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Rural Non-Farm Economy Project

**THE NON-FARM ECONOMY IN
POST-SOVIET GEORGIA: A STUDY
OF THREE RURAL COMMUNITIES**

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EXECUTIVE SUMMARY

- ◆ The centralised, state-run non-farm economy in Georgia collapsed with the collapse of the Soviet system. A significant private non-farm economy has so far failed to materialise in most parts of the country.
- ◆ Most households in most areas now rely largely on subsistence agricultural production for their survival. There is almost no cash in circulation. However households are desperate for some cash because they need it to buy foodstuffs which they cannot produce, trade goods and services. They are interested in engaging in any activity which will bring some cash into the household.
- ◆ Households obtain cash a) from sale at local markets of produce in excess of what is required for home consumption b) from remittances from members who have left, mainly for Russia c) from social security payments d) from running small-scale non-farm activities or being employed in them. The cash generated by all four of these sources is small, but very significant for households.
- ◆ The basis upon which businesses have been set up in the villages studied so far are:
 - Social capital (kinship, friendship, patronage networks), which makes possible → financial capital
 - Human capital, mainly based on education
- ◆ Those who have set up businesses feel very positive about their achievement in doing so, have generated status and social capital for themselves and their families, and are more positive about the future than other village members.
- ◆ There is the basis for the development of a non-farm economy in terms of motivation. The most important reasons why it does not yet exist include:
 - The lack of cash itself, which makes it difficult to start a business and difficult to find custom once one has established it. Bank credit is almost impossible to obtain.
 - Lack of knowledge and understanding of how to trade and operate in a business environment on the part of most people
 - Fear of having to bribe officials
 - Bad infrastructure, particularly transport.
- ◆ There are some significant differences between the regions in which the study villages are situated. Abasha, which had the most developed non-farm economy in the past, has suffered the most, and Akhaltsikhe, which has always been remote, has seen the least impact. Telavi has been most able to take up opportunities which do exist now, but this is leading to increasing social inequality.

INTRODUCTION

This report is based on qualitative fieldwork carried out between January 2001 and June 2002. This fieldwork was carried out in two phases: a baseline phase carried out by Ketevan Kobaladze and Pavel Dolidze from January-June 2001 and a second phase carried out by Ketevan Kobaladze and Nana Sumbadze between March and June 2002. It was funded by the UK Department for International Development and forms part of a wider study carried out in Georgia, Armenia and Romania looking at patterns of involvement in non-farm activities in rural areas in those three countries. The research started from the premise that diversification of non-farm activities in rural Georgia is a very important issue for the sustainable development of these areas, and is therefore worthy of investigation.

The aim of the research has been to increase our understanding of the factors and dynamics of involvement in the non-farm sector in rural areas in Georgia since 1990, and to inform policymakers who aim to promote sustainable livelihood strategies in the rural non-farm economy (RNFE). Most non-farm activities engaged in at present in rural Georgia are very small-scale and are unregistered, and many involve barter. This means that it is difficult to gather information about them using formal, questionnaire methods. For this reason, this research used more qualitative, participatory, anthropological techniques to establish trust and to allow actions to be observed and conversations between villagers to be noted, as well as asking direct questions.

Georgia is situated to the South of the Caucasian mountains, bordering Russia in the North, Turkey and Armenia in the South and Azerbaijan in the East. Its Western part is washed by the Black sea, while the northern part is dominated by the high mountains of the Great Caucasus range with some of the highest peaks above 5,000 meters. There is a wide variation in climate within the country, ranging from subtropical Mediterranean to continental. The location and difference in altitude contributes to a diversity of relief, climate and soils, which means that there is a great diversity of agriculture. Georgia is traditionally an agrarian country, even if the majority of the population is now urban. Rich soil, an abundance of sunny days and different climatic conditions permit the cultivation of a wide variety of agricultural produce. Georgia is famous for its wine, mostly produced in the valleys of Eastern Georgia. Grains, vegetables and many varieties of fruit are grown throughout the country. In the east part of the country, Sub-Alpine meadows allow for herding of cattle and sheep, based on seasonal migration.

The administrative structure of Georgia consists of four layers (region, rayon, community and village). Every region consists of several rayons, which are comprised of communities, mostly formed by towns and several villages. The geography of the country to a considerable degree determines farming possibilities, eating habits and cultural characteristics of the population. The choice of the sites to be studied was influenced by the need to reflect the diversities in possibilities and developmental paths. The regions also differ in the extent of poverty within them, with the east being the least, and the west the most, poverty stricken regions.

Three communities were selected for study under this research project, situated in regions which are also the subject of quantitative research being conducted as part of the broader study of which this forms a part, with the intention of drawing on the complementarity of the two different methods which generate different kinds of data. The regions in which the communities are situated (Abasha, Akhaltsikhe and Telavi) contrast sharply with one

another; Abasha, very prosperous under the Soviet system, has lost its markets and its jobs and its people are suffering from the relative shortage of land for subsistence cultivation; Akhalsikhe, a remote region which never produced much for the market, has not seen such a dramatic change in the situation of its inhabitants; and Telavi, close to Tbilisi, is benefiting from being able to sell in urban markets, although its wine industry has suffered considerably from the loss of markets.

The following villages were chosen for the study:

1. Ganatlebis Kari (Gankari), in Abasha Rayon, Samegrelo-Zeda Region
2. Gurkeli, in Akhaltsikhe Rayon, Samtskhe-Javakheti Region
3. Nasamkhrali, in Telavi Rayon, Kakheti Region

METHODOLOGY

The fieldwork was in two phases:

Baseline phase (January-June 2001)

Main phase (March-June 2002)

One-to-one in-depth interviews, focus group discussions and participant observation were used as methods in both phases of the study.

In each site, key informant households as well as key individual informants were identified. These were selected so as to include individuals/households active in non-subsistence farming, those active in non-farm activities of different kinds, and those of migrants. Key informant households and individuals were visited several times during the research period. This allowed observation and discussion of non-farming activities and business development trends over time.

As well as individuals directly or indirectly (e.g. migrant families) involved in non-farming activities, interviews were also held with community leaders.

Within the second phase of the study, six types of interview guide were developed. One was for use in interviewing community leaders; two were for interviewing individuals engaged in non-farm activities (a general guide and specific guide for business activity); two were for interviewing migrant families (a general guide and a specific guide for activities specific to migrants and for farming activities). The considerable amount of data obtained in interviews were entered in SPSS and analysed.

Key informants as well as focus group members willingly gave interviews and actively participated in discussions. Interviews were held at the informants' houses, business space or at open spaces in the village. Group meetings were held at houses belonging to one of the families being interviewed. We had no incidents of refusal to be interviewed. Answers given were found to be earnest and open and discussions took place within a very friendly atmosphere.

SECTION 1 – THE ROLE OF THE NON-FARM ECONOMY IN GEORGIA

Georgia is still a country in transition, after eleven years of independence following the collapse of the Soviet Union and of the Socialist political and economic systems and the change to a democratic system with a market economy. It is still in a state of flux, without a properly functioning government, legal system, social welfare system or economic system. It is driven by corruption at all levels. The economy has collapsed in on itself, with local markets the only ones which are of significance and local social and kin networks the basis of access to services, markets and funds. At village level, the same applies, on a smaller-scale.

The Soviet Union fostered the economic dependency of its republics on each other and (especially) on Russia herself. This meant that with the breakdown of the Soviet Union and independence, the existing industries in Georgia lacked either materials, which were brought from different parts of the Soviet Union, or lost markets for their semi-finished or finished products. Under the Soviet system, there were no markets outside the Soviet Union, either for agricultural or industrial products. Thus there were no easy alternative sources or raw materials or markets to which a country like Georgia could turn. With the breakdown of the Soviet system, there was no reason for producing anything that was not needed locally – and even things that were needed could be not be bought by those who had no money. Since almost everyone lost their employment and had no cash, even industries producing products for a local market could not survive. Thus was a vicious cycle generated which has meant that no new jobs are being created to replace those lost.

Under the Soviet system, employment was provided for all in state farms, collective farms, in industry or in the state-run service sector. The collapse of the Soviet Union meant the loss of almost all of these jobs. State and collective farms were privatised, the service sector contracted down to a minimum, and most industries simply closed. Mass impoverishment of the population resulted. No-one has any cash, and the privatised land has become the only source of livelihood for practically all households. Georgia has a total of 3018.5 thousand hectares of agricultural land (Statistical Yearbook, 2000). By 1998 26.3% of this land was in private ownership, 25.3% was leased and 48.3% was not distributed (Human Development Report, Georgia, 1998). In 1992 rules were set up which determined the size of plots under privatisation, although these rules were not always closely followed and were modified depending on the local situation. Three categories of people were singled out: category I was comprised of ex-members of collective farms, village doctors and teachers, who received 1.25 hectare plots; category II were village inhabitants who were state employees, who were allotted 0.75 hectares each, and category III was composed of those currently living in town, but originally from the village, who got 0.25 hectare plots.

