

AGRICULTURE AND THE SOCIALECONOMIC SITUATION OF THE RURAL POPULATION IN GEORGIA: A CASE STUDY FOCUSING ON THE KAKHETI-REGION

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ABSTRACT

Like in many other transition countries, agriculture in Georgia is usually termed as subsistence farming. Lack of employment opportunities and insufficient household income make rural people dependent on state-funded pension-schemes and agricultural production. Similarly, the income-disparity between rural households is also noticed remarkably, while citizens of smaller towns possess, on average, higher income. The study presented in this report is intended to explore the situation of rural households concerning parcel size, employment opportunities, income sources and income disparities between citizens of villages and small towns, by presenting findings obtained during a field survey conducted during the months of March and May 2008 in the Kakheti region in eastern Georgia.

Keywords: Agriculture, Georgia, household income, rural population, rural development

DETAILED ABSTRACT

Georgia, as an agrarian-oriented country, has a significant rural population. The majority of farmers have small family holdings, owning small parcels of farmland and working primarily for family supply. Therefore agriculture is very low output, which makes the country dependent on external resources, particularly foreign imports of agricultural products. Considering the available secondary information given in the national statistic, this study is based on an empirical research on the agricultural situation in Kakheti region and shows the possible income sources, showing the disparity amongst different employed groups. This study reveals that employment opportunities are very low/scarcely for the agriculture profession as a whole; therefore most households have insufficient income to sustain family living expenses. As a result, many families consider state-funded pensions as primary source for their monetary income.

This report reveals a high rate of disparity amongst neighboring households for the region considered for this study with respect to the average income level for citizens in small towns or nearby municipalities. Using the Gini-Coefficient and Lorenz-Curve, the analysis of income-disparity gives a regional picture of development constraints. Neither national nor local government ever formed and executed any long-term strategic policies for the betterment of agricultural development in the region considered for this study. Finally, the study presented in this report justifies recommendations that Georgia requires an acceptable and sustainable long-term policy for rural development by supporting the small-scale agricultural sectors.

1. INTRODUCTION

Georgia is a small country and not a member state of the European Union (EU) (although Georgian decision makers aim to gain membership as soon as possible, this option, with the war in summer 2008 and the Russian-Georgian relation in mind, seems to be very doubtful). According to the non-member-status of the country, the life-situation of the rural population has barely captured the attention of the scientific community, to study the development constraints in the country. Hence, there is little information regarding the status of agriculture, employment and the monetary income situation of rural population.

This study deals with agriculture and the social-economic situation in Kakheti - a rural region located in the easternmost part of Georgia. Kakheti is 11 309.5 km² in size, with approximately 403.600 inhabitants [6]. In the

north, the region is bounded by the Caucasus mountain range. Kakheti borders on Russia and Azerbaijan.

The findings presented in this report can be considered as a general summary of most rural regions in the country, with respect to poverty, low productivity, lack of technologies etc. (except the mountainous regions, which are characterized by different conditions).

2. MATERIALS AND METHODS

The study presented is based on empirical research; therefore a field study was conducted between March and May 2008. A sample of 100 households was randomly selected from 12 villages and the households' owners were interviewed with a standardized questionnaire. The questionnaire focused on information concerning demography, agriculture, parcel size, income and expenditure. Also, several semi-structural interviews and group discussion with different groups and experts were conducted to verify the results of households' survey. Secondary information was taken from the Statistical Yearbook of Georgia (2007) and other publications of the Department of Statistics.

3. SUMMARY OF AGRICULTURE IN KAKHETI : PROBLEMS AND POTENTIALS

In Georgia, 47.5% of the population lives in rural areas. The employment generation of agricultural sectors is reported as 55.3% [2]. At the same time, agriculture in Georgia is not very effective. Low productivity makes the country dependent on imports of agricultural products. In 2006, Georgia imported 580.000 tons of wheat, in comparison with wheat exports of 38.500 tons [4]. Most important trading partners for agricultural products are Turkey and the CIS Countries [3], especially Russia, which is the largest importer of Georgian fruits. Kakheti region is an important producer of wheat, which adds about 80% to the national wheat production [9]. Also winegrowing and wine production has a long tradition in Kakheti. There is a huge variety of endemic grapes, which are exported primarily to Russia and therewith are the most important export goods. From a macroeconomic point of view, the strong dependency on the Russian market is a weakness for the development of local economies. The Russian market is very unstable, especially due to Russia's tense political relation with Georgia and its preference for the use of trade embargo as instrument for political leverage.

