



Marina Mushkelishvili, Lia Mezvrishvili,  
Beka Natsvlashvili, Mariam Elizbarashvili

# The Role of Social Capital in Rural Community Development in Georgia

Tbilisi 2012

@ Centre for Social Studies

This study was conducted with the support of the Academic Swiss Caucasus Net (ASCN). ASCN is a program aimed at promoting the social sciences and humanities in the South Caucasus (primarily Georgia and Armenia). Its different activities have fostered the emergence of a new generation of talented scholars. Promising junior researchers receive support through research projects, capacity-building training and scholarships. The program emphasizes the advancement of individuals who become better integrated in international academic networks, thanks to the ASCN experience. The ASCN program is coordinated and operated by the Interfaculty Institute for Central and Eastern Europe (IICEE) at the University of Fribourg (Switzerland). It was initiated and supported by Gebert R f Stiftung.

## Content

Introduction	4
Chapter 1. The Georgian Village – 20 Years of Economic and Political Transformation	6
Chapter 2. Social capital – Theoretical Vision	17
Chapter 3. Village Resources and Forms of Cooperation	33
Chapter 4. Social Capital of Rural Communities	43
Chapter 5. Community-Based Associations: Institutional Analysis	59
Chapter 6. Conclusions and Recommendations for Further Reforms	73
Bibliography	79
Annex 1. Data Used in the Process of Analysis (Frequency Distributions)	84
Annex 2. Sample Villages	95

## Introduction

Notwithstanding – or as a result of – the political and economic changes that have occurred in Georgia during the last twenty years, rural areas of Georgia have undergone substantial economic degradation. High levels of unemployment, poverty, unprotected rights, and the migration of youth underline the problems of village life. Two decades of institutional reforms did not help to establish favorable economic and political conditions in rural areas. The failure of transformational changes resulted in the emerging opinion that the problem lies with society instead of the underlying institutional structures. Under this view, rural communities are not able to thrive within the framework of new rules because they lack the social capital – made up of trust, cohesion and initiative – to enhance development and help revive rural localities.

This study aims at an analysis of this assumption by studying economic relations in rural areas and their intensity, types and determining factors. The main question that we pose within the framework of our research is the following: Are Georgian village populations simply atomized individuals with no possibility of functioning as a unit, or does social capital exist there in a limited capacity, in which its strength to develop rural communities is muted by the pervasiveness of stronger factors?

Our research was conducted from 2010-2012. The study presents and interprets the results of observations, qualitative and quantitative research (sociological survey) and institutional analyses in the field of social relations.

Our study has the following structure. In the **first chapter**, we provide a brief overview of the socio-economic and political processes that have determined the current state of affairs in rural communities. The **second chapter** offers an analysis of the concept of social capital and formulates our methodology. The **third and fourth chapters** outline the results of our research. The **fifth chapter** provides an institutional analysis of rural cooperatives and associations; **chapter six** summarizes the research and contains conclusions and recommendations.

The research was conducted by the Center for Social Studies, an independent non-governmental organization that has produced and published numerous academic and applied research papers in the social and political sciences.<sup>1</sup>

---

<sup>1</sup> The website of the center may be found at: [www.cssge.ge/site/](http://www.cssge.ge/site/)

We extend our gratitude to Academic Swiss Caucasus Net (ASCN) for funding the project. The research team also would like to thank Eveline Baumann (UMR 201 Développement et Sociétés (IRD-Université Paris I)) for consultation and assistance with the process of implementing the research and Vano Kechakmadze for conducting the statistical analysis of the quantitative data. The project team received invaluable support from the staff of the Center, Uta Bitsadze and Mamuka Kokorashvili, who took part in the empirical study of villages. We would like to thank, in particular, all the experts, specialists, students and local citizens for their support, time and contributions.

# Chapter 1. The Georgian Village – 20 Years of Economic and Political Transformation

## 1.1. The Soviet Period

On the verge of the collapse of the soviet agrarian economy in Georgia, rural villages contained a mix of two different systems. Private property co-existed with the soviet planned economy, and Georgian villages were engaged in trade relations resembling a market economy.

In the late 1920s and early 1930s, the collectivization process began in the Soviet Union, including Georgia. Collective farms – “kolkhozes” – were created in villages. Despite their resistance, the repressions of 1927-32 destroyed the richest and strongest peasants, and the kolkhoz system was firmly established in Georgia. During their subsequent history, kolkhozes took on economic and administrative functions. “Local governance in villages was formally exercised by a village “council of people deputies”, the executive branch of which was in fact represented by the kolkhoz board” (Melua, 2000, page 15).

Despite the collectivization, certain forms of private property persisted in Georgia. The government allowed peasants to have 0.25 hectares of private land – which could be inherited – and a small number of cattle and poultry. In the mountains, the collectivization process was at first less intense; residents more or less managed to keep cattle in their possession. However, in the 1950s, full collectivization of these regions began; as a result, the first flow of internal migration to the towns occurred in the 1950s and the second occurred in the 1960s, a result that led to the nearly complete desertion of the mountain regions (Koguashvili, 1998).

In the late 1950s, the transformation of collective farms (kolkhozes) into state farms (sovkhozes) began in the Soviet Union. Nevertheless, in Georgia, kolkhozes were mainly maintained as they were. The property of a kolkhoz was formally collective and belonged to its members; it consisted of land, material and technical resources. Labor was paid according to work performed. Decisions on basic matters, including election of a chairperson, were performed by general meeting of the members. The state farms were directly administered by the state, and their leaders were appointed by regional authorities. Sovkhoz property was state property. Labor was paid on the basis of fixed salaries. Sovkhozes were never widespread in Georgia (maybe because of

the acquisitive nature of Georgian peasants). In 1990, there were only 60 sovkhozes in Georgia (Melua, 2000).

In the 1970s and 1980s, kolkhozes in Georgia were at the height of their strength. There were approximately 100 such collective farms in Georgia at that time, with 1,000,000 soviet rubles going through their bank accounts annually<sup>2</sup>. The income of a kolkhoz member increased accordingly. In 1978, such per-member income amounted to 4,300 soviet rubles, on average (Melua, 2000). The growth in production was assisted by the huge soviet market and central budget subsidies. Because of Georgia's climate and location, its industrial crops – tea, citrus fruits and wine – were much in demand in the soviet market. The central Soviet government spared no subsidies to satisfy this demand.

Improvements in the villages gradually began, and buildings housing elementary schools, high schools, sports facilities and village clubs were built. Such social programs were based on the decision of the Central Committee of the Communist Party. The party gradually began to undertake social and cultural improvements. Decisions were made in the central committee; the kolkhoz, as the local extension of the party, executed these decisions.

As the welfare of the country increased, demand for agricultural products grew also. In response, the government of the republic tried various methods to encourage private initiative. Peasants were allowed to grow industrial crops on their own plots of land. The state purchase price for these products was 30% higher than for the crops grown on kolkhoz land.

Production costs gradually increased. The economic basis of the kolkhoz was a state subsidy; the difference between production costs and the state purchase price was covered by the state subsidy. This stimulated the creation of various practices that led to the appearance in town markets of products grown on both kolkhoz and household lands, which had avoided the state realization and distribution system altogether and were selling for double the price. State subsidies and the price system stimulated misappropriation of kolkhoz property by both common peasants and kolkhoz officials (Melua, 2000).

These processes completely changed the peasant mentality. At the end of this period, rural villages were oriented entirely to private interests. Peasants tried to obtain more

---

<sup>2</sup> The kolkhozes produced 594,900 tons of tea, 436,900 tons of citrus fruits, 703,200 tons of grapes, and 715,300 tons of grain crops annually. Registered kolkhoz property consisted of 585 thousand head of cattle and up to 3 million head of sheep and goats.

income from private products, which further increased the importance of town markets.

## **1.2. After independence**

After the collapse of the Soviet Union, transitioning agriculture from a planned to a market-driven economy presented substantial difficulties, including replacing the soviet forms of governance with full-grown self-governance.

In 1991, after a referendum, Georgia declared independence. In the process of the collapse of the Soviet Union, the relationship between Georgian authorities and two autonomous regions of Georgia, Abkhazia and South Ossetia, became tense; this tension soon turned into armed conflict. This process was followed by tension between the government and the opposition, which culminated in a forced change of power.

Simultaneously, the dramatic economic transformation from a planned to a market economy had begun. Pricing became subject to market principles. Moreover, after achieving independence, the country broke away from the soviet economic space, which worsened even further the social and economic conditions in the population. From 1990 to 1994, the gross national product decreased by 45% (Revishvili, 2004). Agriculture, in particular, was in a grave situation. Following ethnic conflicts and tension between Russia and Georgia, Georgian agricultural products lost their traditional market. The simultaneous collapse of the industrial sector exacerbated the difficulties facing the agrarian sector. Agrarian production decreased dramatically; from 1990 to 2000, it decreased 2.6 times (Revishvili 2004).

The transformation of the agrarian economy in Georgia began in 1992 with the broad privatization of land. In the first stage, peasants received land for permanent use and had no right to sell it. In addition to the plots they owned before, peasants received up to 1.20 hectares of land in total (depending on local conditions) for their economic activities. At the first stage of the reform, the kolkhozes were still maintained. However, because of debt and the absence of state subsidies, they were soon broken up. The kolkhoz land and equipment that still remained was to be left in the ownership of cooperatives established on the basis of the kolkhozes, to be managed by peasants as shareholders (Koguashvili, 1998). This part of the reform was never undertaken. In that critical period, the local community was shown to be unable to manage the fair distribution of resources.

The Law on Ownership of Agricultural Land of March 1996 declared that the land given to the citizens of Georgia was their private property. Simultaneously, to encourage the growth of the agricultural sector, citizens of Georgia were allowed to rent land for economic activities under the Law on Lease of Agricultural Land, (Didebulidze 1997).

As a result of the process of privatization, 690,000 hectares of land were given to 772,000 agricultural and 33, 000 urban households, an average of 0.89 hectares per household. The land belonging to a household was often composed of 2-3 smaller plots. With respect to leasing, 32,000 people rented 492 000 hectares of land, which is an average of 15.6 hectares per person; however, 3,573 "legal persons" rented 404,000 hectares, which is an average of 113 hectares per lessee. By 2003, most of the privatized land consisted of one-hectare plots, representing 25% of the agricultural land and 55% of the arable land in total; most of the leased land was in the hands of a small number of individuals or legal entities (Revishvili 2004).

Despite the fact that the land market had made the enlargement of the farms possible, small households did not have sufficient financial resources to rent large plots of land (Gogodze 2005). Moreover, large plots of land were often misappropriated by the economic and political "elite" in corrupt transactions.

As a result, two different agricultural systems were established; many small economic players were engaged in subsistence farming, and a small number of large commercial agrarian organizations were engaged in large-scale agricultural production (Revishvili 2004).

An agricultural inventory conducted in 2004 showed that 43.2% of households owning agricultural land owned less than 0.5 hectares, 32% of households owned 0.5-0.99 hectares (meaning that 75.2% of households had less than 1 hectare), 18.3% of households owned 1-1.99 hectares, 3% of households owned 2-2.99 hectares, and 1.4% of households owned 3-4 hectares. It should be noted that even these small areas of land were divided and scattered over multiple plots. The technical level of equipment on the household farms was low. Because the plots were scattered, the work was time-consuming, much fuel was required and machinery use was inefficient. Peasants tended to use machinery less and used work animals (oxen and horses) and manual tools (Revishvili 2011).

For most of the population that was left unemployed as a result of economic stagnation and the breakdown of industrial production, the land distributed to small household units protected families. As a result, instead of enlarging and transforming

the agrarian economy, small peasant households became a source of food for the unemployed population as subsistence economic units.

By 2003, agricultural activities were the main source of income for 30% of the population. If we consider the structure of household income, we note that even these 30% were unable to emerge as full-grown farms. In 2003, the income from agricultural activities amounted only to 44% of the total income of an average household, income from non-agricultural hired labor was 26% of total income, social aid and pensions made up 14% of the total, non-agricultural entrepreneurship accounted for 9% of income, and 7% of income for agrarian households came in the form of aid sent by friends and relatives (Gogodze 2005).

According to statistical data from 2004, 82% of households were producing mainly for their own needs and 18% produced mainly for sale (Statistical Yearbook of Georgia, 2005).

The main factor interfering with the agricultural specialization of small peasant household economic units and their full involvement in market relations was high transaction costs.<sup>3</sup> Peasant enterprises could not afford professional agrarian and veterinary consultation. They had little machinery, pesticides and mineral fertilizers. They could not afford bank loans because of high interest rates. Because transportation to market was so expensive, it often made no sense to sell the small harvest.

Escaping this situation might mean aggregating resources and the creation of cooperative enterprises. By such combination, production and transaction costs would be reduced and common efforts could transform peasant units into full-grown agrarian enterprises.

However, a constellation of reasons prevented such cooperation and transformation, including state policies before and after the Rose revolution that never attempted to encourage or implement this process (Natsvlishvili 2011).

Apart from economic problems, villages also had few governance mechanisms; the disappearance of the kolkhozes left a vacuum in local governance.

---

<sup>3</sup> Transaction costs are expenses faced by an economic entity involved in market relations (buying, selling, renting, exchanging) – the costs of obtaining information, transportation, reaching and fulfilling agreements, and avoiding uncertainty and risk during the economic transaction. Transaction costs can be diminished through establishment of institutions. For transaction costs, see also (Coase, 1937), (North, 1992).

On August 24, 1995, the Parliament of Georgia passed the Constitution of Georgia, bringing a certain stability to the political life of the country. The Constitution did not define the regional arrangement of the country because of unresolved territorial conflicts. Nevertheless, the Constitution defined the forms of local self-governance bodies, their powers and their relations with the central government. After passing the Constitution, parliament passed the following laws in 1997: “On Local Self-Governance and Governance”; “On the Capital of Georgia – Tbilisi”; and “On the Status of Members of the Local Self-Governance Representative Body – Sakrebulo”.

In November 1998, the first elections of local self-governance bodies – Sakrebulo – were held. Self-governing territorial units included villages, communities, settlements and towns. Districts and cities, in addition to the capital city, Tbilisi, were arranged as forms of local government. It was an eclectic system of central- and self-governance, as local bodies at the district and city levels simultaneously performed the functions of state- and local self-governance bodies (Center for Effective Governance System and Territorial Arrangement Reform, 2009). Heads of executive bodies of districts and cities – Gamgebeli and mayors – were appointed by the President of Georgia.

Despite this legislation, local governance was not immediately implemented. Governing authority and resources were still concentrated in the hands of the central government. Local bodies were not considered to be independent institutions, but were seen as extensions of central authorities. No decentralization of either fiscal or property rights was undertaken. Subsequently, small self-governing units were left without the resources necessary for social and economic development. There was no division of powers between district authorities and self-governing units within the district. All important local public services were still provided by the district authorities.

The reforms that were implemented failed to create a local public space that might provide the basis for public involvement and participation in the administration of common resources and welfare.

### **1.3. After the Rose Revolution**

In 2003, as the result of events known as the “Rose Revolution”, Mikheil Saakashvili came to power with his party, “National Movement”.

The new government transformed the system of governance and the economy.

Despite its declaration of democratic goals, the reform of governance brought about more centralization and concentration of power and weakened its vertical and

horizontal distribution. The constitutional reforms undertaken in 2004 were supposed to aim at the formation of a semi-presidential form of governance; however, in reality, all power became concentrated in the hands of the President. This was followed by the violation of the rights of many people, the weakening of the rule of law and the erosion of democratic institutions. These circumstances were aggravated by the Russia-Georgia war of 2008 and the worsening of social and economic conditions<sup>4</sup>.

The reforms also transformed the form of local governance. Based on the experience of ineffective self-governance systems before the revolution, the post-revolutionary government enlarged self-governing units in the hope that larger territorial units equipped with more resources and more autonomy would better serve the needs of the population.

As part of the reforms of 2005, 64 self-governing municipalities were created from more than 1,000 self-governing units existing in Georgia. The municipalities were the legal successors to the self-governing units (towns, settlements, communities, and villages) that were included in the former districts. In this process of enlargement, villages no longer governed themselves and lost their legal status and property. In the municipality, the “sakrebulo” community is represented by one person and the “sakrebulo” manages a village through an appointed representative (rtsmunebuli).

Before August 8, 2010, leased pastures that were owned by the state were the only agricultural land that still belonged to municipalities. Nevertheless, under amendments to the Law on Local Self-Governance, “pasture” was added to the list in subparagraph C of article 47 (which defines categories of agricultural land that are not passed to self-governing local units). Thus, local authorities were left with no agricultural land (Losaberidze et al. 2011).

Although non-agricultural land was unambiguously declared property of a self-governing unit, the government kept the prerogative to define the procedure of passing it to such units. This significantly delayed the process. The situation was similar with respect to passing natural resources to self-governing units. According to the Law on Property of the Local Self-Governing Unit, the President of Georgia was given the exclusive right to sell property belonging to self-governing units directly (bypassing tendering), regardless of whether the property was on the list approved by the sakrebulo for privatization.

---

<sup>4</sup> The Gini coefficient for Georgia in 2011 was 40.8%. See Georgian Economic Outlook. EPRC 2011.

Transfers from the central budget were the main source of funding the budget of self-governing units. For example, in 2009, tax and non-tax income amounted to only 24.7% of self-governance budgetary income; in 2010, that amount fell to 23.4%. The remaining part came from central government transfers (Losaberidze et al. 2011).

Self-governing units, with their limited functions and responsibilities, turned into extensions of the central authorities and became part of the establishment that provided services for residents instead of instruments of realization of local democracy.

As a result of the enlargement of self-governing units, decentralization became centralization. The self-governance elections of 2006 and 2010 ensured this even more firmly. In these elections, the ruling “National Movement” party gained the majority in almost all sakrebulo. Nominally self-governing, municipalities became subordinated to the regional governors appointed by the President.

In addition to governance reform, economic reform was also undertaken after the Rose revolution. The new government based its economic strategy on liberalization of economy and attracting investment. As a result of reforms undertaken to improve the country as an investment destination, Georgia soon was ranked highly in the World Bank “Ease of Doing Business” rating (Muskhelishvili, 2011). However, the reforms did not improve the situation. Georgia was at only 102<sup>nd</sup> place out of 151 countries in attracting direct foreign investment, according to the United Nations Conference on Trade and Development data of 2007.<sup>5</sup> After the 2008 Russia-Georgia war, investment dropped even lower for obvious reasons.<sup>6</sup> According to the Global Competitiveness Report, Georgia was 93<sup>rd</sup> out of 139 countries. The indicators were particularly negative concerning macroeconomic stability, where Georgia ranked 130<sup>th</sup>.<sup>7</sup>

The nature of governmental economic policy was well expressed in the Economic Freedom Act initiated by the President in 2009. According to the legislative amendment made on its basis in 2010-2011, the ratio of the budget to GDP cannot be greater than 30% and the budget deficit ratio to GDP cannot be greater than 3% (Muskhelishvili 2011). The changes restricted state regulation of the economy and left critical sectors such as agriculture completely dependent on market mechanisms.

---

<sup>5</sup> <http://unctad.org>

<sup>6</sup> [http://www.geostat.ge/cms/site\\_images/files/georgian/bop/FDI\\_2011%20adjusted%20-%20GEO.pdf](http://www.geostat.ge/cms/site_images/files/georgian/bop/FDI_2011%20adjusted%20-%20GEO.pdf)

<sup>7</sup> [http://www.3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2010-11.pdf](http://www.3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf)

As a result of liberalization, policy barriers to the import of agricultural products were removed. Consequently, the volume of imported agrarian products in the country increased. The share of imported agricultural products in food consumed in Georgia amounted to two-thirds in 2010 (Archvadze, 2010), which was unfavorable for the development of local agricultural production.

Significant amounts were spent on development of regional infrastructure; roads were built, regions were connected to natural gas lines, and the power supply was improved. However, agrarian policy was not the subject of complex approaches and was limited to one-time, local interventions. This may be inferred from the amounts assigned to agriculture from the state budget. In 2011, the amount assigned to agriculture was 1.14% of budget expenses. In 2012, this indicator grew to 1.83%<sup>8</sup>, but such insignificant growth did not change the general picture. Almost no investments made into the country were directed at agriculture. For example, 457.8 million GEL was invested in the agrarian sector in 2010, which is 11.4% of the total investments made during the year. Only 1.9% of these were foreign direct investments<sup>9</sup>. The lack of interest from investors (particularly foreign investors) in the agrarian sector was obvious.