Farming nowadays, by contrast to farming under the collective and state farms of the Soviet times, is almost entirely subsistence farming. It is a survival strategy, and is not business-oriented. The aim of farming is the survival of the household which depends on a given farm.

SECTION 2 – LIVELIHOODS AND NON-FARM ACTIVITIES IN THE STUDY VILLAGES

Part 1: Ganatlebis Kari (Gankari), Abasha Rayon, Samegrelo-Zeda Svaneti Region

1.1 General Situation

Samegrelo is one of the biggest regions in West Georgia. Because of its proximity to the Black Sea, its climate is humid subtropical. The centre of the region is the town of Zugdidi. The region is affected by the presence of large numbers of internally displaced persons who have fled from Abkhazia. Zugdidi contains 60,000 IDPs from Abkhazia.

Abasha rayon has as its focus the town of Abasha, and contains 15 communes, each consisting of a number of villages. Our study site, Katatlebis Kari, is part of the commune of Norio, and is 2 km from the town of Abasha. The original name of the village was Matskhovris Kari, which, in Georgian, means the Door of the Saviour, a name which probably derives from the 15th century church of the same name situated in the village, destroyed in the first years of communist rule. The village was renamed Ganatlebis Kari after the Socialist Revolution, which means the Door of Education. The villagers often shorten this to Gankari.

The village of Ganatlebis Kari or Gankari has 220 households. All are Georgian and almost all are Georgian Orthodox, except for 5 who are Jehovah's Witnesses.

The geographic position of the village is favourable for the development of both farming and non-farm activities. Because the village is only 2 km from Abasha, the fact that there is no public transport reaching the village does not prevent the villagers from reaching the town. Villagers also go as far as Batumi, a seaside town 180 km to the west, and to Poti, a port on the Black Sea, 100 km from the village, for major shopping expeditions. There are good connections from Abasha, by bus, mini-bus and by rail, although these are now expensive relative to local cash incomes.

1.2 Changes since independence

The economy of the region, and of the village studied, has collapsed since independence. In Soviet times, this region was characterised by the presence of a significant amount of industry, and households had a regular source of cash income from employment by the State in factories and/or collective/state farms, as well as private homestead plots where fruit and vegetables are grown.

Facilities within the village have deteriorated considerably since 1990. Before that the village had running water (although it did not have a sewerage system), telephones and electricity at all times. Nowadays, due to national difficulties with generating power, electricity is only available from 6 p.m. to 9 p.m. After the dissolution of the Soviet Union, all of the telephone cables were stolen, and now there is no telephone connection in the village, although some villagers have mobile phones.

The houses in the village are in a relatively good condition, and do not give a superficial impression of poverty. However, almost all of them were built before 1990, and very little

building or house repair has taken place since then. Only the Georgian Orthodox church is under construction at the moment, funded by the Church.

The major livelihood problem in the village is an almost complete absence of cash. The only source of cash for most households is the occasional sale of some produce at the market in Abasha. Any consumer goods which households owned (for example, five households had cars, 8 had refrigerators and 13 had TVs) were bought before 1990. Many people can hardly afford to buy even such basic products as butter and sugar. They prefer to walk a rather long distance of 2 kilometres to purchase goods in the regional centre if they know they can save as little as 5 Tetri.

Household livelihoods have been transformed from a position of security with a regular source of cash, to extremely cash-poor and vulnerable livelihoods dependent almost entirely upon subsistence production. Their privatised plots, many of which are difficult to cultivate, generate very little to sell. This has traumatised the social context, leading to alcoholism and theft.

People in the village are disillusioned about the inability of the state to support them in these difficult times. Many of them still expect that the state should provide them with jobs and income. As one villager said, *“The government must change its policy towards the villages not only in words but, most importantly, in deeds. Otherwise we get the impression that both the government and non-governmental organisations have completely forgotten about our village”*.

The older generation is especially negative about the current situation. *“These days the government does not take care of the people. The enterprises have been shut down. My daughter was forced to go to Russia to find work there”*, said one 76-year old villager.

Young people try hard to adjust to the new environment, but even they are nostalgic about the Soviet past.

Migration

Many people, especially young people, have left the village due to the difficulty of making any money there. Many young people from the village move to Tbilisi where job opportunities are better. *“If you know a foreign language and you are computer literate, it is possible to find a job in Tbilisi”*, said 14-year old Natia. Russia is the most important destination for economic migrants. Migrants send remittances to their family in the village and this is very significant as a source of cash for village households.

In Gankari we identified six families with members who had left the village for economic reasons and who send money to their family members. For example, one of them used to own a car repair shop in Gankari. As his shop did not generate much profit, he was forced to close it and move to Tbilisi. The economic migrants send 30-50 dollars a month to their families.

On the other hand, there are also people originally from the village, who had been working in town. Finding it impossible to make a living there, they had returned to their home village where they could rely on social networks to access opportunities.

For example, Gisha, an economist with higher education, could not find any employment in Tbilisi. He returned to the village and expressed his relief that he found the way out of

his situation by moving to Gankari and establishing a business there. He told us that he was now able to earn stable income, even though the amounts he earns are small, and could support his family.

1.3 Farming and livelihoods

There is a shortage of land in the region, both arable and for pasture, and this has affected the population badly since 1990, since there is now no employment outside agriculture. With privatisation, households received very small plots, which are often very far away from the village and hence difficult (if not impossible) to cultivate without transport. Each household now has between one and three plots totalling 0.57 ha on average (varying from 0.30 to 1.10 ha). The average distance of a plot from the house is 8.72 km, and 50% of plots are between 4 and 6 km away. Each household also has a small plot of an average of 0.2 ha around the house, which is used for growing vegetables, and apple, peach and hazel nut trees are also planted in the yard.

Many households have reverted to subsistence production as the mainstay of their livelihoods. The mechanised, market-oriented farming practised in Soviet times has been more or less abandoned. The old Soviet machinery is now worn out and has been mostly sold for scrap. It is very costly to invest in the essential agricultural inputs, such as seeds, fertilisers and pesticides. A 39-year old David explained, "*Land is scarce here and we are obliged to use a lot of fertiliser to ensure good yields. And fertilisers cost more and more every year.*" Renting a tractor and buying diesel for ploughing are also expensive. Thus 60-70% percent of revenue generated from land is used for the expenses associated with cultivation.

Kinship networks are important in making land cultivation easier. Land is cultivated by the whole family, assisted by the neighbours and close relatives. Sometimes up to ten relatives help each other through an exchange-labour group.

Abasha has traditionally been famous for its maize. It is the main food crop, and the staple food is maize porridge, *gomi*, which is usually eaten with cheese. It was, in Soviet times, exported from the region in significant quantities. Now, however, very little is exported. The maize harvest is up to 3 tonnes per year per household, part of which is used for subsistence and the rest is sold. Annual income from the sale of maize is about 450-500 *lari*. The soya yield is 200-300 kilograms per household per year, generating 100-150 *lari* income.

The keeping of animals and the making of cheese have for centuries been important to livelihoods in the region. Abasha is famous for a variety of cheese called *suluguni*. The keeping of animals was undertaken by collective farms under communism, and was market-oriented. When the collective farms were dismantled, the land was privatised and there was a decrease in the amount of common land and pasture on which to keep animals. Livestock numbers have fallen dramatically and those that are kept privately now are mainly kept for subsistence purposes, rather than to produce dairy produce or meat for sale. Households interviewed had one to four cows, which they herd separately. They also keep from one to nine pigs, up to twenty geese and ducks, up to ten turkeys and up to fifty chickens. Occasionally households sell cheese, eggs, meat and livestock at the market in Abasha, when they are in need of a little cash.

1.4 The Non-Farm Sector in Gankari

Abasha is an agricultural region, but under the communist system this was supplemented by the presence of many industries including cheese, essential oil, tea, rubber shoes and other factories. Before independence many villagers worked in Abasha. All of the factories which employed them have now shut down, cutting off the supply of employment for almost everyone. There is very little non-farm activity in the village, but what little there is, is vital to the livelihoods of the households involved in it. However, it is very small-scale and does not provide much employment for other villagers.