From a microeconomic point of view, the dependency on the Russian market has a direct impact on farmers in Kakheti, since most of the grapes are produced in this region. A lower price for grapes due to Russian trade

embargo is worsening the situation of rural population and in fact produces poverty.

Hence, Kakheti's main town Telavi, is also the Headquarter of two main Georgian industrial wine makers, namely Georgian Wines and Spirits and Teliani Valley. Since the industrial sector in the whole of Georgia is completely collapsed and hasn't grown to act a part in today's global economy, industrial wine making is considered to be the only industry which could be partly re-established [1,7].

One of the main reasons for the ineffectiveness of agriculture is the subsistence character of this sector. 99,8% of agricultural holdings in Georgia are family holdings [5]. During the early 90s, recently past after Georgia's independence, a land reform was introduced, which followed a two-fold strategy: The development of a subsistence sector for rural households and a market-based sector for larger competitive farms. According to a FAO report on the land reform in Eastern Europe, in 2001 approximately 40% of arable land is still owned by the state, which implies one of the constraints of establishing a market-based sector [8]. Until today there are very few market-based firms in whole Kakheti-region.

Arable land in Georgia is limited due to a large share of hilly areas, so the average size of parcels distributed to households for subsistence farming is very small. The study reveals that 62% of sampled households own parcels with a size of one hectare or smaller, which

corresponds with the figures given in the national statistics [5]. Due to the lack of farming machineries and missing adequate financial supports for investments, farmers gain very limited production from their small parcels. Even families who own four to six hectares are not able to take advantage of the whole parcel size due the lack of modern machinery.

On the other hand, the small size of parcels leads to a high crop-diversification. Because a high share of rural households has no monetary income and depends on subsistence farming, crop-diversification is an optimal strategy to minimize risks and to avoid food crisis. 94% of the sampled households reported to operate exclusively or mainly to maintain their own food supply. 32% were able to sell an amount of their crops on the regional markets (bazaars), whereas only 6% were able to sell their products in the capital city Tbilisi.

4. INCOME OF RURAL HOUSEHOLDS

Due to few choices and options for improving monetary income, rural households opened up diversified strategies to gain money. This study identified three general sources for monetary income. One of them is employment, but since the lack of employment is a typical problem in rural Georgia, only 12% of the interviewees reported employment as monetary income source. The second source for regular monetary income in Kakheti is state-funded pensions. In Georgia, women from the age of 60 and men from age of 65 are entitled to receive a monthly pension of 60 to 100 Georgian Lari (GEL)¹, which is incremented the older one gets. For 32% of the interviewed persons, pensions were the only source of monetary income. For this reason, pension is probably the most important and at least the safest way to gain money. Hence, 56% of the interviewed persons have no monetary income. Considering the households puts this picture into another perspective. The survey explored that the average household size is 4.26 persons, while most households consist of more than five family members. Though the households in Kakheti represent a large number of family members, household income usually consists of shares from one or all of them, who are gaining income by employment or pension.

The third source of monetary income is financial aid, given by friends or relatives of family members. There exists a massive immigration trend in Georgia; this study has also taken into account. It reveals that 77% of the people interviewed have relatives, who moved to the capital city Tbilisi, while 32% have relatives abroad. Financial supports contributed by emigrants are adding an important share to the income of rural households.

