

**NRI Report No: 2724**

**Rural Non-Farm Economy Project**

**Rural Non-Farm Livelihood  
Activities In Romania, Georgia  
And Armenia: Synthesis Of  
Findings From Fieldwork Carried  
Out At Village Level 2001–2002**

**Dr. Monica Janowski**

**(Natural Resources Institute, University of Greenwich, UK)**

**March 2003**

*This document is an output from a project funded by the UK Department for International Development (DFID) and the Worldbank for the benefit of developing countries.  
The views expressed are not necessarily those of DFID or the Worldbank.*



World Bank

## CONTENTS

1	Introduction.....	3
2	The study communities .....	3
3	Collaborators.....	4
4	Parallels and differences between the three countries studied.....	4
5	The legacy of the collapse of Communism.....	5
5.1	The rural economy under Communism .....	5
5.2	Privatization of land.....	6
5.3	Collapse of employment .....	6
5.4	Collapse of markets – internal and external.....	7
5.5	War: the impact on trade and the plight of refugees.....	8
6	Farming.....	8
6.1	The rise of subsistence agriculture and the collapse of agricultural production for the market.....	8
6.2	Hidden unemployment/underemployment in rural areas.....	10
7	Non-Farm Livelihood Activities (the RNFE).....	10
7.1	State remittances .....	11
7.2	Agriculture-related activities .....	11
7.3	Remittances from abroad .....	11
7.4	The RNFE: significant for rural livelihoods but relatively invisible.....	11
7.5	More significant development of small-scale RNFE activities in Romania.....	12
8	Factors influencing individual and household involvement in the RNFE.....	13
8.1	“Push” and “pull” factors, relative remuneration and status.....	13
8.2	“Relational capital” and involvement in the RNFE.....	13
8.3	Education .....	14
8.4	Attitudes to entrepreneurship .....	15
9	Recommendations.....	16

## 1 Introduction

As part of a project funded by DFID and being carried out in collaboration with the World Bank, which focuses on the rural non-farm economy (RNFE) in Georgia, Armenia and Romania, qualitative, anthropological research using a variety of methods including focus group discussion, key informant interview and participant observation was conducted, in two phases between December 2000 and May 2002.

This research looked at livelihood activities of all kinds, including farming, activities linked to farming and activities which are separate from farming. This included subsistence activities, barter and sources of cash. The relationship between different kinds of livelihood activities was also examined.

A synthesis of the main findings of the research is presented here, with conclusions and recommendations.

## 2 The study communities

Eight communities were selected for study: three in Georgia, three in Armenia and two in Romania. These were selected according to the following criteria:

- 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/non-proximity to town
- Relative access/lack of access to land and other natural resources
- Ethnic and religious variation
- Presence/absence of refugees from outside the communities (Armenia)

The communities studied were:

**Romania:** Motatei-Gara in Dolj county  
Rotbav in Brasov county

**Georgia:** Ganatlebis Kari in Abasha Rayon, Samegrelo Region  
Gurkeli in Akhaltsikhe Rayon, Samtskhe-Javakheti Region  
Nasamkhrali in Telavi Rayon, Kakheti Region

**Armenia:** Hayanist in Ararat marz  
Shamiram in Aragatsotn marz  
Verishen in Syunik marz

### 3 Collaborators

The fieldwork was carried out by:

**Romania:** Ana Bleahu, Institute for the Quality of Life, Bucharest

**Armenia:** Dr. Hranush Kharatyan and her team at the Department of Anthropology, University of Yerevan

**Georgia:** Nana Sumbadze and Ketevan Kobaladze, Department of Psychology, University of Tbilisi; and Pavel Dolidze of the NGO Elkana, Tbilisi

### 4 Parallels and differences between the three countries studied

- *There are fundamental and striking parallels between the impact of the transition from Communism on village livelihoods between the three countries*
- *However, Romania has been Communist for a shorter period and was much less integrated into the centralized Soviet system. This has some implications for the RNFE.*

There are some important differences between Romania on the one hand and Georgia and Armenia on the other. Georgia and Armenia were part of the Soviet Union for 70 years, and were closely integrated into a highly centralized economic system. Inhabitants of the communities studied in these countries have only vague memories of a time before communism, and it would appear that they were well contented, generally, with their lot under the Soviet system. This contentment has become very marked, in their perception, as the extremely negative economic and social consequences of the collapse of communism have become apparent. They are ill-prepared to take responsibility for their own livelihoods, since these have been taken care of by the State for so long; respondents constantly complained that the State should come and “do something” to provide them with jobs and sort the situation out.