The lack of cash in the village is seen by villagers as one of the main problems in developing non-farm economic activities. This is true both because there is very little capital to start businesses and because households have very little cash to spend on whatever goods or services local businesses provide.

We identified eight businesses in the village, started in the 1990s. All were very small-scale and do not provide much employment for others nor generate very much cash income. Their owners all supplemented their income with subsistence farming, cash they derived from sale of eggs, cheese and pork, as well as salaries and remittances. One respondent, who sold petrol and had highest income of all the businessmen, was nevertheless involved in subsistence farming and sale of pork to generate additional income. Mikhail, a fairly successful businessman who owned a mill, relied on remittances from his relatives abroad. Lali, whose husband is involved in commercial bee-keeping, described the overall situation: *“All the money gained by the family is fully spent. One cannot even dream of saving anything. We often have debts, and my salary goes on paying them back. My mother-in-law’s pension pays the taxes for land and pasture and electricity bills. We spend the money which we get from selling honey on buying firewood for the winter. The remaining money can hardly cover land tillage and basic family needs”*.

These businesses did not provide much employment to other villagers. Thus 3 people were employed in lemonade making and 5 people worked in the village shop. All of them received 35 *lari* per month.

There were also some village residents who were employed in the state sector. They all had very low salaries, and had to supplement their salaries by farming or remittances. Svetlana, the principal of the village school, was able to manage only with the help of her son, who was working temporarily in the Ukraine. Her husband described their family situation as *“absolutely intolerable”*.

The benefits of involvement in non-farm activities

Non-farm sources of income – businesses, state employment and remittances – were seen by respondents as very important sources of cash, even though the amounts involved were small. Anything which brought in some cash was valued, since it was so difficult to get it.

Besides the material dimension, involvement in non-farm activities in Gankari also had an important psychological benefit. All of the entrepreneurs were pleased with their achievements. The ability to run a business in such difficult times generated a sense of pride and success. It is notable that most of the businessmen in the village were quite optimistic about the future. Although all of them thought their situation had become worse as compared to the Soviet times, they were still happy they managed to earn stable income.

Bases upon which businesses were built

Education seemed to be important in enabling individuals to start businesses. Two of the individuals running businesses had high school education, two had vocational education and two had a university education. Thus it seemed clear that education was a key factor in setting up businesses. However, in most cases this was more because of self-confidence, rather than because the education received was relevant to the business undertaken.

Specialised knowledge and technical skills also played an important role in the ability of respondents to sustain their businesses. Thus Gia managed to maintain his bee-keeping businesses as his family always kept bee hives, and he had a good understanding of bee-keeping. Avtandil managed to run his car repair workshop thanks to his skills as a mechanic. Avtandil did most of the physical work himself, *“This is my profession. I graduated from a vocational technical school and I’ve been fixing cars since 1985. As soon as Gorbachev announced “Perestroika”, I registered the workshop as a private business.”*

Another crucial factor was the availability of capital. Most individuals had no access to significant amounts of capital to start a business. All the businesses which had initial capital were started on the basis of personal savings or in most cases through loans from family; none had a bank loan. For example, Mikhail, who owned a mill, used many of his private contacts to borrow money to buy the mill. Emil, the owner of the only shop in the village, also resorted to the help of his relatives, *“My cousin helped us with the money to open the store”,* he said.

The lack of cash also constrained the operation of businesses. Households have very little cash to spend on whatever goods or services local businesses provide. The one shop and four kiosks in the village have problems getting cash payment from their clients; this is evidenced by the big sign in the shop, saying ‘Credit is not given’. As most people in the village are tied by strong kinship ties, it is often difficult to refuse when people ask to borrow goods. As Emil explained, *“Here, in the village, everyone is either a relative, a close friend or has the same family name. Therefore I often trade on credit and can never refuse anyone”*. During the interview with the miller, he produced a note book filled with the names of people who owed him money for grinding maize. This has a negative effect for the businesses, as constant borrowing does not allow the owner to generate any cash.

Most of the villagers were interested in getting involved in various forms of non-farm activities but did not have the money to make initial capital investments. The villagers complained that it was impossible to obtain bank credits. The banks require collateral in gold, which the villagers do not possess.

As setting up a business is risky and it does not generate much profit, not many people choose to go into non-farm employment. Grisha, the 28-year old economist who had returned to the village from the city, leased a plot of land 22 kilometres away from the village to grow cash crops. He received financial help from his sister in Moscow. Grisha decided not to invest this money in a business as he thought there were no opportunities in the village, but felt that farming was the best investment for him, and said *“With my capabilities I cannot do anything better [than farming] in this village”*.

The economic infrastructure in the village is in a poor condition, and it hinders many businesses. For example, Mikhail cannot fully operate his mill as the mill works on

electricity. The village has electricity only four hours a day, so the operating hours of the mill are determined by the electricity schedule. At the same time, Mikhail cannot afford to buy a rather expensive power generator.

Despite the fact that most of the villagers are connected by kinship ties, economic hardship make theft quite common in the village. Mikhail and his partner take turns guarding the mill and its equipment against theft. Each works two weeks a month. Dato, who has the petrol business, was robbed on a day before when the research team visited him.

Bureaucratic corruption can also be a hindrance. Often, the authorities, driven by their own personal interests put up artificial obstacles to small entrepreneurs. Thus, Vaza did not register his jewellery business as he feared that after the registration he would immediately fall under the scrutiny of the controlling agencies and be subject to demands for bribes.

Part 2: Gurkeli, Akhaltsikhe Rayon, Samtskhe-Jabakheti Region

2.1 General Situation

Samtskhe-Jabakheti is in the southern part of the country, bordering Turkey. This region is one which is currently affected by the construction of the Baku-Tbilisi-Ceyhan oil and gas pipeline and by the Shah Deniz gas field development.

The region is very mixed ethnically and in terms of religion. The largest groups are Georgians whose ancestors have been living there for centuries, who are mainly Roman Catholic; Georgians adhering to the Georgian Orthodox Church, who moved here in 1944 at the time when the Soviet authorities carried out a mass deportation of the Muslims living in the region to Turkey; and Armenians who were brought by the Russians from Turkey at the beginning of the 19th century, who are either Roman Catholics or Armenian Orthodox by religion. According to the 1989 census, Georgians make up 46.8% of the population of Akhaltsikhe rayon, Armenians 42.8%, Russians 6.3% and other nationalities 4.3%.

Our study site, Gurkeli, is part of the commune of Agara, one of sixteen in Akhaltsikhe region. It is 22 km from Akhaltsikhe town and 4 km from the highway which connects Tbilisi with Akhaltsikhe. It is connected by a regular bus service with Akhaltsikhe, but the road down to the main road, which goes there, is extremely bad.

The village is inhabited by Georgians belonging to the Georgian Orthodox Church, who came to live here in 1944, after the deportation of the Muslim population. It contains 196 households.

2.2 Changes since independence

Akhaltsikhe rayon differs from other parts of Georgia, in that it has experienced centuries of isolation. Because of this it is more self-sufficient and less integrated into the economic, political and cultural life of the country. Villagers have therefore not experienced the same level of collapse in their livelihoods, since these were not so market-oriented as in other areas. However, they have, as in other areas, suffered from the loss of employment in state and collective farms, since the privatised plots do not generate anything like the same cash income as villagers received from employment on state/collective farms. The lack of employment opportunities is forcing the young out of the region.

The people in the area have suffered from the closure of the factories which used to exist nearby. There was a canning factory in the nearby village of Atskuri before 1990, where many people from Gurkeli worked and many others sold fruit to this factory. This employment and market for fruit has been lost. All of the able-bodied villagers were members of the village collective farm (kolkhoz). In addition, several villagers worked at the local school. Today, all of these people have lost their jobs and have no certainty in their future.

Generally, the older generation seemed confused and worried. Most of them expressed the hope that “someone” (by “someone” they usually meant the government) would come and give them jobs and stable wages, even if these were very small wages. People complained that the present authorities only gave promises to revive the village, but in reality, they did nothing to make this happen.

Young people in Gurkeli seemed to be better adapted to the new circumstances. They were quite realistic in their expectations and realised that they should not count on the state to provide them with money and jobs, but would have to rely on themselves. Most of the young people in the village were looking for opportunities and were more willing to take initiatives.

As in Gankari, the older residents of Gurkeli (50-60 years old) are nostalgic about the Soviet past, when the state provided guaranteed workplaces and stable salaries. The situation has especially become bad for pensioners, who receive only 14 *lari* a month.

