of corporate farms, most of which have emerged from the former state and collective farms, was conducted for the Czech Republic and Hungary. In both countries these farms have diversified through enterprise creation to a larger extent than individual farms, even though no major changes occurred in Hungary once a strict definition of diversification that excludes primary activities is applied.

Corporate farms have also created a larger number of jobs than family farms, either directly or through the lease and sale of land and buildings to new businesses. Still, questionnaire data indicates that employment patterns in corporate farms are rather stable and no major job expansion is expected in the medium term. Enterprise diversification is unlikely to serve as an engine for job creation.

In the study countries, diversifiers tend to have smaller farms and younger heads of households compared to non-diversifiers. In addition, in Poland and Hungary they have higher educational levels whereas access to public transport is an enabling factor in Poland and Hungary. Finally, in the Czech Republic, diversifiers are also characterised by lower levels of unearned income.

The impediments to diversification include the desire by households to concentrate on farming, lack of capital and access to credit, insufficient skills and knowledge, remoteness, and high regional unemployment.

Sophia Davidova concluded by emphasising the role of policy. This role is especially evident in Poland and the Czech Republic, where direct and indirect income support measures to farmers significantly reduce their propensity to diversify. According to farmers interviewed in all three countries, proactive policies to stimulate diversification should first and foremost address financial constraints, mainly through the provision of seed money for enterprise start-up. Rural education is also important, particularly in areas where new job opportunities are expanding.

Following the presentation, there was a plenary discussion on the main types of rural non-farm enterprises found in the three countries. In the Czech Republic small retail shops are common. In Hungary agricultural contracting plays a special role. Services such as workshops are important in Poland. Interestingly, agricultural marketing and processing have not shown much dynamism, the main reason being the intense competition from Western European products.

It was also noted that the increased importance of farming cannot be explained by the relative profitability of this activity but is a consequence of the lack of opportunities elsewhere in the local economy. If farmers accounted for the cost of land and labour, agriculture would in most cases be a loss-making activity. Distress-push factors seem to be the main motivation leading households to diversify out of agriculture.

Regarding the importance of informal and illegal activities in the RNFE, it was noted that these are less significant than in urban areas, even if widespread sales to neighbours and tax evasion were found to be significant.

### ***Household determinants of access to rural non-farm employment in the Balkans***

Gertrud Buchenreider and Judit Knupfer (Hohenheim University)

Gertrud Buchenreider presented preliminary findings from questionnaire survey data collected in the context of an EC-funded research project on policy options for rural diversification in the Balkans. The presentation focussed on household-level attitudes towards agriculture and non-farm employment and reasons behind diversification in Bulgaria, Macedonia and Slovenia.

Farm and household structure in the three countries were characterised. Contrary to Slovenia, farm size is relatively small in Bulgaria and Macedonia. Rural households show the highest educational levels in Bulgaria and the highest vocational training levels in Slovenia. A positive correlation between education and household size on the one hand, and participation in non-agricultural activities on the other, was found.

Attitudes towards farming show some variation across study countries. Rural households in Slovenia share a more positive attitude towards farming than their counterparts in Bulgaria and Macedonia.

In contrast, household attitudes towards self-employment in the three countries are quite similar, where a large proportion of respondents either has a reserved attitude towards self-employment or sees this as an option for progressive people. However, this is not the case with respect to wage employment. While in Slovenia wage employment is largely viewed as an option for modern people, in Bulgaria most respondents show a reserved attitude or uneasy feeling towards this kind of employment. In Macedonia, almost half of interviewed households share a reserved attitude towards wage employment while a similar proportion is equally divided between thinking that this is an alternative for modern people and having an uneasy feeling.

Survey data also sheds some light on the reasons why households abandoned farming or diversified through self or wage employment:

- The need to increase household income or sustain livelihoods seems important in all surveyed countries.
- A desire to change lifestyle or reduce workload were also important motivations for those households that abandoned agriculture in Bulgaria, but in Slovenia the former seems to play no major role while in Macedonia the latter appears unimportant.
- Market opportunities are enabling many households in Bulgaria and Slovenia to diversify through self-employment while income-smoothing objectives are particularly important in Slovenia and Macedonia. Prestige reasons and availability of household capital for investment are also evident in Bulgaria.
- Finally, income smoothing is a significant motivation for diversification through wage employment in Slovenia and to a lesser extent in Macedonia.



In the discussion that followed, a point was made that household attitudes towards agriculture and non-agricultural employment are conditioned by economic conditions and environment found in the rural areas. In Slovenia, for example, the development of rural tourism, favourable farm income support policies, and good communication between urban and rural areas may be significant in explaining positive attitudes towards agriculture and life in the countryside.

***Rural non-farm enterprises in Armenia: Characteristics, needs and constraints***

Dirk Bezemer (Imperial College at Wye) and Junior Davis (NRI)

In his presentation, Dirk Bezemer discussed some findings from a survey of 45 non-farm rural enterprises in three regions of Armenia. Conducted in June 2001, this survey forms part of the baseline phase of an on-going NRI-led research project on the RNFE in transition economies, with funding from the DFID/World Bank Collaborative Programme for Rural Development.

Survey data show that most non-farm businesses started after 1997, a period when the Armenian economy was showing some signs of recovery from the severe collapse that characterised the preceding transition years. Male entrepreneurs of Armenian origin, who have always lived in their areas and enjoy a high level of education, control most of these enterprises. Over half of the interviewees have completed higher education and most of the others have completed secondary education.

Over half of the businesses are directly linked to the food marketing chain through agricultural input and output marketing as well as processing. Sales to individuals and households predominate but approximately one-third of interviewees sells to shops and another third also sells to enterprises and the public sector. This suggests strong links with the local economy, a finding that is reinforced by the fact that most businesses rely on local input and output markets to a much greater extent than distant markets.

Over 60 percent of the businesses surveyed employ workers, in most cases non-family members. Each enterprise employs on average six workers. Regression analysis shows that non-family employment levels were positively correlated with the level of capital invested in the business and – to a lesser extent – access to bank loans over the previous five years. Retail enterprises employ fewer people than other enterprises.

Public support has played a negligible role in the development of surveyed enterprises. The kind of support required by respondents varied according to the life cycle of the firm. While business strategy advice and staff training and development ranked highest during the starting phase, gaining negotiation skills becomes the main present need and support in obtaining technology and developing new products the most important future requirement. When asked to indicate key constraints to the development of their businesses, entrepreneurs tended to highlight poor economic infrastructure as well as investment and working capital shortages. Reasons for capital shortages included lack of own capital and collateral to access bank loans, aversion to debt, and high interest rates.

Finally, most entrepreneurs in the sample are optimistic but cautious about the future. Demand was regarded by many as a constraint on expansion prospects. Most

enterprises have unutilised capacity and are therefore in a position to expand production without further investment.

During the session for questions and comments, the balance between urban and rural areas in terms of development conditions was discussed. It was argued that the former areas are in a relatively better position. For example, urban entrepreneurs enjoy better access to credit. The government has not been particularly active in promoting the development of rural areas, and despite better access to food, rural residents enjoy lower welfare standards than their urban counterparts.

Another issue discussed were the reasons behind the rather localised nature of output markets for surveyed firms in Armenia. Was it due to the characteristics of the goods and services produced, lack of marketing expertise, or remoteness? This particular issue was not addressed during the research but poor infrastructure and the resulting high transport costs were considered one influencing factor.

Finally, it was felt by some participants that, although a long-term horizon is required when looking at the RNFE in transition economies and devising policies and interventions to support its growth, at the same time it is important to address the immediate needs of poor rural households. Due recognition must be given to the multifaceted crisis in rural areas and the associated collapse of service infrastructure, credit systems and social networks. It was noted that large sections of the rural population in these countries, especially women and the youth, have access to limited opportunities.

***National and EU policy mix: Economic efficiency in the rural areas of the CEECs***  
Jorge Nuñez-Ferrer (General Directorate of Economic and Financial Affairs, EC)

Jorge Nuñez-Ferrer from the EC offered a personal reflection on key rural development policy issues in CEECs and the links between national and regional policies. Poland was used as an illustrative example.

According to Jorge Nuñez-Ferrer, national policies hold the key to the successful development of a country. Structural and rural development policies are unlikely to contribute much to economic growth if accompanied by unfavourable social security, labour market and fiscal policies. Furthermore, it is important that structural and rural development funds are not used as indirect income support mechanisms aimed at maintaining marginal or declining activities. A clear distinction between development interventions and social policy should be kept.

Poland is a good example of the problems arising from contradictory objectives and policy interventions. National policies, such as tax exemptions and social security benefits to farmers, are creating economic and labour market inefficiencies. While the excessive agricultural labour force in Poland has been recognised as a problem, generous support to farmers' incomes has led to a growing number of households farming increasingly small plots. The informal economy has also been encouraged by these policies, as many non-farm activities are undeclared to avoid the loss of benefits.

Policy efforts which artificially retain the population in low-return peasant farming are a political economy problem, reflecting the relative strength of the agricultural lobby. This has inhibited labour mobility and structural change, to the detriment of economic efficiency and growth. In the process, non-agricultural sectors have been heavily and unfairly taxed.

Under these circumstances, fiscal and social strategies have failed to encourage non-farm activities and a move from agriculture to other sectors, which are two stated objectives of rural development interventions. A more integrated and co-ordinated policy framework would also enhance the efficiency of future EU rural development actions.

Drawing on the above analysis, Jorge Nuñez-Ferrer put forward a number of policy recommendations for transition economies:

- Care must be taken to ensure that national policies do not undermine rural and structural policies.
- Governments should avoid using rural and structural funds to subsidise and maintain marginal activities.
- Government interventions should pay special attention to the need to reduce transaction costs in order to improve market efficiency and access.
- The provision of education services that take market needs into consideration merits special attention. The fact that existing skills are out of touch with the needs of a market economy and that education standards are in rapid decline has not been sufficiently recognised in many analyses of CEE/CIS economies.
- Land reform leading to farm consolidation is a necessity.
- Housing and transport policies play a critical role in facilitating mobility across sectors and regions, and should therefore receive greater attention.

In the discussion that following this presentation it was argued that peasant farming and other “non-viable alternatives” are a form of social security and hence critically important to people’s livelihoods. Measures that undermine these sources of livelihood can have a very negative social impact. In response, Jorge Nuñez-Ferrer pointed to the negative developmental impact of current policies and stressed that there are better ways of supporting those that are hurt in the process of economic restructuring. Interventions to improve the functioning of the labour and housing market and to develop social security systems that protect the income of displaced labour are two such examples.

## **SESSION 2: Lessons Learned from RNFE Projects and Programmes in Transition Economies**

Chairperson: Prof. Paul Hare

### ***DFID Rural Livelihoods Programmes in Moldova, Russia and Ukraine***

Ian Houseman (ADAS), Svyatoslav Fyodorov (RAF), Maria Ozipova (ConsultAgro), Victoria Borachenko (KORAS)

Ian Houseman introduced DFID rural livelihoods programmes in Moldova, Russia and Ukraine, indicating their different components and stakeholders. These projects aim to promote income generation and employment creation, sustainable rural service provision, community development, and policy reforms. Lesson sharing is another objective of these initiatives.

Following this introduction, Victoria Borachenko described the Sustainable Rural Livelihoods Programme in Ukraine, giving a particular emphasis to those components which are especially relevant for the RNFE.

The reform and reorganisation of the agro-industrial complex in Ukraine and the deterioration of social infrastructure and services during the 1990s has had profound social and economic consequences. The rural unemployment rate increased and salary income declined as a result. People were forced to turn to private agriculture, precisely at a time when the quality and coverage of agricultural service provision was in marked decline. Many also pursued self-employment opportunities in non-farm sectors.

Given this situation, the project started looking for sustainable models of agribusiness development, social service provision, and employment creation. One of the tested models, aimed at the development of rural service co-operatives, seeks to stimulate the supply of good quality agricultural and social services at affordable prices.

Another tested model targets the development of non-agricultural private businesses. It comprises three main elements:

- Partnership with the local government employment centres. The function of developing alternative employment in rural areas lies with these centres. Although lacking the expertise to provide business start-up training to the unemployed, they have substantial resources for re-training unemployed individuals and supplying new entrepreneurs with start-up capital.
- Training of entrepreneurs. This includes professional up-grading or re-training of those who lack skills to start a business; seminars to inform the unemployed about self-employment opportunities and locally available training and business services; seminars to help aspiring entrepreneurs to refine their business ideas; and five-day courses on how to start and run a successful business.
- Follow-up support to the newly created businesses. Emphasis is given to business registration, access to start-up capital, accounting, and tax payment procedures.

- Promotion of business clubs. The formation of informal business clubs where entrepreneurs have the opportunity to share experiences and support each other is being encouraged. The project is exploring the possibility of formalising such clubs so that they will eventually play the role of business incubators.

Victoria Borachenko concluded by pointing out some problems found in the project areas. Rural households and individuals tend to be conservative and reluctant to make radical changes in their lives. Those that are not registered with the local employment centre face difficulties in accessing start-up capital. Employment centres are often reluctant to become deeply involved in the process. Finally, the sustainability of business advisory services remains a difficult challenge.

Following this presentation, Maria Ozipova described the Sustainable Rural Livelihoods Programme in Moldova. As in other transition economies, rural unemployment is the most acute problem and partly a consequence of the agricultural enterprise restructuring process. This problem is particularly serious amongst the rural youth and women.

Employment creation is one of the main objectives of the Moldova programme. Several initiatives for the development of the small non-farm sector are underway, including training packages for emerging entrepreneurs, support to the handicrafts sector to enhance employment opportunities for women, and promotion of youth employment. Promoted initiatives aim to address key business development constraints, such as the serious gap in business skills and the lack of start-up capital. Some examples of successful service provision and non-farm businesses that were established and developed in Odessa region with project support were discussed and data for handicraft production and sales by female project clients were presented.

This series of presentations concluded with a description of the DFID Sustainable Rural Livelihoods Programme in Russia by Svyatoslav Fyodorov. This four-year project is being implemented since September 1999 in Leningrad and Oryol regions. RosAgroFond and AgroMIR are responsible for project execution under the supervision of ADAS International Ltd. with funding provided by DFID, the Leningrad and Oryol regional administrations, and the raion administrations.

The project is working in some of the poorest areas of Russia. It comprises six main components, three of which are directly related to the non-farm economy – rural finance support scheme, development of alternative employment in rural areas, and social support infrastructure.

In order to provide financial services to economic activities in project areas, the Lodeinoye Pole raion administration founded the Lodeinoye Pole Foundation for Rural Development (LPFRD). Own funds and grant funds from DFID and the Leningrad region administration constituted the foundation loan capital. RosAgroFond provides technical support to the foundation. An agricultural credit co-operative was moreover established in Novosil raion, Oryol region.

The LPFRD established a Rural Consultancy Centre, a Third-Party Administration Court, and an input supply and produce marketing agency. These three organisations are responsible for providing advisory services, legal protection services and



marketing services, respectively.

The LPFRD has been supplying loans since February 2000. A total of 240 loans, amounting to US\$130,000, have so far been allocated. Approximately one-fourth of the loan portfolio relates to non-agricultural activities. The repayment rate is 99.2 percent.

Following this presentation, there was a discussion on the interest rates charged by LPFRD and the repayment period and collateral requirements. Interest rates vary between 18 and 21 percent, and repayment periods extend over two years. Collateral is only required for loans exceeding 5,000 rubles.

The difficulties in assessing the impact of loans on employment creation were also pointed out. For example, loans are often used for funding part-time activities. However, data from other projects in Russia shows that the average investment cost per job created is US\$1,600 and this could be taken as a reference value. Moreover, there are indications that, in project areas, income and optimism have risen since the start of the project.

Regarding monitoring, it was noted that this is carried out at intra-household, local and country levels. A recent federal government mission, including officials from different regions, demonstrated strong interest in replication of project approaches. Interest is not so much related to individual programme components but to the multifaceted approach followed and the institutional innovations introduced. Still, achieving sustainable funding at federal level for rural livelihood-enhancing initiatives and strengthening government capacity remain difficult challenges.

***Sustainable livelihoods and rural non-farm enterprise in Russia: Lessons from a pilot project to establish a series of SL programmes in Russian National parks***

Chris Rock (NRI), Jonathan Rudge (RHS Associates) and Maria Travkina (Biodiversity Conservation Centre, Moscow)

This presentation focused on lessons derived from a series of DFID-funded sustainable livelihood development programmes in Russian National Parks. Since 1999 NRI has been involved, in collaboration with RHS Associates (UK) and the Biodiversity Conservation Centre (Moscow), in the development of a strategy and guidelines for the sustainable livelihood component of national park management plans. At a more practical level, partners have been involved in the implementation of such component in four model areas.

Chris Rock began by setting out the project approach followed, stressing its problem-solving orientation. Special emphasis is given in this approach to developing creative and flexible solutions, setting realistic goals, and achieving practical results. Accordingly, a step-by-step and learning-by-doing approach to development is stressed. Projects are developed on a demonstration or pilot basis, the objective being to extract relevant lessons and identify effective models and strategies for replication in park areas and elsewhere.

Typical micro-projects implemented include micro-credit provision, inward investment concessions, granting of protected area logo, delivery of training and

advice, and organisation of exchange visits. Special efforts were made to ensure that micro-projects were designed and implemented in an open and transparent way.

Particular attention is given to micro-enterprise development in the tourism sector and related activities. This sector is regarded as central to the sustainable development of areas in and around parks. Rather than stressing prohibitions, programmes encourage residents and investors to develop income and employment generating activities that do not undermine environmental protection objectives while contributing to local development. Environmental conservation and economic development thus become complementary. In the process, the welfare of area residents, their culture and local skills are valued and promoted.

Chris Rock went on to highlight the main achievements to date:

- Sustainable livelihood concepts and approaches have been integrated into national park management plans.
- Local initiatives have been linked to national park management strategies at Federal level.
- The capacity of a team of Russian specialists has been enhanced through training.
- A number of environmentally and financially sustainable local initiatives have been supported.
- Genuine and successful examples of local collaboration have been achieved.
- A high level of local commitment to project objectives has been reached.
- Guidelines for integrating sustainable livelihood approaches and strategies into national park management plans have been produced.

Problems were also identified. Jonathan Rudge stressed that inappropriate legal and fiscal frameworks often undermine local solutions, mentioning high turnover taxes as an example. Other obstacles to successful interventions include poor transport infrastructure and people's reluctance to venture into business.

In closing, Chris Rock highlighted key determinants of project success. These include working with and through local leaders and champions; having a highly motivated and dedicated project team; ensuring local ownership of project objectives and interventions; involving key stakeholders in project design and interventions; and taking local realities into account. In addition, the importance of marketing and market research and well-developed business plans for the success of promoted initiatives was emphasised. Promoted activities need to be demand-driven.

***Rural non-farm employment-enhancing initiatives in Bulgaria and participatory rural appraisal methods***

Diana Kopeva and Dotcho Mihailov (University of National and World Economy, Bulgaria)

Diana Kopeva and Dotcho Mihailov discussed some preliminary findings from research work conducted by NRI and the University of National and World Economy in selected rural areas of Bulgaria. With funding from DFID and FAO, this research

focussed on the feasibility of income and employment diversification opportunities in rural Bulgaria.

This presentation was divided in two parts. In the first, Diana Kopeva provided a general characterisation of the rural economy in Bulgaria during the transition period. Data indicate a declining and ageing rural population during this period. Out-migration and low birth rates are behind these trends. At below 56 inhabitants per square kilometre, population density in rural areas is low.

During the transition rural unemployment increased, partly as a result of privatisation and enterprise restructuring, and partly as a result of a stagnant private sector. Rural per capita incomes have fallen. Unsurprisingly, rural household reliance on wage income declined while the income from social transfers gained importance. Social transfers currently account for a 23.2 percent share of total rural income whereas the share of wage income is only 22.1 percent, much lower than in urban areas, where it averages 46.5 percent. Agriculture has been playing a buffer role. But while the share of the rural labour force employed in this sector has risen, its percentage contribution to rural household incomes has fallen dramatically.

In the second part of the presentation, Dotcho Mihailov discussed a feasibility study conducted in two settlements. The main objectives were to identify problems and constraints for labour diversification, employment opportunities, and concrete project proposals based on a rational use of local resources. A fourth objective was to assess the relevance of participatory methods for local needs' assessment.

Participatory rural appraisal methods were deemed appropriate for selecting relevant interventions and designing projects. These methods allow for a detailed inventory of local resources and confer a high level of ownership of promoted initiatives amongst target clients/beneficiaries. Villagers discussed the development potential of specific agricultural-based activities which benefit from favourable local resource endowments or existing skills, but noted their limited experience in marketing and/or raised concerns over the restricted nature of markets.

During the discussion that followed, a point was made that despite their usefulness, on their own participatory methods may not be sufficient for an appropriate identification of promising activities. While knowledge about market prospects and opportunities should inform choices concerning promotion initiatives, villagers often have limited knowledge of local and wider market realities. Other complementary information will therefore be required to guide decisions. Moreover, great care must be exercised in facilitating group discussions to ensure that all segments of the community have the opportunity to share their views. In Bulgaria, participatory approaches have been employed by some donor agencies in the design of development programmes, apparently with good results.

### ***Plenary session***

Chairperson: Junior Davis

The first workshop day concluded with an open discussion, in which participants had the opportunity to present issues pertaining to the RNFE in transition economies that



they consider relevant or requiring further research and analysis. These included the following:

- Educational systems and standards have collapsed in many transition economies, and as a result there is a whole new generation that is lagging behind. At the same time, there is a clear mismatch between the labour skills inherited from the pre-reform period and the needs of still incipient market economies.
- A critical and detailed assessment of the local institutional arrangements and framework for the development of the RNFE is felt to be somewhat lacking. More insight on the drivers of the local rural economy and the required mechanisms and capacity for these high-potential sectors or activities to respond to market needs and opportunities is needed. In many cases high-potential activities will be closely associated with the local resource base and the promotion of links to wider markets must be given greater attention than at present.
- While a dynamic rural economic framework is a necessity, care must be taken to ensure that activities characterised by low returns or poor growth prospects and the needs of those involved are not neglected. In other words, a balance must be reached between the creation of an environment conducive to demand-pull diversification and addressing the needs of those forced to diversify due to distress factors.
- Effective public-private partnerships were considered critical to the development of the RNFE. Partnerships already play an important role in many donor-funded rural livelihood development programmes, even though the process is just starting. For example, DFID Rural Livelihood Programmes in Russia and Ukraine have been piloting innovative institutional models where different stakeholders interact and co-operate in service provision for local employment creation and enterprise development. These experiences provide much-needed insight into institutional models which have the potential for replication and scaling-up. Sustainability in service provision however poses considerable challenges and in many cases may only be achievable if public funding is made available over a considerable time period and if key public agencies are actively involved in the process.
- Widespread corruption in many transition economies was viewed as a critical issue, and one that is not always sufficiently brought to the fore. Corruption strangles initiative, distorts behaviours and incentives, and results in high entry barriers and costs to business. Mistrust in the property framework was also pointed out. Institutional innovation, such as the provision of incentives for compliance, is required to bring about behavioural change.
- Political economy issues also create mistrust in institutions. For example, in Bulgaria large farms and firms disproportionately influence policy-making, to the detriment of smaller producers. Another perceived problem in Bulgaria is the lack of vision for rural development. It was argued that the wider context of rural development has not yet been properly understood by governments, which have largely focused on the provision of hard infrastructure without having a clear understanding of rural growth and development opportunities. As a result,

measures to enable economic agents in rural areas to exploit these opportunities have been lacking.

### **SESSION 3: Social factors and household participation in the rural non-farm economy**

Chairperson: Junior Davis

#### ***The role of social resources in the development of the rural non-farm economy in the CEE/CIS***

Nigel Swain, University of Liverpool

Nigel Swain opened the third workshop session with a discussion on social resources and their role in enabling individuals to exploit opportunities in the RNFE. He started by stressing the importance of understanding the local context in which social resources exist before arriving at generalisations that are applicable to other rural areas in transition.

As background to his presentation, Nigel Swain mentioned that semi-subsistence sectors in the rural areas of most CEE countries are significant and have expanded during the transition. Research conducted by the University of Liverpool suggests that semi-subsistence sectors would be better helped by the development of the RNFE than by the development of agriculture.

This conclusion is based on the traditional importance of non-agricultural rural employment in the CEE region and the fact that rural areas in these countries typically have a well-educated labour force with skills that are often relevant and transferable to a variety of non-farm activities. At the same time, there is evidence that support to subsistence farms does not make them competitive. For example, given the significance of land as a source of livelihood, subsistence farmers are often reluctant to sell this asset, thereby retarding the much-needed process of land consolidation.

Nigel Swain went on to describe the specific role that social resources play in enabling individuals to exploit non-farm income opportunities, illustrating the discussion with case study examples from Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovenia. He stressed in particular the role of individual and family resources and access to foreign funds.

Individual resources include knowledge, skills and contacts from the socialist era as well as experience of the wider world. Many rural entrepreneurs have developed businesses where the skills accumulated as employees or managers of state-owned enterprises have proved highly relevant. In many cases, contacts from the socialist era have enabled individuals to acquire privatised assets. Buildings and other assets previously belonging to co-operatives and state enterprises have been important in the development of many rural businesses. Finally, returnees, newcomers and outsiders were found to be a significant source of entrepreneurship, marketing skills, and investment funds.

Field research has shown that family financial resources and assets often are a critical source of funds for investment in non-farm rural businesses. Likewise, secure income from other household members or remittances has enabled many individuals to cope

with the risks and costs involved in setting-up and developing a non-farm business. Cases have also been found where the social and marketing contacts of one household member (for example, the spouse or father) have critically contributed to the success of an enterprise run by another household member (for example, the husband or son).

Location can hinder or facilitate the development of non-farm enterprises. Some regions close to European Union (EU) borders have benefited from EU investment and often target EU markets. Individuals with contacts in neighbouring EU countries have sometimes managed to access foreign investment funds and markets. Remittances from migration abroad have in some cases been used for establishing new businesses in the homeland.

In concluding, Nigel Swain emphasised the need for enterprises to adjust to market realities. Many rural activities that were artificially promoted during the socialist period are no longer viable. In contrast, market niches and opportunities exist and can serve as a powerful engine for enterprise growth and employment creation. Entrepreneurs must be aware of market opportunities and restructure their enterprises accordingly.

Following this presentation there was a brief session for questions and comments. The type of support required for households to shift into higher-return activities was discussed. It was noted that, in order to fully understand successful diversification into non-farm activities one must look beyond the entrepreneur and take the household as the relevant unit of analysis. The fact that most studied entrepreneurs were well-connected, middle-aged men who had a relatively secure source of income (often a household member in formal employment), who were not very dependent on farming, and who were able to develop their businesses without any direct government or non-government support was also mentioned. It was felt that, while direct support should be channelled to those individuals who are unable to succeed on their own, institutional development is equally if not more important in enabling successful participation in the non-farm economy. In this context, the importance of an adequate legal and regulatory framework, simple bureaucratic procedures, and an efficient tax regime was stressed.

***Social factors affecting household level involvement in the RNFE in Romania, Armenia and Georgia***

Monica Janowski (NRI)

In her presentation, Monica Janowski highlighted some general findings from household and village-level qualitative baseline research conducted by NRI and local collaborators in rural areas of Romania, Georgia and Armenia. This was part of an on-going research project on the RNFE in transition economies funded by the World Bank/DFID Collaborative Programme for Rural Development.

The objective of the baseline research phase was to construct some key hypothesis regarding patterns of involvement in non-farming activities, to be tested and deepened during the main research phase. Both the baseline and main phases of the research comprise qualitative and quantitative methods. The former include semi-structured interviews, focus group discussions, and participant observation.

In all three countries, the collapse of the Soviet system led to a severe economic recession. At the village level, the contraction of the non-farm sector was particularly evident in Georgia and Armenia. Wage employment in agriculture and manufacturing fell sharply following the privatisation and restructuring of state-owned farms and enterprises, while real salaries in public services showed a marked decline. As a response, most village households retreated to subsistence agriculture, mostly on homestead land. During this period emigration intensified and remittance income gained importance. Still, there is very little cash in circulation, with barter transactions becoming very significant. Households were found to manage rather complex livelihood portfolios, with members involved in both farming and non-farming activities.

Qualitative research revealed the importance of very small-scale, often non-monetised, non-farm activities. Higher status, more visible non-farm activities are generally undertaken by those with good networks resulting from kin and religious affiliation and Soviet-era contacts with the *nomenklatura*. The poor and minority groups lack access to such opportunities due to weaker networks.

The qualitative methods employed enabled the research team to gain good insight into the extent of barter transactions and the role played by informal social networks. A certain degree of trust between the researcher and studied populations is required for the latter to reveal sensitive information about highly invisible activities which they may not be proud of or have an illegal nature. For this reason, such activities are often invisible to the statistician.

Village-level research also showed that the transition from being employees to being self-employed entrepreneurs in the farm and non-farm sectors has been a difficult and traumatic one. Villagers are generally pessimistic about the prospects of becoming entrepreneurs. They have little understanding of markets, financial arrangements, taxes and customs. They also show a high degree of aversion to loans. Particularly in Georgia and Armenia, villagers felt that someone should open enterprises and employ them, as during the pre-reform period.

Based on the evidence collected at village-level, some possible government and non-government interventions to stimulate the RNFE in the three countries surveyed were advanced. Identified priorities include:

- Addressing the road and transport bottlenecks in rural areas. Innovative solutions such as the provision of loans for acquisition of “village vans” could be introduced.
- Tailoring the school system to supply the skills required in the rural non-farm sector and placing a greater emphasis on vocational training.
- Establishing rural-based centres for product quality control to facilitate marketing.
- Identifying remunerative marketing opportunities, initially in nearby towns, and making such information available to rural producers.
- Setting-up centres to provide legal and technical advice to rural entrepreneurs.
- Assisting enterprise development through credit provision and delivery of production and business training, with particular emphasis on activities involved

in the marketing and processing of locally available products. Support measures should be available to group enterprises and those with potential talent but without access to relevant social networks.

- Promoting rural tourism in areas with good potential.
- Identifying successful experiences and advertising the underlying intervention models.

Following these recommendations, Monica Janowski introduced the remaining morning presentations, the first by an eminent Romanian academic and the other two by research collaborators from Romania and Armenia.

### ***Household livelihood strategies in rural Romania: Policy implications***

Vintila Mihailescu (National School of Political Sciences and Administration, Bucharest)

Vintila Mihailescu provided a detailed account of one household in Tismana village. Spanning over three decades, this case study served as background to a more general discussion on household livelihood strategies in rural Romania during the communist regime and the present transition phase. Some relevant policy lessons were then derived.

The case study provided insights into household livelihood trajectories. The income generating activities developed by different household members over time, and their successes and failures, were described. The shifting employment status of different family members was also presented. Finally, the migration of some household members to other countries was discussed.

This case study illustrates the following aspects:

- Rural households pursue diversified and flexible livelihood strategies, managing a varied and ever changing portfolio of activities, with household members complementing and supporting each other. Income from one activity may be used to support activities of other household members or enable them to cope with the entrepreneurial risks involved in business development. Family assets may be used to develop new businesses. Labour may be shared between different household members for the same activity. Trust and commonality of interests and purposes sustain such co-operative games.
- The geographical dispersion and composition of the household income portfolio varies with circumstances, available opportunities and demographic profile. Failure has forced case study household members to pursue new income generating activities in the village, nearby towns and abroad. Unemployment has had the same effect. As the son and daughter reached an active age they pursued opportunities abroad. They later returned and now have their respective partners living with them. The case study household currently comprises three families within the same house.
- Relational capital plays an extremely important role. For example, relations proved important in the decision of the son to look for opportunities in Germany.



They have also enabled the wife to obtain casual work after the carpet manufacturing unit where she was employed closed.

In concluding, Vintila Mihailescu stressed that rural households generally transcend categories such as peasant or worker, agricultural or non-agricultural, and rural or urban. Household members are occupied in a rather diverse, and often complementary, range of activities, sometimes spreading over a large geographical space that transcends local and national borders. This feature has become even more evident during the transition phase. In an unstable and uncertain environment, households try to do the best they can, in a rather flexible way, exploiting short-term opportunities.

In contrast to these realities, policy makers often tend to focus on clear categories of beneficiaries and/or activities they want to influence, maybe because clear categorisation makes policy interventions easier to design and execute. This may however act against the success of these interventions.

### ***Social factors affecting involvement in non-farm activities in Romania***

Ana Bleahu (Institute of Quality of Life, Romania)

Ana Bleahu presented the results of her fieldwork in two rural communities of Brasov and Dolj counties, in Romania. She described some of the non-farm activities that people are involved in and the main factors which motivate them to participate in different income generating activities. Involvement in these activities varies according to household levels of different types of capital. Poor households, lacking material and human resources and access to social networks, are drawn into non-farm activities by distress-push factors. Better-off individuals have the opportunity to make use of better financial, human and relational capital endowments to exploit more remunerative opportunities. The most entrepreneurial individuals seem to be those with little land but good access to material, human and social resources.

### ***Non-Farm Activities and policy directions in Armenia***

Hranush Kharatyan (University of Yerevan)

Hranush Kharatyan discussed some findings from qualitative data collected in three Armenian villages. Located in different regions, these villages differ considerably in terms of ethnic composition of the population and level of economic development.

In Armenia land, livestock and agricultural machinery were privatised in 1991. Some villages where residents were not employed on state and collective farms received no land. Neither did internally displaced people. Moreover, many households chose not to participate in land distribution, as this would entail the obligation to pay land taxes.

Large portions of distributed land are left uncultivated because of the collapse of irrigation systems, cash constraints, shortage of agricultural machinery, the high cost of inputs, labour shortages due to migration, and limited marketing opportunities. In contrast, because of their critical role as a source of food for home consumption, homestead gardens are much more intensively cultivated.

During the Soviet period private non-farm activities were rather limited. Most people were involved in such activities as state employees. The loss of employment in state enterprises and the drastic reduction in public servant salaries, alongside with the privatisation of agriculture, proved disastrous for household livelihoods. As a consequence of declining non-farm employment opportunities, most households have retreated to subsistence farming. Many urban dwellers have also returned to their home villages and started farming while others remained in town but practice farming nearby.

Village-level information shows that refugees are less likely to exploit non-farm opportunities. Yezedis are also at a disadvantage regarding participation in the non-farm economy owing to the lack of networks outside their own ethnic group, and are therefore mostly confined to subsistence farming. In contrast, managers and administrative staff in previously state-owned enterprises have generally benefited most from privatisation of those enterprises and available opportunities in the RNFE. Many continue to manage those enterprises that are still operational and their contacts and networks have proved invaluable in providing them with access to loans, inputs and output markets.

The fact that people from the *nomenklatura* have managed to benefit most from new opportunities during the transition has led to a rather fatalistic and passive attitude amongst many of the villagers interviewed. Emigration is often seen as the only option, especially among young men who have some entrepreneurial spirit but undeveloped social networks. Rural areas have been losing a significant part of their human capital and labour resources as a result. Unsurprisingly, remittances have become an important source of household income, a phenomenon that according to Hranush Kharatyan is hindering local initiative.

In some of the study villages, cash shortages severely restrict local demand. Many goods and services are provided free of charge or sold for low prices, often on credit. Barter exchange is widespread. Contact with the wider economy is limited but villagers sell small surpluses of raw or processed agricultural produce in urban markets when these are located nearby.

In all villages studied it is men who are usually involved in individual businesses and handicrafts, which are high and low-status activities, respectively. Women tend to work in the state administration or private firms, both of which are medium-status occupations. Social capital goes a long way in explaining access to high-status and more remunerative activities.

### *Plenary Session*

The morning session concluded with a brief open discussion, in which policy issues were accorded special attention. It was felt that much is known on the structure and dynamics of the RNFE in CEE/CIS, its problems and constraints. Much has also been learned about what needs to be done in the infrastructure arena, credit and business services. It was felt that what is lacking is detailed knowledge of different stakeholder roles and clearly defined priorities regarding what needs to be done.



#### **SESSION 4: Policy options for rural non-farm diversification in the CEE/CIS region – Working group recommendations**

During the presentations and discussions, it became quite evident that a categorisation of the rural non-farm economy in the CEE/CIS region according to motivations to diversify is a pertinent one. Diversification by poor farming households is widespread in the region. The majority of individuals and households seem to be seeking economic refuge in various low-skill and low-productivity activities, often on a part-time or casual basis. At the same time, some have been able to pursue more remunerative and specialised non-farm employment and income opportunities (demand-pull diversification).

Whilst equitable growth of the RNFE requires attention to both realities, each demands very different policies and interventions. This underlying assumption determined the structuring of the working group discussions. Two groups explored intervention options to enhance the benefits of diversification into non-farm activities by poor households and individuals. One focused on the CIS region whereas the other concentrated on the CEE countries. A third group addressed options for promoting growth of more dynamic and higher-return segments of the RNFE in both regions.

Each group was asked to identify three intervention opportunities, assess their strengths and weaknesses, and recommend key actions, bearing in mind institutional arrangements and processes. Group recommendations and analysis are presented below.

##### **Group 1: Opportunities for promoting diversification into non-farm activities for poor households in the CIS region**

###### ***Development of rural support and advisory services (e.g. one-stop shops and mobile units)***

Local support and advisory services tend to be sensitive to the needs of rural areas due to proximity and regular contact between providers and clients. This model also enables clients to simultaneously access a wide range of business services and information, allowing them to overcome key constraints to self-employment and enterprise development in RNFE. Further, because of the autonomous status of service providers, the scope for corruption and ineffective targeting is reduced.

Yet, low ability to pay for services by those involved in low-productivity activities must be recognised, casting some doubt on the financial sustainability of such rural business support services, at least in the short to medium-term. Most individuals and entrepreneurs in rural areas lack the ability to pay. Government funding may therefore be required to sustain service delivery to the self-employed and micro-enterprises.

Recommendations for action stressed dissemination of rural business advisory service models that have proven effective and appropriate for replication.

### ***Creation of an enabling policy and regulatory environment for enterprise development***

Given the excessive costs and risks of doing business, the group emphasised the need for improving the legal, regulatory, and tax environment. Transparent and lean enterprise start-up provisions are also required. For example, registration and tax payment procedures need to be simplified and legal services made more accessible to reduce transaction costs and enhance transparency.

Effective reform for enterprise development normally entails simultaneous change in various areas. Concern was expressed that partial action may prove ineffective.

To reduce corruption and improve the business environment, the group suggested lobbying government (directly and through donor agencies) to address concrete policy and regulatory issues. A reduction or streamlining of the large number of agencies which, at present have an influence on the small and medium-size enterprise sector was also recommended.

### ***Rural economic infrastructure development***

Development of road, market, storage, water provision and telecommunication infrastructure was considered critical for market access and enterprise development.

However, infrastructure development may entail some problems and risks. First, while investment and maintenance costs are generally high, governments face hard budget constraints and difficult investment choices. Second, there is limited know-how and capacity at national and local levels to optimise infrastructure utilisation. Third, infrastructure development may displace local producers due to increased competition from urban areas. Finally, if strong firms are attracted to rural areas following improvements in infrastructure, and gain excessive market power, smaller local firms may be displaced and competition reduced.

Recommended actions involve working in a bottom-up fashion with local administrations to identify bottlenecks and devise pragmatic and step-by-step solutions. The development of transparent procedures for private sector involvement in government tenders also has the potential to bring about efficiency and quality gains in public investment.

### **Group 2: Opportunities for promoting diversification into non-farm activities for poor households in CEE countries**

#### ***Bringing institutions and services closer to people***

Reducing the distance and gap between government services and rural populations has the potential to enhance equity in access to statutory rights (for example, pensions and insurance) and information.

However, adequate coverage is costly to achieve, which may raise financial sustainability questions. Further, government inertia or reluctance to reform institutions and services for improved rural service delivery must be recognised.

Mechanisms for improving institutional performance at the local level must be found, and care must be taken not to follow standardised approaches that may prove inappropriate in view of local conditions.

### ***Supporting co-operatives and community-based organisations***

Well-functioning co-operatives and community-based organisations provide key services to members, more so when these are amongst the disadvantaged segments of rural societies. Key services include credit and information provision as well as input and output marketing. Despite these potential advantages, grassroots organisations face difficult challenges. Strong group cohesion and leadership are required if corruption and mistrust are to be avoided. In addition, these organisations often lack much-needed technical and marketing skills.

To avoid these outcomes, proposed actions stressed the need to work with small groups based on social and kinship networks and to develop activities that take into account group capacity. Many lessons can be learned from other countries.

### ***Improving links between formal and informal institutions***

Improved links between formal and informal institutions, for example between local-level government agencies and NGOs and associations, were considered instrumental in enhancing efficiency, effectiveness and equity in the allocation of public funds. Such linkages were also deemed instrumental in making policy more responsive to the needs of the rural population and the poor.

Potential problems include low capacity of local government and the lack of accountability and legitimacy of many NGOs.

Positive steps to strengthen links between government and non-government institutions could be achieved if donor conditions for project support included the development of partnerships between different stakeholders. Pilot projects were judged appropriate to test different partnership models.

## **Group 3: Opportunities for promoting demand-pull diversification into non-farm activities in the CEE/CIS region**

### ***Identifying and promoting potential sources of demand***

Identification and promotion of demand was seen as instrumental in accelerating the process of demand-led growth of high potential rural non-farm activities. In so doing, it is important to distinguish between regions and activities that already enjoy some demand dynamism and those where such potential exists but has not yet materialised. A national, long-term vision of rural development based on the dynamic comparative advantage of different regions and rural-based activities and the aspirations of rural populations is required. Rural activities and clusters that have the potential to serve as growth engines need to be identified.

Dialogue and consultation between the government and the private sector is needed for information sharing and investment promotion targeting high-potential activities

and clusters. Strong political will and vision to exploit the growth potential of rural areas is also necessary at the local, regional and national levels.

Some of the difficulties in achieving this were identified. First, a proper understanding of demand issues and initiatives to enable enterprises to target and develop markets requires skills, resources and time. Second, there is an institutional vacuum when it comes to promoting rural non-farm sectors. Finally, effective co-ordination amongst large numbers of government and non-government players is essential but difficult to achieve.

Creating an environment that enables economic actors to exploit demand opportunities and invest in rural areas was one of the group's recommendations. Countries need to develop rural development strategies with a clear vision of the rural economy within the national economy and an articulation of the engines of rural growth. Finally, the need to learn from other country case studies, such as Chile and Mauritius, was suggested.

### ***Improving the business environment***

An enabling business environment was deemed critical for successful demand-led diversification. The government is largely responsible for creating such environment, and its commitment to private sector development is therefore indispensable. Moreover, while many issues must be addressed at national level, it is important to develop a clear understanding of needs and issues that are specific to rural areas, and intervene accordingly. Rural-urban linkages are critical in unleashing the potential of rural sub-sectors that enjoy comparative advantage at national and international level and should thence be adequately promoted.

Despite its importance, reforming the business environment requires resources and time. Dialogue with different segments of civil society is a critical but time-consuming exercise. The government must be strongly committed to the process and show early results if dialogue fatigue is to be avoided. Finally, developing an environment conducive to enterprise development is necessary but by no means sufficient to unleash the growth potential of rural economic sectors. Other constraints must also be addressed.

Regarding recommendations for action, it was suggested that an appropriate institutional framework to address policy and regulatory reforms and remove barriers to business development be established at local, regional and national levels. This must be accompanied by an improved understanding of policy and regulatory issues.

### ***Promoting business development programmes***

The importance of direct enterprise support initiatives was stressed. This includes technical assistance and advisory services, the establishment of business development centres, the provision of market promotion services, and capital assistance for new businesses.

Some problems may limit the effectiveness of business development initiatives. First, although impact maximisation requires that support be channelled to those that most

need it to succeed, a discriminating approach to client selection is often difficult to achieve. Second, targeting of rural enterprises is costly due to dispersion and considerable assistance needs. Third, in many instances resources could be more effectively used in urban areas, where enterprise development opportunities are generally greater. Finally, unless support is channelled to rapidly expanding sectors, there is a danger that supported enterprises will merely displace local competitors.

Support to rural business development service centres was recommended and the need to ensure tight monitoring and evaluation of their operation stressed.

**ANNEX 4**  
**WORKSHOP PAPERS**



# **Institutional Reforms during the Transition: Lessons for the Rural Economy\***

by

Paul G. Hare

\* This paper has been prepared for the opening session of the workshop, "Rural-non-farm employment and development in transition economies," organised by the Natural Resources Institute of the University of Greenwich, taking place on March 6-7<sup>th</sup> 2002. Parts of what follows draw heavily on my paper published recently by UNECE (see Hare, 2001a). However, I am also grateful to DFID for the financial support to NRI which made this study possible. Any errors and omissions in the paper are entirely my responsibility.

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## **Institutional Reforms during the Transition: Lessons for the Rural Economy**

### **1. Introduction**

From the very beginning of transition, institutional reforms formed a key component of the policy package that was recommended to the economies of Central and Eastern Europe and the former Soviet Union. The overall package was designed to transform them from centrally planned economies operating under the socialist system, into market-type economies operating under the capitalist system in a democratic political framework. However, for understandable reasons rather more emphasis was placed initially upon the urgent need to achieve macroeconomic stabilization, accompanied by extensive price and trade liberalization, soon giving way to privatization and enterprise restructuring. This basic agenda was already a huge one, not only for the established states but also - and even more so - for the new ones that emerged from the ruins of communism.

For all the states concerned, the basic transition agenda entailed substantial institutional reform in such areas as central banking (especially, but not only, for the new states), taxation and fiscal policy, industrial and trade policy, property and commercial law, and so on. Further, as failing enterprises shed labour and unemployment became a reality in the region for the first time in several decades, it became necessary to develop a raft of labour market institutions and policies to deal with retraining, unemployment benefit and other forms of income support, and the collection of suitable statistics. These considerations help to explain why institutional change was not at the forefront of the reform programmes undertaken by the transition economies in the early 1990s, except as a by product of other policies initially perceived as of higher priority.

A second factor is the simple observation that the economic theory of the time seriously under-rated the role and importance of the institutional framework needed to operate a well functioning market-type economy. Most textbooks, even relatively recent and advanced ones, had little to say about key institutions such as private property, business contracts, or the role of trust in conducting business successfully. Implicitly, regarding the market system as a form of economic mechanism on a par with central planning, it tended to be assumed that the "operating costs" of the system were close to zero - indeed this line of thinking was often used (erroneously) to support the claim that a market economy must be inherently more efficient than a centrally planned one. In any event, once central planning was swept away, it was taken for granted that the opening of markets would bring with it - rather quickly and painlessly - the needed institutional structures to make the new market system work properly. By now, it is well understood that arguments like this are fundamentally wrong, and that active efforts to create and support new institutions are vital. For instance, McMillan (1997) puts it very nicely when discussing markets in transition economies:

"A market is an institution, which needs rules and customs in order to operate. Given the uneven distribution of information among them, the rules of exchange must be cleverly structured for a market to work

smoothly. Institutions and organizations must evolve, to transmit information and to provide appropriate incentives” (p222).

Interestingly, and of particular significance for the present paper, *the rural sector* has been relatively neglected, especially in academic discussions of the transition process. This neglect encompasses both the traditional agricultural activities of rural areas, as well as the increasingly important non-farm rural economy (NFRE).

Regardless of what institutions one thinks should be created, there is always the practical matter of the capacity and will of the relevant state to bear in mind. As regards *state capacity*, there is a tendency for economists to assume that where economic policy advice is to be proffered, the recipient state will possess the ability to take the advice on board and implement it effectively. However, as World Bank (1997) makes clear, states vary enormously in their capacities, for many different reasons. The transition economies are no exception to this general observation. Across the region, one can find examples of states with competent, reasonably well functioning and largely corruption free administrations, while others lie at the opposite pole - corrupt, inefficient, largely incapable of delivering anything but the simplest of policies. This needs to be taken into account in the design of concrete policies.

#### *Outline of Paper*

In the following sections of this paper we proceed as follows. Section 2 offers some definitions and explores what sorts of institutional structure are needed for a market-type economy to function well. It also examines some recently developed theoretical approaches to questions of institutional change. Section 3 then applies some ideas from these general approaches to specific issues of the rural sector - agriculture itself and the NFRE. In doing so, I draw on Davis (2001) and Davis and Gaburici (2001) where appropriate. The design of a suitable institutional framework for the rural sector is unexpectedly complex and difficult, though the rewards associated with it can be enormous. Section 4 concludes the paper.

## **2. Institutional Change - Concepts and Definitions**

What sorts of institution are helpful in supporting a well functioning market-type economy? To answer such a question, one approach is to appeal to the findings of various historical studies that seek to identify the factors that have led certain countries, or groups of countries, to perform well over long periods, as compared to other parts of the world (for references on this, see Hare, 2001a).

An alternative to such broad, conceptual overviews is more pragmatic and empirical, simply examining the institutions we find in modern, market-type economies in various policy domains, and arguing for their necessity in transition economies. This approach quickly encounters three types of problem: (a) it is descriptive and all encompassing, offering no obvious means of judging which institutions are more or less vital, which are desirable but not indispensable; (b) it does not provide a definition of what we mean - or ought to mean - by an institution, so is open to multiple interpretations; and (c) it gives us no theory of the market economy to explain the roles and significance of the various institutions observed therein.

To deal with these difficulties, this section proceeds as follows. First, we attempt - albeit briefly - a definition of what is meant by an economic institution. Then we list the typical institutions that characterise a “normal” market-type economy, while acknowledging along the way the huge diversity of practice and structure that can be found for any given institutional form. Third, since economies function even in the absence of what might otherwise be considered as key institutions, we consider some examples of what can happen in such situations. Fourth, we examine some theories of institutional development and change in market economies in order to throw light on what is more or less important, and on the processes whereby institutional change comes about.

It should be emphasised, however, that “we are still very ignorant about institutions” (Williamson, 2000), so that a good deal of what follows must be regarded as rather tentative or even speculative. There is much still to be learned. As we shall see in the next section, there is even more to be learned about the rural sector!

### *Definitions*

Economic institutions are social arrangements possessing a number of special features: (a) they *regulate economic behaviour* in ways which, in the short run, often conflict with individual preferences; (b) they are based on *shared expectations*, derived from custom, trust, legal provisions, etc.; (c) they make most sense if the economy is thought of as a “*repeated game*” in which most types of transaction occur many times<sup>1</sup>; and (d) *anonymity*, in the sense that the functioning of a given institution should not be dependent upon the identity of the economic agents seeking to conduct the types of transaction to which this institution relates.

Given such characteristics, many institutions are likely to have the character of *public goods*. Among other things, this implies that the “supply of institutions” generated by the market mechanism left to itself is unlikely to correspond to the socially efficient level. Under these conditions, there is evidently a role for the state both in creating institutions which the market does not provide and regulating in the public interest those which it does. What this means in practice we shall see through various examples in the subsequent discussion.

### *Typical Institutions*

Well functioning market-type economies are generally found to contain institutions or institutional arrangements to provide for the following key economic functions:

- Private property rights and contracts;
- Banks and other financial markets: existence, functioning and regulation;
  - Reliable access to credit on reasonable terms;
  - Bankruptcy/liquidation policy in place to facilitate orderly exit;

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<sup>1</sup> This is not the place for an exposition of game theory. Suffice it to say that a repeated game is one in which the players make a series of moves, and their choices in later moves can be influenced by what happens in the early moves. This situation can provide incentives for good behaviour that could not be explained in a one-period or one-move game. For a thorough analysis of repeated games in the context of social institutions, see Schotter (1981). For a wider economic analysis of the institutional structure of a market economy, see Eggertsson (1990).

- Labour market institutions: social policy and the social safety net;
- Clear fiscal environment for firms, perceived as fair, predictable and enforced (this means, for instance, that in a multi-level country such as Russia it should not be possible for the regions to set taxes that conflict with national policies, and taxes should not be changed frequently);
- Institutions dealing with competition policy, industrial policy and trade policy.
- Trust between economic agents, trust and honesty in public institutions (lack of corruption, reliable law enforcement, incl. as regards business taxation).

Especially in economies undergoing rapid change, such as the transition economies, it is not uncommon for them to possess institutions in several of the above categories, but institutions that do not function very well. Hence the problem is often not so much to create institutions *ab initio*, but to improve the functioning of those already in place. This suggests a possible role for the state in fostering the conditions for such improvements to occur. It also raises an interesting question, namely whether references to the state should always imply the usual, national-level entity, or whether it might sometimes refer to sub-national levels of government.

#### *Economic Behaviour with Missing Institutions*

In the transition economies, it has sometimes been the case that important institutions have not been created at an early stage of transition, or that the relevant laws are incomplete, imperfectly enforced, or still subject to serious political controversy. In such unsettled institutional environments, several outcomes are possible, all of which can be found in one or other transition country (some aspects of this issue are studied in McMillan, 1997).

First, the private sector can step in to create a missing institution. For instance, in parts of the former Soviet Union, notably Russia itself, where business contracts and private property rights have not been reliably secured through adequate legislation, private means of contract enforcement have developed. Sometimes these private institutions act in the interests of particular firms or groups of firms, and can entail the use of violent methods to compel payment where necessary. This approach can prove effective for the firms concerned but it would not generally be regarded as desirable since it fails to offer a universal service and violates important principles to do with the “rule of law”. It does, however, have the merit of filling a clear “gap” in the institutional space.

In contrast, where an existing institution is weak or the legal provisions supporting it are poorly enforced, more predatory private sector “solutions” can be observed, commonly associated in the public mind (and perhaps in reality - the evidence is seriously incomplete) with mafia-like criminal structures<sup>2</sup>. These include the widespread practice of demanding “protection money” and the like from many firms, as a condition for them to continue in business. Needless to say, such practices are wholly undesirable. They are likely to inhibit or delay the expansion of existing

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<sup>2</sup> In some countries, the state itself can act in a predatory manner. This idea is discussed in Evans (1995), who distinguishes between predatory and developmental states in an interesting way. In an interesting case study, the issue is discussed for Russia in Buiter (2000).



firms, and seriously discourage new business formation. Nevertheless, practices of this sort are common across the CIS, less common in Central and Eastern Europe<sup>3</sup>.

