



**Regional Development Programme  
of Georgia  
2015-2017**

## Table of Contents

<b>Chapter I. Foreword</b>	<b>3</b>
1.1 General Provisions and Programme Adoption Principles	3
1.2 Programme Structure, Methodology and Vision	3
<b>Chapter II. Current Situation Overview– Economic and Social Conditions</b>	<b>6</b>
2.1 Geographic Location and Natural Resources	6
2.2 Population and Demography	7
2.3 Physical Infrastructure	8
2.4 Environment	11
2.5 Economic Structure and Indicators	13
2.6 Labour Market, Education and Training	17
2.7 Investments, Innovation and Technological Development	21
2.8 Income and Poverty	23
2.9 Cultural and Recreational Resources	25
<b>Chapter III. The Development Needs of Georgia’s Regions</b>	<b>27</b>
3.1 Introduction	27
3.2 SWOT Table	28
3.3 Key Needs	29
<b>Chapter IV. Institutional and Policy Context</b>	<b>34</b>
4.1 Institutional and Policy Context in Georgia	34
4.2 International Agreements and Foreign Funding Sources	37
<b>Chapter V. Programme Targets and Priorities</b>	<b>40</b>
5.1 Introduction	40
5.2 Overall Objectives	40
5.3 Specific Objectives	40
5.4 Priorities	41
<b>Chapter VI. Programme Measures</b>	<b>44</b>
<b>2015-2017 Regional Development Programme Guideline Form for Supporting the Monitoring of the Programme (Annex №2)</b>	<b>53</b>

## **Chapter I. Foreword**

### **1.1 General Provisions and Programme Adoption Principles**

The 2015-2017 Regional Development Programme of Georgia (hereinafter – the Programme) is a medium-term governmental document specifying the main goals and objectives of Georgia’s Regional Development Policy and its relevant priorities and measures. It also defines the necessary conditions for the balanced and sustainable socio-economic development of the country’s regions.

Regional Policy, in terms of programme implementation objectives is a combination of purposeful measures concentrated and coordinated at regional level, focusing on development needs and priorities and therefore on the result-oriented allocation of resources to ensure sustainable regional development of the country.

The Programme was prepared in pursuance with the Decree №1315 of Government of Georgia from September 10, 2013 with the intense involvement of relevant Ministries and the Government Commission on Regional Development.

At the same time, the development and implementation of the Programme is of vital importance within the framework of ongoing and planned cooperation between the EU and Georgia including the Budgetary and Sector Policy Support Programme. It is even more important that the Programme’s development and its efficient implementation comply with the Association Agreement and the implementation objectives of the Association Agenda’s relevant provisions.

The approach reflected in the Programme is much more complex and coordinated than it was before, requiring more cooperation and engagement of those ministries and state institutions whose activities may have an impact on the regional development of the country.

### **1.2 Programme Structure, Methodology and Vision**

The Regional Development Policy along with key Priorities (Chapter 5) and respective Measures (Chapter 6) necessary for its implementation are set out in the Programme. They are preceded by an Overview of the Current Situation on regional development (Chapter 2) and accordingly identified Key Needs (Chapter 3). Annex 2 to the document contains a specific guideline form for supporting the monitoring of the implementation of the Programme priorities and measures.

Hereby, two general yet very important issues should be given due consideration:

1. The starting point for the first stage of the Programme’s development was the State Strategy for Regional Development of Georgia for 2010-2017 (SSRD). However, the circumstances - the wider context of Georgian policy and politics - have significantly changed and evolved since the adoption of that strategy that logically led to the development of a new Programme being in compliance with new realities and approximated more with the respective programming standards of the European Union. More specifically, there were the following circumstances:

The election of new government as a result of Parliamentary elections in late 2012, was followed by the adjustments of policies of previous government both at general level (e.g. Basic Data and Directions for 2013-2016) and for specific fields and sectors (e.g. agriculture, education - including

vocational education, healthcare and employment.). Most importantly, the elaboration of a new regional and local development policy has been initiated in the context of a new national policy for the economic development of the country.

Further development of Georgia's international relations has been embarked with very important achievements. Specifically, important negotiations over the Association Agreement were completed between the EU and Georgia in 2013 allowing the parties to initial the Association Agreement at the Eastern Partnership Summit in November 2013 and to sign the Association Agreement in June, 2014. Moreover, following the adoption of SSRD in 2010 (reflecting analysis of 2009 and earlier), regional development strategies for all regions of Georgia were elaborated. Each regional development strategy was approved by the relevant Regional Development Council and the Government Commission on Regional Development of Georgia and later (in September, 2013) was approved by the relevant government decrees. Such "bottom-up" results of planning required their proper consideration and reflection in the new Programme.

In addition, the Ministry of Regional Development and Infrastructure of Georgia, together with the National Statistics Office of Georgia (GeoStat) and other Ministries, has been working on the identification, collection and presentation of regional development related data in 2013-2014. These works and appropriate data allow description of regional disparities more accurately (unlike the SSRD preparation period, when such data were not available) and which were required to be considered in the Programme.

**2.** The issue that had to be considered in the Programme is the broad objective of regional development policy. This Programme is based on, and largely in line with, the EU Cohesion Policy experience of recent decades (aimed at the reduction of disparities between regions). This policy was significantly strengthened in the 1990s to provide assistance to weak member states and later was applied to meet the needs of new member states.