As in Gankari, there is an almost total lack of cash, and the only source of cash for most households is the sale of some produce at the market. The absence of cash makes it difficult either to obtain the capital to start a business or to buy goods and services from a business once it has opened. This was considered to be a major constraining factor to the take up of opportunities.

Economic migration out of the village is now common. Having difficulties earning a living in their village, some of the young people we spoke to were planning to work in Russia. However, they said that they were worried that with the recent introduction of the visa regime, travelling to Russia would become complicated. Gogi, an economist by education, is an example of an economic migrant to Russia. He used to work in the Governor's office in Akhaltsikhe, but his salary of 40 *lari* was not sufficient to support his wife and three children. Gogi's family lived on the money generated from the sales of agricultural produce from their land. In order to improve his family's living standards, Gogi decided to leave his rather prestigious job and move to Moscow. After six months of working there, he managed to send 600 dollars to his family.

However, as in Gankari, there were return migrants from town in the village. For Jemal, establishing a business in Gurkeli was the only way he felt that he would be able to support his family. He used to live in Tbilisi, but economic hardship prompted him and his wife to return to his parent's house in Gurkeli.

There are some serious infrastructural problems in the area. There is a lack of potable water, there are serious shortages in the power supply and there are bad roads which make transportation difficult. The village has never had running water or a sewerage system. Electricity is provided for five hours a day, from 6.30 p.m. to 11.30 p.m.

2.3 Farming and livelihoods

Households in Gurkeli have, after privatisation, between one and six plots of land. The plot size varies from 0.5 to 7.72 ha; on average, households have 1.66 ha. As in Gankari, these are often very far away from the house. They can be up to 16 km away, and the average distance is 6.54 km. This makes it difficult, as in Gankari, for many households to cultivate all the land they received under privatisation, and many cultivate little more than the homestead plots which they had before 1990. The village has scarce land, and there is no free land that the villagers can lease to expand crops and increase their profits.

Land cultivation is carried out by the households themselves, i.e. each family works on its own piece of land. Generally, the whole household is involved in the agricultural work. Relatives and neighbours usually assist each other in carrying out these activities. As each

household in the village is related by kinship ties, to up to other ten households, the support they receive can be substantial. Men usually perform the relatively heavy work, such as sowing, manual tillage, mowing and cutting wood for winter. Women and children participate in weeding and watering.

The area is famous for its fruit, but since the closure of the canning factory there is no market outlet. Villages are no longer able to sell their fruit to Russia, due to the visa regime which now exists. The region is also well known for its potatoes, and villagers grow these both for home consumption and for sale. They also grow maize and other vegetables (such as beans, cucumbers, tomatoes, beetroots), and sell small amounts of these at local markets and at the market in Akhaltsikhe.

Informants told us that households in Gurkeli usually keep about one third of their yield for home consumption, selling the remaining two-thirds. However, few households grow specifically for the market; they sell the excess which they do not need for subsistence. Through sale at the market, households make an average of 1000 *lari* per year. The villagers themselves sell their produce at the market. As a rule, it is the male head of the household or his wife who are responsible for selling their produce. They do not take them to markets further away where the prices would be better because of the high cost of transportation, but only as far as Akhaltsikhe town.

Produce is also bartered, with exchanges taking place with produce of other kinds from all over Georgia. In the autumn there are buses from all the regions in Georgia at the market in Akhaltsikhe, carrying people who have come with their own produce to barter. Potatoes and beans grown in Akhaltsikhe are exchanged for grapes, oil, citrus fruit and many other kinds of produce which is not grown locally.

The region has good pasture for cattle. Households have between two and eight cows as well as up to twelve pigs and up to fifteen hens. In this region, in contrast to Abasha, villagers take turns herding the cattle communally, and there are also shepherds who specialise in looking after animals. Some households send their cattle to the mountain pastures 25 km from the village, paying shepherds to look after the animals there. Households sell cheese in the market, but mainly use dairy produce for home consumption.

Land cultivation is expensive, and people spend a considerable proportion of their income on various agricultural inputs. Informants said that 50-60% of a household's income earned during the year is generally spent on hiring a tractor, pasturing animals, buying diesel, pesticides and fertilisers and on the land and cattle tax. The remaining 40-50% of the household budget is spent on the basic everyday needs of the household. Households tend to spend all of their annual income and do not make any savings.

2.4 The Non-Farm Sector in Gurkeli

There are very few businesses in Gurkeli. Existing businesses are two mills, a wood processing workshop, and a grocery shop. These businesses do not generate any significant profit, and all of the entrepreneurs have to rely on subsistence farming and supplementary sources of income. The village used to have a private bath-house and a small kiosk, but both were shut down at the time of the field work.

Jemal is probably the most successful businessman in the village. He has a mill and a small wood-processing workshop where he makes doors, window frames, chairs and tables. In order to support his family, however, he relies heavily on subsistence farming. His family has three small plots, where they grow potatoes and other essential vegetables.

Gulo, who runs a small shop with the help of her husband, also grows vegetables in her homestead garden. Even though she only produces vegetables in amounts hardly sufficient for her own family's consumption, she told us that she often has to sell them when the household has an urgent need of cash.

Tamaz, who has a water mill near the village, earns only 30 *lari* a month. Although the mill does not consume much electricity, the profit is still negligible. He lives on the 100 dollars that his children send to him from the city. He also sells surplus produce, mostly beans and corn at the market in Akhaltsikhe.

There are also several shepherds in the village. They are hired by the villagers seasonally, from early spring to late autumn, to take the cattle to the high mountain pastures, some 22 kilometres away from Gurkeli. They receive 3 *lari* per cow, as well as some milk and cheese.

The lack of cash in the village seriously constrains the development of businesses. Villagers try to save every penny, and prefer to travel a long distance to shop in Akhaltsikhe, which is a bit cheaper than in the village. Dali's family, who until recently owned a kiosk in the village, was forced to shut down the kiosk as people had no money to pay for the goods. As Dali said, "*Our trade was mainly done on credit. The villages preferred to go all the way to Akhaltsikhe and sometimes even Tbilisi to buy goods at a slightly lower price. People try to save every penny if possible.*"

The role of social capital

It is important to note that people who most benefit from business activities are those who are linked by kinship or friendship ties, or through patronage networks. As in Gankari, this plays a great role in facilitating non-farm activities in Gurkeli. Thus Arsena, who once had a private bath-house, was able to rent it from the local council for five years thanks to a loan provided by his relative. Arsena is a well respected person in the village, and this is one of the reasons that his business has been successful. Jemal relies on his connections at the market in Marneuli, where he once used to work, to sell the furniture produced at his workshop. Despite the fact that the distance to Marneuli is considerable (6 hours drive), he still finds it profitable "*to stick to his old clients*". Gogi was able to move to Moscow and find a job there thanks to his wife's relatives, who had lived in Moscow for some years. Levan leased out his cows and land to his relatives. In return, they give him some cheese and some money from what they manage to sell. Levan told us that it is only thanks to his and his late wife's relatives that he manages to survive and even to help his children and grandchildren living in the city.

Business activities in the village provide a little employment for other villagers, but these are always linked by family or other ties to the owner. Thus Jemal has five employees in his workshop. Three of them are his kin, one is a neighbour and one is his friend's son. Two persons – his brother and a cousin – work at his mill. The income of each of these men does not exceed 100-120 *lari* per month, but earning even this amount in the village today is considered a success.

People in the village believe that it is virtually impossible to start a business without “a master”, someone influential, who can help with obtaining credit and important paperwork. The respondents were also convinced that the only way to receive any assistance from the NGOs was to informally “arrange things” with them. As in Gankari, obtaining a bank credit in the village is problematic; commercial banks extend only high interest-bearing credits and require expensive collateral (a house or gold priced at twice the credit amount).

The lack of a regular supply of electric power is a serious hindrance for the local businesses. For example, Arsena, who would like to redevelop his private bath-house, is compelled to invest significant cash in a small but very expensive hydro-power generator. Gulo, who would like to have her own café in the village, needs to buy a refrigerator, but she cannot do this as the refrigerator would be useless with the regular electricity cuts.

Despite these difficulties many of the villagers – particularly those who are already in business – seem optimistic and have plans for the future. Arsena plans to restart his bath-house business and to build a restaurant nearby. Jemal believes that there is good potential for the development of business in the village. He is quite sure that opening a saw mill would be profitable, and he is planning to do this. He thinks he will be able to employ seven villagers in this business. He would also like to buy sheep and have a herd of 100 sheep, and that this will generate good profit and provide four villagers with employment. Gulo would also like to enlarge her business. She would like to open a shop to sell agricultural tools. As already stated, she also dreams of opening a small café.