Second, the state itself can step in to create a missing institution. A good deal of the EU's aid to the transition economies under the PHARE and TACIS programmes serves this purpose, and some institutional development also accompanies World Bank and EBRD projects in the region. Provided that the private sector has not already rushed in to pre-empt a state solution, and the aid is not diverted to finance those who strongly resist institutional innovations, this can be highly effective. Good examples of successful institutional creation through this sort of route are numerous, and only a couple of examples are cited here: (a) the development of local and regional development agencies in Hungary, as part of the country's evolving industrial policy; and (b) the design of new tax systems in many transition economies (though there are often residual problems of tax administration, income definition, coverage, etc.).

Third, a given institution might not exist and it may be impossible to create it due to political, legal or other obstacles. Thus in Russia and some other CIS countries, it is still the case that there is no legal private market in agricultural land, a circumstance resulting from vociferous political opposition to such an institution. The result, however, is that private farming in Russia is severely inhibited, while the state lacks the resources to fund adequately the existing state farms and other non-private organisational forms (e.g. remaining co-operatives). This is not the only problem in Russian agriculture, of course, but it is an important one, and remains unresolved despite several (unsuccessful) attempts to get suitable legislation through the State Duma.

Last, sometimes countries can lack an apparently important institution, such as private property, and yet find ways around the missing institution - possibly by accident - in order to enable successful development to take place. The most spectacular instance of such a serendipitous process can be found in China, in terms of the unexpectedly rapid growth and spread of township and village enterprises (TVEs) since the late 1970s. Neither state-owned in the old sense, nor strictly private, and unprotected by clear laws on private property and commercial contracts, these firms have nevertheless thrived. They are established at a very local level, but serve both local and wider markets - provincial, national, international - and are obliged to operate competitively. There is no protection for those that fail commercially. These firms operate as they do, not quite in the institutional vacuum that one might imagine, but in a secure political framework and strong local networks of trust that take the place of the missing institutions. Local authorities support "their" firms, because a share of the resulting profits is what finances the development of local infrastructure. Everyone therefore has an interest in encouraging highly profitable, fast growing

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<sup>3</sup> Unfortunately, no economy is totally free from such criminal practices. However, from the standpoint of economic policy what matters is the general expectations that firms hold. If most firms expect to have to pay protection money that is a far more serious situation than that where only a small proportion encounters these difficulties.



firms<sup>4</sup>. An interesting question, however, is whether such firms might soon reach the limits of their possible development in the absence of more fundamental institutional reforms.

### *Theories of Institutional Change*

Theoretical approaches to institutional change in transition economies are already quite diverse, ranging from broad theories of the reform process as a whole through to very specific models of particular aspects of institutional reform. For space reasons, it is only possible here to cite some of the more interesting of the available studies, without going into great detail.

Probably the most ambitious, and most general approach is that of Roland, set out in numerous papers and nicely summarized in Roland (2000). Roland considers *gradual* and so called *big bang* approaches to reform, and investigates the formation of various types of coalition for or against different stages of reform. The approach is general in that no specific reform measure is characterised in the analysis, but the approach is virtually the only one that starts to get to grips with the complex political configurations that can inhibit or favour reforms.

Although not directly focusing on our institutional concerns, Stiglitz (1994) draws attention to the weaknesses of the standard, neoclassical model of a market economy as a basis for advising transition governments on appropriate reform strategies. He draws attention to numerous *informational and incentive issues* that arise in many markets, the resolution of which entails various forms of state intervention and regulation. In other words, Stiglitz's book can be regarded as providing a conceptual foundation for many of the institutional reforms now widely acknowledged as essential for economies in transition. Sometimes the outcome of such analysis, drawing on the economics of information, can lead to remarkably powerful conclusions, as for instance in the analysis of credit markets and banks, the role of competition, and privatization and property rights. More recently, World Bank (2001) reports on a range of institutional solutions to information and incentive problems associated

Contrary to our definition of institutions given above, several transition economies - notably in the CIS - have developed practices that seriously conflict with the desirable features we listed. In particular, the "anonymity property" is frequently violated through forms of state capture by large enterprises and other economic interest groups whereby these agents are able to influence state policy in their favour, and hence undermine the proper functioning of economic and political institutions. Such practices have been analyzed in some depth for Russia in Ericson (2000), and more widely, based on extensive enterprise-level empirical data through 1999, in Hellman,

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<sup>4</sup> This raises the obvious question as to why such firms are not to be found everywhere, why only in China? Elsewhere there must be other obstacles such as a more centralised state structure (with less local autonomy than in China); or political elites could continue their old association with traditional state-owned enterprises rather than promoting new businesses (this option would not be available in most Chinese counties); or there could be insufficient trust and confidence at the local level to serve as a substitute for the missing private property rights with market development.

Jones and Kaufman (2000). The former sees a continuation in Russia of the traditional inter-penetration of political and economic structures, and characterises what market structures there are as “fragmentary”. The latter conclude that “improved property rights protection and civil liberties can significantly reduce the capture economy”.

An alternative route for firms seeking to operate in a poorly defined institutional environment is the second, or *shadow economy*. While some firms operate outside the official system in all countries, the scale of such activities can be regarded as a measure of how badly the formal structures are functioning. The nature and diversity of second economy activities are explored in Schneider and Enste (2000), which also presents estimates of the size of the shadow economy for many developing countries and for transition economies. In the latter, the shadow economy is estimated to account for 35 per cent of GDP on average in the former Soviet Union, and about 21 per cent in Central and Eastern Europe (taking, in each case, the lower of two estimates given in the paper). The corresponding average for OECD countries is estimated (on the same basis) as about 11 per cent of GDP. The authors conclude along lines highly material to the present study,

“Most studies of the shadow economy focus on the influence on the allocation of resources and the loss of revenue for the state. But the impact on official institutions, norms and rules is even more important. The shadow economy can be seen as an indicator of a deficit of legitimacy of the present social order and the existing rules of official economic activities” (p108).

Set against this remark, the above cited figures speak for themselves.

We expect economic performance - including overall economic growth and sustained enhancements in productivity - to depend fundamentally on what happens at the level of individual enterprises across any given economy. Key aspects of enterprise sector behaviour in this connection are: *entry, exit, and the restructuring of incumbent firms*. Hence institutional measures that foster these processes are highly desirable. Aghion and Schankerman (2000) provide a valuable formal analysis of such measures, under the heading of “market-enhancing infrastructure”. Their model captures three aspects of infrastructural investment (often interpreted as measures that cut transport costs or reduce other forms of transactions costs), namely: direct market selection (more high cost firms are forced out of business), restructuring (stronger incentives for firms to engage in cost-reducing activities), and entry (less incentive for new, high cost firms to enter, stronger incentives for low cost firms to enter). In a dynamic framework, these processes generate productivity improvements across a sector, region or entire economy, though the relative importance of the different effects depends on initial conditions, the initial level of infrastructure and the costs of restructuring and entry. These are likely to vary across countries and over time. The authors conclude that an interesting extension of their work would be to examine the political economy of infrastructural investment (since existing high cost firms are likely to oppose it, low cost firms will support it), and to study the way in which infrastructural investment affects firms’ learning processes both through experimentation and via demonstration effects.

In informal discussions of transition institutions, the legal environment is often

highlighted as critical for successful private sector development. Analytically, this can be approached at a general level, in terms of the economics of law enforcement, and at a more concrete level one can investigate specific areas of the legal regulation of market institutions, drawing conclusions about good practice from cross country comparisons. Roland and Verdier (2000) provide an example of the first approach, their general approach being illustrated nicely, in the context of property rights, by Rapaczynski (1996). Black (2000) presents an interesting case study of the second, in the context of securities market regulation and investor protection.

Roland and Verdier (2000) draw attention to a (social) co-ordination problem associated with law enforcement in that (a) people have to agree to levy and collect taxes in order to pay for law enforcement - but in jurisdictions where law enforcement is weak, tax collection also tends to be weak; and (b) for given expenditure on law enforcement, if people choose to be mostly law abiding then enforcement is effective, while if they do not so choose then the enforcement effort can be largely ineffective. In models with such co-ordination problems, it is well known that there can be multiple equilibria, with generally law abiding outcomes in some ("good" equilibria), serious disregard for the law in others ("bad"). While these models are rarely very specific about exactly which laws are under discussion, there is a presumption that law abiding behaviour is good for private sector development, business confidence, and the like; and conversely. Since there is little theory to help us determine which equilibrium will occur in a given situation, the authors consider what concrete institutional mechanisms might exist in transition economies to help eliminate the bad equilibrium. They identify two possible mechanisms: Chinese style "dualism"; and the prospect of EU accession (the argument here is that the prospect of effective law enforcement in the future provides incentives to be law abiding in the present). Since neither of these arguments applies to Russia or other CIS countries, it is perhaps not so surprising that they continue to perform so poorly.

A wholly different approach to institutional change is through the provision of an external model. Such a model both provides something to be copied - hence reducing considerably the costs of learning that would otherwise arise, and avoiding many mistakes - and if it is embodied in some form of international agreement, it can strengthen the hand of reforming politicians and assist them in resisting interest groups opposing reforms. The simplest and most widespread instance of such a model is provided by membership of the World Trade Organization (WTO), since the disciplines it entails make it harder for domestic industrial lobbies to secure special protection, and the trading practices supported by the WTO are generally conducive to efficiency. Without such an external frame of reference, though, it must be doubtful whether many countries would be willing to adopt the open and liberal trade policies that they do follow. Most transition economies are either already WTO members, or are applicants for membership.

In the economic sphere, the EU provides the most comprehensive external model, not only for the applicant states but for other transition economies. Through its network of Association Agreements and Trade and Partnership Agreements, and by means of the PHARE and TACIS aid programmes to the transition economies, the EU promotes institutional change and development across the region. Adaptation to Community norms, by implementing various provisions of the *acquis communautaire* in their domestic economies, has proved a powerful tool in fostering rapid

institutional change. The EU has almost certainly accelerated a great deal of very important institutional reconstruction. As with the WTO, EU agreements have also often provided domestic politicians with useful levers to help them resist pressures from sectional interests.

### **3. Institutional Change in the Rural Sector of Transition Economies**

Drawing on the above broad framework, as well as on Davis (2001) and Davis and Gaburici (2001), in this section we explore the institutional conditions needed to support successful development of the rural sector in transition economies. By the rural sector, as noted above, we mean both agriculture itself (essentially, farming), as well as the whole range of activities belonging to the rural non-farm economy (RNFE). To be systematic, therefore, we first discuss agriculture itself, then the RNFE, then a few remaining issues not already covered. In all cases, the emphasis is on designing institutions that facilitate the earning of reliable, and ideally steadily improving, incomes by the inhabitants of rural areas.

#### **(a) *Agriculture/Farming***

The starting point in most transition economies (Poland being a notable exception) was a structure in which most farmland was held by large cooperative and state farms, with the farm-workers often holding small private plots in addition. On a per hectare basis, these private plots were often many times as productive as the main farms to which they were attached, but they rarely generated enough income to support a family (nor were they ever intended to do so). Private farming, in the sense of farms large enough to support at least a family and possibly pay for some wage labour in addition, played a very small part in the overall agricultural picture (practically zero in many countries).

Like any production process, farming can be thought of in three stages: inputs, transformation, outputs. If we elaborate these a little, it is not difficult to see where institutional innovation, reform or development might be needed to support farming. Consider Table 1, below.

Inputs	Transformation	Outputs
Manpower	<b>THE FARM</b> Transforming inputs into outputs using a variety of technologies and with varying efficiencies	Harvested crops - grains, fruit, vegetables, root crops, grapes/wine
Capital equipment		Hay and silage (animal feed - for retention on-farm, or marketing)
Land		
Buildings		Milk (and sometimes milk products if the processing takes place on-farm)
Machinery		
Seed and livestock		Animals for slaughter
Stocks of materials		
Finance/credit		
Fertilisers and pesticides		
Other current inputs		

**Table 1. Farming as a Three Stage Production Process**

This simple table clearly highlights the markets that need to be in place for agriculture to function well. Rather than discuss each item in turn, it will suffice to pick out a couple of items from each of columns 1 and 3 for brief comment.

### ***Inputs***

#### ***Land***

Issues here concern whether land can be bought and sold, and whether and under what conditions it can be used as collateral for loans. In most countries, an efficient land market requires proper registration and documentation of title, but in countries where a good deal of land redistribution occurred in the 1990s, such as Romania, this process is often far from complete. The issue of a land market can prove especially important in a country with small farms that are not very economic and require consolidation (or, in the extreme, abandonment), since the sale of land and other assets provides an exit route for farmers wishing to move into other lines of activity.

#### ***Fertilisers and pesticides***

The practical issues have to do with the physical availability and quality of suitable chemicals, their prices - and hence their accessibility to often relatively poor farmers - and the local infrastructure in terms of roads, storage facilities and the like, which also influence the price delivered to the farm.

### ***Outputs***

#### ***Vegetables***

Infrastructural issues arise here too, to do with roads, storage, refrigeration, etc. If the infrastructure is especially weak, it may not be economic to undertake commercial vegetable production except around the edges of cities, as one can often see in less developed countries. Alternatively, poor transport and storage facilities may encourage pickling and other forms of long-term vegetable provision, as is common



in Russia and many other parts of Central and Eastern Europe. As incomes rise and infrastructure improves, both fresh and quick-frozen vegetables become more widely available. Pressures from final markets (domestic and export) through food processors back to the farms gradually impose higher quality standards, or select farms willing to invest in higher quality production.

### *Animals for slaughter*

Many animals in the poorer transition economies are slaughtered in local facilities using traditional methods, to hygiene standards that would no longer be acceptable in more developed countries. The improvement of standards involves both the upgrading and licensing of abattoirs, and improvements in animal transport arrangements to ensure that livestock reaching approved facilities are in good condition. Then good chilling/refrigeration/freezing facilities are essential to maintain product quality and reduce unnecessary waste. In most transition economies, these conditions are not met, and considerable investment - both in physical equipment and in regulatory arrangements - is needed.

### **(b) *The RNFE***

Davis (2001) treats the RNFE as an extremely diverse part of the rural economy, "characterised by its heterogeneity, incorporating self-employment, micro and small-medium sized enterprises (MSMEs), and trade activities.....it includes the rural institutional framework (roads, schools, hospitals, etc.) which are an integral part of the rural economy." (p1). Further, "the RNFE in transition economies is discussed as part of a growth strategy for the economy, and not as a "defensive" survival strategy for the rural poor." (p1). I take these views of the RNFE as my starting point here.

In terms of *activities*, the RNFE can include many processes and services related to agriculture such as repairing machinery, early stages of food processing that are or can be economic on a small scale (butter and cheese making, wine making), transport and storage of agricultural inputs or outputs, veterinary services, agricultural extension services, and so on. It also includes an enormous range of mostly small scale businesses in other sectors such as retailing (food shops, pubs, cafés and restaurants, etc.), tourism, mining and quarrying, manufacturing, handicrafts production, and education and training.

Since, as economists, our ultimate concern is not so much with rural production per se as with the *incomes and living standards* of rural residents, we should also include in the RNFE the opportunities for the rural population to gain employment in local towns where there might be larger firms and wider opportunities. Even more widely, we could consider issues of migration and remittances, as well as the prevailing social security system, as additional sources of rural incomes, but these matters are deferred until sub-section (c), below.

Now let us consider the infrastructural and institutional conditions likely to support such a diverse set of activities for rural residents in transition economies, bearing in mind the following desiderata: (i) activities should be self-supporting, economically viable, free from state subsidy (with very few, limited exceptions); (ii) it should be easy to start new activities, easy to close those that fail, ensuring a good turnover of "players" in the rural economy, and of firms in the local towns that employ rural



residents; (iii) individuals can be supported in at least two ways - through opportunities to train or retrain, improving their marketable skills, and through the provision of information about existing or prospective job openings. Markets left to themselves might not do a good job in either of these key areas. (iv) good roads, public transport and telecommunications services are likely to help rural businesses (as is a good quality provision of basic utilities - water, electricity, etc.), though the impact on rural employment can be mixed - after all, good transport can result in rural jobs for urban residents, rather than the other way around.

At the very simplest level, the RNFE can be supported by any measures that *increase aggregate demand*, such as additional public spending in a given area. For instance, road building and repair, or house-building, generates directly a demand for additional labour with a variety of skills, some of which will be supplied from the local rural economy; and indirectly, the incomes earned by the new workers will generate demands for additional consumer goods and services, some of which again will be supplied by the local RNFE. However, while such public spending can provide an initial boost to the RNFE, it is unlikely to provide a long-term, sustainable basis for an expanded volume of activity. Hence we need to consider other means of expanding rural business in areas where local incomes are initially rather low.

The key, surely, is to be found in *exports* - not from the country as a whole in most cases, but from other regions of the home economy. My thinking here is along the following lines. Suppose economic growth is resuming in a few major cities or regions of the country concerned. The extra incomes resulting from this process will give rise to additional demand for many final goods and services, as well as additional demand for any intermediate products. Much of the demand might be met from the very areas already enjoying growth, as well as from imports into the country. However, the expansion also provides opportunities for other areas, including the RNFE, to meet some of the additional demand by expanding their own economic activities. Typically, though, potential providers in the RNFE are small, poor and poorly informed about what is going on elsewhere even in their own country, and have few resources with which to develop new businesses or expand existing ones. This observation immediately suggests the key areas of institutional development that might best help the RNFE:

- *Information and networking.* People in a given area need information about the economic opportunities available elsewhere in their country. This might encourage them to move to seek work, or might stimulate ideas for new local businesses that could supply some of the new demand. Designing an effective way of delivering improved economic/business information, however, is very difficult. For one thing, too much information is as bad as none, and to be effective, diverse channels are probably more useful than just one. Beyond these relatively banal and obvious remarks, knowledge of the local community and its capabilities is crucial in fine tuning improved information provision.
- *Access to banking services/credit.* When people are poor they are often considered poor credit risks and will often not have bank accounts or be familiar with financial services at all. But to invest in new business ventures, even on a small scale, people need funding from somewhere. Often they might secure support from family and friends, but in a poor community this is often not possible. Hence the need for credit. But few banks are willing to offer unsecured

credit to people with little or no regular income, and secured credit raises tricky issues of *collateral*. For instance, taking land and/or property as collateral implies that there is proper title, a well functioning property market with established property values, and clear rules governing default (e.g. in some transition economies, individuals cannot legally be evicted from their homes when defaulting on a loan, so of course banks will not then accept a home as collateral). In many transition economies, most of these conditions are at best only partially fulfilled, and substantial further institutional development is needed. Besides collateral, there are also issues of *incentives/monitoring* in providing credit, whether it is supplied through conventional commercial banks, or through some publicly aided local development agency.

- *Access to education/training.* In developing many types of commercial activity, new knowledge and practical skills are needed, and the lack of these can set up huge barriers in the way of expanding the RNFE. Some of these skills have to do with the normal conduct of a business - management, accounting and finance skills, or basic IT skills, for instance - and others are necessarily more technical. Some of the former could be provided - for a group of businesses in a given location - through a small business service centre, while the more technical skills require more structured courses and opportunities for relevant practical experience. Providing this requires a variety of institutional developments tailored to local market conditions.
- *Local infrastructure.* It is always easy to say that more and better infrastructure is “bound” to be good for local business, by lowering transactions costs, improving communications, enabling supplies to be more reliable, and the like. But practice is more complex. First, many improvements are a double-edged sword, in the sense that they not only improve local conditions, but they also improve access to the local market from elsewhere, hence potentially undermining the competitive position of already existing businesses. Second, it would be absurdly costly to insist that local infrastructure must meet the very best standards in order to serve local business needs, since in general one would want to argue that local infrastructure and other local economic activities should develop in tandem, each improving gradually on the back of the other. Third, though, for any significant business to get underway, some basic minimum level of infrastructural services may be needed, and it will usually fall to the state to provide that - at a pace that will depend on its other priorities.

As a final observation, it is also important to stress that many residents of rural areas in low-income countries have very limited experience and knowledge of commercial activities, fairly low levels of education, and few marketable skills outside their original agricultural domain. Hence even with all the above measures in place, it does not follow that there will be a huge upsurge of RNFE activity. In some areas there will be, elsewhere there will not. Especially in the latter case, the types of approach sketched in the next sub-section also need to be considered.

### (c) *Remaining Issues*

#### *Migration and Remittances*

It was noted in passing above that residents in the rural economy might seek work in their local town. More generally, some residents might move to a more remote town,

or even to another country, in order to seek better paying employment. This occurs for positive and negative reasons. The positive reason is simply the opportunity to get a job and earn a relatively high income, perhaps also acquiring useful skills and experience along the way. The negative reason is usually the sheer lack of local employment opportunities, or the availability of only very low paid, low skilled jobs in the local economy. Eventually, rather than waiting for local conditions to improve, many people will take the decision to move for work, either alone (more commonly) or with their families (more rarely, or only after some initial period alone). Especially when high incomes are indeed earned in the new place of work, the migrants themselves often remit significant fractions of their earnings back to their families. Hence economic migration, and the associated remittances, can often be an effective means of boosting the income levels in a given, relatively poor rural area, especially when the local economic opportunities appear quite limited.

Migration, of course, is a totally normal activity undertaken by numerous people in all countries, most often for straightforward economic reasons. It occurs both within and between countries, though it is the latter that usually attracts attention from policy-makers. Economic conditions in a given area change over time, so an area might attract incomers for a period, then decline or be overtaken by other areas, and experience outflows of people, temporary or permanent. Interestingly, across most of Europe, rates of migration over a typical decade are usually many times smaller than corresponding rates between states in the USA. No doubt this is for a variety of historical, cultural, and linguistic reasons, except that even within the larger EU member states, migration rates are rather low. Nevertheless, even allowing for this, migration undoubtedly offers a route to raising rural incomes (via remittances) as an alternative to developing the local RNFE.

Hence the relevant policy question is: how should migration be encouraged, and, in line with the theme of the paper, what institutional developments would be needed to achieve such an outcome? This is not the place for an extended discussion, but it is worth listing the most obvious factors: (a) information about job opportunities in different areas; (b) a functioning housing market so that if people migrate they can find suitable accommodation, initially for themselves, later for their families; (c) credit or public grants/loans to cover some of the initial costs of moving; (d) local support to ensure that migrants have a fallback position - i.e. if migration is not successful, they need to be able to come back home (otherwise many people would be too risk averse to move in the first place).

#### *Social Security and other forms of income support*

What happens to those who have no earned income in their local area and who cannot move or are reluctant to consider moving? In practice, they must either be supported by family, neighbours, friends, or they must be in receipt of subventions from the state in the form of pensions, income support or other forms of social security payment. Such payments in the rural areas of transition economies are usually quite low in relation to the average wage, but they do generate some local income and hence modestly stimulate the local demand for goods and services. A big increase in these payments would obviously, among other things, boost the local RNFE, but no government in the region is likely to pursue such a policy for quite obvious reasons of public spending constraints and the need to avoid excessive public deficits. Moreover, while I indicated earlier that our concern should be with the incomes and

living standards of rural residents, it does not follow that this should be secured through public subsidy. For it is also a social concern that incomes are mostly earned in the labour market, and excessive public subventions are not only bad for the budget, they are also bad for work incentives (except, of course, for the severely disabled and other needy groups where different arguments would apply).

#### **4. Conclusions**

In this short paper, aside from providing an overview of the institutional reforms that apply to all sectors in a transition economy, I have attempted to sketch out - albeit shockingly briefly at times - the core elements of a framework to help in thinking about specific institutional reforms to support rural development. Farming itself was outlined, together with the institutional conditions that support well functioning markets at each stage of the farming process (refer again to Table 1, above). Then we discussed the Rural Non-Farm Economy (RNFE) in all its diversity, arguing that activity levels can best be stimulated by increases in demand, while focusing on information and networking, access to banking and credit, and the local infrastructure. Alternatives to promoting the RNFE, such as (economic) migration and reliance on income provided through the security system were also outlined.

To conclude, a few general points are worth making.

First, just because there is a rural economy in a given area, we should not take it for granted that it is inevitably either possible or desirable to promote a flourishing RNFE. For some areas, the only future might be the long term decline of farming, accompanied by substantial outward migration of population. This might be the case, for instance, in remote, mountainous areas where the economics of agriculture are already extremely marginal, and where the prospects for viable non-farm economic activities are correspondingly dire. What this point implies, essentially, is that before contemplating serious measures to promote the RNFE in a given area, we should take a hard look at agriculture in that area, examine its economics, and consider what income levels it can reasonably support. For as countries become more prosperous, farm incomes that were once acceptable become less so, and if there is no reasonable way to boost productivity to enable farming to match the income levels of other sectors of the economy, farming will slowly decline.

Secondly, reforms in farming to make it more productive might themselves substantially reduce the demand for labour in the countryside, just as effective industrial restructuring frequently reduces the employment offered in particular enterprises or sectors. In both cases, either it is necessary to stimulate a large number of new business start-ups (new entry) in a variety of sectors, or we have to find ways of actively encouraging many of those displaced to migrate. In rural areas, the former is part of what we have in mind when we discuss the RNFE, but the latter approach basically accepts that local jobs cannot be created in sufficient numbers, and that people have to move (or revert to a very low-level, subsistence type of farming).

Third, it is important for policy-makers not to be seen to be discriminating either for or against people resident in rural areas. In designing economic policy, and the

accompanying institutional reforms, the focus should always be on generating improved incomes and living conditions for the whole population. Thus there is no excuse for neglecting rural populations by concentrating economic support on the larger cities, larger industrial enterprises and the like. Equally, there can be no excuse for policies that do the reverse. In all cases, support and institutional measures should have in mind the medium and long term economic viability of the activities/people benefiting from intervention, whether rural or urban, admittedly not always an easy matter to assess reliably (and hence vulnerable to political and pressure group manipulation).



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# **Non-Agricultural Diversification of Farm Households and Corporate Farms: Lessons from Central Europe<sup>1</sup>**

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## **1 Introduction**

This research was inspired by the potential key impact of diversification on the economic development of rural areas in countries in transition. An adequate understanding of the sources and the factors shaping its level and success helps identify actions that can enhance the role of farm diversification for rural development purposes. The study is on-going within the EU-funded Framework 5 project 'Integrated Development of Agricultural and Rural Areas in Central European Countries' (IDARA). Three Central European Countries are studied, the Czech Republic, Hungary and Poland. The project is collaborative including six European academic centres: the Institute of Agricultural Policy, University of Bonn; Imperial College at Wye, University of London; the National University of Ireland, Galway; Institute of Agricultural Economics, Prague; University of Warsaw; Budapest University of Economic Sciences. Imperial College at Wye deals with two tasks involving a farm level analysis, namely variations of farm performance and farm diversification. Some preliminary results on farm diversification are discussed in the present paper.

The study attempts to contribute to the debate about the future of the vast rural areas in Central and Eastern European countries (CEECs) in view of their accession to the EU. The main questions the study tries to answer are: (i) what is the incidence and types of diversification? (ii) whether there are systematic characteristics which identify diversifiers against non-diversifiers? (iii) what factors affect diversification? and (iv) what are the impediments to diversification?

## **2 Definition of, and rationale for, diversification**

Agricultural diversification may be defined as other gainful activities outside of the primary production of food, fibre and fuel. As such diversification may take two main forms: employment diversification or enterprise diversification. Both forms of diversification have been promoted in the CEECs. For example the EU's Special Accession Program for Agriculture and rural Development (SAPARD) allows candidate countries to draw national plans for agriculture and rural development. In developing plans, eligible measures include the 'development and diversification of economic activities, providing for multiple activities and alternative income' (EC, 1999: 1). The policy rationale for diversification has been based on evidence of over and under-employment in agriculture and low returns to farming activities in the

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CEECs (Swinnen *et al.* 2001). Both forms of diversification have been promoted as strategies for bolstering farm incomes, creating more robust rural economies and halting depopulation. In existing member states agricultural diversification has been promoted for similar reasons although programmes have had mixed success in encouraging farmers to pursue such strategies (Phillipson *et al.* 2001).

A plethora of frameworks have been used to explain the motives for diversification. Pope and Prescott (1980) suggested that diversification will tend to occur where the decision-maker is risk-averse and the covariance of enterprise returns is zero or negative. Thus, factors that alter the level of risk-aversion of the decision-maker will also affect the propensity to diversify, e.g. an increase in family size (Feinerman and Finkelshtain, 1996). It has been asserted that farm income variability has a positive effect on off-farm labour supply and that off-farm work participation is a reaction to the risk associated with agricultural income which is exposed to both price and production risk (Mishra and Goodwin, 1997).

The push-pull hypothesis suggests that diversification is driven either by the 'pull' of non-agricultural income generating opportunities or the 'push' out of agriculture to generate sufficient income from non-agricultural activities. This hypothesis was first generated in the study of migration whereby socioeconomic imbalances between regions were such that some factors 'pushed' individuals away from a region while others 'pulled' them to a destination region (Fuguitt, 1959).

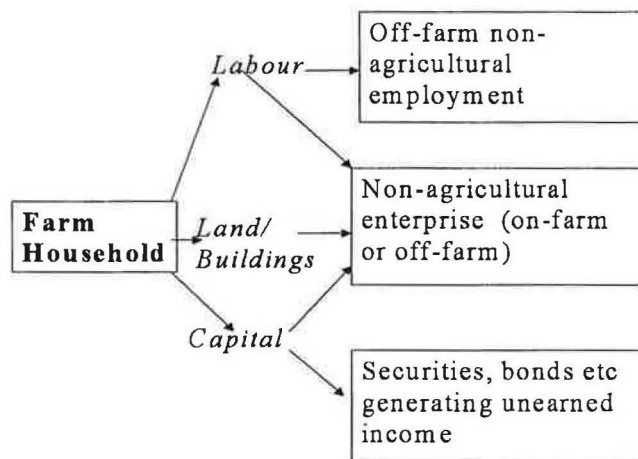
Diversification may be used as a means of using surplus resources, e.g. the use of farm resources for non-agricultural activities (Shucksmith and Winter, 1990). Such activities could include on-farm processing, the provision of non-agricultural products and services on-farm (Evans and Ilbery, 1993). This is consistent with non-agricultural literature, which explains diversification as a strategy of utilising excess capacity of production factors, which are subject to market failure (Montgomery and Wernerfelt, 1988). Thus, if there is no market for surplus factors of agricultural production such as land or capital, output may be generated from them by utilising these factors in an on-farm non-agricultural enterprise. This is particularly important for Central and Eastern European Countries (CEECs) where land and capital markets are still underdeveloped.

Often, the farm household labour resources are not implicitly included within the bounds of diversification. The Ministry of Agriculture, Fisheries and Food (MAFF) study on diversification in 1989 excluded employment of labour but included agricultural contracting (Shucksmith and Winter, 1990). Thus, diversification was treated as a narrow concept restricted to farm-centred activities. By and large this narrow definition of diversification neglects the circumstances of smaller producers and emphasises the problems of large farms. For larger farms, the surplus factors of production are mainly capital and land, whereas for the smaller farms, it is labour which is most often in surplus (Shucksmith *et al.*, 1989). In CEECs there are millions of small individual farms. For this reason it is assumed that off-farm employment is a common form of non-agricultural involvement of farm households and off-farm employment and unearned income are included in the analysis.

For the purposes of this study, diversification is defined as other gainful activities beyond the primary production of food, fibre and fuel (Slee, 1987). Thus, agricultural contracting, woodland activities or off-farm work on non-own farm are excluded. However, on a few occasions in the analysis this definition has been broadened due to the prevalence of agricultural contracting. Ignoring this activity would have resulted

in a very small sample. The cases when agricultural contracting has been included are explicitly indicated in the paper. Other gainful activities outside of agriculture are classified into one of three categories: off-farm work (employment diversification), non-agricultural enterprise (enterprise diversification) and unearned income. This approach encompasses the use of all factors of production which are surplus to agricultural production, that is, labour, land, buildings, capital. In the CEECs there are two distinct types of farm structures, corporate farms and individual farms (the household sector). For this reason different emphasis is put on the analysis. For the individual farms (farm households) all potential sources of income diversification are investigated (Figure 1). For the corporate farms the emphasis is on non-agricultural on-farm enterprises and contracted out off-farm non-agricultural services (Figure 2).

**Figure 1: Diversification in the individual farm case**



**Figure 2: Diversification in the corporate farm case**

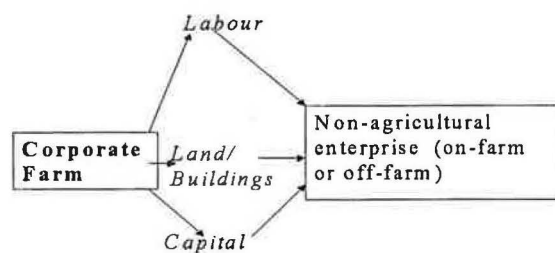


Fig 1 shows three different sources of diversified income of farm households. The first is *off-farm work*. This is any form of employment that is non-agricultural and occurs off- the holding. This covers a broad range of possibilities such as manual, white collar, professional or business activities (Robson *et al.*, 1987). The second

potential source of other gainful activity is *non-agricultural enterprise*. Within this category lie home businesses which are managed from the holding and are independent of the farm base and farm-based enterprises, typically using land, farm produce or the farm setting, i.e. are dependent on the farm base, e.g. bed and breakfast (Gasson, 1986). This category also includes off-farm enterprises that mainly use surplus labour and capital. *Unearned income* does not require the human resources of the receiver in order to be obtained. Examples are pensions and other state benefits, interest from savings, dividends, remittances (Shucksmith *et al.*, 1989).

### 3 Methodology

Discriminant analysis of the two groups, namely diversifiers and non-diversifiers, was first carried out in order to determine both the extent of diversification in each country and to identify characteristics of the members of each group. The mean values also give an indication of the magnitude of variables of the two groups (diversifiers and non-diversifiers), thereby placing the effects determined by multinomial analysis in perspective.

In order to analyse the effects of factors on the diversification decision, a model was required which would be capable of handling categorical data as a dependent variable. This was necessary as a measurable form of diversification was difficult to obtain. Respondents are often reluctant to provide income related data. Time allocations are difficult to measure since they rely on memory and labour may be difficult to apportion between activities. Additionally, the point of interest when looking at the effect of different factors on diversification was whether an individual or corporate farm had diversified at all, not so much the extent of diversification. For this reason logit analysis was chosen which for corporate farms was binomial and for individual farms multinomial. Unlike in the other countries, in CEECs land restitution brought about diversification into agriculture from non-agricultural activities. As the main interest of the study is diversification outside agriculture, these diversifiers into agriculture were excluded from the multinomial analysis in the cases of Poland and the Czech Republic. Diversification into agricultural contracting and land-base activities were excluded also as it was not consistent with the definition of diversification applied in the study. This was not done for Hungary due to the small sample size.

The independent variables were selected both from diversification literature and an empirical spreadsheet model. In practice some dummies which related to different forms of advice received by farms were rejected when the model was tested due to the frequency of use being too low, and thus, most values being 0. The list of variables used in multinomial model is presented in appendix 1.

When a multinomial logit was applied for the households, the reference category was non-diversifiers. The coefficients for each type of diversification measure the change relative to non-diversifiers. The model is given by:

$$\text{Prob}(y = j) = \frac{e^{\sum_{k=1}^k \beta_{jk} x_k}}{1 + \sum_{j=1}^{J-1} e^{\sum_{k=1}^k \beta_{jk} x_k}} \quad (1)$$

If there are four alternatives to choose from (non-diversified, diversified through enterprise creation, diversified by off-farm employment or diversified through enterprise creation and off-farm employment) and the base case 1 is taken for non-diversifier (1) may be written:

$$Prob(y = j) = \frac{e^{x\beta(j)}}{1 + e^{x\beta(2)} + e^{x\beta(3)} + e^{x\beta(4)}} \quad j=2,3,4 \quad (2)$$

In the case of the corporate farms where there were only two options that of diversifying and that of not diversifying, the binary model is essentially the same as the multinomial, but with two options only. It can be written as:

$$P_j = Prob(y = 1) = \frac{e^{x\beta}}{1 + e^{x\beta}} \quad (3)$$

The relative probability of  $y=j$  to the base category is calculated as:

$$\frac{Prob(y = j)}{Prob(y = 1)} = e^{x\beta(j)} \quad (4)$$

Having identified through multinomial analysis the factors affecting diversification, a deeper analysis was required to determine more accurately what the problems potential diversifiers faced and how policy would affect diversification. For this analysis, a sub-sample of the data was used which consisted of non-diversifiers only.

#### 4 Data sets

Two questionnaires were prepared for data collection. One was developed for individual farms and the other for corporate farms. Data was collected in three regions in each country using enumerators in the field. In Hungary and the Czech Republic both individual and corporate farms were surveyed. In Poland only individual farms were surveyed due to the low incidence of corporate farms. For each country the sample was first stratified in three pre-selected regions and then randomly selected within the regions.

For Poland, the initial sample consisted of 342 household farms. The three regions selected for the study were *Podlaskie*, *Dolnoslaskie* and *Podkarpackie*. These are all voivodships (comparable to NUTS II). *Podlaskie* is located in the east of the country. The region has a below national average standard of living, a low population density and witnessed depopulation. The local economy is predominately agricultural. *Dolnoslaskie* is in the south of the country, bordering the Czech Republic. This region is characterised by high unemployment, rural depopulation, a declining food processing sector and growth of uncultivated land. The region, however, by being mountainous is seen as attractive for recreation and having the potential to expand its level of tourism activity. *Podkarpackie* is in the southeast of Poland. It has twice the average population density for rural Poland. Most of the farms in the region are small and farmers generally combine agriculture with non-agricultural economic activity.

The sample has two size groups into which most farms fall, between 2-5 ha and over 15 ha. In comparison to the agricultural census, the main over representation in the sample is of farms over 15 ha. This bias is acceptable for the main objective of the analysis, to study employment and investment dynamics outside agriculture of



more commercially orientated farms, which are expected to be more fully exposed to market competition post-accession.

For the Czech Republic, the sample consisted of 139 registered and 78 unregistered agricultural households, and 102 corporate farms. In the Czech Republic there are two main legal types of individual undertaking in agriculture: (a) *trade law farmers*, subjected to business registration under the Trade Law like other full liability businesses and (b) *solely operating farmers*, with less strict regulations. Registered farms are larger and more commercial than their unregistered counterparts.

The sample farms were located in three NUTS 4 regions in Moravia, in the South East of the Czech Republic namely, *Znojmo*, *Třebíč* and *Zdar nad Sázavou*. *Znojmo* borders with Austria. Agriculture and forestry account for 13.8 per cent of employment. The level of industry is below average for the country. Unemployment is quite high at 14 per cent and the average income is 81 per cent of the national average. Public transport is sufficient for commuting, particularly to Brno. However, some rural settlements have a poor provision of public transport. Only 14 per cent of settlements within the region have access to the rail network. *Třebíč* is located to the north of *Znojmo* and to the West of Brno. It has lower agricultural employment (12 per cent), but higher employment in the industrial sector (37 per cent). Unemployment is lower than in *Znojmo* at 12 per cent. However, the average income for the region is only 77 per cent of the national average. The roads are of poor quality.

*Zdar nad Sázavou* is North of *Třebíč* and North West of Brno. Employment in agriculture and forestry is 10.5 per cent. This has halved since 1989. The industrial sector accounts for 38 per cent of employment in the region.

As mentioned, the household data set comprises 139 registered and 78 unregistered household farms. The average farm size for the household sample was 35 ha. The farms are larger than the national average of 18 ha according to the agricultural census. Thus, the sample used here is biased towards larger and probably more commercially orientated farms. The corporate farm sample consists of 102 corporate farms of which 37 were co-operatives, 24 joint-stock companies and 41 limited liability companies. These have a mean area of 1,234 ha. The sample farms are larger than the agrocensus (average of 886 ha). In terms of structure, there is a bias toward co-operatives and joint-stock companies with fewer limited liability companies.

The Hungarian sample covers the regions of *Kunszentmiklós*, *Tapolca* and *Nyírbátor*. It consists of 267 household farms and 44 corporate farms. *Kunszentmiklós* is located on the east of the river Danube, in the Great Hungarian Plain. The soil is infertile and the infrastructure is below average for the county. Twenty percent of the roads in the region are unpaved. The public transport network is limited and the bridges crossing the Danube are remote (the nearest is 50 kilometres away). The bridges are often undergoing repair, impeding labour mobility. Although Budapest is not far as the crow flies, there are no major roads connecting this region to Budapest. The agricultural sector is the most important in relation to employment. Most of the farms are individual. During transition many plants and enterprises closed, resulting in job losses. The unemployment rate is 15 per cent, compared to the county average of 10 per cent.

*Tapolca* is close to the northern edge of Lake Balaton in Western Transdanubia. Historically the rich mineral deposits of the region made mining



important. However, environmental considerations have restricted mining. Currently, agriculture and tourism are the main sources of employment. This results in seasonality in employment. A third of the settlements in the region have unemployment as high as 15 per cent. Some villages within the region are hindered in their ability to attract tourists by a poor road network. Farms are small, with a regional average area of 2.1 ha.

*Nyírbátor* lies in Northeast Hungary. It is bordered by Romania to the South and East. Infrastructure is underdeveloped and the road network is poor. This is partly due to the territory previously being part of Romania and the infrastructure not aimed at connecting the region to the rest of Hungary. The local economy is agrarian. Unemployment is high at 20 per cent (the county average is 16 per cent).

The household farms in the Hungarian sample have a mean area of 48.5 hectares. As in the other countries, the sample is biased towards larger farms. According to the census, the percentage of farms under 1 ha is the greatest in Hungary, whereas in the diversification sample their relative share is the lowest. The sample also has more farms in the 5-10 ha range than the agri-census.

Data were cleaned for inconsistencies. The summary of usable records for individual farms is presented in table 1.

**Table 1: Summary of data used for analysis of individual farms**

	Poland				Czech Republic				Hungary			
Number of used cases	340				183				257			
	Mean	S.D	Min	Max	Mean	S.D	Min	Max	Mean	S.D	Min	Max
Area (ha)	10.0	10.6	0.69	80.0	25.0	49.1	0.1	523.0	38.8	22.2	4	100
Proportion under grain crops	0.53	0.21	0.0	0.98	0.45	0.31	0	1.0	0.66	0.25	0.03	1.0
Time allocated to farm work (hrs/week)	29.6	20.1	0.0	76.5	49.6	27.4	0	100.0	38.8	22.2	4	100
Age (yrs)	46.2	12.1	20.0	79.0	53.1	12.8	23.0	84.0	50.5	12.24	30	90
Unearned income EUR /yr	2053	1752	0.0	8144	803	1144	0	6669	610	1409	0	11148
Distance to public transport (km)	0.49	0.39	0.1	3.0	0.45	0.47	0	3.0	1.4	1.23	1	12

## 5 Summary of results

### 5.1 Incidence of diversification

Between 1990 and 2000 the number of households which generated income from agriculture rose markedly. Over the same period, agricultural paid employment and non-agricultural paid employment fell (Table 2). This is likely to be due to households entering agriculture from agricultural and non-agricultural paid employment as a result of land reform. This is not observed in Poland due to the prevalence of private farming pre-reforms. In Poland, the frequency of off-farm paid employment has remained stable. For all three countries, there has been an increase in diversified enterprises and unearned income.

**Table 2: Percentage of farm households receiving income from different sources for the period 1990-2000**

	Poland			Czech Republic			Hungary		
	1990	1995	2000	1990	1995	2000	1990	1995	2000
Farming	98	97	96	17	59	67	30	85	92
Agricultural paid employment	2	1	2	25	12	8	33	9.0	8.2
Non-agricultural paid employment	46	49	47	29	28	25	38	32	33
Non-ag on-farm enterprise	1.8	2.6	3.8	0.9	2.8	4.7	6.0	10.0	10.0
Non-ag-off-farm enterprise	3.2	5.0	7.3	3.7	5.1	5.6	4.5	7.5	5.6
Remittances <sup>1</sup>	0	0.6	0.6	0	0	0	1.5	3.7	3.4
Unearned income- government transfers	44	65	66	26	38	43	14	28	35
Farm income supporting policies	7	14	16	3.7	14	23	32.6	43	50
Private transfers	0.3	0.6	1.2	0.5	0.9	1.8	0	2.2	2.6

<sup>1</sup> For the Czech Republic data on remittances were not collected.

Enterprise diversification has been promoted as a strategy for increasing rural employment and for this reason is analysed in detail.

Altogether the sample farms accounted for 46 diversified enterprises in Poland, 120 in the Czech Republic and 96 in Hungary (Table 3). When the definition of diversification, which excludes agricultural contracting, biomass and woodland is applied, the number of diversified enterprises decreases sharply, particularly in Hungary by nearly 45 per cent. In Poland where individual farms are the smallest the frequency of investing in a non-agricultural enterprise is the lowest.

**Table 3: Frequency of diversified enterprises and their effect on employment in individual farms, 2001**

	Poland	Czech Republic	Hungary
Number of enterprises	46	120	96
Number of enterprises excluding agricultural-based (e.g. contracting)	30	78	54
Number of full-time jobs created by enterprises	5	18	41
Number of part-time jobs created by enterprises	15	3	14
Number of jobs created by business development <sup>3</sup>	2	60	8
Number of jobs expected to be created in the next three years	3	104	9

<sup>3</sup> Business development refers to businesses created on land or buildings that were leased out or sold by an individual farm.

Diversified enterprises do not appear to be a major source of new jobs on individual farms (Table 3). In cases where family members did not take up the jobs, nearly all employees were recruited locally. For the Czech Republic, the development of businesses on land or buildings leased or sold by a farm was more important in its effect on creating jobs than diversified enterprises themselves. The expectations for the future are somewhat pessimistic; most respondents aim at maintaining operations in the same size. The expectations for employment are better in the Czech Republic where in the next three years there is an expected increase in employment on diversified enterprises of 104 employees on 55 farms. The contribution of enterprise diversification to new job generation in rural areas is currently modest and there is little evidence that this will change in the future.

When the types of diversified activity are examined for individual farms, in the Polish sample services are most important, while for the Czech sample retail is the most frequent activity (Table 4). For both these countries, however, agricultural contracting and forestry are common forms of diversification. For the Hungarian sample, agricultural contracting is the most frequent activity. It appears that adding value to raw agricultural products through processing or using the farm for tourist accommodation have not developed yet in Central Europe.

**Table 4: Frequency of different types of diversified activity in individual farms**

Area	Activity	Poland (frequency)	Czech Republic (frequency)	Hungary (frequency)
<b>Retail</b>	Registered farm shops/kiosks	4	32	17
	Other retail	5	6	6
<b>Services</b>	Agricultural contracting	10	20	28
	Construction	2	7	3
	Other services	16	16	6
<b>Production</b>	Food processing	0	9	0
	Manufacturing	1	0	3
	Other production-based	0	2	0
<b>Land-based</b>	Biomass		2	6
	Woodland/forestry	5	20	8
	Other	1	3	0
<b>Tourism</b>	Tourist accommodation	1	2	7
	Other tourist activity			2
<b>Other</b>	Other	1	1	10
<b>Total</b>		46	120	96
<b>Total (excluding agriculture-based)</b>		30	78	54

Most of the corporate farms have emerged from the former state and collective farms and were established on land and with assets of a part or a whole collective. Sometimes the new farms emerged when former collective farm members withdrew their assets and started a new corporate type of farm together. A few were established by former owners who regained their land through restitution. The frequency of diversification through the creation of enterprises has increased over the period 1990-2001 from 81 enterprises to 150 in the Czech Republic and from 30 to 45 for the sample farms in Hungary (Table 5). A greater increase occurred between 1990 and 1995 than 1995-2001. When a strict definition of diversification as activities beyond the primary production of food, fibre and fuel is applied, the frequency of diversified enterprises rose from 56 in 1990 to 102 in 2001 in the Czech Republic but stayed nearly unchanged in Hungary.

**Table 5: Frequency of diversified enterprises and their effect on employment in corporate farms, 2001<sup>1</sup>**

	Czech Republic	Hungary
Number of enterprises	150 (81)	45 (30)
Number of enterprises excluding agricultural-based such as contracting	102 (56)	19 (18)
Number of full-time jobs created by enterprise	219	137
Number of part-time jobs created by enterprise	10	0
Number of jobs expected to be created in the next three years	27	3
Number of jobs created by business development <sup>4</sup>	1,024	1

<sup>1</sup> In brackets the number of enterprises in 1990.

In the Czech Republic corporate farms operate almost three times more non-agricultural diversified enterprises per farm than households. This indicates that corporate farms are more likely to diversify through enterprise creation than agricultural households. *Corporate farm diversification is more important than individual farm diversification in creating employment.* For the Czech Republic, the development of businesses on land or buildings leased or sold by a farm is more important in its effect on creating jobs than diversified enterprises themselves.

In Hungary diversified enterprises created new jobs on only 3 farms. In total 137 full-time jobs were created. This number is largely due to one farm creating 126 full-time jobs. All these employees were recruited locally. Only one farm expects to increase employment in its diversified enterprise in the next three years, creating 3 full-time jobs. Business development occurred through the sale or lease of land and buildings on 11 farms. Only one full-time job was generated from business development. Overall, the pattern of enterprise diversification in the region follows findings on non-agricultural small rural businesses: the majority display stable patterns of employment and only a tiny minority expand significantly.

**Table 6: Frequency of different types of diversified activity in corporate farms**

Area	Activity	Czech Republic (frequency)	Hungary (frequency)
<b>Retail</b>	Registered farm shops/kiosks	15	2
	Other retail	6	2
<b>Services</b>	Agricultural contracting	46	13
	Construction	6	1
	Other services	28	2
<b>Production</b>	Food processing	11	2
	Manufacturing	7	5
	Other production-based	6	0
<b>Land-based</b>	Biomass	3	1
	Woodland/forestry	3	12
	Other	4	0
<b>Tourism</b>	Tourist accommodation	10	0
	Other tourist activity	4	0
<b>Other</b>	Other	9	5
<b>Total</b>		158	45
<b>Total (excluding agriculture-based)</b>		102	19

<sup>4</sup> Business development refers to businesses created on land or buildings which were leased out or sold by a corporate farm.

The corporate farm samples both indicated that agricultural contracting was the most frequent form of enterprise (Table 6).

### *5.2 Main characteristics differentiating diversifiers from non-diversifiers*

The results for the three countries are summarised in Table 7. Discriminant analysis indicates that in Poland the factors that distinguish all form of diversifiers from non-diversifiers are age of the head of household, general education and frequency and distance of public transport. Thus, the most important factors are related, first, to some socio-economic characteristics of the head of household, and second, to the transport infrastructure. Diversifiers have smaller farms, younger heads of household, a higher level of general education, they are closer to public transport and enjoy a more frequent public transport service than non-diversifiers.

In the Czech Republic discriminant analysis revealed that variables with sufficient power to discriminate between diversifiers and non-diversifiers were age of the head of household, general education and unearned income. Unearned income is correlated with the age of household members, as the largest portion is derived from pensions. Diversifiers tend to have low levels of unearned income, high general education, smaller farms and younger heads of household.

Variables with significant discriminating power distinguishing diversifiers from non-diversifiers in Hungary were general education, age of the head of household and distance to public transport. Diversifiers tend to have younger heads of household, the smallest farms and the most frequent and closest public transport connections.

Therefore, in general, smaller farms are not sufficient to generate enough household income and holders of such farms are keener to diversify. However, diversification also depends on the age of the head of the household and education, with lower age and higher education increasing the propensity to diversify.



**Table 7: Characteristics distinguishing diversifiers from non-diversifiers**

	Non-diversifiers	Diversifiers	Mean	F-test	Non-diversifiers	Diversifiers	Mean	F-test	Non-diversifiers	Diversifiers	Mean	F-test
	Poland				Czech Republic				Hungary			
Number of farms	121	219			52	107			82	172		
Unearned income	6.7	7.1	7.0	0.287	37.0	18.7	24.7	8.052***	0.21	0.12	0.15	3.744*
General education	5.7	7.7	7.0	36.576***	6.3	9.5	8.4	20.106***	5.7	8.2	7.4	27.001***
Agricultural education	1.1	1.3	1.2	2.948*	0.5	0.8	0.7	2.131	0.34	0.49	0.44	1.578
Age of head of household	49.8	44.2	46.2	17.328***	56.9	49.9	52.2	12.379***	55.6	48.2	50.6	21.265***
Farm area	13.1	8.3	10.0	16.792***	61.4	30.9	40.8	5.149**	54.5	46.4	49.0	0.845
Distance to public transport	0.56	0.44	0.48	7.057***	0.67	0.86	0.7	0.090	1.7	1.3	1.4	7.600***
Frequency of public transport	16.9	32.9	27.2	78.412***	52.8	61.4	58.6	1.667	15.3	17.7	16.9	4.549**

### 5.3 Factors affecting diversification

The results of the application of a multinomial logit model for all three countries are presented in Table 8. They indicate that *general education level has a positive and significant effect on diversification*. Hungary was the only case in which this did not hold for diversification through enterprise creation alone. The positive and significant effect of general education on diversification has been observed in previous studies (Huffman, 1980; Woldehanna *et al*, 2000). A higher level of education tends to extend the number of jobs for which an individual is qualified, makes an individual more employable and may increase potential wages, thereby increasing the propensity to take up employment. A higher level of education may be significant for enterprise diversifiers for several reasons. It may reduce risks in an enterprise caused by a lack of knowledge or skills; it may enable households to be more aware of potential grants and make them more capable of completing applications for any such funds.

When *agricultural education* was considered, there was considerable disparity between the countries. The Czech results showed no significant effect of agricultural education on diversified activity. Hungary had a significant negative effect on off-farm employment only. For Poland, a significant and positive effect of agricultural education was observed for households with diversified enterprises. The positive effect may be an indicator that any form of education has a positive effect when moving outside a 'known' sphere of activity. Previous studies have also had contradictory results. A significant negative effect of agricultural education was observed by Benjamin, 1994; Mishra and Goodwin, 1997. In contrast, Woldehanna *et al* (2000) found no significant effect of agricultural education on off-farm employment.

*Agricultural extension and advice had a significant negative effect on off-farm work participation* for all countries. This is consistent with the research of Mishra and Goodwin (1997) who postulated that this was the result of increased returns to agricultural labour, and, therefore, an increase in the reservation wage. In CEECs, the use of agricultural extension and advice may indicate more commercial and larger farms since it would be difficult for a subsistence producer to utilise such services. Larger, more commercial farms may be less likely to have surplus labour to be utilised in non-agricultural activity and may be more committed to farming.