At the same time, it was important for the Programme to reflect - at least partially - on the Competitiveness Growth Policy as of the means achieving such cohesion and as of the means addressing the broader development needs. In the course of developing the Programme, these approaches have been considered as compatible with each other since in many instances, identical activities may address both policy concerns. . In future, whilst emphasizing the difference between these two approaches or using them in combination, necessity of some further clarification – which approach better serves the purpose of regional development in a particular period - might be needed. Generally, this Programme is tailored to Georgia's specific needs to a maximum extent and - provides response to the most critical, primary and immediate needs of its regional development. Georgia, compared to all EU member states, is less developed, therefore, to ensure development of basic infrastructure and stable services, using more resources than it is necessary for other EU countries is recommended (for both reducing disparities and increasing competitiveness).

Often, especially in small countries like Georgia, the competitiveness issue is managed more at national level, and, although relevant policies are duly supported at sub-national levels as well, priorities and measures of this particular Programme are more focused on the reduction of disparities and only partially, on increasing the competitiveness of the country and its regions. This is not, in

any way, to suggest that competitiveness agenda for regional development is under-prioritized for the coming years.

A whole number of complex challenges and long-term vision of adequate responses have to be highlighted, namely: the most important and increasing factors of economic development are such complex services of business support as - research promotion, introduction of new technologies and innovations. This is also essential for bridging the gap with more developed nations and regions of the EU. It is important that Georgian regions emerge as key players for determining overall national success given that externalities and increasing returns - main drivers of growth and economic development - arise exactly at regional and local levels. Herewith, since 2002, the European Council has considered the Competitiveness Policy as the key macroeconomic instrument allowing citizens' aspirations to be met not only via equalization policy, but also through knowledge-based, high efficiency economic development both at national and sub-national levels.

## Chapter II. Current Situation Overview – Economic and Social Situation<sup>1</sup>

### 2.1 Geographic location and natural resources

*Map1. Location of Georgia*



Georgia is located between the Black Sea and the Caspian Sea and is comparable in area to the Irish or Czech Republics. Historically, it has been an important crossroad for international trade and still is a significant corridor for oil and gas transit. The Baku - Tbilisi – Ceyhan oil pipeline and the South Caucasus gas pipeline go across southern regions of the country and play an important role in Europe’s Energy Security Policy. In addition, the planning and implementation of new projects to transport energy resources in an east-west direction through the country is quite promising.

The border with Russia to the north runs along the Greater Caucasus mountain range, with a height of 5000 meters. The southern border that separates the country from Turkey and Armenia lies on the Lesser Caucasus and the Javakheti Upland. The Greater Caucasus has always been a symbol of national and cultural identity. Moreover, the Caucasus Mountains offer hydroelectric and wood-forest resources as well as tourist potential.

The western boundary of Georgia is formed by the Black Sea coast, while in the east the country is bordered by Azerbaijan. In spite of the fact that during the last century, the large part of lowland forests was cut down due to rural and urban development, 40% of the total area of the country is still covered by forests.

Georgia has important hydro-energy resources (that meet most of the overall energy requirements of the country). A variety of mineral waters in different varieties are also available, some of which are internationally recognised and are notable for successful commercial usage. At various times manganese, copper, gold, silver and iron have been successfully obtained in Georgia.

<sup>1</sup> Except for primary data collected from various sources, other sources are also used in the diagnostic part of the document. The following are particularly important: 1) Urban Sector Strategy: “Georgia's evolving urban system and its challenges” prepared by the World Bank in 2013 and 2) “Report on Regional Disparities in the Republic of Georgia” prepared by the International School of Economics at Tbilisi State University (ISET) within the framework of EU Technical Assistance Project.

## 2.2 Population and Demography

Since the country gained its state independence in 1991 the population growth rate has changed dramatically due to acute political conflicts and economic crisis. (See below diagram 1.1). Population reduction was largely caused by migration. Georgia lost around 20% of its population in 1990-2005. The biggest loss was recorded in 1993-1997 when the Georgian population decreased by one million. However, according to National Statistics Office of Georgia, as of 2002 the population of Georgia began to grow again and reached 4.5 million by 2014.

During the 1990s the population decreased in all regions of the country, but this process was more evident in mountainous regions, mono-industrial cities and in towns with large proportions of ethnic minorities (Armenians and Azeries).

**After gaining independence, quite a large number of refugees and internally displaced people appeared in Georgia due to political tensions and armed conflicts. According to the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia, 253 574 refugees, i.e. 85 177 displaced families have been registered by April 8, 2014.**

Population density, types and sizes of urban and rural settlements vary considerably in different regions. Plains (which contain main transport routes and the most fertile locations) and the Black Sea coastal area are more densely populated while mountainous regions, especially the Greater Caucasus, are inhabited sparsely.

The most obvious example of uneven distribution is the concentration of a significant part of the population in Tbilisi. More than a quarter of the population officially lives in Tbilisi, and if the surrounding area (including Rustavi and Mtskheta) is taken into consideration the ratio is nearly half.

However, according to official statistics, the regional population distribution has been generally the same since independence. It is possible these numbers reflect data weaknesses, rather than the real situation in regions.