There are several villagers in Gurkeli who are employed in the state sector. Thus four members of the Zazadze family are school teachers. As their salaries are negligible (40 *lari* a month), they rely heavily on farming. They told us that these days they are farmers and can hardly be considered to be any kind of ‘village intelligentsia’. *“Actually, we make our living by working on the land. This is because the state only pays us half of our salary, and the remaining half is ‘frozen’* (the term “frozen money” is used in Georgia to describe wage and pension arrears).

Part 3: Nasamkhrali, Telavi Rayon, Kakheti region

3.1 General Information

Nasamkhrali is in Telavi rayon, in Kakheti region. Telavi is the centre of the region. Nasamkhrali is 6 kilometres away from Telavi and about 150 kilometres away from Tbilisi. Connection to Telavi is very easy, as the village has a regular bus service to Telavi.

There are a total of 216 households in Nasamkhrali, almost all of them ethnic Georgians. Most belong to the Georgian Orthodox Church, and there are a few members of the Jehovah's Witnesses sect.

The climate of the region is moderately continental, with hot summers and reasonably mild winters. However, drought and other climatic hazards are not infrequent in the region. As most of the population of the region is heavily dependent on commercial cultivation of grapes, drought in particular presents a serious challenge to the region. The drought of 2000 severely affected the economy of Kakheti by reducing the grape yield.

3.2 Changes since independence

Before independence, the region had a number of industries that specialised in the production of wine, in marble, construction materials, the production of silk thread and canning and meat processing. The region is famous for its wine. Before independence there were several wine factories in Kakheti. Collective farms used to sell their grapes to the factories. After independence, most of these factories were closed, which negatively affected the incomes of the population.

The village has only basic services. There is one kiosk where essential items are sold. The administration, the clinic and the post office are situated in the community centre of Kisiskhevi. The village has one primary school, but the school building has seriously deteriorated. Older children attend the secondary and high schools either in the nearby village or Telavi. The village has running water but it is not potable and can only be used for irrigation and household needs. Electricity is provided for 8 hours a day in the summer and 4 hours a day in the winter. The village has no telephone connection, although some villagers have mobile phones.

The population of the village was not prepared for the drastic changes in their lives that accompanied independence. 100-year old Archil shared his memories of “the good old times” with us: *“We used to live well at that time, we had money, wine, bread and kind heart”*.

3.3 Farming and livelihoods

In terms of its economic development, Nasamkhrali is in a far better condition than the other two study villages. The main reason for this is the fertile soil of the region that allows it to specialise in farming for the market. Thus farming generates more income in this region than it does in any other region of Georgia. This is the reason that emigration rates are significantly lower in Kakheti compared to other parts of Georgia.

Kakheti is the main wine producing region of Georgia. Most of the region, in fact, is covered with vineyards. In the last few years there has been a marked revival of the wine industry. The highest demand is for the black Saperavi grapes, the price of which is three times that of white grapes. This is the reason why so many farmers have replaced white grapes with Saperavi. The revival of the wine industry has substantially improved the economic situation in the region. Most farmers sell their grapes directly to the wineries. The villagers also produce wine and vodka, partly for sale.

Besides grapes, many other crops are grown commercially in the region. The region is the most important area in the country for production of sunflowers. Most of the sunflower produce is sold to middlemen, and a small amount is kept to press oil for their own consumption. Strawberries and peaches also generate considerable revenues for the villagers. They are taken to Tbilisi markets (as they can be sold for higher prices there) and sold to the middlemen.

Many farmers, especially those who can afford to lease additional land, grow wheat, mostly to satisfy their family needs. Baking bread from one's own wheat is said by informants to cost a third of the price of buying bread in shops. Potatoes, beans, corn and vegetables are also grown and are primarily used for household needs.

The village has 295 hectares of land, of which 180 hectares are in private possession, 30 hectares are leased and 85 hectares are pastures. Most villagers have land plots, though their number varies from one to four. Up to 60 percent of the respondents reported having two plots. The size of plots varies from 0.40 to 3.12 hectares, the average size of a land plot being 1.26 hectares.

As essential agricultural inputs are quite expensive, and it is possible to make a good profit from land if a farmer *does* have money to buy inputs, there is a land market in Kakheti, which is not the case in the other villages studied. Many impoverished farmers cannot afford to cultivate their land and are forced to sell their land plots, sometimes at very low prices, through desperation (500 - 700 *lari* for one hectare).

Networks of mutual assistance based on kin are very important in farming in Nasamkhrali, as in our other study villages. However, some farmers have also started hiring agricultural labour.

Keeping livestock is not as widely spread in the region as it is in Gurkeli or Gankari. Most commonly, farmers have pigs and hens. Sheep herding is considered to be a profitable business in this area.

3.4 The Non-Farm Economy in Nasamkhrali

As discussed earlier, Kakheti region is very fertile and is more productive than the other two regions studied. Most people here are engaged in farming for the market and derive significant income from it. Many farmers here plan to expand farming activities by leasing more land.

Despite the better economic situation, at least of many of the residents of the village, there are still very few businesses in Nasamkhrali. There are two relatively successful entrepreneurs in the village – Gia and Georgi. The most entrepreneurial person in the village is Gia. He has four businesses: a bucket workshop in his village, a grain sorting

machine in the neighbouring village, a carpenter's shop in Telavi and a parquet business in the town of Akhmeta. His monthly profit from all of these businesses is 1,400 *lari*. Georgi is another successful businessman. Together with his two brothers, he owns a workshop. The brothers earn about 2,000-2,500 *lari* a month between the three of them.

Although Gia's income is not great, it is sufficient for him not to be involved in farming. All the other entrepreneurs in the village derive much less income from their businesses, and have to supplement it with income from other sources, including farming. For example, Achiko, whose fuel business only generates 250-290 *lari* a month, has to engage in farming in order to support his family. He cultivates and sells potatoes, wheat, strawberries and grapes. His mother's salary and his grandmother's pension also provide substantial support to the household.

Gia has nine employees, who receive salaries ranging from 150 to 400 *lari* a month. During the summer season he employs an additional four persons. All of the employees were very happy with the fact they received decent salaries on a stable basis. At the same time, most of them had to supplement their salaries with money derived from farming. They all grew strawberries, wheat and grapes. Only one of Gia's employees was not involved in farming.

Though this village is relatively more prosperous than the other two villages in the sample, residents here still have problems with cash. The lack of cash has negatively affected Murad's and Kato's businesses. Murad, who owns a commercial shop, told us that he is only able to generate 100 *lari* a month. Kato had a kiosk five years ago, but because of the small profit she made, she had to close it. Recently, she reopened the kiosk, after her son helped her with some money. She complains, however, that her business does not do well, as people do not have cash, and she has to sell most of the goods on credit. Besides, as the village is close to Telavi where there are more choices, villagers usually prefer to shop there.

The lack of cash for making initial investments prohibits many residents from establishing businesses. For example, Shota is thinking of opening a car repair shop, but does not have enough money to invest in the business. Murad told us he wanted to expand the source of his family income and open a petrol station. However, he was unable to find the cash to put this into practice.

Two households in the village specialise in commercial sheep herding. Their herds consist of 1,000 sheep each. The income received from herding is quite significant. Both families are also involved in commercial farming and produce grapes for wine. One of the key reasons for the success of these households is the support that all of the relatives within the extended families provide to each other in sharing their tasks. Even Levan, who is a student in Telavi, helps his father in herding when he comes back to the village. Although these families did not consider themselves to be rich, they were better off than many other households. For example, Jaba's household had a car, a colour TV, a refrigerator and a video player. Both families hire Azeri shepherds from a nearby village Karajala and paid them 150 *lari* a month. They also provide the shepherds with food.

There are a few residents in the village who are employed in the state sector. Their salaries are very low, and in order to survive they engage in farming and other income generating activities. These households survive only by pulling together resources from various sources. For example, we found that Tina, who worked at the local school as a cleaner, received only 10 *lari* a month; so she was also working at a bakery in Telavi, where she received 40 *lari* a month. In addition, she and her son Shota generated some income from

farming. A young medical doctor, Eldar, had to combine two jobs to receive a more or less meaningful income of 250 *lari*: he worked at a private medical centre and at an emergency hospital. Eldar and his family also derived some income from cultivating their small plot of land.