*Unearned income* had a significant negative effect on off-farm employment alone and combined with diversified enterprises for Poland. For the Czech Republic the same effect was present for all forms of diversification, whereas for Hungary the effect was not statistically significant. Previous research has found a significant negative effect of unearned income on off-farm employment (Sumner, 1982; Thompson, 1985; Woldehanna *et al*, 2000). The reason is that unearned income reduces the variability in total income and, therefore, decreases income risk. An interesting point to note in light of this is that Hungary has directed most of its agricultural support towards market price support, Poland has directed most towards the agricultural pension scheme (KRUS), while Czech Republic has split up the funds between credit and market support. The difference in effect of unearned income may be due to lower income risk for agricultural producers in Hungary compared to the other two countries, thus, unearned income plays a less important role in reducing income volatility.

*Specialisation of agricultural activity has a significant negative effect* for all three countries, however, there were country variations depending on the forms of diversification. The degree of specialisation of agricultural activity was measured by the proportion of farm area under grains. For Hungary the negative effect was significant for off-farm enterprises only, for the Czech Republic for diversified enterprises alone and in combination with off-farm employment, while for Poland the effect was on off-farm employment, both alone and in combination with diversified enterprises. A lower proportion of grain area indicates a certain level of diversification in agricultural production (mixed farming). This may show a strategy to diversify risk which could be extended to diversification of income sources. It is feasible that off-farm employment is a preferable method of doing so due to the provision of a less variable income in comparison to a diversified enterprise. Having both off-farm employment and a diversified enterprise indicates a desire to diversify income further. In the case of the Czech Republic, where a negative correlation was present between the proportion of farm area under grains and diversified enterprises rather than off-farm employment (which is different from the other countries), this may be attributed to the main forms of agricultural support being market regulation and credit subsidies. Credit support may make starting a diversified enterprise more feasible as a means to diversify risk. This is corroborated by a greater frequency of diversified enterprises in Czech Republic than either Poland or Hungary.

Availability of public transport is one of the conditions for farm diversification. The effect of transport frequency was insignificant for the Czech Republic. In Hungary it showed a positive and significant effect on off-farm employment. For Poland the effect was positive and significant for all forms of diversification. This variation may be due to the number of households with private cars, and therefore, the number not reliant on public transport. In the Hungarian sample 85 per cent of households own a private car, in Poland 65 per cent. Unfortunately, this information was not available for the Czech sample.

Distance to public transport was exerting a significant negative effect for Hungarian and Polish households engaged in off-farm employment alone and combined with diversified enterprises. For the Czech sample distance to public transport was insignificant for all cases. Distance to public transport is an indicator of remoteness of a household. The lack of significance for the Czech sample may indicate a higher density of public transport in rural areas.

**Table 8: Summary of the factors affecting diversification decision**

	<b>Poland</b>	<b>Czech Republic</b>	<b>Hungary</b>
<b>General education</b>	Significant and positive for all forms of diversification	Significant and positive for all forms of diversification	Significant and positive for off-farm employment alone and in combination with diversified enterprises
<b>Agricultural education</b>	Significant and positive for diversified enterprises	Insignificant	Significant and negative for off-farm employment
<b>Use of agricultural advice and extension</b>	Significant and negative for off-farm employment	Significant and negative for off-farm employment	Significant and negative for off-farm employment
<b>Unearned income</b>	Significant and negative for off-farm employment alone and in combination with diversified enterprises	Significant and negative for all forms of diversification	Insignificant
<b>Proportion of farm area under grains (specialisation)</b>	Significant and negative for off-farm employment alone and in combination with diversified enterprises	Significant and negative for diversified enterprises alone and in combination with off-farm employment	Significant and negative for off-farm employment
<b>Frequency of public transport</b>	Significant and positive for all forms of diversification	Insignificant	Insignificant
<b>Distance to public transport</b>	Significant and negative for off-farm employment alone and in combination with diversified enterprises	Insignificant	Significant and negative for off-farm employment alone and in combination with diversified enterprises

#### 5.4 Impediments to diversification

Analysis of reasons given for not pursuing enterprise diversification, indicated that a desire to focus on farming was an important factor for 78 per cent of the Polish sub-sample of non-diversifiers, 79 per cent of the Czech sub-sample and 61 per cent of the Hungarian sub-sample. A lack of capital or credit was important for 60 per cent, 67 per cent and 93 per cent of the Polish, Czech and Hungarian sub-samples, respectively. Insufficient knowledge and skills were important for 38 per cent of the Polish sub-sample and 61 per cent of the Hungarian sample (Table 9). They were not important for the Czech sub-sample. Locational characteristics were also important, as remoteness increases the costs to reach customers and to provide inputs. Where preference for agriculture is inhibiting enterprise creation, policy is limited in its ability to influence diversified activity. A lack of capital may be overcome as a barrier by the provision of seed-money to start-up non-agricultural enterprises or the facilitation of access to credit in rural areas. Insufficient knowledge and skills may be helped by providing training and improving education in rural areas.

**Table 9: Summary of the impediments to enterprise diversification of household farms (%)<sup>1</sup>**

	Poland	Czech Republic	Hungary
Concentration on farming	78	79	61
Lack of capital or credit	60	67	93
Insufficient knowledge or skills	38	0	61
Remoteness	22	61	45

<sup>1</sup> The percentages were calculated by expressing the share of non-diversifiers that rated a particular impediment as important.

Reasons for not taking up off-farm employment were varied across the countries studied (Table 10). For the Polish sub-sample high regional unemployment was cited by the majority. This impediment was less important for the other countries. For all three countries, those with the smallest farms were most likely to indicate insufficient knowledge and skills to be important. Improving rural education and providing courses may help to overcome this impediment. However, for Poland and Hungary, those indicating that they have insufficient knowledge and skills were also more likely to identify high regional unemployment as an important impediment. Thus, without an improvement in the overall economic situation, the fruits of raising educational levels in rural areas may be limited.

**Table 10: Summary of the impediments to off-farm employment <sup>1</sup> (%)**

	Poland	Czech Republic	Hungary
Concentration on farming	50	50	73
Insufficient knowledge or skills	50	19	44
High regional unemployment	100	31	44
Insufficient public transport	9	0	44

<sup>1</sup> The percentages were calculated by including all members of the clusters where the mean rating of an impediment indicated importance.

#### 5.5 Policy effects

The effects of agricultural policy on diversified activity varied between the three countries. For Poland, output price guarantees and direct payments for agricultural production were the most important policies in reducing motivation to diversify. The importance given to price support policies indicates that the nature of agricultural policies extended to the applicant states will impact on the magnitude of

diversification. The Czech sample similarly suggests that diversification may be motivated by a desire to increase total household income. Thus, a fall in agricultural incomes due to switch in support instruments to environmental or rural development would increase the propensity to diversify. However, for Hungary the impact of agricultural policy on the likelihood of diversification was less pronounced. In considering possible proactive policies to stimulate enterprise diversification, *for all the countries farmers considered the most important to be financial measures*, the most central being the provision of seed-money for enterprise start-up, with loan guarantees and interest rate subsidies being almost as important.

## 6 Conclusions

A minority of farm households in each of the three countries has pursued enterprise diversification, although diversified enterprises are more prevalent in the Czech Republic than Hungary or Poland. In each country job generation from enterprise diversification has been modest and most utilise family labour. Where non-family labour has been employed it is almost exclusively recruited locally. This mirrors findings on agricultural diversification in existing member states (Shucksmith *et al.* 1989). Thus, diversified enterprises on individual farms do not create many jobs, but *if diversified enterprises could be encouraged, they would have some positive impact on local employment*. Corporate farm diversified enterprises in the Czech Republic were more important in creating jobs than individual farms although much of this activity revolves around agricultural contracting.

Results from the multinomial logit models indicated that diversification (enterprises and/or off-farm employment) may be encouraged by improving levels of general education in rural areas for all three countries. Increasing rural public transport density will aid diversification in Poland and Hungary.

Analysis of the impediments to diversification highlighted the importance of lack of capital and credit in restricting diversification by enterprise creation. This could be overcome by the provision of seed-money for business start-up and other financial initiatives such as loan guarantees and increased availability of low cost finance. Agricultural policy appears to have a neutral effect in Hungary, but for Poland agricultural price support appears to be important. Policies that increase agricultural price support lower the propensity to diversify and *vice versa*. The nature of the agricultural policy afforded to the applicant states on membership will impact on patterns of diversification. Such agricultural policies may be in conflict with the objectives of SAPARD to encourage rural diversification. In looking at farms which wish to diversify but have not pursued diversification, high regional unemployment appears to be an impediment. Encouraging enterprise diversification by farmers in itself is unlikely to generate significant new jobs and solve problems of high rural unemployment. This leads to the question of whether farmers can be the drivers of structural change in rural areas? At present there is little evidence that farmers will serve as drivers and there is a need to reassess the contribution of farms to wider rural development objectives.



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## **Appendix 1**

### **Variables used in the analysis**

1. General education was coded according to highest level attained: 1 represented no education, 2 primary, 3 high school without graduation, 4 high school (completed) and 5 university. This was then totalled for household or management team members for corporate farms including all members who were over 16 and had completed their education.
2. Agricultural education was coded with 0 for none, 1 for agricultural high school and 2 for agricultural university. As for general education, this was totalled for all household or management team members for corporate farms.
3. Years of managerial experience. This was the total years of experience of the management team for corporate farms. It was a continuous variable.
4. Use of agricultural extension and advice was a dummy variable coded 1 for use and 0 for no use.
5. Use of accountancy advice was a dummy variable coded 1 for use and 0 for no use.
6. Unearned income was the amount of unearned income gained annually divided by 1000 (for Hungary it was divided by 100000 due to the low value of 1 HFT). The division was necessary as the figure of unearned income was very large in proportion to the others providing an almost infinitesimal coefficient under multinomial analysis. It was a continuous variable.
7. Frequency of public transport was the number of times public transport visited the closest stop per day. It was a continuous variable.
8. Distance to public transport was the distance in kilometres between the household or corporate farm and the nearest public transport stop. It was a continuous variable.
9. Farm area was the total utilised agricultural area in hectares. It was a continuous variable.
10. The proportion of farm area under grains. It was a continuous variable with a maximum value of 1. This was taken as a proxy for the degree of specialisation. Grains were used for this purpose since they carried the greatest number of observations compared with other crops.
11. Number of owners was the number of owners of a corporate farm. It was a continuous variable. .
12. The percentage of members or shareholders providing labour was the percentage of shareholders or members of a corporate farm who provided any labour to it. It was a continuous variable with a maximum value of 100.
13. Age of head of household in years. It was a continuous variable.
14. The time allocated to farm work was the average time in hours devoted by the head of household to farm work per week over a year. It was a continuous variable. Values greater than 100 were excluded from analysis since there are only 168 hours per week and some time must be devoted to sleep, eating etc.



## **Household determinants of access to rural non-farm employment in the Balkans**

within the framework of  
EC-PHARE ACE Project No. P98-1090-R / EU Accession in the  
Balkans: Policy Options for Diversification in the Rural Economy

by  
Judith Knüpfer & Gertrud Buchenrieder  
University of Hohenheim, Germany

## Definition of household types

### Type I

#### Household, which abandoned farming

= abandoned farming during past 10 years,  
all household members work off-farm or receive non-earned income

### Type II

#### Full-time farm household

= all household members work on-farm

### Type III

#### Part-time farm household with wage-employment

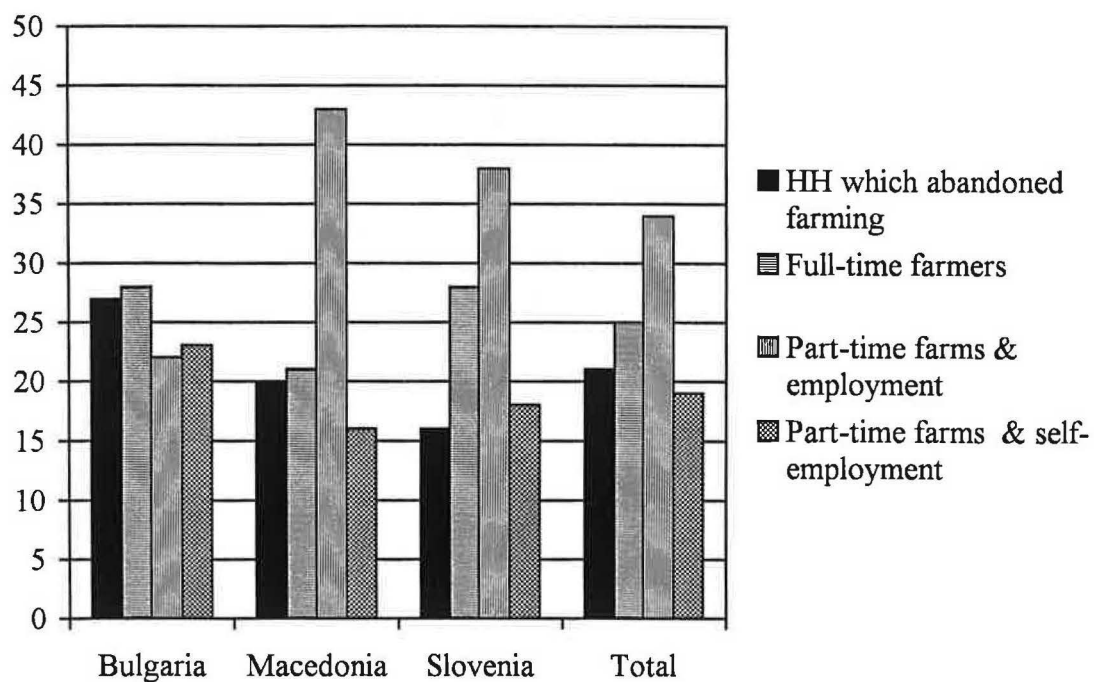
= at least one household member is in a wage-employment

### Type IV

#### Part-time farm household with self-employment

= at least one household member is self-employment

## Type of households in the sample, in percent



Note: In each country, 120 households were part of the survey in the fall of 2001.

## Farm characteristics, average cultivated area

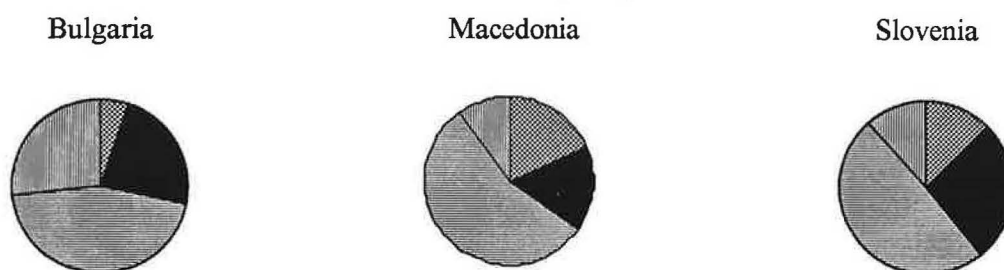
	Type I	Type II	Type III	Type IV	Total
<b><i>Bulgaria (N=120)</i></b>	(N=32)	(N=34)	(N=26)	(N=28)	
Farm size	0.5	3.7	1.2	4.3	3.0
Arable land (ha)	...	...	...	...	4.3
Pasture (ha)	...	...	...	...	...
Orchards (ha)	0.1	0.7	1.1	5.4	2.1
Forest (ha)	...	...	...	...	...
<b><i>Macedonia (N=120)</i></b>	(N=24)	(N=25)	(N=51)	(N=20)	
Farm size	0.7	2.9	2.8	3.2	2.8
Arable land (ha)	...	2.3	2.3	2.7	2.4
Pasture (ha)	0.7	0.5	0.5	0.7	0.6
Orchards (ha)	...	0.5	0.4	0.4	0.4
Forest (ha)	...	...	...	...	...
<b><i>Slovenia (N=120)</i></b>	(N=20)	(N=32)	(N=46)	(N=22)	
Farm size	2.3	18.0	9.9	13.3	11.8
Arable land (ha)	1.7	12.7	4.5	9.0	7.3
Pasture (ha)	3.3	7.2	7.2	5.3	6.6
Orchards (ha)	0.2	0.8	0.2	2.1	0.8
Forest (ha)	4.3	9.0	9.9	7.5	8.3

## Household structure

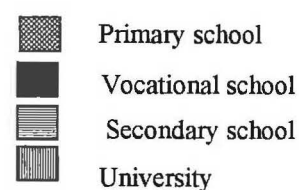
	Type I	Type II	Type III	Type IV	Total
<b><i>Bulgaria</i></b>	(N=32)	(N=34)	(N=26)	(N=28)	(N=120)
Average family size	4.2	3.3	3.7	4.2	3.8
Dependency ratio	0.58	0.43	0.40	0.52	0.49
<b><i>Macedonia</i></b>	(N=24)	(N=25)	(N=51)	(N=20)	(N=120)
Average family size	4.2	4.0	4.5	4.8	4.4
Dependency ratio	0.40	0.49	0.41	0.50	0.44
<b><i>Slovenia</i></b>	(N=20)	(N=32)	(N=46)	(N=22)	(N=120)
Average family size	3.9	4.0	5.0	5.7	4.7
Dependency ratio	0.54	0.55	0.61	0.64	0.59

- Households in Bulgaria, on average the smallest
- Household size largest in Slovenia, but least number of dependent members
- Part-time farms in Slovenia have comparatively large families

## Highest level of education in a household, in percent of households

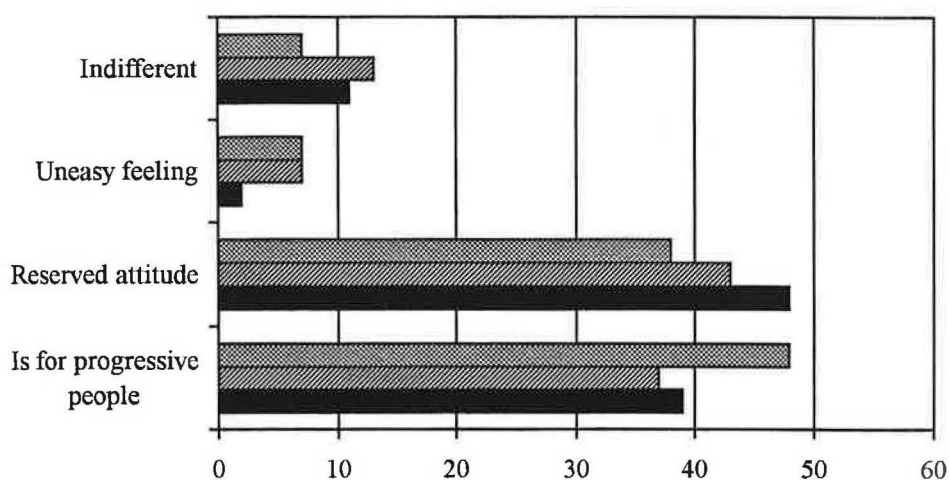


Source: EC-PHARE ACE Project No. P98-1090-R - EU Accession in the Balkans: Policy Options for Diversification in the Rural Economy.



- Bulgaria dominates in educational level, highest share of university graduates
- Slovenia is strong in vocational training but share of less educated household members is also quite high
- Macedonia shows highest level of least educated household members

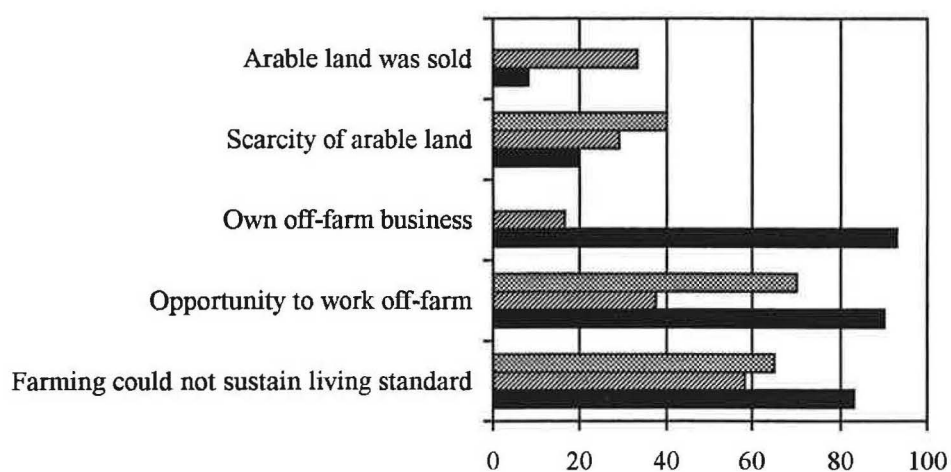
## Household heads attitudes towards agriculture, % of total



Note:  Slovenia  Macedonia  Bulgaria

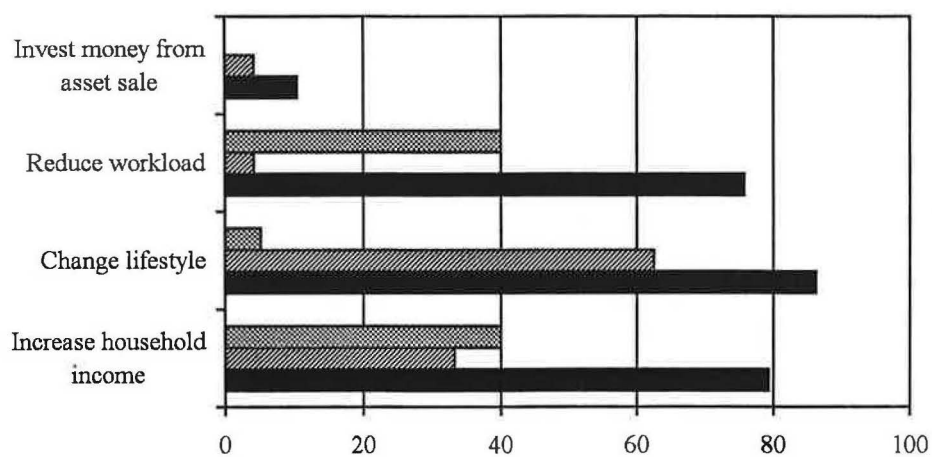


### True reasons for abandoning agriculture, in % of this type of household



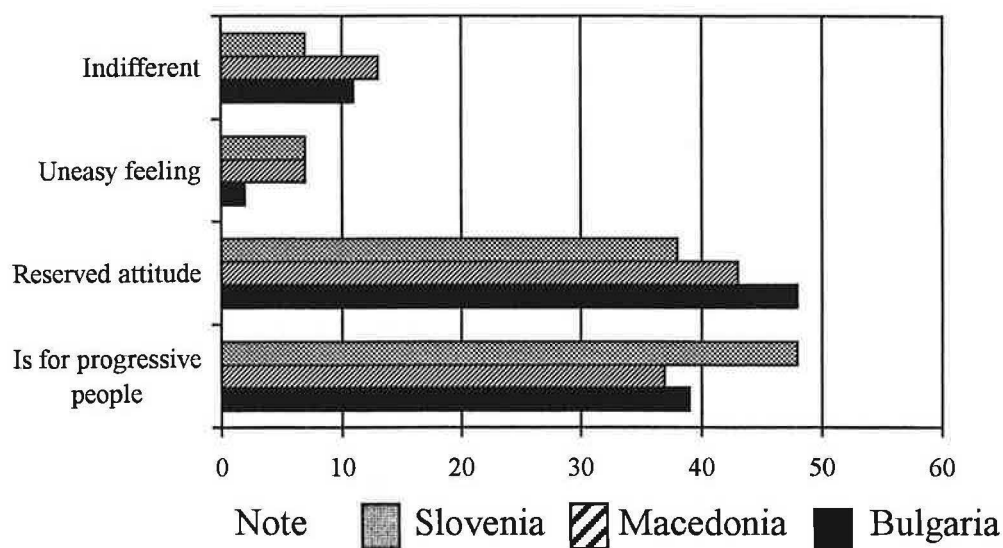
Note  Slovenia  Macedonia  Bulgaria

### True objectives for abandoning agriculture, in % of this type of household

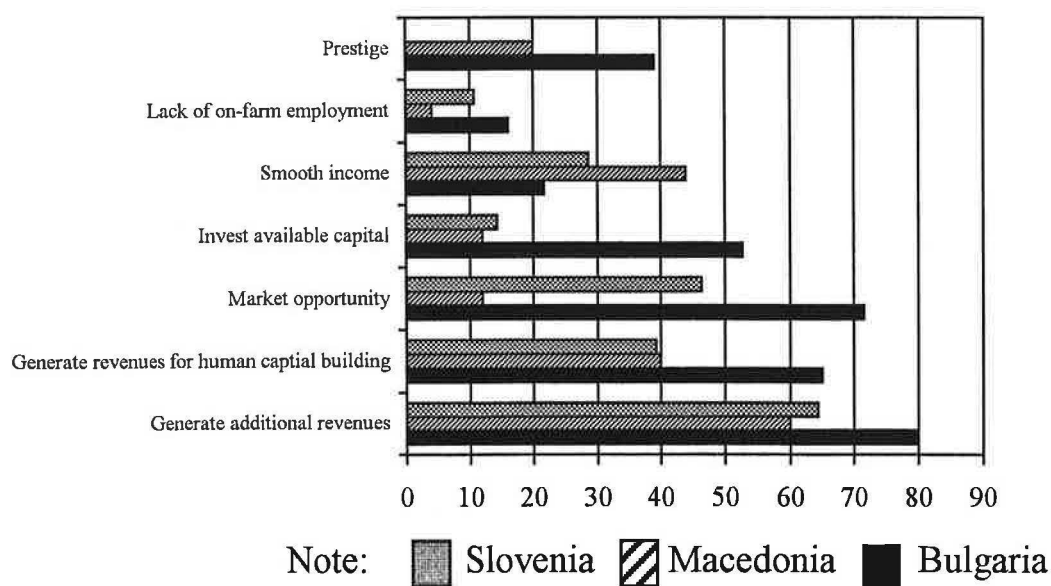


Note  Slovenia  Macedonia  Bulgaria

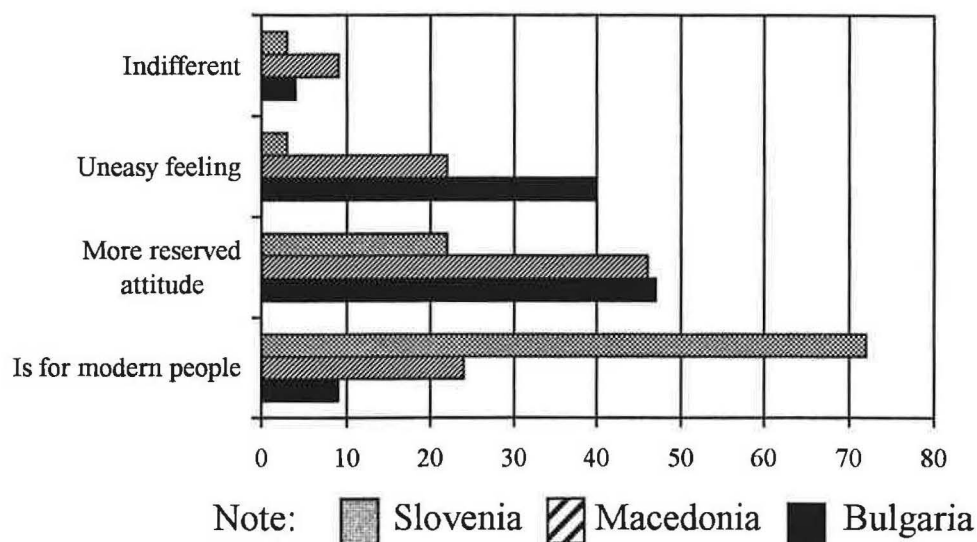
### Household heads attitudes towards self-employment, % of total



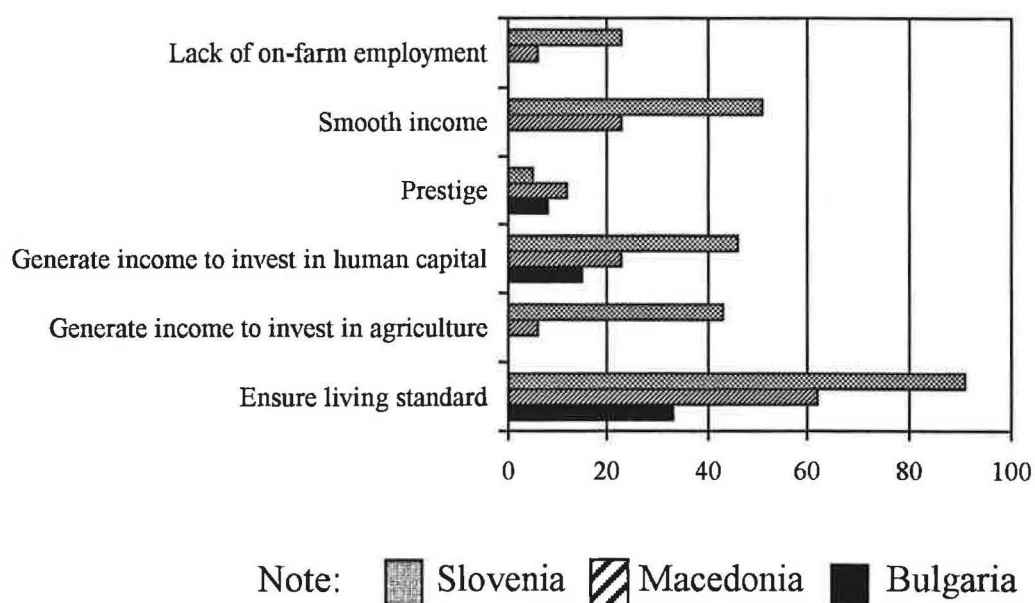
### Household heads' true reasons for diversification through self-employment, % of all households except full-time farms



### Household heads attitudes towards wage-employment, % of total



### Household heads' true reasons for diversification through wage-employment, % of all households with wage-employment



## Econometric analysis

### Factors for diversification in rural economy





**Multi-nominal  
logit analysis**

$$\left\{ \begin{array}{l} 1 - \text{HH, which abandoned farming} \\ 2 - \text{Full-time farm HH} \\ 3 - \text{HH with self-employment} \\ 4 - \text{HH with wage-employment} \end{array} \right\} = f(\text{explanatory variables})$$

### Factors for diversification in wage- or self-employment

**Dual-dependent  
variable analysis**

$$\left\{ \begin{array}{l} \left( \begin{array}{cc} 0 & 1 \end{array} \right) \text{ Wage-employment} = 1 \text{ (yes)} \\ \left( \begin{array}{cc} 0 & 0 \end{array} \right) \text{ Self-employment} = 0 \text{ (no)} \end{array} \right\} = f(\text{explanatory variables})$$

-  Primary
-  Vocational
-  Secondary
-  Universi

# **The Rural Non-Agricultural Economy in Transition Countries: Findings from Armenia**

**Dirk Bezemer and Junior Davis**

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Policy Research Initiative**

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# The Rural Non-Agricultural Economy in Transition Countries: Findings from Armenia\*

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## 1. Introduction

There has been an increasing recognition recently that the rural economy is not confined to the agricultural sector, but embraces all the people, economic activities, infrastructure and natural resources in rural areas (Barrett *et al*, 2001; World Bank, 2000; Reardon, 1999, Reindert, 1998). Since the 1970s, a large number of studies have investigated the role of non-agricultural economic activities for rural development. There is evidence that economic diversity in the countryside has the potential to foster local economic growth and alleviate the rural-urban income gap and rural poverty.

These findings are relevant to the post-socialist transition countries, where typically a large part of the population lives in rural areas, and economic growth and the reduction of poverty are significant challenges. This is particularly true for those transition countries that are outside Central Europe. Analysis of the transition process in general and of transition in the agricultural sector has generated a large literature, but less has been specifically devoted to the wider non-farm rural economy. However, studies in this field are now being undertaken, since it is recognised that in the longer term the development of the rural non-farm sector is a critical factor in providing rural employment and income (Bleahu and Janowski, 2001; Breischopf and Schreider, 1999; Deichmann and Henderson (2000); Chaplin, 2000; Sarris *et al*, 1999).

The OECD (1996) classifies predominantly rural areas as those where more than 50 per cent of the population live in rural communities, and significantly rural areas as those where between 15 and 50 per cent live in rural communities. There are two dimensions on which to define the rural non-agricultural economy (RNAE): activities and incomes. The RNAE is often defined as including all economic activities in rural areas except agriculture, livestock, hunting and fishing (Lanjouw and Lanjouw, 1997). That is, all earnings and economic

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activities, either waged or self-employed, that are located in rural areas but are not in agriculture<sup>1</sup>. These might include agro-processing, the setting up of a small business, or the receipt of transfer payments such as pensions, interest, dividends or remittances from temporary, seasonal, or permanent migration.

A key term in the RNAE literature related to 'income' is that of *livelihood*. The concept of livelihood used in this paper is that given by Ellis (1998, p. 6):

*'A livelihood comprises incomes in cash and in kind; the social relations and institutions that facilitate or constrain individual or family standards of living; and access to social and public services that contribute to the well-being of the individual or family.'*

Rural livelihoods thus include income from both farm and non-farm sources. The rural non-farm economy (RNAE) may be defined as being all those activities associated with waged work or self-employment in income generating activities (including income in-kind) that are not agricultural but located in rural areas. This definition is not solely activity based (waged work or self-employment), as it also includes non-earned income as well as the rural institutional framework (roads, schools, hospitals etc.), which are an integral part of the rural economy.

## **2. Lessons from Developing and Developed Countries**

Experience in both developing and developed countries can help inform policy for the RNAE in transition economies.

Rural households in developing countries typically obtain 30-45 per cent of their total rural income from non-agricultural sources. The average figures differ by region and range from 29 per cent in south Asia to 45 per cent in Eastern and Southern Africa (Reardon *et al.*, 1998). The nature of the links between the farm and non-farm sectors and the performance of agriculture influence the growth of the RNAE. With increasing diversification, the links to agriculture tend to decrease. In many developing countries, the seasonal character of the RNAE is inclined to decrease with increased diversification and to show a trend towards more stability.

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<sup>1</sup> The abbreviation 'RNAE' is here used instead of the more conventional 'RNFE', for rural non-farm economy. Although in common usage, this term is factually incorrect and confusing. The purpose of the term is to indicate non-agricultural activities in rural areas. However, these may (and often do) actually take place in farms. Non-farm activities exclude a large part of the rural on-agricultural economy.

Recent research (e.g. Barrett and Reardon, 2000, Breitschopf and Schreider, 1999; Davis and Pearce, 2000 Deiniger and Olinde, 2001; Piesse and Thirtle, 2001) has shown a positive correlation between a higher diversification of non-farm activities and incomes and:

- Higher productivity in agricultural activities;
- A higher income level of rural families;
- Income equality
- The level of education;
- Quality of and access to infrastructure;
- Quality, objectives and organisation of services;
- Opportunities created through local, regional and national government policies; and
- Access to credit and financial services.

These benefits are not always fully captured by the rural population. Direct entry barriers to activities with high returns to labour in developing countries are licence fees, the purchase or rental of equipment, and skill acquisition. As a result, although low-asset households may spend much time in off-farm activities, these will only be low wage. In contrast, high-asset households may be able to earn higher returns (Reardon *et al.*, 1998). Thus, growth of the RNAE does not always decrease income inequality and help alleviate poverty. Hazell (1998) states that one reason why the RNAE should be actively encouraged is because, when agriculture grows, the RNAE benefits from powerful income and employment multipliers. In many developing countries, discrimination against small rural non-farm firms constrains the effects of these multipliers.

Studies on the RNAE in developing countries suggest that this can be promoted through: increasing the asset holdings of the poor in the rural community, both in terms of education and infrastructure; removing land market constraints; improving access to credit for non-farm activities; and disassociating the inequality problems of the farm and non-farm sectors (Reardon *et al.*, 2000). Many of these policies are also applicable to development of the rural non-farm economy in transition economies. Bleahu and Janowski (2001) point to the effect of religion and a variety of cultural factors on involvement in the Romanian RNAE. For example, there may be activities which are seen as desirable for certain ethnic groups or classes and, in many developing economies, gender influences the roles taken in the community.

Also analysis of the rural regions of the EU can point to issues of importance for the transition economies. There is a great diversity among rural regions in the EU and both endogenous and exogenous factors affect rural employment growth. Endogenous factors are

local impulses and local resources; exogenous factors are those which externally determine the transplantation of employment into the region (Von Meyer *et al.*, 1999). As agriculture contracts, the tendency in the regional economy is for specialisation to decrease and diversification to increase, but some EU regions were able to increase specialisation – for example, by focusing on tourism or on speciality agricultural products. Therefore, policies need to be in line with the individual strengths and weaknesses of a region, and research is essential to reveal these (Von Meyer *et al.*, 1999). A multi-sectoral approach must be taken to rural employment creation, rather than one just including agriculture, agro-food and tourism, and local and regional actors and agencies should be involved (Christensen and Lacroix, 1997; Von Meyer *et al.*, 1999).

Other policy lessons from the EU for improving rural employment opportunities are that infrastructure should be improved to make rural areas attractive to business and for living; governments should try to improve the general conditions in rural areas and not target particular enterprises; and resources should be directed to regions with potential for growth due to their location, comparative advantage, or other reason, but which suffer from poor physical infrastructure, a poorly trained labour force or lack of processing and marketing facilities (Christensen and Lacroix, 1997).

Brydon and Bollman (2000) found that in many OECD countries the fall in agricultural labour has been compensated for by increased employment in services – particularly in tourism and recreation and, in some cases, manufacturing. There is also an increase in opportunities due to digital communications, but little evidence to date on the uptake of these new technologies by rural actors in production. Changes in the rural labour market are related to changes in the urban labour market, such as the shift to part-time and casual work, and feminisation. However, there can be a large variation in economic performance among rural areas and the authors recommend a cross-disciplinary approach to further research.

### **3. Rural Poverty and the RNAE in Post-socialist Countries**

A large share of the Balkans and CIS populations live in persistent poverty (the share depending on varying definitions of poverty). Using an expenditure measure, 10 per cent of the population were persistently in extreme poverty in 1998, implying malnutrition. These poverty problems have started to be addressed (with varying degrees of success) in some economically advanced CEECs such as the Czech and Slovak Republics, Poland, Hungary, and Slovenia, but hardly in the Balkans and CIS (Milanovic, 1998).

The RNAE has a role to play in poverty reduction during two stages of the transition process. In the first stage of impoverishment and economic decline, it acts as a “defensive”

survival strategy for the rural poor. Most Balkan and CIS nations are still in this stage. For instance, limited off-farm earning opportunities are given as one of the main reasons for stagnant rural incomes in Georgia (FAO, 2000b), together with the scarcity of rural credit, poor market access for domestic products, unequal access to inputs complementary to labour, and barriers to land consolidation. In countries such as Romania, where agriculture is acting as a buffer against unemployment and hidden unemployment is widespread and increasing (Davis and Pearce, 2000), development of the RNAE is vital, and the Romanian government is aware that in order to improve the motivation of people to seek rural non-farm employment, the quality of life in rural communities needs to be improved with better education and infrastructure (Turnock, 1998c).

In the Central European countries, the second stage of economic growth and development has started. Many well-educated people are moving out of agriculture to seek higher incomes elsewhere. Rural areas are left with proportionally more elderly people. Gradually there is consolidation of farms. Large farms contract, and fragmented small farms are being amalgamated into larger, more viable units, with more mechanisation. Both these developments are expected to result in the shedding of excess agricultural labour (FAO, 1999; Csaki and Lerman, 2000).

The promotion of rural non-farm enterprises is seen as having the potential to absorb this excess farm labour, stimulate rural development and overcome rural poverty (Christensen and Lacroix, 1997). One could envisage jobs supporting this process – repairing machines, developing and maintaining rural roads and other infrastructure, local food processing (e.g., cheese-making, wine production and the like), providing rural services (accounting, banking, distribution, teaching, etc.). Due to a lack of data it is difficult to measure the rate of growth of these activities (Davis and Pearce, 2000). Remittances form part of rural income and are of importance in some of the transition economies, such as (Pearce and Davis, 2000). By contrast, in a Ukrainian survey (Lerman and Csaki, 2000), remittances from abroad were found to be negligible. Clearly, during the early post-socialist recession period, most of the non-farm activities were lowly paid, labour intensive and or/ basically survival strategies. This remains the case for many CIS and Balkan states.

#### **4. The Size and Growth of the RNAE in Post-Socialist Countries**

It is difficult to obtain evidence on income shares from non-farm sources, firstly because non-farm income is not recorded in the statistics of most countries in the region, and secondly due to the unwillingness of survey respondents to provide information on their incomes. However, there is growing evidence that rural households in the CEECs may obtain 30 to 50 per cent of their income from non-farm sources (Davis and Gaburici, 1999; Greif, 1997). For example, in

Poland, agriculture is the main source of income for only 29 per cent of village households, whereas non-agricultural income is the main source for 30 per cent of village households (Christensen and Lacroix, 1997). In Ukraine, 76 per cent of the income of private farmers' families is from agriculture, while 16 per cent is from off-farm sources and 8 per cent from business (Lerman and Csaki, 2000). Thus it is likely that the non-farm sector is generally significant in the CEECs than CIS, and also possible that income from the non-farm sector is underestimated. Some observations may place these figures in perspective.

First, these percentages, though larger than many would expect, are in fact not high compared to the Western world. In the USA for instance, about 75 per cent of farms are small (annual gross sales less than \$50,000). In these businesses farming is a loss making activity, and the main source of income is non-agricultural. For medium (annual gross sales between \$50,000 and \$250,000), large (\$250,000 to \$500,000) and very large (over \$500,000) farms, non-agricultural income is still close to 70 per cent, 40 per cent and 20 per cent, respectively (Edelman, 1997). In the European Union, farmers derive typically only between one half and two-thirds from agricultural production (Eurostat 2000, 63). These figure are substantial and do not yet take into account non-farm enterprises.

Second, although there are reasons to expect the share of the NFRE to rise further, it is not a foregone conclusion that this convergence to Western figures signifies progress towards the Western economic model. The underlying forces differ dramatically. In Western countries the rise of the RNAE occurred during a period of increasing affluence and presently seems sustained by the declining importance of agriculture, in combination with rural (as well as originally urban) people's wish to live in the countryside. In transition countries the RNAE has grown during the post-socialist transformational recession and seems stimulated by a combination of the decline of agriculture and lower income levels.

Third, and related, although the RNAE may offer a wider range of livelihood options to the rural populations in transition countries, it does not thereby signify healthy economic development. Economic development has traditionally been associated with specialisation of labour and increases in labour productivity. In the transition countries, especially in the Balkan and CIS, there has generally been a de-specialisation of labour. The farming population is (or may be) diversifying from food production into non-food production, which boosts the RNAE. At the same time, urban household diversify from non-food production (e.g. Bezemer, forthcoming; Caskie, 2000; To Seeth et al, 1998). These joint developments could also be interpreted as a general trend amongst the poorest transition countries, where the specialisation of labour in the socialist system, under the pressure of increasing poverty, is being replaced by diversification as a subsistence (survival) strategy. This is primitivization, not development of the economic system. Although this interpretation is open to question, the

opposite view, where the RNAE is seen as part of a growth resumption after the transitional recession, is likewise questionable.

Fourth, even if the size or importance of the RNAE increased recently, this does not imply that there is now more, or more diverse, economic activity in post-socialist rural areas than prior to the reforms. One social objective of socialism was to transcend differences between towns and the countryside. In this policy framework, industrial employment in rural areas was created, either by locating industrial concerns in rural areas (e.g. agro-industrial complexes in Bulgaria) or by encouraging agricultural co-operatives to diversify into non-agricultural activities (e.g. computer hardware manufacturing co-operative “firms” in the Czech Republic). The former strategy was most common in Central European and Balkan countries that were pre-industrial before the central planning era, e.g. Albania, Slovakia, Bulgaria, Romania and most of the CIS. However, the development of non-agricultural businesses with agricultural co-operatives was also practised there - around 88 per cent of Slovak agricultural co-operatives were engaged in non-agricultural activities as compared to 78 per cent in the Czech Republic, and 58 per cent in Poland by the 1980s (Swain, 1999). Rural non-farm employment existed during socialism on a larger scale than in Western Europe. Much of that activity was reduced or disappeared during the transformational recession. What RNAE is now observed may well comprise people, assets, and activities that were traditionally owned or managed by socialist farms and other rural firms. To the extent that this mechanism is at work, the emergence of the RNAE in post-socialist countries is in fact a re-emergence.

## **5. The RNAE in Armenia: Background Information**

Armenia is the smallest former Soviet Republics outside the Baltics. It is a mountainous country located in the Trans-Caucasus, bordering on Turkey, Georgia, Azerbaijan, and Iran. Its population is 3.7 million, with another 5 million Armenians living outside the state territory.

In the Soviet era, Armenia was an industrialised country with a large rural population, a combination it had in common with many socialised countries. In 1990, the last year before its independence and reforms, industry employed 20 % of the labour force, contributed 33 % to value added, and 45 % to gross output. Agriculture employed 13 % of the labour force, contributed 17% to value added, and 13 % to gross output. About 20 % of the population was counted as rural.

Following its independence, the reforms in 1991-1992 comprised privatisation of many productive resources and organisations, a large degree of liberalisation of trade and prices, and decentralisation of economic decision-making. Importantly for the rural economy,



Armenia was one of the very few among the former Soviet Republics to privatise agriculture effectively and swiftly during 1991-1992: the overwhelming majority of agricultural land and output is now in small family or peasant farms (Lerman and Mirzakhian, 2001).

The reforms caused a severe economic contraction, followed by a resumption of growth. In 1993, GDP had declined to 43 % of its 1990 level, and subsequently climbed to 62 % in 1998. In addition to the shock of system change, violence and natural disaster contributed to a sharp decrease in welfare. In 1990-1994, Armenia was involved in a territorial war, absorbed a large inflow of refugees, and experienced an earthquake affecting 40 % of its territory and a third of its population. In 1997 a severe drought followed. *Per capita* levels of income sank during the initial economic decline from USD 1,590 in 1990 to USD 169 in 1994. Also the composition of income changed. In 1991, salaries made up for 55 % of incomes. This decreased to 25 % in 1994. Salaries were replaced by income sources such as humanitarian aid, remittances, and in-kind income. The dietary quality deteriorated: food consumption declined from 2,181 kcalories in 1992 to 1,599 calories on average in 1994, and 97 % of the population was in so-called 'absolute poverty' in 1994, with a daily *per capita* income of less than 1 USD. In 1999, the situation had slightly improved again, with the poor accounting for 55 % of the population, the 'very poor' for 28 %, and the 'extremely poor' for 10 %. Poverty is concentrated in the cities and among landless rural residents (Ministry, 2000). Since 1993, 500,000 Armenians have emigrated.

Contemporary data on the Armenian rural economy as a whole were, to the best of the author's knowledge, not available at the time of writing. However, in 1998 a large survey of farm households was implemented, sponsored by the World Bank. The survey covered 75 villages and 7,000 people in 1,500 households, which is .5 % of all Armenian farm households. The following information is based on these survey findings, summarised in Lerman and Mirzakhian (2001).

The demographic profile of rural Armenia is 35 % children and youth below 18 years of age, 50 % of adults between 18 and 59 years of age, and 15 % of people older than 60. Education levels, inherited from the Soviet system, are high, with 75 % of men and 45 % of women having secondary or higher education.

Agricultural underemployment is widespread, but this does not imply a vibrant non-farm economy: 50 % of adults do not work full-time on the farm, but only 20 % have off-farm incomes, either as salaries or in self-employment. Non-farm income accounts for 72 % of cash income and half of total income. The main sources are salaries (40 %) and pensions (23 %). Remittances from abroad are also quite important (18 %). Cash savings are held by only 10 % of respondents, but never in a bank. Only a tenth of respondents saved money in the month prior to the survey.

Rural market development appears very limited, if information provided by farm families is taken as indicative. Land holdings are small, and trade in land is absent. Most (56 %) of farm output is consumed by the farm household, or bartered (5 %). Produce that is traded (25%) is usually sold to individuals rather than to enterprises. Also inputs are almost always bought from private individuals. Food processing occurs on 60 % of farms, rather than in separate, commercial enterprises. Credit from banks or credit associations is virtually unheard of, although two-thirds of respondents had outstanding, usually small, amounts of debt. The source of this borrowing is most often family and friends, who lend against zero or low interest rates and small, usually liquid collateral if at all.

Unsurprising in view of Armenia's recent history, about 45 % of respondents report they have experienced a serious economic crisis that has endangered the well-being of their family. Rural poverty, even among food producing households, is apparent in the survey. Nearly 40 % of respondents report that their family's diet is poor. Nearly two-thirds eat no meat at all, nearly half have two meals a day, and 28 % skipped meals weekly or daily during the four months preceding the survey. The pattern of these responses is replicated in reported incomes, with an average *per capita* income of USD 1,200 for those reporting a good diet and USD 600 for those reporting poor diet. In these data there is a sharp dichotomy between a small group of better-off respondents and the poorer majority; and the same is true for reported housing quality, especially in the former earthquake zone.

In consequence, 65 % of respondents complain that they have not enough money for food and basic necessities, and 25 % have just enough. In comparison, over half considered themselves comfortably off in 1990 and another 30 % think they had then enough money for food and basic necessities. A widespread coping strategy is mutual assistance. About a fifth of respondents had recently received and extended material or practical help to friends or family.

## **6. Data collection**

In the remainder of this paper the findings from a survey conducted in June 2001 in Armenia will be presented, followed by some analyses and implications. The survey research was by initiated by the National Resources Institute of the University of Greenwich, and implemented in co-operation with a local survey team. The aim was to gain insight into the nature of the non-agricultural rural economy (RNAE) in the country. The focus in this research is on non-farm rural enterprises. For that purpose, 21 rural communities in 3 regions (called *marzes* in Armenian) were non-randomly selected. These *marzes* were Ararat, Gegharkunik and Syunik. Since a prime motivation of the research is to study the potential of the RNAE to alleviate rural poverty, selection criteria included poverty levels and the level of development of the RNAE. In the three *marzes*, 45 entrepreneurs active in the RNAE were surveyed, 15 from

each region<sup>2</sup>. It is hoped that the data will provide a basis for a larger survey of the RNAE in the near future.

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<sup>2</sup> The communities surveyed were, in Marz Ararat: Hovtashen, Kaghtsrashen, Ajgepar, Mkhchyan, Dzorak, Dashtavan, Ararat. In Marz Siunik: Tolors, Uts, Akhlatyan, Shake, Ishkhanasar, Akner, Verishen. In Marz Gegharkunik: Ljashen, Tsovazard, Gandzak, Karmir Gyugh, Noraduz, Chkalovka, Sarukhan.

## 7 Overview of findings

### *Personal Data*

The average entrepreneur in the sample is a middle-aged, long-time local male of Armenian ethnic background with a high level of education. Over half (24) the respondents have completed higher education, and of the rest most (19) have completed secondary education (mostly general, in 4 cases professional). The age of respondents was varied. Of all 45 respondents, 14 are in the 24-35 age group, 14 in the 36-45 group, 15 in the 46-55 group, and 2 are over 55 (65 and 77). They were most frequently (39 cases) male and Armenian (44 cases), and mostly have lived in the local area all their life (41 cases). Half (22) the entrepreneurs have dependent children. Most (35) describe their business location as ‘very’ (23) or ‘moderately’ (12) rural; only one reports to live in an urban area.

Unsurprisingly, by far the most important reason for having the business is to provide a main source of income (rank 8 of 10). Also important are the ability to do this work and live rurally, to develop a personal interest, and to create jobs (ranks 6, 5 and 5 respectively). The reported present aims of the entrepreneur do, on average, hardly differ from those reported as motivations for starting up the business. Table 1 summarises respondents’ motivations.

*Table 1: For a minority of respondents, motivations changed since the start of their business*

Motivation	Ranking , score of importance, Scale 1-10 (n=43)				# respondents who changed ranking	Average change
	.....for starting the business		... for having the business now			
To provide the main source of income.	1	8,5	1	8,3	8	-1,8
To provide additional source of income.	5	4,6	3	5,7	19	2,0
To avoid or prevent unemployment.	8	4,3	6	4,6	20	0,4
To carry on the family business.	9	4,1	9	4,4	19	0,2
To capitalize on my skills/training.	7	4,3	7	4,6	17	0,3
I had a personal interest that I wanted to develop.	3	5,3	5	5,0	18	-1,3
Freedom to use traditional methods.	11	3,5	11	3,5	16	-0,3
Only way to do this work and live rurally.	2	5,7	2	6,0	17	0,2
To find more preferable business.	6	4,4	8	4,6	19	-0,2
To provide employment for the family members.	10	3,6	12	3,1	15	-1,9
Create jobs	4	4,9	4	5,2	16	0,3
To be able to spend the time the way I like.	12	3,4	10	4,3	25	1,4
Other	13	1,6	13	1,5	1	3,0

There are some motivations that are likely to be satisfied once a business is started, which will then become less important. This is true for provision of additional income, developing a personal interest, providing employment to family members, and finding a more suitable business. In line with conventional notions of entrepreneurship, obtaining a main source of income remains of paramount importance. Preventing unemployment appears to have become more important, although the importance attached to this change is limited by the small change in score levels that underlies it.

The small average changes in scores and ranking reflect the fact that many respondents do not report changes at all (see the sixth column). Studying the subset of respondents who did change their ranking of aims between starting the business and the moment of surveying shows that there are a few significant shifts (scores changing more than 1 point). The importance of providing an additional source of income rose most dramatically in this group, while that of providing a main source of income fell correspondingly. Providing

employment to family members became less important, and being able to spend time in the preferred way became more important.

The picture that emerges is that a significant minority of entrepreneurs after the start-up phase shift their business priorities away from income and economic security, and towards lifestyle preferences; although this does not affect the primacy of the business as a main income source, even within this group.

#### *Enterprise Characteristics*

The enterprises in the sample are specialised. Asked to rank 13 activities in order of importance, only a few respondents use rank 2, and ranks 3-13 are absent. They are all fully involved in non-agricultural activities, but for one respondent who spends a fifth of his time in agricultural production. Most frequently, main activities as reported by the respondents are trade (19 cases) and agricultural processing (10). When classified by product, over half (26) the respondents are linked to the agricultural sector, in almost all cases through food processing or trade in food products.