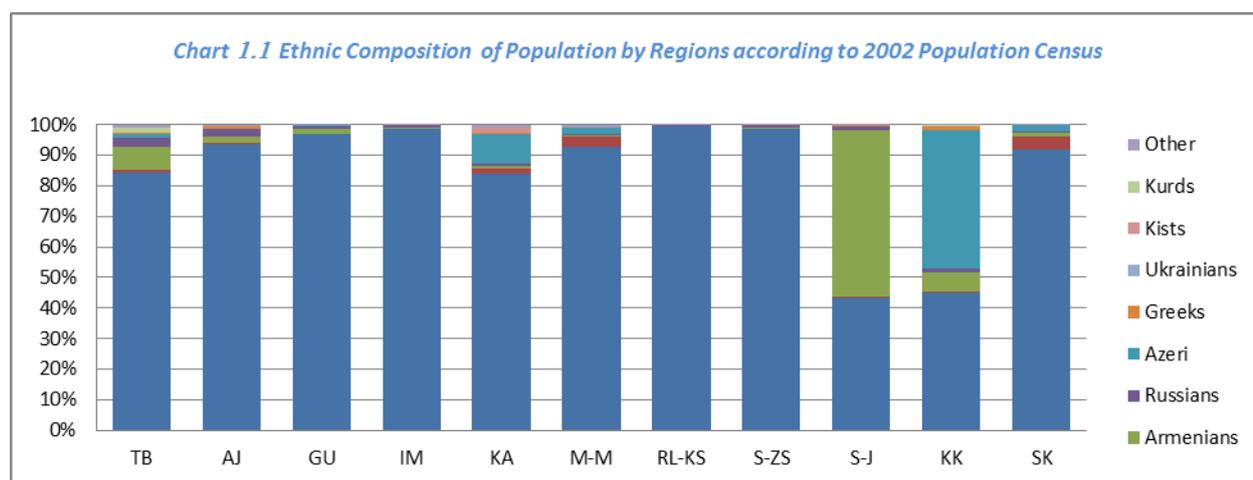
Since gaining independence the most significant changes have been observed in Kvemo Kartli (population reduced from 13% to 11%) and in Samegrelo-Zemo Svaneti. In the latter, the portion of population increased from 9% to 11% (mostly due to large flow of refugees from Abkhazia – there are 50 000 IDP's in Zugdidi alone, that is almost one third of the population of the Municipality). Most of the internally displaced persons have been concentrated in large cities; more than one-third of the total number of refugees lives in capital alone. Other major cities of concentration of IDP's are: Gori, Kutaisi and the neighbouring Tskaltubo.

Over the last decade an annual natural growth of population has been identified in three regions only – Adjara, Samtskhe-Javakheti and Kvemo Kartli – all of which have significant ethnic and religious minorities. In six regions of Georgia (Imereti, Racha-Lechkhumi, Guria, Kakheti, Mtskheta-Mtianeti, Samegrelo-Zemo Svaneti) the number of deaths exceeds the number of births. This partly indicates

the process of population aging caused by exodus of young people from regions. While no systematic data exist for international migration, internal migration figures can be estimated from the Integrated Household Survey (IHS). According to the recent estimates,<sup>2</sup> 66% of the population above the age of 15 have changed location without leaving the country, 11% of them during the last 5 years. It is well recognised that an influx of internal migrants to the capital has occurred, where the number of new settlers in some districts is around 20% of the residents. At the same time, the amount of population was decreasing in all other big and medium-size cities, as well as in all small ones; this was particularly evident in 1992-2002. However, this influx of population did not compensate for overseas emigration even for Tbilisi.

Another notable factor of migration is that the majority of migrants have always been relatively well-educated residents, both before gaining the independence and after it. Although village-to-city migration has partly compensated for the loss of residents in the capital, this has had an overall negative impact on maintaining the level of qualification and job skills of urban workers.

In terms of the population's ethnic composition, 90% of adults in most Georgian regions are ethnic Georgian. (See Chart 1.1) The main ethnic minorities – Armenians and Azerbaijan - tend to be located in specific regions. The largest share of the Armenian population lives in Samtskhe-Javakheti, while most Azeris live in Kvemo Kartli and Kakheti. 4% of Shida-Kartli's population are Ossetians, while Russians just make up 2% of the Capital's population.



Source: GeoStat. According to 2002 Census

## 2.3 Physical Infrastructure

### Transport

The road network of Georgia exceeds 20,000 km. Common use roads are divided into three categories: roads of international significance, roads of internal significance and roads of local significance. Since January 2007, roads of local significance are the responsibility of local self-governments. At the same time, more than 2000 km of local roads have the status of internal roads.

<sup>2</sup> ISET Survey, 2013

Efficient management of the road network assets requires correct and up to date data provided by relevant modern systems. Although, information about local roads in the Ministry of Regional Development and Infrastructure of Georgia is available together with appropriate guidance for planning and procurement, their comprehensive update and an indicative assessment of priorities and annual plans for the local network, have not been carried out yet.

The Roads Department of Georgia in the Ministry of Regional Development and Infrastructure annually develops and updates data (Annual Average Daily Traffic (AADT) and International Roughness Index (IRI) for the International and Internal importance Road Network) and prepares 5-year plans in accordance with the Highway Development and Management Model (HDM4). A bridge inventory and planning system has not been introduced yet. The World Bank is financing the development of such a system and the procurement of related field equipment.

Despite significant investments in recent years (especially for roads of international significance), the overall improvement of the road infrastructure requires further efforts – particularly at regional and local levels. Most villages have poor roads, especially in mountainous regions.