During this period, the productivity of rural areas continued to dwindle. In 2010, the agrarian sector produced added value of approximately 70 USA dollars per employed person, which was 7% less than the subsistence minimum of a working age man. Income from the sale of agrarian products was only 21% of the total monetary income of household economies. Only 28% of household agrarian output was turned into products, and the remaining 72% was consumed by the growers. Comparing these data to data from the 1980s, when 45% of the agrarian output of private units was turned into product, we will see how much the level of sales of household economy products has decreased (Archvadze, 2010). Accordingly, the proportion of agriculture in the gross national domestic product also dropped<sup>10</sup>. If we consider that almost 3/5 of the active population (1,944,900) live in rural areas<sup>11</sup>, it is clear that the situation in the agrarian sector is grave.

In 2004, the government implemented a number of legislative changes to improve the conditions of rural residents by liberating small peasant economic units from any liabilities to the state. If its annual turnover did not exceed 100,000 GEL (in 2010, this

---

<sup>8</sup> Calculated on the basis of Ministry of Finance data

<sup>9</sup> Calculated on the basis of data from the Department of Statistics of Georgia.

<sup>10</sup> 20.6% in 2000 (Revishvili 2011), 8.4% in 2009, 8.4% in 2010, 9.4% in 2011. Calculated on the basis of data from the Department of Statistics of Georgia.

<sup>11</sup> [www.geostat.ge](http://www.geostat.ge)

limit was increased to 200,000 GEL), the primary agricultural product was exempt from value-added and profits taxation.

This legislation brought mixed results; it weakened incentives for cooperation among peasants because enlarging economic units would increase transaction costs instead of reducing them. As for large enterprises, they received the opportunity to do a substantial part of their turnover “in shadow”, thus increasing profits. Because 80% of the agrarian sector is involved in subsistence farming (Gogokhia, 2011), a type of two-level economy emerged, which was a combination of formal (or half-formal) and shadow economies. On one side were large farms that act in the shadow economy and in the formal economy to increase profits. On the other side were small household economic units, which understandably preferred to stay informal. Although cooperation, enlargement and formalization of activities might improve their economic perspectives, the process involved more risk and responsibility. They might face the necessity of becoming part of a type of patron-client relations while dealing with business partners, banks and the state.

Of these two – large and small enterprises – the government sided with the large enterprises and, since 2010, has based its agrarian development policy on them. As opposed to the efforts of international organizations<sup>12</sup> that assist in creating agricultural cooperatives, the government chose to try to attract local and foreign investment in the agrarian sector through a massive privatization of land.

According to 2010 legislation, the standard starting sale price of state-owned agricultural land increased significantly, whereas the property tax for agricultural land increased under the new 2011 Tax Code, in some cases two or three times. Since 2011, the procedure for leasing state-owned land has been abolished. To keep land, the leaseholder had to pay 1,000 GEL for 1 hectare of land fit for privatization, apart from increased property tax. For many, this was enough reason to abandon their rented land and cease economic activities<sup>13</sup>.

These initiatives triggered conflicts concerning land ownership rights. Land that was frequently used by peasants – and which they considered to be their own – was handed over to an investor. The situation became particularly tense with land used by

---

<sup>12</sup> The EU Ambassador in Georgia, Per Eklund, wrote: “In my view, the disadvantage of having small, fragmented farms in Georgia can best be overcome by creating agricultural co-operatives and this is the fastest alternative too”.

[http://www.messenger.com.ge/issues/2227\\_november\\_3\\_2010/2227\\_eklund.html](http://www.messenger.com.ge/issues/2227_november_3_2010/2227_eklund.html)

<sup>13</sup> <http://www.aplr.org/?lang=geo&id=376>

villages, such as pastures or meadows. The village residents that depended on cattle for maintenance lost a vital resource.

Selling the land to investors was made easier because the land was controlled by the Ministry of Economics. Neither village nor municipality had any means to influence the process.

In 2012, future forms of village economies and the social and political organization of villages continue to remain unclear. Will household units continue growing poorer until they are pushed out from economic activities? Or will the human and agrarian resources of the villages become involved in effective production? The answers to these questions depend on what policy the state implements in the near future with respect to agricultural policies and establishment of self-governance.

## **Chapter 2. Social capital – Theoretical Vision**

As discussed in the previous chapter, rural areas failed to effectively develop those economic and political relations that would have promoted local development and prosperity in the near future. Rural communities should have consolidated their limited and dispersed economic and political resources to attain tangible results. New community organizations, cooperatives and nongovernmental or political associations should have been formed that could have contributed to revival of rural areas. It is noteworthy that there were certain attempts to consolidate resources by rural residents and through external assistance, although these endeavors were not successful. Thus, we ask the following question: What led to such an unsuccessful outcome?

The causes of the current state of affairs may be defined as purely economic or political. The model of market development that was introduced in Georgia has caused farmers' economic activities to be unprofitable, and the political system left rural areas without effective local self-governance, with no mechanisms to protect their rights and with few resources. Thus, the economic and political passiveness of individuals might be the consequence of purely rational considerations. Another explanation – dominant in historical institutional economics – posits that these individuals lacked the knowledge, skills and experience to function effectively in the new institutional environment; they lack individual capital, which accumulates throughout time. A third explanation is based on the concept of social capital. According to this approach, the reason for the failure lies with society itself, with the weaknesses of social structures or even their perversion. Strengthening this structure would have been the primary precondition for successful reforms. The objective of our study is an analysis utilizing the latter (third) approach.

### **2.1. Social Capital**

Social capital is a relatively new concept that has become popular in the social sciences in the last twenty years. Because of the novelty and complexity of its conceptualization, it has remained topical through the present, although its usefulness remains the subject of debate. Does the concept of social capital reflect the reality that has remained beyond the scope of attention of the researchers until now, or does it encompass events that may be described through application of more traditional notions?

Different authors offer different interpretations of social capital and its components. In the process of analysis of these phenomena, concepts such as interpersonal networks, trust, social norms and institutions are used. According to Putnam, “Social capital . . . refers to features of social organization, such as trust, norms and networks that can improve efficiency of society by facilitating cooperative action” (Putnam, 1994, p. 167).

This definition is useful for thinking about the issue of social capital because it touches upon the following important features of social capital:

- Social capital is a feature of society/unity and is not a feature of individuals, economic orders or formal institutions. Thus, it cannot be reduced to the characteristics of individual actors or a compendium of action strategies. It also cannot be seen as a side product of the functioning of formal rules that contribute to the formation of social systems.
- Social capital is a factor that promotes cooperation between individuals, although it is problematic to study social capital empirically by observing the intensity of cooperative action. Social capital is one of the factors, and not the only factor, that promotes cooperative action. The intensity of cooperation may depend on other factors as well, such as the economic capital of individuals. For a period of time, intense cooperative action may be ongoing even against the background of limited social capital, and vice versa – social capital may be available, although cooperative action may not occur for other reasons.
- Social capital is “capital”, the resource that increases the social, political and economic effectiveness of society; it is the resource that can obtain another type of resource, such as economic or political resources. This indicates that social capital is “capital” in the classical sense of the word. It can be included in the process of exchange and can result in increased accessibility of other resources or increased value added (Lin, 2004). Thus, the concept of social capital implies only such social resources that are involved in the process of “exchange”. Because it is capital, social capital is not reduced after deriving added value; on the contrary, it increases in value. If it appears that trust, networks and norms are not promoting added value and – in a certain respect – do not represent useful resources, labeling these components with the name social capital would not be proper.

According to Alex Inkeles, the assumption related to added value is the most notable topic related to social capital. Economic and political resources produced through social capital are the added values that make this concept so attractive:

"What makes the study of social capital compelling is the assumption of added value . . . it permits communities to do what they could not do [without social capital] . . . By contrast, studies focused on the individual generally say nothing about added value, and concentrate rather on competitive advantage in the gaining of shares from a fixed pie. They almost invariably deal with a win-lose situation" (Inkeles, 2000, p. 247).

It is noteworthy that, notwithstanding the positive context, the majority of researchers view the concept of social capital (strong social capital=effective society) as a means to acquire other resources of higher value (such as political or economic). In the hierarchy of values, social capital is placed at a somewhat lower level, whereas other and more desirable resources, whose accessibility should increase through social capital, are viewed as being on a higher level of this hierarchy.

Such a view is to a certain extent circumscribed because it implies a division of societal relations into two levels. The first is the lower level – comparatively free and “human” – that corresponds to social interrelationships in which individuals cooperate on a voluntary basis and accumulate social capital (similar to Habermas’s lifeworld, Habermas, 1985). The second level is the higher level – political and economic – that is strictly regulated by a formalized institutional order and characterized by competition and a fight for limited resources (Habermas’s system). Relations on the first level are a means to more successfully “penetrate” into the second level and simultaneously avoid being “colonized” by it.

Our study is based on a different vision in which social capital is a feature of a social order that weakens the hierarchy of values in society and promotes the generation of different resources and their circulation and exchange. In societies rich with social capital, economic, political and social resources are equally valuable elements of the consolidated system. Forming, maintaining and reciprocating the exchange of these elements is possible in such a society.

To ensure stable and effective functioning of societies rich with social capital, excessive mechanisms of compulsion (police, judiciary) are not required; such society can be viewed not as the process of top-down management, but as the process of bottom-up development.

Such societies create political and economic hierarchy within themselves, although such hierarchy is based on legitimation instead of policing. To use the terminology of John Rawls, such society is a “well-ordered society” (Rawls, 2005). In the well-ordered society, rational individuals can have their free choice and arrive at decisions independently in a manner such that existing social structure shall be maintained and

chaos shall not follow. Applying rational choice terminology, one can say that social capital provides those minimal requirements that allow the paradox described by Kenneth Arrow in his impossibility theorem (Arrow, 1951) to be overcome.

Because the approaches and methods of studying social capital are numerous, we will draw parallels to other approaches that contain similar visions to those of our study instead of providing an overview of the literature available on this topic. Because the model applied in this research is based on a new institutionalism and social choice theory, we should clearly delineate concepts such as social capital, institutions and social cooperation.

***1. Social capital strengthens the institutional arrangement of society and is the feature of the social order that ensures cohesion among different institutions and their functioning as a unified system.***

The concept of institutions has expanded so much over the past several decades that the demarcation line between the institutional and structural organization of a society has become blurred. According to Douglas North, institutions may be formal or informal, encompassing "Formal rules, written laws, formal social conventions, informal norms of behavior, and shared beliefs about the world, as well as the means of enforcement" (North 2009, p.15).

If we view institutions from the vantage point of the above interpretation, then all the elements of social capital referred to in Putnam's interpretation, i.e., trust, norms and networks, may be perceived as components of institutions. Thus, the question arises as to whether social capital may be interpreted as an informal institutional order, i.e., a certain variety of institutions.

Social capital may indeed strengthen certain norms or behavioral patterns, but it is also an instrument that establishes links between institutions, uniting them into a cohesive system. Institutions, which are interpreted as the rules of the game, direct the cooperation of individuals in situations relevant to these institutions; however, the set of institutions does not comprise society. Society is formed by establishing links between these institutions. At this final (or initial) stage, social capital becomes more clearly demarcated. The role of social capital is important when the "rules of the game" (institutions) either are not clear or allow for freedom of choice with respect to the pattern of behavior. In such situations, individuals are driven to action by their rational interests and by their expectations about the behavior of other individuals and whether such individuals will be trustworthy, loyal or cooperative. These perceptions provide for the unification of diverse institutional elements and their functioning within one system.

In a structurally differentiated society, institutions may be social, economic or political. Social capital promotes the strengthening of the social, political and economic resources that are produced by these institutions and assists with merging them into non-hierarchical, sustainable and effective systems. It should be noted that each of the above-referenced spheres (economy, politics and society) is formed from resources of a different type, such as capital, market and public goods in economy. On the micro-level of social relations, social capital is of crucial importance in the processes of merging, unifying and fostering the interaction of these resources. Thus, social capital may assist with the collection of money for the rehabilitation of rural roads (private resources transforming into public good), or harvests may be sold collectively (combining private and group interests). Thus, social capital enhances the formation of different types of properties and provides an opportunity for their nonhierarchical integration.

Differences between institutions and social capital may also be seen in differences in the level of enforcement necessary to maintain social order. Institutions, whether formal or informal, may exist against the will of individuals and may be maintained by enforcing sanctions. When social capital is strong in society, sanctions are less important in maintaining social relations. Thus, in the ideal society, adherence to rules and norms is ensured through the power of social capital as opposed to being enforced through coercion.

To differentiate between the concepts of social institutions and social capital, we will assume that institutional norms are established forms and rules of cooperation, the violation of which is subject to relevant sanctions. Such sanctions may be imposed by an external actor, such as the state or society, that restricts and eliminates inadequate behavior informally, or certain behavior may be prevented because it is unacceptable for a partner.

As opposed to institutions, social capital enhances the regulation of behavior of rational actors in an environment offering choices between several patterns of behavior. This choice is not reduced to the dilemma of adherence or non-adherence to the institutional norms. Furthermore, the existence of sanctions may or may not be implied (for example, joining a cooperative or refusing to join). In such an environment, the expectations of actors with respect to the consequences of certain decisions largely depend on the elements of which the social capital is comprised, such as trust.

The decisions by individuals who have a choice, such as whether to participate or not participate in certain non-compulsory relations, determine the outflow and inflow of

resources between different institutions. At the end of the day, an equilibrium is established between these resources that determines their comparative value in the eyes of society. In this process, social capital may strengthen institutions of one type and weaken others.

***2. Not all types of social resources belong to social capital; there are situations in which institutions restrict social resources from turning into social capital.***

As discussed above, in certain situations, social relations, which are a resource of society, may not become “capital” – the resource may not be convertible into the economic or political success of the society. Such a situation may occur when institutions are established from “top to bottom”, i.e., not in accordance with the vector of social relations, but in the opposite direction. Thus, the difference between social resources and social capital resembles the difference between economic resources and capital, as described by Hernando de Soto.

In his book “The Mystery of Capital”, Hernando de Soto insisted that developing countries differ from developed countries not by a lack of economic resources, but by an inability to produce capital, “...the major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to produce capital”. (de Soto, 2000, page 5). The material resources of developing countries do not transform into capital and do not participate in the formation of new wealth. Poor countries are poor not because they do not have wealth but because this wealth is not involved in economic transactions.

De Soto’s idea regarding material resources may also be extended into the sphere of social relations. Social cohesion in poor countries may promote the establishment of a rich social life, but this social life may have little political or economic representation in the institutional environment. It cannot bring dividends to social strata and cannot thrive on economic and political success. It is not social capital.

It is important that we differentiate between the concepts of resources and capital. Resources, whether economic, social or political, can be assessed by their volume. For each individual, it is rationally attractive to possess more resources. Society can be characterized as poor or rich, judging by a resource of the specific type in the same manner as specific social groups or individuals may be judged. However, not all resources may be called “capital”. Economic, political and social resources may be referred to as capital only if there is a process of “exchange” occurring with them.

Such a state of affairs, when institutions and social relations operate in opposite directions, may be accessed from a different standpoint as well. Society may have social capital that weakens the effectiveness of institutions that are established from “top to bottom”, restricting their penetration into the space of informal social relations.

According to the observation of certain authors, tight social networks and coherent society is not an absolute precondition for the development of society. According to such critics, a united society may block innovation and oppose reforms that would be beneficial for it.

Researchers sometimes focus on the negative forms of social capital (Warren, 2008, page 144). Tightly knit social groups may successfully accumulate political and economic resources, but this may occur at the expense of the rest of the society. Consequently, the relation between rich social capital and other spheres of public life is not so simple. For example, “bad social capital” creates the mutual trust that is necessary for the functioning of mafia groups. Informal groups such as the Medellin cartel or corrupt political clans are interlinked through tight social connections, although their functioning benefits only the members of these groups. This has a negative impact on society, outside of these groups. Thus, such social capital (if we may call it social capital) has negative externalities. In the same manner as investment of economic capital may be beneficial for the investor but bad for competitors, investments in social capital may have positive outcomes for an individual but not for society at large.

Social capital that operates against institutions may be referred to as “negative solidarity”, as often it is targeted at overcoming external domination. Patterns of social relations may be formed in response to decades of domination by undemocratic and inhuman regimes. In such cases, social capital may even cause revolutionary changes in institutions through “negative mobilization”.

***3. In unfavorable institutional environments, social capital may exist in the bottom part of the “hourglass”; in such cases, social capital should not be mistaken with mere social resources, although its effective functioning is restricted.***

Social capital, on the one hand, and formal institutions, on the other, may remain in a balance of power and divide “spheres of influence”. In such cases, social order assumes an hourglass shape and becomes a two-level order.

As an example, Richard Rose used the two-level model to describe post-soviet society. In 1995, he compared the structure of Russian society to an hourglass. In the lower and upper parts of the hourglass, social life was unfolding and developing actively, but they were separated from each other by the narrow neck (Rose, 1995). Vertical division into the majority of society and the elite of power holders has existed beginning with the soviet past, which contributed to separation and confrontation between these two layers.

In such a society, social capital survives by hiding from the public sphere in the bottom of the hourglass, under the neck and in the “shadow”. Sometimes such a state of affairs is mistaken as weakness of social capital and the atomization of society.

Robert Putnam has linked the concepts of social capital and civic community. Social capital, according to Putnam, refers to a certain type of civic society, the community, in which the social involvement of citizens is directed towards increasing the political resources of the society. Lack of social capital is linked with excessive clientelism, corruption, and actions focused on gaining individual benefits, in addition to an inability to create public goods (Putnam, 1994).

The opposite of civic community is a society of so called “immoral familism”. This type of society is characterized by a specific structure in which the space of individual responsibility is narrowed and extended only to a small circle of families, relatives and close friends. Such a structure impedes the formation of civic society.

Edward Banfield considers that the backwardness of a given society may be partially attributed to the inability of community members to act jointly to attain common goals that extend beyond the near term or the material interests of a specific family (Banfield, 1958). People view each other with suspicion and mistrust and protect their familial interests at the expense of societal interests. They believe that promotion and success of their neighbor may mean their own failure. Citizens view their communities as battlefields.

Such close merging of social capital with civic community prevents us from realizing that social capital can exist in society and remain unable to reach the upper part of the hourglass. In such cases, because of its weak public manifestation, social capital is not easily seen. Such merging does not fully consider that there may be non-civic social capital in society. It may successfully bond the community and fulfill the role of capital at the community level but not be capable of attracting economic and political resources from beyond the community. It is critical to distinguish this state of affairs from an atomized society in which social capital is non-existent.

Apart from confronting social institutions, social capital may find its way to the bottom part of the hourglass because it lacks the resources and communication capability to enable it to operate on the level of society at large – close social linkages may represent “capital” only within the boundaries to which a given segment of society extends. In this case, social capital may not be convertible into those economic and political resources that are under the control of the broader public.

Thus, when describing the notion of social capital, more than one parameter should be considered. As opposed to economic capital – which flows unimpeded from one location to another in the modern world – social capital is tied to the unity of people who are in structural communication with each other. Consequently, when we consider a segment of society – such as rural communities – it is important that we view social capital within the limits of communication in this segment; we should not extrapolate the view to society as a whole. Thus, in this case, we should distinguish between those political and economic resources that may be affected by the social capital of rural communities and those that exist beyond the scope of influence of rural communities. For example, the national parliament and market prices are resources that are not substantially affected by the social capital of an individual village. This characteristic of social capital is also important to understanding the two-level model.

## ***2.2. Theoretical Model of Social Capital***

When society is well ordered, social capital is not part of the institutional order but is a means of strengthening and solidifying this order. In a poorly organized social system, formal institutions and social capital may conflict with one another.

Social capital fosters the creation and procurement of different resources and encourages the non-hierarchical and unforced co-existence of different types of resources.

Social capital may function beyond the “narrow neck” of the hourglass in a manner that may give the impression that society has poor social capital.