Romania, on the other hand, became communist only after the Second World War, and was not integrated as closely into the Soviet system as Georgia and Armenia. Like them, it had a planned economy, but cultural and economic ties with other countries in Europe, both Eastern and Western, remained. With the excesses of Ceaucescu, a dislike for the communist system grew strong, and it was toppled in what the Romanians call a “revolution” in 1989. Romanians still have a definite memory of the time before the country became communist, and were, initially, positive about the reinstatement of democracy and national sovereignty, although by the end of the 1990s they had become quite negative about their social and economic situation. They retained a stronger sense of initiative and appear to have more of an ability to take charge of their own livelihoods than in Georgia and Armenia. A higher level of involvement in entrepreneurial activity was noted in Romania.

Despite differences, the parallels between the three countries in the post-communist period are striking, particularly as these relate to the impact on rural livelihoods of the transition. The discussion below therefore focuses on the broad parallel trends which can be found in the three countries, while highlighting differences where appropriate.

## 5 The legacy of the collapse of Communism

### 5.1 The rural economy under Communism

- *The State provided employment for all, within agriculture (as members of collective farms and State farms), in the service sector and in industry*
- *Agriculture was part of a centrally planned production and distribution system, particularly in Armenia and Georgia*

Under Communism, land was collectivized in most parts of all three countries (except some mountainous areas), and was worked either as collective farms or as state farms. These provided employment for villagers. In the case of collective farms, some of the produce of the farm was also distributed to workers for home consumption, although the majority was produced for sale. Collective and state farms relied on mechanized production and the use of inputs such as chemicals and good seed and were generally efficient and well-run, benefiting from the services of agricultural specialists. They were served by State-run planning and distribution systems which enabled them to be sure that what they produced had a market, and which took care of marketing and distribution. This was particularly true in Georgia and Armenia, which, as part of the Soviet Union, were part of a highly centralized and complex planning process which allocated production of different crops to different parts of the Union and different parts of the different States which made up the Union.

In all three countries, there were also many State-owned and collective industries of different kinds, including industrial industries and food-processing industries, located in rural areas; the scope of any privately owned enterprises was severely curtailed. Subsidised transport was provided by the State to allow village residents to work in industries near their villages, both in other villages and in nearby towns where there was also State employment of other kinds available. The State also provided services (health centres, schools, shops, libraries etc) at village level, which provided employment locally. Education was of very high quality in all three countries, and villagers were enabled to obtain free education right up to university level.

- *Households produced food on homestead plots:*

As well as working on the State or collective farm, village households were allocated **homestead plots** in all three countries which allowed them to produce some agricultural produce for home consumption, much of which was processed at home for consumption during the winter.

- *There was informal/illegal non-farm activity outside the State sector in Romania, less in Georgia and Armenia:*

In Romania there was, under communism, a significant degree of informal and semi-legal non-farm activity both within households and also inside state-owned enterprises, where workers had (illegal) access to state-owned machines. Non-farm activities included petty commerce, production of alcoholic beverages, agro-tourism and craftwork. However, for obvious reasons there are no reliable figures on involvement in these activities.

In Georgia and Armenia, there was a much lesser degree of household-level non-farm activity under Communism than was the case in Romania. This is probably due to the fact that the communist system had been in existence for much longer in these two countries than in Romania. Livelihoods were highly embedded in the State-run economy.