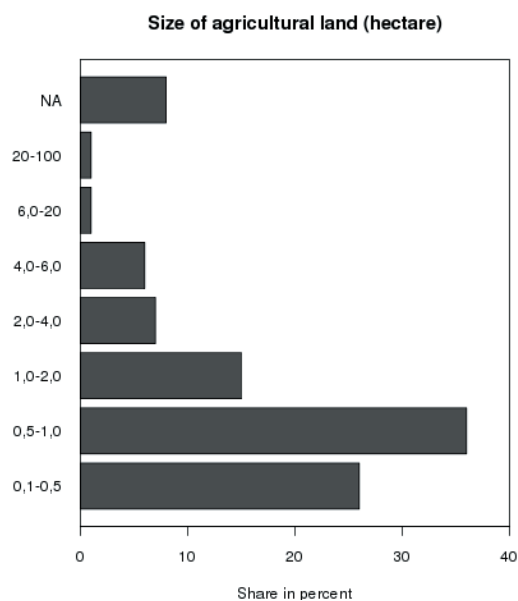


Figure 1: Parcel size of sampled households
 Source: Author's own calculation

¹1 GEL=0,48 EUR, exchange rate 20.08.08

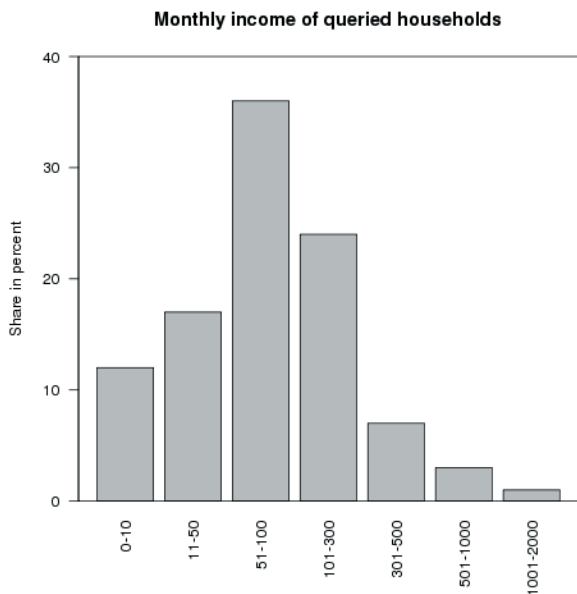


Figure 2: Income of rural households in Lari (GEL)

Source: Author's own calculation

16% of the interviewed households admitted to receiving regular financial support from friends or relatives living in the capital Tbilisi or abroad.

Fig. 2 shows, that 12% of households in Kakheti have a monthly income up to ten Lari, which in fact, can be considered as non-existent monetary income. 17% of rural households have an income of 11 up to 50 Lari, while most of the households gain a monthly income of 51 up to 100 Lari. The average income of the surveyed rural households is 146.6 Lari (about 70 EUR). In 47% of households lives at least one recipient of pension fund. It is obvious, that in many cases the pension of one or more family members contributes to the highest share of household income.

67% of the households reported that their monetary income is never sufficient. Another 13% describe their income as hardly ever sufficient; 6% reported their income as being insufficient and 5% as marginally sufficient, while only 2% reported their income as always sufficient.

5. DISPARITY OF HOUSEHOLD INCOME IN KAKHETI

The discussion above focused on the diversity of income of rural households. In this section, the focus will be on the disparity between rural and urban households. 19% of the population in Kakheti region lives in 9 small towns with a population size ranging from 2,100 up to 21,800 [2].

Their average income level is notably higher than the

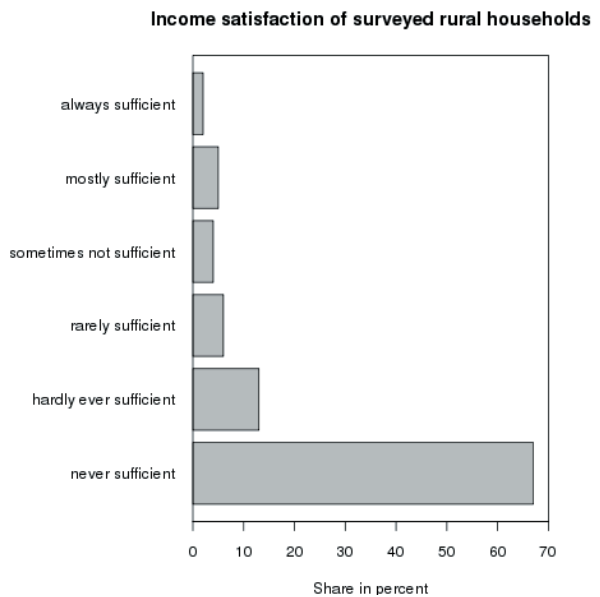


Figure 3: Income satisfaction of rural households

Source: Author's own calculation

same of rural areas (the survey reveals an average income of 413,2 Lari for small town households, compared to 146,6 for rural households), which explains the huge disparity indicated by the Lorenz and Gini curves.