Most (34) enterprises were established in 1997-2000, and none before 1989. Most (42) were also started by a single person rather than taken over from a family member (1, in 1997) or bought (2, in 1997 and 1999). Most (39) business facilities are owned, the rest are leased. Only 9 respondents reported on their firm's legal status, all of whom were classed as self-employed. Sales are most often to individual customers and households (39 cases) and to shops (17 cases). Sales to enterprises and the public sector are more rare (16 cases between them). The *share* of sales is also largest for those to individual customers and households (72 and 66 %, respectively). Of the other options only sales to a wholesaler, reported by 5 respondents, is of similar importance (67 %). Almost all (40) respondents report a large share (77% on average) of customers within a distance of 25 km, and a fifth (9) report that half their sales go to customers more than 150 km away. No export sales are reported.

Suppliers are also mostly located in the local area: 30 respondents report an average 86 % of inputs suppliers located less than 25 km away, while 21 report large input shares (about two thirds on average) coming from between 25 and 100 km. Two respondents have their inputs supplied from abroad: one from the CIS, the other from EU and other countries (for 85 % of total inputs).

#### *Labour and Capital*

Most (28) businesses have other workers besides the entrepreneur. In only 5 cases this is the spouse, in 24 cases there are non-family members in full-time employment. In these 24 enterprises, there are most often (14 cases) up to 3 employees, with an average of 6. Only two



respondents are also shareholders in another business, two others have been business owners in the past, and two are employed by someone else.

About half (21) the respondents report that their workload is roughly the same each week, and nearly a third (13) has seasonal variation. Just over half (24) the respondents work between 41 and 45 hours weekly in their enterprise, with the rest evenly distributed over longer and shorter work hours.

About two thirds of the enterprises reported on their registered capital in 2000 and their turnover in 1999. These were AMDs 4.3 million (n=29) and 3.7 million on average, but with a large spread (S.D. of AMDs 9.2 and 8.4 respectively)<sup>3</sup>.

### *Finances*

Average salary expenditures, total expenditures and income during the year 2000 were reported by most respondents. Variations over respondents as well as over regions in these variables were large, as is clear from table 2.

*Table 2: Expenditures and Income in 2000*

Expenditure category	Region averages (1,000 AMDs)			Whole sample(n=45)
	Syunik	Gegharkunik	Ararat	
	(n=15)	(n=15)	(n=15)	Mean (S.D.)
salary expenditures	568	1,726	416	944 (3,108)
total expenditures	3,832	3,993	2,450	3,392 (4,984)
Income	1,088	4,706	1,111	2,302 (5,054)
Charges	334	941	331	545 (1,376)
Taxes	2,498	1,111	290	1,299 (4,384)
Interest (n=3)	9,022	360	-	3,247 (5,007)

Note: For the first three columns, one outlier value in Gegharkunik was removed, with expenditures and income around AMDs 100 million.

Respondents also reported on their purchases in the year 2000. The items they mentioned were categorised as food (including health) expenditures<sup>4</sup>, energy expenditures (electricity, petrol, wood) non-food purchases (stones, 'photography materials'), and other expenditures (e.g. 'goods'). Most frequently mentioned are food expenditures (63 times). Productive goods

<sup>3</sup> AMD denotes the Armenian currency, the Dram, which was introduced in 1993. After initial hyperinflation, the Dram value had been quite stable since 1995. Its value is about 500 dram to the US dollar (in 1998).

<sup>4</sup> Food items mentioned include agricultural products, bakery products, medicines, black oil, fish, bread, flour, cigarettes, food products, fat, meat, milk, syrup, bread, salt, wheat, vodka, cigarettes, spices, water, salt, yeast, sugar, garlic, and vegetables.

and energy were reported equally frequently (16 times), and other goods slightly less often (12 times). Expenditure levels follow a similar ranking.

Expenditure patterns varied widely over respondents, with standard deviations between 3 and 7 times average values. Also regional variations were observable. Enterprises in Ararat appear more often engaged in food processing, and to have larger input expenditure levels overall (table 3).

*Table 3: expenditures on inputs in the year 2000*

Input categories	Region averages (1,000 AMDs)			Whole sample(n=45)
	Syunik	Gegharkunik	Ararat	Mean (S.D.)
	(n=15)	(n=15)	(n=15)	
Food product	478	496	1,279	776 (1,396)
Energy	0	260	213	156 (551)
Non-food inputs	48	124	468	225 (638)
'other' inputs	195	62	133	129 (434)

Note: Outlier values (expenditures over AMDs 10 million ) were removed.

Sales reports over the year 2000 confirm that most enterprises are specialised: 36 of 43 respondents reported the sale of one product, four reported two products, and another four reported selling three or more products. Sales are categorised as food products (in all cases processed, e.g. bread, flour, cheese, sausages and vodka), and non-food products. Nonfood products include agricultural inputs such as seed and pesticides, industrial products such as stones (bricks?) and petrol, and craft products such as carpets. Some products are obviously traded rather than produced, such as in the case of petrol, or of the one respondent who buys and sells 'potography materials'. Over half (27) of the respondents sell food products, in three cases in combination with non-food products, which are sold by 23 respondents. Food sales, if calculated on the basis of sales volume and unit prices, average AMDs 188 million, non-food sales are AMDs 166 million on average per respondents, both with standard deviations of about 4 times the average. Fourteen respondents report that they consume some of the produce themselves, the shares varying between 1 and 50 %, with an average of 11 %.

If these sales findings were representative for the Armenian rural economy in general, two things seem most worth noting. The non-farm rural economy is strongly agriculture-related, mainly through processing but also by providing inputs. The policy question is not how the trade-off between agricultural and non-agricultural employment and incomes are, but rather how enterprises in the non-agricultural part of agri-food sector can be supported. Second, rural non-farm enterprises vary greatly in size as measured in revenue levels. Policies designed to support them should be accordingly flexible.

### *Institutional Environment*

The distance to various institutions is summarised in table 4 below. It appears that those institutions most frequently used (suppliers, bank and post office) are in the local economy. Institutions supplying additional services are generally more remote. The considerable standard deviations imply large differences in these factors over respondents. It should be noted that, given the lack of data on transportation infrastructure and relative distance, it is hard to assess to what extent these findings indicate that the factor distance to institutions is a barrier for business operations.

*Table 4. Approximate distance to various institutions*

Approximate distance to...		
	Mean	SD
Main suppliers*	28	37
Bank	7	5
Post-Office	3	3
Training for employees	42	81
Business training courses	64	100
Business club/association	33	27
Chamber of Commerce	89	49
Marazpetaran/district council/	46	46
Consulting services	13	17
Insurance company	23	53

\* One case with a supplier 2,000 km away was excluded

Business support, to the extent that it was sought, is mostly found in the private sector. Over the last ten years (which really means over the last few years), of the 45 respondents to this question, many had approached a consultant or accountant (reported in 20 cases), a bank manager (17), family and friends (15), trade and professional organisations (14), and contacts in industry (12). Among the public institutions, the local council (13) and Marz council (12) are most often mentioned, other bodies much less frequently. The type of assistance sought was most often (21 of 30 responses) financial. Only one respondent had access to the Internet.

Given the plausibly considerable need for advice and information and, apparently, still limited role of the public sector in providing this, these figures may be interpreted to suggest that there is scope for expansion. The desirability and effect of this would depend on the extent to which rural entrepreneurs are presently excluded from such support because they cannot afford private sector assistance. This is something that the present data provide no information about.

The reported usefulness of different types of business support appeared much larger in two *marzes* (Gegharkunik and Syunik) than in the third (Ararat).<sup>5</sup> Background data on these

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<sup>5</sup>The 30 respondents from Gegharkunik and Syunik all provide an answer to each of the 14 sub questions. The 15 respondents from Ararat have many missing values.

regions could provide an interpretation to this finding, and a more detailed regional analysis of this topic, not pursued here, appears promising. Table 5 presents an overview of findings. First considering the usefulness in the past, present, future, or in general taken together (right-hand column) , support in the area of ‘new technology’ is found to be most often mentioned overall. Least frequently mentioned are ‘employing staff’, ‘management organisation’ and ‘computing’. These are understandable findings in a sample from micro-businesses with low technological requirements and virtually no access to information technology. The other 10 business support options are mentioned with very similar total frequencies.

*Table 5: Required areas of support, past, present, future, and general*

Business support area	Which of these would have been useful to you?				
	In the past	In the present	In the future	In general	Total count
Business strategy	10	8	11	7	36
Negotiation skills	4	14	7	11	36
Employing staff	8	3	8	13	32
Staff training/development	9	6	15	5	35
Management organisation	1	5	9	18	33
Advertising	2	9	10	16	37
Marketing		6	9	19	34
Market research	1	8	2	26	37
Identifying new market opportunities		5	16	16	37
Public relations	8	5	15	7	35
Financial management/taxation		8	3	24	35
Developing new products, services		4	18	13	35
Computing	2	8	4	19	33
New technology		6	22	12	40

The incidence of non-response in the second column suggests that respondents seem to have been less aware of past needs, than of present and, particularly, future requirements. With regard to the past, business strategies and staff training and development are, understandably for (then) starting businesses, ranked highest. The main present need is reportedly negotiating skills, while support in obtaining technology and developing new products and services are seen as the most important future requirements. In general, market research and support in financial topics is deemed most helpful. These findings appear to fit well in a sample of relatively young businesses just out of the starting phase, and could be used to guide the development of policies in support of the Armenian non-farm rural economy.

Of the 45 entrepreneurs, 40 responded to a question about the importance of various local factors for their business. The results are summarised in table 6; factors are ranked in order of descending importance on average (column 5).

*Table 6: Importance of Local Factors for Rural Businesses*

Local factors	Reported importance for business			
	Frequencies			Mean value (1=high, 2=medium, 3=low)
	High	medium	Low	
Electricity costs	27	13	1	1.4
Charges for communal services	22	15	4	1.6
Energy supply	21	18	2	1.6
Roads network	21	14	6	1.7
State financial protection	22	10	8	1.7
Salary rate	19	13	8	1.7
Access to water	20	15	6	1.7
Availability of dwellings	11	28	1	1.8
Availability of qualified labour	12	26	3	1.8
Labour motivation	13	22	6	1.9
Telecommunications	16	14	10	1.9
Connection to the railway	6	13	22	2.4
Availability of unqualified labour	1	25	15	2.4

The three frequencies columns show that most factors are much more often deemed of high than of medium importance. This is true for the top 7 factors ('electricity costs' down to 'access to water'). Most factors are considered of medium importance, only one is deemed highly important, and no factor is considered of low importance on average (i.e. has a mean higher than 2.5). Many factors are considered about equally important (mean 1.7-1.9). The high importance of electricity costs suggests that many businesses are energy-intensive. This is probably not true for the 19 trade businesses in the sample, but would fit better with the 10 processing enterprises.

Legal safety in Armenia is assessed as low by most (28 of 42) respondents, and of medium quality by the rest. Almost all (43) respondents rank the importance of various local development factors. The results are presented in table 7.

*Table 7: Ranking of importance of local development factors*

Locality development factors	Average Importance score, scale 1-10 (1=unimportant, 10=important)
Non-agricultural fields development	7,5
Intensive development of the agriculture	7,4
Central, local budget support	6,7
Infrastructure development (electricity, phone, gases, roads, etc.)	6,7
Improvement of the medical assistance, health protection	6,7
Cultural institutions development (school, library, etc.)	6,3
Elaboration of projects suitable to the locality development	6,2
Own effort of the local community	5,4
Local autonomy achievement	4,9
Reforms, privatization speeding-up	4,8
Cooperation with foreign countries, adhesion to E.U., etc.	4,8
Tourism promotion	4,2

The two most general options elicited the most positive response on average, and were nearly equal in average score: non-agricultural development was most uniformly supported as most important, while agricultural development was more often assigned slightly less importance. The more abstract rural development goals (locally suitable projects; community effort; local autonomy) were seen as less important, the more concrete projects generally as more important (but for tourism). Development goals not directly related to the local community (reform progress and foreign co-operation) ranked, understandably, low.

#### *Credit*

Capital shortage reportedly inhibits business growth in 20 cases, of whom 13 also plan to expand their business. For 12 respondents capital shortage is no constraint, of whom only 5 do also plan to expand. Most of those who are capital-constrained feel this hinders an increase in turnover (14) and in acquiring fixed assets (12). One respondent would expand business staff if there were better access to capital. The most frequently mentioned reason for capital shortage is a lack of own capital or of collateral to attract it (17 cases) ('lack of funds', which appears to refer to the same, is also mentioned twice). Also attitudes to debt appear to be important: over half (11) of capital-constrained respondents report they 'do not like borrowing'. Five give as the constraining reasons that they already have debt, 13 mention high interest rates, 3 think the bank assessed the risk attached to their business as too high, and 8 have problems obtaining a grant.



In sum, limitations in access to credit or other funds are quite general, and derive from a number of factors. On the demand side there is a limited debt-carrying capacity (in turn caused by lack of collateral and by debt-averse attitudes). On the supply side, possibly insufficient risk assessment skills in banks, and high interest rates appear to play a role. The findings suggest that relaxation of the capital constraint would probably result in output expansion, but not clearly in more rural employment.

Indeed, the only constraint on production reported is capital, not labour, land, buildings or other factors offered as answer options. Of those indicating a capital constraint, over two-thirds (33) specify that working capital is the bottleneck. The amount needed to solve the problem is reported as AMDs 11.2 million on average. The other respondents say capital for investment is needed (AMDs 4.9 million on average)

Many respondents are also liquidity-constrained: most (34 of 45) respondents think profit is insufficient to cover costs for equipment replacement, premises refurbishment and such; another 10 feel they can cover those costs by profits, but with difficulty. Still, the majority (30) have not applied for a loan in the past five years. Those who did apply were evenly distributed over successful loan applications (7) and loan refusals (8). The average loan sum obtained was AMDs 7.5 million (with observations varying between AMDs .5 and 2.7), most often (in 5 cases) from a bank. Only 3 out of 45 respondents had applied for a grant in the last five years, and unsuccessfully so far: one as refused, two had not received a reply yet.

Only 6 of 45 respondents applied for a loan in the year 2000. Half of them did not receive credit; in two cases because of a lack of collateral, and once because nobody would guarantee the loan. Table 6 presents an overview of the experiences of the successful loan applicants.

*Table 8: Experiences of three successful loan applicants*

Applicant	1	2	3
Amount applied for (1,000 AMDs)	500	3,000	26,150
Amount received (1,000 AMDs)	500	3,000	26,150
From institution	Oxfam	bank	bank
Date received	1 March	1 September	1 September
Use of loan	business expansion	Capital investment	Buying materials
# instalments	1	1	3
Time between credit approval and first instalment (months)	0,5	2	1
Guarantee used	house	Equipment	equipment
Annual interest rate (%)	24	20	18
Required total repayment (1,000 AMDs)	600	3,600	3,0857
Amount already repaid (1,000 AMDs)	200	3,600	9,022
Still to repay	400	0	21835
#repayment installments	20	,	3
Final instalment date	1 September 2001	1 December 2001	1 October 2001
Was repayment schedule adhered to?	yes	yes	Yes
# interviews with credit allocator	5	5	3
Duration of meeting (hours)	0,5	5	5
Was a bribe paid?	no	no	No

The most frequent (26 of 39) reason for not applying for credit at all is that assessment criteria are deemed too severe. The severity of credit allocation criteria is most often (15) specified as overly high interest rates, and half as often (8) as lack of collateral. Six respondents indicated their income to be too low to meet repayment demands. The only other reason for not applying that is mentioned with some frequency (5) was good access to funds via friends and family. The rest of the answer options are never used more than twice in the sample.

Five respondents who did not obtain a loan from an institution, borrowed from friends or family in 2000. The amounts borrowed (in 1,000 AMDs) were 6,871, 100, 165, 500, and 130. The first two of these were obtained at zero interest rates; the last three at 5 %. No bribes or gifts were given in exchange for obtaining the loan.

A fifth (9) of the respondents had saved from their enterprise profits in 2000. The levels varied widely, both between respondents and over time. This is depicted in table 7. Only one of the respondents (no. 3 in the table) held these savings in a bank, at an annual interest rate of 26 %.

Table 9: Savings from enterprise profit in 2000

Respondent	Savings from enterprise profit (in 1,000 AMDs)	
	In January 2000	In December 2000
1	31	1,000
2	-	1,251
3	200	300
4	1,000	1,500
5	24,2	-
6	-	40
7	155	905
8	1,388	4,080
9	200	500

### Plans

Most respondents are optimistic but cautious with regard to the near future: 19 planned a slight business expansion over the next two years, 13 aimed at stability in that period. Of the other thirteen, six did not know about their plans. Over the longer term, respondents in large majority (39 of 44) aim at stability, while 5 plan slight expansion.

Nearly a third (13) of respondents think there is demand for increased production, but more respondents (19) deem demand to be a constraint on business expansion. The large number of respondents (13) who do not know the answer may signify considerable uncertainty about market conditions. Most (32) enterprises work below production capacity, and also a large minority (18) plan to expand the business. The numbers of respondents who are not planning to expand, or in doubt about this, are about similar (13 and 14). The main determinant of this attitude may be demand: most (11) of those who hesitate about expansion also report to be uncertain about market demand for increased production. Problems with finding space is an expansion constraint for 9 respondents, most (6) of whom are actually planning to expand. In 5 of these 9 cases, refused permission to expand is the reason of the constraint, in the other cases space on the business premises is too limited. No-one reports staffing problems as a constraint.

## 8 Analysis: Profit, Employment, and Income

In addition to this overview of the characteristics of rural enterprises and the experiences of rural entrepreneurs, it would be useful to explore the determinant of enterprise performance in the setting of Armenian rural economy. The modest size of the data set obviously limits the scope for statistically valid inferences. Still, it is possible to go a bit beyond mere description and explore the links between performance, factor endowments, and economic environment. We will here investigate possible determinant of profit and employment. Profit is a traditional enterprise performance indicator, while the capacity of rural enterprises to generate employment is an important factor in the development of the rural economy and the income level of the rural population.

### *Profit*

A prime enterprise performance measure is profit. What determines firm profit in our sample? A simple profit model based on a Cobb-Douglass production function is specified. Independent variables include EMPLOY (total employment)<sup>6</sup>, EXPEND (reported expenditures other than salaries), and CAPITAL (the reported value of the capital stock), as independent variables. The dependent variable is PROFIT, the reported level of profit<sup>7</sup>. All variables relate to the year 2000. The specification is double log, so that the (exponential) profit function is transformed into a linear regression equation<sup>8</sup>. The estimation results are presented in table 10.

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<sup>6</sup> The entrepreneur's labour input in hours per week was divided by 50 in order to get full-time units. Spouse, family and non-family were recorded as one full-time unit (full-time employee and active partner), 0.5 (part-time or frequently helping out) or 0.25 (occasionally helping out) per person. Then all was added to get total labour input in full-time equivalents. Because many enterprises have less than one full-time equivalent of labour (resulting in negative log-values), EMPLOY was measures in tenths of full-time labour equivalents. Replacing employment by salaries as independent variable increasing the adjusted  $R^2$  to .78, and gives a large (.403) and very significant (.001) coefficient estimate for  $\ln(\text{SALARIES})$ . However, since SALARIES does not account for non-paid labour, EMPLOY is a better measure for labour input.

<sup>7</sup> The validity of this variable was checked by calculating gross margins on the basis of reported sales and revenues. Reported profit was always smaller than gross margins, and in the same order of magnitude. This supported the validity of reported profit. The distribution of  $\ln(\text{PROFIT})$  is skewed. Therefore 0.2 is raised to the power of  $\ln(\text{PROFIT})$ . The resulting variable is approximately normally distributed and used in the linear regression estimation. This implies that the values of coefficient need to be transformed on order to show their impact on profit. Since we are interested only in the values of coefficients relative to each other, these results are not discussed.

<sup>8</sup> A drawback of taking logarithms is that negative and zero observations cannot be used, reducing the total number of observations in this estimation to 38. Excluding zero's also introduces an overestimation of the slope. The number of exclusions is however small, and so are these disadvantages. Also, the model fit is much better than simple linear specifications.

Table 10: An Estimated Profit Function

Dependent variable: Ln(PROFIT)	Standardised coefficient values	t-values	Significance	Adjusted R <sup>2</sup>
Independent variables (C = -3.401)				.81
Ln(EMPLOY)	0.298	3.201	0.003	
Ln(NONSALEX)	0.424	4.037	0.000	
Ln(CAPITAL)	0.360	3.666	0.001	

In this specification, coefficient values can be interpreted as measures for return to factor inputs<sup>9</sup>. It is interesting to note that capital expenditures generate the highest return, followed by capital stock and labour. This conforms to the general notion that capital is more productive than labour.

It was also earlier noted that most respondents are capital but not labour constrained. By implication, this constraint significantly hinders the generation of profit increases, which would derive more from investment than from labour additions. However, the credit constraint is likely to constrain employment indirectly, since capital investments may be accompanied by an increase in the labour force. This will be explored below.

Is amount of input the only determinant of output? Many theories on firm production suggest the role of human capital, institutional and regional variables. On the basis of this production-model approach, a series of specifications introducing these factors was explored. However, none of these variables had coefficient estimates that had values comparable to the above; and none of the coefficient estimates was statistically significant ( $p < .10$ ). It appears that the profit function of enterprises in the sample mainly contains the conventional factors of production (although this still leaves a fifth of profit variations unaccounted for). In exploring the impact of institutional and regional factors, one would therefore more usefully investigate their relation to the level and efficiency of factors of production, rather than their impact on profit levels directly. This is left for future work.

### *Employment*

Employment is not traditionally seen as an enterprise performance indicator. However, in the context of enterprises as potential motors of rural development, the idea is relevant. Enterprises that are able to generate more employment are more useful in combating unemployment and generating rural incomes. Here we explore the determinants of employment in our sample. Table 11 presents four relevant variables that appeared to explain most of the variation in employment levels in an OLS regression estimation. These are

RETAIL (the share of enterprise output sold in to households and individuals, rather than to enterprises), BANKLOAN (a binary variable indicting whether the enterprise has obtained a loan in the last 5 years), CAPITAL, and EXPEND.

Table 11: Factors controlling employment level

Dependent variable: EMPLOY	Standardised coefficient values	t-values	Significance	Adjusted R <sup>2</sup>
Independent variables (C = 4.314)				.86
RETAIL	-0.137	-2.192	0.036	
BANKLOAN	0.133	2.107	0.043	
EXPEND	-0.123	-4.104	0.000	
CAPITAL	2.092	6.992	0.000	

The largest coefficient estimate is associated with the amount of capital goods. Thus, it turns out that the constraint on finances to invest in capital may also be a major barrier to employment expansion, as was suggested above. It may be noted that this is in line with respondents' own replies, although in an indirect manner. Most of them reported that they would use extra funds for investment rather than employment. The estimation results suggest that via investment extra employment would be generated.

Respondents' access to credit over the last five years is also associated with higher employment, although less clearly than in the case of capital stock. This appears to lend some support to the prominence of credit allocation in thinking and research on rural development (see e.g. Heidhues *et al*, 1999 for an application to transition economies). It should however be noted that the causality here can also run the other way, since larger enterprises with more employment often have better access to credit for reasons of political economy.

Other, but clearly less important determinants are negative. They include the level of expenditure on flexible inputs (which are apparently substitutes for labour), and the sector: retail enterprises employ fewer people than other enterprises. We have observed that most enterprises sell to individuals and customers. This is in line with the general prevalence of small retail and services businesses in the private sector in transition economies in general. Obviously this feature of the non-agricultural private economy in Armenia, and plausibly elsewhere, limits the scope for employment creation.

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<sup>9</sup> Because the coefficients are standardized and differences in value between them are significant, their values can be meaningfully compared.



*Employment, Income and Enterprise Size: A Regional Exploration*

It is useful to note that some variables in the sample did not appear to influence employment levels, although they might be expected to. This includes the size of the enterprises in terms of revenues or profit level. This finding is in line with the large variation in capital intensity and associated labour intensity over firms in the sample. While the above results show the link between, particularly, capital investments and employment, earlier findings suggest there are large differences in the strength of this link over regions and sectors in the rural economy.

It was not possible to explore this using regression analysis because of the small size of the sample. As an alternative method of exploration, the average of the ratio of employment over capital stock, non-salary expenditures, revenue level, and profit was computed for each region. Apart from employment, the same was done with the variables 'income' and 'total salaries' in the nominator of the ratio. All in all, for each region 12 ratio's were calculated, i.e. all combinations of employment, income, and salaries in the nominator and capital stock, non-salary expenditures, profit, and sales in the denominator.

The limited size of the sample did not allow significant differences between most ratio's in comparisons over the regions. The only significant differences were in three ratio's: of employment over revenues, of entrepreneurial income over capital stock, and of income over non-salary expenditures. Differences between these ratio's in comparisons of the regions Gegharkunik and Ararat were not significant. In comparisons of the regions Syunik and Ararat, as well as Syunik and Gegharkunik, there were significant differences. These findings are presented in tables 12a and 12b.

*Table 12a: Regional differences in employment and income relative to capital and revenue level.*

Regions				
	Syunik	Gegharkunik	Ararat	Whole sample
Employment divided by sales	0.39	0.90	0.51	0.61
Income divided by Capital stock	0.61	1.76	1.62	1.32
Income divided by Non-salary expenditures	2.81	9.14	2.60	4.90

*Table 12b: Significance of differences in Table 12a (only reported if smaller than 0.05)*

Comparisons	Syunik	Gegharkunik	Syunik
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Ratios	And Gegharkunik	And Ararat	And Ararat
Employment divided by sales	0.0002	-	0.0328
Income divided by Capital stock	0.0007	-	-
Income divided by Non-salary expenditures	0.0045	-	0.0035

These findings must be seen as tentative given the nature of the data, and can be summarised as follows. First, enterprises in Syunik are less labour-intensive and generate less income per unit of capital goods than in the other two regions. Second, enterprises in Gegharkunik generate much more income relative to expenditures than enterprises in Syunik and Ararat (although this last observation is not supported by statistical significance).

One implication appears to be that growth of the rural non-farm economy in Gegharkunik in terms of revenue, in terms of capital stock, or in terms of capital expenditures, would result in a clearly larger increase in income and employment than is the case in Syunik (and probably also Ararat). Although the small sample size makes this sort of inferences difficult, the results are indicative for the relevance of enterprise structures for the income and employment effects of rural economic development.

## 9. Conclusions

In this paper a general overview of issues and findings on the rural non-agricultural economy in the transition countries was combined with a study based on primary data from Armenia. Countries in the post-socialist transition have suffered from initial contraction and often insufficient growth subsequently. In addition, inequality in incomes and other welfare components has generally increased substantially. A general results, particularly in the Balkan and FSU states, is a significant increase in poverty. In rural areas, these trends were in many instances (though not always and everywhere) exacerbated by the rural-urban income gap and by the collapse of socialist-era rural industries. The agricultural sector, most often the largest in the rural economy, is not likely to become a motor of rural economic growth in view of longer-term trends in developing and developed countries, and also because of its continuing post-socialist restructuring challenge. These observations suggest that the role of non-agricultural rural economy in rural development, and more specifically poverty alleviation and regionally balanced economic development, is a useful research topic.

The substantial literature on rural non-farm development lends some support to this expectation, although findings are clearly country and situation-specific. A generalisable finding appear to be that public investment (in education, in the quality of infrastructure, and in market structures) is an important determinant of the capacity for rural growth, and for its effect on income inequality.

Two stages in rural economic growth are discerned. In one, rural non-agricultural incomes are a refuge from poverty, and rural diversification a defensive strategy that implies a shift to low-return activities in order to preserve household income, generally without achieving local economic growth. This description applies generally to the CIS and Balkan countries. The other, and subsequent, stage has been entered by most Central European countries. Here rural manufacturing, trade, and services are a response to new market opportunities, bring higher returns than agricultural production, and signify genuine rural economic growth.

Although the rural non-agricultural sector in transition countries has been found to be substantial, the above observations indicate that the significance, in economic terms, of the sector is not unambiguous. These ambiguities, combined with the plausibly large size and potential of the rural on-agricultural sector, warrants more research into this issue.

This is taken up in the second part of the paper, where survey data on non-farm enterprises in rural Armenia are studied. A sample of 45 businesses in three regions was surveyed in the summer of 2001. The findings can be summarised as follows:

- Nearly all enterprises are specialised, profit-oriented businesses providing a full income to the entrepreneur and employees.
- The capacity for salaried employment is limited per enterprise to a few employees; but in many cases entrepreneurial income sustains people in and beyond the entrepreneur's household though unpaid labour
- There are very large variations in the financial features of enterprises, including cost, revenue, and profit levels
- There are strong links with the agricultural sector through food processing or trade in food products.
- Marketing channels are generally in the local economy and small-scale, with most firm in retail.
- Liquidity and capital constraints are general, and the most important constraint to expansion, or indeed operation, is access to credit.
- The role of public institutions in business support appears very limited, although there is much to be improved in factors that are usually in the domain of public action, such as legal safety and infrastructure quality.

The data are also used to undertake some basic explorations of the determinants of profit, employment, and incomes generated in the enterprises. Profit levels are satisfactorily explained by conventional inputs: labour, fixed capital, and inputs. Of these, employment is of special

interest from a rural development point of view. It appears that the size of the labour force, though modest in all cases, is linked to the level of fixed capital, and to access to credit. It is also negatively associated with the share of retail sales, and with capital input expenditures.

There appear to be important regional differences in the relation between employment and income on the one hand, and businesses' capital stock and levels of revenues and expenditure on the other. This confirms the idea that expansion of the rural non-farm sector is likely to have very different implications for rural employment and rural incomes in different regions.

The findings show both how this type of research can be relevant for directing policy on rural development, and the limitations imposed by the small size of the sample. There is a clear case for larger scale research. In addition, the role of institutions in rural development has remained largely unexplored in this paper. Also this topic is a potentially fruitful topic for future work.

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## **National and EU Policy Mix -**

### **Economic Efficiency in the Rural Areas of the CEECs**

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#### **1. DETERMINANTS OF GROWTH AND POLICY INTEGRATION**

Rural development policies are an integral part of a set of financially backed tools offered by the European Union (EU) to help member states and candidate countries improve the situation in rural areas. Rural development actions can be aimed at a large number of objectives, from the improvement of farming practices, education and training to the creation of small and medium enterprises (SMEs).

Like all policy interventions rural development has an economic cost and an economic impact. Thus the authorities in charge of the policy should take economically sound decisions. Allocative efficiency is a must even if the goals aimed for are often claimed by beneficiaries to be normative and "non-economic". All policies which use financial resources and have an economic impact are intrinsically economic. Public funds that have been spent have to be accounted for and intended impacts should be tangible.

The implementation of rural development policies is a huge challenge for national authorities and also for the European Commission services. The scale of the projects is in general very different from those of the Structural Funds and the objectives are multifaceted. Nevertheless, it is necessary to ensure the coherence of rural development policies, not only among themselves but also as a part of the larger national development plans.

However, the inverse is also true, national policies should fit sectoral objectives and policies. The macroeconomic and national policy environment will have the largest impact in the development of all areas of the economy. While all structural and rural

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funds do help in improving the development prospects of countries and regions, the bulk of economic development is the result of national policies.

The importance of the national policy framework can be seen in the present member states. Ireland's growth, which was much faster than in the other cohesion countries, Spain, Portugal and Greece, has been attributed to the quality of the national development strategy which enhanced the competitiveness of the whole economy. Amongst a number of factors, key components in generating competitiveness are sound national and macroeconomic policies.

This paper discusses therefore two aspects. First, it elaborates the focus and direction the rural development programmes should take. Second, it argues that even with a good sectoral approach, the impact of structural and rural development policies in the CEECs will be negligible unless the national policies are adequate. This paper concentrates on the role of social and labour market policies which are crucial for solving the disruptions emerging from the restructuring of the agricultural sector. The situation in Poland is used as an example where development priorities and national policies are in conflict.

### **1.1. Rural Development – EU vs. CEEC concerns**

The rural development regulations of the European Union offer for the candidate countries a menu of possible actions. However, the candidate countries have to be careful when selecting the strategy. There has been a tendency to produce an exhaustive list where all possible measures are implemented. There is also been an inclination to follow the example of member states' programmes. In both cases there is a real risk that the programme will end being ill suited for the particular problems of the candidate country before and after enlargement.

When devising national rural development programmes the authorities responsible should not fit the needs of the country to the measures, but create a tailored programme using the tools available. This may also mean not using all of the measures available.

#### *1.1.1. Keeping rural population vs. labour mobility*

There are differences between the priorities of a present EU member state and some candidates. In the EU, a number of member states' want to maintain rural areas populated, while the main need in several CEECs is to increase labour mobility and induce people to move out of agricultural employment and rural areas. For example, copying measures of member states for Poland and Romania which target the rural population is counterproductive. The mismatch of policy priorities and the actual needs can cause important distortions.

#### *1.1.2. Encouraging marginal activities in rural areas*

Many programmes propose to increasingly concentrate resources in slowing down rural to urban migration and encouraging the continuation of less productive, low value added, marginal activities for which it is doubtful that there is or will be a market. This may slow down the catching up process, keeping the candidate countries

in a longer subsidy dependency from the EU. In view of the growing disputes on the pertinence and effectiveness of a number of budgetary transfers, it is unwise to follow this path.

### *1.1.3. Market demand vs. policy supply*

In the candidate countries the agricultural sector has suffered a severe collapse, and the recovery is not over. Many very basic needs to restore a normal agricultural sector are still missing. Nevertheless, the plans submitted by several candidates fail to address very basic problems sufficiently. Sums are often directed to very specialised agricultural production systems, while not enough is directed to the normalisation of basic 'conventional' agriculture.

Insufficient value is often given to facilitating access to markets for producers, i.e. reducing the transaction costs. This is crucial to improve the economic viability of potentially competitive farms. Nevertheless, these basic economic factors are neglected.

The candidate countries appear to be unaware that fostering specialised production systems, such as organic farming requires a level of control and certification that is difficult to implement. Producers of such products may find it impossible to market their produce if the specialised marketing channels are missing.

## **2. THE EFFECTS OF CONFLICTING POLICIES ON THE REGIONAL LABOUR MARKET, THE CASE OF POLAND**

As was mentioned earlier, national policies play a crucial role in determining the economic development of a country. While EU funds can help easing the financial pressures of development policies, these cannot by themselves create a sustainable economic activity and high economic growth rates.

The labour market policy of Poland is a clear example of inconsistencies between the development aims and the market signals caused by public intervention. Under the present policies it is rather unlikely that the problems of excess labour in agriculture can be addressed successfully.

### **2.1. Developments in the labour and land markets in agriculture**

According to the Central statistical office of Poland in the year 1999, employment in agriculture was 4.3 million people or 28% of total employment. However, this figure hides many statistical problems, and does not correspond to the figures from the Labour Force Survey (LFS) by Eurostat nor to the level in the report by the Foundation for the Development of Polish Agriculture<sup>2</sup>, both indicating that the level is

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<sup>2</sup> Foundation for the Development of Polish Agriculture (2001), *Rural Poland 2000. Rural Development Report* (Warsaw: CeDeWu).

19%. This discrepancy is based on the methodology used. Eurostat considers only farmers those who work mainly in agriculture.

The Central Statistical office in Poland considers a farmer anybody that owns more than one ha of land or one large animal, and counts the family members too, independently of the main source of income. Also owners of less than 1 ha can declare themselves farmers, although their farmland will not appear in the statistics, as farms are only considered those which exceed 1 ha in size. This again distorts various statistical data.

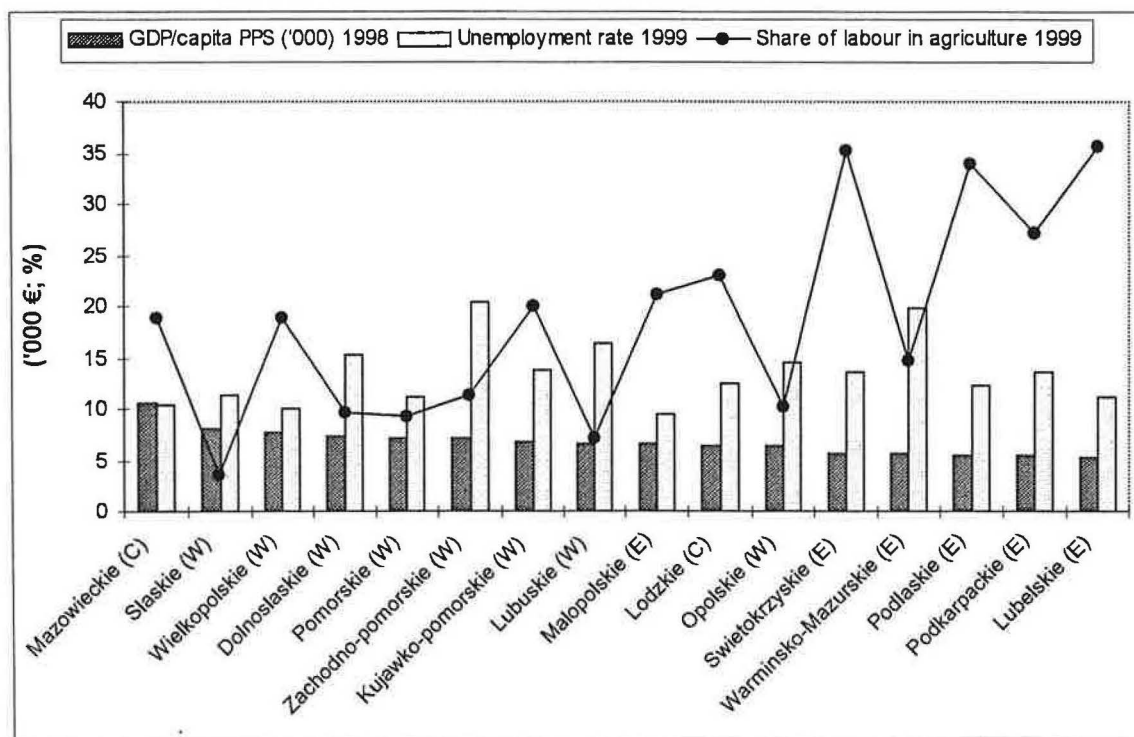
As a consequence, if one eliminates pensioners and hidden unemployment, then the number falls to 2,5 million farmers. According to some estimates, actual full-time jobs equivalent is 1,8 million if part-time farming is taken into account. However, the problem is not only statistical. The developments in agricultural labour are worrying and puzzling.

In those regions where private ownership of land was predominant in agriculture, registered unemployment figures increased less than in the regions with a high share of state owned land. In fact, many workers in the South and East returned to the family farms increasing the number of registered farmers in those regions. Poverty levels in the South and East are acute and the comparatively low unemployment figures in the South and East hide the reality of the difficult economic situation of large numbers of 'employed' peasant farmers. In fact, the regional relationship between incomes per capita and unemployment appears to be positive. With a few exceptions, regions with higher unemployment show higher incomes per capita than regions with low incomes per capita. On average, in the Northern and Western regions the average GDP per capita in 1998 was € 6980, while in the Southern and Eastern areas it was € 5772.

The uneven distribution of unemployment and the apparently contradictory relationship between the rates of unemployment and income levels indicate that Poland faces difficulties in the transition period, particularly in the functioning of the labour market.

Data in Graph 1 shows the relationship between unemployment rates in Polish regions and levels of regional GDP per capita. The largest rates of unemployment are in the Northern and Western regions of the country, the most industrialised areas of Poland. The rate of employment in agriculture in Polish regions show a negative relationship to the level of unemployment. Both relationships contradict the usual pattern in the EU. However, the usual relationship that poorer regions tend to have higher levels of employment in agriculture does apply.

Graph 1: GDP per capita in €, unemployment and employment in agriculture in Polish regions



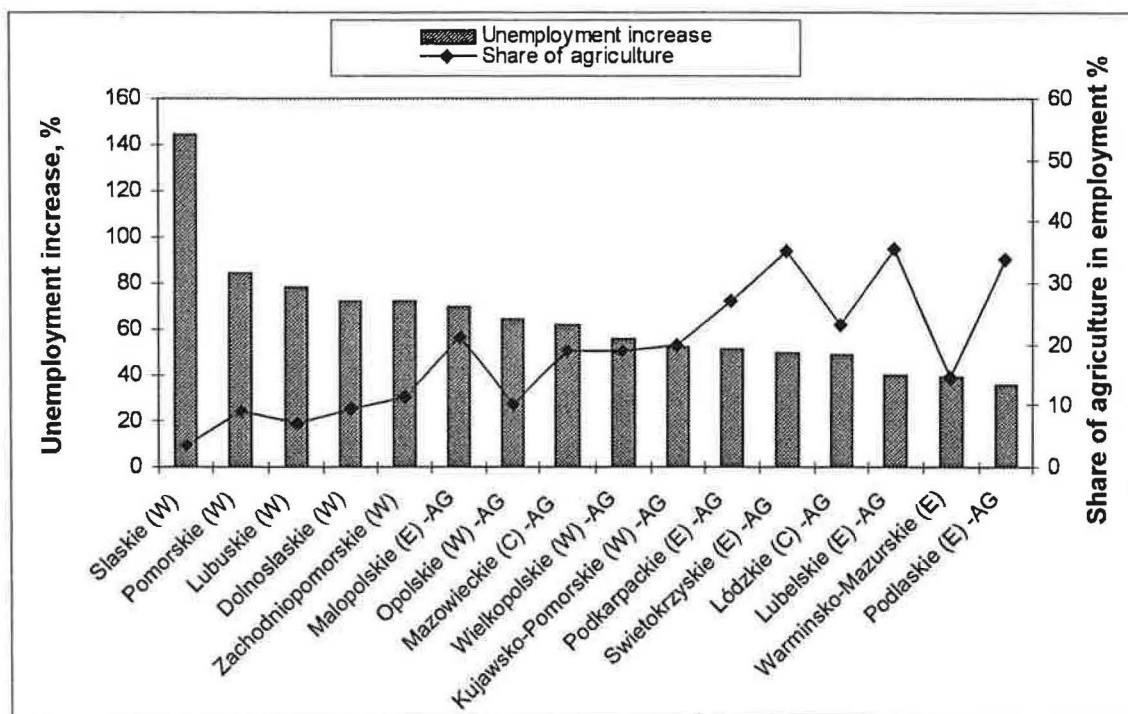
Source: Eurostat. The share of agricultural labour reported by Eurostat is considerably lower than the share reported by the Polish national statistical office (GUS), due to differing methodologies. Eurostat follows the EU definitions of agricultural employment, which record people earning their main income in agriculture, while GUS considers all people engaged in farming as agricultural labourers.

The economic recession in Poland since 1999 has exacerbated inter-regional disparities. Whereas the difference between the lowest and the highest unemployment rates amounted to 6.5 percentage points in 1998, the same variable almost doubled and reached 12.4 in 2000. The worst hit regions were the north/south-west regions, including those with a considerable share of services. For instance, Zachodnio-pomorskie, which is characterised by Eurostat as a service centre, shows the second worst unemployment rate in 2000. All agricultural regions then assumed the bottom 10 positions (except for the second lowest position) with the lowest unemployment increases over the specific period (see Graph 2). On average, agricultural regions (as classified by Eurostat) suffered a 53% rise in unemployment, whereas non-agricultural regions a 81.5% increase. Whereas in 1998 the average unemployment rate of non-agricultural regions was only 1.32 percentage points higher than of agricultural regions by (with 10.33% of unemployment in agricultural regions and 11.65% in non-agricultural ones), this disparity mounted to 4.59 percentage points in 2000 (with 15.66% in agricultural and 20.25% in non-agricultural regions).

Therefore, Polish regional unemployment rates show the lowest increases in regions with the lowest GDP per capita. The average disposable income per capita in year 2000 of regions classified by Eurostat as agricultural was approximately 510 zlotys (€131) per month (and only 495 (€127) without the capital region Mazowieckie), whereas almost 550 zlotys (€144) per month of non-agricultural regions.



Graph 2: Compared regional increases (between 1998 and 2000 inclusive) in unemployment rates with share of agriculture in employment Polish regions, (in %)



Source: Eurostat, own calculations

### 2.1.1. Continuing land fragmentation and 'peasantisation'

While the fact that agriculture still appears to work as a social buffer is not necessarily worrying per se, it is puzzling at an advanced stage of transition. A glance on the developments of farm sizes shows immediately that something does not work in the labour market and in the agricultural sector. The number of small farms, despite the excess employment and their low economic value is increasing!

It is particularly the fragmentation of farms - persistently high numbers of small-size farms (2-5ha) and the proliferation of the smallest farms (1-2 ha) - which has prevented agriculture from improving its economic performance and competitiveness. Between 1990 and 1998, the restructuring of the agricultural sector saw a decline in the total of individual farms, but an increase in the number of both the smallest (1-5ha) and the biggest (more than 15 ha) farms (see Graph 3). While the increasing number of big farms indicates a rising land concentration into the hands of larger and economically viable farms, the proliferation of the smallest farms contradicts such progress.<sup>3</sup>

The number of 1-2 ha farms alone has increased by 100,000 from 1996 to 1999. This seems odd, as these farms are non-viable. However, this growth is observed in all regions even in the more industrialised parts of Poland. This indicates that the

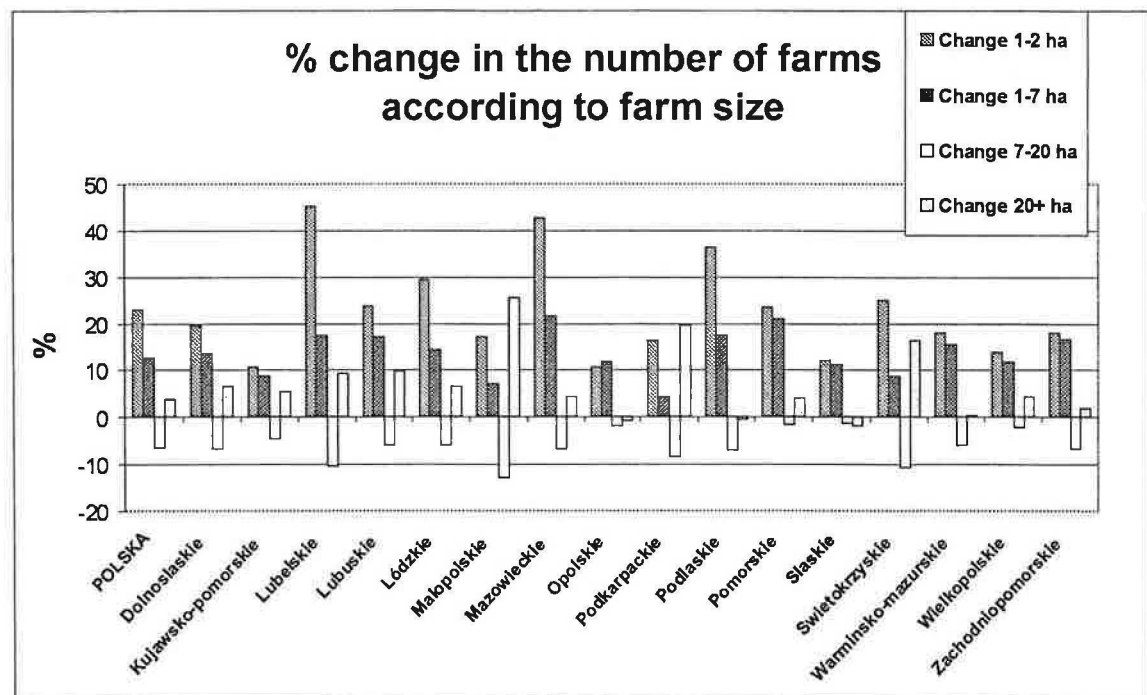
<sup>3</sup> Guba W. (1998), Achievements and Failures of transition in the Polish agriculture, *RESEARCH bulletin*, Vol. 8, No 2, p.18.



transition does not manage to absorb excessive labour in agriculture and that there are most likely policy incentives for individuals to seek ownership of land.

The fragmentation into small-size farms is particularly worrying in the eastern rural part of Poland, since the creation of small inefficient farms further deteriorates the economic situation and prospects of the rural population.

Graph 4



Data source: Polish Central Statistical Office

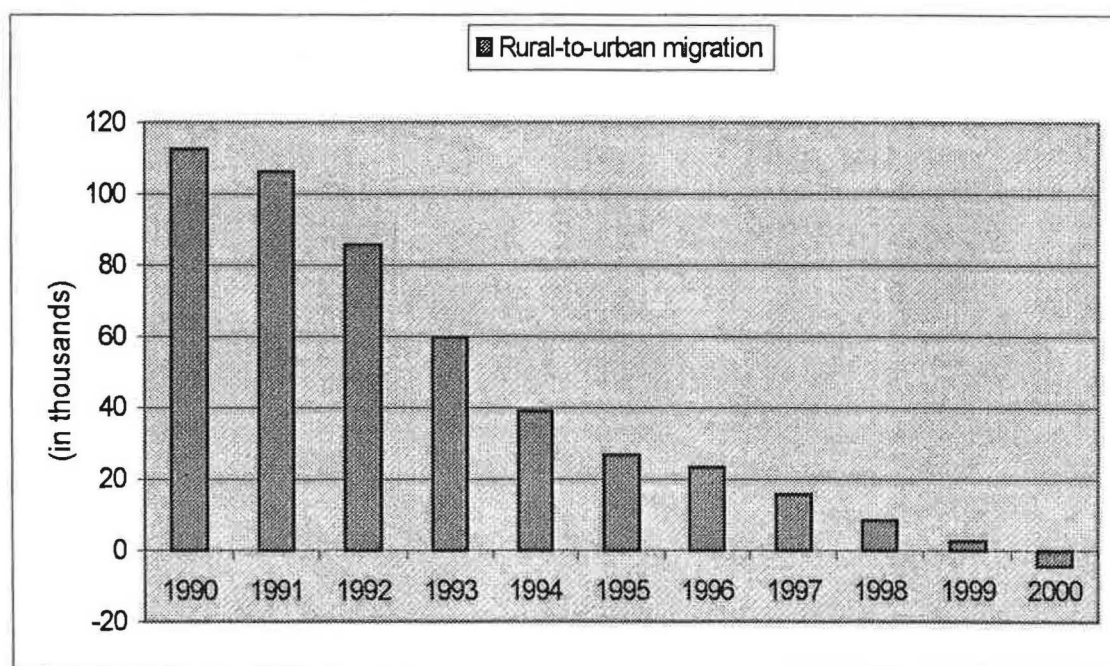
The state of agriculture, particularly in rural areas of South-eastern Poland with large numbers of small-size farms, is also a rising concern owing to the fact that it is a source of a considerable amount of hidden unemployment. Due to the low productivity and low incomes of persons employed in private individual farms, most of the workforce (including part-time farmers and the professionally inactive population in the sector) is either self-employed or unpaid, drawing an additional (but often not reported) income from other sources. As a result, an estimated 35-40% of the total agricultural workforce (more than 900 thousand people; 4-5% of the total work force) is considered as hidden unemployment or a redundant labour. It is the magnitude of the hidden unemployment and the current multifunctional character of the smallest farms (serving often as subsistence farms), which have largely prevented any radical restructuring in the sector and sustained low incomes of a large share of the agricultural population. The level of commercial production by Polish farms is indeed very low and it is estimated that over 50% of all farmers produce solely for their own consumption.<sup>4</sup>

<sup>4</sup> Foundation for the Development of Polish Agriculture (2001), *Rural Poland 2000. Rural Development Report* (Warsaw: CeDeWu), pp. 40; 48.

### 2.1.2. Falling labour migration

Despite large regional disparities in GDP per capita and unemployment rates in Poland, labour mobility is very low and even decreasing. Internal migration contracted steadily by 25% in the last decade, reaching the total of 400,000 people in 2000. It has been particularly rural-to-urban migration which has experienced the most dramatic decline (Graph 5).

Graph 5: Rural-to-urban migration in Poland between 1990 and 2000



Source: Central Statistical Office GUS at: <http://www.stat.gov.pl/english/serwis/ludnosc1/internal.htm>

Moreover, the housing constraint poses serious obstacles to those potentially willing to migrate to more dynamic regions, as shortages in dwellings and the high cost of credit increase rent prices especially in urban areas where employment opportunities exist.<sup>5</sup> The fact that communal rents have remained heavily subsidised by the government acts as further deterrent for the tenants to move out.

### 2.2. National policies as the main source of distorted market signals

As the preceding section indicates various developments indicate failing market signals. In particular, there is a strange increase in peasant farming, which seems an odd economic move, given the non-viability of such farms. Furthermore, there are grounds to suspect that the persistent unemployment levels, low labour mobility and high hidden unemployment in agriculture are consequences of distorted market signals and more precisely policy intervention.

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<sup>5</sup> Deichmann U. and Henderson V. (2000), Urban and Regional Dynamics in Poland, Working Paper No 2457, World Bank.

This seems to be confirmed when the structure of social security intervention, minimum wage, legal labour market restrictions and taxation systems are analysed.

### *2.2.1. Social security intervention*

Some of the most likely causes important factors contributing to the very low labour mobility have been Poland's high social transfers to households, unprecedented among CEECs. Poland is one of the few transition countries where overall income and consumption inequality increased little in the last ten years, owing to the average of 18% of GDP spent on social transfers annually. A recent study on inequality in Poland finds no evidence of increases in overall inequality in the last decade, although inequality in labour earnings increased steadily and substantially, particularly in the early phase of transition.<sup>6</sup> The same study also indicates that earnings differentials across educational levels increased rapidly during the transition. It is suggested that the use of social transfer mechanisms to buffer the potential increase in income inequality, particularly in the crucial early stage of transition, appears to have been important in ensuring a successful transition to a market economy.<sup>7</sup> However, the design and cost of this policy has inhibited the transition's effectiveness and Poland's ability to sustain rapid growth, especially in the last three years. This has been felt particularly in agricultural and poorer regions where less skilled, but nevertheless expensive labour (due to the minimum wage rules and high taxes) became unattractive for employers.

### *2.2.2. Wage responsiveness to regional economic conditions*

Regional non-differentiation of the minimum wage poses a major barrier to the reduction of regional unemployment disparities, as poor regions have lost their comparative advantage of lower labour and production costs. Given that it is mostly young people and the low skilled that are unemployed and whose employability has been most sensitive to the level of the minimum wage. Moreover, employers tend to substitute low skilled and low educated workers with skilled and educated, as the difference in wage costs has been reduced by the relatively high minimum wage.