Many people, and in particular public sector employees who are not accustomed to business, find it difficult to find an additional job or source of income. The problem is not only the lack of capital for initial investments in a business, but also the lack of necessary skills and experience. The principal of the village school, 43-year old Mariam whose monthly salary was 21 *lari*, said that she and her husband were ready to do any kind of work to earn some more money. At the same time, she doubted she could start up a new business, “*Personally, I have neither the money nor the experience necessary to start a new business*”.

The importance of non-farm activities in the village was manifested not only by the material benefits they provided, but also by the important psychological impact. All respondents who were engaged in non-farm activities had a sense of satisfaction and personal achievement. Thus, Gia came across as a very self-confident person; he was immensely proud with his achievements. Eldar considered himself to be a successful person as he was able to pursue the profession he loved and at the same time to provide his household with income.

Many respondents thought of themselves as poor, but had a sense of optimism and confidence in the future. Nugzar considered himself poor, but he also thought that his material situation had recently improved. Achiko also considered his family to be poor, but he was confident in the better future. He was convinced that the experience he had gained in his business would eventually bring him success.

Most respondents wanted to expand their businesses. Gia thought he could use sawdust, left over from the parquet production which was his business, for growing mushrooms. One of Gia’s employees wanted to have his own commercial cattle herding business. Jaba and Levan wanted to enlarge their herding businesses. To raise their income, they also planned to set up a mini-canning factory for fruit processing.

Determinants of business success

Personal qualities have been crucial in determining the success of the business enterprises in this village. The key to Gia’s success is his personal abilities – he is extremely entrepreneurial and risk-taking. He was able to quickly orient himself to the new situation after independence and to take advantage of the new opportunities which arose. Thus Gia noticed that after disruption of the Soviet Union, zinc buckets disappeared from the market. Having forty zinc sheets in his store, Gia began bucket production.

Education and appropriate technical skills also play an important role. Gia’s engineering experience at a state-owned construction company helped him to manage his business successfully. Gia has even managed to use his technical skills as an engineer. In order not to be affected by the electricity cuts, he himself designed and constructed mechanically operated tools.

Some of the younger residents of the village told us that they believe that appropriate skills and experience are essential in order to start a business, saying that “*Today the situation in our*

country is unstable both politically and economically. Therefore, prior to thinking about initiating a new “business” it is necessary to acquire knowledge and experience”.

The role of social capital

As in Gankari and Gurkeli, kinship and friendship networks based on trust and reciprocity have been crucial in providing access to capital and facilitating the success of the enterprises. Gia started his business with the help of his two brothers. Gia bought his sorting machine and restored it with the assistance of a close friend. Gia himself attributes his success to the fact that his family had savings and useful connections. The most important factor that triggered the success of Giorgi’s business was the fact that his father had considerable cash savings and an influential circle of friends and acquaintances. They helped him in obtaining a license and processing the required paperwork smoothly.

All of the village residents employed in Gia’s business in their turn helped their own families and relatives. Thus Dato financially assisted his parents, providing them with 50 *lari* a month. Despite the fact that Giorgi’s business was less successful than Gia’s, he also employed 5 men and paid each of them 100 *lari* per month.

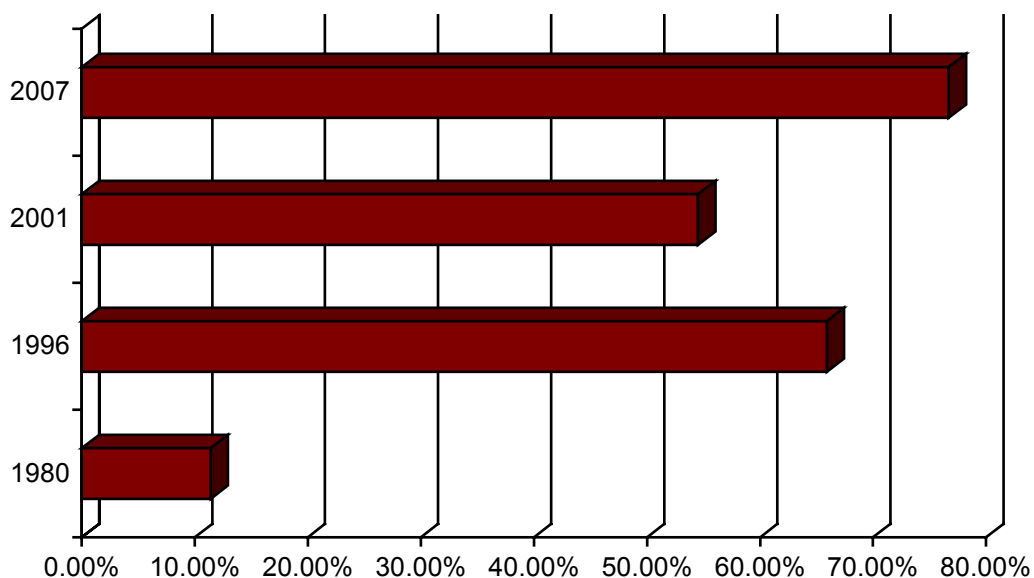
Part 4: Quantified Analysis of the Sampled Communities

4.1 Social and Economic Situation

The size of respondents' households varied from 2 to 12 persons. The average household consisted of 5.8 members. Some respondents had up to fifty-two relatives in the village and up to sixty-seven relatives living elsewhere. The largest households are in Akhaltsikhe region, where they had five to twelve members. In Abasha, households had three to ten members, and in Telavi region two to nine members.

The housing conditions in all three communities are quite good. The majority of the respondents have solid two storey houses built before the 1990s. All of them had yards of approximately 1,000 square meters in which there were up to seven farm buildings. The infrastructure in the study communities has, however, deteriorated rapidly. The sewerage system does not function anywhere, roads are in bad condition, telephone communication either does not exist or is of poor quality, and running water is a problem in two of the three villages.

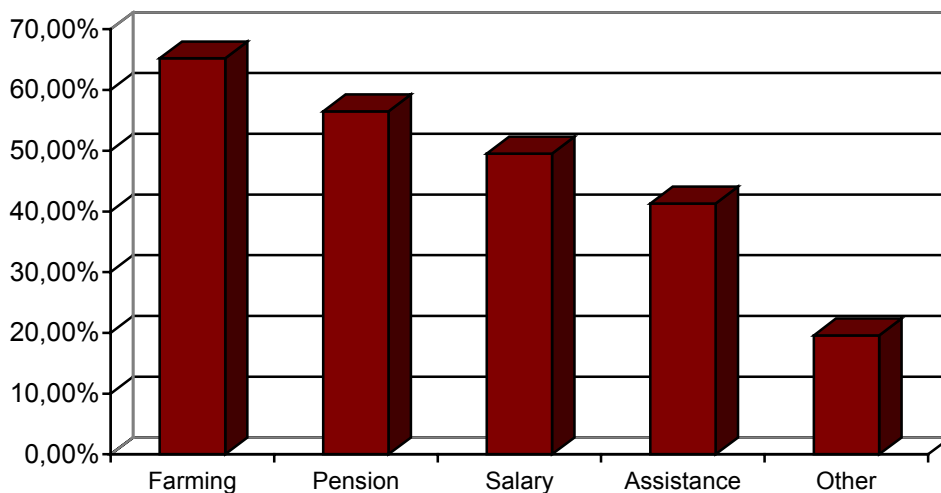
The majority of our respondents (47.7%) in all three communities characterise their households as of medium affluence. 38.6% considered their households to be well-to-do and only 13.5% considered themselves to be poor. However, when comparing their financial situation to the one they had in the 1980s, the majority thought they were better-off in the 1980s (see Graph 1) and only 11.4% of the respondents thought their situation had improved since then. At the same time, the majority of the respondents (65.9%) thought their economic status considerably improved as compared to the one in 1996. The respondents were quite optimistic about their future, and 76.7% were convinced that the situation would improve in five years' time.



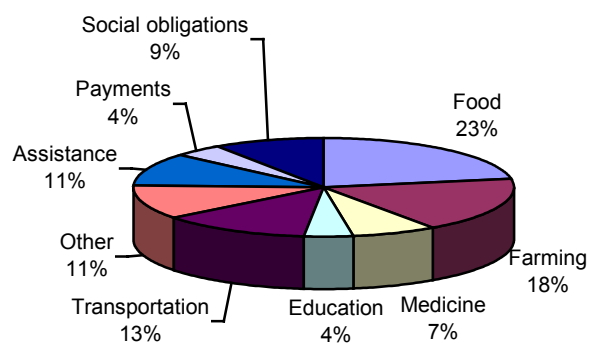
Graph 1: Perceptions of respondents about their economic status as compared to past years and in relation to their perceptions about the future

The social and economic situation is relatively better in Telavi region, and it is the worst in Abasha. While most of the population in Nasamkhrali relies on farming for the market as the main source of their cash income, people in Gankari and to a lesser extent in Gurkeli, rely on the assistance provided by kin and friends as important income source.