Studying social capital in Georgian rural communities thus requires an analysis of the entire complex of social relations. We have created a model to help analyze this complex and multi-factored system, which has the following units: a) resources; b) patterns of cooperation; and c) attitudes. Each of these units is composed of three elements that may be regarded as the Weberian ideal types.

## A. Resources

The classification of resources into the three ideal types necessary for the model was based on a typology of property rights that utilizes the findings of Elinor Ostrom. According to Ostrom, a perfect system of economic institutions in a community implies the existence of a complex compendium of the following three types of property: private, state and common. (Ostrom, 2007). These types of property are understood in the broad sense. For example, land that is managed collectively by a village may also be owned by the state; in such a case, arriving at common decisions is an example of a type of community property relations.

The model differentiates the following three ideal types of resources that correspond to the forms of property: private, group (collective) and common.

***Private resources*** are resources that include the private property, individual wealth and social or political influence or power possessed by a person. The simplest form of this private resource is private property.

***Group resource*** is a common (joint) appropriation of a resource by a specific group of people. Only members of the group have the sole right to use the resource, which is not accessible to non-members. A group resource is exhaustible – if a group is entitled to more resources, fewer resources are left for others. Thus, such a group may be referred to as exclusive, following Mancur Olson (Olson, 1971). For example, a trading place in which villagers sell churchkelas (Georgian sweets) or matsoni (yogurt) may be a group resource. When the number of buyers is fixed, if one villager sells more product, fewer products will be sold by others.

***Common resource or public good*** is a resource that is equally accessible to all. Common resources, as opposed to group resources, are not exhaustible. They exist for everyone or nobody. Examples of common resources are a church or a road leading to a village.

## B. Models of cooperation

The following three types of cooperation correspond to the three types of resources: network, group and communal.

***Network relations (cooperation)***. Network exchange relations are designated for establishing linkages between individuals with private interests with the intention

of satisfying such interests. These relations are the sum of paired interactions with the features of a social network.

***Group cooperation.*** Individuals who have group interests and who are oriented towards creation of group resources – and who derive benefits from such resources – must agree on rules about accumulating their resources and sharing of benefits. They must reach general agreement concerning the criteria of judgments that avoid potential conflicts and delegate power to a leader who will manage joint property.

***Communal cooperation.*** Individuals who are oriented towards the creation and maintenance of public goods also must reach an agreement with respect to aggregation of the individual resources that will be used in the formation of common wealth and benefits. As opposed to group cooperation, this does not imply the sharing of the goods. Thus, this type of cooperative behavior is rationally inclusive and targeted at the creation of broad coalition.

### C. Attitudes

Each type of resource corresponds to a specific attitude that is related to the category of trust. In all three cases, the intensity of cooperation depends on the level of trust between the individuals involved; however, trust is of a different nature in the three cases.

It should be noted that an important element in theorizing about social capital is realizing that trust might be of different types. According to Seligman, different types of trust emerge from different social traditions (Seligman, 1997). In addition, trust may be situational – individuals may cooperate well in one situation and be mistrustful in another (Hardin, 2004).

Because different terminology is used in the literature with respect to different types of trust (such as interpersonal trust, preconditioned trust, or systemic trust), we should define certain terms to be used within the framework of our research.

Our model links types of trust with specific contexts of cooperation in which a certain type of resource requires corresponding types of cooperation. In turn, certain types of cooperation rely on certain dispositions, which may be the most determinative factors for the behavioral pattern of individuals.

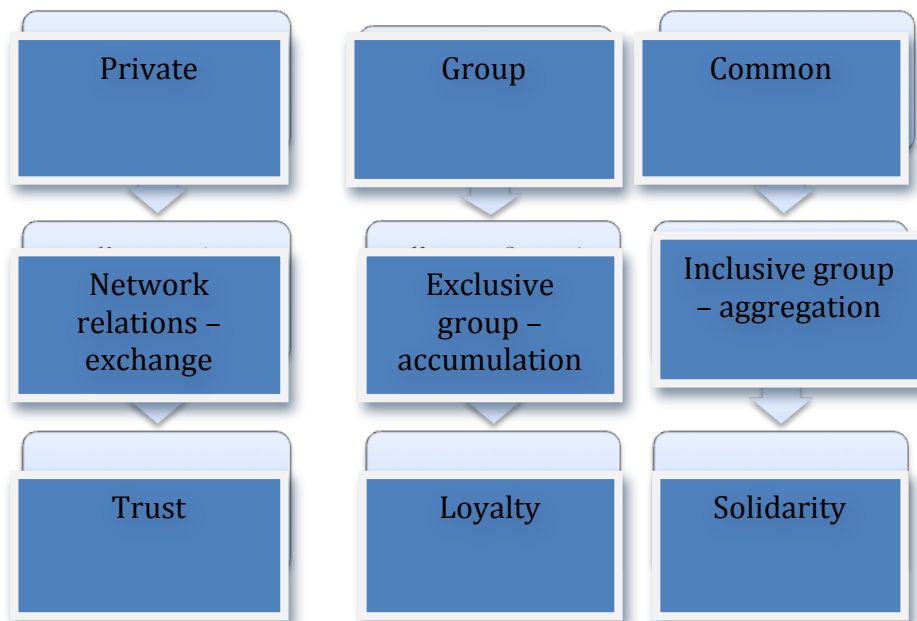
***Trust*** is the belief that most persons are committed to fulfilling their obligations towards one another. Trust simplifies interpersonal relations that are directed at satisfying private interests.

***Solidarity*** is the belief that cooperation has added value and is not a zero-sum game. Solidarity is necessary in the process of the creation of common goods.

***Loyalty*** is the belief that most partners are like me, share my interests, and therefore will reach an agreement and mutual understanding. Loyalty provides the opportunity for the satisfaction of group interests.

Consequently, three models of cooperation have been identified that are composed of the following three elements: resources, patterns of cooperation and attitudes.

**Diagram 1.**



The triad provided in each column requires all three elements to function efficiently. These elements may be formed through sanctions; thus, in the first column, the police and judiciary may ensure protection of private ownership and adherence to contracts so that the environment is reliable for network-type economic exchanges. In this case, trust is the result of the strong institution of private property. Conversely, sanctions may be minimal and the reliability of individuals participating in the relations may be strong. In this case, social capital is strong and is the reason for the security of the institution of private property instead of being the result of such institution.

As discussed above, social capital serves as the basis for the non-violent functioning and institutional formation of relevant resources and promotes the establishment of linkages between these institutions, which ensures the exchange of resources. Social capital bonds the cooperation and resources depicted in the three columns into one social order if the cyclicity of these elements is ensured.

Cyclicity means that each attitude – trust, solidarity and loyalty – promotes the sustainability of the corresponding resource as well as forms (or is based on) perceptions regarding the compatibility of the two other resources.

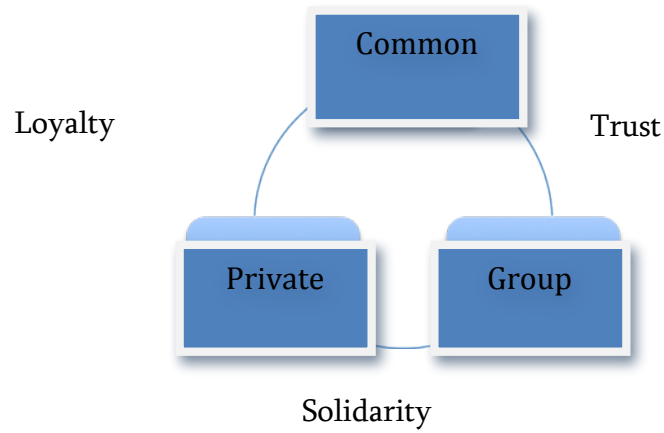
Trust – the belief that most persons are committed to fulfilling obligations to others – is expressed in the process of network relations and indicates that common norms (which are mandatory for all) are compatible with group interests (the opinion of the group, group identity). There are no large groups in the society that would undermine the established order. Thus, the rights of an individual are ensured in the acknowledgement of existing rules by the majority. In conditions of weak trust, belonging to a group (i.e., the creation of a unit) that is similar to a “mafia” might be a better guarantee of the protection of individual interests.

Solidarity – the belief that cooperation has added value and is not zero-sum – expressed in the group behavior indicates that aggregation of private interests and their individual satisfaction are compatible. Cooperation – the formation of groups – to accumulate public goods is in the interests of the majority and of each individual. The more solidarity there is, the more individual interests are met by creating public goods and, consequently, the more private resources will be channeled towards their production.

Loyalty – the belief that most partners are like me and will therefore reach agreement and mutual understanding – is also expressed through group actions that may be narrow or broad. Broad loyalty indicates that society is homogeneous and weakly structured, that private and common interests and values are matching, and that groups may easily be composed of any individuals. In conditions of narrow loyalty, there are tendencies for more polarization and private interests are distanced from public goods.

Thus, certain “cyclical” links between the elements of social capital can be traced, and the “rate” of exchange between any pair of resources is determined by the attitude that is relevant to the resource of the third type.

**Diagram 2.**



According to this model, social capital is the ability of society to establish cyclical linkages between private, collective (group) and common resources so that they “resonate” with each other. In this manner, social capital promotes the flow, exchange and sharing of different types of resources within a structurally differentiated society – the process that allows for the non-hierarchical co-existence of these resources within society that are integrated in an unforced manner.

The pattern of social capital that is specific to a given society or segment of a given society predetermines the motivation of an individual to act in the interests of another person, specific group of persons or society at large without this action conflicting with his personal interests or values.

The application of this model helps to empirically identify rural social capital in different types of group behaviors that intend to serve private, group and common interests. The three examples provided below offer insights into the existing forms of such cooperation.

### 1. Nadi (Reciprocation)

"Today I shall help you in harvesting, tomorrow you help me" – this principle is the touchstone of relations and practices available in villages. Mutual assistance, lotteries, collection of money for weddings and funerals, and other similar practices help persons to insure their risks. In a given situation, individual behavior is strengthened by the belief that a person will receive as much as he gives out. Individual resources invested in these relations circulate primarily within the boundaries of the village.

## 2. Building of a Church

A village had no church. The residents collected money to build a church and also contributed free labor. Whoever could afford to contribute more resources, did so (including migrants who return to the village periodically); others contributed symbolic amounts but worked for no remuneration in building the church. By aggregating individual resources, the village created a public good – a church that any member of the community can use. The common good was created by aggregating individual resources under the principle of proportionality; people contributed what they could afford.

## 3. Joint cultivation of land

Several farmers teamed up and cultivated land together to sell their harvest on the market. They invested individual resources – land, machinery and money – and worked together. The harvest was sold together and the profit shared among them. The sustainability of this practice depends on adherence to the principle of fairness in which each should receive as much as he or she contributed, and nobody attempts to usurp the decision-making process. This is a common, universal and normative principle, i.e., it has common value.

In the cases discussed above, successful cooperation depended on the following three factors: a rational estimation (that there are sufficient resources to build a church, cooperative behavior will generate profit, and reciprocation shall ensue) that it shall be difficult for the individual to cope in the future; a common attitude towards resources that is supported by all (e.g., the majority shall try to contribute, other members of the cooperative unit support the idea of the fair distribution of benefits, and my efforts shall be requited); and availability of social capital. When all three factors resonate with each other, cooperation occurs. If one of the components is missing, cooperation does not occur. Consequently, the success of the endeavor depends on three components – social capital, economic capital and “political” rights – that emerge from the rules of cooperation.

### ***2.3 Empirical research***

Applying the model empirically means observing the availability of private, group and common property (resources), in addition to their institutionalization, exchange and compatibility.

Our study was planned and implemented as a combination of institutional analysis and qualitative and quantitative (survey) sociological research.

At the first stage of our research – the qualitative stage – we conducted semi-structured interviews with local representatives of international donor organizations. Organizations were selected that encompassed the following: community-based organizations, agricultural producer associations, and agricultural producer cooperatives.

In addition, the research team conducted studies of focus groups composed of residents of villages and semi-structured interviews with the local residents and administration (rtsmunebuli – representative of local self-governance). Focus group studies were also conducted with groups of rural inhabitants with whom international organizations have previously worked.

Based on the results of our qualitative research, we selected 20 villages for the quantitative survey that varied by those criteria that our qualitative study showed affected the structure of social relations in rural communities. These parameters include the following: the region of Georgia, ethnic composition of villages, type of settlement (large settlements located close to the highway or smaller settlements located far from the highway), and villages that have had or have not had experience with international organizations. From each village, we selected 30 respondents. Respondents were selected on a quota basis from each village to ensure that diverse age and social structure groups would be represented. Thus, the principle of randomization is not strictly adhered to because of the purposes of the survey in the overall design of the study. The purpose of the survey is to reveal correlations between different factors in rural communities rather than collecting and analyzing representative data collected throughout the territory of Georgia.

After completion of the survey, we conducted several focus groups to further explain certain data obtained in the surveys.

## Chapter 3. Village Resources and Forms of Cooperation

This chapter provides an overview of village resources and those forms of informal cooperation that exist in villages. Based on our theoretical model, empirical material is classified into the following three sections: private resources, group resources and public resources. We describe the economic life of rural communities, their forms of economic cooperation, norms, and community lands and resources on which the welfare of the community depends.

### 3.1. Private Resources, Network Relations and Exchange

The smallest unit in the rural economy is a household. Typically, Georgian households are small and poor, and their property is the main source of their income; institutionally well established property mostly consists of the house and the land plot around it. Often, however, the land plots were obtained as the result of privatization, are located far from the house and remain uncultivated. Although title to land is fully formalized, banks do not consider the land for purposes of collateral because of its low liquidity. However, land plots are sometimes sold or leased to neighbors.

The informal practice of land ownership that was firmly established in the last years of soviet rule played an important role in the institutionalization of landed private property.

Historical memory related to the time before forced collectivization generally did not play a crucial role in this process. However, these types of memories are retained in mountainous villages. In such villages, people still remember pastures, hay lands and croplands that their ancestors left to families, and these factors can be decisive in determining the rules of land use. Thus, forest usage in certain Svanetian villages is still based on this historical memory, and each family knows within which forest blocks they may collect firewood.

Title to land that was granted during the first wave of privatization is not disputed, and there is practically no remaining litigation related to land plot borders. Conversely, contradictions between informal and formal land use and alienation rules are pronounced. Although the formal legislative framework does not provide for any restrictions and obligations with respect to land ownership, on the community level there are informal norms that define certain commitments and obligations.

Thus, 57.2% of respondents from 20 villages stated that there are “unwritten rules” in villages that require the seller of a house or land plot to first offer it to his neighbor.<sup>14</sup>

A segment of the respondents believe that there are certain traditions and rules governing property disputes and conflicts related to returning borrowed money, compensation of losses for damaged crops, responsibility related to damage caused as a result of uncultivated land, loss of a cow from a herd, etc.

However, only one-fifth of the respondents referred to the existence of these unwritten rules that manage such situations. Consequently, these informal mechanisms of settling ownership-related disputes are weak.<sup>15</sup> Formal rules regulating such matters play a more important role. Thus, 52.3% of the respondents believe that the correct behavior for addressing the theft of property from their fellow villagers would be to report it to law enforcement bodies, 28.7% stated that they would personally challenge the thief and require the return of the property to its legitimate owner, and just 5% stated that such situations justify applying for assistance from “persons with (informal) authority”.

Market-type relations between fellow villagers are limited because they try to avoid “making money” at the expense of one another – a veterinarian, for example, may offer consultations free of charge – although they freely establish such relations beyond their villages. Household land plots and cows are the main source of the supply of food for the household. Part of the product is sold on the market, beyond the territory of villages, by bartering or selling to wholesalers. This produce is either surplus, taken from the household consumption, or grown and harvested specifically for sale.

It should be noted that the residents of villages cooperate (reciprocate) in the process of harvesting. Such cooperation is a well-established and widespread practice.

---

<sup>14</sup> Data provided in percentages throughout the research reflect the state of affairs in the 20 villages selected as a sample and in which interviews were conducted. As the sampling is not representative, quantitative data reflected in this chapter should be understood as data reflecting trends and cannot be extrapolated to the entire country.

<sup>15</sup> “We are believers, so we may apply traditional judgement instead of applying to a court. The traditional ritual of judgement is the following: in case some crime was committed, the damaged party may not go to police, but he may apply to two wise men, and the situation is considered in front of the church. This is dispute settlement through the traditional mechanisms of mediation, and the person swears in front of the church” (resident of a village in Svaneti).

The practice of such collective work can be observed in all parts of Georgia. Thus, in Kakheti, groups of neighbors may cultivate each other's plots in rotation. According to respondents, such practice makes the work more interesting and enjoyable, and productivity increases as a result, which allows for better and more effective use of time in the periods during which agricultural activities intensify.

This type of cooperation is based on the principle of parity (equivalence). The physical labor of a neighbor invested into another's plot should be returned to him when he needs assistance.

The obligations of this type of cooperation (reciprocation) are taken seriously by participants. If a participant cannot fulfill this obligation, he pays for labor to replace him.

Reciprocation has the structure of a network, and such network relations are important for pooling individual risk. Some forms of such cooperation are traditional and well established, whereas others are relatively new.

The "unwritten rules" that relate to rendering assistance and support to fellow villagers who are in need are strong. In our study, 76.5% of the respondents stated that it is an unwritten rule that, if a household member dies, fellow villagers help the family with so-called "funeral money", and this rule is respected by all. Every other respondent considers that collecting money for fellow villagers who are in need is an unwritten rule to which almost everyone adheres.

The tradition of bringing money to a household that has suffered the death of one of its members is so strong that it is reflected in everyday expressions. Thus, in describing extreme poverty, the expression is "he was so poor that he did not even have money to take to somebody's funeral". When people cannot donate funeral money, they often refrain from offering condolences to the family or attending the funeral.

Bringing money to each other is a process that is similar to undertaking financial obligations (crediting); violating rules related to such processes is considered shameful.

Collecting money in the village when accidents occur or unexpected diseases surface is also a practice that is widespread, although it is viewed as less obligatory. Additionally, we found out that people organize lotteries in many villages. Such practice was popular during the soviet period, although later it became obsolete when the majority of the population no longer had regular income. Lately, with recent

increases in pensions, a segment of the population has a small but regular income, and the practice of lotteries has revived. The main participants in lotteries are those who have regular income in the form of salaries or pensions. In the villages, there are different groups that organize lotteries.

In our survey, the majority of the residents (60.8%) respect informal normative rules and consider the general opinion of village residents. People believe that it would be difficult to live in a village if they go against the will or the perceived will of a majority of their fellow villagers. However, one-quarter of the respondents believe that “moral individualism” does not cause problems in rural communities and that people are not required to consider the opinion of village residents, acting as they deem expedient.

Villages cannot and do not attempt to enforce adherence to an informal social order through repression. Villages are tolerant of those who violate “unwritten rules”. A majority of respondents (73%) believe that a village does not have a clearly defined attitude towards such people and that less focus is placed on such behavior. Only one-fifth of the respondents believed that the village was strict with them.

The structure of village life is most affected by informational exchange practices. Information in villages spreads quickly because village dwellers habitually share news with their neighbors. The main locations for exchanging information are the so-called “birja” (places of gathering of villagers), which play a particularly important social role in the densely populated villages of Eastern Georgia.

“Birja” is a form of social gathering at a public square, crossroad, water spring, etc., where people stand, talk, (sometimes) have fun and drink. There may be several such gathering places in a village, and different social groups gather at such places (such as the unemployed and the young). Women do not typically go to such places where they would stand next to men and talk. They prefer to sit in front of their homes or visit one another to discuss matters.

At such public gathering places, information is exchanged and debates and discussions transpire about many issues, such as village matters and political issues.

“Birja is the parliament of a village. We meet and talk about different matters” (resident of a village in Kakheti).

Cooperation through the exchange of information is an important component of cooperation between village dwellers. People exchange information regarding such matters as prices, markets, technologies, employment opportunities and labor

migration. “If somebody finds out that some wine factory purchases grapes at a higher price, he tries to tell this to his fellow villagers so that others make money too”. (Resident of a village in Kakheti).

As with networking, group work, such as taking livestock to pastures in turns or collecting money to hire a herdsman, is another form of cooperation. This practice is widespread in Georgia, and there are some unwritten rules and traditions that regulate this sphere that nobody violates.