There is only a little more than 1,300 km of operating railway in Georgia<sup>3</sup>. Georgian Railway, managed by a British Company since 2007, plays a relatively minor role in terms of passenger transport, although it is much more important in cargo terms accounting for more than 40% of cargo transport. Since the rail network generally connects the major urban centers of Georgia, the existence of a large, regional gap in supply is inevitable. Railway availability is low in Kakheti despite the large Kakhetian population and no geographic barriers. The Baku – Tbilisi –Kars railway will cross two regions (Kvemo Kartli and Samtskhe-Javakheti) of South Georgia, becoming the main center for international railway transportation to the west and east directions.

There are four active seaports on the Black Sea coast: Poti and Kulevi oil terminal in Samegrelo-Upper Svaneti, Batumi – in Adjara and Supsa oil terminal in Guria. There is not enough information for detailed assessment of the port’s infrastructure impact on regions but according to Gross Value Added (GVA) data, they do have a positive impact<sup>4</sup>.

**Table 1.1. Road Supply of Georgia, 2013, km**

	International motorways	Internal State Motorways
Georgia - total *	1600.8	5308.3
Tbilisi	52.0**	–
Adjara A/R	54.3	152.7
Abkhazia A/R (including Gulripshi region)	204.0	401.6
Guria	61.8	219.2
Racha-Lechkhumi and Kvemo Svaneti	–	388.3
Samegrelo-Zemo Svaneti	116.1	744.4
Imereti	140.9	795.0
Kakheti	125.0	730.1

<sup>3</sup> Georgian Railway

<sup>4</sup> International School of Economics of Tbilisi, Survey ,2013

Mtskheta-Mtianeti	172.3	460.3
Samtskhe-Javakheti	236.5	286.1
Kvemo Kartli	229.2	657.2
Shida Kartli (including Java region, Large and Small Liakhvi Gorge)	208.7	473.4

*\* \* Except for the lengths of roads of local importance*

Source: GeoStat

Currently, there are three international airports and one domestic one operating in Georgia. Tbilisi International Airport is the most used. It accounts for 87% of total passenger turnover and is considered as the busiest in terms of international and domestic flights. This inequality is even more evident in case of freight, as according to the LEPL-Civil Aviation Agency 2012 data Tbilisi International Airport accounts for more than 98% of air cargo. However, it should be noted that the majority of small countries like Georgia have just one main international airport.

### Water Supply

Despite the fact that Georgia is rich with water resources, providing all ultimate consumers with uninterrupted water service even in recent years is still an urgent problem. In the middle of 2000, 60% of the water pipes were in poor condition causing damage, pollution of drinking water and inconsistencies with sanitary norms. Technical losses were reaching 40%<sup>5</sup>. The situation has improved significantly recently, especially in densely populated areas, due to projects implemented with support from international donors. Water supply and sewerage system, however, need further development. Currently, a little less than 10% of the city population and more than half of rural residents have no central water supply in houses and are dependent on outdoor taps and wells.<sup>6</sup>

Drinking water in Georgia is usually extracted from ground sources. Most Georgian settlements get water intermittently and water tanks are mainly unprotected. As a result, water often fails to meet sanitary standards. By mid 2000, 24-hour water supply was available just for some parts of Batumi, Gori, Samtredia and Tbilisi's population. Water supply was not regular even in Rustavi and Kutaisi. The situation has improved significantly since but water supply remains sporadic even in most urban areas, including big cities, except for Tbilisi.

Drinking water availability varies greatly by regions. According to the GeoStat data of 2012, 97.6% of in-house water supply is provided only in the capital city. The rate is 47% in Kvemo Kartli. Data of Shida Kartli, Samtskhe-Javakheti, Adjara, Guria and Mtskheta-Mtianeti are aggregated and their share is 43.8%. The rate is even lower in other regions. Generally, the capital and urbanised regions have better access to drinking water. Samegrelo - Zemo Svaneti is an exception – in spite of relative urbanisation, most families use wells and not internal or outdoor taps to get water.

### Natural Gas/Heating

After independence the widely used district heating systems completely collapsed and gas became the general source of domestic heating. Tbilisi is the only region that has a central gas system almost

<sup>5</sup> UNECE: Housing Report / Research; Georgia 2006

<sup>6</sup> Van Breusegem & Abramia 2011,15.

fully installed. In other regions this process is still underway or just about to start. Less than 25% of Georgian households currently have domestic hot water and heating systems, mainly in Adjara and Tbilisi.

### **Electricity**

Georgia has achieved significant success in terms of energy supply after gaining independence. As a result of the public policies for hydro-power development and combating corruption, Georgia has become an energy independent country, indeed becoming being an energy exporter before 2012.

Today in Georgia, more than 92% of consumers are metered. The Ministry of Energy plans to complete the individual meter installation programme by 2015. Therefore, 100% of consumers will be individually metered by the abovementioned date.

Eighty per cent of energy consumption in Georgia is currently being derived from local hydropower sources. Electricity supply and consumption vary seasonally, however. Electricity produced by hydroelectric power plants in summer significantly exceeds the demand while in winter importing of a certain amount of energy becomes necessary.

### **Telecommunications**

Cellular telecommunications in Georgia cover three cellular phone networks of G GSM 900 and 1800 standards and two networks of UM UMTS 2100 standard. The cellular network market totalled about 4 999 000 registered subscriptions in 2013. Based on the same year's data, the cellular phone network covers 99% of the populated area and subscriptions per 100 inhabitants reaches 111.4%.