## 5.2 Privatization of land

- *Privatization of land was more egalitarian in Georgia and Armenia than in Romania*
- *Some villages and some households did not receive enough land to provide food for themselves*
- *Land was distributed in small plots, some far away from the village*

After the collapse of communism in 1989, laws were enacted by which agricultural land was privatized in all three countries. Registration of land is still not complete, however. In Romania, privatization of collective farm land was carried out on the basis of the amount of land which a given household had originally contributed to the collective farm, although all households which had been members of such a farm received a minimum of half a hectare of land. In Georgia and Armenia, land was simply distributed as fairly as possible to all households which had been members of state or collective farms.

In all three countries, efforts were made to avoid giving some households better land than others. This meant that each household received land in different places, often in tiny plots. Some land was located some kilometres away from the village; the collective and state farms had transport to enable them to work such land. Nowadays, however, households often do not have transport and cannot work this land.

Access to enough land ('enough land' means, in general, as much land as can be cultivated by the household labour available, to produce food for its subsistence – see below) is, in general, a more significant factor in determining relative prosperity in Romania than in Armenia and Georgia. Because, in Romania, land was distributed according to the amount put into the collective after the Second World War, some households got much more than others. In Armenia and Georgia, this was not the case. However, there are shortages of land in all three countries in villages which were not associated with collective farms under Communism (e.g. those associated with State farms, such as Motatei Gara, one of our study villages in Romania, and those associated with mining in Armenia). This means that even though, in general, a lot of land (particularly in the Armenian and Georgian villages studied) is not being cultivated, there are communities, such as Motatei-Gara, which do not have enough land. Rental of land occurs, particularly in Romania, often for payment in kind or labour.

## 5.3 Collapse of employment

- *Both agricultural and industrial workers lost their State employment*
- *State industries were mostly not replaced by private enterprises so there was little alternative employment*
- *There was a mass return of industrial workers to the villages from which they or their parents had come*

Under communism there was an effort to urbanise the population, and migration from country to towns and cities was encouraged in all three countries. In Romania, for example, the rural population decreased by 32% between 1945 and 1989, and the rural population involved in agriculture decreased by even more – 40%. This was due to the opening of industrial enterprises in rural areas as well as in towns and cities. All rural households had a source of cash income, either through employment in a local state or collective farm and/or through employment in industry.

The collapse of the State-run economy and the privatization of state farms, collective farms, factories and (more slowly) services which followed the collapse of communism meant that the majority of the population of all three countries lost their employment, since there was, under communism, very little employment outside the State sector. Many enterprises simply shut down. Although those which did not close but were taken over by private individuals did retain some staff, these tended to be fewer in number and the conditions under which they were employed were not secure and did not include social provisions such as nurseries, health care and so on.

The loss of well-paid, secure employment in towns and cities meant that huge numbers of people left and returned to the villages from which they or their parents had come. In Armenia, for example, 492,400 jobs in industry were lost and 282,900 people joined the agricultural work force, representing a 99.7% increase in the agricultural work force and a 63.7% drop in the industrial work force. Employment in service delivery also dropped, by 27%, and this has undoubtedly been one of the factors which has caused individuals with tertiary education also to return to their villages; such people were encountered in the villages studied in all three countries. Return migrants joined the households of kin. Because of the lack of cash, most have been unable to set up separate households as yet.

#### **5.4 Collapse of markets – internal and external**

- ***Farming households in all three countries are unable to make a significant profit from selling their produce***
- ***Processing of agricultural produce has collapsed, making it difficult to add value and difficult to transport produce far***

After the collapse of communism, the economic infrastructure of the country also collapsed. This meant that marketing of agricultural produce became much more difficult. The transport system was privatized and it both deteriorated in quality and became more expensive. It is now very difficult for farming households to reach markets beyond local ones except through middlemen, who pay very low prices in relation to the cost of production. This is largely due to the low prices which can be obtained in urban markets, where people are now very cash-poor too. However, it also appears that the middlemen exploit the villagers; in Armenia, they make more profit than the producers. Respondents in our study villages there complained that there is a “trade mafia” in the city which keeps farmers away from the market there.

Agriculture for the market is not profitable at the moment in any of three countries. In Armenia, between 1996 and 1999, the index of consumer prices has increased by almost 10%, and the production price has increased by 14%; but the index of the prices of agricultural produce has *dropped* by 2%. Investment in agriculture for the market is therefore senseless.