As a form of collective economic activity, the successful practice of managing community herds is better represented in Eastern Georgia. In Western Georgia, many villages do not have pastures to take their herds to for grazing.

Pastures are the only de-facto collective resource that villages own. In some cases, village residents must rent pastures collectively to avoid their privatization or their sale to investors. In such cases, a village selects one representative who legalizes the title in his name; the community contributes to pay the annual fees, and the village uses the pastures collectively. With such a practice, difficulties often emerge in collecting payments that are typically caused by the poverty of villagers. These problems also result from the challenging nature of understanding that a resource is subject to collective ownership and because the informal institutions necessary for effective regulation are weak.

In describing the practice of the joint utilization of pastures, an additional important feature should be noted. In accordance with the existing normative order, the poorest residents of the village do not participate in the process of economic cooperation. Thus, if someone cannot afford to pay the cost of a herdsman, his cow will not be allowed to graze in the pastures of the village. The village does not have the mechanism of inclusion of the poorest part of its inhabitants in its process of cooperation. The mechanism of solidarity of the village with respect to the neediest of its residents is limited to direct charity. Likewise, village pastures also cannot be used by rich farmers who have many cows; their farms have their own lands to use as pastures.

### **3.2. Economic Cooperation, Accumulation of Resources**

As opposed to private property, collective (group) resources (property) are less institutionalized at the village level and do not play a significant role. Group membership does not have clearly outlined institutional boundaries; it is variable and

interlinked through networks. Large villages are divided into districts, which is particularly true in Kakheti, and relatives often live in one of such districts.

Villages are integrated by their social structures. “Segregation” of village residents by certain features does not occur. In the villages researched in our study, social distancing related to ethnic or religious grouping was not observed.<sup>16</sup> However, it should also be noted that attitudes towards religious sects are slightly different. Representatives of religious sects, such as Jehovah's Witnesses, were the most estranged group in the villages we surveyed.

Although the relatively rich and the poor are represented in the villages (as 32.7% of the respondents indicate), this economic inequality is not the source of segregation. When asked about social distance between the rich and the poor, only 2.8% of those surveyed believed it to exist. Apparently, relations between different age groups, groups of relatives and historical residents and newly settled households are also not contentious.

Despite this structural homogeneity, certain elements of social hierarchy remain evident that have economic, political and social characteristics.

Villages have an “upper layer” that is composed of more respected persons who have authority and therefore more influence (informal) on village life. The elite is referred to by a variety of terms (village intelligentsia, aqsaqals, persons of position, etc.). Having an official position is not a precondition for being included in this elite – in fact, there may be an inverse trend, if anything. In the opinion of village dwellers, education and integrity is more important than wealth and position for becoming respected and acquiring authority.

The tradition of institutionalizing an authoritative village elite is retained more often in Azerbaijani and Kist villages<sup>17</sup>. Azerbaijani villages have the traditional institution of Aqsaqals. Although these institutions cannot be viewed as a parallel system to existing judiciary system, they do represent a link between the village and official

---

<sup>16</sup> However, it should be noted that our sample did not contain villages that were separated by ethnic or religious belonging.

<sup>17</sup> Elements of traditional normative systems that are characteristic of premodern societies, which substitute for the judiciary system under certain conditions – such as the institution of the “mamasakhlisi” or head of the village – are mainly retained only in high mountainous villages.

authorities. In certain villages, every 2-3 years, several aqsaqals are elected; the village transfers power to them to make decisions about matters important for the community's life and grants them the power to communicate with the authorities on behalf of the village. In other villages, aqsaqals are not elected and their status is more nominal than functional.

Village elites have a functional role, at least to a certain extent, by acting as mediators for conflicts and in the settling of disputes.

Notwithstanding the existence of the informal elite, persons of position (public officials) have more power and real influence on the life and resources of the village; all matters outside the scope of village life are regulated by them.

Despite differences in status, vertical segregation in the social structure of villages is expressed not as much in social distance but as a two-level discourse.

If one uses the metaphor of a half-full or a half-empty glass, then we can presume that a conversation with the village *rtsmunebuli* about the state of affairs in a particular village will leave an impression of a half-full glass, whereas conversations at the village *birja* would give an impression of a glass that is half-empty. This situation ensues from the soviet heritage – the discrepancy between public and non-public discourses. The official, public space is designated for positive evaluation, for governmental propaganda, whereas private conversations and lobby interviews reflect critical dispositions. The village *birja* is part of the private space, whereas the village *rtsmunebuli* carries the official discourse.

Close links with the authorities, access to employment, opportunity to participate in corrupt dealings and other forms of obtaining “privileges” put certain individuals in more advantageous positions than others. In certain villages, the negative conception of the more privileged minority is acute. The poor residents believe themselves to be disadvantaged and devoid of rights. Depriving certain rights has political implications and is facilitated by the objective institutional weaknesses of democratic rights.

Although we can observe inequality in the villages related to status, position and economic standing, villages are still not segregated into strata in which people are able to cooperate only within certain groups. Collective and group interests play a limited role in village life; consequently, the presence of institutionalized group ownership is essentially non-existent in Georgian villages.

From time to time, we come across informal economic associations in villages that are initiated from below. For example, several village dwellers might unite and aggregate

their resources – labor, land, machinery and financial resources – to initiate a joint business. As a rule, such cooperatives are small (3-7 members) and are composed of friends and relatives and are not particularly sustainable; they typically dissolve after one or two harvests. More sustainable cooperatives are rare. Often, these cooperatives do not fail because of poor internal management but because they are simply not profitable. There are also internal relations challenges within such cooperatives because it is difficult to reach agreements within such associations, particularly with respect to sharing profits.

From time to time, cooperatives and associations are established in villages upon the initiatives of external actors. As a rule, such cooperatives are supported by provision of relevant resources to them, such as small grants or high-quality seeding materials. Such cooperatives are not particularly sustainable, often dissolving upon the expiration of the provided resource.

In Georgian villages, the most widespread form of non-economic informal association is the congregation. Formal associations arise only to attract external resources, such as grants. In such cases, the associations are formalized (legalized), although there are few formal associations in rural communities. The gap between the state and the household, which is filled in western states by civil society organizations, remains unfilled in Georgian villages. Thus, only 33.8% of our respondents confirm that there are parent-teacher associations in villages, which is particularly surprising because public authorities have focused on establishing supervisory boards in schools for several years.

### **3.3. Public Goods – Aggregation of Resources**

Because the assets of soviet kolkhozes were not transformed into the common property of the community during the initial stages of the post-soviet transformation, current legislation does not contain the concept of community property, and villages do not possess any common resource. Historical memory, retained in the present with respect to land and used by villages during the soviet period, determines certain formal and informal boundaries of the villages. However, it should be noted that informal rules related to common ownership extend only to pastures, if a village has access to such land.

In the process of the post-soviet reforms, it was implied that the state would “shrink” and relinquish control over all the spheres of life that it previously controlled and that the gap between the state and household would be occupied by local bodies of governance. Villages, i.e., communities, would have the authority to settle most problems that did not belong to the sphere of the state or of the private sector.

The institutional structure discussed above was not successfully implemented, as observation of any village will show and our interviews of local residents confirmed. It is clear that the responsibility of a household extends only to its own yard. Whatever is beyond its gate belongs to “nobody” instead of collectively to the community. One-time efforts with a narrow focus, such as rehabilitating a road or building a pavilion for a more comfortable “Birja”, do not substantially alter this situation.

The fact that villages are currently “ownerless” is expressed in the unavailability of decision-making institutions in rural communities. There is no formal or informal system that can create democratic institutions of governance of either a direct, a representational, or even an elite governance type. Decisions related to villages are made by the regional bodies of governance or by local governors.

In the villages, there are neither buildings designated for general meetings nor any such practice of conducting such meetings regularly. In those villages where clubs have been retained from the soviet period, these clubs are not used for meetings where “bottom - up” initiatives would be discussed. Such clubs remain appendices to the “official public space”. Only 4.6% of the respondents stated that village residents meet in such clubs regularly.

Village residents often refer to alienation of people from one another, which causes nostalgia for the soviet period. Only 13.3% of the respondents believe that they are actively involved in public life. Respondents in the focus groups indicated that people tend to close themselves within their narrow circles of friends and relatives more and more, signaling that they have lost interest in the social life of the village.

Despite such institutional gaps, village residents occasionally manage to perform certain collective jobs, such as joint physical labor, collection of money, and protests. Such activities may be initiated from below or by the village *rtsmunebuli*. Although participation in such activities is by no means compulsory, a majority of village residents participate in them when they occur.

Differences in the financial status of households do not create impediments for implementing joint activities. Often, relatively well-off families participate in common activities as a type of “progressive taxation” and undertake upon themselves greater financial obligations when village resources are pooled to assist those in need or to solve a collective problem.

In our survey, 55.7% of the respondents stated that village dwellers manage to come to consensus and act collectively for the purpose of seeking solutions to common challenges. Approximately 70% of respondents stated that the majority of village residents try to do their best when village problems must be addressed and fellow villagers manage to aggregate financial or in-kind resources to solve issues.

Additionally, villages manage to organize themselves and act collectively when the interests of the village are at risk. In the process of our qualitative survey, several respondents described cases in which villages managed to organize protests against pasture sales, with the end result that “the investor was intimidated and kicked out”.

We also asked about attitudes towards those persons who tend to be “free riders” when pooling resources (financial or labor) is necessary.

Strict sanctions are usually not imposed towards such persons, although the repertoire of sanctions may be broad, beginning with stigmatization through mockery and ending with impeding the use of common property. “We usually treat such people with humor. Thus, we may put a small wine glass in front of them at a party” (Kakheti residents). In a region in Western Georgia, residents recalled an instance where the village did not allow a fellow villager to use a bridge, after such villager had chosen not to participate in its restoration.

Although most village residents – and particularly young people – are trying to find employment and a source of income outside of their village, such behavior is mainly the result of economic considerations and not because of the weakness of social cohesion. When the economic factor is excluded, there is no longer a dominant tendency to migrate from villages; of our respondents, 81.7% indicated that they would prefer to stay in their village if they had sufficient income.

## Chapter 4. Social Capital of Rural Communities

In the previous chapter, we described different forms of property and the practices of social cooperation related to them. Diversity in the forms of cooperation and higher intensity is a characteristic of network relations based on private property, which are also strengthened by historically based informal norms. We also observed the practice of joint action that targets the creation of common goods and the aggregating of resources on the basis of the principle of group inclusiveness, although we also note that there are no institutionalized mechanisms related to this type of action. Additionally, the institution of community ownership is not provided for under the law. As for cooperation within the group, the criteria of exclusivity and forms of group property are rather unstable, and the formation of sustainable relations is extremely rare.

This chapter contains more in-depth analysis of social relations from the standpoint of the correlation of different factors. Our purpose is to answer the following question: Is it possible to consider existing forms of social cooperation as manifestations of social capital? Can we claim that the interchange of resources of different types that “resonate” with each other in society is one of the features that confirms the existence of social capital? Additionally, in this chapter, we shall further analyze the components of social capital and its structure; through a comparative analysis of villages, we shall identify those factors that precondition the strengths or weaknesses of social capital. Our analysis is based on the results of a statistical analysis of the results of interviewing 600 respondents from 20 villages.

### 4.1. Clustering of Villages According to Cohesion Factor and Dwellers’ Wealth

The majority of interviewed respondents stated that their village has the ability to mobilize and act collectively when the common interests of the village require it, such as when it is necessary to rehabilitate a damaged facility (infrastructure) that the entire village uses.

The ability to arrive at joint decisions and act collectively on them is a strong feature of communities. In particular, a factor analysis of quantitative data has revealed that variables relating to arriving at joint decisions and the ability to engage in collective

action form one strong factor, which we term “social cohesion”. The factor – social cohesion – consists of the following:

1. To what extent do residents of villages express the willingness to participate in solving common problems (see annex 1, question A7)
2. To what extent do village residents manage to overcome the diversity of opinions with respect to specific challenges and act unanimously (see annex 1, question A8)
3. How often do village residents manage to adopt a common approach with respect to common problems (see annex 1, question B2)
4. How actively do village residents take part in repairing (rehabilitation) damaged facilities (see annex 1, question A12)
5. How keenly do village residents take part in collecting money necessary for repairing damaged facilities (see annex 1, question A13)

According to the results of the survey, if the village shows good results in one category, it shows good results in other categories as well.

We also determined that the level of cohesion of a village is most closely correlated with a sense of economic fairness. The village is more tightly bonded if residents believe that attaining wealth depends on individual skill and efforts. “The relatively well-off work more and adjust to life better, whereas the poor are lazy” (see annex 1, question A11).

The factor of cohesion is lower in those villages in which more respondents consider that relatively well-off households attained their economic status through unfair privileges. In such villages, the instances of successful collective action are less frequent.

A correlation between a sense of economic fairness and social cohesion is strong enough to integrate them into one factor, which we named “cohesion+”.

The table below presents variables for the factor discussed above, including the relevant coefficients.

**Table 1.**

Variable:	Factor loadings. Pearson's correlation coefficient(R)
Willingness to participate in joint actions of the community	0.79
Ability to overcome diversity of opinions	0.72
Frequency of adopting a common vision	0.54
Participation in repairing damaged facilities for free	0.88
Ability to collect financial resources for repairing damaged facilities	0.83
Sense of fair competition (economic fairness)	0.88

Despite the high correlation between economic fairness (rules of the game) and cohesion, the latter was not directly correlated with the economic wealth of individuals. However, the research showed that these elements jointly account for similarities and differences between villages.

To assess the economic status of rural residents, we adopted an individual wealth index, which was calculated using the following variables:

1. Size of the land plot that a resident of the village owns;
2. Number of livestock that a household possesses;
3. Number of small cattle that a household possesses; and
4. Current income of the household.

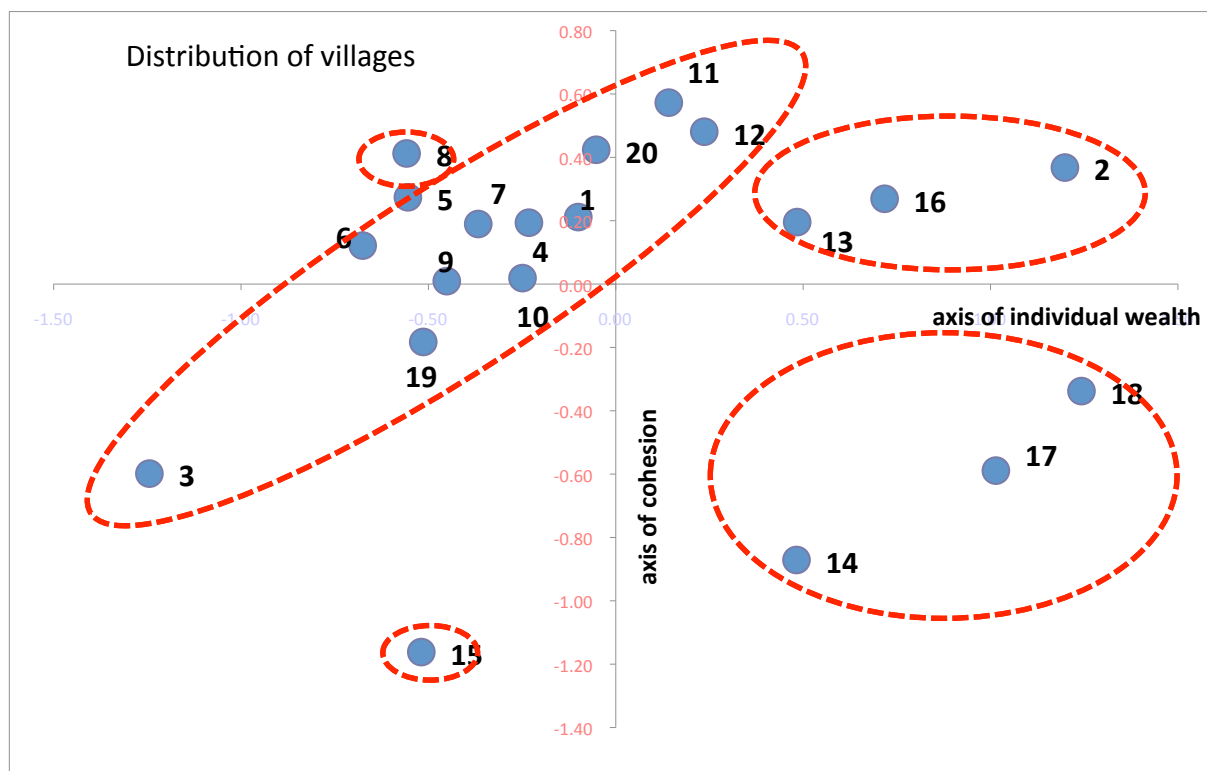
The individual wealth index did not include material wealth and assets (such as houses) that were produced or built in the soviet era and do not currently have high liquidity. If we included such assets, we would fail to estimate the current economic status of rural residents.

In addition, it should be noted that we should not interpret the wealth index as the equivalent of the domestic product of the village because a considerable part of household income – such as social benefits and pensions – is not derived from the village economy; the wealth index is thus a composite of internal production and the inflow of external resources.

The joint use of the wealth index and the cohesion factor were shown to be an effective mechanism for identifying differences and similarities between the representatives of relevant communities. Analysis of variance (ANOVA) was conducted in the two-dimensional field in which one axis corresponds to the dimension of social cohesion+ and the other axis corresponds to the individual wealth index. This analysis revealed that these two factors – the dimension of social cohesion+ and the individual wealth index – together provide a comprehensive depiction of the field to be studied. These two factors thus explain a high percentage of variance in individuals and villages.

As a result of the statistical analysis of data collected from the 20 villages that were selected as our sample, we identified three clusters.

**Diagram 3.**



*The following names were assigned to the clusters: I –left cluster; II –upper right cluster; III–lower right cluster*

Out of these three clusters, the first is the largest and includes 12 villages. Within this cluster, we observe linear correlation between the variables of the two axes with a coefficient,  $R = 0.77$ . This unequivocally indicates that there is strong "resonance" between the cohesion of a village and the wealth status of an individual. However, this correlation is one of the factors and not the only factor that predetermines the location of a village on the relevant field. An analysis of village clustering requires the consideration of additional factors that we shall consider in more detail below.

Clustering villages may not reflect all the factors that predetermine divergence among villages in Georgia. At the outset, it is important to note that the selection of villages presented here is not representative of all types of villages that exist in Georgia. In the sample, the high mountainous villages and those villages that have become deserted as residents migrated to other locations are the least represented. For example, two villages (see diagram 3 above) did not fit into any of the three clusters because of their specificity. To explain their difference from other villages, such factors, such as the location of the village or its history might be important.

*Village 15, which was characterized by a low level of cohesion, is located in a resort zone. The residents of the village are diverse, a segment of the houses are urban apartment houses, and consequently the features that help other villages bond are less pronounced here. This village has a history that is different from other villages. Different migrations flowed through here – such as convicts. Native residents are practically not represented in the village any more.*

*Conversely, Village 8 is extremely cohesive, but poor, which presumably is the reason that it did not fit the overall logic. This village is located far from the highway, which promotes its cohesion but is economically unfavorable for its development.*

It is noteworthy that certain factors that seemed important during the initial stage of the research did not have serious effects on a village position in the two-dimensional space. On the basis of preliminary observations, and in the opinion of other experts, we initially assumed that differences between villages would be largely preconditioned by ethnic and religious factors. Azerbaijani villages, differently from Georgian ones, seemed more hierarchical; they have aqsqals, which indicates that the social elite is institutionalized. Religious differences were also expressed through differences in social practices. In Muslim villages, residents gather to pray every Friday, which establishes the practice of regular gathering. Additionally, such villages generally have households with more children, which is critical for the success of subsistence farming. Based on the above-mentioned observations villages populated by ethnic Azerbaijani residents and by Georgian Muslims were included in the sample .

We discovered that, although differences between Georgian and non-Georgian villages exist, the factors of ethnicity and religion have less effect than other factors. The first cluster includes Georgian and non-Georgian villages, and it is noteworthy that villages of both types equally participate in the linear correlation, which is a characteristic of the villages in this cluster.