Number of subscribers of fixed telephone communications in Georgia reached 1.20 million in 2013, and density 94.1%. Phone density is 108.5% in Tbilisi, 102.0% in Kutaisi and 93.6% in Batumi but only 2.1% in Samegrelo-Zemo Svaneti (except for Zugdidi) and 2.9% in Racha-Lechkhumi and Kvemo Svaneti. Switched wired telephony coverage is around 45% overall in Georgia.

The number of internet users in 2013 reached 2,169,129. Fixed Internet access is available just in urban areas while high-speed cellular internet (HSPA+/3.5G) covers only 50% of rural territories. At present, fiber-optical lines cover just the major cities

In the Networked Readiness Index (NRI) of Information Technology Report published by the World Economic Forum, Georgia took the 60th place among 148 countries in 2014.

## **2.4 Environment**

### **Air Quality**

Since 1990, air pollution has reduced dramatically in Georgia due to the closure of many large industrial enterprises. Moreover, in the last decade, despite the growth of economic activity, industrial emissions continued to reduce. There is no exact data on air pollution caused by the construction sector. However, generally it can be said that air pollution is increasing.

Usually, the biggest sources of air pollution in any country are heavy industry, transport and energy. All of these activities, particularly heavy industry are geographically concentrated, resulting in regional disparities in the end. It is not surprising, therefore, that due to stationary sources of air pollution there are significant regional disparities in air quality all around the country.

The major share of air pollution from stationary sources in Georgia is in Imereti and Kvemo Kartli, while Shida Kartli and Adjara play a less powerful role. Most of the pollution is caused by a particular factory in a particular city. Half of the total pollution flow from stationary sources is produced in just three cities: Zestaponi, Rustavi and Kaspi. According to the Ministry of Environment Protection and natural Resources of Georgia (2010), the main sources of emission of harmful substances to air are the ferroalloy plant in Zestaponi, the fertilizer plant in Rustavi, the oil terminal in Batumi, the power plant in Gardabani and the cement factories in Kaspi and Rustavi.

As in most other countries, the main mobile source of air pollution in Georgia is road transport. The pollution level from road transport depends on the number of vehicles, their types and condition, fuel type and quality, traffic flow management, and natural ventilation conditions. According to 2010 data, there were more than 800 000 active vehicles in Georgia (41% of which are concentrated in Tbilisi), 82% of them are more than 10 years old and in poor condition, causing increased emission of toxic air pollutants.

### **Sanitation and Sewerage System**

Before 2000 about two-thirds of the Georgian population was served by sewerage systems and municipal treatment plants in 45 cities. Most of these sewerage systems reportedly were in poor condition, resulting in significant pollution of downstream water resources.<sup>7</sup> According to the 2004 data of the Organization for Economic Cooperation and Development, by 2003 wastewater treatment facilities were available in Tbilisi and Khashuri only, Batumi and Sachkhere biological treatment plants were activated in 2014. The situation is even worse outside big cities. A sewerage system is simply not available in rural areas of any region. This situation is more or less different in all regions of Georgia.

### **Solid Waste**

There are no accurate figures about the quantity of solid waste in the country. Presently most of the municipalities cannot ensure collection of household waste from villages. Accordingly it is impossible to depict the real amount of generated solid waste in figures on the territories of municipalities. Neither is information available on the collection and re-processing of waste. According to a recent survey<sup>8</sup> one-third of solid waste is collected and placed on municipal landfills and the rest goes to unmanaged, spontaneously created landfills. There are few possibilities for collecting and processing of waste for re- processing purposes. Only a few small- scale waste processing plants (composting, plastics, glass, paper and other processors) operate in the country.

As for the capital city, the annually generated waste is approximately equal to the total volume of waste generated in the rest of the country. In addition, Tbilisi is relatively well provided with the relevant work force and equipment for collecting and placement of waste. However separation of waste at source is not carried out even in Tbilisi. Among the municipal landfills having an Environmental Impact Permit, only Tbilisi, Rustavi, Gardabani and Borjomi landfills meet international standards. Construction of Imereti and Kvemo Kartli landfills in 2014-2017 is agreed

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<sup>7</sup> United Nations Children's Fund, 2012; Organization for Economic Cooperation and Development, 2004

<sup>8</sup> Clean Up Georgia, 2012

with international financial organisations. Projects for Kutaisi, Telavi, Mtskheta, Akhaltsikhe, Ozurgeti, Zugdidi and Ambrolauri landfills have already been implemented. It is planned that projects will be implemented for the construction of an additional 11 landfills.

Georgia's household, Industrial, medical and hazardous waste management is regulated in accordance with the legislative requirements of various scattered laws and regulations. A framework law on waste management has not yet been adopted. One problem is the absence of statistical data on industrial waste generated by enterprises operating in the country and their management. Moreover, there are almost no data about the amount and composition of industrial waste remaining from industrial activities of 1970-1980s.

### **Natural Disasters**

Natural disasters in Georgia are quite frequent and severe in nature due to the negative impact of complex topography and mountainous terrain, specific atmospheric conditions and human activities. The main examples of natural disasters (floods, landslides, earthquakes, hurricanes, mudflows) significantly affect the country's economy, causing infrastructure damage and danger to human life.