External markets, beyond the country, are even more difficult to reach than local ones. Fresh produce has of course to be transported very quickly if it is to leave the country, and this is difficult to achieve. Processing industries, which both allow produce to be preserved for longer and hence to be transported outside the country (and which also add value) have largely collapsed in all three countries. Many respondents, particularly in Armenia and Georgia which used to have well-developed processing industries for high value agricultural produce such as grapes, expressed the strong opinion that these should be re-opened to allow them to grow and sell produce.

The collapse of agricultural markets, together with an inability to generate significant amounts of cash through the RNFE, has meant a contracting of the social and economic universe of the rural population down to village level.

### **5.5 War: the impact on trade and the plight of refugees**

- *In Armenia and Georgia, conflicts have made external trade much more difficult*
- *IDPs and refugees are particularly disadvantaged economically and socially and their presence can lead to pressure on resources*

The war with Azerbaijan has led to a blockade of Armenia by Turkey and Azerbaijan, which has had a serious impact on the country's external trade. It has also led to an influx of refugees, most importantly in 1988 (in which year there was also a major earthquake in the country). Refugees have been particularly hard-hit economically. Many were urban and have been resettled in villages vacated by Azerbaijanis. They find it very difficult to adapt to rural life and to agriculture. In addition, they do not have the social and economic networks which would allow them to develop non-farm activities.

In Georgia the internal turmoil in Abkhazia has led to the blockage of trade to Russia, and to refugees (IDPs) fleeing from that area into other parts of Georgia, particularly in Abasha, where one of our study sites is located. Refugees compete for scarce employment and there is, in this area, pressure on land.

## **6 Farming**

### **6.1 The rise of subsistence agriculture and the collapse of agricultural production for the market**

- *Subsistence production has become the basis of the livelihoods of practically all rural households, and is significant for many urban households*
- *Rural households have been unable to cultivate much of the land they were given at privatization and many cultivate only the homestead gardens they worked under communism. There is a sense of a "land burden" and some land is being abandoned to avoid taxes*
- *There has been a shift from high-value crops to low-value food crops*
- *Despite low prices, households sell some of their produce because they desperately need some cash for basic needs*

While under communism farming was almost entirely market-oriented, almost the entire rural population in all three countries now depends largely on subsistence agriculture for their livelihoods, relying on what they produce themselves. They survive without much cash, relying on barter to a large degree to get goods and services which they cannot produce themselves. Even in towns households are cultivating plots of land to grow food. In rural areas, many households are sending food to family members in town as well as providing for themselves.

In the countryside, the loss of employment at state and collective farms was compensated for by the acquisition of the land of those farms. In theory this could be cultivated and the crops sold. However in most regions it was difficult for households to cultivate all of this land because

- they did not have money to buy inputs, especially for high-value crops;
- there was very restricted access to machinery; although much of the machinery of the collective and state farms was bought or taken possession of by individuals much of it soon fell in to disrepair and there is not enough money to buy new machinery;
- they did not have knowledge of the techniques which were used under the direction of the experts employed at state and collective farms, which enabled high-value crops to be grown
- their land was in small plots scattered in many places, which made it difficult to cultivate except using simple methods
- they could not market their produce effectively (see above)

The land which rural households received under decollectivization therefore did not benefit them very much, and it was found that most households cultivate little more than the homestead gardens which they were allocated for their own subsistence under communism, and which they retain in addition to decollectivized land. In Romania, respondents spoke of the “land burden” – they feel obliged to cultivate the land because it has been given to them but feel unable to achieve this. *“It was not the land that was given to the villager but the villager who was given to the land”* (Armenian village informant). Taxes have to be paid on land owned, and though these are small sums they are difficult to afford when households have almost no money at all. Therefore in some areas – for example Shamiram and Hayanist in Armenia, two of our study sites – households are surrendering the land they have been given under decollectivization in order to avoid paying land taxes. It is still difficult, in most areas, to sell land because it is not registered properly yet, sale is not allowed, and/or there is no-one willing to buy it for any significant sum.