As fig. 4 shows, the lower quarter of households gains 3% of income generated in Kakheti region, while the upper quarter gains a share of 67%.

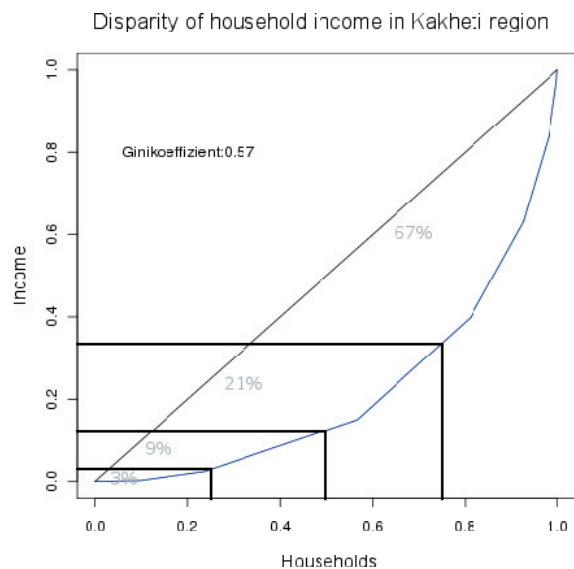


Figure 4: Disparity of household income in Kakheti region

Source: Author's own calculation

6. DISCUSSION

This study has shown that insufficient income proves to keep most rural households dependent on subsistence farming. This leads to dissatisfaction with their life situation, combined with inability of rural population to achieve enhancement, keeps the agricultural sector in Georgia far away from becoming productive, competitive and market-based.

The high proportion of the population depending on subsistence farming is a typical attribute of countries of former Soviet Union. This is partly caused by the economic crash of industries and other sectors which provided employment in the past. Therefore, the Georgian state had no other choice than to create a subsistence sector to help combat the economic downturn in the industrial sector.

Nowadays, the people in politics still seem unable to learn from past mistakes, although there are many examples in Eastern Europe worth following. Especially in some of the new EU member states such as Hungary, Bulgaria and Slovenia the situation of rural households was comparable. Policy strategies induced by the EU achieved improvement.

Georgia has no policy strategy that is suitable for rural development. In spring 2008, the Department of Agriculture spent 30 million Lari (ca. 14 million EUR) to procure tractors and other farming machinery. The aim was to provide at least one tractor for each village in the whole of Georgia [9]. The survey in Kakheti revealed that this measure was unsuccessful. Only two out of hundred of the farmers interviewed took advantage of it; most of the farmers admitted that they've never seen the new tractor. In fact, one habitant of each village was appointed as caretaker of the tractor and in charge to borrow it to the other habitants. In most cases, the nominated person either kept it for himself, or rented the tractor for considerable costs or even sold it immediately to make profit. Also measures like the distribution of fuel or flour among the rural citizens, which the government carries out periodically [9], are not suitable to achieve long-term betterment.

Current policy measures can be characterized as rushed reactions on increasing unhappiness of the rural population, therefore, not following a well thought out strategy and hence not eligible to change anything. Modern and suitable policy measures are usually built on a basis of endogenous potentials found in a region and participation of local population. But there are huge barriers for the establishment of useful bottom-up strategies, since the government structure in Georgia is strongly centralized. There is no tendency for future federalism or self-government, which, from an EU point

of view, could at least prepare a better ground for rural development in the future. While, on the other hand, the mindset of the rural population is a barrier. Most people consider the government to be responsible for nearly all that happens, and therefore refuse to take any of responsibility.

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