### *2.2.3. Legal labour market restrictions*

Apart from the high minimum wage, legal requirements on job security and inflexible working hours have also been blamed for low employment creation. Although Polish labour protection law is relatively flexible compared to OECD standards and other CEECs, dismissal of employees is made difficult and costly, while the renewal of temporary contracts is restricted. Given that labour markets are characterised by a constant trend of job destruction and creation, especially in transition economies, such restrictions are highly undesirable. Employers in Poland are discouraged to hire employees, because temporary contracts are renewable only twice. This forces employers to hire fewer workforce on unrestricted work contracts in order to avoid problems with shedding excessive manpower in case of economic downturn. Moreover, the relatively rigid legislation on working hours largely prevents companies

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<sup>6</sup> Keane M. P. and Prasad E. S. (2000), *Inequality, Transfers and Growth: New Evidence from the Economic Transition in Poland*, IMF Working Paper, WP/00/117, p. 3-4.

<sup>7</sup> Ibid., p. 25.

from adjusting work schedules to their activity peaks and troughs, and forces them to pay large overtime premia. The legislation prohibiting the repeated renewal of short-term contracts poses particular problems for agricultural businesses. It is not possible to hire repeatedly seasonal workers - a much-needed instrument for many farms.

Furthermore, labour intermediation is forbidden as a private-for-profit activity. This restricts the information flow between the employment seekers and employers. Agricultural labour contractors are of primary importance to Polish economy, and this limitation is damaging to the sector. Similar problems can be found in the seasonally affected service sectors such as tourism.

#### *2.2.4. Differential tax and social security systems for farm labour*

One of the most notorious developments in Poland has been the large increase in the number of non-viable peasant farms in Poland. This has been largely blamed to government intervention, which applies different payroll and social security systems to farmers<sup>8</sup>, as well as the granting of subsidised loans to buy agricultural land.

Polish payroll taxes are heavy. However, there are two tax systems, the general payroll tax system (ZUS) and the special program for farmers (KRUS). The considerable advantages of the KRUS system is, according to the world bank report, affecting considerably the labour market and encouraging the maintenance of subsistence farms.

ZUS contributions are heavy, a 32.4 % of the gross wage<sup>9</sup>. Eligibility to the KRUS reduces the contributions to as low as one fifth of ZUS' contribution. The benefits from KRUS are however comparable (Table 1).

*Table 1: Benefits and contributions to ZUS and KRUS, 1998, PLN*

	<b>KRUS</b>	<b>ZUS-self employed</b>
Old age benefits	464.43	552.97
Disability benefits	420.97	463.32
Average contributions	715.47	4,421.56

Source: World Bank (2001)

The considerable discrepancy between KRUS and ZUS contributions actually encourages people to seek to belong to the KRUS, and therefore to own at least one ha of land. How strong the incentive actually is, is demonstrated by the World Bank. The ZUS system of contributions falls short of any fair contribution plan. The World Bank estimates that 85.44% of the ZUS contribution to the pension scheme is a pure tax. This indicates that with the KRUS and a lower investment contribution to a pension fund, the returns can be higher. Moreover, as land owners accepting former employment outside agriculture have to be registered in ZUS, this further discourages farmers to move to the non-farm sector unless net incomes are higher than their net

<sup>8</sup> World Bank (2001), Poland - The functioning of the labor, land and financial markets : opportunities and constraints for farming sector restructuring, Sector Report, World Bank, Washington DC.

<sup>9</sup> Ibid., p. 37-40

farm income (and other non-declared jobs). This also encourages abuses of the welfare system as it discourages farmers to declare their off-farm employment.

Given the large discrepancies in the treatment of farmers it is reasonable to question the extent to which farming households are in need of a differential treatment in rural areas. According to the same study, the average farm household income (including income from non-farm activities and social benefits) is significantly higher than for non-farm households. The farm-households report a total income in the year 2000 of 24,000 zloty (€ 6,570), compared with 17000 zloty (€ 4,654) for non-farming households. This data, however, hide the fact that there is a very strong income polarisation in agriculture. Farms under 7 ha are very poor and derive 80% of their income from the pension and disability payments system. The viable and richer farm households possess more than 15 ha of land. This is also confirmed by a European Commission report (1998), which declares that farms over 15 ha earn more than twice the average Polish GDP per capita.<sup>10</sup>

Data from the regional statistical office of Podkarpackie – one of the poorest regions in Poland - indicate that various professional categories also earn very low gross salaries (Graph 6)<sup>11</sup>. Podkarpackie is amongst the regions with the largest share of employment in agriculture and with 94% of all farms being subsistence farms with less than 7 ha of land. The average nominal gross salary in all sectors for the selected regional population in the region in 1999 was of 1516 zloty per month, or 357 € using the average exchange rate for the year (4.23 PLN/€, Source: Eurostat). According to the regional statistical office this is 12.9% lower than the Polish average.

Indeed, Graph 6 shows that a number of incomes in other sectors are also relatively low. Teachers, catering, health and social workers are paid wages from 220 € to 250 € per month. These employees, if no members of a family-owned farm, do not have the extra income derived from land, property or food production. This data also do not take into account the effects of the KRUS and ZUS social security contributions on net wages. Therefore, after tax deduction, the non-agricultural salaries in the above non-agricultural sectors are actually the worst affected.

Unfortunately, the income data for agriculture cannot be confronted with those recorded in other sectors. This is because the regional data from Poland only take into account salaries of employees of companies with more than 9 employees, which exclude a large number of small-scale farmers. However, what appears clear from the data is that there is a generalised poverty problem in most sectors. Incomes of employees in large farms are better than the average. However, given the general poverty level, it is not clear that small-scale farms are at a disadvantage compared with other sectors. Poverty levels in non-agricultural sectors are so high, that a differential fiscal treatment in favour of farm households seems unfounded.

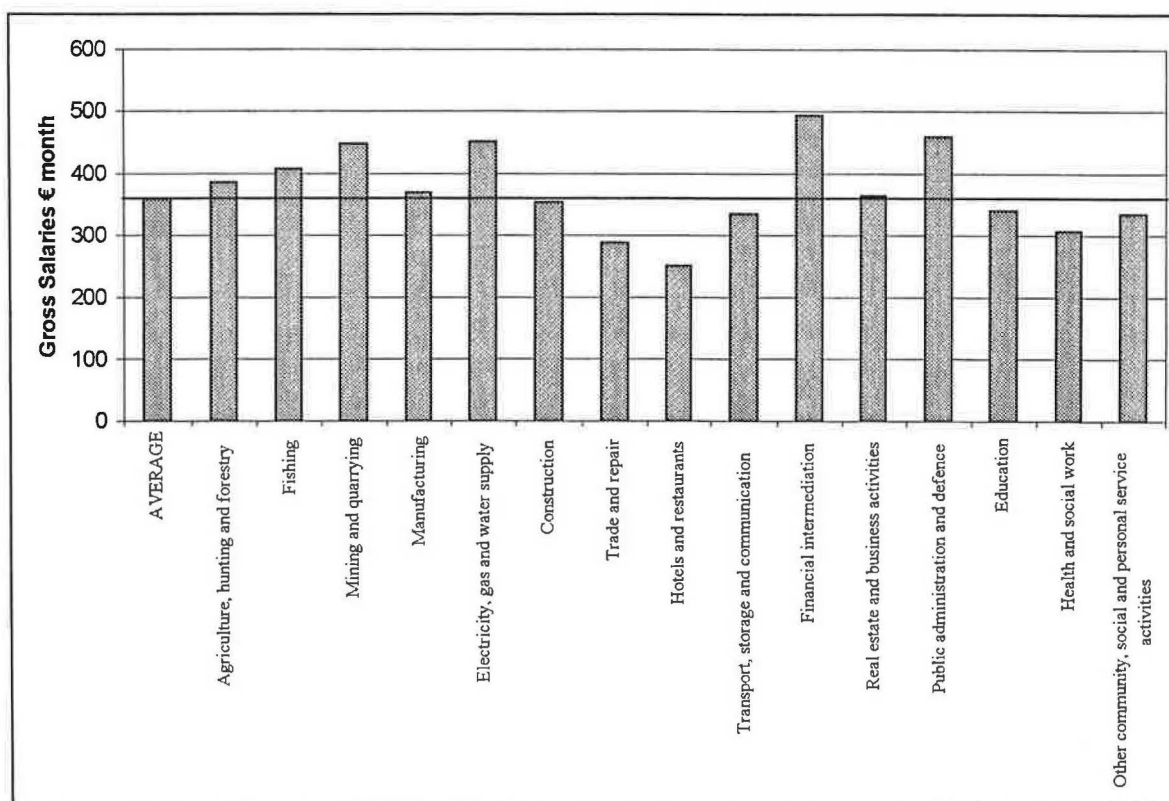
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<sup>10</sup> European Commission (1998), "Agricultural Situation and Prospects in the Central and Eastern European Countries," *Working Document* (June 1998).

<sup>11</sup> GUS Rzeszow (2000).



Graph 6: Average gross salaries per economic sector in Podkarpackie, 1999



Source: GUS-Rzeszow (2000)

Three aspects emerge from the above analysis. The first is that poverty levels are widespread in all sectors and that even peasant farmers do not seem to be particularly more in need of income support. The second aspect is that farm incomes appear to be rather polarised, with high incomes for a minority of farmers. These will actually be the prime beneficiaries of the CAP market support. The third aspect is related to mobility incentives. Most of the available data concern gross salaries. Therefore, the discrepancy between disposable incomes in different sectors is actually larger than the data show due to the ZUS and KRUS taxation systems which benefit farmers.

Finally, frequent schemes offering subsidised loans to former state farm employees for a purchase of farmland have also the effect of proliferating the number small farms and of fragmenting the land. The consequence is the existence of two contradictory developments. On the one hand, market developments drive land consolidation as larger farms search for maximising the economies of scale, but on the other, policy intervention fosters land fragmentation and polarisation.

### 2.3. Concluding remarks on Poland

The Polish government has been spending a substantial part of its resources in a generous social security and taxation system, which has had its negative effect in discouraging labour mobility and formal employment. Support for agriculture is high with respect to the country's resources, and has helped maintain and even foster the existence of peasant farming. It has probably contributed to Poland's slowdown in the



economic performance of the last years. Therefore, the attempt to avert the negative effects of economic transformation of the transition process has most likely only delayed, but not avoided, increasing unemployment and income inequalities. The difference is that with these policies in place there is no improvement in sight without the adoption of growth-oriented policies and programmes.

Rural development programmes aimed at diversify activities in rural areas and helping to move labour out of agriculture will face a strong conflicting pressure in the opposite direction. The highly distortive tax incentives will create reluctance to move officially to any non-agricultural activity, if this is going to make the farmer not eligible for the KRUS system. For Poland, it is highly recommended to reduce these labour market distortions.

### **3. RECOMMENDATIONS FOR CEECs**

The analysis of the Polish labour market policies offers a good example of the kind of developments distortive policies foster. Overwhelming evidence from the experience of EU countries with the structural funds shows that getting the macroeconomics and the national development strategy right is crucial for economic growth. For rural development policies, it is unrealistic to hope for an improvement of the economic situation in rural areas, if the national policy priorities distort severely the labour markets.

On the other hand, the EU has to be conscious of the particularities of these economies. Some of the policies applied in the EU may well be counterproductive and slow down rather than encourage economic growth and labour mobility.

#### **3.1. Rural development policies and labour mobility**

For CEECs, which need a rapid growth in GDP, it is important to focus support on long-term job creation through improved supply-side conditions. It is important that support is not only geared to induce public and private investment expenditure, but also to create the economic environment which can attract investment to regional growth centres. It is important to focus on the removing market impediments to allow the sectors with comparative advantage to grow, even if initially this may well require the acceptance of an increase in income inequalities and in some cases unemployment levels.

At an early stage the structural and rural development funds should target measures geared at growth generation and should not attempt to avoid interregional income inequalities. Otherwise, the candidate countries will not take advantage of its economic potential and will stagnate longer in relative poverty.

Taking this into account, the Rural Development policies should focus predominantly on the following actions:

- avoid the subsidisation of low value added marginal activities

- improve the rural infrastructures to reduce the transaction costs of entrepreneurs in rural areas by facilitating access to markets
- Improve regional transport to allow better labour mobility and trade
- introduce educational training programmes tailored to the needs of the market
- focus on those sectors with the highest growth potential
- completing the land reform (this is a high priority; a well functioning land market is crucial for agricultural productivity and has important repercussions in the setting of rights on support levels)
- housing and transport policies have to get a strong focus of attention, as these are key players for labour mobility

Given the excessive agricultural employment and the need to increase the competitiveness and productivity of the agricultural sector, it is recommended at this stage to use rural development policies focused on farms and businesses which have sound economic prospects. If rural development only focuses in the smallest scale operators and on maintaining marginal activities, for which there is strong political pressure, then the multiplier effect of having stronger economic activities concentrated in growth areas will be lost. The development of strong economic growth centres can in the long-run not only generate wealth and labour demand in the centres themselves, but also improve the economic situation in the whole economy by acting as the economic drives for other regions. There is a balance to be struck.

### **3.2. Enlargement policies and transition – an opportunity**

A particular challenge for the EU in view of enlargement is precisely to help in the relocation of labour from agriculture, especially from non-viable peasant farming, into other economic sectors. However, the combination of national policies and an important part of the CAP instruments are bound to exert a strong reverse pressure. The fundamental problem is the mismatch between the policy objectives of CEECs and of the EU. While the EU strives to find methods to save farms in the Member States, several candidate countries need to encourage farmers to move out of agriculture.

#### ***3.2.1. The economic rationale for higher rates of rural development and lower rates of direct support***

Candidate countries have expressed disappointment at the Commissions position on transitional arrangement, which offer lower rates of direct support in exchange for higher rates of rural development support for a transitional period of ten years. However, the proposals have good foundations and the candidate countries should grasp the opportunity to make sensible use of the offered terms. There is need to avoid the introduction of the CAP policies as they are today for the following reasons:

- (1) There will already be an improvement in the revenues of the farming community because for key products EU intervention prices are still well above the Polish market prices, e.g. beef, milk, sugar.
- (2) There is a severe need of funds for the restructuring of the sector to allow products to reach the required standards. This is better served with rural development funds to producers and processors rather than through direct payments.
- (3) Income levels in rural areas are low for all inhabitants, not only farmers. Rural development funds can target the standard of living and job opportunities of all inhabitants. Direct payments would only go to the farming community and to the largest farms. It should not be forgotten that other citizens will suffer the burden of higher prices as consumers.
- (4) Problems of peasant farming are better solved by rural development measures, as many of those farmers would hardly be able to benefit from direct payments under the normal EU schemes. The simplified scheme proposed by the Commission is for a limited duration. Finding and facilitating the move to employment outside agriculture has to be a priority, rather than subsidise their activities.

### *3.2.2. Transition to adapt national policy priorities*

In some candidate countries, such as in the case of Poland, the transition period offers an opportunity to act decisively. Particularly important is the offer by the Commission to pay direct payments on a flat rate basis, so as to cover the peasant farms and to help the large number of farms which would face difficulties in claiming payments under the normal rules.

This offer can give a temporary respite to the Polish government (and other candidates) to foster land consolidation and improve labour market opportunities. It is a temporary safety net. However, if the Polish authorities do not take decisive action the effect will be counterproductive. The existing tax benefits and other subsidies for farmers would be combined with this direct support, and the incentives to enter peasant farming will increase, and probably rather strongly. No action would just keep or even foster the Polish rural peasant dilemma and create a problematic situation once the simplified flat rate payments have to be ceased.

# **DFID RURAL LIVELIHOODS PROJECTS IN MOLDOVA, RUSSIA AND UKRAINE**

Victoria Burachenko, KORAS

Svyatoslav Fyodorov, RAF

Ian Houseman, ADAS

Maria Osipova, ConsultAgro

## **MAIN COMPONENTS AND FEATURES OF RL PROJECTS**

- Rural Advisory Service
- Micro Finance Scheme
- TPAC
- Social Sphere Asset Transfer
- Community Development
- Matching funding
- Policy influence and development

## **KEY PROJECT STAKEHOLDERS**

- Land and property shareholders
- Rural unemployed
- Managers of large farm entities
- Private farmers
- Oblast and raion administrations
- NGOs
- Local delivery organisations
- DFID

## **RUSSIAN RL PROJECTS**

- SRLP
- RIFP
- TPAC
- AIGUMAS
- NNURCS

## **UKRAINE: UNIFIED RURAL LIVELIHOODS PROJECT (2001 – 2005)**

### **Main Outputs**

- Income generation and employment
- Community development and social sphere
- Policy reforms
- Lesson sharing
- Sustainable rural service provision

## **Rural Non-farm Employment and Rural Development Initiatives in Ukraine**

Victoria Burachenko, KORAS

The process of reorganization and reforming of the agro-industrial complex in Ukraine has brought to life apart from economic, a lot of social problems, which cannot be ignored if we are speaking about the increase of the rural livelihoods and complex development of the rural areas. These problems are as follows:

- increased unemployment;
- decreasing level and sources of income generation;
- deterioration of the social infrastructure in the rural areas and thus the provision of the social services;
- deterioration of the system of the agri-business services provision to the PPH owners.

### Unemployment

In the process of reorganization of the collective agricultural enterprises, big enterprises were split into several smaller enterprises with the less working places in the majority of cases. Some of these newly created enterprises were going bankrupt over time. All this has brought an increased number of redundant workers and growing unemployment in the rural areas.

### Level and sources of income

As unemployment increased and the general economic and social situation in the country became worse people, especially in the rural areas, had to rely only on themselves. In the majority of cases the salary was not any more the main source of income either because the person was unemployed or the salary was not paid for years. So people had to look for the alternative sources of incomes among which are income from the private plot holdings, development of non-agricultural businesses, development of small agricultural businesses, etc.

### Social infrastructure

Before the process of reorganization started the whole complex of social sphere assets in the rural areas belonged to (was on the balance of) the collective agricultural enterprises working in these areas. After the reorganization of the CAEs in accordance with the relevant Presidential Decree all the objects of the social infrastructure should have been transferred to the balances of the local village councils. Here a lot of problems appeared. On one hand, village councils did not have the resources to maintain the social sphere objects, to develop them and to provide social services at the required level. That is why they were not always willing to receive all the objects. On the other hand, not all the residual CAEs or newly created enterprises were willing to transfer the social sphere objects, especially if and when such objects were built at the expense of the former CAEs.

All these factors brought together created the situation when social services are practically not provided at all in the rural communities.

### Agri-business services provision

Taking into account that even in the former times private plot holdings were one of the sources of incomes for rural population and now they have become one of the main sources, the demand of the PPH owners for agribusiness services has increased. The main services demanded are: ploughing, harrowing, grain harvesting, input provision, crop protection, marketing of the produce, etc.

Before these services were provided through the CAEs. At present such services are provided either by reorganized agricultural enterprises or by the private entrepreneurs. But the prices for such services are quite high and the quality does not always justify the price.

Having analyzed and studied all the above mentioned problems we have started looking for sustainable models of the agri-business and social services provision and development of the income generation and employment alternatives.

One of the first models implemented by the project was the creation and development of the rural service cooperative. The main objective of which is the provision of the high quality agri-business and social services to its clients at affordable prices.

The main clients of the cooperative are the PPH owners and the rural population. The range of agri-business services provided is:

- ploughing, harrowing, grain harvesting, crop protection, input provision, marketing of the produce, etc.

This model provided the possibility to increase the real income of the rural households through decreasing the price of services and increasing the quality of these services. The wide range of the high quality services provided by the cooperative created the opportunity for the PPH owners not only to increase and improve the efficiency of the production at their plots, but also in many cases, provided the possibility to market their produce in an organized manner at less costs through the cooperative. Improved efficiency of production and marketing gave the possibility to the rural population to use one of their main sources of income, i.e. PPH with much greater effect. This has been proved by the impact assessment survey conducted at the end of the project. In accordance with the results of the survey the average monthly income of the rural population in the pilot areas has increased by 57 % during the year. Though we cannot state that this was achieved only due to the cooperative activities.

As another option of the alternative employment and income generation we have suggested and tested the model of the development of the non-agricultural businesses on the basis of the private entrepreneurship. This model comprises several elements:

- partnership with the oblast and local employment centers;
- training of the potential entrepreneurs;
- follow-up support of the newly created businesses.

### Partnerships with the oblast and local employment centers

When we start the activities on the development of the non-agricultural businesses in the new rayon it is very important to establish good working relations with and receive the political support of the oblast / local employment centers. This step is absolutely necessary because formally the function of the development of the alternative employment in the rural areas lies with the local employment centers. Unfortunately they don't have enough skills and background to conduct the business start up training for the unemployed. This is actually the niche for our services. But



employment centers have substantial resources for the provision of professional retraining for the unemployed on a free of charge basis and they can provide the new entrepreneurs with the starting capital on the basis of the business plan (the money come from the subsidies for unemployed which they will otherwise receive during the year on the monthly basis).

### Training of the potential entrepreneurs

Training for the rural unemployed people who would like to improve or change their qualification and on this basis to start up private business is conducted in four rounds:

1. Professional upgrading training or retraining through the employment center (for those who does not have enough professional skills to start a business).
2. Information seminar for the big groups of the unemployed in a particular community. The aim of this seminar is to inform people about the existing possibilities of the self employment, training and follow up support provided by the employment center and the cooperative \ rural advisory center, etc.
3. Orientation seminar. This seminar is usually conducted for the smaller groups of people who have actually taken the decision to start up their own businesses. The aim of this seminar is to help people to finalise and refine their business ideas, which is very important for the last round of training.
4. The final part of the training is the course "How to start up and run a successful business" (5 days). This course is very, very practical. That is why for, the course to be successful, it is important that the participants have relevant technical skills in the business they are going to start and clearly understand their business idea. The main output of this course is the business plan for each of the participants for the businesses they are aiming at. It is important to note that the format of the business plan prepared by the participants during the course is exactly the same as that which is required by the employment centers for the provision of the start up capital. (The list of the most widely spread businesses is attached).

Besides the preparation of the business plans the participants receive basic information on the market economy, market and marketing research, budget calculations, cash flow projections, state registration and taxation.

### Follow up support of the newly created businesses

After the training is finished and business plans are prepared, the next steps for the entrepreneurs are: -to receive the state registration; - to receive the start up credit if necessary; - and to actually start the business.

It is very important not to leave these people alone at first stage. Because without professional and psychological support they will never move further than being unemployed and especially in the rural areas this decreases positive self-assessment and belief in one's capabilities a lot.

So at the initial stage new entrepreneurs receive advisory support in state registration, accounting, reporting to tax inspection, etc.

If the businesses are oriented for the provision of the social services in the rural areas (hairdressers, shoe repairs, home appliances repairs) we try with the joint efforts of the private entrepreneurs, village council and the project to restore the household services which existed in the majority of the rural communities in the former times. This means that if the premises used for this purpose before are at the balance of the

village council (after the repairs, if needed), they are provided to the private entrepreneurs at the minimal rent payment to the mutual benefit of the entrepreneurs and the community.

If the number of the private entrepreneurs is increasing with time in certain areas we are trying to create informal business clubs for them to be able to communicate, share experience, solve similar problems and support each other. At present we are working on the possibility of formalization (legal registration) of such business clubs and, with time, will probably develop them in the business incubators.

### **Positive sides:**

#### **For unemployed**

- free of charge training and qualification upgrading;
- self-employment, as a result increase of income, improved livelihood;
- support and help in the credit provision;
- follow up support at the first stage of the business development;
- official registration, as a result no tax problems, pension provision;

#### **For the communities:**

- revival of the social services provision;
- taxes are paid to the local budgets;
- decreasing level of unemployment and social tension.

### **Problems**

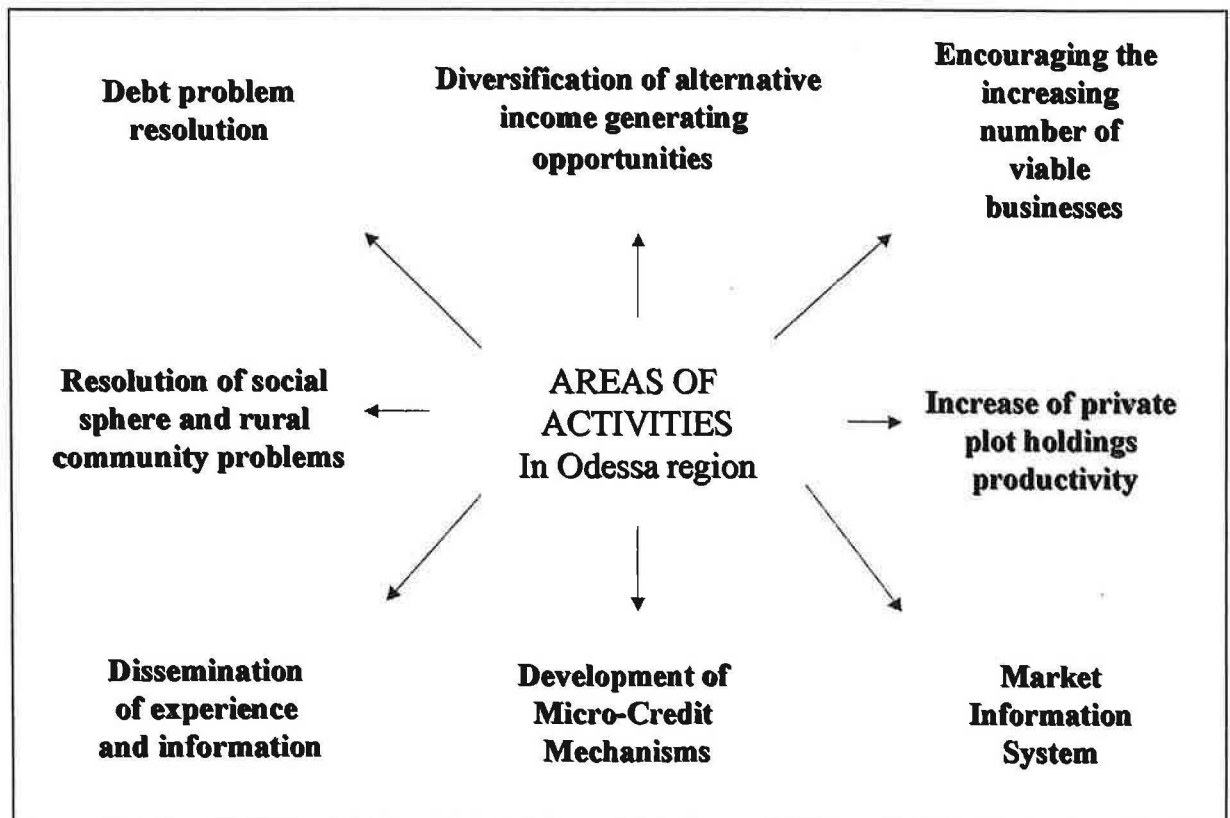
1. Rural people are reluctant to make radical changes in their lives.
2. Start up capital for the private entrepreneurs (if they are not registered with employment centers of the period of their registration is close to the end) is difficult to obtain.
3. Employment centers are reluctant to get deeply involved in this process.
4. It is difficult to reach sustainability of the model from the point of view of the advisory services.

### **List of Businesses**

1. Grocery store
2. Café \ Bar \ disco
3. Chemist shop
4. Veterinary chemist shop
5. Barbershop
6. Shoe repairs
7. Tailor's shop
8. House appliances repair shop
9. TV, radio repair shops
10. Lumber mill
11. Joinery
12. Car repair shop
13. Transportation services
14. Green tourism
15. Handicraft

## Sustainable Rural Livelihoods Programme in Moldova

Maria Osipova, ConsultAgro



### Problem of Employment and Rural Livelihoods – The key problem faced by the Communities

- Only 51% of the able-bodied population of Odessa region are employed in the sectors of economy
- Proportion of the unemployed among the rural able-bodied citizens is 29 %
- Reformation of the agrarian sector reduces the employment level in the rural sector, the number of the unemployed is particularly high among the young people and women

### Creation of employment opportunities in the rural sector

#### *Small Non-Farm Business Development*

- Promotion of employment and self-employment opportunities through the training seminars on How to Start-up Your Own Business;
- Development of vernacular arts;
- Promotion of employment among the young.

### Small Non-Farm Business Development

- The surveys revealed the worsening situation in the rural area in respect of provision of the vital services to the population (e.g. water supply, gas supply, utility services, shops and services of cultural nature)

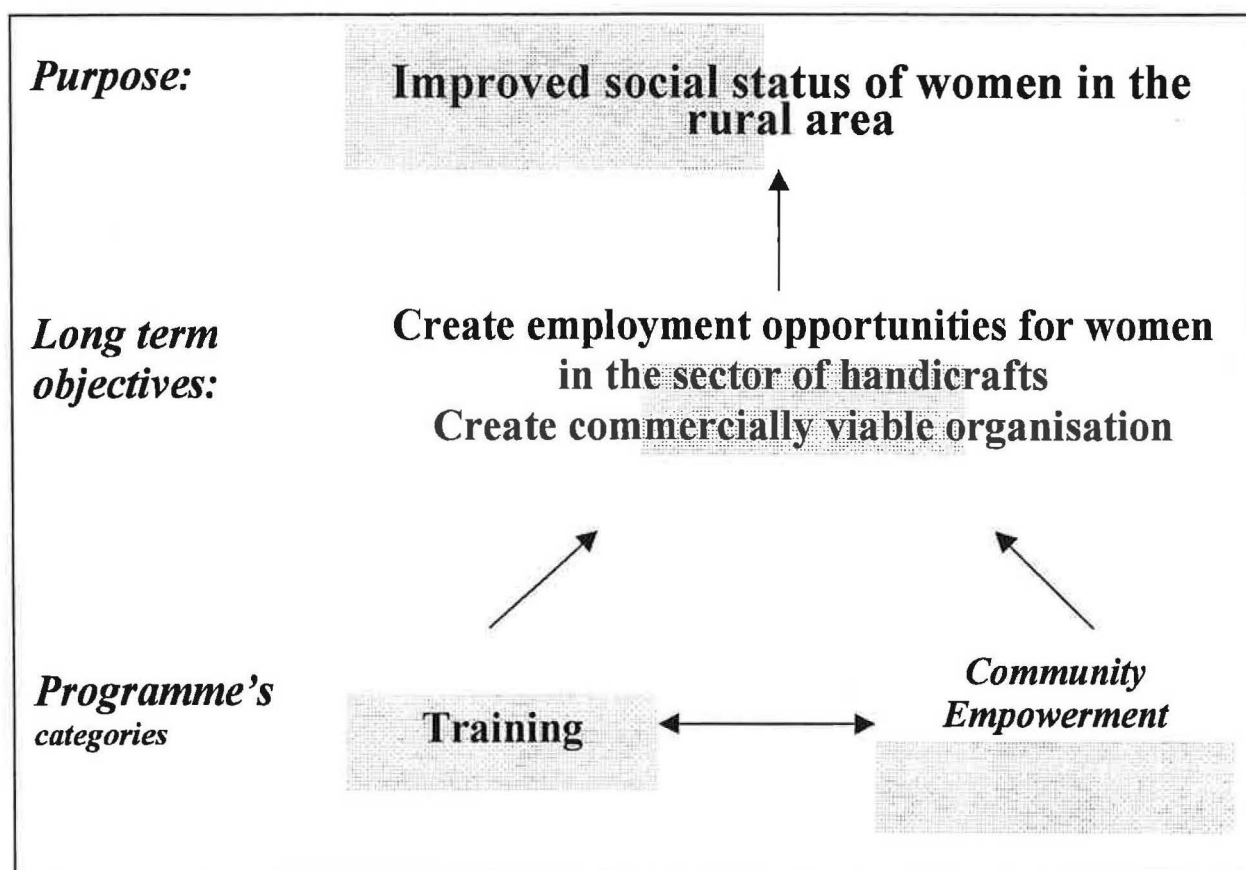
- The major constraints that hinder the development of such services on the basis of private ownership are as follows:
  - lack of relevant knowledge among the citizens regarding the basics of business management in the sphere of service provision;
  - lack of starting capital required to set up a business;
  - lack of qualified specialists etc.

### **Results of training conducted in Odessa region**

*New businesses set up on the basis of private entrepreneurial activities in the rural area*

<b>Kind of Business</b>	<b>Capital base, US\$</b>	<b>Loan capital, US\$</b>	<b>Profitability, %</b>
Food shop	1274	0	27
Food shop	3120	564	15
Seasonal	1609	0	40
Village	2882	1034	32
Café	1289	429	19
Essential Commodities	1279	0	40
"Souvenir"	658	0	50

### **Development of vernacular arts**



## **Handicrafts Development**

*Results of commercial activities undertaken by the training centers in 2001*

<b>Period</b>	<b>Number of participating women, per.</b>	<b>Sales level (embroidered articles, clothes, production and mending), US\$</b>	<b>Sales level per woman participant, US\$</b>	<b>Average monthly salary per woman participant, US\$</b>
1 quarter	10	166	17	7
2 quarter	12	446	37	15
3 quarter	12	770	64	26
4 quarter	20	1991	100	66

## **Sustainable Rural Livelihoods Pilot Project Moldova**

*Areas of Activity:*

- Improving access to legal advice and protection of peasants' rights through TPAC procedure;
- Resolution of social sphere and rural community problems
- Development of private farms, establishment of co-operatives;
- Models of enhanced income levels from agricultural production,
- Development of consulting service;
- Improving access of rural operators to financial resources – development of loan-saving associations.

## **Impact of Small Business start-up in the sphere of service provision**

<b>Activity</b>	<b>Capital base, US\$</b>	<b>Loan capital US\$</b>	<b>Profitability, %</b>
Arrangement of Leisure Centre for the young using the idles House of Culture on the basis of the entrepreneur's license	202	250	13
Arrangement of the physical therapy treatment on the basis of the entrepreneur's license	2500	3100	15
Arrangement of a barbershop on the basis of the entrepreneur's license	1500	2500	12



## **Financial Support to Rural Non-farm Businesses under the SRLP Project**

*Svyatoslav Fyodorov, SRLP project micro-credit specialist*

The Sustainable Rural Livelihoods Pilot Project (SRLPP) implementation started in September 1999. The project is implemented in two regions - Leningrad region and Oryol region - by Russian organisations RosAgroFond and AgroMIR under the supervision of the British company ADAS International Ltd. The financial support is provided under the Britain-Russia Development Partnership by the Department for International Development (DFID), the administrations of Leningrad and Oryol regions, and also the raion administrations.

The project comprises several components and is designed for 4 years.

Lodeinoye Pole raion located in the north-eastern part of Leningrad region was chosen as the project pilot raion. It is one of the most disadvantaged raions of Russia with high level of unemployment and low population income. In 2000 the population of eight volosts of Lodeinoye Pole raion was about 11,000 people, who had 4,000 rural households. The average income per person was RUR640 (about \$22). About 92% of families had income below the officially defined subsistence level.

Novosil raion became the pilot raion in Oryol region.

In April-May last year the project dissemination to two new raions in Leningrad region (Volkhov and Tikhvin) and two new raions in Oryol region started.

The project embraces the following main activities:

- Rural finance support scheme;
- Agricultural production development on private family farms (PFF) and private household plots (PHP);
- Development of alternative employment in rural areas;
- Land use regulation;
- Social infrastructure support;
- Revitalisation of insolvent farm enterprises

In order to provide financial support to the rural population economic activity within the project framework the Lodeinoye Pole Foundation for Rural Development (LP FRD) was set up in Leningrad region in December 1999. Its founder was the raion administration. The foundation loan capital was formed from the grant funds of the DfID, the Leningrad region Administration and the raion administration. The methodological support is provided by RosAgroFond.

In order to provide advisory support, legal protection and services to the rural producers in selling their goods and purchasing agricultural inputs the LP FRD set up a Rural Consultancy Centre (RCC), a Third Party Arbitration Court (TPAC) and an input supply and produce marketing agency correspondingly.

The LP FRD has been providing loans since February 2000. The loan capital is 2 mln roubles (\$65,000). The total number of allocated loans is 240 in the amount of 4 mln roubles (\$130,000) including 24 loans in the amount of 1.1 mln roubles (\$35,700) for the development of various non-agricultural activities. Thus, over 27% of the total

borrowed capital were allocated for the development of different activities not directly related to agricultural production. Non-farm businesses generally require high financial costs. Therefore, the average amount of loans provided for the development of non-farm businesses was 47,400 roubles (\$1,500), which is 2.8 times as much as the average loan amount for agricultural activities equal to 16,700 roubles (\$540).

In Novosil raion, Oryol region, an agricultural credit consumer cooperative has been set up for providing financial support to the rural population. Its loan capital is 2.9 mln roubles (\$94,200). Over its two years work it provided 192 loans in the amount of 4.8 mln roubles (\$155,800), including 18 loans in the amount of 613,000 roubles (\$20,000) for the development of different non-farm businesses.

The LP FRD has a high loan repayment rate, which is 99.2%. Loans are provided at the interest of 21-28% per annum for the period of two years.

The main non-agricultural activities in the rural area of Leningrad region are:

- input purchasing and output marketing;
- service provision;
- rural trading;
- folk arts and crafts;
- collection and processing of non-wood forest products;
- rural tourism;
- wood processing.

#### Input purchasing and output marketing

This non-agricultural activity is closely connected with the growth of the number of small and average scale agricultural producers. Supplies with agricultural inputs and service provision for selling goods produced on private household plots and small private family farms become in this case a demanded and profitable type of business in the rural area. Some farmers and PHP holders having faced the problems of marketing and supplies go in for supply-and-marketing activities and succeed. By this they solve problems with selling their goods and assist neighbouring farms with their sales, thus getting additional income.

An example of implementing the idea of activities in Lodeinoye Pole raion is Limited Liability Company "Agris", one of the founders of which was a farmer who had had experience in producing and selling vegetables.

One of the main activities of LLC "Agris" is the "potato scheme" development. For example, LLC "Agris" sells (including delivery) seeds, fertilisers and plant protection means to PHP holders. According to this scheme 223 rural residents purchased elite potato seeds (4,800 kg) and 16 rural residents purchased plant protection means last year.

LLC "Agris" purchases (or takes for sale) potatoes and vegetables from PHP holders and small farmers according to their demands directly on the farm. The enterprise provides PHP holders with seeds, fertilisers and plant protection means (i.e. pays for their production in advance) and after harvesting buys their produce wholesale and does settlements.

Another example is a rabbit farm, the owner of which purchased a car for the loan money and successfully provides his own farm and the neighbouring ones with fodder getting additional income from it.

A widespread and highly profitable type of sale-and-purchase activities is the purchase of wild berries and mushrooms from the rural population.

#### Service sphere development in the rural area

The range of services demanded by rural population is rather large, and as the project implementation experience in Leningrad region shows, the development of these services can be a sustainable and profitable business for rural residents. One of the most demanded types of services is mechanised tillage of land plots, harvesting and transportation. In Lodeinoye Pole raion two PHP holders used the loan money to purchase the lacking machinery for doing the complete cycle of potato growing works and are going to provide services on mechanised works by this getting a considerable part of their income.

The LP FRD also provided loans for opening repair shops, barber's and hairdresser's shops, PC training organisation, etc.

#### Wood processing

Three loans in the amount of 160,000 Roubles (\$5,200) were allocated by the LP FRD for the development of wood processing. The project experts assisted in making up a business-plan for the Kachalovs family business development in wood processing and their getting two loans in the amounts of 50 and 100 thousand roubles for building a drying chamber, increase of production and continuous provision with raw materials. Resulting from good supply with raw materials two-shift work was organised and two more workers were employed. Assistance in searching for partners and sales organisation is given to Ivanov, who had organised the production of baguet frames jointly with his family members and is now planning to extend his family business.

#### Rural tourism

Tourism development is a promising activity of the rural population alternative employment. It is especially relevant for the ecologically attractive raions with rich historical heritage. Special attention is given to this activity nowadays in the pilot raions of Leningrad region. In order to identify those who are willing to develop the tourist business they undertake the survey of rural residents, investigate the possibility of building guest houses, jointly with local tourist companies make up rural tourist routes, organise training for rural people.

#### Collection and processing of non-wood forest products

Some LP FRD clients got loans for purchasing a drying unit for drying wild growing plants under home conditions, which was a good additional source of income.

#### Folk arts and crafts

There are many craftspeople among rural residents. Many of them just do not know how to organise their business correctly, where to apply their skills and habits, where to find funds. The LP FRD provides advisory and financial support to such clients in the form of loans. An example of this kind of business can be "The workshop of Galina Golubova "Flowers of Russia". For the implementation of this project

Golubova G.A. got a loan of 5,000 Roubles in October 2000. The money was spent for the purchase of raw materials for producing folk art goods (mostly embroidery). The loan provided for 10 months was paid back in full and on time. Four new jobs were created for craftsmen. Galina Golubova organised an informal association of craftsmen, on the basis of which the JSC "Veles" was set up. Presently "Veles" unites 22 craftsmen.

# **DFID : 1999 - 2002 Russian National Parks Management Strategy Sustainable Livelihoods Component**

Maria Travkina - BCC (Moscow), Jonathan Rudge - RHS Associates,  
Chris Rock - NRI

## **RATIONALE**

*“The application of national park objectives on the management of lands and resources has an impact on the social and economic development of people and communities living in and around national parks”.*

## **ACTIVITIES**

- Written strategy and guidelines
- Practical Sustainable Livelihoods Programmes in four model areas

## **PROJECT APPROACH – IMPLEMENTATION**

- Problem-solving
- Collaboration
- Flexibility and creativity
- Realistic goals
- Practical results
- Demonstration/pilot projects
- Lesson-learning and replication
- Links between local (micro) activities and national park management strategy at federal level

## **PROJECT APPROACH – IN THE FIELD**

- People - their welfare and culture
- Nature - concrete actions to conserve and reveal its true value
- Local skills and experience
- Sustainable, step-by-step development
- Learning by doing
- Openness and transparency

## **TYPICAL PROJECTS**

- Micro-credit
- Inward investment (concessions)
- Income promotion through protected area logo
- Tourism
- Guest houses
- Micro-enterprise
- Handicrafts
- Training and advisory
- Experience exchange

## **LESSONS LEARNT**

- Local leadership/champions
- Motivation
- Local ownership and commitment
- Team-building
- “Small is beautiful”
- Marketing and market research
- Business plans
- Support and training
- Multi-stakeholder involvement
- Regional and local government
- Build on strengths
- Historical, cultural and social context
- Advocacy and awareness-building
- “Appropriate” activities
- Sustainable business

## **OUR LEGACY**

- SLs integrated into national park management plans
- Link with Federal policy
- Team of Russian specialists
- Sustainable (local) projects
- Committed local champions and structures
- Genuine examples of local collaboration
- Civil society dimension
- Guidelines

## **LOOKING AHEAD**

### **DFID strategy**

- importance of policy/federal context
- improved access of ordinary people to livelihood opportunities
- effective and coherent social policy
- building on success

### **More broadly**

- rural development
- sustainable enterprise



# Diversification of Income and Employment Opportunities in Selected Areas in Bulgaria

Diana Kopeva (UNWE) and Docho Mihailov (A.S.A.)

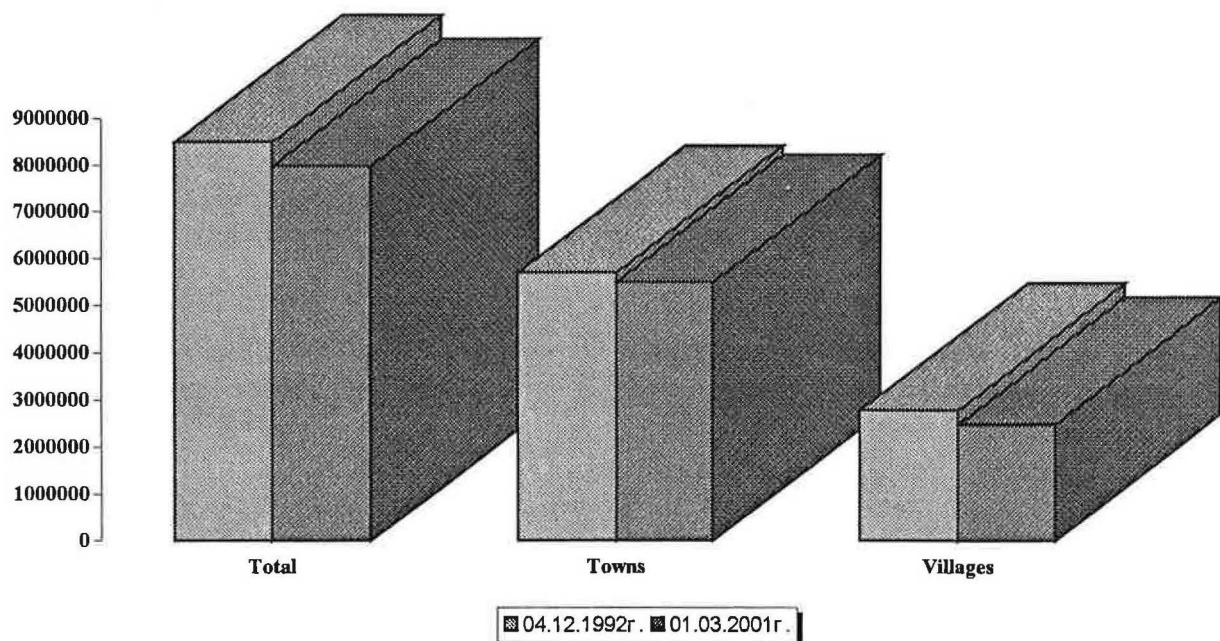
## DEMOGRAPHIC CHARACTERISTICS

- The 2001 census reveals that the total decrease of the population since 1992 is highest among rural population (11.3%)
- There is a clear tendency of ageing of the population
- The coefficient of age dependency in 2000 is 46.8% for the country falling down to 39.2% for the urban population and rising up to 66.6% for the rural population.

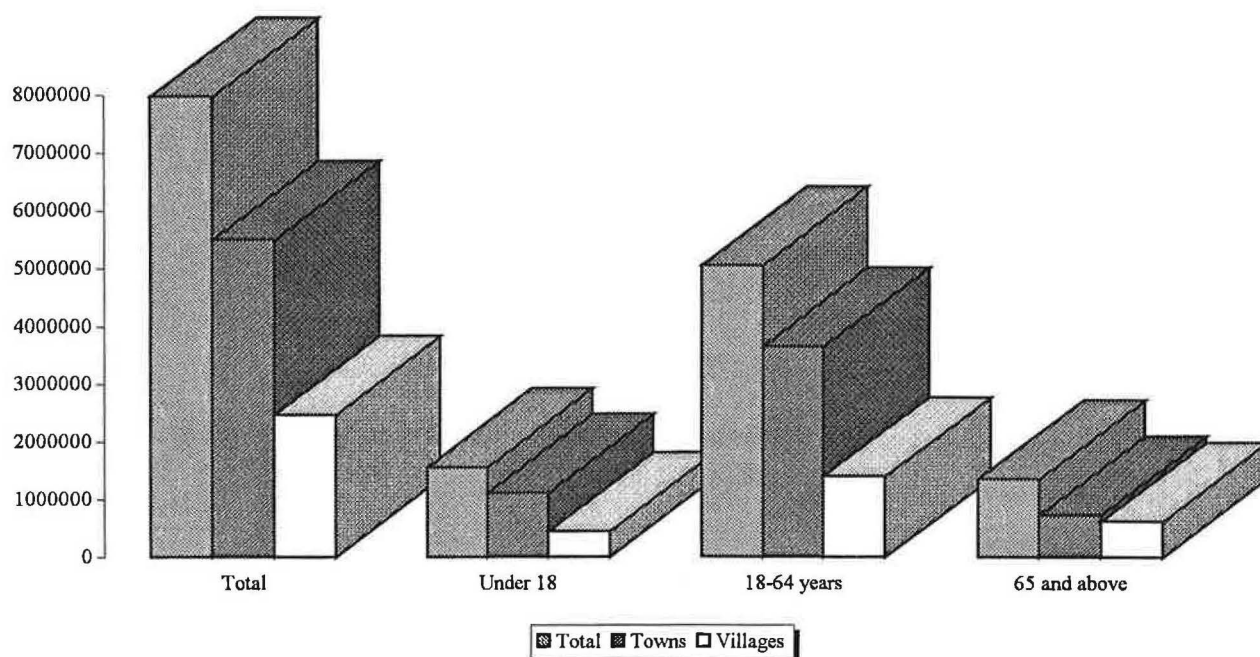
## MIGRATION

- Migration from rural areas: Abandoning of rural areas and creation of Less Developed Areas (LDA) phenomenon.
- Four dimensions of internal migration:
  - ✓ The town-to-town mechanical movement - 42% (2000)
  - ✓ The rural-to-town migration - 26.3% (2000)
  - ✓ The town-to-village migration - 21% (2000)
  - ✓ The rural-to-rural migration - 11% (2000)

**Bulgaria: Population according to 1992 and 2001 national censuses**



### Bulgaria: Population by age groups according to the 2001 census



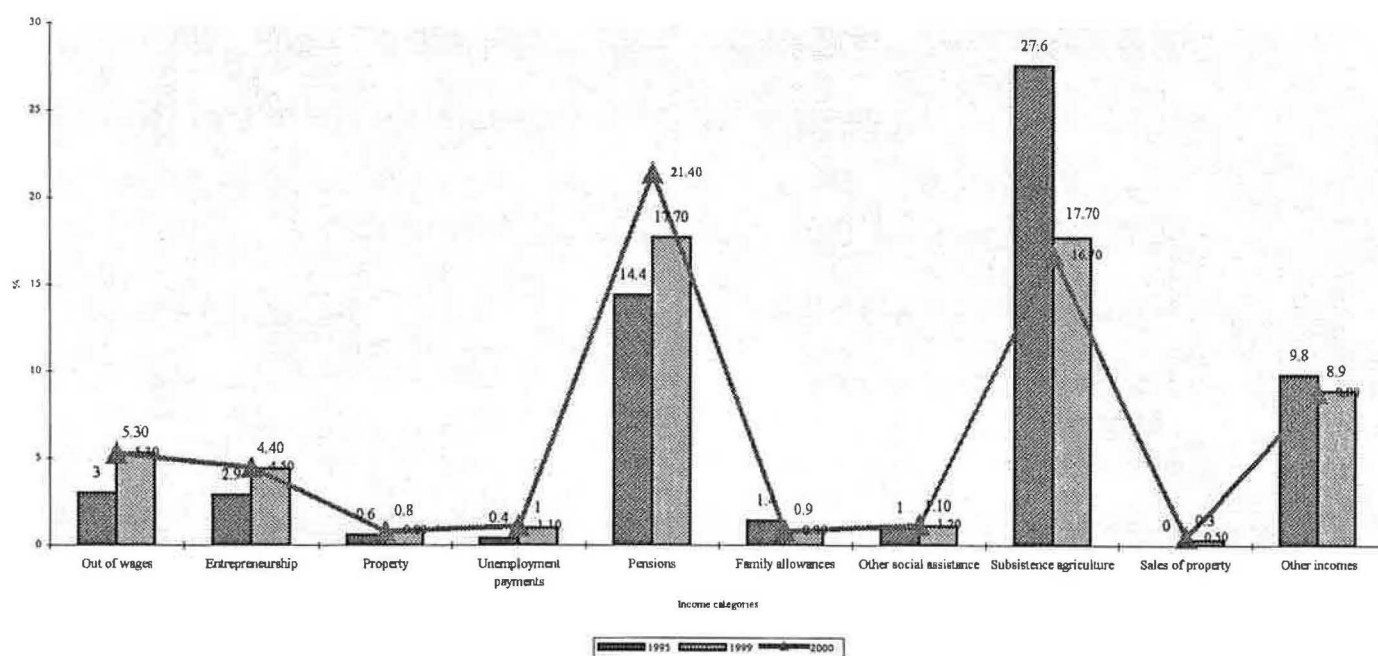
### INDICATORS FOR DEFINING RURAL AREAS

- ✓ The biggest city in the municipality to have up to 30,000 population;
- ✓ Population density - below 56 per km<sup>2</sup>;
- ✓ Share of agricultural and forest territories: at least 20% higher than the country average;
- ✓ Share of people employed in agricultural sector and forestry: at least 20% higher than the country average.
- ✓ Income per capita
- ✓ 50% higher than average unemployment rate

### CHANGES IN RURAL INCOMES

- Considerable increase of remittances from social transfers along with a comparative decrease of wage income. The tendency is particularly strong in the rural areas.
- ✓ Incomes from pensions comprise 23.2% of the total rural incomes, compared to 20.6% of the urban incomes. Particularly lower are the rural incomes from wages, comprising 22.1%, compared to 46.5% for the urban areas.

## Household incomes per capita (%)



## GENERAL TRENDS IN RURAL AREAS

- Privatisation and restructuring of enterprises led to high unemployment
- Increased poverty in rural areas
- Insufficient development of agriculture
- Agriculture is the dominating activity in rural areas

## HYPOTHESIS

Ongoing political and economic reforms in Bulgaria create conditions for diversification of activities in rural areas on the basis of rational local resource allocation and use.

## GOAL OF FEASIBILITY STUDY

- To identify the problems and constraints for labour diversification;
- To identify the possibilities for potential employment opportunities;
- To identify concrete project proposals based on rationale local resource allocation and use;
- To probe the application of participatory methods in needs identification.