Reliance on subsistence agriculture to the degree which is currently prevalent is a radical transformation. Although the rural population were involved in farming under communism, in that each household cultivated some land for subsistence and most households had at least one member working on a collective or state farm, this did not mean that they were market-oriented decision-making farmers. Their livelihoods depended a) on growing food for themselves on their homestead plots and b) on work as employees, carrying out allotted tasks in prescribed ways on state and collective farms. Thus, members of rural households in all three countries find the necessity to take up the identity of “farmer” a difficult and somewhat traumatic one. Their ancestors, in the past, were primarily subsistence farmers, bartering and trading a little of their produce; but present-day rural dwellers had become accustomed to being integrated into a wider

market economy, with significant access to goods and services from the outside world. They are now unable to maintain that integration to any significant degree because they have such low purchasing power and have little access to services any longer.

Because agriculture is mainly practised for subsistence purposes, and because of the lack of cash, there is very limited investment in agriculture. Inputs such as herbicides and new seed are unaffordable. In Armenia, there has been a shift from high value crops such as vegetables and fruit (previously exported, in Soviet times) to wheat (previously imported into the country), to wheat – for bread. This is accompanied by a reduced cash and labour investment in cultivation. In Romania, there has been a shift from wheat to maize, since this is more productive and is used for making the staple starch *mamaliga*.

Rural dwellers desperately need some cash to at least pay taxes, school fees, medicine and consumer goods which are regarded as essential – including flour for bread in parts of Armenia where wheat cannot be grown. This means that, since non-farm livelihood activities are underdeveloped, and despite the very low prices which farmers obtain for their produce (see above), the sale of produce is a source of income. Agriculture generates 18% of the financial income of an average village household, and a quarter of agricultural produce was sold. So long as the investment is mainly their own labour, and not cash, they are willing to suffer what is, in effect, a loss, in order to obtain a little money for basic needs.

## **6.2 Hidden unemployment/underemployment in rural areas**

- ***There is a high level of unemployment and underemployment in rural areas***

There is a high level of unemployment and underemployment in rural areas in all three countries, although this is invisible, since, in all three countries, all of those who own some land are classed as “employed”. In Romania, between 30% and 40% of those working in agriculture work less than 30 hours per week, and can therefore be said to be underemployed. In Armenia, respondents told us that the cultivation of land is considered to be part-time employment, and only one-third of the agricultural labour force works throughout the year.

The existence of significant levels of underemployment and unemployment in rural areas means that there is potential either for more involvement in farming, on land which is currently not being cultivated, or in non-farm activities. However, neither is easy because of the lack of cash and the lack of access to markets.

## **7 Non-Farm Livelihood Activities (the RNFE)**

The RNFE in rural areas in Georgia, Armenia and Romania is a very heterogeneous sector. It is, in reality, a residual category including all sources which provide income for rural households which are not actually farming. It includes the following:

1. Remittances from the State
2. Wage employment by the State (e.g. in education or local administration)
3. Wage employment in private firms
4. Remittances by migrants
5. Agriculture-related activities including food processing, craftwork using agricultural produce (e.g. wool) and sale of produce

6. Entrepreneurial activity such as shops, small enterprises
7. Employment within the village, often casual
8. Illegal strategies

### **7.1 State remittances**

Child benefit or pension payments are, for many households in all three countries, the only regular source of income which they have. These payments can be vital to a household's livelihood, even though the amounts involved are very small, even by village standards.

### **7.2 Agriculture-related activities**

- ***Processing of agricultural produce is both for household use and a means of generating income through trade***

Although involvement in market-oriented agriculture is new to rural people in all three countries, it should be emphasized that they have all maintained their small-scale cultivation and processing skills through the cultivation of homestead plots and processing the produce from these. Even under communism, households were involved in a diverse and complementary range of activities designed to ensure that it fulfils all its needs, including processing of produce and the making of craft items necessary to the household economy, using their own produce (e.g. wool), locally produced wood and some purchased elements. Now, with increased vulnerability, it is even more important to maintain a diversified economic base. Processing of agricultural produce, in particular, has become vital to household survival.