The dimensions of cohesion and wealth interpret, to some extent, the various attributes of village dwellers. Thus, a typical respondent of a more cohesive village is happier, according to his own assessment, than typical residents of other villages. The level of happiness of a respondent is much more closely related to the factor of cohesion in a village than to his economic status. The same trend is observed with respect to migration patterns: residents of villages in which cohesion is high have less desire to leave their villages than economically better-off respondents in other villages.

For purposes of better representing the correlation between village resources and village clusterization, it would be expedient to observe the private and common resources of a village on the same two-dimensional field. The vertical dimension corresponds to public goods, whereas the horizontal dimension reflects private resources and the interests of individuals. The factor of village cohesion is a feature of the vertical dimension of a village; the higher the cohesion, the stronger the potential of the village to create public goods. Groups can be imagined as circles located within this field. The fact that 30 respondents from each village became such circles indicates that the village forms a group (the dots shown on the diagram are the centers of the circles). On the basis of this model of clustering, we analyze the connection of the social capital of a village with its location on a given field. We have found that out three important dispositions of the respondent, his sense of economic fairness, trust and reputation determine his location on the diagram with good approximation, which allows us to use these attitudes for the purpose of establishing linkages between different resources and behavior.

#### **4.2. Common Resources, Dimension of Cohesion of a Community**

As the results of the research show, 61.5% of the respondents believe that the level of cohesion in their village is high, whereas 38.5% of respondents think that it is low. (The data have been computed by taking the cohesion factor into consideration).

The analysis of the correlations between the cohesion level of a village and other features shows certain trends. The higher the level of cohesion in a village is, the

higher is the likelihood that public goods will be generated by aggregating the private resources of village residents – labor, money, information. These villages have better abilities to organize themselves, are more disposed to develop agriculture, are more protected from externally penetrating “privileges” and have residents that are happier and more loyal. Consequently, the village in which the level of cohesion is high – the ideal type of a village – represents the ideal type of direct democracy. Residents of such villages are more oriented towards participation in agricultural activities, and they believe that a household working in the agricultural sector can accumulate wealth with industriousness and effort. Thus, the disposition that we may refer to as “agrarian optimism” is more closely linked to cohesion than it is to the wealth index.

It is noteworthy that the factor of cohesion of a village is statistically correlated with the sense of fair distribution of wealth and not with the actual economic equality of the residents of a village. No statistical linkages were identified between the economic inequality of village residents and the factor of cohesion.<sup>18</sup> This indicates that solidarity between individuals may exist in conditions when some are rich and others are poor. What is more relevant is that these differences are believed to be provided by individual skills and effort and not by privileges.

Villages have their own mechanisms for establishing a balance between economic inequality and cohesion. For example, when it is necessary to aggregate the internal resources of a village for the purpose of doing common good, the principle of proportionality operates: “everybody contributes as much as they can afford”. In such case, richer households contribute more to generate common goods for the village.

Apparently, concealing information is considered one of the forms of obtaining privileges unfairly. In villages in which the level of cohesion is high, residents meet more regularly to discuss common problems and find solutions. At such meetings, economic information is exchanged routinely and quickly.

As the level of cohesion of a village corresponds to the ability of the village to generate common good, it is natural to assume that indicators of the relevant component of social capital and cohesiveness of the village will indicate the presence of solidarity. The sense of economic fairness is the factor that promotes the aggregation of resources and solidarity. In such cases, we must show that cohesion promotes the compatibility (“resonance”) of political, economic, private and group resources.

---

<sup>18</sup> Moreover, correlation of economic equality with other aspects of community life is weak, too. Apparently, economic equality is not the dimension that influences social relations within villages.

Cohesion is positively correlated with the competencies of self-governance of a village. Although slightly over half of the respondents from villages in which the level of cohesion is high have the disposition that the state is responsible for certain aspects (“the village cannot address all its problems and the state should undertake to help to settle them more effectively”), in the villages in which the level of cohesion is high, the share of respondents who think that there are many problems in villages that may be settled by its residents if self-governance is introduced is high compared to the rest of the sample.

**Table 2.**

	Positive attitude towards self-governance
Villages with high level of cohesion	41.7%
Villages with low level of cohesion	6.9%

In addition to having a high regard for self-governance, residents of villages in which cohesion is strong discuss politics more often.

A high level of village cohesion has a positive influence on the compatibility of private and common resources. The sense of economic fairness, which is associated with cohesion, provides an opportunity for “resonation” between individual wealth and group resources (self-governance) in the process of aggregating resources. "Be rich, but also be loyal to the village, which means to be on the side of the village and against those (from outside) who are more privileged and dominating” – this is how this standard of compatibility may be interpreted.

As for the interrelation between cohesion and economic success, this relation appears to be rather complex. In the first cluster, linear correlation between cohesion and individual wealth was clearly pronounced, and its presence can be assumed in the two other clusters as well; however, on the whole, we cannot claim that the higher the cohesion is, the richer the village is.

Other moderating factors interfere in the relation between these two variables. The wealth of individuals and cohesion depend on many other as well. Certain of these factors are beyond the scope of villages and are not directly related to the social capital of a village; however, other factors are components of social capital, and we will discuss these below.

### 4.3. Generalized Trust

Apart from cohesion, generalized interpersonal trust (towards the person that you do not know well, you must trust him till he does something bad) was an important component in the clusterization of the villages.

There is a weak positive link between trust and cohesion. According to the data, typical respondents from a village in which the level of cohesion is high demonstrate slightly higher levels of trust. Additionally, such respondents believe that people trust each other more in their villages than in other villages.

Additionally, trust correlates with a higher likelihood of adherence to common norms when there is broad group cooperation (on the community level). Trust is in positive correlation with the ability of a village to prevail over external influences and require its residents to act appropriately. In those villages that are strict with violators of norms, respondents express higher levels of trust towards people who they do not know.

The ability of the village to require loyalty from its residents may be viewed as a variety of “broad loyalty”, and there is positive correlation between this type of trust and loyalty.

Despite this, generalized trust is not linked to those forms of village collective behavior that build cohesion. It should be distinguished from a cohesion factor. Although it is linked with other forms of cooperation.<sup>19</sup>

The level of trust is substantially higher in the first cluster of villages on the two-dimensional diagram 3. (48.9% – in the second and third cluster it is only 16.7% and 13.3%, respectively). Consequently, the second cluster, which is characterized by a high level of cohesion, demonstrates an extremely low level of trust. In the third cluster, the level of trust is the lowest<sup>20</sup>. On the whole, such distribution of trust in clusters indicates that the variance in the level of trust along the horizontal axis is more important than along the vertical axis.

---

<sup>19</sup> The amount of trust correlates with the ability of a village to come to common opinion (A8). However, as opposed to cohesion, trust is indifferent towards indicator of economic fairness (A11).

<sup>20</sup> In the second and third clusters, respondents assess the level of trust in their villages differently: only 8.9% of respondents in the third cluster believe that trust is higher in their village, whereas in the second cluster, 21.1% of respondents think so.

Clusterization reveals that, when trust is high (the first cluster), cohesion and wealth are in high correlation, whereas when trust is low, respondents of similar economic means may be radically different as far as cohesion is concerned (second and third clusters).

When villages were described above, we indicated that villages are characterized by a two-layer structure, i.e., the difference between those who believe that the “glass is half-full” and those who think that it is “half-empty”. This difference may be relatively mild or extremely divisive. Thus, respondents in the second and third cluster are radically different when evaluating the development of their villages; 66.7% of respondents from the second cluster consider that their villages are developing and improving, whereas 74.4% of respondents from the third cluster believe that they have observed no development or improvement in their villages.

Such radical differences in views and expectations should be reflected in the perceptions of people with respect to cooperation with others; it would be expected that persons who demonstrate low levels of trust are less disposed towards cooperation because they expect that they lose rather than benefit from cooperation.

Consequently, the low level of trust (in addition to other factors) might cause the positioning of the two clusters on the right field of the two-dimensional space.

Apart from the level of trust, the first cluster differs from the other two clusters by the practice of joint use of pastures, geographic location and the structure of revenues.

#### **a. Pastures and Herds**

The data analysis demonstrates that almost all villages in which the practice of joint pasturing (in turns) is widespread fall into the first cluster (with the exception of the village of Vakha, which is located in the second cluster). In the villages that belong to the second and third cluster, such practice does not exist, or, if joint pasturing occurs, the rules are not sustainable and are often violated. In the majority of villages from the first cluster, there are unwritten rules about the use of common pastures (and payment of relevant fees). In the majority of villages of the second and third cluster such practices do not exist because the villages do not have pastures. Consequently, the clusterization of the villages corresponds to the factors of joint herding and ownership of pastures by villages. In the first cluster, the herds and pastures are important components of everyday life of a village, whereas in the second and third clusters, such practice is basically non-existent.

Pasturing of livestock in turns and the practice of helping households with money upon a death in the household is statistically in higher correlation with the horizontal dimension of wealth than with cohesion. These behavior patterns are channeled towards satisfaction of private interests, not common interests.

Herding of livestock is not the only type of activity directed towards the satisfaction of private interests that correlates with a high level of trust. In those villages in which there is collective herding, informal cooperatives are more frequently created. Such informal cooperatives are oriented towards the joint cultivation of land, harvesting, production and selling of produce and are basically the only type of association in villages that we can observe that is initiated from below.<sup>21</sup>

Although such associations are formed on the basis of the principle of ***narrow group loyalty***, such loyalty is closely correlated with trust and network relations. Such loyalty arises from the social experience of friends, relatives and relatively close “knots” of network relations. Groups of close friends, so called “sazmakatso (brotherhoods)”, bound together as a result of friendships or kinships, demonstrate the trend of establishing cooperatives, as they have a long-standing record of successful communication.

## **b. Village Geography, Type of Settlement**

The first cluster also differs from the second and third ones geographically. All villages of the first cluster (except for one) are located in Eastern Georgia. Villages in the second and third clusters (except for one village) are located in Samegrelo and Guria (West Georgia).

Whether the livestock is pastured depends on the location of the village and the type of settlement.

There are two types of villages in Georgia: so called homestead-type settlements, and the settlements, where houses are located densely whereas agricultural lands and pastures are located remotely. The villages of the first type are more typical to Western Georgia, and the villages of the second type are more typical to Eastern Georgia.

Difference between the types of settlements in Western and Eastern Georgia may be caused by their history. The villages of Kakheti were frequently assaulted and raided

---

<sup>21</sup> In villages, there is also congregation, which is another form of informal association, although because this research focused on economic cooperation, we have not studied such associations in-depth.

by North Caucasus tribes in the previous centuries. For that reason houses were located close to ensure collective security.

### **c. Income of Individuals**

As is clear from the above-referred interrelations, a high level of trust is linked to the availability of common material and non-material goods. Trust is high when villages have pastures of common use and where the informal rules of a village and its lifestyle are safeguarded by the imposition of appropriate sanctions (also informal). In those villages in which residents have a higher level of trust, the disposition of "agrarian optimism" is more clearly pronounced. Empirically, agrarian cooperatives should form more often in conditions with high levels of trust.

We can conclude that high levels of trust promote more effective use of economic resources and lead to more cooperation within the framework of the village economy through horizontal relations.

We should note that the level of trust is higher where the index of wealth is lower, i.e., on the left part of the axis of individual wealth. Relatively well-off clusters that are located to the right of this axis demonstrate lower levels of trust. This is obviously in conflict with the assumption that trust promotes increases in individual wealth. However, it is possible to associate low levels of trust with wealth if we ascribe this effect to the influence of other factors.

One such factor may have situational character. Historically, Kakheti (first cluster, Eastern Georgia) was considered a wealthy agrarian region, whereas in Guria, villages have historically been poor. In the villages of Kakheti, the main source of financial income is grapes. The embargo that Russia imposed several years ago on Georgian wines directly impacted the economic conditions of Kakhetian villages, and the majority of them have become poor. We can assume that if the research was conducted before the Russian embargo, two clusters of villages that are close to each other by the factor of cohesion would have been closer to each other by the wealth index as well.

The second and more relevant factor that could affect the correlation between trust and wealth is that a large part of the income of village residents is not derived from agriculture, or at least does not need cooperation in the agricultural sphere. We must consider that the horizontal axis, i.e., the wealth index, is a composite index and not all of its components are derived from the internal resources of the village. If the income of the village is generated from sources outside the village, the role of factors such as trust and cohesion in the process of wealth generation is reduced.

The three clusters differ from one another by the structure of revenues. The first cluster strongly depends on agricultural production, although a substantial part of this production is used for internal consumption (subsistence farming) and not for sale. In the villages of the second cluster, dependence on agricultural production is also high, but in this case, a substantial portion of the produce is sold on the market, and this is the source of financial income for the village residents. In the third cluster, in which both cohesion and trust are the lowest and where economic wealth is disproportionately high in comparison to the indices of trust and cohesion, the share of revenues generated beyond the scope of the village (seasonal work) is higher than that of other clusters.

It should be noted that, according to the findings, trust was identified not as a precondition for intensive economic cooperation, but as its result. In those areas in which there is the need for the use of common resources (such as pastures), trust increases. Individual production of agricultural produce, if it does not need such cooperation, does not cause trust to increase. Actors oriented towards obtaining resources from outside the village economy do not promote increasing trust but do promote the desire of acquiring of good reputation. This issue will be overviewed in the following chapter.

#### **4.4. Group Loyalty and Reputation**

The majority of respondents believe a person needs a good reputation to attain success. Clusters differ substantially from each other by the strength or weakness of this disposition. It has a positive correlation with the group behavior of individuals that is directed towards creating associations, attracting resources from external sources and establishing relations with the state through protest or petitions. Reputational disposition is the element of social capital that promotes the increase of group loyalty in the context of relations with the external world.

As the model indicates, for effective functioning of social capital, along with cohesion of the village and generalized trust, the presence of a third component – group loyalty – is necessary. If group loyalty is strong, it fosters the feeling of group belonging and promotes the creation of group property, in addition to simplifying the establishment of more or less sustainable economic cooperation within the context of relatively segmented interests. As opposed to generalized trust, which does not require certain preconditions, loyalty can be viewed as conditional trust. It enhances cooperation between people whose reliability is preconditioned by a concurrence of certain interests or identity.

Whereas generalized trust does not imply knowing a person, the existence of certain prehistory of relations or their further extension, loyalty is a social resource, the creation of which needs time and the experience of long lasting or repeated relations. In the same manner as group property, it is sustainable and shared; in this manner, the features of loyalty resemble the behavior elicited by the reputation of an individual.

Loyalty does not play important role in actions that are directed internally (within the village), and it does not cause fragmentation of the population. In villages, there is no latent conflict of interests that would create rational economic stimuli for fragmentation of the residents into groups. Villages are not divided into strata; they do not show signs of segregation caused by cooperation preconditioned by group interests. Sustainable economic cooperation and institutionalized conflict of interests is not observed in villages. Individuals demonstrate loyalty to their family, circle of friends, and village, but individual or group conflicts in the village do not rationally grow into attempts to derive added value. If the village had existed independently from the external world, cohesion and trust would have been sufficient to integrate it. The loyalty of the village would have been the derivative of the two of them.

Nevertheless, in villages, we observed phenomena of grouping and even confrontation.<sup>22</sup> Both of these phenomena are related not to conflicts that exist within the village, but to external issues. Village poverty and limited internal resources increase the demand for resources that are available from beyond the village. Accessing external resources requires a good reputation.

The perception of the importance of reputation and integrity as necessary components linked to attaining success makes villages of the first cluster extremely different from villages of the second and third clusters. In the first cluster, 43% of respondents believe that even people with bad reputation can attain success; in the second and third clusters such respondents were extremely few: 91% and 89.5% of respondents, respectively, believe that to “attain success in today’s world, good reputation is of crucial importance”.

These data demonstrate that trust and reputation were distributed differently in clusters. The first cluster is characterized by relatively high trust and a relatively

---

<sup>22</sup> One example of external influence is political impact, which is a type of resource that may polarize the population. Party preferences or the affiliation of respondents is the main factor causing social distancing (8.8%) and conflicts (2.3), although as the data indicate, most respondents (79.5%) still consider that the relations between supporters of different parties do not create problems in the relations of village residents.

skeptical attitude towards the importance of reputation; in the second and third clusters, respondents do not trust people they do not know, but assign substantial importance to good reputation.

If reputation is more valued in those villages in which aspiration to attract external resources is higher, it should also promote group behavior that is oriented towards obtaining these resources. The source of such external resources may be markets, the state, or international organizations; cooperatives, community-based organizations and associations may be set up in villages to interact with such entities.

Because the number of formal organizations is low in the entire sample, it is difficult to observe statistically reliable connections between clusters and the distribution of formal organizations within them.

Despite this, the available data indicates a trend that assigning more importance to good reputation positively correlates with a tendency to attract external resources and create organizations for this purpose. The majority of community-based associations are represented in the second and third clusters.

Villages that are oriented towards obtaining external resources are more predisposed to defend their interests and even confront the state authorities. Thus, those villages that are more likely to protest jointly or file petitions with the state authorities are found in the second and third clusters.

Analysis of the entire mass of respondents reveals that there is one factor that links the importance of reputation with several other features of the respondent. The presence of parents' associations in a village, functioning of sports teams, expressing of protest towards authorities and the presence of associations that cooperate with foreign donor organizations are positively correlated with this factor. Almost all parameters related to cohesion of a village or trust are in weak inverse correlation with this factor. Apparently, respondents who have a positive attitude towards formal organizations demonstrate an orientation that is directed externally (beyond the village) and not internally (within the village).

Thus, we see that there are influences and trends that contrast trust with reputation. Both trust and reputation are elements of social capital. Does the existence of such a trend indicate that social capital in rural areas is not robust, i.e., one of its elements is not “resonating” with another element and they are weakening each other instead?

If we recall the hourglass model, we may say that trust is functioning on the lower part of the hourglass, whereas reputation is expanding the neck that connects the

bottom and upper segments. Reputation and formal associations promote connecting the lower and upper parts of the hourglass. Trust helps the residents of the village who are facing challenges to settle their problems and overcome difficulties by supporting each other. Reputation is linked with behavior oriented towards success, which is associated with the external world and is consequently found in the upper part of the hourglass. Cohesion, like trust, functions in the lower level of the hourglass, which increases its autonomy from the upper part.

The phenomenon of the hourglass is created under the effect of trends that cause certain tensions between reputation, trust and cohesion. These trends induce individuals to liberate themselves from loyalty to their village and opt for autonomy. An individual who must address the neck of the hourglass always faces a question with respect to the upper and bottom parts of the hourglass: To whom should he be loyal, and in front of whom should he try to have a good reputation? Such an individual is always affected by the balance of these powers that exists between these two parts of the hourglass. This balance of powers prompts the individual to choose between two opposite directions – towards the village or away from the village.

A person who is concerned about his reputation and believes that his public image and the symbolic capital that he acquires through his reputation helps him to attain individual success more readily joins public and/or formalized associations. Thus, an appreciation of good reputation, which characterized almost the entire group of respondents (despite the differences between clusters, the average respondent assigned importance to reputation), should have been a good basis for the creation of associations. Such a small number of observed associations is not caused by factors linked to the village, but instead is caused by the external institutional environment. In the following chapter, we will discuss this situation and the external factors that are relevant for the institutional analysis of community-based organizations.

## **Chapter 5. Community-Based Associations: Institutional Analysis**

Apart from institutions and social capital, social stability must be provided by relevant organizations that unite certain groups of individuals and coordinates their activities. Organizations can be divided into the following two categories: adherent organizations, which are formed upon the initiative of their members, and contractual organizations, which enforce their rules through external sanctions (North, 2009, pages15-16). The former may exist informally because its sustainability does not require any sanctions to be enforced. The second typically requires clearly articulated and formalized rules that designate a third party (usually an external actor) to ensure sustainability through sanctions.

The contractual organization, whatever its mission may be (such as generating profit, provision of services or creation of common goods), represents a form of group property. Members of an organization should be loyal to it, and the organization should have property in the form of material resources and symbolic capital (for example a brand). Additionally, an organization needs a manager/management with a good reputation to be entrusted with representation/management of the organization. Consequently, an organization is affected by the same opposite trends that complicate the formation of group ownership in rural communities (see sub-chapter 4.4).