## METHODOLOGY

Two settlements in two municipalities were chosen on the basis of the following criteria:

- Climate
- Terrain
- Socio-economic characteristics
- possibilities for labour diversification
- availability of factors of production (land, labour, capital)

## APPLIED APPROACHES

- Participatory approach: Citizen forum (general meeting of the population)
- Structural interviews
- Interviews of the municipality authorities and mayors of the villages on the basis of questionnaires

## THE APPLICATION OF THE PARTICIPATORY APPROACH

- High visibility of local resources
- Transparency and opportunities for efficient consequent control
- High feeling of community and ownership, which enables consensual decisions
- Extremely high demand for an external concern and respect of the opinion of villagers

## BRIEF CHARACTERISATION OF THE MUNICIPALITIES

<b>Troyan – Borima village</b>	<b>General Toshevo – Krassen village</b>
Located in a mountainous part of Stara Planina – mountainous and semi-mountainous relief	Situated in a plain part of the North-Eastern corner of Bulgaria
Industry is well developed	The main source of income for decades was and is agriculture
Agriculture is specialised in livestock production and orchards	Industry is relatively more developed.
Small and medium enterprises are found there	The region is highly specialized in cereals production

## RESULTS

<b>Troyan – Borima village</b>	<b>General Toshevo – Krassen village</b>
Due to the relatively well developed non-farm activities, opportunities for labour diversification are sought in agriculture	Well developed agriculture in the region pre-determines all project-ideas and proposals to be linked to agriculture but outside of the primary production process, and mainly in non-farm activities – food processing, tourism, etc.

## POSSIBILITIES FOR EMPLOYMENT: Troyan – Borima village

### *1) Honey production*

#### **Pros**

- ✓ Ecologically clean region
- ✓ Good climate conditions
- ✓ Variety of mountain honey sources (trees, herbs, etc)
- ✓ Experience
- ✓ Existing production, which could be expanded

**Cons**

- ✓ Restricted market
- ✓ No marketing experience

**2) Starting cultivated herb production****Strengths**

- ✓ Available land
- ✓ Good climate
- ✓ Wide variety of natural herb sorts in the mountain
- ✓ Existing, though not operating herb drier

**Weaknesses**

- ✓ No developed market
- ✓ No marketing experience: both in management and selling of herbs
- ✓ No experience with cultivated herb production

**Opportunities**

- ✓ Close the production cycle and sell dried and packaged herbs

**Threats**

- ✓ Water (irrigation) shortages during the summer

**3) Raspberry production****Pros**

- ✓ Existing experience
- ✓ Good climate conditions

**Cons**

- ✓ Lack of marketing and selling experience
- ✓ Low lasting product – need of industrial refrigerators

**4) Strengthening plump and apple cultivation****Strengths**

- ✓ Available land
- ✓ Experience – Borima used to be center for cultivated fruit production since 1936
- ✓ Existing market – There is good existing demands for plumps and apples from the close regional center and from Sofia. There is a factory, producing plump brandy in the Municipality center – Troyan
- ✓ Existing production – there are operating producers, who could expand their current activities
- ✓ Affordable costs: 10 BGN per new tree all costs included

**Weaknesses**

- ✓ Costly and difficult fertilizing up in the mountains
- ✓ Low paid labor, which would not attract many people

**Threats**

Damage to young trees by:

- ✓ Wild animals
- ✓ Sheep and goats

**Opportunities**

Close the production cycle: the perspectives identified in the discussion were:

- ✓ To build a fruit drier and / or
- ✓ To build a fruit processing factory

**POSSIBILITIES FOR EMPLOYMENT: General Toshevo – Krassen village**

- ✓ Necessity for improvement of the drier for fruits and vegetables (an old one exists)
- ✓ Development of small juice /or fruit processing enterprise
- ✓ Dairy

**CONCRETE PROJECT PROPOSALS**

<b>Troyan– Borima village</b>	<b>General Toshevo – Krassen village</b>
<ul style="list-style-type: none"><li>✓ Honey production</li><li>✓ Strengthening plump apple cultivation</li></ul>	Different ideas were discussed but the people did not agree on a common concrete proposals



## **Social Dimensions to Rural Non-Farm Employment in Central Europe and the Balkans**

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This paper addresses two aspects of Rural Non-Farm Employment (RNFE) in Central and Eastern European Countries (CEECs). First, and rather briefly, because the point has been made elsewhere,<sup>1</sup> it considers why the transition economies of the CEECs are particularly well suited to the promotion of RNFE. Second, and at considerably greater length, it examines the social resources that help promote RNFE and especially successful RNFE. These are discussed under four headings: individual resources, family resources, the nature of the socialist inheritance, and access to foreign funds. The choice of the term 'social resources' rather than 'social capital' is deliberate. What is being described could very easily be translated into the language of social and cultural capital, and the author would be sympathetic to such an interpretation. But use of the term 'social capital' inevitably promotes debates about the validity of the concept itself, and this paper wishes to eschew conceptual debate and focus on developments on the ground. Whether they can be conceived as a form of capital or not, there are social resources which help and hinder the development of RNFE, and these resources exist within a social context which has to be understood if we are to be in a position to assess what is contingent and what can be generalised. A final section addresses the question of what sorts of generalisable lessons can be learned from complex and always highly specific social contexts as described in this paper; and this is preceded by a section underscoring the importance to success and prosperity of adjusting to underlying market realities

Two further preliminaries are necessary. First, RFNE should be defined. There is nothing surprising here. Following Davies it is understood as 'waged work or self-employment in income generating activities that are not agricultural but located in rural areas'.<sup>2</sup> Second, some details of the research on which these findings are based should be given. In 1993-94 and again in 1995-96 a team of CEEC researchers under the co-ordination of CCEES at the University of Liverpool carried out qualitative and quantitative research in nine villages each in the Czech Republic, Hungary Poland and Slovakia. In 1996 this was complemented by research using the same research instruments in Bulgaria and Romania, making a total of 54 villages in all. The focus of the project was rural restructuring in general, but RFNE was an aspect of this and questions relating to it figured in both the interview schedule for the qualitative research and the questionnaire. It is on these findings that the bulk of what follows is based, although some points derive from subsequent visits that the author has made to

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<sup>1</sup> See Nigel Swain, 'Rural development and social change in the post socialist Central European countryside', in Gejza Blaas, Iveta Námorev and Mria Kubankov (eds.) *Rozvoj Vidieka A Problematika Vidieckeho Obyvateľstva*, Nitra, Slovakia, 1998, and 'Post-Socialist Rural Economy and Society in the CEECs: the Socio-Economic Contest for SAPARD and EU Enlargement', paper presented to the *European Rural Economy at the Crossroads* conference, the Arkleton Centre for Rural Development Research, University of Aberdeen, Scotland, 29 June - 1 July, 2000.

<sup>2</sup> Junior Davis, 'Sustainable Non-Farm Rural Livelihoods in Transition Economies: Understanding the Access and Capacity Constraints', *Eastern European Countryside*, No. 7, 2001, p. 31.

the region. The taxonomy of social resources presented in the second section is entirely data-driven.<sup>3</sup>

## 1. Suitability

It has become part of the accepted wisdom of 'problems for EU Enlargement' that the accession countries have large agricultural populations and this will cause all sorts of problems for the enlarged Europe, not least potentially bankrupt it. Only gradually are policy-makers and those who have their ears beginning to accept that the dual structure that was characteristic of socialist agriculture for some thirty years has continued since 1990 and is likely to continue for a time to come.<sup>4</sup> In fact, the huge fall in agricultural waged employment and parallel reduction in industrial waged employment for rural dwellers that accompanied the 'change of system' has meant an increase in the importance of semi-subsistence holdings, as Pouliquen notes before reminding the Commission that, 'Contrary to the Union, one cannot treat it [individual semi-subsistence holdings] as negligibly important in production, and even less in total employment in agriculture.'<sup>5</sup> There are very large rural populations engaged in agricultural production in the CEECs, but the bulk of them are not on a scale for which the term 'farmer' is appropriate. They are not commercial undertakings but sources of security, an income supplement at best, an indispensable source of physical survival at worst. And undertakings of this sort, because they are related to survival rather than commerce, do not obey the laws of the market. However unprofitable agriculture might be as a commercial undertaking, people who rely on land for survival do not sell it; so the buoyant land market that was expected to follow the recreation of private ownership has stalled, and with it the expected concentration of holdings into medium-scale, 'western' farms.

### 1.1 Persistence of Subsistence Agriculture

There is no need to repeat here figures for the overwhelming numerical predominance of very small-scale farming.<sup>6</sup> Rather the history of a venture in one of our villages will be used to illustrate the problems associated with promoting an agricultural solution to

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<sup>3</sup> For more details see Nigel Swain, *Rural Employment and Rural Regeneration in Post-Socialist Central Europe: Summary of Findings and the Qualitative Research*, University of Liverpool, Centre for Central and Eastern European Studies Working Papers, Rural Transition Series No. 38 [http://www.liv.ac.uk/history/centres/cee\\_pdfs/WP38v2.pdf](http://www.liv.ac.uk/history/centres/cee_pdfs/WP38v2.pdf) or *The Rural Transition in Post-Socialist Central Europe and the Balkans*, Max Planck Institute for Social Anthropology, Working Papers No. 9 <http://www.eth.mpg.de/pubs/Working%20Paper%209.pdf>. The author gratefully acknowledges the assistance provided by these two grants references CIPA-CT92-3022 and ACE 94-0598-R respectively.

<sup>4</sup> See for example Nigel Swain, 'Agricultural restitution and co-operative transformation in the Czech Republic, Hungary and Slovakia', *Europe-Asia Studies*, Vol. 51, No. 7, 1999, pp. 1199-1219, Imre Kovach, Alexander H. Sarris, Tomáš Doucha and Erik Mathijs, 'Agricultural restructuring in central and eastern Europe: implications for competitiveness and rural development', *European Review of Agricultural Economics*, Vol. 26, No. 3. (1999), pp. 305-29, Alain Pouliquen, *Competitiveness and Farm Incomes in the CEEC Agri-Food Sectors*, European Commission, October 2001.

<sup>5</sup> Pouliquen, *Competitiveness...*, p. 12.

<sup>6</sup> See for example, Sarris *et al*, *op cit*; Johan F.M. Swinnen, Allan Buckwell and Erik Mathijs (eds.), *Agricultural Privatisation, Land Reform and Farm Restructuring in Central and Eastern Europe*, Aldershot, Ashgate, 1997; OECD, *Review of Agricultural Policies: Poland*, 1995, p. 248; OECD, *Review of Agricultural Policies: Czech Republic*, 1995, p. 91; *Review of Agricultural Policies: Slovak Republic*, 1997, pp. 68&71; *Review of Agricultural Policies: Romania*, 2000, p. 82; *Review of Agricultural Policies: Bulgaria*, 2000, pp. 77&80; European Commission, *Agricultural Situation and Prospects in Hungary*, 1998, p. 43; *Agricultural Situation and Prospects in Bulgaria*, 1998, p. 90; Katalin Kovács, *Agricultural Restructuring in Hungary and its Social Impacts*, paper presented at FAO Conference on Agricultural Restructuring, Sofia, June 2001.

the problems of Central European villagers when their agricultural activity is essentially non-commercial in nature. In the village of Dombhaz in North Eastern Hungary, a region very badly hit by unemployment as the local steel industry that had employed the bulk of the local workforce collapsed, the local council was persuaded that the best way in which it might help its community was by establishing a council-run dairy. The village was located in the hills, quite near to the Slovak border, and had always been rather marginal to the agricultural co-operative of which it formed a part. The co-operative centre was located in another of the villages, and the other villages all had better land than Dombhaz. During co-operative transformation, the villagers of Dombhaz lost out. All the assets that were worth taking went to people from the other villages. The inhabitants of Dombhaz were left with their land and perhaps a couple of cows.

The local council's idea, and it was in part promoted by local politicians in the Smallholders' Party (a party committed to recreating family farming), was to encourage these small-scale local dairy producers by setting up the village dairy to market their milk. The scheme started well. The company employed 12-13 people and the managers worked hard to create a demand, ultimately overcoming the reluctance of institutional purchasers to deal with more than one company by establishing their own retail outlet in Ózd, the centre of the local economy. Demand doubled, yet, paradoxically, the company had problems with supply. The economics of the dairy industry were against them. The villagers refused to increase production, in fact they reduced it; and they did so because, as far as they were concerned, the price paid by the council company was too low. For the villagers, selling milk was a potential 'earner', a source of additional income, if the price was right. But if it wasn't, there would be something else; and even if there wasn't, they could not radically change the pattern of their livelihoods because they needed their existing small-scale agriculture for survival. They were not commercial dairy farmers and they were unwilling and unable to adapt (and expand) their holdings to meet the market price of milk. They could only continue as inefficient, semi-subsistence farmers. The company, on the other hand, was operating in the commercial world. It had created a market, and could pay a 'good' price for a product that was in demand. But it was competing with large dairies (most of them owned by multi-nationals) who bought from the large-scale successor farms of the co-operatives, and there was a limit to the price it could pay for its milk. Within three years the company had collapsed.

Promoting village development by supporting agricultural production proved a failure. Self-sufficient agriculturalists could not become commercial dairy farmers over night. What is more, even if they could, in a village that size perhaps two or three would have succeeded in creating dairy farms of viable dimensions, and the situation of all the others would have worsened. The vet in PLJ, one of our villages in remote Transylvania summed it up well: 'This village has a population of 3,000. The land can support 1,000 on farms using modern technology. What happens to the remaining 2,000?' Encouraging agriculture at best helps the minority 1000 (and it is certainly an overestimation), RNFE offers possibilities for the majority 2,000.

### 1.2 Socialist Experience of Non-Farm Employment

The statement at the end of the previous sections would be true of all rural communities and all rural development. There are good reasons to think, however, that the CEECs are particularly well-suited to the RNFE approach. The collapse of socialism meant, as industry shed labour and especially commuting workers and the non-agricultural ventures of agricultural co-operatives closed down, that large

numbers of villagers who had spent their working lives in industrial centres and only evenings and week-ends in their villages, were now in their villages full-time, but with no industrial job to perform and only self-supply (or at most very small-scale) agriculture to fall back on.

The strength of the tradition of non-agricultural employment can be illustrated by data on employment in the 1980s and employment in 1994/96 taken from our samples of the rural population<sup>7</sup>. They clearly indicate that in the 1980s agriculture was a minority activity, even for the rural population. Agricultural employment declined further with the collapse of socialism, as did employment outside agriculture (except the Czech Republic and to a lesser extent Poland).

Table 1: Sector of Employment in 1980s							
Sector	CE4	Cz	Hu	Po	Sk	Bg	Ro
In agriculture	23.3	15.9	16.8	31.8	27.9	30.0	24.6
Outside agriculture	49.5	55.0	54.4	33.9	55.2	54.2	49.1
Unemployed	0.6	0.8	0.2	0.4	1.2	0.5	0.1
Pensioner or other	26.5	28.2	28.6	34.0	15.8	15.3	26.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 2: Sector of Employment in 1994/96							
Sector	CE4	Cz	Hu	Po	Sk	Bg	Ro
In agriculture	14.4	10.8	3.9	24.1	18.2	22.7	8.1
Outside agriculture	43.0	62.1	35.7	33.1	42.5	39.0	32.1
Unemployed	9.2	2.0	8.5	8.7	17.0	6.0	4.7
Pensioner or other	33.4	25.1	51.9	34.1	22.4	32.3	55.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

#### Education and Transferable Skills under Socialism

In addition to this experience of RNFE, the rural populations of Eastern Europe exhibited relatively high levels of educational attainment, the exceptions being Stalinist Romania and uncollectivised Poland<sup>8</sup>. Tables 3 and 4 are taken from the same sources as Tables 1 and 2. They represent an attempt to quantify the extent to which rural populations possessed skills and capacities which might be transferred to new and changing economic environments, making the assumption that the sorts of skills required by professional, managerial and white collar jobs, and the ability to decide to become an 'entrepreneur' (even if this is little more than self-employment) indicate human capacities that can respond and adjust to changing circumstances. The percentage of the population of the rural that was 'professional, managerial or and entrepreneur' or white collar was quite high. The exceptions were Poland (not

<sup>7</sup> In Hungary and Slovakia the samples were representative of the country as a whole, in the remaining countries they were representative of three types of rural area: the economic core (close to a prosperous regional centre), the periphery (remote geographically), and the 'industrial periphery' (areas with 'socialist' heavy industry which were in decline).

<sup>8</sup> Nigel Swain, 'A framework for comparing social change in the post-socialist countryside', *Eastern European Countryside*, No. 4, 1998, pp. 5-19'



collectivising is associated with not creating the skilled labour force required by collectivised agriculture) and Romania (which persisted with a Stalinist model of agriculture),<sup>9</sup> and, more surprisingly Hungary (perhaps reflecting its more streamlined organisation of agricultural co-operatives, an interpretation supported by the extremely low figure for those employed in manual labour in agriculture). Even in Hungary and Romania in 1994, however, something over a third of the rural population employed outside agriculture was employed in one or other of these 'transferable' sectors, while in other countries there were as many or more in 'transferable' sectors as manual employment outside agriculture. Only Poland stands out as having few individuals in these sectors.

Table 3: Type of Work in 1980s							
Sector	CE4	Cz	Hu	Po	Sk	Bg	Ro
Professional, managerial & entrepreneur	11.4	18.0	6.6	2.9	18.2	19.2	7.4
White collar	8.0	11.5	8.0	2.2	10.7	9.1	4.4
Manual outside agriculture	33.5	31.2	41.1	29.4	32.5	35.5	39.4
Manual in agriculture	19.9	10.3	15.5	31.1	21.8	20.4	22.4
Unemployed	0.6	0.8	0.2	0.4	1.2	0.5	0.1
Pensioner or other	26.5	28.2	28.6	34.0	15.8	15.3	26.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 4: Type of Work in 1994/96							
Sector	CE4	Cz	Hu	Po	Sk	Bg	Ro
Professional, managerial & entrepreneur	14.1	26.1	7.9	4.1	19.0	18.0	8.8
White collar	6.7	12.7	6.0	1.1	7.5	9.2	3.3
Manual outside agriculture	24.1	26.2	22.2	28.1	20.2	18.0	20.7
Manual in agriculture	12.5	7.9	3.5	23.9	13.9	16.5	7.3
Unemployed	9.2	2.0	8.5	8.7	17.0	6.0	4.7
Pensioner or other	33.4	25.1	51.9	34.1	22.4	32.3	55.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In addition to experience of non-rural and transferable skills employment, the rural populations of Eastern Europe were highly educated (Table 5). Although the very high figures for university or higher vocational education in some countries suggest a degree of inconsistency in defining higher education, and countries with an older rural population have more with basic education only, the figures are revealing. All countries, even Poland, which has the lowest share of university graduates (again, not unrelated to the absence of a collective farm élite), have a solid mass of people with either vocational secondary (leading to a university entrance exam) or skilled worker or craft training. The lowest figure for these two categories taken together is Romania, at 24.9 per cent, Hungary coming next with 31.7 per cent. The figures for

<sup>9</sup> Swain, 'A framework....'

those who have completed secondary education or craft training are more impressive, 54 per cent for Central Europe as a whole, around 36 per cent for the laggards like Romania and Hungary and considerably over 50 per cent in the other countries.

Table 5: Educational Qualifications in Central and Eastern Europe							
Sector	CE4	Cz	Hu	Po	Sk	Bg	Ro
8 yrs elementary or less	34.4	6.2	51.8	42.5	35.3	20.0	53.2
Skilled worker or craft training	29.3	28.8	24.3	34.4	29.5	7.1	18.1
Academic secondary	8.4	13.0	5.0	8.7	7.3	22.2	12.4
Vocational secondary	16.3	33.7	7.4	9.7	15.6	25.6	6.8
Post secondary technical	2.8	2.4	5.3	2.1	1.5	6.1	5.2
University or higher vocational	7.9	13.9	6.2	2.6	9.3	15.5	4.2
No answer	0.9	2.0	0.0	0.0	1.5	3.5	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

These figures are particularly impressive when compared to roughly similar figures from western Europe analysed by van den Bor, Bryden and Fuller.<sup>10</sup> Their findings for their western European countries taken as a whole were that 61 per cent had primary education or no full-time education, 32 per cent had secondary education, and 7 per cent had tertiary education. Our consolidated findings for Central Europe (Table 6) show 34.4 per cent with basic education or less, 54 per cent with secondary, and 10.7 with post secondary vocational or university and higher vocational education. It goes without saying that these data are not directly comparable, and it is interesting that the share of tertiary education in the two halves of Europe is not so very different. Nevertheless, the data do appear to indicate unambiguously that the share of rural dwellers with a completed secondary education is considerably higher in Central and Eastern Europe than it is in western Europe.

Table 6: Educational Qualifications in Western and Central Europe		
	Western Europe	CE 4
Primary education	61.00	34.4
Secondary education	32.00	54.0
Tertiary education	7.00	10.7
No answer	0.00	0.9
Total	100.00	100.00

These figures on socialist RNFE experience and level of socialist educational attainment suggest that RNFE strategies are particularly appropriate in the post-socialist transition.

<sup>10</sup> W. van den Bor, J.M. Bryden and A.M. Fuller, *Rethinking Rural Human Resource Management: The Impact of Globalisation and Rural Restructuring on Rural Education and Training in Western Europe*, Mansholt Institute, Mansholt Studies, No. 10, 1998, pp. 93-95.



## **2. Social Resources in RNFE**

This section presents case study evidence to illustrate the importance of the four subheadings listed in the introduction, each of which will be further subdivided. Each resource is illustrated by case study material, and an effort is made to use different cases for different resources, although, of course, individual cases illustrate more than one resource.

### 2.1 Individual Resources

By individual resources is meant resources pertaining to individuals and their positions in society. It includes in addition to the capacities of those individuals themselves, their wider sphere of contacts and experience.

#### *2.1.1 Socialist Era Knowledge*

The importance to RNFE of skills and knowledge gained during the socialist years is common to almost everyone of our cases, and is hardly surprising. It will be illustrated primarily by its converse, the need to obtain socialist era knowledge if one does not possess it, but it is worth noting that, for example, a working life in the printing industry was central to the Roma businessman who established a prosperous business printing calendars and leaflets in the Slovak village of Krizava.

The counter case is reflected in the example of Mr O who by virtue of Czechoslovakia's restitution legislation<sup>11</sup> gained ownership of a sawmill in Nova Hut in the east of the Czech Republic, almost on the border with Slovakia. The company was in a bad way financially because the reduction in the armaments industry had had a knock-on effect on the demand for wooden packing cases. Mr O had effectively no experience of the sawmill business. He had worked briefly in the business in his youth, but had been forced out because of his status as son of the previous owner and had worked first in a furniture factory and then as a quality controller in a glass works. Conscious of his inexperience both in the industry and as a businessman, he hired two key managers to train him in the business and take on its day-to-day running. The first of these was a director of a wood processing company in the nearest sizeable town, the second was an economist who had had ambitions to become director of the local glass works, but who had not been appointed because of his communist past. With the help of these two individuals Mr O managed to keep the company going and repay the fee of 11 million crowns that he was charged for the improvements made to the company between its nationalisation in 1948 and the date of its return. It was Mr O's recognition of his limitations, his readiness to work with the existing management, and his strategy of maximising its networks inherited from the socialist years that was the primary factor in explaining his success despite his lack of personal experience.

#### *2.1.2 Socialist Era Contacts*

Mention of management networks brings our attention to the importance not just of knowledge of things but of acquaintance with people. The importance of social networks figures largely in the literature on social capital and institutional economics, and our research confirmed its centrality to successful RNFE strategies.

In the village of Tabar in north eastern Hungary in the famous Tokaji wine region, Zoltán K, Ferenc F and János D all made good use of entrepreneurial aspects of their socialist pasts to establish ventures which provided non-farm employment for themselves and others. All had had jobs in socialist 'agriculture', but all three of them

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<sup>11</sup> It is safe to say "Czechoslovakia's restitution legislation" because all of the relevant legislation was passed before the 'velvet divorce' in 1993.

had worked in that sector's burgeoning non-agricultural division. This was probably the most market-oriented segment of Hungary's socialist economy in the 1980s, and all three had headed ventures which gave them extensive autonomy to pursue their business instincts, in a metal-working unit, a unit producing electrical rivets, and a unit renting out small-scale machinery respectively. Zoltán K was probably the least successful.<sup>12</sup> After a period as a salesman and contract negotiator for a Small Co-operative,<sup>12</sup> he attempted to set up a shoe shop with two partners in the nearby market town. But the business failed and he was left with a mountain of unsold stock. The only solution appeared to be to set up his own shoe shop in Tabar itself. Ferenc F was somewhat more successful. He remained in essentially the same business, but enjoyed even more autonomy from the successor company to the agricultural co-operative, which owned 55 per cent of his business. With a staff reduced to four, he continued to produce rivets, drumming up business from all over the country.

János D was in many ways the most successful of this triumvirate, and his story serves to reinforce the importance of knowledge and networks gained during the socialist years. János diversified into a variety of businesses as the opportunities offered by privatisation and co-operative transformation presented themselves; but with mixed results. By 1994 it was only his pub that was really successful, and that was the business that he knew best, for, despite the brief period with the agricultural co-operative, thirteen years of his socialist career had been spent in the hospitality industry running pubs and restaurants in the General Consumer and Marketing Co-operative network.

A solid background in the hospitality sector, but in this case supplemented by private agricultural production, was a key feature of the success of Miklós H who became one of the leading entrepreneurs in the western Hungarian village of Korcona. He ended up with a number of strings to his entrepreneurial bow: a hotel in nearby Győr, a dairy farm complemented by a business selling full-fat milk which had been established using contacts made as restaurant manager/leaseholder, and a beauty salon in the village which was run by his wife. Nor were János D and Miklós H unusual in running a number of businesses in order to 'stand on many feet'. In the village of Laz in western Romania the biggest entrepreneur was the mayor who ran a shop, a bar and a small engineering business.

Socialist era contacts of a kind were manifest in the case of Elderpak, a non-agricultural venture established in the village of Glaz in north central Poland. The company had existed as a private company of one form or another since 1974 making metal containers, originally buckets, and in the 1980s they won a tender to provide the state railways with small water tanks. They used this period of high profitability and a full order book to build up the business, and after the contract finished they changed direction to produce cans for paint and glue. The business, owned by two brothers, maintained these contacts in the post-socialist economy and continued to expand. By the mid 1990s it planned to increase the labour force from 30 to 100, many of them disabled since it aimed to benefit from government measures which encouraged the employment of the disabled. In the Elderpak case, the two brothers did not have to transpose old socialist contacts into a new setting, they simply had to maintain them, and ensure that they were still useful.

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<sup>12</sup> A Small Co-operative was a specific form of small, relatively flexible co-operative introduced in 1982. See Nigel Swain, *Hungary: the Rise and Fall of Feasible Socialism*, London, Verso, 1992, pp. 136-8.

### *2.1.3 Experience of the Wider World*

Rural communities can be both physically and socially isolated. It often requires people who have wider horizons, who have experienced other worlds to provide the impetus for change. In our studies we encountered three different types of outside influence: returnees (people who for one reason or another had returned to the village of their birth), incomers (people who had moved into the village, usually because of marriage) and outsiders (people with no family ties with the village, but who knew it, often because they had holidayed there, and wanted to base themselves or their business there). Family and personal ties are crucial to all three processes. They are what persuade those with the wider world experience to apply their skills and knowledge in one particular village rather than the thousands of nearly identical ones all over the world.

#### 2.1.3.1 RETURNNEES

A small-scale example of this phenomenon is the dairy in PLJ in remote Transylvania. The village had had its own dairy until the 1970s when it closed because of the opening of a new and bigger dairy in the nearby market town. In 1991 two former citizens of PLJ now resident in the market town and with no experience of the dairy industry (one was a skilled worker, the other an electrician) decided that there was a missed opportunity in the village. They re-opened the dairy in PLJ and employed a labour force of 38 producing speciality cheeses for the town market. As returnees they knew of both the demands of the urban market place and the resources available in the village.

A much larger-scale successful returnee is the case of the glass pellet manufacturing works in the village of Palina in the far East of Slovakia quite close to the Ukrainian border. Other aspects of this very successful venture will be considered below. Here what is relevant is that, having had a business idea which required manufacture by cheap labour using low technology machinery, the budding entrepreneur needed to choose where to locate it. It had to be in the general area of Medzilaborce which is where he now lived and where a major customer was situated, but he did not have to choose his home village. He did so partly for sentimental reasons, but partly because he knew the village very well because his parents still lived there and they knew that the building that once housed the elementary school and then the kindergarten and which had been returned to the church which owned it before the war under restitution was currently available for rent. So that is where he located his business. The outsider (in this case university educated with years of experience as a manager in socialist industry) had both the marketing knowledge of the wider world and the insider knowledge of the resources available in an otherwise unremarkable rural community.

A third variation on this theme is those who return to the village after a period in higher education. Although in a sense perhaps such individuals have never permanently left the village, they have developed a wider perspective on the world which can be of use when considering alternative non-farm employment strategies. An example of this would be the two partners in the company which acquired the non-farming assets, including a new sawmill, of the former agricultural machinery co-operative in the Polish village of Kanal close by the Belarus border. Both had been in higher education and had returned to the village to work in white collar jobs.

#### 2.1.3.2 INCOMERS

As noted above, the arrival of incomers is often the consequence of a marriage into the village, and all three examples presented here reflect this pattern. There are some exceptions. The owner of the chicken slaughter business in Hungary's Károlyháza, discussed in the final section, was local to the area, but he moved to Károlyháza because of the type of property available not because of marriage.

A typical example of marrying into a village is the owner of the motel in the Moravian village of Lesovice. The owner married into the village 1995 and bought some land at the edge of the village with the help of the council. He had worked in the catering industry previously and used to rent a hotel elsewhere in the region. The village's Development Plan had always intended that there should be commercial activity on the plot. Initially it had envisaged a shop, but the council decided on a hotel since there were already plenty of shops in the village. The new owner incurred considerable debts building the hotel, but the mayor had faith in him as a businessman, a faith that seems to have been repaid in that the business was flourishing at the end of the 1990s.

A less common example comes from Bohemia, the village of Barov. Like many villages in Bohemia situated on a main road to Germany, the income-generating opportunities offered by prostitution proved too attractive to some young women who had very few possibilities of alternative employment, and 3-5 young women began to present their wares along the main road that ran through the village. The council, not surprisingly, did not consider roadside prostitution as part of the image that it wanted to project for its village and was anxious to get it off the streets. The problem was solved when a German married into the village, started to teach himself Czech and used his modest savings to establish one of the village's two 'erotic clubs'. In this case it was not so much an incomer providing knowledge of the existence of a market hitherto unknown to the locals, as one of an incomer using his wider experience to demonstrate how to increase value-added.

#### 2.1.3.3 OUTSIDERS

As noted above, complete outsiders normally establish their links to a village because of tourism (they have been to the village and liked it), and the non-farm opportunities that they bring are likewise often connected with tourism. A common example is to establish a hotel in the village, either by simply buying the existing one as in the case of the tourist hotel by the lake in the village of Bu in Romania, or by building a new one as did an Austrian family in the village of Mulza in Slovakia.

Ultimately the same scenario, but with a more convoluted plot, is the case of the tourist complex in the village of Kanal in eastern Poland. This complex of campsites, wooden cabins and small hotels was the holiday centre of a Warsaw-based company and was up for privatisation. The obvious purchaser was the sitting tenant, the person who had run the complex on a leasehold basis since 1986. But out of the blue, and at the very last minute, an alternative emerged. This alternative was based in Warsaw, but he had come to the region regularly as a party lecturer and hunter. Furthermore, he had managed the complex briefly between 1984-86 when he had taken a career break for health reasons.

The sitting tenant had let the complex run down, partly because of a lack of resources, partly in a deliberate attempt to let the value of the property fall so that it could be bought more cheaply when it was finally auctioned. These plans seemed to be bearing fruit. It was only at the very last minute in the second round of the auction (because the sitting tenant had not bought in the first round in the hope that the asking



price would fall still further) that the competitor put in his bid. It was much higher because in the interim he had established a company for the purpose with 'friends who liked hunting', fellow company directors and an official in the Ministry of the Environment. The new owner then hired as his agents a family who had worked for him in 1984, used his contacts in high places to renegotiate the lease on the land from the Forest Inspectorate, and began investing heavily in renovating the site. The poor local investor was outbid by a wealthy outsider whose connection with the area was based on a passion for hunting and the chance eventuality that that passion was satisfied in Kanál.

Kanál also illustrates how outsiders can identify a totally new tourist market, even if they do not bring a great deal of employment to the region (in the mid-1990s the mayor said that they had not created a single new job, but the business has developed since then). Kanál gets its name from the canal which runs through its territory. The canal has long gone nowhere because of the border between Poland and Belarus and has no value as a commercial waterway, although it was still used to float logs until the end of the socialist period. But holiday makers from Warsaw and Augustów saw its potential for canoeing and it is now a regular stop-over point on organised canoeing holidays offered, in the main, by 'alternative' groups of one kind or another in Germany, the Netherlands and Scandinavia.

## 2.2 Family Resources

If we move from the individual to the family, our data suggest that there are three kinds of family resource that are important.

### *2.2.1 A Secure Income in the Family*

There is a certain amount of risk attached to any change such as embarking on RNFE, especially in the form of self-employment or starting a new business. One of the ways in which that risk was spread was to ensure that at least one family member retained some sort of secure income until the venture had proved its viability. This was in part so that there was always something to fall back on in case of failure, but mainly to fund the start-up costs, if only in terms of income deferred, of the new venture.

The classic example of this can be illustrated by the case of the new bakery established by Bertalan K in the village of Kissikonda in the north east of Hungary. Bertalan K had moved himself and his family into a block of flats in nearby Ózd in 1983 because both he and his wife worked there and they thought it would be better for their children's education. But they had never really got used to town life, and spent all of their summers back in the village with the parents, and in 1992, with redundancy in prospect, he bought a house in the village. Bertalan did not wait to be sacked. His first idea was to set himself up as an 'entrepreneur' in the trade that he knew, metal working. But there was no interest. Bertalan could get no employment in the trade that he knew in Hungary, so he then thought about working in Germany as many other villagers had. He went as far as organising the paperwork before deciding that he should stay with his family and resolve things in the village. Meanwhile a family friend had established a small business development company in this depressed region, and he not only suggested that Bertalan attend one of his courses but also reminded him that a very good baker lived in Kissikonda, but commuted to work in Ózd. If Bertalan could not work in his own trade, perhaps he could go into partnership with the baker and create a local bakery, which the village lacked. This they did, and Bertalan profited doubly from the business development course in that he learned both the skills necessary to establish a business and made many contacts who would

ultimately prove important for the success of the business. The business flourished, eventually employing seven people. But the one secure income that the family had at the period when he changed career and established the business was his wife's salary. Throughout she maintained a full-time job with the post office.

A secure income during the period of business development need not necessarily come from employment. State sector benefits can also function as a form of start-up capital. In the Hungarian village of Korcona in prosperous western Hungary, János Z gambled on the absence of any local outlet for buying fresh meat in the village to set himself up as the village butcher. János had worked in a state-owned butcher's shop all his career and for many years had wanted to set up his own business. Encouraged by the complaints of some villagers about the need to go into Győr to find a butcher's, he took a gamble and in 1992 left his job and obtained for himself a year's unemployment benefit. He made use of this cushion to carefully plan and establish the business. On the physical side he converted a room on the ground floor of his house into the shop. On the commercial side, he conducted what he termed 'market research'. Mindful of the need to have a solid customer base, he approached the village institutions which cooked - the school, the nursery school and the old-people's home - and negotiated a deal which undercut their existing suppliers. On the financial side, he purchased the necessary equipment from savings, with no need to take out a loan. His gamble that the village needed its own butcher's shop paid off: he had established a prosperous local family business.

A similar mind-set is visible in the case of a young couple in the Bulgarian village of Smi in the north of the country in the fertile lands near the Danube river who had plans to open a village restaurant. The husband went off to work abroad in order to get money to set up the business, while the wife retained her job in a bank in the nearby town, ensuring a secure income from which they could raise their young children. Elder parents can also supply security for grown-up children. In another Bulgarian village, Bre near Plovdiv, a rather ramshackle shed cum garage at the end of the long vegetable garden that helped feed all three generations of the family housed the son's motor repair business. He specialised in 'seriously damaged cars', insurance write-offs.

### *2.2.2 Family Resources for Investment*

The family is also important simply as a locus of resources that can be pooled to develop the business. Within a generation this is similar to one partner maintaining a secure income while the other takes on the risk of self-employment. But this sort of resource pooling can also take place between generations.

In Hungary's Korcona again, a small pub was established on this basis. Mrs Péter N and her husband both completed a secondary education in a commercial school. The husband began as a salesman, and later became manager of a furniture shop. Mrs N had worked at a number of jobs before becoming a waitress in a coffee shop in Győr. The 'change of system' coincided with her retired parents inheriting a house in Korcona which was surrounded by a large plot. The parents were attracted by the idea of moving to a village, and Mrs N. was attracted by the idea of becoming independent. Both generations therefore sold their existing flats and pooled the family resources so that they did not have to borrow any money from banks. They moved into the village house, the two generations sharing it between them, and built a pub-restaurant on another part of the plot. The house is situated near the entrance to the village and well situated for the passing trade. The husband took charge of supplies, and the older and younger couple took responsibility for running the pub on alternate



days. Their first aim however was not to develop the business further but to build a house on the other side of the plot so that the two generations could regain their separate lives.

A similar case of transgenerational support took place in the village of Mar in Romania. PK, who had a background in shopkeeping and had worked for most of his career in the local consumer co-operative, retired and immediately went into business, both on his own account and to help his one of his sons. His own business was a mixed profile shop selling hardware, textiles and shoes. In addition to this, he helped one of his sons run two restaurants, one the business of the son himself, the other the venture of his brother who had gone to work abroad in Vienna to boost the family finances. It was this additional income earned abroad that allowed them to embark on a final strand to the family businesses, the village petrol station.

### *2.2.3 Social Contacts of Spouse and Family Members*

It is perhaps slightly artificial to treat the social contacts of spouses and other family members separately from the social contacts of the individuals themselves which were discussed under Socialist Era Contacts above, but it reinforces the importance of taking the family or household rather than the individual as the unit of analysis. The business and other contacts of other family members can be of determining importance in stimulating RNFE, as the following examples illustrate.

In the Hungarian village of Zadorpuszta quite close to the Budapest agglomeration, Tihamér S established a prosperous business manufacturing plastic containers for household chemicals and cosmetics. The history of the business is interesting in many respects in that the process by which he became owner of this business, which had once been a subsidiary venture of the local agricultural co-operative which he had managed, was by no means conflict-free. Although he ultimately ended up owning the unit that he had managed during the socialist years, there was a period in the saga when he had been sacked by the co-operative and had to establish a new customer base for a new, short-lived private business that he had set up, a customer base that would ultimately prove useful when he did finally succeed in acquiring the co-operative unit. And it was in the process of establishing this new customer base that the experience of his wife came into play. She had also begun her career in the chemical industry but while on maternity benefit had supplemented her income by selling plastic watch straps and similar items to an extensive network of private sector traders, small shopkeepers, kiosk holders and so on, who all also stocked household chemicals and cosmetics as staple items.

In Pakucs, in south western Hungary near the Slovenian border, it was not the marketing knowledge of the wife that was important but the contacts and influence of the father-in-law. Béla N started out as self-employed craftsman, a water, gas and central heating engineer, but his businesses began to develop after 1986 when he married the daughter of the then chairman of the local General Co-operative, a key figure in the local business community, with extensive contacts throughout the region. Béla set about building a house for his family, but overestimated on the building materials, and with the surplus constructed a 'boutique' on an adjacent plot for his wife to run when her maternity benefit expired. Béla quickly realised, however, that it would be difficult to make a living from fashion clothes in a relatively small and relatively poor settlement like Pakucs, and he capitalised on family business contacts to open up a new avenue. He became aware that there was a market in protective clothing and shoes for workers, and soon this made up 50 per cent of the turnover of the shop. He also began trading in building supplies, while all the while developing

his plumbing business. Béla wanted to diversify further, and a bank manager friend of the family suggested he apply for the new 'Start-up Credit', which he did. His new venture was a shop selling electrical goods and household chemicals, with half of the floor space being let out to another business, ultimately a greengrocer, and with a guest house on the upper storeys, which could be used to house his children if the guest house failed. But it did not fail, and he ultimately gave up the plumbing business and moved further into the field of rural tourism, with long term plans to take over some of the sports facilities from the council.

### 2.3 Something Usable in Socialist Inheritance

It is a truism, perhaps, but a crucial factor in the chances of individuals embarking on self-employment or business career in RNFE is whether resources exist from which a business can be built, and in the post socialist context, this meant whether or not there was something usable in the socialist inheritance, effectively socialist agriculture. Much of the socialist legacy was destroyed, and much proved unviable in the new market conditions, but socialised agriculture at the very least had created buildings which could be used for other purposes by those who had the eyes to see a potential business venture.

In the Slovak village of Klanec not far from Bratislava, the socialist co-operative bequeathed much more than buildings. The co-operative had had a variety of non agricultural ventures in the socialist years and these formed the basis of a variety of non-agricultural successor companies, two of which were in the light engineering sector. The bigger of the two, employing with a staff of 120 was a direct successor of the co-operative business which produced seeders and other agricultural equipment. It continued the same business, with the same management. The smaller was a new venture, started by one of the foremen of the socialist company who struck out on his own, using buildings rented from the co-operative. Initially he also rented machinery from the co-operative, but he bought his own new machinery as soon as it was feasible. The company employed 20-30 depending on the level and demand producing wrought iron railings, hanging baskets and so on, mainly for the German market. In the case of Klanec the idea of the socialist legacy in agriculture acting as something akin to a business park and business incubator was not entirely far fetched.

Also in Slovakia, but in the northern mountains almost in Poland in the village of Lehota, although the co-operative hardly acted as a business park, some of its buildings were put to good, non-agricultural effect. The mayor succeeded in attracting a wood processing company to locate in the village, creating 50 RNFE jobs. Even in Romania, where it was frequent for buildings to be gutted and abandoned when co-operatives broke up, there were examples of positive use being made of the socialist legacy. In the village of Mer, a radiator installation business, active mainly in nearby Cluj, used former agricultural co-operative buildings as its warehouse and workshop, while in PLJ, whose dairy has already been commented on, most of the other non-agricultural businesses such as the brickworks, bakery and abattoir emerged from the agricultural co-operative.

### 2.4 Access to Foreign Funds

It might seem that there is nothing social about foreign funds, that they belong to the realm of things financial rather than things social. It is included here nevertheless because the mechanisms through which the funds are accessed were social rather than financial: these were not loans from foreign banks. Three types of access are

discussed, the EU border effect, direct contacts and funds earned and remitted from abroad.

#### *2.4.1 EU Border Effect*

One very clear common thread in all 54 villages was the importance of proximity to a European Union border for attracting foreign investment. It is important to stress European Union border rather than western border because Greek interest in neighbouring Bulgaria was not insignificant. The attraction for EU businessmen in all cases was the same: a skilled labour force at a fraction of the domestic cost. The benefit for the local communities was also the same: the creation of considerably more opportunities for non-farm employment than might otherwise have been the case.

In Hungary's Pakucs, for example, where we have already considered the activities of Béla N, there was Italian interest in the once quite prosperous textile industry. Pakucs is closest to Slovenia, but that means that it is also close to both Austria and Italy. In the early 1990s an Italian businessman was interested in developing his textile business in western Hungary generally. He had established a base in the small town of Ajka and had already invested in textiles factories in two other Hungarian villages before seeing potential in Pakucs. He bought up the unit which had been established in the building of the former fire station in 1968 and had operated as part of two different local textiles co-operatives in the intervening twenty five years. The new owner increased the labour force from 20 to 29 and paid substantially higher wages. An Italian businessman was also interested in establishing a textiles factory in Korcona, but in the end the investment came from a Greek investor with German citizenship.

Greek interest in Bulgaria, as already noted, was considerable, especially in the villages situated near the Greek border, although it was thwarted somewhat by Bulgaria's slow pace of privatisation. In the commune centre of Had, the sports shoe company which had been established in the 1970s and employed 1200 remained in state hands, but there was Greek interest in investing in smaller textiles companies, and three Greek textile businesses had already been established in the regional centre of Gotse Delchev. At the other side of the region, in Moravian Rodaky in the Czech Republic, foreign investment had a more substantial impact on RNFE. The biggest provider of non-agricultural jobs was a local factory which had originally been the local unit of the state-owned Moravian-Silesian Hosiery Mills, had first been privatised to its managers, and then finally was purchased by an Austrian company. Employment levels had fallen by a third from the socialist days, but at approximately 200 were still considerable.

The essence of the EU border effect was always some sort of combination of proximity to the EU and cheap, skilled labour. But it did not always require investment from the EU side. Another dimension was integration into an EU production chain. A good example of this is the case of the Barov agricultural co-operative and its non-agricultural ventures, all of which, unusually, it developed after the 'change of system'. These ranged from wooden pallets, to metal pallets (supplied to Skoda and VW Audi), to small electrical motors for a German sub-contractor to Siemens, and a small unit producing the plaster hand-painted gnomes much loved by German gardeners. The latter proved unprofitable in the long run, but the electrical motor production expanded, ultimately employing 40.

#### *2.4.2 Direct Contacts / Investment*

Another much more straightforward form of access to foreign funds was direct contacts of one form or another. Within this, a minor distinction can be made between simple contacts and contacts who actually invest. An example of the former is present in the case of the Klanec (Slovakia) light engineering company manufacturing wrought iron works mentioned above (Socialist Inheritance). It was noted that the company sold most of its products in Germany. The reason that it was able to do this was because it came into contact with an organisation called Slovak-Deutschland, a trading company set up by Slovak émigrés in German with a mandate to help promote German-Slovak commercial links.

An example of foreign contacts leading to direct foreign investment can be seen in the privatisation of the Prefa company in Mestysov, a Czech village near the provincial centre of Kutna Hora. Prefa was a producer of prefabricated construction materials. At the initiative of its management, its privatisation plan entailed separating from the mother company in Hyskov and privatising the unit in Dolni Bucice, one of the villages administered by Mestysov, as a single company. By 1993 the company was increasingly orienting its production to the German market because of declining domestic demand. Two years later, the privatisation was complete. Prefa's Dolni Bucice unit had become PDB Ltd, a private company with two owners. The first of these was the 35 year old PJ who had spent all his working life in Prefa, first as a technician, then as marketing director and finally, in 1992, as director. The second owner was a German businessman, the owner of the business which was Prefa's major business partner. The two men had got to know one another well during the collaboration between the two companies over the preceding three years. In this classic case of privatisation to the existing management, PJ provided the social and cultural resources necessary to run the new firm, while the German partner provided the finance. In deed, not only did the German partner have the bigger share in the company, he even loaned PJ the money that he needed to buy his own share. By 1995 the company was employing 170 people, compared with 200 in the socialist years.

#### *2.4.3 Funds Earned / Remitted from Abroad*

A final source of foreign funding is the classic one of 'guest workers' earning money abroad to then take home and invest in a RNFE initiative. Some examples considered above have had an element of this. The pensioner businessman in Romania's Mar funded the family petrol station using funds remitted from his son who was working in Vienna. In the case of the Bulgarian couple in the village of Smi saving to establish a restaurant, the wife, as was noted, maintained her job in the bank. The husband travelled widely to find well-paying work so that he could contribute his share, first in Israel and then in Russia.

A more complex example is that the businessman from the small rural town of Bawelna in Polish Silesia, for it illustrates both direct remittances and the importance of maintaining foreign contacts. JC had worked in Germany in the 1980s and married a German woman. He made sufficient money and learned enough about business to want to return to his native town and invest there, which he did before the end of the 1980s, that is to say before the 'change of system'. He established two businesses, a butcher's shop which bought meat direct from local peasants, and an alcohol wholesaling business which quickly flourished, employed a staff of twenty and 'did its bit' for the community by sponsoring the local chess and draughts association. JC was also a member of the local council and made much use of his contacts with Germany, contacts which eventually developed into an institutional link when a



former resident of this once German town came to visit. A twinning arrangement was established between Bawelna and the German town, in the far west of Germany, where this former resident now lived. Ultimately it was links with Germany that would be the core of JC's business activities. Even in 1993 he was very aware of competitive pressures and the need to constantly change. He used to be the only butcher's shop in the community, but by 1993 there are lots of them and he felt the need to specialise or move into something else. Within two years, partly because of his wife sustaining a serious injury in a car accident, he had changed direction radically. He handed the butcher's business over to his sister, sold the alcohol distribution business and invested in a hotel which for a long time remained empty because he could not afford to fit it out. Meanwhile he made a living by maximising his one real asset - acting as a consultant and intermediary for German firms wishing to invest in the area and benefit from cheap, Polish labour.

### **3. Importance of Market Realities**

The discussion above has listed a gamut of social resources that can be important to successful embarkation into RNFE. This section will focus briefly on two issues: the need to adjust to market realities, and the possibility of significant job creation if a niche market opportunity or some other favourable conjuncture can be exploited.

An example of the former comes from Poland. The small rural town of Sedno, near the border with Lithuania, had an agricultural machinery company which in the socialist period had had a contract making spare parts for a state company in Warsaw. This part of the business had been so successful that the company invested in huge new production halls with 30 metre gantries. With the 'change of system', the Warsaw company went bankrupt, and the Sedno supplier followed suit. For the locals these silent empty halls were a scandal, and discussions were begun with a member of the national parliament who took an interest in the region. He persuaded one of Poland's 'biggest entrepreneurs', a man who had operated as a private businessman since the 1960s and who had established a profitable company in the construction sector, to buy the magnificent halls with the idea of using them to manufacture building materials. But, just as no one could predict the advent of the 'change of system', the new businessman could not predict the recession, in the construction industry as elsewhere, that accompanied it. Plans to use the halls productively were scrapped and the businessman, a horse-lover, decided to use them as stables for his horses. Not even the biggest entrepreneur in Poland could create a market that was not there.

Yet where there were opportunities to be exploited, success could be considerable. This can be illustrated by returning to some cases already discussed. The new baker in Hungary's Kissikonda has already been discussed (Secure Income). An important element in his ultimate success, which raised him from a local to a regional presence in the market and allowed him to increase his staff to seven, was the timely collapse of his main competitor the formerly state-owned Ózd Bread Factory. In Poland, Elderpak, the paint tin manufacturer in the village of Glaz, was discussed in the context of socialist era contacts. As a private company throughout the socialist years, it could only survive by being market aware. But it also exploited its conjunctures, like the railways contract in the socialist years and the opportunities for employing disabled labour in the post socialist era, so that it was able to increase employment from 30 to nearer 100. In eastern Hungary, in the village of Károlyháza, the owner of a chicken slaughterhouse, another individual who had operated in socialism's private sector for much of his working life and who had moved to the

village because of an attractive property he found there, not only profited from the bankruptcy of state slaughterhouses, but also learned their lessons. He operated on a slightly smaller scale, with minute attention to reducing costs and optimising throughput. By the mid-1990s he was providing 100 RNFE jobs to his and surrounding villages.

Finally, the case of the glass pellet manufacturer in Slovakia's Palina (Returnees) merits further consideration. This was a meticulously planned venture. The four owners, all with extensive experience of the glass industry in the socialist years, realised that the manufacture of glass pellets used for costume jewellery was a discrete aspect of the glass industry, which under socialism had been centralised along with everything else, but which could easily be separated out and conducted in low labour costs, low rent areas, with low technology equipment. They saw the opportunity for much cheaper production, yet they retained, because of their years of experience in the industry, extensive market contacts, and they were prepared to pursue new ones. The business developed rapidly, soon outgrowing the former school building mentioned above that attracted them initially to the village and extending into buildings no longer used by the agricultural co-operative. By mid-decade, like the Károlyháza chicken slaughterhouse, the business provided about 100 RFNE jobs to the local and surrounding communities.

#### **4. Assessing Social Aspects in the Development of RNFE**

The preceding discussion has achieved two things. First, it has shown that the rural populations of Eastern Europe gained during the socialist years, and rather more so than their counterparts in the West, the skills and experience (human capital) to embark on RNFE. The worry is rather that this first post-socialist generation is ageing and the new generation does not enjoy the same advantages. Second, it has illustrated the importance of a variety of social resources (social capital) in successfully pursuing this strategy. The question is what can be learned from these examples? How can these multifarious social resources, many of them specific to concrete social contexts, be generalised and converted into policy recommendations that would increase the numbers who successfully embark on RNFE? What can be distilled from the successes of those who did not need help and converted into assistance for those who do? Much of what tipped the balance between success and failure of the RNFE ventures can be characterised as serendipity, but policy measures can hardly be based on serendipity. Nor can policy-makers recommend that all villages engineer it so that they have a favourite son, a returnee, who has developed just the right business skills to be able to establish a venture creating a hundred plus local jobs as in the Palina case with which the discussion concluded.

Some easily generalisable recommendations can, nevertheless, be deduced from these examples. First, most obviously, such ventures have to be aware of what market realities are. Even the smallest scale venture into self-employment will fail if there is no market. The shoe shop owner in Hungary's Tabar (Socialist Era Contacts) survived because he knew his market well, knew what sort of shoes his local community could afford. For all the transgenerational support that he received, the repairer of insurance write-offs in Bulgaria's Bre (Secure Income in the Family) would not survive if there were no seriously damaged motor vehicles to repair.

It is also important that 'market realities' be interpreted in the widest sense. In small-scale communities, market relations are embedded within social relations, and social relations can inhibit demand. In small-scale communities, factors such as personal relationships, the weight of the past and envy can outweigh utility. There



might be local demand for a village shop, but not necessarily for one established by a hated former kulak family as in Tvřz nad Rekou in the Czech Republic. Likewise a private bakery established in Lehota in Slovakia could only survive because of the tourist trade: the locals refused to buy its good quality bread because they were jealous of his success. Even if utility wins out in the long run, as eventually seemed to be the case in both these examples, market awareness must include the possibility of longer than anticipated start-up costs because of social factors of this kind. Contrariwise, they must also be aware that almost anything can have market potential: even abandoned agricultural co-operative buildings can have a commercial use.

A second quite straightforward generalisation, given the importance of accessing foreign funds in the cases discussed above, is that any measures promoting cross-border co-operation would be likely to bear fruit; as would, given the importance that we have seen of returnees, incomers and outsiders, third, measures which encourage outsiders with capital and skills to invest in the countryside.

In addition to encouraging market awareness and exogenous (foreign and domestic urban) sources of capital and expertise, a further three lessons can be abstracted from the endogenous social resources and social relationships examined above. First, but importantly, it is evident that quite small amounts of money can be made to go a long way. It does not require a huge investment to generate the equivalent of two generations pooling their resources, as in the case of the new pub-restaurant in Hungary's Korcona (Family Resources for Investment), yet such an amount can be the basis of a successful family business.