Some of the intra-household activities which are part of the household economy, such as food processing, bee keeping, distilling spirits, spinning and knitting, weaving and cheese-making are the basis for income generation as well as generating products used within the household. These are sold (or, more usually nowadays, bartered) with neighbours for other products in which other households specialise or they are taken to local markets where they are sold or bartered.

### **7.3 Remittances from abroad**

- ***Migration for work is now common: Romanians migrate for work to Western Europe; Armenians and Georgians to Russia***

Seasonal or longer-term migration out of the country is now very common. From Romania, migration is to Western Europe, particularly, from Transylvania with its German population, to Germany. From Georgia and Armenia, migration is mainly to Russia. A very high proportion of rural households in the communities studied in Armenia, in particular, has a member in Russia. Migrants try to send back money whenever they can, and this has become an important source of cash income in all three countries.

### **7.4 The RNFE: significant for rural livelihoods but relatively invisible**

- ***Many RNFE activities are small scale, barter-based and illegal/semi-legal and are therefore relatively invisible***

- ***Barter of agricultural produce, processed produce, services and labour is very important and takes place both within the village and with partners in other parts of the country***

Because of the fact that much of the RNFE in villages in Romania, Georgia and Armenia is very small-scale, does not involve cash, is not declared and may be illegal or semi-legal, it is difficult to record its significance quantitatively. In response to direct questions, much information about the RNFE will be missed. It is only possible to record accurate information on RNFE activities by observation and through setting up relationships of trust with villagers. The anthropological methods used in the research done for this project allowed for this to be done.

The research showed that the RNFE provides pitifully small amounts of cash income for most households. However, it is vital to livelihoods, particularly in Romania where it is more developed. Its significance goes beyond the amounts of money which actually change hands. This is partly because cash does not in fact change hands that often, since many RNFE activities are remunerated through barter, with payment made in kind or in labour. However, it is also because the RNFE creates and maintains inter-personal and inter-household ties which are vital to the survival of households.

Barter is important in all three countries because of the shortage of cash, both within the village and outside it. Individuals and households within the village exchange goods, services and agricultural labour. Outside the village, barter of agricultural produce takes place with partners in quite distant parts of the same country, with one of the two partners making a journey once a year to visit the other to transact the barter exchange. We found evidence of this in the villages we studied in Romania and Armenia. With these long-distance barter relationships, it is usually younger members of a household which take responsibility for the journey.

### **7.5 More significant development of small-scale RNFE activities in Romania**

From the data gathered in the villages studied, there appears to be a higher level of involvement in small-scale entrepreneurial activities in villages in Romania than in those in Armenia and in Georgia. This includes small-scale exchange of goods and services, sale of processed produce and small businesses which employ small numbers of non-household members.

This may be due to the fact that Communism had a shorter history in Romania, and that the role of the State was never as great there in shaping and providing for rural livelihoods. Responses from informants in our two study villages in Romania show that there was a significant amount of informal/semi-legal/illegal entrepreneurial activity, albeit on a very small scale, in Romanian villages during the Communist period. It is possible that there was more tolerance on the part of the Romanian Communist authorities than there was in Armenia and Georgia under Communism for this kind of activity. Romanian rural dwellers appear to have been able to build on this in the post-Communist period.

However, it should be emphasised that it is still the case that in Romania, as in Georgia and Armenia, there is a very low level of engagement with RNFE activities which are anything more than small-scale and there is little evidence that larger enterprises are about to develop in any significant numbers.

## 8 Factors influencing individual and household involvement in the RNFE

### 8.1 “Push” and “pull” factors, relative remuneration and status

The following axes differentiate non-farm activities and affect motivation to become involved in them. They are to a large degree mapped on to one another.

- ◆ Relative status
- ◆ Relative formal visibility
- ◆ Relative security
- ◆ Relative levels of financial remuneration

Where an activity is towards the upper end of most of the above axes, people are drawn to it and engage in it if they have the **ability** (i.e. there is a pull into that activity). Where it is towards the lower end of most of the axes, they engage in it because of **need** (i.e. there is a push into that activity).

**Differential individual and household ability** to engage in non-farm activities which exert a pull depends on education, training, skills and experience; on access to financial capital; and (related to this) on access to social capital and networks.