As the research has demonstrated, organizations are not that numerous in villages. There are certain initiatives that are rather focused on short-term cooperation and externally promoted associations that are not particularly sustainable. Such associations may be viewed as prototypes of voluntarily established organizations. We attempt to analyze those trends that undermine the stability of such organizations.

### **5.1. Informal Cooperation**

An analysis of profit-oriented informal cooperatives demonstrates that the challenges related to such associations are more likely to be linked to institutional problems (such as the "narrow neck" phenomenon) and with the weakness of rational interest than with the lack of social capital.

As we stated above, profit-oriented economic cooperation occurs in small groups, united through informal relations ("brotherhoods"). Such associations are not common. The survey demonstrated that the attitudes of residents towards

cooperation is skeptical. Only 30.7% of respondents think that uniting the efforts of households in the process of production will have positive results.

As local residents often state, participation in a formalized economy is not economically beneficial for local cooperatives. Even in those cases when cooperatives are set up as larger and more formalized organizations (for example, cooperatives for potato cultivation established in Samtskhe-Javakheti through donor assistance), they function using double standards; these cooperatives exist formally on paper for the sake of the donor, whereas they do not show real production in the “white” accounting records.

Associations that are established by the initiative of several households are, to a certain extent, closed systems that do not aspire to expansion and incorporation of new members. In such small-scale associations, the rules of the game are not explicitly articulated. This is why the association is closed to new members. “We have our own understanding, new people may not understand it or maintain it” (member of one such association).

Groups based on informal relationships that try to avoid unnecessary publicity face the problem of institutionalizing rules for the sustainable functioning of the association. It is noteworthy that rules for sharing resources are also typically unclear; thus, it is not clearly defined how profit will be distributed and what the rules of the decision-making process are.

From a normative point of view, the principle of fairness that is necessary for economic cooperation is well understood in villages. Whereas creating public goods requires the aggregation of resources that follow the principle, “people contribute as much as they can”, and individual economic interests are subject to exchange on the basis of the principle of equity – I shall receive back whatever I give out – economic cooperation needs a proportionate distribution of profits generated (added value), i.e., profit share should correspond to contribution. This principle is acknowledged as fair, but its implementation in practice in profit-oriented groups is connected to various problems.

The need for distribution of profit, which also creates the characteristics of “exclusivity” in a group, makes such cooperatives sharply different from trust-based horizontal cooperation, which do not imply generation and distribution of profit because they are focused on accumulating the resources of fellow villagers (risk-pooling).

In the case of such cooperation, the “game” is so simple that procedures are easily produced (e.g., lotteries) and difficulties do not arise in the process of cooperation. In our survey, 37.4% of respondents confirm that having a lottery is a widespread practice in their villages. Collective pasturing is a similar task that is one of the most successful forms of economic cooperation on the community level. The rules of the game are based on the simple principle of proportionality; the amount paid to the herdsman by the owner of cattle is proportionate to the number of cows that he has. It is easier to control opportunistic behavior on the basis of this principle, and violating the rules and trying to succeed at the expense of others – free riding – is basically impossible.

As opposed to these simple rules, profit-oriented cooperatives must arrive at more complex decisions (such as joint production and sales of produce), and the contributions are more diverse and more difficult to evaluate (e.g., machinery, land, money, labor, and knowledge). Without explicit rules, and because the resources contributed are diverse, identification of their relative values is difficult. This impedes agreements being reached and the imposition of sanctions on those who violate the rules. In the event of conflicts, cooperatives typically dissolve and cooperation ceases.

The main difficulty related to contributions is caused by the dual character of resources, whether they are internal resources of the village (such as labor) or external resources, such as knowledge or credit. Consequently, these resources function differently; labor functions on the basis of the equity principle, whereas knowledge functions on the basis of success (added value). If the gain is distributed in accordance with invested labor, those who invested more knowledge or credit are not happy; if most of the gain goes to those who provided the knowledge or credit necessary for success, those who worked physically might be unhappy.

The ambiguous nature of the rules also hinders decision-making processes. Procedure, based on the internal rules of the village, envisages discussions that take into consideration everybody’s opinion and management by reaching a consensus, which is a form of direct democracy. Success-oriented instrumental actions require relevant qualification, first of all, and are based on the reputation factor, which is at least partially formed by the external environment and sometimes acts contrary to the common opinion. The lack of common perception regarding qualification, which might be precondition of success, creates the narrow neck between internal and external rules.

Because the rules of the game are unclear and because of the non-sustainable nature of cooperation, farmers are often oriented towards the implementation of short-term projects. They do not hope that acceptable “rules of the game” will be defined even if

they believe that cooperation would be rational: “some don’t have sufficient land, some have a tractor, some have fewer resources but more knowledge” (Resident of a village in Kakheti).

Conversely, management of risk related to short-term projects is much simpler:

“We would rather cooperate in the sphere of annual cultures. If cooperation does not work, we may dissolve. If we decide to cultivate grapes, it is related to higher risk of disagreement. Some will want to use more expensive fertilizers, some would want cheaper. Some prefer to spray grapes with chemicals earlier, whereas others would want to do it later” (Resident of a village in Kakheti).

The results of the quantitative survey also confirm several observations made in the process of the qualitative survey.

The largest segment of respondents (28.8%) considers that their cooperation is impeded by challenges related to defining the “rules of the game”. In their opinion, people may have problems with elaborating the systems that will allow them to reach joint and equitable decisions. Only 3.3% of respondents believe that mistrust between people hinders cooperation. As for negative historical memory related to the kolkhoz, the survey revealed that the importance of this factor may be overestimated. Only 8.4% of respondents name it as a factor hindering cooperation.

Most of the respondents cannot name the specific element that hinders intensive cooperation in villages: “Everybody prefers to take care of his own interests” (39.1%).

The lack of defined rules for decision-making and distribution of profits, in addition to orienting the implementation of short-term projects, indicates the difficulty of forming the institutions of group ownership.

## **5.2. Formal Associations**

When there are established larger associations in villages that have clearly articulated rules of operation and structure, this usually occurs with the assistance of external actors. Such associations (such as a milk collection cooperative) may be supported or funded by international donor organizations, local bodies of governance (parent’s associations or sport teams), grant issuers (NGOs), or political parties (local branch of a party).

In our research, we studied the following three types of formal organizations that are supported by international donor organizations and established in rural areas:

community-based organizations, associations of producers of agricultural products, and agriproducer's cooperatives.

The purpose of the development programs focused on the establishment of community-based organizations that strengthened communities through the introduction of successful and sustainable models that promoted collective action. If we refer again to the theoretical model of the research, the purpose of community-based organizations is to produce public goods and improve the welfare of the rural communities.

The purpose of agriproducer's associations is the accumulation of its members' resources and the provision of goods and services that cannot be generated by the individual efforts of members of the association because such collective activity reduces the cost of transactions. These associations generally act on the basis of the principle of non-governmental, non-profit organizations. Again, in accordance with the theoretical model elaborated for this study, such associations may be viewed as a form of group property.

The purpose of the agricultural cooperatives is to aggregate resources in the process of production. Cooperatives function as profit-oriented organizations. According to our model, the function of cooperatives is to increase private gains. The final cycle of their activities is sharing and distributing profits among their members.

Analysis of donor-supported projects demonstrates that the main challenge of such organizations is their sustainability. The majority of organizations implement grant-funded projects more or less successfully, but after the grant resources are exhausted, they cease to function.

As local coordinators of international organizations have stated, in such organizations, the means has been substituted as the objective. Administering the grant (the resource), which is typically envisioned as a "first push" to implement the functioning of the organization, becomes the purpose of the organization. "Organizations of this type have become grant processing (consuming) organizations" (Local coordinator of an international organization).

Organizations remain beyond the interest of most village residents. Such organizations do not fill in the gap between the state and the private sector, and the goal of involving residents remains unsatisfied.

The attitude of residents towards organizations that are supported by international donors is positive (91.7%), but this does not indicate that they will cooperate with

such organizations or participate in their activities. In our survey, 18.2% of the respondents indicated that there is an organization in their village that is supported by international donors, although the number of members of such community-based organizations or cooperatives is limited. Thus, in those villages in which international donors are actively implementing projects, only 4.6% of the interviewed indicated that they are members of community-based organizations or associations. Often, respondents do not know that there is such an organization functioning in their village.

As a rule, international donor organizations try to ensure that local organizations are established on the bottom-up principle; they also seek to ensure that there is initiative and interest in the target village and that the local organizations are sustainable. Despite this, it is clear that such donor-supported organizations operate at least partially against the social capital of the village. This is preconditioned by the fact that such associations (groups) are oriented towards obtaining resources from outside the community and are consequently involved in relations that are beyond the scope of the influence of social capital in the village. With reference to the hourglass model, one can say that such organizations find themselves trapped in the neck of the hourglass. Therefore, they must take standards into consideration that are characteristic to both parts of the hourglass. It should be noted that these standards often do not coincide and may even conflict with each other.

Formal organizations are initiated on the basis of the social capital available in the villages, but explicit rules of the game that would be acceptable to both parts of the hourglass are difficult to elaborate (or adhere to once they are elaborated). The institutional approach suggests that patterns of interaction, if successful, in the long term would transform into institutions (which are perceived as explicit rules of the game). The research indicates that in Georgian villages, relatively sustainable, long-term and successful patterns of cooperation are rarely observed in formal organizations.<sup>23</sup>

There are several external factors that deter the functioning of formal associations, including the asymmetry between the formal rules introduced by external organizations and informal norms operating in the communities, the exclusive character of external resources and the instability of the institutional environment.

Each of these factors has a different “load” when they affect formal associations of the three types described above, and each contributes to the failure of the sustainable

---

<sup>23</sup> We consider successful cooperation to be cooperation in which trends generated by the upper and lower parts of the hourglass coincide and resonate with one another.

functioning of these associations. Next, we consider the effects of these factors on community-based organizations, associations of agriproducers and agricultural cooperatives.

### *a. Community-based Organizations*

In the rural communities, initiatives to establish formal community organizations (associations) are rare. As was stated above, when expressing solidarity with their community members who are in need or when producing public goods, villages rely on informal mechanisms and rules. Formal organizations are set up only with the support of international donor organizations.

As a rule, international donor organizations come to villages with a grant proposal, the purpose of which is to provide a major part of funding (approximately 60-80%) for the creation of public goods (such as roads and bridges). Such projects usually imply co-funding by the community or in-kind contribution. At community meetings, decisions are made with respect to which project is a priority for the village. Additionally, a special working group is established that is composed of village activists who communicate with the funding agency. This group of activists may be pictured as a mechanism that connects the upper and lower parts of the hourglass. During our qualitative survey, it was revealed that such scenarios often work against the cohesion of the village. Because the group of activists has access to the external resource, the rest of the community mistrusts them. For example, residents of the village do not believe that the project requires free labor and they suspect that the group “conceals” some part of external resources.

As representatives of international organizations state, the process is divided into two phases: 1. Relations between the donor organization and the group of activists, and 2. Relations between the group of activists and the village. Problems related to mistrust arise mostly in the second phase.

Villages gradually alienate those residents who cooperate closely with donor organizations. This process becomes even more acute if these people are remunerated for their work. In such case, the “rule of the game” that provides for aggregation of the resources from the bottom (i.e., everybody contributes as much as they can) comes into conflict with the “rule of the game” that provides for remuneration for some for the work that generates public goods.

“When you come to the rural community with money, you unintentionally create a new privileged layer, which the village alienates from itself. For example, our organization funded different study groups for children of school age. We organized

the day of protection of nature, when the population collects garbage and cleans up the territories. Children, teachers and parents who participate in the activities of the study groups, participate in such events. The rest of the community stands nearby, mocks them and considers that it is not their business and they don't contribute" (Representative of a donor organization).

Villages fail to elaborate successful schemes for rotating leaders and ensuring transparency. The basic principle of democracy – voting – is not a common characteristic for villages. The qualitative study revealed that the rules for arriving at joint decisions resemble consensus instead of action by the principle of majority. A more or less modern mechanism for articulating the rules of decision-making is not part of rural communities.

However, there are cases when the village manages to use traditional rules to overcome mistrust. In a village populated by ecomigrants from Svaneti, our researchers encountered a situation that clearly depicts the above-referred factor – the asymmetry between the informal rules of the village and the formal rules of a donor organization. One of the village activists had to swear on an icon to restore the trust of the village residents in him. This mechanism was more trustworthy for village residents than providing documentary materials.

Thus, when external resources are accessible for the village to create public goods, this may create tensions and affect village cohesion. Villages do not have formal rules for dealing with such tensions.

Additionally, the current institutional environment in Georgia does not provide a rational basis for the establishment and functioning of formal community-based organizations. Moreover, it is often not clear what the function and designation of community-based organizations are. If we imagine that one of the functions of such organizations is to connect the lower and upper part of the hourglass<sup>24</sup>, we might state that the institutional mechanisms are missing through which community-based organizations would be able to fulfill this function. In reality, community-based organizations exist in a “parallel world” to the current political and economic processes. Because the political system is overcentralized, a local political process does not exist. Consequently, such organizations do not have social functions with respect to a particular sphere. As for attracting external economic resources for the generation of public goods in rural communities, such processes have an informal character. Often, business structures located close to villages provide single-time

---

<sup>24</sup> As we know, in many countries, the process of delegation of broader functions to the community-based organizations is ongoing.

small-scale assistance to villages informally (for example, with construction materials). Such processes do not require the establishment of formal community-based organizations. The functionality of community-based organizations may increase when interacting with businesses if the environment is conducive to cooperation between the business sector and non-governmental organizations (with business incentivized through tax exemptions, for example).

### ***b. Associations of Agriproducers***

As we have stated above, the purpose of associations is to reduce transaction costs by accumulating resources and creating group property. The success of such organizations may be ensured over the long term.

Thus, one of the important assets of group association – its symbolic capital, i.e., reputation of the association – can be established only over the long term. Accumulating resources to render services to its members also requires a long time.

The institutional environment in which associations of agriproducers operate is not conducive for their sustainability. In particular, in the agricultural sphere, risk insurance does not work, and economic actors are thus oriented towards short-term cooperation. For example, it is more rational for a farmer to make cheese out of milk and sell it on the market than to cooperate with an association of producers of dairy products, where the benefits from cooperation are expected over the long term, which implies that the association should be sustainable.

In a business environment, oriented towards short-term and single-time transactions, the symbolic capital of association in the form of its reputation cannot acquire the requisite value and this resource is not converted into economic success.

In a more conducive environment, the symbolic capital of associations might be a mechanism through which the social capital of the group generates added value. The existence of such value in group ownership might stimulate the development of explicit rules of cooperation.

The qualitative analysis allows us to consider the empirical data from the survey within the above-referred framework.

While considering the data, one must remember the state of contractual relations as a factor of cooperation, which, in Georgia, exemplifies how an unpredictable institutional environment hinders functioning of associations.

In a more or less ideal situation, the contractual relationship would bond group ownership – symbolic capital and economic success – as a dividend of this capital.<sup>25</sup> In the theoretical literature, the mechanism that reduces the costs of economic transactions when a transaction is based on trust between businesses partners (based on their reputations) is well described.

If parties can conclude a perfect contract, then there is no place left for trust or social capital. These categories lose their value because the perfect contract provides detailed descriptions of all forms of cooperation, each party can monitor activities of the other party, and a third party can interfere if necessary and impose exogenous sanctions on the violator.

The more elaborate the contract is, the less risk there is related to economic choice and the easier it is to control fraudulent behavior. However, monitoring and controlling fraudulent behavior comes with additional cost, which is why most contracts are still not perfect and the risk of dishonest behavior is reduced in the selection of reliable partners.

Consequently, investment in the symbolic capital of the group, i.e., the reputation, is rational because it increases the likelihood of obtaining a valuable contract.

Is this mechanism relevant for the institutional environment, in which an agriproducer's association operates?

As the survey data indicate, the areas of activities of agriproducer associations and their potential business partners are oriented towards short-term rationality. Thus, the policies of economic actors are oriented towards short-term trends of the market and not to the formation of long-term business partnerships. Thus, orientation towards the reputational factor is rarely observed.

Therefore, representatives of the milk producers' association say that if the price of milk powder on the market decreases, factories producing milk violate agreements reached with them previously and produce milk from the cheaper milk powder.

As our evidence demonstrates, such relations mainly have the character of verbal agreements and contracts are rarely concluded; as a result, it is impossible to settle disputes through courts. The representatives of international organizations often participate in verbal agreements when they try to link agricultural producers with

---

<sup>25</sup> A contractual relationship is one of the factors that links symbolic capital and economic dividends.

business partners. It is noteworthy that representatives of international organizations also do not require formalizing such cooperation. “If we asked them (potential business partners) to conclude a contract they would completely refuse to cooperate with us. It was difficult to persuade them to work with us even without a contract » (Representative of an NGO).<sup>26</sup>

Investing in group assets by agriproducer’s associations makes little sense in an environment in which contractual relations and business partnerships are not taken seriously. Consequently, an important form of group ownership – symbolic capital – cannot be created and added value for members of the group cannot be generated.<sup>27</sup>

### *c. Agricultural Cooperatives*

As discussed above, the idea of establishing formal agricultural cooperatives (and initial resources) generally is generated externally from international donor organizations.

Because a critical volume of economic capital is necessary for ensuring that cooperation between persons is rational, cooperatives may unite those households that have such resources to gain strength. “One hectare of land and one cow is not sufficient to have produce for selling” (Organizer of one of cooperatives).

It is noteworthy that poverty is a “reputational factor” in villages as well. “He cannot take care of his own land plot, so what he would do in a cooperative?” (Member of a cooperative)

As a rule, cooperatives unite a maximum of 8-12 households; larger associations have problems with coordination and dissolve. The primary motivation for forming cooperatives is the desire to receive material assistance from donor organizations.

Members of cooperatives may rent land and begin joint cultivation.

---

<sup>26</sup> Heads of large companies, on their side, complained of the failure of small farms to fulfill contracts. Small producers are oriented towards short-term relations and do not fully realize the benefits of long-term sustainable cooperation. Futures contracts concluded with small producers do not work well. Frequently, when there are better prices on the market, the contracts are violated and companies cannot purchase produce at prices set by the contract.

<sup>27</sup> The symbolic capital of a group can later become a good precondition for the formation of a brand.

As a rule, members of cooperatives continue their subsistence farming. For example, in the Samtskhe-Javakheti region, farmers plant a new variety of potato seeds on lands taken into lease by a cooperative and on their own land plots. Obviously, such diversification is a method of insuring their risks.

Property relationships within cooperatives are ambiguous. In the communities that were surveyed, cooperatives did not have common property. Funds of the cooperative were used for one-time purchases of seeding materials (potato seeds). According to certain experts, the fact that cooperatives do not have common property has hindered the establishment of functional relationships between its members.

There is no statistical information regarding the sustainability of established cooperatives. Programs of international organizations are short-term and they cannot implement effective long-term monitoring to assess sustainability. According to certain experts, having a discussion about whether agricultural cooperatives are successful is senseless. Cooperatives as legal entities do not function in reality. Because of unfavorable tax treatment, legal entities (cooperatives) are replaced by their members in economic transactions. Cooperatives exist only on paper as legal entities.

As the qualitative research has demonstrated, there is a high rate of dissolving of cooperatives at the first stage of their functioning. The functioning of cooperatives, making decisions and sharing profits is to be based on the principle of proportionality. Problems arise when it is necessary to assess the ratio between diverse resources. Members of cooperatives possess different resources at the time of the formation of the cooperative (material resources, knowledge, etc.). Often, reaching an agreement about the relative value of resources is difficult. Consequently, in cooperatives, the principle of proportionality as the guarantee of the fair distribution of power and economic resources is difficult to establish and adhere to. As discussed above, both formal and informal associations are faced with this challenge.

Out of the cooperatives examined in this study, cooperatives whose members owned approximately the same amount of resources were relatively sustainable (here are implied material resources and knowledge).