## **2.5 Economic Structure and Indicators**

### **Overview**

There are significant differences in terms of GDP between regions. A similar difference is found between urban and rural areas. Half of the country's total GDP is produced in Tbilisi. In addition, the contribution to GDP of regions with big cities (Kutaisi in Imereti, Rustavi in Kvemo Kartli, Batumi in Adjara, Poti and Zugdidi in Samegrelo) is significantly higher than rural regions, despite their closeness to big cities and highways.

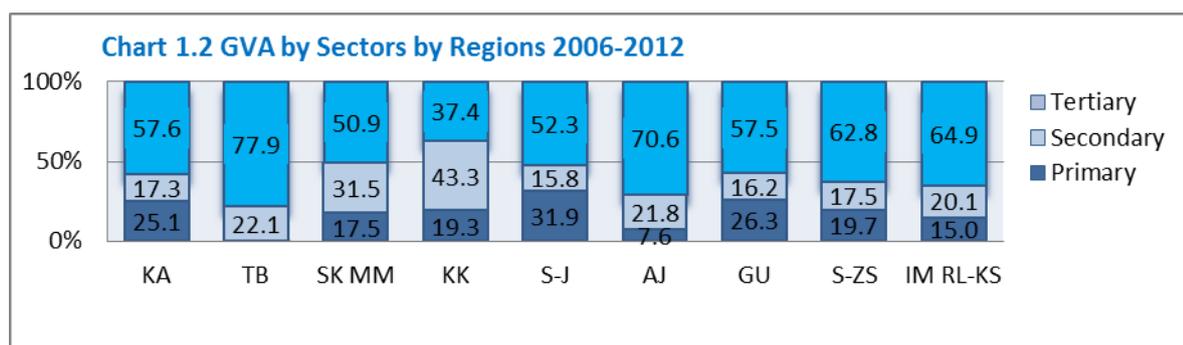
Regions of Georgia are different from each other in terms of economic structure as well. There are 3 major economic sectors: the primary sector of the economy - agriculture, hunting, forestry and fishing; the secondary sector – industry, household production, processing and construction; the tertiary sector – trade, transport and communications, public administration, education, healthcare, social security and etc. (Chart 1.2.).

Tbilisi, the most urbanised administrative unit of the country, does not have a significant primary sector. It is the site of only a small share of the secondary sector but the largest share of tertiary sector. Kvemo Kartli and Shida Kartli have a large share of the secondary sector which indicates that although there is little industrial activity based in Tbilisi, the surrounding regions are very important. Regions having a relatively large share of the secondary sector are the following – Imereti/Racha – Lechkhumi – Kvemo Svaneti, Adjara, Samegrelo and Zemo Svaneti. It should be noted that the National Statistics Office is collecting Gross Value Added (GVA) data recorded at regional level based on the national reports. (Mtkheta-Mtianeti is included in Shida Kartli, and Racha-Lechkhumi-Kvemo Svaneti – in Imereti). GVA data should be interpreted carefully since the exact location of economic activity is often unclear, especially where regions are relatively small and well integrated economically.

The construction sector plays quite an important role in Adjara while transport, communications and public administration are less significant. Samegrelo and Zemo Svaneti have important transport and

communications sectors, largely connected with Poti port. Public administration, education and healthcare services are strongly present in Imereti.

After Georgia regained independence, agricultural production declined; however, it declined less than industrial production, as a result of which the share of agriculture in GDP increased. More recently, the mass privatization of agricultural lands and closure of the Russian market led to a reduction in agricultural production, whereas other non-agricultural sectors (like banking, telecommunications, energy, tourism, construction and public service) have increased.



Source: GeoStat

According to 2013 preliminary data, the nominal GDP of Georgia is 26.8 billion Georgian Lari (16.1 billion USD), and the real growth of GDP as compared to the same period of the previous year amounted to 3.2%. In 2013 GDP per capita amounted to GEL 5 982.6 (3 596.6 USD). According to 2012 data, nominal GDP of Georgia amounted to GEL 26.2 billion (15.8 billion USD).

According to preliminary data of 2013, as compared to the relevant period of the previous year, a significant increase of GDP has occurred in the following sectors: agriculture (9.8%), processing industry (8.4%), real estate operations (7.5%), financial activities (7.4%), hotels and restaurants (7.2%), trade and commerce (5.1%), transport (4.9%), education (4.6%), electricity, gas and water generation and distribution (4.0%).

According to preliminary data of the same year, the following sectors have the largest shares in GDP: trade (17.3%), industrial production (17.2%), transport and communications (10.7%), public administration (10.1%), agriculture (9.3%), construction (6.7%), healthcare and social insurance (5.8%).

### Regional Production

Tbilisi, unquestionably, is an economic centre of the country with a population of 1,2 million. A disproportionally large share of economic activity is concentrated in the capital. The share is overestimated though, since regional business activities are often registered in Tbilisi as well. According to the National Statistics Office, regional contributions (except for Tbilisi) in GDP in 2012 only slightly decreased compared to 2006. The only exception was Adjara, whose share increased from 6.1% to 7.4%. The share of production by region over the period 2006-2012 remained relatively unchanged. Adjara was the only exception again accounting for 6.1% of GVA in 2006 and 7.4% GVA in 2012.

According to official information, there are only a few direct indicators currently showing regional

differences outside Tbilisi. GVA's regional division indicates that Tbilisi represents 49.7% of GVA for 2012. Imereti, Racha-Lechkhumi and Kvemo Svaneti Regions are on the second place (11.8%); the third place (8.5%) is taken by Kvemo Kartli (Rustavi and Bolnisi Municipality, with its polymetallic mine and gold production). It is followed by Adjara (7.4%) where significant state investments have been made for the construction of local infrastructure and for the rehabilitation of Batumi City.