- *The poor are “pushed” into low-status activities; the better-off are “pulled” into higher-status, more remunerative activities*

RNFE activities are differentiated by the level of prestige and/or remuneration associated with them, and this is closely related to whether they are engaged in because of “push” or “pull” factors. The poor tend to become engaged in the RNFE because of “push” factors, becoming involved in low-status, low remuneration activities which do not require any investment and which bring immediate returns, in particular casual employment within the village. The better-off become engaged in the RNFE because of “pull” factors, being more likely to take up entrepreneurial opportunities which require some investment, may not pay off immediately and may even be somewhat risky. If successful, these activities are higher status than the activities engaged in by the poorest.

In Romania both the better off and the poor are involved in illegal activities – the better off in corruption and the poor in theft.

Employment by the State in capacities such as teacher, mayor, health worker etc. is regarded as high-status although it does not bring in high levels of remuneration and salaries may not (as in Armenia recently) be paid for months.

### 8.2 “Relational capital” and involvement in the RNFE

- *“Relational capital”, based on ties of ethnicity, kinship, friendship and work (including ex-nomenklatura ties) is fundamental to involvement in the RNFE.*
- *This is true for both the poor and the better-off*
- *Both men and women play a role in building up relational capital*

The research showed that what can be described as “relational capital”, a type of social capital, is very important in terms of involvement in the RNFE. “Relational capital” is based on ties of kinship, ethnicity, friendship or work.

Such ties are the basis of most forms of RNFE, whether high or low status. For the poor, ties of patronage are vital in their involvement.

In general, households with high levels of relational capital are better off materially than others, not only in terms of cash income but in terms of income in kind and in terms of the level and variety of their own agricultural production, so that their diets are more varied and their lives are generally more comfortable. They are more able to become involved in higher-remuneration, higher-status kinds of non-farm economic activity.

In Armenia, refugees from towns in Azerbaijan living in the study community of Hayanist lacked relational capital locally and the consequence has been that the shops in the village are run by people from a nearby village, who had much higher levels of relational capital locally.

Germans in Rotbav, one of our study communities in Romania, have strong relational capital with other Germans, both nearby and in Germany. Germans have always been more involved in small industrial activities than other ethnic groups. They are also able to set up businesses importing and selling second hand clothes and other goods from Germany. This emphasises the fact that one important basis for relational capital is networks based on ethnicity and kinship.

Another basis for “relational capital” is the *nomenklatura* – the administrative and political bosses, left over from the communist period. In all three countries, we found that where credit or grants became available, distributed by the government or by NGOs, these were said to be monopolized by *ex-nomenklatura*. In Armenia, such individuals were also more likely to open shops and other enterprises within study villages. In Romania we were told that these people were the same people whose parents and grandparents had been leading citizens of the village in pre-Communist times. In other words, *plus ça change...*

Relational capital is built up by both men and women. Men are the main agents in building it up outside the household, particularly outside the village. Women are very important in building up relational capital within the village, however, although their role is less formal than that of men.

### 8.3 Education

- ***Many villagers are relatively highly educated but their education is inappropriate for current needs***
- ***Despite this, it is the more highly educated who start up businesses in villages***
- ***It is very difficult for villagers to get any training in business skills***

In the communist period, education was of a high quality and many villagers are well-educated. Many of those who were so successful that they had obtained good jobs in towns and cities have now returned to their villages. There is, therefore, a high level of education among villagers. However, the education which they have received is professional rather than being oriented towards business.

Despite their inappropriate education, the more highly educated returnees from town are, in all three countries, much more likely to start small businesses than others. This is based on the fact that they have a high level of self-confidence and have the respect of co-villagers.

It is almost impossible for villagers to get any training in business skills. If they are owners of any land, even a small amount, they do not qualify for any of the (limited) training available for the unemployed.