Second, the overwhelming importance of contacts, both socialist era contacts and the social contacts of the spouse and other family members, shines through in every case, and confirms the well-established literature on the importance of social networks. Social networks are difficult to create from scratch, yet policies which seek to promote new RNFE rather than strengthen that which already exists have to strengthen the creation of new links rather than smooth the operation of existing ones. This suggests that business incubator and development schemes should focus less on skills and more on the networking possibilities that such schemes themselves offer. The Kissikonda baker, the only person to benefit from any sort of state-sponsored development scheme in our sample, noted that for him the contacts he made while attending his course were at least as important as the skills he learned. This suggests the need for business development schemes to be practical in orientation and embedded in the local community and its economy. The provision of business equipment and teaching of specific techniques are less skills in themselves as vehicles, necessary vehicles, for an introduction into the local business community.

Finally, and this is to highlight a specific aspect to the general point above, the importance of the wider world that was discussed in the context of returnees, incomers and outsiders, is essentially an awareness of wider market opportunities, of a more extensive array of market contacts: the awareness that there is a world market for glass pellets, the awareness that a village the size of Lesovice can support a motel, the awareness that a small community like PLJ can produce specialist cheeses for which there is an urban demand, the awareness that there is an urban demand for canoeing holidays and hunting holidays in Kanál, and so on. This knowledge of a wider network of market contacts does not have to come from returnees, incomers or outsiders who have become aware of a village community because of tourism. It is the sort of knowledge that can easily be provided by institutional 'outsiders' such as rural development organisations.

## ***NRI Research Project on Non-Farm Economic Activities in Romania, Georgia and Armenia***

### **Household and village-level qualitative baseline research: main findings**

Dr. Monica Janowski, NRI, University of Greenwich, March 2002

- Project conceived in 1999 through discussions with the **World Bank** and **DFID**. Funding agreed from DFID from April 2000. Current completion date is April 2002, but may be extended to allow for implementation of some of the recommendations coming out of main phase of research currently underway.
- Decided to focus, in practice, on the whole of household livelihood, with an emphasis on data on non-farm activities. Definition of 'non-farm' to be broad, including activities which are linked to farming such as trading and processing of agricultural produce.
- Choice of countries was made in negotiation with DFID and World Bank country desks. Final choice was Armenia, Georgia and Romania.
- Project was to be complementary and to link up with research project at Wye College looking at non-farm activities in Poland, the Czech Republic and Hungary. This project has no qualitative component, however. It was hoped that the main phase questionnaire would be shared. In practice, this has not happened because the social and economic contexts are so different.
- Current status of research (March 2002): for both qualitative and quantitative components, the baseline phase is complete and the main phase of research is currently underway.

### ***Structure of research***

- Two components: quantitative, questionnaire-based component; and qualitative component. Dr. Junior Davis, an economist, is responsible for the quantitative component; Dr. Monica Janowski, a social anthropologist, is responsible for the qualitative component. Both are working with local collaborators who are carrying out fieldwork (qualitative component) or administering questionnaires (quantitative component).
- Research has two phases: a baseline phase and a main phase.
- The intention is to construct some key hypotheses regarding patterns of involvement in non-farm economic activities, during baseline phase, to be tested and deepened during the main phase.

- For the **baseline phase**, both qualitative and quantitative components focus on certain regions, chosen to be representative of key variables within the countries. For the main phase, the qualitative research continues to focus on those same regions while the quantitative component includes other regions of the countries too.
- Structure of baseline phase of research: quantitative component is a questionnaire administered to key state employees and entrepreneurs, while qualitative component consists of semi-formal fieldwork in two or three communities.
- Structure of main phase of research: quantitative component is a questionnaire administered at household level throughout the country. Qualitative component is participant observation and semi-formal fieldwork conducted in the communities in which baseline research was carried out.

### ***Research Sites for Qualitative Research***

<b>Romania</b>	<b>Georgia</b>	<b>Armenia</b>
Motatei-Gara, Dolj county	Tsinubani-Gurkeli, Akhaltsikhe (southern Georgia)	Hayanist, Ararat marz
Rotbav, Brasov county	Nasamkhrali, Khakheti (eastern Georgia)	Shamiram, Aragatsotn marz
	Ganastlebis Kari, Samegrelo (western Georgia)	Verishen, Syunik marz

### ***Research sites for the qualitative component of the research were selected on the following basis:***

- As far as possible, to cover the same areas covered by the quantitative part of the research (community and enterprise level questionnaires at baseline stage; household-level questionnaire at main stage of research)
- Relative proximity or non-proximity to town
- Relative access or lack of access to land and other natural resources
- Ethnic and religious variation
- Presence or absence of refugees from outside the communities (Armenia)

### ***In-country collaborators on qualitative research***

**Romania:** Ana Bleahu, Institute for the Quality of Life, Romanian Academy of Sciences (Baseline and Main Phase)

**Georgia:** Ketevan Kobaladze, Department of Psychology, University of Tbilisi (Baseline and Main Phase)  
Pawel Dolidze, Elkana (NGO) (Baseline Phase)  
Nana Sumbadze, Department of Psychology, University of Tbilisi (Main Phase)

**Armenia:** *Dr. Hramush Kharatyan, University of Yerevan (working with a team of colleagues) (Baseline and Main Phase)*

### ***Phases of research***

#### ▪ ***Baseline Phase (2001)***

***Aim:*** to generate hypotheses about

- the patterns of involvement in different types of non-farm activities on the part of different types of individual and different types of household in the two areas studied (differentiated according to factors including level of landholding, ethnic and religious affiliation and existing networks)
- the factors affecting motivation and likely future involvement on the part of different types of individual and different types of household in the two areas studied

***Romania:*** *Winter 2000/2001*

***Georgia:*** *Autumn 2001*

***Armenia:*** *Autumn 2001*

#### ▪ ***Main Phase***

***Aim:*** to test and deepen hypotheses generated in baseline phase and to deepen understanding of data

*Currently underway in all three countries. To be completed by May 2002.*

### ***Methodology used in Qualitative Research***

- Both individual and household were considered important as units of analysis and investigation.

While individuals have their own preferences, the household as a whole functions as a unit which tends to distribute its members in different kinds of activities, so that these are complementary in generating a household livelihood. This distribution is according to what is considered proper for the age, sex and position within the household of different individuals.

- **Baseline phase:** semi-structured interviews and focus groups main methods used.

Data collected in one visit lasting a few days. Informants selected to be representative of different categories of individual and household, according to locally significant factors.

- **Main phase:** participant observation main method used.

Data collected in a series of visits over three to six months (three months in Armenia and Georgia, six months in Romania). Same informants to be used as in baseline phase, together with other informants identified through the tracing of networks outwards from baseline informants.

### ***The character of the economy now in the study villages***

- The economic collapse which occurred in all three countries following the fall of the Soviet system has led to a much lower level of economic activity and a contracting of the economy to village and household level in all the villages studied.
- There are significant parallels between what has happened to village livelihoods in the Romanian villages in the study on the one hand and in the Georgian and Armenian villages on the other since the collapse of the Soviet system, despite the cultural differences between them.
- However, at least in the villages studied, there has been a greater degree of collapse of the non-farm sector at village level in Georgia and Armenia than in Romania.
- Most village households now rely on subsistence agricultural production either entirely or largely for their livelihoods.
- There is very little cash in circulation. Barter, both locally and over long distances, has become very significant. This includes barter of both goods and services.
- Although much non-farm economic activity is invisible because it is small-scale and may not involve the use of cash, it is vital to household livelihoods. Households survive because they have complex livelihood portfolios, with members involved in both farming and non-farming activities.
- Higher-status, visible non-farm economic activities are the province of those with good networks – including kin, religious, social and Soviet-era *nomenklatura* networks. The poor and those belonging to minority groups tend to be excluded from these.

### ***The Soviet era in the study villages***

Two sources of household livelihood in the villages studied in all three countries in the Soviet period:

- ◆ Employment provided by the State, in farming on state/collective farms, in industries located in the countryside or in nearby towns, and in service sectors (education, health, administration).

- ◆ Subsistence agricultural production from 'homestead' land allotted to each household

Farming was not really distinct from non-farm activities as far as villagers were concerned, because both involved employment in a State-run enterprise and a secure salary.

### ***Farming nowadays in the study villages***

- ◆ State and collective farm land is being distributed among villagers, although the process of registration has been a long one.
- ◆ The distinction between 'homestead land', used for subsistence production, and privatized land from state and collective farms is an important one.
- ◆ Enough land to grow food for subsistence – including homestead land – is vital to all livelihoods, especially but not only those of the poor. Most farming is now for subsistence, on 'homestead land'.
- ◆ It should be noted however that in some regions there is a shortage of land even to grow food. In Romania, villages contain some households which have little or no land, because land was distributed mainly on the basis of pre-Second World War ownership.
- ◆ Generally, privatized land is rarely utilized fully, and is often not cultivated at all because the resources to cultivate are not there (chemicals, seeds, machinery) and there is no market for produce. The 'land burden'. *"It was not the land that was given to the villager but the villager who was given to the land"*. As soon as a land market comes into being, the poor are tending to sell their land, making their future even more precarious.
- ◆ The production of wheat, cultivated by machine, is declining and that of maize, cultivated by hand, is increasing. To eat wheaten bread rather than maize bread or maize porridge is now a mark of wealth in some areas.

### ***The development of a non-farm sector?***

- ◆ With the collapse of the Soviet economic system, state employment has collapsed in farming and in industry. Although service sector state employment remains, this is now remunerated at a very low level.
- ◆ A high level of emigration, especially of the young and entrepreneurial, has hindered the development of non-farm activities. Remittances are significant source of income.
- ◆ State jobs which remain have become part-time activities which are kept for status rather than for cash.



- ◆ Most non-farm activity is now very small-scale and is invisible to the statistician. It is often barter-based and has the character of a social support system as well as an economic system.
- ◆ The transition from being employees to being self-employed entrepreneurs (whether as farmers or through involvement in non-farm activities) has been a very difficult one. Most villagers are pessimistic about the prospects of their becoming entrepreneurs. They have little understanding of markets, of financial arrangements, taxes, customs. They have a very great fear of taking loans (which are rarely available in any case).
- ◆ Particularly in Georgia and Armenia, there is a belief in villages that 'someone' should come and open enterprises to employ them (as in the Soviet period).

## **Recommendations**

### ***Infrastructure***

- ◆ Transport to and from villages needs to be addressed. Investment is needed in roads in many areas. Innovative solutions such as the 'village van' could be introduced for sale of farm and non-farm produce, with loans provided to buy these. This would reduce the intermediary chain between village and town.
- ◆ Establish centres for the quality control of products to ensure that goods are of standard quality, making them easier to sell.
- ◆ Tailor the school system to cater for skills needed in non-farm activities including craftwork. Provide scholarships to allow village children to study in town beyond primary level.
- ◆ Set up permanent rural centres which can provide regular advice on law and technical issues relevant to non-farm enterprises.

### ***Setting up non-farm enterprises in villages***

- ◆ There is a need to set up enterprises in villages which can
  - ◆ Provide employment
  - ◆ Utilize agricultural produce, allowing villagers to find a market and therefore produce a surplus for sale.
- ◆ Preferably, enterprises should be linked to the use of the natural environment locally, either through farming or through the availability of raw materials.

***In order to set up enterprises, the following are recommended:***

- ◆ Make available start-up grants and micro-credit to allow this to occur, initially at a micro level.
- ◆ Make available training in business, marketing, finances, banking, customs and taxes to those starting small enterprises.
- ◆ Identify specific types of enterprise appropriate for certain areas, on the basis of locally available produce and materials (e.g. stone and wood in some areas of Armenia; vegetables and fruit in areas of all three countries). Often this will mean re-establishing enterprises which existed in Soviet times.
- ◆ Clearly identify markets for specific products, initially in nearby towns, and provide training in production and processing methods to enable products to be appropriate and acceptable for markets identified.
- ◆ Target (for grants, credit and training) not only at those who already have good networks but also those with potential talent but without effective networks because of lack of kin (refugees), membership of a minority (Yezedis in Armenia; Transylvanian minority groups, especially Gypsies, in Romania) and/or lack of Soviet-era *nomenklatura* networks.
- ◆ Target not only individuals but groups of individuals (kin or neighbours) for grants, credit and training prior to setting up an enterprise together.

***Other income-generating activities***

- ◆ In areas where this is appropriate, develop agro- and eco-tourism.

***Providing models***

- ◆ Identify successful communities
- ◆ Advertise the model, using both modern and traditional media.

## ***Householding and rural development***

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### **A case study**

Let's first take a look at one household.

V.N. came to Tismana, a large village in the centre of Romania, in 1971 as a skilled worker and married a woman from the village. The first three years, as he says, he did not know what to start with – meaning what besides his job in a small industrial unit near the village. He tried gardening, but it didn't work out. Then he started bee keeping and began to sell the honey – and this went very well, with his honey even getting the first prize at an international competition in Germany.

His wife was working in a local traditional carpet manufacturing enterprise. The nuns from Tismana monastery were teaching the women how to weave and a former “bourgeois” tradesman was hired (after some years in prison) by the party's local leader to run the enterprise. They become quite prosperous, selling their carpets in many foreign countries. N's wife was a kind of team leader, distributing the materials to the women who were working at home.

Together, they developed their household and started to build a new house, “bigger than the doctor's one” and, “probably, with the first bathroom in the village”. In one year, they lost all their bees so that N. tried to help himself out by buying some cows and selling their milk. But things were just not the same.

After 1990, the family tried several “businesses”. The carpet manufacturing enterprise went broken but N's wife, given her former position and relations, could still get some work, from time to time. In 1998 she died. Their daughter went to Austria, where she had a white wedding and tried different jobs in order to make some money. This period of her life is not very clear and her father is not very willing to speak about it. Then she came back and is now living with a boy friend and her two children in the family's house. The son also tried a lot of things, went several times to Germany, where the family has a relative, bought two small trucks in order to set up in trade but was cheated so his father had to pay all his debts. He is also living with his wife (who is working in the next town) and his children in the family's house, helping here and there, doing some small jobs now and then and still dreaming of having his trucks.

Together, the family is running a small “agro-tourism” business, using their big new house for this purpose. When they have clients – which is not at all often – all or a part of the family moves to the old house or sleeping in the neighbourhood. The daughter cooks and the others help when needed. As with most the similar initiatives in the country, the “management” is something in between hospitality and public service, with varying prices and attitudes depending on the relations with the guest-clients. But this important “non-farm” activity deserves a closer look.

The daughter and her friend also have a small bar and share with her father a small shop at the front of their house. They sell on credit, as do all the other tradesman in

the village, always scared of losing their money but still forced to cope with this general credit system imposed by poverty (and by competition too) and made possible by propinquity relations. Sometimes, debtors from the neighbourhood pay their debts by helping N. in his farming activities. For one year, they closed everything, because it not profitable any longer.

N. still has his job and works in the household. After buying some land, he tried to build a trout farm with a neighbour, but he failed, one of the reasons being that he ran short of money because he had to pay his son's debts. Now he dreams of building, more or less on his own, a swimming pool in order to attract more tourists, but he doesn't have the money for this as yet.

When asked what he would prefer, a job which is not very well paid but which is secure or one which is less secure but very well paid, he definitely opted for the first: "That way, I would be more secure and, you see, I have a lot of other things to do besides my job" (what is the case with more than 80% of the Romanian rural population). When asked what he thinks about doing things by oneself or in a team, helping each other, he opted for working together with other people willing "to push in the same direction". "I haven't been able to manage to do in these last years what I did when my wife was still alive and we helped each other". For him, a household is a kind of team too: one cannot be a 'householder' on one's own, so he does not perceive himself as a "good householder" any longer, after the death of his wife and the rather divergent opinions and strategies of his children – with whom he nevertheless goes on living under the same roof and working together. "To be a good householder means to achieve what is needed for a man's life, you know, to have a house, a cow, well, everything you need." And this "you cannot achieve on your own"!

### **A methodological approach**

How should we approach these facts and what can we get out of them?

There is no clear-cut distinction between farm and non-farm activities or even between concurrent non-farm strategies. Our actors are now "placed" in one household – as three distinct families – but used to be "displaced" when the mother was working in the village, the father in the town and the children were abroad, but still connected with their family home. In what sense can this be considered a "rural" social unit?<sup>1</sup>

It seems that we can and should address households as units of analysis – insofar as the behaviour of the "rural actor" seems to be embedded in his household activity – but we need to take a closer look at what we really mean by *household* and how "rural" it still is.

From Sumner Maine to, say, Keesing, anthropologists have generally agreed on the fact that kinship and propinquity are two distinct principles of organization. Family and household have thus not to be confused, even though they might overlap to a considerable degree sometimes. Further, households (or rather co-residential or domestic

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<sup>1</sup> In another village where I worked, the population almost doubled each week-end (meaning almost three days a week) by the relatives coming from town where they were working in order to get involved in different farming activities and getting their "shares" out of this involvement. What should then be considered the "real" population of this village ?

groups) mean more than spatial propinquity. "Generally the term refers to a set of individuals who share not only living space but also some set of activities." In this respect, "Bender's (1967) separation of families, coresidential groups, and domestic functions is useful to the extent that it prods the ethnographer to explicate the exact nature of the social unit he is labelling a family or coresidential unit and to describe precisely the functions it performs rather than assuming them or leaving the reader to fill in with his own cultural assumptions." (Yanagisako, 1979, pp. 164-165)

Further distinctions have proved to be less consensual, but we cannot go here into these important "details". We will just stick to the fact that kin and domestic groups being the 'problem' of social anthropology – and thus of "social structure" – more interest has been spent on the history and diversity of a household's *structure* than on its *culture*. In this respect, "Schneider contends that the study of kinship as a symbolic system must be undertaken if we are to produce cross-cultural comparisons of kinship rather than cross-societal comparisons which divorce components of behavior from their symbolic meanings. (...) By abstracting normative rules from concrete, observable actions (which includes verbal statements), the anthropologist derives the system of symbols and meanings pertaining to kinship relationships. Because it directs us to conduct thorough investigations of native conceptual categories, symbolic analysis produces richer and more precise ethnographic accounts than do analyses that fail to interpret social units and actions within their relevant context of meaning. (...) A further advantage of analysing kinship as a symbolic system lied in its ability to help us make sense of the diversity in family and kinship organization within a single society. Geertz & Geertz (1975) employ the analytic strategy of differentiating the cultural dimension of kinship from its social structural dimension to bring together 'as aspects of a single structure of meaning' what seem to be 'puzzlingly irregular and contradictory' Balinese kinship customs and practices." (Yanagisako, op. cit., pp. 192-193)

Coming back to our issue and keeping in mind the distinction between kinship and propinquity, we might then consider the household, in a given context, to be a distinct meaningful set of relations, with sets of people acting on the basis of rich common meanings through more or less convergent means. But, in doing so and trying to be coherent in using such an approach, we should also be explicit in terms of our methodological approach. Considering households as a kind of symbolic game, a set of meaningful relations, we are focusing on the *game* rather than on its *players*, on *relations* rather than social *actors*; to put it briefly, we are constructing *ideal relations* rather than *ideal types*, closer to the structural interactionism of the network approach, but with a deeper interest in social interactions as symbolic practice.

The dominant discourse in social sciences, as we all know, takes the view of individualism and individual's rational choice. Besides other more theoretical reasons, there are also at least two good practical reasons in taking this approach: a) "types" and "categories" have a great "visibility" (everybody can imagine a "peasant" or even a more analytic type such as "subsistence peasant" and can understand what is meant by farming or non-farm activities); b) this enables policy "addressability", strategies that can be oriented toward clear (or supposedly clear) categories of beneficiary and/or activities they want to influence, promote, etc.. But it also carries with it some risks: real people are usually "trans-categorical" (this being even more true in less structured, unstable contexts, such as transition for instance) and their strategies are to a large extent "game strategies"



rather than “players’ strategies”, producing and reproducing social networks of distinctive social games. In this context, it is assumed that a household is such a social game and that it should be approached in terms of “ideal relations” rather than focusing on ideal social actors or even abstract categories of activity such as “non-farm activities”.

### **The Romanian household: history and diversity**

In this text, “household” stands for the Romanian “*gospodărie*”, which is a more or less specific type of social organisation, quite different, for instance, from the better-known Slav *zadruga*. It also used to be a part of the general social organisation of the Romanian village, known as “*obște devălmașă*”. This “primitive democratic” method of political organisation of village communities, sharing collective ownership of the land, survived in some places until late in the XXth century. The *gospodărie* is still, more or less, *devălmașă*, meaning that the members of the household have **joint possession of the household’s goods due to common work in the household** (Stahl, 1965), this property being divided in **equal parts** among the children at their marriage, with the last born staying in the parents house and taking over their part at their death.

The *gospodărie* had – and, to a certain extent, still has – a certain symbolic centrality in rural life. In this respect we can even speak about a certain rural *ethos of the “good householder”*: for a peasant, the main meaning of life would be to achieve “what is needed” for a man’s life, the proper place for it being one’s house and the proper way being shared propinquity (usually kin) relations. This ideal meaning tended to be shared over time and space, giving a certain unity to different – or some times even divergent – ways of achieving this very goal.

The “*traditional*” *household* could be considered, ultimately, in morphological terms, having a rather common social structure, despite significant differences deriving from different major occupations and between free peasants and serfs, poor and rich peasants.

Mainly with communism and its forced “modernization”, these social units split due to migration and other forms of geographic and social mobility. But most of their members still stood related to each other, in a kind of functional unit we may call the displaced or *diffuse household*. These kinds of social networks shared a kind of intermittent propinquity, with their displaced members from all over the country “coming home” from time to time, getting involved in some farming activities or exchanging services and goods between them and taking with them a large range of farm products. Those (usually but not necessarily kin members) who get involved (to a certain extent) in the distribution of work and redistribution of resources were part of this “diffuse household”. The member of such a displaced domestic unit was thus a kind of shareholder, investing work and emotion, the “profit” of which was the just redistribution of resources over his agro-industrial, rural-urban network. Differences between such networks were quite important, according to their demographic and social structure, but also according to their strategies aiming to a more or less restricted social and local mobility (see David Kideckel, 1993, for a typology of these household strategies). Their diffuse nature sometimes led to a strong bias among the members of such networks towards urban or rural, worker or peasant categories. This explains what Gerhard Creed (1995) called “the domestication of industry” by rural-urban household networks. This



also reminds us that the problem of specialization and professional differentiation we are facing now in post-communist countries already has a long history.

It has been claimed that such household strategies, coping with the constraints of communism which aimed at the dissolution of peasant social organisation – and thus their political relevance – actually reinforced peasants' family and kinship ties (e.g. Hammel, 1972). But this is true only to a certain extent, with diffuse households building a kind of *selective kinship* – or just selective ties. “The diverse ways in which households positioned themselves in their efforts to take advantage of official and unofficial opportunities influenced their cultural choices and left them generally unable to form meaningful political alliances. The strategies households devised to get by and get ahead under the pressures exerted by the accumulative state also influenced their ability to craft wider networks of social cooperation.” (Kideckel, op. cit., p. 172) No longer embedded in the community but not yet having the individual at its centre, the ethos of the “good householder” produced to a large extent what we may call a “*molecularization* of the society”, with large number of small centripetal networks, fighting for their short term welfare or just survival.

For these people, post-communism meant a brand new range of opportunities, most of them being also puzzling challenges. But it also meant the loss of security, unemployment being just one of the main causes. Agrarian and not agricultural laws, the lack of an agricultural model and of any coherent long term state policy in this domain (and even worse, its permanent instability), together with the implicit use of villages as an escape for urban unemployment, produced a shift of initiative from national to local (and even individual) level, rural people having just to find their way out (von Hirschhausen, 1997). And this is what (at least a part of them) did, re-activating their networks and re-shaping them according to the new context. We call all this range of different, if not divergent, strategies *householding*, meaning a set of minimalist but flexible strategies, networking available people and resources around one's household welfare or just subsistence, depending mainly on age, local isolation and relational capital. It is a mainly self-reproductive system of relations, empowered by the lack of coherent alternative models and maybe even more so by the instability of the few existing ones. Using a noun based on a verb (householding) instead of a simple noun (household) is intended to point to the fluidity of choices involved in coping with unstable political, social and economic opportunities. It is not restricted to “domestic economy”, which is merely embedded in a broader common life strategy. Based rather on *trust* than on *assurance*, householding strategies see networks and networking as their main resource, being thus incapable or unwilling to engage in broader cooperation or convergent efforts in the public sphere.

### Instead of conclusions

The ethos of the good householder still seems to be important for a large part of the rural population (and probably not only) of Romania. Proposing or even imposing some kind of convergent meaning for human action, it is nevertheless contextual: the *traditional household*, the *diffuse household* and simple *householding* are but three possible “ideal relations” trying to achieve the same goal in very different social contexts, following a more or less common meaning of *action* through different kinds of *interactions*. If this is true, it means that understanding the behaviour of “householding people” cannot be separated from the meaning they project on their behaviour and which

orients all their behaviour according to this meaning. To put it in another way, it means that distinct categories of activity and analytic categories of actors have to be approached and handled in and through the social games of householding they are parts of rather than *per se*. Most of these activities don't have aims *per se* and they frequently don't have the same meaning for the social actors and for the policy makers trying to sustain this or that activity. For a strategist, farm and non-farm activities, for instance, are and should be distinct, having distinct aims, following distinct logics and having distinct outcomes. For householders they may be just equivalent means of householding.

Does this mean that householding strategies are "irrational"? I would hardly agree with such a position. For relatively unskilled people, using in a relatively flexible way the opportunities to hand seems to me to be a rather "rational" way of reacting to a rather instable and insecure environment. Households are the partners of a weak state in nations with a strong rural past, trying to oppose individual networks of security to the collective feelings of insecurity. In a way, the symbolic centrality of households stand for the vanishing centrality of the state and not yet emergent centrality of the market – and in this respect, investing in non-functional and ostentatious houses is just a way of expressing this meaning.<sup>2</sup> This might seem "irrational" – and from a certain point of view it is, insofar as this "symbolic capital" of the house is almost no "capital" at all, not being "reinvested" but, to some extent, standing there for its own good. But perhaps, although it may not be a (very) *rational* choice, it may be a (quite) *meaningful* one? What if most of these people don't spend their time thinking about how to 'maximize' investments, but just think how to live their lives ("playing the game", as Gellner says) and how to make sense out of this, with the household being a sensible way of tackling this goal?

On the other hand, householding strategies are not development strategies – they may even be anti-development. From a policy-making point of view, "household culture", in this sense, appears to be an **obstacle** – as culture generally speaking appears as an obstacle for Huntington (2000) if approaching it from development's point of view. So how can development projects deal with this reality and what should they do?

My guess is that rural development projects should be double-faced, trying to cope with at least two requirements:

- **to be meaningful**, making sense and giving sense from the beneficiary's point of view. If not, push and/or pull strategies will go on being randomly successful and failing. This requests a fair guess of what these meanings are for definite rural populations in definite social contexts – and here is where sociology/anthropology comes in;
- **to be honest**, meaning being realistic on more than short term agendas. Without a realistic guess at what society can and will be like in more than two or three years, development projects risk turning into roulette, pushing and pulling people in what will become dead ends, making them happy or just helping them to survive for a moment in

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<sup>2</sup> In most of the post-communist rural settings, but especially in Romania and Bulgaria, ostentatious houses – or even whole villages – are a well-known phenomenon. Having a "proud house" often reflects the very meaning of one's life or, at least, is a condition of not losing face.

order to abandon them in deeper distress the moment after. Here is where macro-economics and strategic politics come in.

Bridging these two aims is what "sustainable development" is or should be about. Is there any need to stress the fact that in order to do so sociologists/anthropologists, economists and policy makers should have some real communication?

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# Factors affecting Household-level involvement in Rural Non-Farm Economic Activities in two communities in Dolj and Brasov *judete*, Romania

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## Introduction

This paper draws on preliminary research carried out during December 2000 and January 2001 in two communities in Romania, one (Rotbav) in the county (*judet*) of Brasov and the other (Motatei-Gara) in the county of Dolj. The purpose of the research was to establish a baseline picture of the kinds of non-farm activities in which people in these two rural communities were involved and what the main factors are which currently motivate involvement in different activities. The research is part of a broader research project which is looking at involvement in non-farm activities in rural communities in Eastern Europe and the CIS countries, funded by the UK Department for International Development.

The two communities contrast sharply with one another, allowing information to be gathered on the significance of their different characteristics in determining involvement in rural non-farm activities. Rotbav is an old village but with many population disruptions over its history, multi-ethnic (containing Germans, Hungarians and Roma – gypsies – as well as Romanians), situated on a main road in close proximity to a large town (Brasov) and with relatively good access to natural resources, being situated in Transylvania, a mountainous and forested region. Motatei-Gara, by contrast, is a village established in 1948 but is inhabited by people who have lived in the area without disruption for as long as can be remembered, is mono-ethnic (Romanian), is situated in an isolated area without easy access to a large town, and has limited natural resources upon which to draw apart from the land itself (now not very productive since the dismantling of the irrigation system after 1989<sup>2</sup>). Both villages contain members of different religious groups, with Catholics, Lutherans, Orthodox and Baptists/Evangelists being present in Rotbav (with religious affiliation being associated to a large degree to ethnic affiliation) and Orthodox and Seventh-Day Adventists being present in Motatei-Gara.

The research adopted a qualitative methodology and involved a series of interviews with all members of 14 key informant households<sup>3</sup> – *gospodaria* in Romanian – (7 in each village), selected to represent different types of household within the communities, and with focus groups of individuals gathered together from different *gospodaria* and representing various peer groups (women, men and young persons in each community). Interviews were also held in each village with the mayor, the priest, the schoolmaster, the kindergarten head, the doctor, representatives of the different religious denominations and the mailperson. Two people were interviewed about the history of the villages: the high-school principal, also a history teacher, in Feldioara (the centre of the commune Rotbav belongs to) and a war veteran in Motatei-Gara. For information on the dynamics of rural non-farm activities before

and after 1989 interviews were held with executives of UCECOM and CENTROCOOP in Bucharest.

The methodology adopted has enabled data to be gathered which is usually difficult to uncover in a more formal questionnaire context. Many of the activities which households were found to engage in are informal, even illegal and often low status. In addition there are factors found to affect involvement in the rural non-farm economy, including the influence of ethnicity and religious affiliation on the ability to become involved in some kinds of activities, which our approach uncovered.

Certain points come out particularly clearly from the data which have relevance to policy:

- Non-cash based activities, both subsistence production and barter, need to be taken into account in assessing the current economic situation of most households in rural Romania. These are vitally important to household livelihoods but are largely un-reported, under-reported or mis-reported as they are difficult to quantify. Some of these activities are low-status, in addition, and are therefore particularly likely to go unreported.
- The relationship between farming and non-farm activities is a complex one which needs to be disentangled carefully in order to predict how households will take up new opportunities. Almost all rural households are involved in both, and want to be involved in both in order to spread risk and utilize available resources (both human and material) as well as possible. Not only are the two spheres tied up within a household in terms of the practicalities (availability of labour in slack periods, use of non-‘active’ labour such as older people and children for some kinds of activities) but there is a psychological attachment to farming in the countryside which leads, for example, to a tendency for high status to be associated with investment of income earned from non-farm activities to be invested in agriculture and in a higher standard of subsistence livelihood, rather than in building up a non-farm business or even in building up a market-oriented business. There is a sense of obligation towards cultivation of the land expressed in the concept of the ‘land burden’.
- What is here described as ‘relational capital’ is very important in building up involvement in non-farm livelihood activities. This has many bases including kinship and neighbourhood but is also importantly based on ethnic and religious ties, often built up deliberately. These are likely to mean that households have very different abilities to take up new opportunities.

### **1. Farm and non-farm**

Activities outside farming proper are vital to the livelihoods of all *gospodaria* (households) studied in both communities. This was true before 1989 and it remains true today. However before looking at the way in which their significance has changed and at the situation today we need to consider what is meant by farming in the context of the Romanian village. It is, in most rural contexts, not that easy to disentangle ‘farming’ from activities which are ‘non-farm’, since a household’s livelihood is, in fact, a complex and organic whole made up of different activities on



the part of different members, which together form a jigsaw which – ideally – fits tightly together. In transition economies things are even more complex since ‘farming’, under collectivisation, was taken out of the control of the members of the households which (technically) owned the land. In effect, they were employed in collective farms – or on state farms – to a large extent as they might be in a ‘non-farm’ employment.

Both of the villages studied, Rotbav and Motatei-Gara, had collective farms – Agricultural Production Cooperatives or APCs – made up of land some of which belonged previously to members of the village. There were also state farms (IAPs) near both villages, which provided employment. With the dismantling of the collective farms in the two communities studied, the land was suddenly released to *gospodaria* who are expected suddenly to treat it as though it were again ‘farm’ – i.e. to manage it at a household level. However, the experience most people had in relation to the cultivation of land on their own was in a pre-Second World War context, when farming was largely subsistence-oriented (although some inhabitants of Rotbav, particularly German inhabitants, came from families which had a history of more market-oriented agriculture, many of these have left since 1989). After 1948, *gospodaria* cultivated small plots for subsistence and barter purposes, but the majority of the land, in most areas, was cultivated by the collective and state farms. If they worked on that land, they did so as employees, and were paid a salary or a proportion of the profits. They lived in a cash-oriented economy, although they still valued some involvement with the land and the cultivation of some crops for subsistence and barter.

With de-collectivisation, the land was suddenly returned to its previous owners. *Gospodaria* in Rotbav received an average of 5 hectares and those in Motatei-Gara an average of 2 hectares. However there were differences in what was received because this was largely based on what had been put in originally. This was particularly true in Rotbav because many of the inhabitants came from elsewhere after 1948 and therefore only qualified for a tiny piece of land (less than a hectare) on redistribution (and this only if they worked on the APC). Initially, informants said that they were excited and believed that the prospects were rosy. But they now talk of a ‘land burden’. Informants generally expressed regret for the dismantling of the APC. They both feel that they *should* cultivate the land which they have got back and that they are *unable* to do so properly. Most find it very difficult either to get inputs or to find a market outside the local area – if they are able to produce a surplus at all, which is rare. Very few of the *gospodaria* researched are able to produce for the market at all regularly. Most produce for subsistence or for barter – in other words they are reverting to what their grandparents did before the Second World War, or extending their production on the small garden plots they operated between 1948 and 1989.

The people of both Rotbav and Motatei-Gara have, on the face of it, been transferred from a situation in which they were predominantly engaged in non-farm activities to one in which they are predominantly engaged in farming. Before 1989, 70% of the active population in Rotbav and 95% in Motatei-Gara were employed by the state outside farming. Now they have lost this employment – and have been given their land back. So it would appear that they have become farmers again. In fact, however, most *gospodaria* are not able to generate an adequate livelihood from their farms and continue to rely heavily on non-farm activities to supplement farming. In particular,



they rely on non-farm activities to generate cash income, since they are not able to generate this from farming, since most are not able to move much beyond subsistence production.

## 1.2 Non-Farm activities before the ‘Revolution’

Before the ‘Revolution’ of 1989, in which Ceaucescu was overthrown, farming was only one of the livelihood activities in which households were involved. Of the ‘active’ population<sup>4</sup> 95% in Motatei-Gara and 70% in Rotbav was employed in a local state unit<sup>5</sup>. Complementary to this employment, which brought in cash, was agriculture for household consumption and trade of agricultural products. In addition, there were some small entrepreneurs who produced for CENTROCOOP or UCECOOM (the former a network of small enterprises, most in the rural area, designed to utilize the labour force in the countryside not engaged in agriculture, and the latter an association of craft cooperatives), and small private enterprises (both of small craftsmen not affiliated to a cooperative and of small farmers producing on their small private plots for sale). Finally, there was some petty commerce across borders, production of alcoholic beverages, agro-tourism and babysitting, which were unregistered or illegal.

## 1.3 Types of non-farm activity nowadays

As well as trying to work the land received after de-collectivisation, households nowadays continue to be involved in many similar activities to those in which they were involved before the Revolution. Some unregistered or illegal activities have become formal and registered. However, many of the livelihood sources from before 1989 have been lost. The major loss is of state employment. In addition, CENTROCOOP and UCECOM have faced uncertain futures, linked to the delay in passing the ‘Organic Law of Cooperative Activities (Law 109/1996), which caused a stagnation and reduction in their activities, to the uncertainty about the legal ownership of the cooperatives and very significantly to the dismantling of the supply and distribution network<sup>6</sup>. The cooperatives have suffered from fraud, with incidences of members starting their own businesses using the structure and customers of the cooperatives, thus, together with competition from imported goods, forcing the cooperatives into bankruptcy. Thus it has become increasingly difficult for small producers to sell their products at a good price, since they find it difficult to trade directly in markets and are given disadvantageous terms by private intermediaries.

Since 1989, although all *gospodaria* in the communities studied rely on non-farm activities, with at least one member engaged in some activity outside agriculture, this is for reasons which vary a lot according to the type of *gospodaria*. We categorised households in the two villages into four types:

**Table 1: Types of *gospodaria* by amount of land and access to resources**

	<i>Gospodaria</i> with ‘enough’ arable land	<i>Gospodaria</i> without ‘enough’ arable land
<i>Gospodaria</i> with human and material resources	B, D (Type I)	A, I, H (Type II)
<i>Gospodaria</i> without human and material resources	E, F, K (Type III)	C, G, J, L, M, N (Type IV)

The (minority of) better-off *gospodaria* with a reasonable amount of land as well as access to material and human resources including good social networks (Type 1) use a large proportion of the cash which members of the household bring in through non-farm work to reinvest in agriculture; their motivation for engaging in non-farm activities, in other words, is demand-pull. Households (the majority) with little land and few material or human resources (Type IV) engage in non-farm activities to survive – the contribution of these activities is vital to the household livelihood. This can also be said of *gospodaria* of Type III, which, although they have land, do not have the resources to work the land and rely instead on employment outside agriculture. The motivation of such households for engaging in non-farm work is, therefore, distress-push. While the better-off households are able to choose what kind of activity they engage in, the poorer households cannot, but must take whatever they can get. This tends to be casual, seasonal and unreliable in the main, as can be seen from the table below.

Type II *gospodaria* are the most entrepreneurial of the households. It is this type of household, which does not have much land but has access to some material and human resources – including effective social networks - which sets up a business and concentrates on building that business rather than reinvesting the profits in agriculture. The non-farm activities in which the *gospodaria* studied engage are summarised in Table 2.:

**Table 2. Non-farm activities in the sample *gospodaria***

<i>Case study</i>	<i>Independent activities</i>	<i>Employment</i>
	<i>Rothav:</i>	
A	Husband: working in their own slaughterhouse* in the village. Wife: sells in their own shop* in Brasov and works on embroidery.	Husband: silviculture in a near-by village
B		Wife: mailperson in the village
C	Husband: collects scrap iron in the Brasov area, makes brooms and baskets, gathers wood. Children: day-labour and beg in the village.	
D	Widow: seasonal work in a bar in Germany	
E		Wife: works in local uranium factory
F	The son works as a woodcutter in the village	
G	The husband and the son work as woodcutters in the village	
<i>Case study</i>	<i>Motatei-Gara</i>	
H	The husband operates their own sunflower oil press in the village The wife sells soda water* The eldest son works in Italy	
I	The wife sells in their own shop* in the village	The daughter works as a school teacher in Craiova
J	The husband works as a day-labourer in the village	

K		The husband and the son-in-law are watchmen at the local warehouse
L	The father and sons take care of the village sheep herd, and young members of the <i>gospodaria</i> sell agricultural products	One of the daughters-in-law is a shop assistant in a local shop
M	All members are occasionally day-labourers in the village	
N	The wife is a day-labourer in the village	

*\* Indicates permanent independent activities, the rest being rather uncertain seasonal activities*

The above activities are typical of those engaged in by other members of the villages concerned. Most are not highly visible from the outside since they would not be recorded anywhere official. They do not bring in much money but they are nevertheless vital for livelihoods, particularly those of the poorest – who comprise the majority of the population at the moment, particularly in Motatei-Gara where there is very little official employment due to the remote situation of the village.

## **2. Involvement in non-farm activities by different ethnic and religious groups**

### **2.1 The importance of social relations and networks**

It was clear from the data collected from informants that having an effective social network, and good social relations, whatever this is based on, is a vital element in building a livelihood in the two communities studied. This is closely linked to the fact that high status is associated with having a wide and effective social network – what might be described as good ‘relational capital’.

Cooperation is highly valued and very important economically as well as socially in the communities studied. This is true within agriculture proper, where certain activities – for example mowing and bringing in hay in Rotbav – are done by exchange labour. It is also important more broadly in building and protecting livelihoods. Both villages are small and everybody knows everybody else; links between people are very complex and diverse. Although opposed factions dispute over various issues, in extreme situations the differences are forgotten (for example, informants reported that when the house of a family in Rotbav was on fire everybody came to help extinguish the fire, although they were in the middle of a quarrel on religious topics at the time).

Cooperation is the basis of social networks. Networks are important in establishing barter relations, which are fundamental to household economy in both communities. In Rotbav potatoes are exchanged for maize and wheat; in Motatei-Gara potatoes are exchanged for maize, cabbages are exchanged for apples and apples for wheat. Networks extend well beyond the local area: exchanges take place between households in different parts of Romania, in particular between those from Oltenia and Transylvania. This includes the exchange of aluminium scrap for plastic objects, of agricultural products for second hand clothes, of agricultural products for wood, of

milk for the remains of sunflower plants, of milk for eggs, of sugar beet for sugar, of cheese for honey and of cheese for maize or wheat. Some quite stable barter relationships have evolved between specific individuals in different parts of the country: for example, there is a widow from Rotbav who exchanges potatoes for maize regularly with a person from Gorj county and a household from Motatei-Gara exchanges cabbages for apples with a household from Ramnicu-Valcea.

However, such networks are not equally accessed by all households. There are various factors which play a role in building up or reducing the access which a household has to effective social networks which assist in building their livelihood. One important factor which plays a role in establishing effective collaboration and networks between people, both within communities and between communities in different parts of the country – and even between the two Romanian communities and other countries – is kinship. In Rotbav there are two prominent families of orthodox Romanians, the oldest families in the village since the out-migration of a large proportion of the German inhabitants since 1945. Members of these families help each other in every aspect of their lives. Lately they have moved to other communes or to Brasov but they continue to be in close touch. They help each other through sharing work, sharing capital, facilitating employment in the village, in Brasov and in Germany too.

Relations between neighbours are also an important basis for collaboration. Examples of collaboration between neighbours cited by informants in the communities include:

- Two neighbours from Motatei-Gara who had two motor wood-cutters that broke down decided to make a single cutter out of the two and have been working as a team ever since.
- Neighbours in Rotbav got together to hire a car and go together in Oltenia region to barter their products there
- A widow in Rotbav makes cookies for the neighbour's family and he helps her with heavier jobs in the household
- A villager from Motatei-Gara worked as day-labourer on his neighbour's tractor and was allowed to use the tractor for a day for his own land
- Two shepherds in Motatei-Gara get together to sell cheese - one of them has a car, the other helps him in the household in return for the use of it
- The people with wells associate with people with pumps to water the gardens in common
- The migrating Germans helped Romanians from Rotbav to find work in Germany.
- In Motatei-Gara people who do not have refrigerators give some of the meat to neighbours when they kill a pig; when the neighbours kill pigs they will in turn get some meat

## **2.2 Ethnicity and religious affiliation as factors in the establishment of social relations and networks**

Co-ethnicity and membership of the same church are also important bases for setting up strong social links and networks upon which to build strong livelihoods in the two villages studied. Certain livelihood activities tend to be specific to certain ethnic groups.

Those who are ethnically German in Rotbav (known as *sasi* – ‘Saxons’ – although their origins in Germany, many hundreds of years ago, are not from Saxony) traditionally have been involved in small industrial activities more than Hungarians and Romanians, but with the out-migration, particularly since the war, of most of the Germans, this difference has disappeared. Nowadays, ethnic Germans specialise in the import of high quality second-hand clothes. In Romania there is a network of second-hand clothes shops run by German citizens, which import clothes from Western European countries. In Rotbav there is a second-hand shop selling clothes, which is run by ethnic Germans.

Although the Rroma (gypsies) do practice some agriculture, the general perception is that they are not agriculturalists. It is true that they do not see themselves as primarily farmers, but many received small plots of land when the cooperatives were disbanded and are cultivating them. Traditionally, though, Rroma livelihoods tend to involve many different activities, often activities which are stigmatised by the other ethnic groups. They, like the Germans, specialise in the villages studied in selling second-hand clothes, which they bring in from Hungary, but rather than selling these in shops they are sold in the street. In Motatei-Gara there are Rroma who come every Thursday with a car full of clothes or shoes which they spread on the ground for sale, accepting goods rather than money in exchange. Rroma also collect iron, aluminium, sheepskins, glass and paper for sale as scrap and make baskets and brooms for sale, and also make wheels and shoe horses (these are skills and activities inherited from their parents).

Nowadays, members of other ethnic groups have, because of poverty, taken up some of these activities which they would previously not have been involved in because they were stigmatised activities associated with the Rroma. Thus, informants reported that nowadays “we carry wood from the forest like gypsies” (Hungarian from Rotbav) and that “we sell salt on the streets like Rroma” (Romanian from Motatei-Gara).

Religion provides a means for building up ties which assist in developing some livelihood activities. This has both positive and negative connotations. Members of non-traditional cults like the Seventh-Day Adventists, the Baptists and the Pentecostals feel segregated by the majority but they benefit from better collaboration and mutual support in livelihood activities due to this segregation. The small number of parishioners of these churches means that they have close relationships with co-religionists outside the village. This can provide a valuable asset for involvement in livelihood activities. An example is that Adventist young people from Motatei-Gara working in Italy recommend other Adventists from Romania to their employers; and Adventists also find employment more easily in Craiova through this kind of recommendation. In Motatei-Gara the Seventh-Day Adventists were private producers even under Communism, since their religion prohibits work on Saturday, and Saturday was a work-day for state employees. They had sawmills and knitting machines and produced crafts which were sold through the state organisation CENTROCOOP. In Rotbav the Baptists and Pentecostals are said to have converted to those faiths in order to tap into the effective livelihood assistance and networks which they provided.



### **3. Credit**

There is an extreme reluctance to take on any debts within both communities. No entrepreneurs within the group studied had taken on any credit, although some had toyed with the idea. They had discarded it due to the unfavourable terms offered by the banks.

It seems likely that this unwillingness to take on credit is related to an almost total lack of experience of having any debts. However, it is likely that there is also a strongly-rooted fear of taking on this kind of relationship with unknown entities outside the known social sphere. In fact, people are offered and take on debts to shopkeepers who are part of the known social network within the village quite readily.

### **4. Factors differentiating the two communities studied**

The two communities are different in ways which have affected the way in which they have been able to adapt to the changes since 1989. Since 1989 the disadvantages of living in a community like Motatei-Gara, which does not have easy access to a large town, have increased considerably, because there are no longer employment possibilities away from town. Under the Communist system industries were located in more remote areas but without the centralised system this is no longer the case. The inhabitants of Rotbav have the advantage of being near Brasov in terms of access to employment. The impact of the change in Motatei-Gara has been amplified by the fact that 95% of the households had a member employed by the state before 1989.

Both communities are at the periphery of the *communa* to which they belong and therefore do not receive as much investment as the communities situated at its centre. However Motatei-Gara suffers more from this than does Rotbav because its needs are different from those of the community at the centre of the *communa* to which it belongs.

### **5. Perceptions of the future**

Generally, informants show an inability, as yet, to come to terms with the fact that the state is no longer responsible for regulating the economy. They were, under Communism, accustomed to having employment provided by the state and to a 'system' that worked, even though they might complain about its restrictions. When asked about factors constraining their access to more effective livelihood activities, informants complain about the 'system' not working properly any more, and being riddled with corruption and malfunction. Many regretted the dismantling of the agricultural production cooperatives.

The solution to the present situation was often expressed by informants in both communities as the need for outside investors, which would provide more jobs. This can be seen as a desire to retreat to a situation where employment is provided from the outside – as it was under Communism - instead of individuals having to fight their own corner in a highly competitive and corrupt situation.

There was a difference between Motatei-Gara and Rotbav with regard to perceptions of the future, particularly among the young. Whereas in Motatei-Gara young people



saw themselves as remaining where they were and continuing with the lifestyle of their parents, in Rotbav youngsters can see more possibilities and many expressed a desire to leave farming. In Rotbav, being close to Brasov, other, urban-based, livelihoods are more visible. There are also more livelihood opportunities outside agriculture even for those who remain in the village and continue to practice agriculture as part of a varied livelihood portfolio. It must be noted that it was mostly the children of poorer households who expressed the desire to leave farming altogether; those belonging to higher-status households saw the optimum situation as continued involvement in farming, with partial reliance on non-farm activities on the part of some members of the household.

## **Conclusions**

This research has focused on micro, household-level motivations for involvement in non-farm activities. It has employed a qualitative methodology, including participant observation, which is able to uncover data, which is difficult to access through formal questionnaires. Many of the activities in which people have been found to engage are informal or even illegal, low-status, and are often barter-based.

Households in these two communities, in common with those in the rest of Romania, have had to make a transition from relying mainly on employment by the state to becoming 'farmers'. However, it would seem that this has been a difficult transition because most are not able to cultivate the land they have received in a way, which results in much more than subsistence production. Thus, non-farm activities were found to be very important in supporting household livelihoods, and to be complementary to farming activities. Most of the households in the sample studied in-depth in the two villages were engaged in both. It was found that the households perceived as highest status and most successful were successfully involved in both agriculture and non-farm activities<sup>7</sup>. The poorest were scratching a subsistence living through farming and supplementing this by means of various informal and illegal activities.

The reasons for involvement in non-farm activities varied according to the level of different types of capital. Poor households, without either material or human resources, are involved in non-farm activities because of distress-push; better-off, higher-status households are involved because of demand-pull. However there is little interest in entrepreneurship for its own sake except among the few households who have little land but good access to material and human resources; such households seem rather to be pushed into entrepreneurship than to choose it as the best option. There is little interest in credit at the moment, although some informants did express an interest in credit, and it is possible that if better terms were available more people would take them up. However, people are still strongly nostalgic for the pre-1989 situation, when they were provided with secure cash livelihoods, and informants in both villages expressed a desire for an alternative outside body which would provide employment. At the moment there is not a strong entrepreneurial push and this is not the main motivator in the development of non-farm activities.

'Relational capital', a form of social capital, was found to be vital in building non-farm activities in both communities. Effective social networks and high status in the community are the factors that have been most important in building successful

independent non-farm activities for some households<sup>8</sup>. Households which lack relational capital were found to be among the poorest in both Rotbav and Motatei-Gara. There is considerable emphasis on cooperation in both villages. This is based on different foundations, including neighbourliness. However, ethnic and religious factors were found to be important in building relational capital because they are bases for strong social networks. Villagers were found to have changed religious affiliation, in some cases, in order to tap into this potential. Working abroad, an important way out of poverty could be facilitated through utilizing religious and ethnic ties.

Although farming is seen as difficult and villagers talk of the 'land burden' which they took on with de-collectivisation, there is clearly a sense in which farming is still seen as the central activity of a household. Thus, households which are able to earn a surplus of cash outside agriculture, which they do not have to use for the purchase of everyday food and other articles, tend to invest this in farming. Only households which do not have much land invest in the building up of other types of business. There is a feeling that households are obliged to farm the land they have been allocated – this, indeed, is the source of the concept of 'land burden'. For example an informant argued that 'it is shameful not to work my land'. Thus, villagers appear to see themselves as farmers who should have access to other livelihood activities as well rather than primarily aiming at leaving farmers. There is continuity with the pre-collectivisation past; via the period 1945-1989 when households had small private plots which they cultivated for subsistence purposes. This is despite the fact that many young people say that they want to leave agriculture.

### **Policy recommendations**

Policies for the rural environment should be implemented on 2 different levels. The first level is represented by short-term poverty alleviation policies implemented on a local scale; the second level is represented by long-term development policies on national scale.

#### **Short-term poverty alleviation policies**

Any general recommendations about poverty alleviation policies need to take into account regional and local differences.

However, the two basic problems identified through this study are:

1. Disorientation, lack of information and lack of a model of success
2. Isolation

1. One measure to be taken in order to solve the first problem is to identify successful communities and to advertise the model, which they have established in the local environment (demonstration effects). The way in which this is implemented must take into account the mentality of the local community, including the inclination towards an oral culture. Modern media and informal traditional networks should be employed at the same time to disseminate valuable experience about successful activities.

2. The opening-up of isolated communities and the development of better connections with the city mean the identification of immediate, low-cost means of overcoming the lack of infrastructure. This could include:

- "the village van" - a car belonging to the village and used for all kinds of transportation to the outside: transport of children to school, producers to the market, teachers and doctors from the town to the village, emergency calls etc.
- scholarships for children to continue education outside the village, especially after the 8th grade.

### **Development policies**

After 1990, macro-policies in rural areas were characterized by a lack of any *model of efficiency in agriculture*. Even where solutions were identified at the local level, they were not followed by dissemination on a larger scale. This is why the map of enterprises shows isolated small successful activities with very limited impact on the life of the local community. As far as non-agricultural activities are concerned, the main problems identified are tax policy, credit policy and a lack of managerial experience.

Recommendations at this level would include:

1. Reducing the intermediary chain between rural producers and city markets
2. Encouraging the emergence of unions of producers in the rural areas
3. Encouraging the establishment of rural centres of law and technological consultancy
4. Elaborating a programme of support for young people in rural areas, including professional courses and specialization
5. Encouraging the development of agro-tourism through advertising (on both a national and an international scale, as appropriate to the tourist potential of the area) and the network of *pensions* and hostels, which already exist.
6. A better infrastructure (investment in roads, communication facilities etc).
7. Better adjustment of the school curriculum to rural life in order to create more professional opportunities for young people, including farm and non-farm independent activities.
8. Encouraging the development of a local industry for processing agricultural products (food industry, etc.) and a locally-owned network for selling these products on city markets. A major help would be the establishment of centres for the quality control of products and centres for veterinary control that would give quality certificates for the local products.