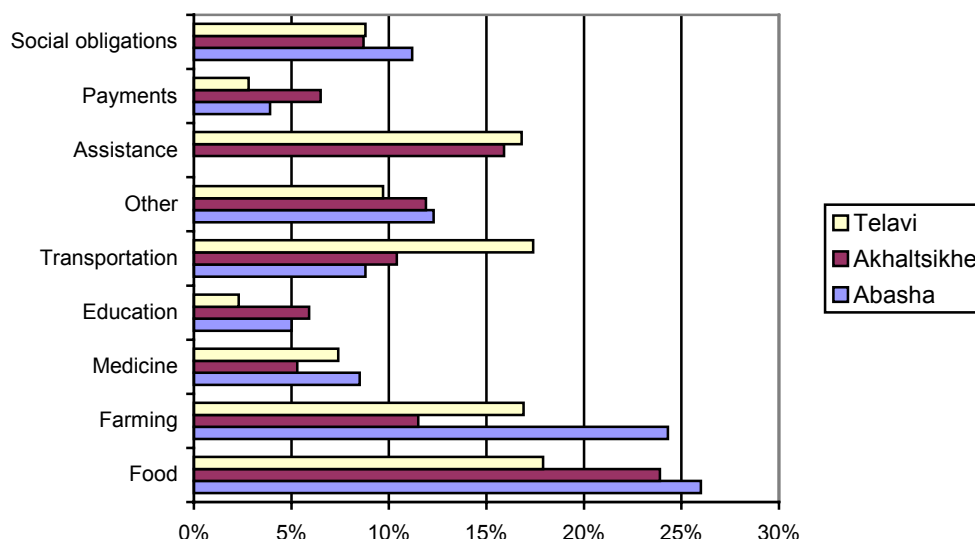
It was difficult to assess the income or expenditures of the studied households. There are a number of reasons for this. The income of most rural households fluctuated depending on their seasonal activities and proceeds. People also tend to under-report income that they derive from private businesses or unofficial activities. In Gankari we had a feeling that respondents were overestimating their expenditures in order to emphasise their economic hardships. Besides, income in different households can vary depending on the extent of expenditures related to medical care and education. The information presented in Graphs 2, 3 and 4 is an attempt to illustrate the tentative structure of income and expenditures in the study communities.



Graph 2: Income sources of respondents' households



Graph 3: Structure of household expenditures



Graph 4: Structure of expenditures by study region

Most of the average household budget is spent on food, but residents of Telavi region spend a considerably smaller share of their income on food than the residents of Abasha and Akhaltsikhe. A larger share of household budget in Akhaltsikhe is spent on social assistance rather than on farming; expenditures on farming are smaller in Akhaltsikhe than in the other two regions. This reflects the fact the population in Akhaltsikhe is more impoverished and farming there is more subsistence oriented.

4.2 Non-Farm Activities

There were a total of 22 non-farm enterprises operating in the three communities. The majority of these businesses (85.7%) operate only locally. Before 1993, only 17.6% of the respondents who now own these businesses were economically active.

Table 1: Types of non-farm activities (1-Abasha, 2-Akhaltzikhe, 3-Kakheti)

No	Business type	Number	Regions*
1	Shop	4	1,2,3
2	Mill	3	1,2
3	Fuel trade	2	1,3,
4	Herding	2	3
5	Bee-keeping	1	1
6	Joiner's shop	1	2
7	Lemonade shop	1	1
8	Flour trade	1	1
9	Power station	1	1
10	Horse renting	1	1
11	Car repair	1	1
12	Zinc buckets	1	3
13	Keeping a private bath-house	1	2
14	Medical service	1	1

15	Jewellery shop	1	1
	Total number	22	

CONCLUSIONS

- ◆ After the collapse of the Soviet Union, there was a dramatic decrease in the intensity and the scope of the non-farm economy in Georgia. Most households who were employed in the rural non-farm sector have reverted to subsistence production. A small number have taken up commercial farming, oriented primarily towards the market. This was only significant in one of our study communities, Telavi. In other areas, subsistence farming with the sale of excess production is the norm, and is the basis of most livelihoods.
- ◆ There is a considerable number of households in the study villages which cannot produce crops for sale, and only cultivate their land to produce food for their consumption, with a very small surplus which they can sell or exchange. It is very costly to invest in the essential agricultural inputs, such as seeds, fuel, fertilisers and pesticides. Land productivity is a crucial factor. Thus in Nasamkhrali (Telavi) where the land productivity is very high, almost all of the farmers were involved in commercial farming. In Gankari (Abasha) and Gurkeli (Akhaltzikhe), where the land is scarce and of relatively poor quality, many farmers relied on subsistence agriculture.
- ◆ The main reason for the decline in the non-farm sector has been the collapse of the socialist economy. All of the state owned industries were shut down and public sector jobs were curtailed, which resulted in cutting off the supply of employment for almost everyone.
- ◆ Factors which have made it difficult for individuals to become engaged in the non-farm economy since the collapse of the socialist system include:
 - Lack of cash. The lack of cash is very problematic for the development of non-farm economic activities. This is true both because there is very little capital to start businesses and because households have very little cash to spend on whatever goods or services local businesses provide. Most of the respondents were willing to get involved in various forms of non-farm activities but did not have the money to make initial capital investments.
 - Lack of Access to Credit. Most villagers were not able to obtain bank credits, as commercial banks only provided high interest-bearing credits and required expensive collateral (a house or gold priced at twice the credit amount), which most impoverished villagers do not possess. The only source of credit was family savings.
 - Poor Condition of Economic Infrastructure. The economic infrastructure in the villages is in a poor condition, and it seriously hinders business development. This is especially true with regard to power supply as well as roads and transportation.
 - Lack of Skills and Knowledge of Market Economy. Along with technical and financial difficulties rural residents also suffer from the lack of specific skills and limited understanding of market economy rules. Many residents were not willing to

start up businesses as they thought they did not possess the appropriate skills and experience.

- Bureaucratic obstruction and Corruption. Most of the businesses are not officially registered as the owners try to avoid unnecessary obstruction and demands for bribes from bureaucrats in the administrative agencies.
- ◆ The most important bases upon which it has proved possible to start businesses in the three villages studied are:
- **Human capital**, mainly related to education; many of the individuals running businesses had high school education, vocational education or a university education. Thus it seemed clear that education was a key factor in setting up businesses. Many of them used their specialised knowledge and technical skills in setting up and maintaining their businesses. It also seemed that having an education generated a sense of confidence which helped individuals to believe that they would be able to set up a business.
 - **Social capital**, which makes **financial capital** possible. Networks based on trust and reciprocity are crucial, in the villages studied, in providing access to capital and facilitating the success of an enterprise. All the businesses which had initial capital were started on the basis of personal savings or through loans from family; bank loans are not available. Useful connections and influential friends can also help in obtaining licenses, and processing the required paperwork smoothly. In many businesses, tasks and responsibilities were shared by friends or relatives. Most of the social capital networks in the studied communities were based on kinship ties. Relatives and neighbours also helped each other in cultivating land and other important agricultural activities.
 - Personal qualities such as risk-taking and leadership abilities were important.
- ◆ The non-farm activities in the studied villages did not generate significant income. Most did not provide much work for others. Almost all businessmen and women, as well as their employees - where they had any, had to supplement their income from non-farm activities with subsistence farming; cash they derived from sales of agricultural produce, salaries, pensions and remittances.
- ◆ There were some village residents who were employed in the state sector, i.e., received salaries from the state budget. Their salaries were very low, and in order to survive they had to engage in farming and income generating activities.
- ◆ Non-farm activities are crucial for the residents of the studied communities engaged in them as they help them support their families. Although non-farm activities in most cases were not found to generate sufficient income to be the only source of income for either an individual or a household, it was still an important source of cash income. For many of the respondents, their non-farm employment has become a crucial safety net.
- ◆ Besides the material dimension, the non-farm activities in the studied communities had an important psychological dimension. All of the entrepreneurs were satisfied with

their achievements. The ability to run a business in such difficult times generated a sense of pride and success. Most of the local businessmen and women were quite optimistic about the future. Although all of them thought their situation had become worse as compared to the Soviet times, they were still happy that they were managing to earn stable income. In fact, most respondents were willing to expand their businesses.