Are explicit rules of cooperation defined in more or less sustainable cooperatives? The research demonstrates that formal rules that regulate relations between members of cooperatives exist only on paper. In reality, relations between members of cooperatives are regulated through informal rules. Even in the most sustainable cooperatives, we did not observe attempts to explicitly articulate rules. In the relatively successful cooperatives, the level of trust is high; even in such cases, the

implied context is not formed into explicit standards. Such a state of affairs has its negative consequences; such relations are formed in the village as a closed system that does not provide for expansion and inclusion of others because inclusion of new members would jeopardize the fragile environment of the implied (taken for granted) norms.

The closed character of cooperatives thus causes a certain distancing from the rest of the community.

Do more or less sustainable cooperatives manage to attain economic success? As observed, the scale of economic success of cooperatives is limited. Cooperatives manage to solve small-scale technical matters through aggregation of resources (for example, a mini-irrigation system) or by introducing new ideas for marketing (such as the packaging of potatoes).

To participate in a large-scale economy, cooperatives must have access to the resource located in the upper part of the hourglass (such as credit and know-how). Members of cooperatives view relations with the upper part of the hourglass with caution. Such an attitude is determined by the fact that there is no system of insurance in the agricultural sector. In addition, the attitude towards the institutions at the macro-level is also problematic; such institutions are often perceived as potential threats rather than potential allies. Such an attitude, in its turn, encourages the conclusion that cooperatives would rather stay in the shadows, which is not conducive for the process of formation of explicit rules inside organizations.

In villages, the gap between the micro and macro levels of economy is not filled. Service providers that would be considered as allies by cooperatives or other associations in the process of building relationships with macro-level institutions are rare. The availability of such institutions would create the necessary institutional mechanism for linking agricultural cooperatives with the upper part of the hourglass. As local representatives of international organizations have said, in those cases when international organizations have set up local service-providing centers, agricultural cooperatives have better chances of sustainability and development.

As a summary, we shall try to answer the following questions: Why do villages fail to set up sustainable associations that promote prosperity? Is this the result of weakness in the social capital of rural areas or the influence of external factors?

As the study has demonstrated, the social capital of rural areas allows for the formation of contractual relations, because it links resources, forms of cooperation necessary for the generation of resources and relevant dispositions. The most

problematic are those forms of cooperation that aim to attract external resources, that use external standards and that apply external sanctions to strengthen the cooperation. The village is the “weak side” in the context of external relations; its social capital is often ineffective and cannot overcome external influences that act against it.

Such negative external influences can be grouped into the three following types, with the following characteristics: (a) the resources that the village can attract externally to create public goods are available as a privilege (grant or a donation) rather than as a normal right, reducing the cohesion of the village and increasing the privilege factor; (b) the reputation, or the symbolic capital, that the agricultural association might acquire is not valued sufficiently because the environment is not stable, risks are not insured and stable contractual relationships are not established; and (c) the agrarian economy is a two-level economy. Its formalized upper level is less conducive to defining the rules for the lower level. Tax inspectors, the judiciary and financial (and other) institutions that agrarian cooperatives may have relations with cannot perform the required third-party function for resolving internal conflict in the cooperative or in protecting contractual relations. These institutions are instead viewed as entities that may create certain problems for cooperatives. Consequently, formalizing the relations for cooperatives is perceived as a factor that increases the risk for cooperatives instead of one that insures contractual relations.

## Chapter 6. Conclusions and Recommendations for Further Reforms

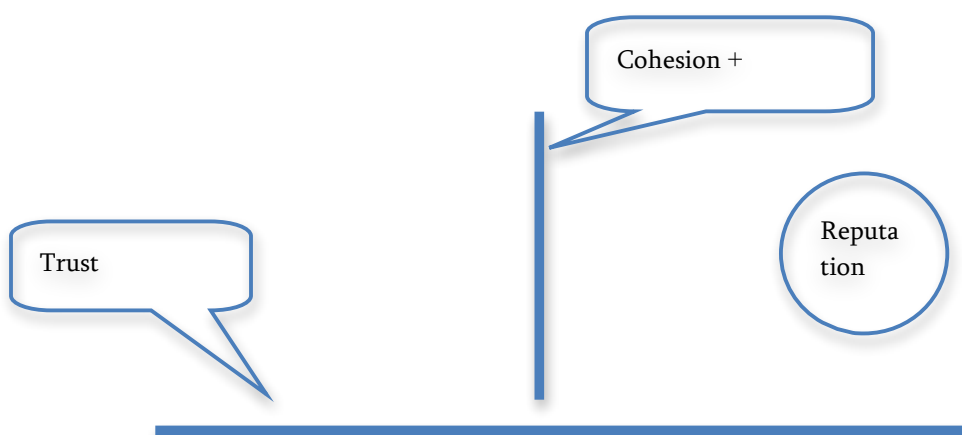
### 6.1. Brief Summary of Findings

In this study, social capital was modeled as a composition of the following three attitudes: solidarity, trust and loyalty. When all three elements are strong in society and they resonate with each other, society manages to function in an institutionally sustainable manner and develops without excessive external enforcement. When these elements of social capital are weak or create opposing trends, society loses effectiveness and acquires the shape of an hourglass in which the hierarchy of resources appears between the bottom and upper part in place of their free exchange.

The application of this model to economic relations, forms of cooperation and attitudes on the level of communities has allowed us to identify dispositions that correspond to these three components of social capital: cohesion, trust and reputation.

Social relations and attitudes that are identified as a result of the research can be represented graphically in the following manner:

**Diagram 4.**



The vertical dimension of this diagram corresponds to the ability of the village to create public goods, arrive at common opinion, reach decisions and implement self-governance measures. The higher the village is located on a dimension, the more cohesion it demonstrates.

The left horizontal dimension of the diagram corresponds to the ability of community residents to cooperate within the scope of their private interest and generate added value through the exchange of resources such as labor, information or other resources at their disposal. The stronger generalized trust is in the village and the more stringent the sanctions for violation of unwritten norms of the village are, the more successful residents are in cooperating with each other.

The circle located on the right side of the diagram indicates the possibility of such cooperation within the village that implies the common interests of its participants directed towards obtaining external resources. Satisfaction of these interests depends on fulfilling commitments undertaken by partners and loyalty towards these commitments. The higher the aspiration for attracting external resources is, the more importance is assigned in the village to reputation and reliable partnership.

This scheme is helpful for summarizing the key findings of the research and finding answers to the following questions: What types of social relations are established in the community? How strong is the social capital of the community? Which factors impede more intensive economic and political cooperation in the community?

1. Villages differ from each other by their cohesion and their ability for collective action;
2. The more the residents of the village believe that competition for economic resources is fair and that the prosperity of the households is the result of their labor and skills and not the result of undeserved privileges, the higher is the level of cohesion;
3. The cohesion of the village and the prosperity of individuals are in linear correlation when there is a third factor – generalized trust; if the village demonstrates a high level of trust, its cohesion is directly reflected in the prosperity of its residents;
4. Trust towards individuals is much higher when the village has pastures in common ownership and a well-established practice of joint pasturing of the livestock. When assets are available in common ownership and there is a tradition of their joint usage, this promotes mutually beneficial cooperation between the residents of the village and trust towards people who they do not know closely.

5. Villages with high level of cohesion are much more interested in the implementation of self-governance than those villages that have no ability to come to consensus and solve their problems independently.

6. There is economic inequality in villages, but this factor does not deter the village from reaching a high level of cohesion and does not cause antagonistic stratification of village residents. Villages are socially integrated, and no conflict of interests is observed that would cause the creation of clearly outlined groups similar to social classes or mafia.

7. If the residents of a village believe that good reputation is a precondition of success, they are more prepared to set up formalized associations that improve access to external resources for the village.

8. Network relations in the villages have certain “knots” – so called “brotherhoods”, or groups that have relatively close connections. Within these groups there are attempts at economic cooperation, which as a rule is short-term and unsustainable. Generally, mechanisms of long-term unification and sustainable functioning of groups are weak in villages; private interests prevail over group interests.

9. In villages, there have been numerous attempts at creating formal associations, although the formation of such associations is initiated under the influence of external actors and through their direct support and mediation; such associations are not sustainable, and the current economic, political and legal environment does not promote their sustainability and stable functioning.

## **6.2. Recommendations related to Further Reforms**

Today, villages face the need of further reforms. These reforms will be more effective if they are better adjusted to the current context of the villages and should be based on social capital and the social structure of the rural communities.

Major reforms must establish local self-governance on the community level and measures that are focused on the promotion of large-scale farming, the creation of a stable environment conducive for the development of the agricultural sector and the introduction of rules and regulations.

The effectiveness and sustainability of reforms will depend on the “rapport” that develops between new institutions and the structure of social capital in rural areas. In cases when social capital, the “rules of game” and produced resources are positively related, these rules and resources must be strengthened further and maintained. In those cases when “the narrow neck” appears – when the rules of the game and the resources necessary for the village are at odds with social capital – regulation should ensure that such resources are adjusted to the needs of the village.

## **1. Self-Governance**

According to these findings, not all villages are equally ready for self-governance. Only those villages that are socially successful and have higher levels of cohesion are able to address problems independently, whereas other villages lack the informal practice and internal cohesion necessary to deal with common problems. Consequently, they prefer to take less responsibility upon themselves and hope that the state is going to assist them. Thus, in the process of selecting the model of village governance, it would be best if villages have the option to choose between two models of self-governance, with higher and lower levels of responsibility.

For the institutions of self-governance to function better, it is necessary to ensure that such institutions do not create new privileges. The more privileges are created in a village, the more difficult it will be to shift the social capital of the village into implementing self-governance. Excessive privileges may be restricted by frequently rotating authority within the self-governance and minimizing necessary competencies.

Village self-governance should have the authority of formalizing those informal norms and rules that are related to property disputes. Regulation of property relations that exist on the central level of governance should ensure that villages and municipalities have some power at the local level.

## **2. Common Property, Consolidation of Farms**

As the research demonstrated, the availability of common resources (pastures) and the practice of joint usage of such resources have a positive influence on the social life of a village, increase its social capital and promote mutually beneficial cooperation between village dwellers. Wherever possible, pasturelands should be transferred to the governance of the village.

According to respondents, forests, as opposed to pastures, should be under state management. It should be noted that management of water and forest resources might yet be most effective at the municipality level.

In villages, common property and group property are perceived absolutely differently, and substituting one for the other would not be effective. As opposed to common property, the property of cooperatives is not well established in rural areas. Such forms of cooperation are rare and weak.

Promotion of cooperatives, which would in its turn help with the process of consolidating lands, requires the introduction of explicit rules. Such rules should be in compliance with informal norms, and guarantees of their adherence should be clearly defined by new legislation that takes into consideration the negative attitude that village residents generally have at present towards cooperatives.

Cooperation oriented towards provision of services and sales of products will most likely be more successful than cooperation oriented towards joint production.

### **3. Establishment of a Stable and Conducive Environment for Agricultural Production and the Introduction of New Rules**

To increase the productivity of labor and land resources, a stable environment must be created and a policy for pooling risks related to the accumulation of resources by the state should be implemented. These activities should not be limited to legislative or economic measures. One of the components is symbolic capital, which would create a sense of stability in the residents of rural communities, thus providing more incentive to play in accordance with the new rules.

Market stereotypes that have been inculcated during the last two decades have had a negative effect on how residents of rural areas view opportunities of and prospects for cooperation. Residents have no expectation that the state should insure group assets (brand or material assets). Targeted efforts towards popularization of new norms and realities should be an inseparable component of reforms. The timeline for the new rules of game should be long-term and institutionally clearly defined.

One of the means of filling in the gap between the institutions existing on the micro-level of communities and the macro-level of the country is to create and develop the institutions of the mezzo level. Such organizations should ensure expansion of the “narrow neck” and link villages with the external world. Whatever these organizations may be, whether bottom-up associations or service providers initiated

from the upper level, the state should act as a guarantor of their stable functioning and the sustainability of their reputations.

## Bibliography

1. Anderson, Lisa R., Jennifer M. Mellor and Jeffrey Milyo. 2004. Social Capital and Contributions in a Public-Goods Experiment. *The American Economic Review*, Vol. 94, No. 2, Papers and Proceedings of the One Hundred Sixteenth Annual Meeting of the American Economic Association San Diego, CA, January 3-5, (May, 2004), pp. 373-376.
2. Archvadze, Joseb, Elguja Mekvabishvili, 2010. Current state of rural economics of Georgia and development prospect. *Economics and Business*, November and December, Iv. Javakhishvili Tbilisi State University (in Georgian). pp. 107-115.
3. Arrow K. J. 1951. *Social Choice and Individual Values*. New York: John Wiley and Sons.
4. Babajanian, Babken V. (2008). 'Social Capital and Community Participation in Post-Soviet Armenia: Implications for Policy and Practice', *Europe-Asia Studies*, 60: 8, 1299 — 1319.
5. Banfield, Edward. C. (1958). "The Moral Basis of a Backward Society", Free Press.
6. Berggren, Niclas, Henrik Jordahl. 2005. Free to Trust? Economic Freedom and Social Capital. Working paper 2005:2. Department of Economics Uppsala University.
7. Bezemer, Dirk and Junior Davis. 2002. Rural Non-Farm Economy Project The Rural Non-Farm Economy in Georgia: Overview of Findings NRI Report No: 2729
8. Bradbury, Helen. 2009. A Lessons Learned. Review of Different Approaches to the Group Organisation of Agricultural Service Providers and Producers in Samtskhe-Javakheti, Akhaltsikhe, Georgia, CARE, DfID.
9. Brondizio, Eduardo S., Ostrom, Elinor. Oran R. Young . 2009. Connectivity and the Governance of Multilevel Social-Ecological Systems: The Role of Social Capital. *Annu. Rev. Environ. Resourc.* 34: 253-278.
10. Coase, Ronald H. The Nature of the Firm. In: *Economica*, New Series, Volume 4, Issue 16 (Nov. 1937), 386-405
11. Coleman, James S. 1988. Social Capital in the Creation of Human Capital. *The American Journal of Sociology*, Vol. 94, Supplement: Organizations and Institutions: Sociological and Economic Approaches to the Analysis of Social Structure. pp. S95-S120.
12. Cordonnier, Christophe. 2010. EU Export Market Conditions for the Realisation of the Competitive Advantages of Georgian Agricultural Products. Policy paper. GEPLAC  
<http://www.geplac.ge/newfiles/GeorgianEconomicTrends/Cordonnier%202010.pdf>.

13. Dudwick, Nora, Elizabeth Gomart, and Alexandre Marc (Ed.). 2003. When Things Fall Apart. Qualitative Studies of Poverty in the Former Soviet Union, The International Bank for Reconstruction and Development / The World Bank.
14. Ebanoidze, J.. 2003. Current land policy issues in Georgia. Land reform, land settlement and cooperatives. Special edition. FAO. 2003/3.
15. Farrell Henry, Jack Knight. 2003. Trust, Institutions, and Institutional Change: Industrial Districts and the Social Capital Hypothesis Politics & Society, Vol. 31 No. 4, December, 537-566.
16. Gardner, Bruce, Zvi Lerman. 2006. Agricultural Cooperative Enterprise in the Transition from Socialist Collective Farming. Journal Of Rural Cooperation, 34(1):1-18
17. Georgia. Reform in the food and agriculture sector. A World Bank Country Study. WB 1996
18. Gogodze Joseph, Iddo Kan Ayal Kimhi. 2008. Development of Individual Farming in Georgia: Descriptive Analysis and Comparisons. MPRA Paper No. 11721, posted 23. November
19. Gogodze, Joseph, Iddo Kan Ayal Kimhi. Land Reform and Rural Well Being in the Republic of Georgia: 1996-2003. The Hebrew University of Jerusalem Discussion Paper No. 1.07
20. Gogodze. Joseph. 2002. Individual farming in transition economies. In: Individual farms in Eastern Europe and the Commonwealth of Independent States. Ed. David Sedik. FAO Rome.
21. Gogokhia, Revaz. 2012. The priority of development of agricultural product sector – the precondition of overcoming systematic economic crisis. In: Priorities of the Sustainable Development of Agriculture, Proceedings, Tbilisi University Publishing house, (in Georgian). pp. 119-125.
22. Decentralization in Georgia: Existing condition and perspectives. 2009. Center for Effective Governance System and Territorial Arrangement Reform, "Aradani", Tbilisi.
23. Descriptive Analysis and Comparisons MPRA Paper No. 11721, posted 23. November 2008
24. Didebulidze, Alexander. 1997. Rural economy development in Georgia: Problems and Perspectives. UNDP discussion paper N.5, Tbilisi,
25. Habermas, Jurgen. 1985. The Theory of Communicative Action. V 2. Lifeworld and System: A Critique of Functionalist Reason , Beacon Press.
26. Hagedorn, Konrad. (2004). Property rights reform on agricultural land in Central and Eastern Europe. Quarterly Journal of International Agriculture 43 No. 4: 409-438
27. Hardin, Russell. 2004. *Trust and Trustworthiness*. New York: Russell Sage Foundation.

28. Howard, Marc Morjé. 2003. *The Weakness of Civil Society in Post-Communist Europe* Cambridge University Press.
29. Inkeles, A. (2000). 'Measuring Social Capital and its Consequences', *Policy Sciences*, 33: 245–68.
30. Kan Iddo, Ayal Kimhi . Farm output, non-farm income and commercialization in rural Georgia. *Electronic Journal of Agricultural and Development Economics*. Agricultural and Development Economics Division (ESA) FAO Vol. 3, No. 2, 2006, pp. 276–286
31. Khan, Shahrukh Rafi ; Zeb Rifaqat, and Sajid Kazmi, 2007. *Harnessing And Guiding Social Capital For Rural Development*, Palgrave Macmillan.
32. Koguasvili, Paata. 1998. *Agrarian Reform: Results and Perspectives*, Tbilisi. (in Georgian).
33. Kumlin, Staffan, Bo Rothstein. 2005. Making and Breaking Social Capital: The Impact of Welfare State Institutions. *Comparative Political Studies* 38: 339 SAGE.
34. Lee, Cheol-Sung, 2012. Welfare States and Social Trust, *Comparative Political Studies* XX(X) 1–28 SAGE.
35. Letki, Natalia, Evans, Geoffrey. 2005. Endogenizing Social Trust: Democratization in East-Central Europe. *British Journal of Political Science*. 35, 515–529.
36. Lin Nan. 2004. *Social Capital A Theory of Social Structure and Action* Cambridge University Press .
37. Losaberidze, David, David Melua, David Narmaina. 2008. Development of local democracy in Georgia. Annual report. OSGF.
38. Losaberidze, David, David Narmaina Vaxtang Kxmaladze. 2011. Annual Report of Local Democracy Development in Georgia 2009-2010. OSGF, Tbilisi (in Georgian)
39. Melua Davit, "Georgian Village in Transition Period" This work was supported by the Research Support Scheme of the Open Society Support Foundation. Grant No:1617/1999, Tbilisi 2000 (in Georgian, manuscript).
40. Mercy Corps Georgia. July 2004. *Understanding the Legacy of Community Mobilization*. Georgia Field Study
41. Muskhelishvili Marina. 2007. "The Reform of Self Government". In: *Neighborhood policy of EU and Georgia*. FES/OSGF/CORDAID, Tbilisi (In Georgian)
42. Muskhelishvili, Marina (2011): Institutional change and social stability in Georgia, *Southeast European and Black Sea Studies*, 11:3, 317-332
43. Muskhelishvili, Marina. 2011. *Social Dialogue in Georgia*. Tbilisi: Friedrich-Ebert-Stiftung.
44. Narayan, Deepa. 1999. *Bonds and Bridges: Social Capital And Poverty* , Poverty Group, Prem World Bank July.