It is worth mentioning that three biggest regions of Georgia outside Tbilisi (with total number of residents of 1.6 million people: Imereti, Racha-Lechkhumi – Kvemo Svaneti -704.5 thousand persons, Samegrelo - 477.1 thousand and Kakheti 406.2 thousand persons<sup>9</sup>) based on the 2012 data, produce approximately 43% of the GVA produced in Tbilisi. More than 93% of per capita GVA differences are generally determined by urbanisation levels.

*Table 1.2. Distribution of GVA by regions (in current prices, GEL mln)*

Region	2006	2007	2008	2009	2010	2011	2012
Kakheti	708.2	789.6	981.8	833.8	973.3	1149.7	1161.3
Tbilisi	5653.9	7009.5	7913.6	7274.3	8472.6	9914.3	11194.2
Shida Kartli and Mtskheta-Mtianeti	773.6	917.1	981.3	906.8	1124.9	1334.6	1337.1
Kvemo Kartli	1228.5	1400.5	1347.7	1325.3	1537.6	1790.6	1917.5
Samtskhe-Javakheti	425.2	454.8	526.7	477.4	562.6	665	646.2
Adjara	738.8	966.9	1224.3	1185.3	1378.9	1621.9	1675.4
Guria	311.9	354.1	326.1	308.6	380.4	437.6	434.4
Samegrelo-Zemo Svaneti	918.2	1047.7	1185.8	1216.3	1359	1509.6	1478.7
Imereti, Racha-Lechkhumi, Kvemo Svaneti	1288.5	1670.8	2034.6	2018.5	2225.2	2551.9	2660.4
GDP in basic prices	12046.9	14611.1	16521.8	15546.3	18014.4	20975.4	22505.3
(+) taxes on goods	1800.6	2454.3	2639.3	2530.9	2834.3	3492.7	3790
(-) subsidies on goods	57.6	71.6	86.3	91.3	105.3	124.1	128.0
GDP in market prices	13789.9	16993.8	19074.9	17986	20743.4	24344	26167.3

*Source: GeoStat*

Broader consideration of regional economic activity (table 1.3) reveals the difference in significance of agriculture production by regions. Generally, at regional and sectoral level, the highest level of GVA produced in Agriculture is in Samtkhe-Javakheti. This is due largely to the consolidation and commercial orientation of regional production. Products include potatoes, milk and meat products as well as trout with high value added. Income from selling agriculture products is lower in mountainous regions and in more urbanised regions.

<sup>9</sup> GeoStat: [http://www.Geostat.ge/index.php?action=page&p\\_id=472&lang=geo](http://www.Geostat.ge/index.php?action=page&p_id=472&lang=geo)

**Table 1.3. GVA by Regions (%), 2012**

	Kakheti	Tbilisi	Shida Kartli and Mtskheta-Mtianeti	Kvemo Kartli	Samtskhe - Javakheti	Adjara	Guria	Samegrelo-Zemo Svaneti	Imereti -Racha-Lechkhumi-Kvemo Svaneti
Agriculture, hunting and forestry, fishing	24.7	0	17.9	17.7	29.2	7.1	27.3	19.6	13.2
Industry	10.6	12.1	23.2	37.6	4.5	7.8	4.2	9	12.5
Food processing	6.6	0.7	4.5	3.5	5.9	3.5	6.8	4.6	4.7
Construction	2.1	11.6	3	2.3	4.5	11.9	1.8	3.8	2
Trade, vehicles, repair of home appliances and personal use items	5.2	27.3	5.2	5.6	5	11.7	3.4	5.4	5.9
Transport and communications	1	17.4	3	1	0.9	6.8	0.6	15.5	0.8
Public administration	13.3	8.5	20.3	11.5	17.8	11.2	9.5	13.6	14.6
Education	8.2	2.1	4	6.6	12.3	6.9	11.2	6.3	9.1
Healthcare and social welfare	7.9	5.6	6	3.3	6.2	7.3	8.1	4.6	8.7
Other services	20.4	14.6	13	10.9	13.7	25.7	27	17.5	28.6
GVA, total	100	100	100	100	100	100	100	100	100

Source: GeoStat

Moreover, agriculture production is also regional in Georgia – regions are specialised by producing specific products. (e.g. wine is produced in Kakheti, potatoes in Samtskhe-Javakheti, citrus – in Adjara). The west of Georgia was mostly known for cultivating Tea and Citrus, while the east was famous for wine and wheat production.