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<sup>2</sup> Before 1990, all the irrigation systems in Romania were the property of the National Irrigation Company, which sold water to all the agricultural enterprises. After 1990, the company was transformed into a State Autonomous Enterprise. But in the process of de-cooperativisation, the land was given to farmers and they decided to use the pipes and other devices from their land in the most rapid and profitable way, selling them as scrap metal (in the legislative chaos following the events in 1989, nobody was sure whether the de-cooperativisation law implied that the farmers owned just the land or the land and everything on it, including irrigation systems). The same happened with the irrigation systems on the land belonging to the state agricultural enterprises: the managers of the bankrupt farms sold the pipes as scrap metal. Informants now see the lack of any irrigation system as one of the major problems of Romanian agriculture, but are not very confident that it can be solved. The reason is that the National Irrigation Company had a huge network of dams, canals, pipes on a national scale and informants believe that the amount of money it would cost to restore it exceeds the budget of any Romanian company. An alternative system was given as an example by a couple of farmers in Motatei-Gara: in the neighbouring village (Motatei), an American citizen uses a seemingly effective system of plastic mobile pipes to irrigate land he took on lease. The farmers were quite excited about this, but the costs are still too high for them.

<sup>3</sup> After preliminary interviews with members of a larger number of households, the study focused on households considered to be representative of different types of household within the communities concerned. The chosen households were explored through in-depth interviews with all the members (when necessary, some members were interviewed many times). This approach was used in order to gain the confidence of the informants and therefore reach a level of information not available in a larger-scale but more superficial survey (because of the nature of some of the questions, the informants disclosed essential information only in the third or even fourth round of interviews).

<sup>4</sup> Those classed as 'active' probably do not include all of those in a household who are in fact engaged in significant livelihood activities. Many farming-related tasks, both in relation to production and in relation to processing, are not very visible and could be the responsibility of an older member of the household or of a child who would be seen as not being economically active.

<sup>5</sup> Local state units in the two communities studied are:

Rotbav: a brick factory, a uranium factory (both have reduced their activity), a State Agricultural Enterprise (closed). A significant proportion of people in Rotbav used to work in Brasov too, in a factory making tractors and another making heavy machinery (now in the process of privatization, after a long period of restructuring and reducing the number of employees)

Motatei-Gara: a Competrol Warehouse, a Peco Warehouse, a Furniture Warehouse (all closed now), a Cereals Warehouse (privatized, and has reduced the number of employees to 5 watchmen), an SMA (station for the mechanization of agriculture) a State Agricultural Enterprise (last two both closed)

<sup>6</sup> The supply/distribution network operated by CENTROCOOP and UCECOM was, before 1989, the main way the state could control and make use of the products generated on the private plots and at household level. For example, a private producer with 3 pigs was forced by law to sell one of them through this network. In exchange, he would receive vaccines, vitamins etc. After 1990, the farmers were free to sell their products on the market, therefore the network collapsed.

<sup>7</sup> This applies to households A and I in our sample.

<sup>8</sup> This also applies to households A and I.



## **DRAFT**

# **Factors affecting involvement in the non-farm economy in villages in Armenia**

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*Hranush Kharatyan and Monica Janowski<sup>1</sup>*

## **Introduction**

This paper is based on data collected through fieldwork carried out in Armenia in 2001, part of the baseline data collection for a wider project on non-farm economic activities in Central and Eastern Europe and the CIS countries which covered Romania, Armenia and Georgia. Fieldwork was carried out in three villages, chosen to be as representative as possible of variables affecting Armenian villages, particularly in relation to access to non-farm activities. These villages are Hayanist in Ararat marz, Shamiram in Aragatsotn marz and Verishen in Syunik marz

The Republic of Armenia covers 29,743 square km. It borders Georgia in the north, Azerbaijan in the east, Turkey in the west and southwest and Iran in the south. In the north, it has economic relations by land only with Georgia at present; it is blockaded by Azerbaijan and Turkey. In the south, Armenia has road links with Iran. It is a mountainous country: 39% of its rural population lives up to 1300 metres above sea level, 26% live between 1301 and 1700 metres above sea level and 35% live more between 1701 and 2100 metres above sea level. While some areas were agriculturally and industrially developed during the Soviet period, other areas, particularly more mountainous ones, remained undeveloped and were largely pastoral. However, there was generally a high level of prosperity in Armenia in Soviet times, expressed in the building of large, often two-storied houses with large rooms, contrasting with older, smaller houses.

There have been profound and traumatic social and economic changes over the last ten years. The earthquake of 1988 took place in the same year as an influx of refugees, both from Azerbaijan and within Armenia from areas near the border<sup>5</sup> as a consequence of the armed conflict between the two countries. There has, in addition, been a blockade imposed on Armenia by Turkey and Azerbaijan and an energy crisis

To these problems were added the deep-reaching effects of the economic reforms which started after the independence of Armenia, resulting in the privatization in 1991 of land, livestock and agricultural machinery. During the following ten years the traditional economic orientation of Armenia collapsed. A significant part of the population was not psychologically prepared for these changes and was excluded from the new economic processes, and many of these left the country. The structure,

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<sup>2</sup> Project of Priority Problems of Border-line and Highly-mountainous settlements, Yerevan, 1999.



sex-age composition, even the cultural shape of the population in general, and of the rural population in particular, was significantly changed.

The new economic system gave new meaning to the terms 'employee', 'employer' and 'unemployment'. Very soon a small group of people came to own the means of production and controlled the economy. This was in contrast to the quantitative majority of the population, which had no such control and owned very little.<sup>6</sup> The gap between the income of the 20% of the population with the highest income and the 20% with the lowest is enormous, with the former earning 32.2 times more than the latter, which obviously proves the sharp polarization of society<sup>7</sup>. Based on a poverty line of \$13 per day, more than a half of the population of Armenia is living in poverty. Poverty increases away from towns and in mountainous areas, as can be seen in the following table:<sup>8</sup>

	up to 1300 meters above the sea level	1300-1700 meters	1701 and higher	Total
Poor	42.35	54.93	57.99	50.76
Of which Poorest	16.37	24.86	28.28	22.56

There is very little cash in circulation in villages in Armenia nowadays. Much of the agricultural produce which is not consumed is bartered rather than sold for cash. What cash there is derives from remittances from relatives working abroad or comes as pensions or child benefit. This is not so true in Ararat marz, because here it is possible to sell produce to Yerevan, both for consumption fresh and for processing. In Ararat marz there are still some processing factories, for example making cognac and processing tomatoes.

Because of the lack of cash in circulation, it is very difficult for local authorities or the central government to collect taxes. Some taxes are collected in kind; for example in Verishen village, one of the study villages, the mayor is able to sell potatoes and beans collected from villagers to the military camp nearby.

Large numbers of people have emigrated from Armenia in the last ten years, mainly to Russia. This is true both of manual workers and of professionals. In one of the study villages, an informant said: *"In the past all (the professionals in our village) were from our village. Nowadays, all the professionals have gone to Russia because of the low wages here."* It is mainly young people who have emigrated, and mainly men.

<sup>3</sup> Tadevosyan A., Picture of the Social Stratification and Poverty Formation in Armenia in 1991-1997, Yerevan, 1998, Kharatyan H. Poverty and Democracy in Armenia, Yerevan- 2000, Stories about Poverty (Editor- H. Kharatyan), Yerevan 2001.

<sup>4</sup> Social Picture of the Republic of Armenia and Poverty, National Statistical Service of RA, Yerevan, 2001, page 13.

<sup>5</sup> Ibid, page 46.

## The study villages

In Armenia, one village was selected in each of three marzes<sup>1</sup> of Armenia: Hayanist village in Ararat marz, Shamiram village in Aragatsotn marz and Verishen village in Syunik marz. Ararat is one of the most densely populated rural marzes of Armenia. In 2000 it produced 5,6% of total GDP, reaching 12.7% of GDP in the agricultural sphere, 1.6% in retail sales and 2.8% in services. Aragatsotn marz, by contrast, produced just 1.3% of total GDP, reaching just 6.1% in agriculture, 1.0% in retail turnover, and 1,1 % in services. Syunik marz, the third marz in which a village was selected for study, is a heavily agricultural marz. It produced only 7,3% of the National GDP in 2000, but in agriculture it produced 12.4% of GDP, reaching just 1.2% in retail turnover and 1.7% in services.

Ararat marz was selected because it is the closest to Yerevan, thus reflecting the opportunities which this proximity offers. It is low-lying, contrasting with much of Armenia, which is mountainous. Finally, it is one of the marzes selected for the quantitative, questionnaire-based part of the broader research project of which this forms a part. Within Ararat, Hayanist village was selected because it lies at a crossroads, thus giving it the maximum opportunity for access to non-farm activities; because it has a high percentage of refugees from Azerbaijan; and because there is a high level of emigration from the village. In order to study the way in which refugees interact with the local population, a neighbouring village, Hovtashat, was also studied.

Shamiram Village in Aragatsotn Marz was selected because it is populated by Yezedis, a distinct ethnic and religious minority within Armenia, whose involvement in the non-farm rural economy may well be very different from that of the main Armenian population. The Yezedis are pastoralists living in a mountainous and economically undeveloped area and selecting this village therefore allowed us to observe the involvement of mountain pastoralists in the non-farm economy.

The third marz in the study, Syunik Marz, was selected because it is now, and was even more before 1990, an economically developed marz. It has both a high proportion of urban residents and also a high level of agricultural production for sale. The village selected, Verishen, is close to Goris, which used to be a manufacturing centre where many of the inhabitants of the village worked until the early 1990s. The village has a shortage of land, meaning that there is a particularly strong impetus towards involvement in non-farm activities.

The field research in Armenia was conducted by three ethnologists (H. Kharatyan, H. Pikichyan and G. Shagoyan) by means of pre-prepared questionnaires, in-depth, family, and group interviews, focus groups, and participant observation. Thirty-nine interviews were conducted, including thirteen in Hayanist, three in neighboring Hovtashat, eight in Shamiram and fifteen in Verishen. Three focus groups were convened, one in each village. Interviews were conducted with individuals engaged in non-farm occupations of all kinds, with individuals engaged primarily or solely in farming, with village municipal government staff and with individuals with family members working abroad, in Russia.

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<sup>6</sup> Administrative divisions of Armenia.

## Farming in Soviet times and now

In the Soviet period, all land except that immediately around the house ('homestead land') was cultivated as part of a collective or state farm, and villagers were employed for a wage either on these farms or, where these were accessible, at factories. Processing of agricultural produce, particularly fruit and grapes for wine, was an important non-farm activity, but was under State control, providing employment for many villagers. There was a significant industrial presence in agricultural areas.

For subsistence purposes, households had enough homestead land – usually at least 1000 square metres – to enable them to provide a good proportion of the food which they ate, and thus they remained peasant farmers to some extent, in that they produced for subsistence. However they sold little of what they produced on this land, and did not involve themselves in any long-distance or large-scale marketing of agricultural produce. There was very little opportunity for individual entrepreneurs to develop.

All land, gardens, livestock and agricultural machinery was privatized by law in 1991. Farms now average 1.4 ha of land, from which 1.07 ha is arable land<sup>3</sup>. The principles by which privatization was implemented resulted in unequal distribution of land both between villages and within villages. Villages were associated with different state and collective farms, with different amounts of land of different quality, and therefore their inhabitants received different amounts of land and of different quality. Some villages, whose inhabitants were not employed on state or collective farms, did not receive any land at all (e.g. the inhabitants of Torfavan village in the Vardenis region of Gegharkunik Marz, who worked in nearby *torfe* mines which are now closed). Internally displaced people also did not receive any land. Inequality also resulted from the principle that newly formed cooperatives would have preference in the distribution of land. Such cooperatives did not last long, however; while in 1991 there were 148.3 thousand household farms and 24.204 collective farms in 1991, in 1997 there were 319.3 thousand household farms and 373 collective farms<sup>4</sup>. Households which had formed part of a cooperative at the time of privatization were advantaged in the distribution of land. Finally, in the interest of social justice land was divided into different categories according to its quality; however, a lottery was held to divide it and this meant that some households received better land than others.

Theoretically, all rural inhabitants have employment – as self-employed people on their own land. However the reality is different. Most rural households are almost entirely subsistence-production oriented, and many cultivate only the land immediately around their houses, and not the privatized land previously belonging to state and collective farms which they have been allocated. They are oriented towards producing what they need themselves with a small surplus for sale or barter. The privatized and distributed land is seen as a burden; this is expressed in the saying "*It was not the land that was given to the villager but the villager who was given to the land*".

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<sup>3</sup> Main Direction of Development of the Agricultural branch of RA in 2002, data of the Ministry of Agriculture of RA.

<sup>4</sup> M. Gabrielyan, Contemporary Rural Population of Armenia, Yerevan 2001, page 36.

When land was privatized, not all of it was distributed, and not all of those who were entitled to receive it accepted it, because accepting it meant paying tax on it. Another reason for some land not being distributed was that there was the intention on the part of the authorities to keep some land as a reserve - the so-called "state fund lands." In 1997, with the formation of regional administrations (Marzpetarans), they took over the rights over these lands.

The reasons for this non-cultivation of privatized, distributed land are multiple:

1. Privatized land, although often the best land in the area, was often, in the Soviet era, irrigated, and the irrigation system has collapsed. In many areas, there is also a shortage of water due to illegal wood-cutting on the part of those who have no other way of making a living<sup>11</sup>..
2. There is no cash for the initial investment necessary to cultivate land with crops for sale, which are often high-investment crops. Those who did have bank savings lost them because rampant inflation took place immediately after privatization of land. No credit has been available for investment in agriculture.
3. There is a serious shortage of agricultural machinery, which is becoming old and unusable and cannot be replaced due to lack of capital.
4. Diesel for machines, seeds, organic and inorganic fertilizer and pesticides, all used in the Soviet era on land used for crops for sale, are all too expensive for villagers to be able to buy them<sup>12</sup>
5. Out-migration from villages has meant that there is a shortage of labour to cultivate land which is not homestead land. Traditionally, women work near the house, and are responsible for homestead land, while men work further away from the house, and worked as labourers in state and collective farms. Now that these have been privatized, men are responsible for working on the land which the household has received. However, many men now migrate seasonally, so that there is a shortage of labour to cultivate that land.
6. There are very limited opportunities for marketing crops, and so there is little point in cultivating privatized land in order to produce for the market to any significant degree. Most villagers sell small surpluses locally or in town, but the prices they get are very low since those who buy can afford very little, since they are themselves have very little cash. There is now, by contrast to the situation in Soviet times, no export market for Armenian produce, and within the country there is a very limited road infrastructure and imported goods often compete with locally produced agricultural produce, to the disadvantage of the latter. Storage of processed agricultural produce, such as wine, has become a serious problem, and impedes its marketing. Only in the vicinity of large towns and cities is there any significant opportunity to market produce.

The consequence of the lack of cultivation of a large proportion of land – whether distributed and owned by individuals or not – is that many of the orchards and fruit-

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<sup>9</sup> H. Kharatyan, Usage of Natural resources in Armenia, Report on the survey conducted for the World Bank, 2000.

<sup>10</sup> Main Direction of Development of the Agricultural branch of RA in 2002, data of the Ministry of Agriculture of RA

gardens which existed in Soviet times have died or has become pasture. There is a general process of degradation of cultivated land underway<sup>13</sup>.

While in Soviet times the pastoral economy was an important economic activity, with transhumance organized through collective farms. Nowadays, however, it has collapsed. At the time of privatization there was a rumour that ownership of cattle would be heavily taxed and people did not take up the opportunity of being allocated cattle from collectives. Most were taken by mayors, ex-heads of collective farms and newly formed cooperatives, and were later slaughtered for meat. Now there are very few large herds of more than 30. Most households have 2 or 3 cows for milk if they have any at all; many have no animals at all.

### **Non-Farm Activities in Armenian villages in Soviet times and now**

During the Soviet period independent non-farm activities were much reduced and where they did take place this was on an illegal or semi-legal basis. Specialists with an older tradition of independent crafts such as construction and artisan work mainly worked abroad. The State took over organisation of all employment in the village, opening numerous factories and enterprises in village which provided employment for large numbers of people. In some villages as many as 200 people had jobs in such enterprises. In addition the State provided employment in education, the health service and administration, and in service sectors including restaurants, hairdressers, kiosks and shops. There were no private entities of this kind during Soviet times.

The loss of non-farm employment provided by the State, and of employment in collective and state farms, has been disastrous for household livelihoods. As discussed above, while they have received privatized land from collective and state farms which have been broken up, households are very often unable to cultivate this land or to derive much of an income from it. Due to the length of the Soviet period, no individuals remain in villages who have experience of organizing non-farm activities independently from before that period.

There has been a huge shift of the burden of sustaining livelihoods on to subsistence farming, since there is no other way of generating a household livelihood. This is not just true in villages. Many urban dwellers have taken up land in their home villages and rely on farming, although they are generally not well integrated into rural life on a social level<sup>14</sup>. Some now live in villages; others remain in town but practice farming nearby. Thus, in Armenian towns about 10% of those classed as 'self-employed' are said to be engaged in "agriculture, forestry, hunting and fishing"<sup>15</sup>.

Kin and ethnic networks and those based on Soviet-era positions, are very important in determining whether a household has access to non-farm activities, particularly those which are high status.

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<sup>11</sup> Materials of the Conference on Soils in Central European Countries, New Independent States, Central Asian Countries and in Mongolia, Prague-Czech Republic, 26-29 August 2000 /Armenia, pg 8-15/.

<sup>12</sup> Poverty of Vulnerable Groups in Armenia, Yerevan 1999.

<sup>13</sup> Social Picture of the Republic of Armenia and Poverty, National Statistical Service of RA, Yerevan, 2001, page 40.



Locals have been able, more than refugees, to involve themselves in what non-farm activities there are available, due to the better networks which they possess. Ethnic Armenian refugees from Azerbaijan, like the inhabitants of Hayanist, one of the study villages, have been re-located in villages previously populated by Azerbaijanis, mostly in Gegharkunik, Vayots Dzor and Ararat marzes. They find themselves unable to become involved in non-farm activities, since these are monopolized by locals living in neighbouring villages, who have better social networks. One refugee explained the situation as follows: *"The masters here are local people. Who would allow refugees more power?"*

Most Yezedis, like those living in one of the study villages, Shamiram, also lack the networks outside their own ethnic group which would enable them to take up opportunities outside farming. They now rely almost entirely on subsistence farming to generate household livelihoods.

Households which have benefitted most from the privatization of previously State-owned enterprises have generally been those which have members who, in the Soviet era, had jobs as managers or administrative staff - *"nomenklatura"* (officers) – of those State-owned enterprises. In the post-Soviet era, it is these individuals who usually continue to run those enterprises which are still functioning. Such individuals and their households have good networks which they can utilize to get inputs and to sell outputs. They have also benefitted the most from projects implemented by international organisations. Thus, the rest of the population of the villages studied firmly believe that new opportunities are for those who already have power and influence, not for ordinary people. One informant said: *"The train is gone. Those who could do something already did. Others can do nothing. Now it is clear who the masters are. Will they ever allow other people to take over?"*

Those individuals – mainly young men – who have an entrepreneurial flair and do not have well-developed pre-existing social networks emigrate, mostly to Russia. Their remittances are very significant for the livelihoods of their families at home in the village. They may also return to the village eventually to live comfortably on what they have earned. But they are unlikely to invest their money in opening an enterprise; one informant said, when asked if this was likely: *"I don't think so, because things get worse and worse here, without any prospects of their getting better. I am not talking just about Shamiram [the village from which the respondent comes], but about Armenia as a whole."*

### **Types of Non-Farm Activity nowadays in the villages studied**

Non-farm activities in Armenian villages nowadays are severely limited by the lack of resources on the part of villagers, which means that they cannot afford to pay for goods and services. As informants described for Verishen, one of the study villages, many goods and services are provided, through kin networks, free of charge, on credit or very cheap. In effect, they are bartered in exchange for goodwill and the possibility of the provision of other services in the future from other kin.

Where there is an urban market nearby, as there is for the inhabitants of Hayanist in Ararat marz, near Yerevan, one of the study villages, many households try to sell small quantities of surplus agricultural produce, and of processed agricultural produce (such as milk products) to the urban market, either taking it themselves to the town or



selling it to middlemen. Although this represents only a very tiny cash income, it can be quite significant for households which have no cash at all.

Most villagers, when they think of setting up a livelihood activity outside subsistence farming and which does not involve being employed by someone else either regularly or casually, think of setting up a shop. It is only those with very good social networks who are able to look higher than this. However, there are very serious problems in successfully setting up a shop. The biggest is the absence of cash. Shop-owners have to put up with long-standing debts – which they often have to write off where relatives are concerned. Since shop-owners try to avoid barter, what is resorted to is the loan of goods; some shops have three or four year old lists of households which have lent them goods, never redeemed. Thus, shop-owners often go bankrupt; seven people with shops have gone bankrupt in Verishen since 1993. One informant said: *“Four years ago I opened a shop on the first floor of my house. I spent US\$2000. Our villagers all know each other and are relatives. They would borrow food and other goods without paying their debts on time. All my goods were lost through these debts. I was forced to close the shop in a year. Even now I have some old debts still to be returned.”*

Generally non-farm activities in Armenian villages, including in the three villages studied, can be categorized into the following groups, according to the level of “prestige” which they have in the perception of local people (those of the highest status are listed first). Industrial, service and trade entrepreneurship are both more profitable and are considered more prestigious than other non-farm activities; but ‘state-budget’ work is considered to be the most ‘honourable’.

- Industrial enterprises (e.g. bakeries, mills, furniture-making factories, cheese-producing factories)
- Tradesmen/vendors (especially shops and small kiosks)
- Services (e.g. restaurants, petrol-stations, cart repairing services, hairdressers, shoe-makers)
- Transport services
- Work in a state institution or in local government – so-called ‘state-budget work’ (teachers, medical services, administration, electricity stations, post-offices, workers, cleaners etc.) in all three villages
- Artisan or applied-arts works (constructors, dress-makers, carpet-makers, wood and stone carvers, video operators (for weddings and parties))
- Contractual work for a private employer (vendor in a shop, waiter/waitress, driver, baker, worker etc)
- Occasional, daily workers, employed to do manual labour such as digging a pit, moving something from one place to another

## Male and female involvement in non-farm activities

More men than women are involved in non-farm activities in Armenian villages at present. Although women are undoubtedly involved in much of the barter and small-scale sale of surplus agricultural produce, this is relatively invisible. It is much more likely that the male members of a household will be involved in visible types of non-farm activity. Where women are involved in non-farm activities at a more visible level, this is usually on a contractual basis, working for others, rather than as entrepreneurs – although there was an exception in Hayanist, one of the study villages, where there is a shop run by a woman.

In all three villages studied individual businessmen are mainly men, while administrative and state-budget employees and to some extent those who work on a contractual basis for an individual employer are women. It is mainly men who are involved in handicrafts, applied arts and occasional labouring jobs. Thus, women are engaged in occupations which are medium-status, while men are involved in high and low status occupations.

This pattern fits in with the classical model of Armenian social stratification, which is that women are rarely encountered at the highest and lowest levels of society, in terms of employment (not taking into account the very marginalized, where women can be found). Thus, female employment does not tend to determine the social status of the household; this is determined more by the employment of the male head of the household.

## Conclusion

With the collapse of the Soviet system, there has been a collapse in economic activity above household level. The economy has contracted downwards, and individuals operate within restricted economic domains covering the household and the immediate network surrounding it. Most households do not engage in a wider economy, either as employees or as buyers or sellers of goods and services. Far fewer households have members who are engaged in non-farm activities than in the Soviet era.

The types of non-farm activities which continue to exist nowadays in Armenian villages have changed. While during the Soviet era most non-farm activity took the form of employment by the State, often in rurally-located industries as well as in services including health, education and administration, nowadays the major form of economic activity outside farming is in business. There is very little industrial activity nowadays in Armenian villages.

Households which continue to have any significant involvement in non-farm activities, and particularly in those which are more lucrative and higher status, are those which are best-connected, utilizing both kin and ethnic networks and Soviet-era administrative networks. Involvement in non-farm activities tends to go hand-in-hand with relative wealth within the village. Possibilities for assistance in setting up and developing non-farm activities, including access to loans, are monopolized by those with better networks, and particularly by those *nomenklatura* who had official posts in

the Soviet era, who continue to run those enterprises which have survived the economic collapse.

Villagers who do not have the most effective networks, and particularly those deriving from Soviet-era administrative positions, generally do not even attempt to benefit from what assistance is available, believing that those who have power will retain it. Minority groups like Yezedis and refugees from Azerbaijan are particularly disadvantaged and believe most strongly that it is not worth their making any effort to become involved in activities outside farming.

Although only a few households are involved in visible, and lucrative, non-farm activities, all are likely to be involved in very small scale relations with kin and neighbours, exchanging goods and services and selling or bartering small quantities of surplus produce. Where there is an urban market available, as there is near Yerevan, many households attempt to sell small quantities of surplus agricultural produce in town. This kind of small-scale sale and barter of goods and services, although hardly visible economically, is quite significant both in terms of generating tiny but vital amounts of cash and in terms of generating goodwill and ties with kin and neighbours which can be turned to in times of household crisis.

For most households, non-farm activity is not, nowadays, a distinct livelihood activity, which is separate from farming. It is, rather, part of a wide livelihood 'portfolio', which includes both farming and non-farm activities. In most households involved in non-farm activities, one or two members will be involved in such activities, while other members are involved in subsistence farming. It must be emphasised, however, that farming is still, for the vast majority of households, the major source of household livelihoods.

Most village inhabitants are quite unaware of what exists outside their villages and therefore of what kinds of non-farm activities they might develop and how to do this. This means that there is very little readiness to try anything new. Villagers have extremely limited awareness of what markets outside the village might require. There is a general unawareness of laws relating to non-farm activities and income in relation to tax or customs regulations. Even if they were willing to start an enterprise, and knew what to produce, there are very limited possibilities for getting financial support to start any non-farm activity within villages. What financial support is available by donors is monopolized by certain individuals within villages, who were part of the Soviet era administrative class or *nomenklatura* and who remain in control of the local economy.

The development of non-farm activities in Armenian villages at present is severely hampered by the general lack of economic activity in the country as a whole, and the difficulty of finding a market for anything produced, either within the village or outside it. Within the village, it is difficult for a market for goods and services to develop, since the culture places obstacles to charging kin for these. Outside the village, communications are very limited and it is difficult to get goods to market. Finding a market outside Armenia itself is even more difficult, if not impossible, due to the blockade imposed by Azerbaijan and Turkey.

Emigration is currently sapping the vitality of Armenian villages, and is reducing the ability of rural households to take up such non-farm opportunities as do exist. The most able-bodied, as well as the most entrepreneurial individuals emigrate, rather than developing non-farm activities within their home villages. Those most likely to be able to adapt to the changing economic environment are least likely to remain and do so.

## **Recommendations**

- ◆ The most important practical initiative at village level is to start businesses which can both provide employment and can, in many cases, also utilize local agricultural produce, thus enabling households to produce more for sale. In a number of cases, this actually means restarting businesses which existed, under State control, during the Soviet era. Particularly where this is not the case, this would need to be based on initial research to ensure that a market exists for what is produced, initially within Armenia, and that communication is adequate to transport it. It could be appropriate to partner the setting up of businesses in an area with the development of rural infrastructure to support it, particularly roads and communication.
- ◆ In particular, the following village-based enterprises are recommended for development:
  1. Processing of agricultural produce such as fruit (jams, fruit juices etc.), vegetables, meat, and milk-products
  2. Wool and leather production
  3. Carpet-making
  4. Wine production, particularly in Ararat marz
  5. Production of fruit-based spirits
  6. In the Syunik region, production of jams from berries and the processing of nuts to make nut butters
- ◆ Specific recommendations for the study villages are:
  1. For Hayanist village, the (re)-establishment of an enterprise to process vegetables, particularly tomatoes and peppers; this would provide villagers with both employment and a market for their produce
  2. For Shamiram, the establishment of an enterprise or enterprises to produce wool and leather goods;
  3. For Verishen, which has a land scarcity and a history of craftsmanship, an enterprise or enterprises processing stone and wood and producing finished stone and wood items
- ◆ In order to set up such businesses, grants should be made available for start-up costs and loans following this to enable businesses to purchase basic equipment and to get through the first few years.
- ◆ To address the lack of knowledge about how to set up a business, it is recommended that training and information services be provided within villages covering the following:

- The market economy and how it works
  - Taxation and Custom Laws
  - On-going economic projects in Armenia and how to utilize assistance through these projects
- ◆ Attempts should be made to reach those outside the 'charmed circle' of those *ex-nomenklatura* who are already involved in entrepreneurial activities, and to encourage entrepreneurial talent outside this. It is particularly important to reach those who belong to minority groups – the Yezedis and refugees from Azerbaijan.

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**DRAFT**

## **Factors affecting involvement in the non-farm economy in villages in Armenia**

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*Hranush Kharatyan and Monica Janowski<sup>1</sup>*

### **Introduction**

This paper is based on data collected through fieldwork carried out in Armenia in 2001, part of the baseline data collection for a wider project on non-farm economic activities in Central and Eastern Europe and the CIS countries which covered Romania, Armenia and Georgia. Fieldwork was carried out in three villages, chosen to be as representative as possible of variables affecting Armenian villages, particularly in relation to access to non-farm activities. These villages are Hayanist in Ararat marz, Shamiram in Aragatsotn marz and Verishen in Syunik marz

The Republic of Armenia covers 29,743 square km. It borders Georgia in the north, Azerbaijan in the east, Turkey in the west and southwest and Iran in the south. In the north, it has economic relations by land only with Georgia at present; it is blockaded by Azerbaijan and Turkey. In the south, Armenia has road links with Iran. It is a mountainous country: 39% of its rural population lives up to 1300 metres above sea level, 26% live between 1301 and 1700 metres above sea level and 35% live more between 1701 and 2100 metres above sea level. While some areas were agriculturally and industrially developed during the Soviet period, other areas, particularly more mountainous ones, remained undeveloped and were largely pastoral. However, there was generally a high level of prosperity in Armenia in Soviet times, expressed in the building of large, often two-storied houses with large rooms, contrasting with older, smaller houses.

There have been profound and traumatic social and economic changes over the last ten years. The earthquake of 1988 took place in the same year as an influx of refugees, both from Azerbaijan and within Armenia from areas near the border<sup>5</sup> as a consequence of the armed conflict between the two countries. There has, in addition, been a blockade imposed on Armenia by Turkey and Azerbaijan and an energy crisis

To these problems were added the deep-reaching effects of the economic reforms which started after the independence of Armenia, resulting in the privatization in 1991 of land, livestock and agricultural machinery. During the following ten years the traditional economic orientation of Armenia collapsed. A significant part of the population was not psychologically prepared for these changes and was excluded from the new economic processes, and many of these left the country. The structure,

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<sup>2</sup> Project of Priority Problems of Border-line and Highly-mountainous settlements, Yerevan, 1999.



sex-age composition, even the cultural shape of the population in general, and of the rural population in particular, was significantly changed.

The new economic system gave new meaning to the terms 'employee', 'employer' and 'unemployment'. Very soon a small group of people came to own the means of production and controlled the economy. This was in contrast to the quantitative majority of the population, which had no such control and owned very little.<sup>6</sup> The gap between the income of the 20% of the population with the highest income and the 20% with the lowest is enormous, with the former earning 32.2 times more than the latter, which obviously proves the sharp polarization of society<sup>7</sup>. Based on a poverty line of \$13 per day, more than a half of the population of Armenia is living in poverty. Poverty increases away from towns and in mountainous areas, as can be seen in the following table:<sup>8</sup>

	up to 1300 meters above the sea level	1300-1700 meters	1701 and higher	Total
Poor	42.35	54.93	57.99	50.76
Of which Poorest	16.37	24.86	28.28	22.56

There is very little cash in circulation in villages in Armenia nowadays. Much of the agricultural produce which is not consumed is bartered rather than sold for cash. What cash there is derives from remittances from relatives working abroad or comes as pensions or child benefit. This is not so true in Ararat marz, because here it is possible to sell produce to Yerevan, both for consumption fresh and for processing. In Ararat marz there are still some processing factories, for example making cognac and processing tomatoes.

Because of the lack of cash in circulation, it is very difficult for local authorities or the central government to collect taxes. Some taxes are collected in kind; for example in Verishen village, one of the study villages, the mayor is able to sell potatoes and beans collected from villagers to the military camp nearby.

Large numbers of people have emigrated from Armenia in the last ten years, mainly to Russia. This is true both of manual workers and of professionals. In one of the study villages, an informant said: *"In the past all (the professionals in our village) were from our village. Nowadays, all the professionals have gone to Russia because of the low wages here."* It is mainly young people who have emigrated, and mainly men.

<sup>3</sup> Tadevosyan A., Picture of the Social Stratification and Poverty Formation in Armenia in 1991-1997, Yerevan, 1998, Kharatyan H. Poverty and Democracy in Armenia, Yerevan- 2000, Stories about Poverty (Editor- H. Kharatyan), Yerevan 2001.

<sup>4</sup> Social Picture of the Republic of Armenia and Poverty, National Statistical Service of RA, Yerevan, 2001, page 13.

<sup>5</sup> Ibid, page 46.

## The study villages

In Armenia, one village was selected in each of three marzes<sup>1</sup> of Armenia: Hayanist village in Ararat marz, Shamiram village in Aragatsotn marz and Verishen village in Syunik marz. Ararat is one of the most densely populated rural marzes of Armenia. In 2000 it produced 5,6% of total GDP, reaching 12.7% of GDP in the agricultural sphere, 1.6% in retail sales and 2.8% in services. Aragatsotn marz, by contrast, produced just 1.3% of total GDP, reaching just 6.1% in agriculture, 1.0% in retail turnover, and 1,1 % in services. Syunik marz, the third marz in which a village was selected for study, is a heavily agricultural marz. It produced only 7,3% of the National GDP in 2000, but in agriculture it produced 12.4% of GDP, reaching just 1.2% in retail turnover and 1.7% in services.

Ararat marz was selected because it is the closest to Yerevan, thus reflecting the opportunities which this proximity offers. It is low-lying, contrasting with much of Armenia, which is mountainous. Finally, it is one of the marzes selected for the quantitative, questionnaire-based part of the broader research project of which this forms a part. Within Ararat, Hayanist village was selected because it lies at a crossroads, thus giving it the maximum opportunity for access to non-farm activities; because it has a high percentage of refugees from Azerbaijan; and because there is a high level of emigration from the village. In order to study the way in which refugees interact with the local population, a neighbouring village, Hovtashat, was also studied.

Shamiram Village in Aragatsotn Marz was selected because it is populated by Yezedis, a distinct ethnic and religious minority within Armenia, whose involvement in the non-farm rural economy may well be very different from that of the main Armenian population. The Yezedis are pastoralists living in a mountainous and economically undeveloped area and selecting this village therefore allowed us to observe the involvement of mountain pastoralists in the non-farm economy.

The third marz in the study, Syunik Marz, was selected because it is now, and was even more before 1990, an economically developed marz. It has both a high proportion of urban residents and also a high level of agricultural production for sale. The village selected, Verishen, is close to Goris, which used to be a manufacturing centre where many of the inhabitants of the village worked until the early 1990s. The village has a shortage of land, meaning that there is a particularly strong impetus towards involvement in non-farm activities.

The field research in Armenia was conducted by three ethnologists (H. Kharatyan, H. Pikichyan and G. Shagoyan) by means of pre-prepared questionnaires, in-depth, family, and group interviews, focus groups, and participant observation. Thirty-nine interviews were conducted, including thirteen in Hayanist, three in neighboring Hovtashat, eight in Shamiram and fifteen in Verishen. Three focus groups were convened, one in each village. Interviews were conducted with individuals engaged in non-farm occupations of all kinds, with individuals engaged primarily or solely in farming, with village municipal government staff and with individuals with family members working abroad, in Russia.

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<sup>6</sup> Administrative divisions of Armenia.

## Farming in Soviet times and now

In the Soviet period, all land except that immediately around the house ('homestead land') was cultivated as part of a collective or state farm, and villagers were employed for a wage either on these farms or, where these were accessible, at factories. Processing of agricultural produce, particularly fruit and grapes for wine, was an important non-farm activity, but was under State control, providing employment for many villagers. There was a significant industrial presence in agricultural areas.

For subsistence purposes, households had enough homestead land – usually at least 1000 square metres – to enable them to provide a good proportion of the food which they ate, and thus they remained peasant farmers to some extent, in that they produced for subsistence. However they sold little of what they produced on this land, and did not involve themselves in any long-distance or large-scale marketing of agricultural produce. There was very little opportunity for individual entrepreneurs to develop.

All land, gardens, livestock and agricultural machinery was privatized by law in 1991. Farms now average 1.4 ha of land, from which 1.07 ha is arable land<sup>3</sup>. The principles by which privatization was implemented resulted in unequal distribution of land both between villages and within villages. Villages were associated with different state and collective farms, with different amounts of land of different quality, and therefore their inhabitants received different amounts of land and of different quality. Some villages, whose inhabitants were not employed on state or collective farms, did not receive any land at all (e.g. the inhabitants of Torfavan village in the Vardenis region of Gegharkunik Marz, who worked in nearby *torfe* mines which are now closed). Internally displaced people also did not receive any land. Inequality also resulted from the principle that newly formed cooperatives would have preference in the distribution of land. Such cooperatives did not last long, however; while in 1991 there were 148.3 thousand household farms and 24.204 collective farms in 1991, in 1997 there were 319.3 thousand household farms and 373 collective farms<sup>4</sup>. Households which had formed part of a cooperative at the time of privatization were advantaged in the distribution of land. Finally, in the interest of social justice land was divided into different categories according to its quality; however, a lottery was held to divide it and this meant that some households received better land than others.

Theoretically, all rural inhabitants have employment – as self-employed people on their own land. However the reality is different. Most rural households are almost entirely subsistence-production oriented, and many cultivate only the land immediately around their houses, and not the privatized land previously belonging to state and collective farms which they have been allocated. They are oriented towards producing what they need themselves with a small surplus for sale or barter. The privatized and distributed land is seen as a burden; this is expressed in the saying "*It was not the land that was given to the villager but the villager who was given to the land*".

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<sup>3</sup> Main Direction of Development of the Agricultural branch of RA in 2002, data of the Ministry of Agriculture of RA.

<sup>4</sup> M. Gabrielyan, Contemporary Rural Population of Armenia, Yerevan 2001, page 36.

When land was privatized, not all of it was distributed, and not all of those who were entitled to receive it accepted it, because accepting it meant paying tax on it. Another reason for some land not being distributed was that there was the intention on the part of the authorities to keep some land as a reserve - the so-called "state fund lands." In 1997, with the formation of regional administrations (Marzpetarans), they took over the rights over these lands.

The reasons for this non-cultivation of privatized, distributed land are multiple:

1. Privatized land, although often the best land in the area, was often, in the Soviet era, irrigated, and the irrigation system has collapsed. In many areas, there is also a shortage of water due to illegal wood-cutting on the part of those who have no other way of making a living<sup>11</sup>..
2. There is no cash for the initial investment necessary to cultivate land with crops for sale, which are often high-investment crops. Those who did have bank savings lost them because rampant inflation took place immediately after privatization of land. No credit has been available for investment in agriculture.
3. There is a serious shortage of agricultural machinery, which is becoming old and unusable and cannot be replaced due to lack of capital.
4. Diesel for machines, seeds, organic and inorganic fertilizer and pesticides, all used in the Soviet era on land used for crops for sale, are all too expensive for villagers to be able to buy them<sup>12</sup>
5. Out-migration from villages has meant that there is a shortage of labour to cultivate land which is not homestead land. Traditionally, women work near the house, and are responsible for homestead land, while men work further away from the house, and worked as labourers in state and collective farms. Now that these have been privatized, men are responsible for working on the land which the household has received. However, many men now migrate seasonally, so that there is a shortage of labour to cultivate that land.
6. There are very limited opportunities for marketing crops, and so there is little point in cultivating privatized land in order to produce for the market to any significant degree. Most villagers sell small surpluses locally or in town, but the prices they get are very low since those who buy can afford very little, since they are themselves have very little cash. There is now, by contrast to the situation in Soviet times, no export market for Armenian produce, and within the country there is a very limited road infrastructure and imported goods often compete with locally produced agricultural produce, to the disadvantage of the latter. Storage of processed agricultural produce, such as wine, has become a serious problem, and impedes its marketing. Only in the vicinity of large towns and cities is there any significant opportunity to market produce.

The consequence of the lack of cultivation of a large proportion of land – whether distributed and owned by individuals or not – is that many of the orchards and fruit-

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<sup>9</sup> H. Kharatyan, Usage of Natural resources in Armenia, Report on the survey conducted for the World Bank, 2000.

<sup>10</sup> Main Direction of Development of the Agricultural branch of RA in 2002, data of the Ministry of Agriculture of RA

gardens which existed in Soviet times have died or has become pasture. There is a general process of degradation of cultivated land underway<sup>13</sup>.

While in Soviet times the pastoral economy was an important economic activity, with transhumance organized through collective farms. Nowadays, however, it has collapsed. At the time of privatization there was a rumour that ownership of cattle would be heavily taxed and people did not take up the opportunity of being allocated cattle from collectives. Most were taken by mayors, ex-heads of collective farms and newly formed cooperatives, and were later slaughtered for meat. Now there are very few large herds of more than 30. Most households have 2 or 3 cows for milk if they have any at all; many have no animals at all.

### **Non-Farm Activities in Armenian villages in Soviet times and now**

During the Soviet period independent non-farm activities were much reduced and where they did take place this was on an illegal or semi-legal basis. Specialists with an older tradition of independent crafts such as construction and artisan work mainly worked abroad. The State took over organisation of all employment in the village, opening numerous factories and enterprises in village which provided employment for large numbers of people. In some villages as many as 200 people had jobs in such enterprises. In addition the State provided employment in education, the health service and administration, and in service sectors including restaurants, hairdressers, kiosks and shops. There were no private entities of this kind during Soviet times.

The loss of non-farm employment provided by the State, and of employment in collective and state farms, has been disastrous for household livelihoods. As discussed above, while they have received privatized land from collective and state farms which have been broken up, households are very often unable to cultivate this land or to derive much of an income from it. Due to the length of the Soviet period, no individuals remain in villages who have experience of organizing non-farm activities independently from before that period.

There has been a huge shift of the burden of sustaining livelihoods on to subsistence farming, since there is no other way of generating a household livelihood. This is not just true in villages. Many urban dwellers have taken up land in their home villages and rely on farming, although they are generally not well integrated into rural life on a social level<sup>14</sup>. Some now live in villages; others remain in town but practice farming nearby. Thus, in Armenian towns about 10% of those classed as 'self-employed' are said to be engaged in "agriculture, forestry, hunting and fishing"<sup>15</sup>.

Kin and ethnic networks and those based on Soviet-era positions, are very important in determining whether a household has access to non-farm activities, particularly those which are high status.

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<sup>11</sup> Materials of the Conference on Soils in Central European Countries, New Independent States, Central Asian Countries and in Mongolia, Prague-Czech Republic, 26-29 August 2000 /Armenia, pg 8-15/.

<sup>12</sup> Poverty of Vulnerable Groups in Armenia, Yerevan 1999.

<sup>13</sup> Social Picture of the Republic of Armenia and Poverty, National Statistical Service of RA, Yerevan, 2001, page 40.



Locals have been able, more than refugees, to involve themselves in what non-farm activities there are available, due to the better networks which they possess. Ethnic Armenian refugees from Azerbaijan, like the inhabitants of Hayanist, one of the study villages, have been re-located in villages previously populated by Azerbaijanis, mostly in Gegharkunik, Vayots Dzor and Ararat marzes. They find themselves unable to become involved in non-farm activities, since these are monopolized by locals living in neighbouring villages, who have better social networks. One refugee explained the situation as follows: *"The masters here are local people. Who would allow refugees more power?"*

Most Yezedis, like those living in one of the study villages, Shamiram, also lack the networks outside their own ethnic group which would enable them to take up opportunities outside farming. They now rely almost entirely on subsistence farming to generate household livelihoods.

Households which have benefitted most from the privatization of previously State-owned enterprises have generally been those which have members who, in the Soviet era, had jobs as managers or administrative staff - *"nomenklatura"* (officers) – of those State-owned enterprises. In the post-Soviet era, it is these individuals who usually continue to run those enterprises which are still functioning. Such individuals and their households have good networks which they can utilize to get inputs and to sell outputs. They have also benefitted the most from projects implemented by international organisations. Thus, the rest of the population of the villages studied firmly believe that new opportunities are for those who already have power and influence, not for ordinary people. One informant said: *"The train is gone. Those who could do something already did. Others can do nothing. Now it is clear who the masters are. Will they ever allow other people to take over?"*

Those individuals – mainly young men – who have an entrepreneurial flair and do not have well-developed pre-existing social networks emigrate, mostly to Russia. Their remittances are very significant for the livelihoods of their families at home in the village. They may also return to the village eventually to live comfortably on what they have earned. But they are unlikely to invest their money in opening an enterprise; one informant said, when asked if this was likely: *"I don't think so, because things get worse and worse here, without any prospects of their getting better. I am not talking just about Shamiram [the village from which the respondent comes], but about Armenia as a whole."*

### **Types of Non-Farm Activity nowadays in the villages studied**

Non-farm activities in Armenian villages nowadays are severely limited by the lack of resources on the part of villagers, which means that they cannot afford to pay for goods and services. As informants described for Verishen, one of the study villages, many goods and services are provided, through kin networks, free of charge, on credit or very cheap. In effect, they are bartered in exchange for goodwill and the possibility of the provision of other services in the future from other kin.

Where there is an urban market nearby, as there is for the inhabitants of Hayanist in Ararat marz, near Yerevan, one of the study villages, many households try to sell small quantities of surplus agricultural produce, and of processed agricultural produce (such as milk products) to the urban market, either taking it themselves to the town or



selling it to middlemen. Although this represents only a very tiny cash income, it can be quite significant for households which have no cash at all.

Most villagers, when they think of setting up a livelihood activity outside subsistence farming and which does not involve being employed by someone else either regularly or casually, think of setting up a shop. It is only those with very good social networks who are able to look higher than this. However, there are very serious problems in successfully setting up a shop. The biggest is the absence of cash. Shop-owners have to put up with long-standing debts – which they often have to write off where relatives are concerned. Since shop-owners try to avoid barter, what is resorted to is the loan of goods; some shops have three or four year old lists of households which have lent them goods, never redeemed. Thus, shop-owners often go bankrupt; seven people with shops have gone bankrupt in Verishen since 1993. One informant said: *“Four years ago I opened a shop on the first floor of my house. I spent US\$2000. Our villagers all know each other and are relatives. They would borrow food and other goods without paying their debts on time. All my goods were lost through these debts. I was forced to close the shop in a year. Even now I have some old debts still to be returned.”*

Generally non-farm activities in Armenian villages, including in the three villages studied, can be categorized into the following groups, according to the level of “prestige” which they have in the perception of local people (those of the highest status are listed first). Industrial, service and trade entrepreneurship are both more profitable and are considered more prestigious than other non-farm activities; but ‘state-budget’ work is considered to be the most ‘honourable’.

- Industrial enterprises (e.g. bakeries, mills, furniture-making factories, cheese-producing factories)
- Tradesmen/vendors (especially shops and small kiosks)
- Services (e.g. restaurants, petrol-stations, cart repairing services, hairdressers, shoe-makers)
- Transport services
- Work in a state institution or in local government – so-called ‘state-budget work’ (teachers, medical services, administration, electricity stations, post-offices, workers, cleaners etc.) in all three villages
- Artisan or applied-arts works (constructors, dress-makers, carpet-makers, wood and stone carvers, video operators (for weddings and parties))
- Contractual work for a private employer (vendor in a shop, waiter/waitress, driver, baker, worker etc)
- Occasional, daily workers, employed to do manual labour such as digging a pit, moving something from one place to another

## **Male and female involvement in non-farm activities**

More men than women are involved in non-farm activities in Armenian villages at present. Although women are undoubtedly involved in much of the barter and small-scale sale of surplus agricultural produce, this is relatively invisible. It is much more likely that the male members of a household will be involved in visible types of non-farm activity. Where women are involved in non-farm activities at a more visible level, this is usually on a contractual basis, working for others, rather than as entrepreneurs – although there was an exception in Hayanist, one of the study villages, where there is a shop run by a woman.

In all three villages studied individual businessmen are mainly men, while administrative and state-budget employees and to some extent those who work on a contractual basis for an individual employer are women. It is mainly men who are involved in handicrafts, applied arts and occasional labouring jobs. Thus, women are engaged in occupations which are medium-status, while men are involved in high and low status occupations.

This pattern fits in with the classical model of Armenian social stratification, which is that women are rarely encountered at the highest and lowest levels of society, in terms of employment (not taking into account the very marginalized, where women can be found). Thus, female employment does not tend to determine the social status of the household; this is determined more by the employment of the male head of the household.

## **Conclusion**

With the collapse of the Soviet system, there has been a collapse in economic activity above household level. The economy has contracted downwards, and individuals operate within restricted economic domains covering the household and the immediate network surrounding it. Most households do not engage in a wider economy, either as employees or as buyers or sellers of goods and services. Far fewer households have members who are engaged in non-farm activities than in the Soviet era.

The types of non-farm activities which continue to exist nowadays in Armenian villages have changed. While during the Soviet era most non-farm activity took the form of employment by the State, often in rurally-located industries as well as in services including health, education and administration, nowadays the major form of economic activity outside farming is in business. There is very little industrial activity nowadays in Armenian villages.

Households which continue to have any significant involvement in non-farm activities, and particularly in those which are more lucrative and higher status, are those which are best-connected, utilizing both kin and ethnic networks and Soviet-era administrative networks. Involvement in non-farm activities tends to go hand-in-hand with relative wealth within the village. Possibilities for assistance in setting up and developing non-farm activities, including access to loans, are monopolized by those with better networks, and particularly by those *nomenklatura* who had official posts in

the Soviet era, who continue to run those enterprises which have survived the economic collapse.

Villagers who do not have the most effective networks, and particularly those deriving from Soviet-era administrative positions, generally do not even attempt to benefit from what assistance is available, believing that those who have power will retain it. Minority groups like Yezedis and refugees from Azerbaijan are particularly disadvantaged and believe most strongly that it is not worth their making any effort to become involved in activities outside farming.

Although only a few households are involved in visible, and lucrative, non-farm activities, all are likely to be involved in very small scale relations with kin and neighbours, exchanging goods and services and selling or bartering small quantities of surplus produce. Where there is an urban market available, as there is near Yerevan, many households attempt to sell small quantities of surplus agricultural produce in town. This kind of small-scale sale and barter of goods and services, although hardly visible economically, is quite significant both in terms of generating tiny but vital amounts of cash and in terms of generating goodwill and ties with kin and neighbours which can be turned to in times of household crisis.

For most households, non-farm activity is not, nowadays, a distinct livelihood activity, which is separate from farming. It is, rather, part of a wide livelihood 'portfolio', which includes both farming and non-farm activities. In most households involved in non-farm activities, one or two members will be involved in such activities, while other members are involved in subsistence farming. It must be emphasised, however, that farming is still, for the vast majority of households, the major source of household livelihoods.

Most village inhabitants are quite unaware of what exists outside their villages and therefore of what kinds of non-farm activities they might develop and how to do this. This means that there is very little readiness to try anything new. Villagers have extremely limited awareness of what markets outside the village might require. There is a general unawareness of laws relating to non-farm activities and income in relation to tax or customs regulations. Even if they were willing to start an enterprise, and knew what to produce, there are very limited possibilities for getting financial support to start any non-farm activity within villages. What financial support is available by donors is monopolized by certain individuals within villages, who were part of the Soviet era administrative class or *nomenklatura* and who remain in control of the local economy.

The development of non-farm activities in Armenian villages at present is severely hampered by the general lack of economic activity in the country as a whole, and the difficulty of finding a market for anything produced, either within the village or outside it. Within the village, it is difficult for a market for goods and services to develop, since the culture places obstacles to charging kin for these. Outside the village, communications are very limited and it is difficult to get goods to market. Finding a market outside Armenia itself is even more difficult, if not impossible, due to the blockade imposed by Azerbaijan and Turkey.

Emigration is currently sapping the vitality of Armenian villages, and is reducing the ability of rural households to take up such non-farm opportunities as do exist. The most able-bodied, as well as the most entrepreneurial individuals emigrate, rather than developing non-farm activities within their home villages. Those most likely to be able to adapt to the changing economic environment are least likely to remain and do so.

## **Recommendations**

- ◆ The most important practical initiative at village level is to start businesses which can both provide employment and can, in many cases, also utilize local agricultural produce, thus enabling households to produce more for sale. In a number of cases, this actually means restarting businesses which existed, under State control, during the Soviet era. Particularly where this is not the case, this would need to be based on initial research to ensure that a market exists for what is produced, initially within Armenia, and that communication is adequate to transport it. It could be appropriate to partner the setting up of businesses in an area with the development of rural infrastructure to support it, particularly roads and communication.
- ◆ In particular, the following village-based enterprises are recommended for development:
  1. Processing of agricultural produce such as fruit (jams, fruit juices etc.), vegetables, meat, and milk-products
  2. Wool and leather production
  3. Carpet-making
  4. Wine production, particularly in Ararat marz
  5. Production of fruit-based spirits
  6. In the Syunik region, production of jams from berries and the processing of nuts to make nut butters
- ◆ Specific recommendations for the study villages are:
  1. For Hayanist village, the (re)-establishment of an enterprise to process vegetables, particularly tomatoes and peppers; this would provide villagers with both employment and a market for their produce
  2. For Shamiram, the establishment of an enterprise or enterprises to produce wool and leather goods;
  3. For Verishen, which has a land scarcity and a history of craftsmanship, an enterprise or enterprises processing stone and wood and producing finished stone and wood items
- ◆ In order to set up such businesses, grants should be made available for start-up costs and loans following this to enable businesses to purchase basic equipment and to get through the first few years.
- ◆ To address the lack of knowledge about how to set up a business, it is recommended that training and information services be provided within villages covering the following:

- The market economy and how it works
  - Taxation and Custom Laws
  - On-going economic projects in Armenia and how to utilize assistance through these projects
- ◆ Attempts should be made to reach those outside the 'charmed circle' of those *ex-nomenklatura* who are already involved in entrepreneurial activities, and to encourage entrepreneurial talent outside this. It is particularly important to reach those who belong to minority groups – the Yezedis and refugees from Azerbaijan.

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