- ◆ Households in the villages studied were found to have complex, livelihood strategies which involved all sorts of different activities in which different members were engaged. Firstly, almost all engaged in subsistence agriculture. Secondly, all sorts of different means were used to get cash. The cash proceeds of all of these were then pooled by the household. Pooling common resources to cope with everyday difficulties is the most common strategy employed by most rural households in Georgia.
- ◆ Those who cannot derive much income from farming and/or non-farm activities are forced to move to Tbilisi or to migrate to Russia and other countries. They send cash assistance to their families remaining in the villages. Remittances from abroad have become a significant source of cash for many households.
- ◆ Some of the important differences between the studied regions based on the study of the study sites:
 - Abasha region, once one of the most affluent parts of Georgia, relied on selling its high value products (tea and essential oils, produced at factories in the region, and fruit, fresh and processed). The factories have now closed. Shortage of land has meant that people are not able to fall back on subsistence farming as much as elsewhere. They are therefore in a difficult position, being unable to rely either on farming or on non-farm activities.
 - Akhaltsikhe region has always been isolated and has been much less dependant on external markets, relying mainly on subsistence farming. There is plenty of land, but it is not as productive as in Telavi. These conditions have meant that this region has suffered less from the collapse of trade than Abasha. The lack of cash has been dealt with through the use of barter and remittances.
 - Telavi region is in the most favourable situation of our three field sites. Although the closure of the wine factories have meant that farmers can no longer sell their grapes easily, there is easy access to markets in Tbilisi and wine production is picking up. However, there is growing polarisation with communities, with the poorest selling their land to the better-off (who are usually also those who have good social networks) through desperation, and depriving themselves of the basis of their subsistence.

RECOMMENDATIONS

As this paper has demonstrated, non-farm activities are important in sustaining the livelihoods of the rural population in Georgia. Employment in the non-farm economy provides many rural residents with important cash income and helps acquire a sense of achievement and self-confidence. Therefore promoting non-farm income generating activities in the rural sector is crucial for improving the well-being of many rural residents.

It is recommended that the following measures would assist in developing an effective and equitable non-farm sector:

Improving the governance environment. Improvements in the overall business and governance environment of the country are crucial for the development of the non-farm economy. Reduction in bureaucratic red tape, corruption and bribery could significantly boost people's willingness to engage in non-farm entrepreneurial activities.

Addressing problems in the agricultural sector. The development of non-farm activities should be closely linked to farming. Farming is the only potential source of cash for business development. Farming needs to become more intensified if it is to produce a surplus for investment in non-farm activities. Thus in order to promote the development of the non-farm economy in Georgia it is first of all important to address some of the current problems and shortcoming in the agricultural sector. Some of these problems include:

- Lack of capital inputs in the rural sector
- Unclear land ownership rules
- Restricted access to local and external consumer markets
- Lack of land markets
- Restricted access to machinery and essential inputs
- Poor condition of rural infrastructure

However caution should be exercised in attempting to stimulate the land market where there is insufficient alternative employment for those who sell their land.

Revival of the food processing industry. Reviving the country's food processing enterprises will provide farmers with a market for their produce. It will also provide jobs for many people in villages. In this connection, donor organisations can assist by providing capital for much needed investments in the large-scale food processing industries.

Parallel to this, it is also important to support individual entrepreneurs and groups of individuals (cooperatives) in their attempts to establish small-scale food processing businesses.

Enhancing access to credit. Strengthening rural finance and credit is key to providing farmers with capital for initial investments. USAID and some NGOs have successful programs of credit associations which facilitate farmers' access to credit in Georgia. It is important to build on their successes and expand credit schemes to the most impoverished and vulnerable rural residents. Schemes should be developed to make micro-credit accessible. Restricted access to credit is also tied to the underdeveloped banking system in

Georgia. Hence important regulatory and policy measures are needed to improve rural credit delivery by commercial banks.

Increasing access to information. It is crucial to provide information to the population about available opportunities. This can be done by establishing business centres in the rural areas where people can learn about available programs and schemes supported by donors and the government and receive information about legislative issues and developments in the rural sector.

Providing capacity building. Special training sessions can be developed and implemented to teach important skills (such as fund raising, proposal/business plan writing, and marketing) and convey knowledge about the rules of the market.

Interfacing with existing social networks. As has been shown, social capital networks based on kinship and other social ties play an important role in helping people in Georgia to survive. Due to the networks based on reciprocity and trust many rural residents manage to obtain money for investments, market their produce and help each other in managing businesses and land cultivation. In this context, special group-based micro-credit and mutual assistance schemes should be developed to target individuals who are part of extended social capital networks.

Reaching out to the socially excluded. Social capital however can also be excluding. Those who do not have access to social networks may find it especially hard to survive, and a significant part of the rural population can be excluded from income-generating opportunities. Some special groups such as the single elderly, single parents, female headed households, refugees and the disabled can be most vulnerable to increasing social risks due to their weak social capital. It is important to reach out to such groups and households and provide them with seed capital, information and targeted training.

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APPENDICES

Appendix 1: Agricultural Activities (2000)

	Tsitsubani-Gurkeli Akhalitsikhe region	Nasamkhrali Telavi region,	Ganatilebis Kari (Gankari) Abasha region,
Number of Households	140	214	214
Average amount of land owned by the household in hectares	0.75	1	1
Average size of land around house (in ha)	0.08	0.10-015	0.22-025
Payment on one head of cattle for pasture	4	3	6
Cost of spring ploughing of 0.01 ha	0.7 litres of fuel and 0.4 GEL	1 litre of fuel and 0.8 GEL	0.6 litres of fuel and 0.6 GEL
Distribution of land among crops (ha)	Potato - 0.5 Corn - 0.09 Vegetables (beans, cucumber, beetroot, cabbage) - 0.04 Fruits(apples, pears, plums) - 0.10-0.13	Vineyard - 0.20-0.25 Sunflower-0.30-35 Strawberries-0.15-0.20 Peaches - 0.10	Corn - 0.5 Soybean - 0.20 Other vegetables-0.2
Distribution of annual income in %:			
a) for reinvestment	a) 55%	a) 65	a) 65
b) for consumption	b) 45%	b) 35	b) 35
c) savings	c) -	c) -	c) -

Appendix 2: List of persons interviewed

Ganatlebis Kari (Gankari), Abasha rayon

1. Jikia, Zurab, Head of Norio community, Abasha rayon
2. Vaza Jgarkava, in business
3. Mikhail Chanturia, in business
4. Dato Chanturia, in business
5. Gia Chanturia, in business
6. Emil Chanturia, in business
7. Vaza Chanturia, in business
8. Tamar Chanturia, member of a migrant's family
9. Gia Chanturia, member of a migrant's family
10. Gia Chanturia, member of a migrant's family
11. Galaktion Chanturia, member of a migrant's family
12. Guram Chanturia, member of a migrant's family
13. Constantin Chachava, farmer
14. Natela chanturia, farmer
15. Mito Simonia, farmer
16. Irodi Alania, farmer
17. Avtandil Chanturia, in business
18. Sventalana Chanturia, a member of a migrant's family
19. Murad Chanturia, farmer
20. Grisha Chanturia, a member of a migrant's family

Gurkeli, Akhaltsikhe rayon

1. Edisher Gvaladze, head of Agara community
2. Arsena Gogolauri, in business
3. Ramaz Makhatadze, in business
4. Jemal Makhatadze, in business
5. Lia Kukhianidze, member of a migrant's family
6. Tamaz Makhatadze, in business
7. Georgi Nozadze, farmer
8. Lado Makhatadze, farmer
9. Nazi Kukhnidze, farmer
10. Levan Nozadze, farmer
11. Nugzar Zazadze, farmer
12. Rima Kukhianidze, in business
13. Levan Nozadze, in business
14. Dali Kukhianidze, in business
15. Zazadze family, school teachers

Nasamkhrali, Telavi region

1. Zurab Grdzelishvili, Head of Kisiskhevi community
2. Gia Urchukhishvili, in business
3. Shota Chubinashvili, works in the shop
4. Dato Shoshikilashvili, works in the shop

5. Nugzar Garibashvili, works in the shop
6. Gia Bagatrishvili, works in the shop
7. Eldar Bagatrishvili, works in the shop
8. Achiko Urchukhishvili, in business
9. Kato Bagatrishvili, in business
10. Jaba Urchikhashvili, in business
11. Levan Urchukhishvili, in business
12. Genadi Urchukhishvili, farmer
13. Ilia Urchukhishvili, farmer
14. Tamar Bagatrishvili, farmer



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