45. Natsvlishvili, Beka. 2012. The Features of creation of cooperative enterprises in Georgian villages, in: Priorities of the Sustainable Development of Agriculture, Proceedings, Tbilisi University Publishing house, (in Georgian). pp. 377-384
46. North, Douglass C., et al, 2009. Violence and Social Order. Cambridge: Cambridge University Press.
47. North, Douglass C. 2005. Understanding the Process of Economic Change. Princeton University Press.
48. North, Douglass C. 1990. Institutions, Institutional Change and Economic Performance (Political Economy of Institutions and Decisions). Cambridge University Press.
49. Olson, Mancur. 1971. The Logics of Collective Action: Public Goods and the Theory of Groups. Harvard University Press.
50. Ostrom, Elinor and Hess, Charlotte, (2007). "Private and Common Property Rights". Library. Paper 24. <http://surface.syr.edu/sul/24>
51. Ostrom, Elinor. 2000. Collective action and the evolution of social norms. The journal of Economic Perspectives, V 14 N 3, pp. 137-158.
52. Ostrom, Elinor, Joanna Burger, Christopher B. Field, Richard B. Norgaard, David Policansky. 1999. Revisiting the Commons: Local Lessons, Global Challenges. Science 284, 278.
53. Ostrom, Elinor. 1990. Governing the Commons: The Evolution of Institutions for Collective Action. Cambridge University Press.
54. Paldam, Martin. 2002. Social capital: one or many? Definition and measurement. In Sayer, Stuart. Issues in New Political Economy (Surveys of Recent Research in Economics Wiley-Blackwell
55. Putnam, Robert D. 1994. *Making Democracy Work, Civic Traditions in Modern Italy*, Princeton University Press
56. Rawls, John, 2005. A Theory of Justice. Original Edition. Belknap Press of Harvard University Press.
57. Revishvili Zurab, Henry W. Kinnucan. 2004. Agricultural Problems In Georgia And Strategic Policy Responses. In: The Role of Agriculture in Central and Eastern European Rural Development: Engine of Change or Social Buffer? Martin Petrick, Peter Weingarten (eds.) Studies on the Agricultural and Food Sector in Central and Eastern Europe, Vol. 25, Halle (Saale), IAMO, pp. 52-64.
58. Revishvili, Zurab. 2012. Rural household farming in Georgia: formation, problems and ways of development. Priorities of the Sustainable Development of Agriculture, Proceedings, Tbilisi University Publishing house. (in Georgian) pp. 398-404.
59. Rose, Richard. 1994. Postcommunism and the Problem of Trust, Journal of Democracy, V.5, N.3,

60. Rozelle Scott and Johan F. M. Swinnen. 2004. Success and Failure of Reform: Insights from the Transition of Agriculture. *Journal of Economic Literature*, Vol. 42, No. 2 (Jun.), pp. 404-456.
61. Seligman, Adam. 1997. *The Problem of Trust*. Princeton University Press,
62. Serageldin, Ismail (Editor), Partha Dasgupta (Editor). 2001. *Social Capital: A Multifaceted Perspective*. World Bank Publications.
63. De Soto, Hernando. 2000. *The Mystery of capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. Basic Books.
64. Tilly, Charles. 2005. *Trust and Rule*. Cambridge University Press
65. Warren, E. Mark. 2008. The nature and logic of bad social capital. In: Castiglione Dario Jan W. Van Deth And Guglielmo Wolleb (Ed.). *The Handbook Of Social Capital*. Oxford University Press. pp. 122-149.
66. Williamson, Oliver E: *The economic institutions of capitalism*, New York, 1985
67. WORLD BANK, 2009. — *Georgia Poverty Assessment*, Washington D.C., World Bank, Human Development Sector Unit, April, 178 p.[Report n° 44400-GE].
68. Georgian Economic Outlook. EPRC 2011.  
[http://www.osgf.ge/index.php?lang\\_id=GEO&sec\\_id=8](http://www.osgf.ge/index.php?lang_id=GEO&sec_id=8)

<http://www.aplr.org/?lang=geo&id=376>

[http://www.messenger.com.ge/issues/2227\\_november\\_3\\_2010/2227\\_eklund.html](http://www.messenger.com.ge/issues/2227_november_3_2010/2227_eklund.html)

[www.geostat.ge](http://www.geostat.ge)

[http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2010-11.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf)

<http://unctad.org>

## Annex 1

### Data Used in the Process of Analysis (Frequency Distributions)

**A1. If we compare economic conditions in your village with other villages of the regions, to which of the categories listed below would you assign your village?**

- 1. Rich village-1%
- 2. More or less rich village – 7.2%
- 3. Average wealth – 63%
- 4. Poor village \_ 27.8
- 5. Extremely poor village – 1%
- 99. Not sure (don't read)

**A2. Our country has undergone major changes during the last twenty years. How would you compare the situation in the country and your village in this regard? (Give the card)**

- 1. During recent years, our country and my village developed mainly in the right direction - 42.5%
- 2. During recent years, our country was developing in the right direction, although this was not reflected in our village – 42.8%
- 3. During recent years, our country was not developing in the right direction, although life was improving in my village – 9.7%
- 4. During recent years, our country, and my village were not developing in the right direction – 2.8%
- 99. Not sure - 2.2%

**A4. Of the two statements below, which describes the state of affairs in your village the best?**

- 1. Households in our village have more or less similar economic status – 65.8%
- 2. The difference between the well-off and the poor is substantial– 32.7%
- 99. Not sure– 1.5%

**Some village groups have a variety of people with different positions in society; these people may have problems communicating with each other and may prefer to function separately. Listed below are such groups, and you can tell us whether relations between these groups are harmonious in your**

**village, whether they prefer to keep their distance, or whether there are conflicts between them.**

	Groups	Relationships are not problematic (%)	They prefer to keep distance	Sometimes conflicts occur	Problem is not relevant for the village ( <i>don't read</i> )	Not sure( <i>don't read</i> )
A5.1	Persons of different ethnicities	52.2	0.2	0.5	47.2	
A5.2	Followers of different religions	66.5	1.5	0.7	31.2	
A5.3	Persons closely connected to authorities and the rest of the village	92.8	3.7	0.3	2.7	0.5
A5.4	Rich and poor	92.5	2.8		4.5	0.2
A5.5	Young and elderly	97.3	1.5	0.2	1	
A5.6	Supporters of different political parties	79.5	8.8	2.3	7.5	1.8
A5.7	Native residents and newly settled households	88.7	0.5		10.8	
A5.8	Representatives of different family clans	95.8	0.2	0.8	3.2	
A5.9	Representatives of different districts	99	0.3	0.7		

**A6. Villages differ from each other in different aspects. In some villages, there is a higher level of equality and cohesion, whereas in others there are groups or people who have more power or influence over the life of a village. How would you describe the situation in your village in this regard?**

1. In the village, there is general equality - 97.8%  
or
2. There are people (groups) who have more power – 1.2%

99. Not sure– 1 %

**A7. Out of the two statements below, please indicate which describes the state of affairs in your village the best.**

1. The majority of residents of the village do their best to address common problems – 68.2%

or

2. The majority of residents are closed in with their families and direct their efforts only towards ensuring the well being of their households – 29.5%

99. Not sure – 2.3%

**A8. Out of the three situations described below, which occurs in your village more frequently in case of a diversity of opinions with respect to problems related to common interests/issues?**

1. Residents of the village manage to coordinate their views and act unanimously – 55.7%

2. Many residents of the village try to lobby their opinion and the residents of the village fail to act unanimously – 30.5%

3. Residents of the village try to entrust decision-making to the more respected persons or state authorities – 11.7%

99. Not sure – 2.2%

**A9. Out of the two statements provided below, which would best describe your opinion?**

1. In the village, there are many issues that the residents could settle themselves if they had more authority and self-governance – 28.3%

Or

2. The village cannot settle its problems independently, and the local authorities should undertake the responsibility to settle the problems of the village – 70.5%

99. Not sure– 1.2%

**A10. Out of the statements listed below, which better describes the situation in your village?**

1. The opinion of the village matters very much and if a person acts against such common opinion, it will be difficult for him to live in the village – 60.8%

or

2. People don't consider the common opinion of the village and everybody can act as they deem correct, with no hardships resulting from such actions – 36.5%

99. Not sure 2.7%

**A11. How would you explain the fact that today some people or households are wealthier, although others are in need?**

1. The relatively wealthy work hard and adjust to life better, whereas the poor are lazy – 55.5%

or

2. Industriousness and skills are not determining factors of economic success; those people are wealthier who have managed to obtain privileges in different ways – 41%

99. Not sure – 3.5%

**A12. Let's imagine that some facility got damaged in the village (power transmission line, irrigation channel, road or bridge) and it can be repaired with the joint efforts of village residents. In your opinion, what part of the population will participate in repairing the damaged facility?**

1. Majority of residents – 66%

2. Only some residents, whereas others will ride free and try to avoid working – 32.3%

99. Not sure – 1.7%

**A13. If collecting money is required to repair damaged facilities, how will residents behave?**

1. The majority of residents will contribute as much as they can – 65.8%

2. Many will try to avoid contributing money and will try to have a “free ride” – 29%

99. Not sure – 5.2%

**A14. Is there (or was there) a non-governmental organization in your village that is supported by foreign organizations?**

1. Yes – 18.2%

2. No – 62.8%

99. I don't know – 19%

**A16. Are you a member of this organization?**

1. Yes – 4.6%

2. No – 95.4

99. No answer

(Data has been collected and computed only from those respondents who stated that there is such organization in their village)

**A17. Out of the two statements provided below, which better expresses the attitude of a majority of the village residents towards such organization?**

1. The non-governmental organization (association) works for the benefit of the village, and the majority of village residents are disposed positively towards it – 91.7%
2. The leaders of the non-governmental organization are mainly trying to satisfy their own interests, and that is why they do not have good reputation in the village – 8.3%
99. Not sure – 0

(Data has been collected and computed from only those respondents who stated that there is such organization in their village)

**B1. Out of the statements listed below, which would best describe the situation in your village? (Give the card)**

1. From time to time, a majority of the residents meets to discuss and settle common problems– 24%
2. The residents of the village gather in small groups in public places (birja), houses, and small gatherings to discuss common problems– 70.5%
3. The residents of the village are less involved in discussions regarding problems of the village- 4.8%
99. Not sure – 0.7%

**B2. How often does the village come to agreement regarding ways of solving of common problems?**

1. Almost always– 7.4%
2. Frequently – 49.7%
3. Rarely – 34.8%
4. Never – 2.3%
99. Not sure– 3.5%

**B3. Can you recall occasions when the residents of the village did not agree with certain decisions of the authorities and protested jointly? (More than one answer is possible)**

1. Yes, after the Rose Revolution– 9.5%
2. Yes, in the period of Shevardnadze rule– 9.9%
3. Yes, in earlier periods – 2.3. %
4. Can't recall such occasions– 78.3%

**B5. Can you recall any occasions when village residents jointly applied to the authorities with some request, petition or proposal? (More than one answer is possible)**

1. Yes, after the Rose Revolution– 21.8%
2. Yes, in the period of Shevardnadze rule– 2.7%
3. Yes, in earlier periods – 0.3%
4. Can't recall such occasions– 75.2%

**B7. Where does the larger part of the village population meet most frequently?**

*(Please circle only one answer)*

1. Village club – 4.6%
2. Church – 5.4%
3. Village “birja”- 59.7%
4. Stadium – 2.6%
5. Village school – 9.5%
6. Village restaurant, pub and etc. – 5.1%
7. Other – 13%

**B8. Are traditional festivities held in your village (religious or secular) in which a substantial part of the population takes part?**

1. Yes – 90.8%
2. No – 9%
99. Not sure – 0.2%

**B9. Does your village have the following “unwritten rule”?**

**If somebody is selling a house or a land plot, he should first offer it for sale to his neighbor.**

1. Yes – 57.2%
2. No – 32%
99. Not sure– 10.8%

**In villages, many issues are common issues and they impact several or many households. In certain villages, such matters are regulated by so called unwritten laws, traditions and rules. Residents of such villages try to adhere to these rules. Several cases and activities are listed below; do you have such rules in your village and, if so, do you adhere to these rules?**

		There are unwritten rules and traditions	There are unwritten rules and traditions,	There are no unwritten rules and	This problem is not relevant	Not sure
--	--	--	---	----------------------------------	------------------------------	----------

		that almost everybody adheres to (%)	but they are often infringed	traditions	for our village	
B10.1	Pasturing of livestock in turns	70.3	0	8.8	20.3	0.3
B10.2	Rules for using pastures (i.e., payment of fee per number of cows)	41.8	1.8	21.5	32.5	2.3
B10.3	Fishing in rivers and lakes	4.3	0.7	52.	11.3	17
B10.4	Forest use, collection of timber and firewood	6.2	2.7	45.3	41.8	20
B10.5	Maintenance of irrigation channels	3.3	3.7	43.8	48	1.2
B10.6	Collection of money for those in need	49.2	26.5	14.8	8.2	1.3
B10.7	Free labor contribution for solving common problems of the village (i.e., repairing of roads and bridges)	52.5	23.5	15.5	7.5	1
B10.8	Collection of money for solving common problems	61.5	15.2	15.8	6	1.5
B10.9	Collection of money for funerals	76.5	9.7	6.8	6.5	0.5
B10.10	Regulation of land plot delimitation and fencing between adjoining land plots	27.3	22.2	23.8	25.7	1
B10.11	Compensation for damage caused to plantings by livestock	21.2	23.5	25.7	28.2	1.5
B10.12	Dispute for repayment of borrowed money	21.3	17.5	28.2	29.2	3.8
B10.13	Responsibility for damage caused to neighbor's land plots because of uncultivated land (weeds pass to the next land plot)	18.3	22	26.8	31.3	1.5
B10.14	Cases of loss or cows/sheep	22.3	18.2	28.2	29.3	2

**B12. In those cases when there are such unwritten rules in the village, there are most likely persons or households who do not adhere to these rules and violate them. Out of the statements listed below, which best describes the attitude of your village residents towards such people or households?**

1. The village is strict with such people – 21.8%
2. The village does not have clearly expressed attitude towards such people, and not much attention is paid to such behavior – 73%
99. Hard to answer – 5.2%

**B14. Let's imagine that your fellow villager stole or damaged the property of another villager. What should a person do who found out about this or witnessed this? (Only one answer is possible)**

1. Tell the damaged party the name of the offending co-villager – 7.3%
2. Tell this to the offender and require compensation of damage – 28.7%
3. Tell the police – 52.3%
4. Tell the respected persons of the village – 5.0%
5. Notify co-villagers – 1.7%
6. Keep silent, it is not his business – 0.8%
99. Not sure – 4.2%

**B15. Villages always use resources (forest, pastures, rivers, lakes) that will be depleted if they are used excessively. In your opinion, which statement would best ensure the protection of natural resources?**

1. The state should regulate and control the use of these resources in accordance with the requirements of the law – 80%
2. The village should regulate and control the use of these resources in accordance with its own rules – 13.7%
3. Resources should be transferred into private ownership, and private owners should ensure their protection and avoid their depletion – 2.5%
99. Not sure – 3.8%

**B16. To what extent do you agree with the proposition that, if several households unite and implement their economic activities jointly, they will be better off economically?**

1. Fully agree – 7.7%
2. Would rather agree than not – 23%
3. Would rather not agree than agree – 38.3%
4. Don't agree at all – 21.0%
99. Not sure – 10%

**B 17. Have there been occasions when several households united to implement economic activities jointly or pooled their resources to attain some goal (credit union, lottery, etc.)?**

1. Yes– 25.2%
2. No – 72.8%
99. I don't know– 2%

**B23. In your opinion, why are such associations set up only rarely? (Two answers are possible)**

1. Nobody proposed such an idea – 7.2%
2. People recall kolkhoz and refrain from such cooperation – 8.4%
3. Everybody has his own opinion and people don't think that joint agreements can be reached – 16.6%
4. Because some are lazy, whereas others are industrious, which will put the latter at a disadvantage – 14.2%
5. People don't trust each other – 3.3%
6. It is not economically profitable – 7.5%
7. Everybody prefers to work on their own– 39.1%
8. Other-
99. Not sure – 3.5%

**T1. If you meet a person who you don't know well, which attitude would be more appropriate towards him?**

1. You can trust him until he does something bad– 37.7%
2. You must be cautious from the beginning, till you know him well– 52.5%
3. You must not trust him as he will use it in his own interests– 9.3%
99. Not sure – 0.5%

**T2. Can you say that in your village...**

1. People trust each other more than in other villages that you know– 32%
2. Trust towards each other is approximately the same as everywhere else– 65.5%
3. People trust each other less than in other villages– 0.5%
99. Not sure– 2%

**T3. In different villages, attitudes towards the village school are different. Which describes the situation in your village the best?**

1. Most parents are interested in school problems and participate in solving them– 37.3%

2. A small segment of the parent population is interested in school problems and participates in solving them– 42.3%
3. Parents are not interested in school problems and they don't participate in solving them– 0.8%
4. There is no school in the village– 4.8%
5. Other
99. Not sure – 14.5%

**R1. Can you say that in comparison with your fellow villagers:**

1. You are actively involved in the life of the village – 13.3%
2. You are more or less actively involved in the life of the village – 44.2%
3. You are less involved in the life of the village – 31.7%
4. You are not involved in the life of the village at all – 9.8%
99. Not sure (don't read) -1%

**R2. Please answer whether your village has any of the organizations listed below:**

	Organizations	Yes (%)		
<b>R2.1</b>	Charity organization	0.3		
<b>R2.2</b>	Association formed through assistance of foreign organizations	4.5		
<b>R2.3</b>	Parents' associations	33.8		
<b>R2.4</b>	Amateur sports team	25.8		
<b>R2.5</b>	Association of craftsmen or some other interest groups	0.2		
<b>R2.6</b>	Trade union	0.8		
<b>R2.7</b>	Local organization of a political party	2.7		
<b>R2.8</b>	Organizations of protection of nature/human rights	1.7		
<b>R2.9</b>	Congregation	93.8		
<b>R2.10</b>	Other, please specify			

**R5. How often do you discuss political issues with your fellow villagers?**

1. Always– 13.8%
2. Very often – 37.5%
3. Not so often– 24.2%
4. Rarely– 15.2%
5. Never– 8.8%
99. Not sure – 0.5%

**V3. Which statement would you agree with the most?**

1. To attain success in today's world, good reputation is of crucial importance – 67.7%
2. To attain success, good reputation is not necessary, because people with bad reputation can attain success too – 29%
99. Not sure (don't read) - 3.2%

**V5. Which of the statements listed below would you agree with most?**

1. Through industriousness and hard work, a household employed in the agricultural sector can gradually accumulate wealth and improve its living standard – 55.7%
2. If a household does not find another source of income, it will not be able to accumulate wealth in the agricultural sector alone, even if it works hard– 44.3%
99. Not sure - 0

**V7. If you had a choice, which you would prefer?**

1. I would prefer to live in my village if I had enough money – 81.7%
2. I would prefer to move to a town or go abroad if I had enough money to live there– 16.2%
99. Not sure – 2.2%

**D8. On the whole, can you say that you are:**

1. Very happy – 3.3%
2. Quite happy – 67.2%
3. Not so happy – 27.2%
4. Not happy at all – 2%
99. Not sure– 0.3%

## Annex 2

### Sample Villages

N	Village	Region	District	Ethnicity
1.	Aghaiani	Shida Qartli	Kaspi	Georgians
2.	Vakha	Sida Qartli	Khashuri	Georgians
3.	Lemshveniera	Qvemo Qartli	Gardabani	Georgians (eco-migrants from Svaneti)
4.	Tamarisi	Qvemo Qartli	Gardabani	Georgians
5.	Agtaklia	Qvemo Qartli	Gardabani	Azeri
6.	Birliki	Qvemo Qartli	Gardabani	Azeri
7.	Qesalo	Qvemo Qartli	Gardabani	Azeri
8.	Qodalo	Kakheti	Gurjaani	Georgians
9.	Kardenakhi	Kakheti	Gurjaani	Georgians
10.	Shilda	Kakheti	Khvareli	Georgians
11.	Gavaza	Kakheti	Khvareli	Georgians
12.	Kharajala	Kakheti	Telavi	Azeri
13.	Zodi	Guria	Chokhatauri	Georgians (eco-migrants from Adjara)
14.	Shorisubani	Guria	Lanchkhuti	Georgians
15.	Nasakirali	Guria	Qzurgeti	Georgians
16.	Khulishkari	Samegrelo	Zugdidi	Georgians
17.	Akhalsopheli	Samegrelo	Khobi	Georgians
18.	Gurifuli	Samegrelo	Khobi	Georgians
19.	Kabali	Sakheti	Lagodekhi	Azeri
20.	QoreTi	Imereti	Sachkhere	Georgians