#### 8.4 Attitudes to entrepreneurship

- *Negative attitude to becoming entrepreneurs in general; “someone” should come and provide employment; most people want to be employed*
- *Serious financial constraints to setting up businesses. Very few formal loans; only those who can get family loans can get capital.*
- *Negative attitude among co-villagers to purely profit-oriented entrepreneurship, which limits the potential for individuals to build up businesses*

Most respondents in all the villages studied were generally negative about the possibility of becoming an entrepreneur. There are, in every village, only a handful of households (often just one or two) which are entrepreneurial. Villagers are accustomed to being employed and the transition to becoming an entrepreneur is a very difficult one. There were constant statements about how “someone” should come and sort out the situation, and provide them with employment; i.e. there is a culture of dependency, which is difficult to overcome.

One obvious limitation to entrepreneurship is straightforwardly financial: very few households have any money to invest. Researchers were told by many informants in all three countries that those households which have managed to build up enterprises have relied on family assistance and loans. There are very few loans available. Researchers were told that where they were available they were monopolized by the ex-*nomenklatura*.

Related to this, most villagers in all three countries were nervous about the need to make calculated decisions and risks about the future which is implied in becoming an entrepreneur. They told researchers that they have no knowledge of markets, that they are fearful of taking risks and that they are very reluctant to take loans.

There is a somewhat negative attitude among co-villagers in all three countries towards individuals who are primarily motivated by profit and who do not take in to account their kin and neighbourly obligations towards others. There is therefore a normative limit to the degree to which entrepreneurs can take advantage (even legally) of others to make a profit. This limits the scope of their business, unless they accept a degree of hostility among other villagers. Even in Romania, where there is a higher level of involvement in the RNFE, such normative limits operate.

Thus, there are difficulties associated with relying on individual entrepreneurs to build to businesses which are able to employ significant numbers of people.

## 9 Recommendations

The key needs within the villages studied relating to the RNFE were identified, through the anthropological research carried out under this study, as being:

- ◆ **Formal employment.**
- ◆ **A basis for self-employment at household level.**
- ◆ **Markets for agricultural produce.**

In relation to **formal employment**, the **problems associated with relying on individual village entrepreneurs** have been indicated.

→ Consideration should be given by government and/or donors to providing financial support for the **establishment of enterprises by locally-based groups of kin or neighbours**, supported where necessary by outside specialists.

**Providing markets** for agricultural produce can be through making marketing outside the village easier and/or through setting up processing enterprises locally:

### 1. Improving access to market

- Clearly **identify markets for specific products**, initially in nearby towns but eventually further afield
- Establish **centres for the quality control of products** to ensure that goods are of standard quality
- Improve rural transport, including giving consideration to the restoration of some government-run services.

### 2. Setting up processing enterprises locally

- In many areas, the feasibility of re-establishing the types of processing plants existing under the Soviet system could usefully be investigated, using locally available natural resources and agricultural produce. The investigation of ways of setting up linkages to markets for key products produced by such plants is particularly important.
- This could be linked to providing formal employment through support for the establishment of larger processing plants locally by groups of kin or neighbours.
- Household-based processing should also be supported, where appropriate.

### 3. Making training and advice available

This is important in enabling households to develop small-scale non-farm activities, to make their members employable within larger enterprises, to provide the necessary skills to produce goods which are marketable, and to deal with marketing, taxes and accounts.

- **Set up permanent rural centres** which can provide regular **advice** on law and technical issues relevant to non-farm enterprises.
- Tailor **the school system** to cater more for skills identified as appropriate locally in non-farm activities.
- **Provide training courses for adults:**
  - ◆ **Make training accessible not only to those who are landless but also to those who have land**, who are currently excluded because they are classed as 'employed' on their land
  - ◆ Target not only 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) who wish to set up enterprises together.



Natural  
Resources  
Institute



FS 54723  
ISO 9001



THE QUEEN'S  
ANNIVERSARY PRIZES  
2000 & 2002

Enterprise Trade and Finance Group  
Natural Resources Institute  
University of Greenwich at Medway  
Central Avenue  
Chatham Maritime  
Kent ME4 4TB  
United Kingdom

Tel: +44 (0)1634 883199  
Fax: +44 (0)1634 883706  
Email: [nri@greenwich.ac.uk](mailto:nri@greenwich.ac.uk)  
<http://www.nri.org/rnfe/index.html>