**Table 1.4. Share of Largest Regions in Agricultural Production, 2012**

Product	%	Region	%	Region	%	Region
Wheat	66	Kakheti	18	Kvemo Kartli	11	Shida Kartli
Corn	28	Samegrelo-Zemo Svaneti	25	Imereti	17	Kakheti
Potato	63	Samtskhe-Javakheti	20	Kvemo Kartli	5	Adjara
Vegetables	30	Kvemo Kartli	28	Shida Kartli	16	Kakheti
Fruit	26	Samegrelo-Zemo Svaneti	24	Shida Kartli	14	Imereti
Apples	56	Shida Kartli	10	Samegrelo-Zemo Svaneti	8	Imereti
Grapes	49	Kakheti	25	Imereti	9	Shida Kartli
Citruces	67	Adjara	23	Guria	9	Samegrelo-Zemo Svaneti
Teal leaves	42	Adjara	31	Samegrelo-Zemo Svaneti	27	Guria
Cattle	22	Samegrelo-Zemo Svaneti	17	Imereti	14	Kvemo Kartli
Pigs	36	Samegrelo-Zemo Svaneti	19	Imereti	12	Kakheti
Poultry	28	Kvemo Kartli	17	Imereti	17	Samegrelo-Zemo Svaneti

Source: GeoStat

## **Mono-Industrial Cities**

In Georgia, as elsewhere, mining and processing of natural resources resulted in the formation of mono-industrial cities. In this regard, the most important were Manganese Ore (Tchiatura), Coal (Tkvarcheli, Tkibuli, Vale), Polimetal (Kvaisi, Kazreti), Andesite (Bakuriani) extraction and Hydro Electro Power (Jvari, Gumatihesi, Zahesi) and thermal energy (Gardabani) generation. Such mono-industrial cities proved to be particularly vulnerable to the collapse of the strongly integrated Soviet economy. Although some of these cities have partially recovered through private investment and government-funded projects no general economic turnaround is evident.

Zestaponi has succeeded in maintaining its population, and quite a large part of its economic/industrial capacity. This is likely to be due to the relative advantage of its geographical location (in the heart of the large Imereti region close to Georgia's second largest city of Kutaisi) along with effective urban management. Rustavi, the biggest Georgian mono-city<sup>10</sup>, has had some success in re-generating its local economy. Rustavi benefits from: its proximity to Tbilisi; relatively strong human capital; a convenient location close to Azerbaijan and Armenian borders; and quite successful attempts, in recent years, to diversify its economic activities by introducing new market and administrative services (e.g. a large automobile market for second-hand cars).

## **2.6 Labour Market, Education and Training**

### **Labour Market – General Overview**

The number of employed persons in Georgia decreased by 37% between 1990-2000 (from 2,763,300 to 1,732,700)<sup>11</sup>. As a result, many large and small-sized cities lost almost a third of their population. This tendency has only partially changed since 2005, when industrial activities started reviving. The labour market of Georgia has continued to worsen in recent years as indicated by a serious drop in the level of employment.

Such a drop is accompanied more by inactivity than increasing of unemployment. Less than two-thirds of working aged population in Georgia is economically active - significantly less than the EU average (70%). Low labour force participation is particularly acute in urban locations, where only 58% of the employable population is economically active.

According to official statistics, a large part of the economically active population is concentrated in rural areas, where the majority of the workforce is employed in agriculture. It is worth mentioning, however, that the calculation method's shortcomings prevent a proper evaluation of existing labour shortages. Cities accounted for about 40% of total employment, while the share of non-agricultural sector employees is less than 50%. Industry and construction employs nearly 10% of workforce. The main component of non-agricultural activity is services, the share of which is more than 35% in total

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<sup>10</sup> In fact, referring to Rustavi as a mono-functional city today is somewhat inaccurate. Unlike other regions of Georgia, industry in Kvelo Kartli generates twice as much GVA as agriculture. Four main enterprises: Rustavi Iron Factory, Rustavi Chemical Plant, Heidelberg Cement, and Rustavi and Kazreti Gold Mining are central to the industrial strength of the region.

<sup>11</sup> Geography of Georgia 2003:73

employment (According to the National Statistics Office it varied from 35% (2008) to 38.5% (2013) between 2002-2013).

The level of self-employment in Georgia is quite high, especially in rural areas, where all residents were given small plots of land during the land reform in 1990s. Agricultural land owners are considered as self-employed. The importance of this characteristic is proved by the fact that about 700 000 families used the state voucher programme in 2012-2013.

Self-employment is high in cities as well but not as high as in rural areas. The total number of self-employed has increased significantly since 2000. It reached its peak in 2004 and made up two-thirds of Georgia's work force that year. Self-employment rate has started to decline since 2004 indicating improvement of job opportunities in the official sector. However, the majority of employed people remain self-employed in Georgia.

Private sector employment rate remains relatively low. According to the sources used, in 2012 less than half of those employed were in genuinely private companies. (This proportion varies from some 50% in industry, to 66% in market services, to 72% in agriculture.) Most workers (close to 50%) are employed in "privatised" firms where the state in fact remains the major shareholder. Employment in firms fully owned by the state is now negligible (less than 10%).

### **Labour Market – Regional Disparities**

Major regional disparities in the labour market of Georgia are observed between Tbilisi and the rest of the country, although there are some differences among various regions as well (e.g. In Adjara, with shortage of agricultural lands the unemployment rate is twice as high as in Kvemo Kartli region). The most obvious explanation for such disparities can be seen in the urban and rural characteristics of different regions. The official unemployment rate is much lower in rural than in urban areas. The difference reaches approximately 20%. It should be noted that a large proportion of rural employed population is made up of self-employed farmers.

The level of urbanisation has a significant influence on regional unemployment, other than in the case of Imereti. Despite the fact that the level of urbanisation here is the second highest after Tbilisi, the unemployment rate is relatively low, unlike Adjara, where the urbanisation level is almost as high as in Imereti but the rate of unemployment is significantly higher.

The possible explanation for this lies in disparities of economic structure. Tourism and construction account for the large share of Adjara's economy while manufacturing industry dominates in Imereti. Tourism and construction require short-time employment, however, and such jobs are easier to find (less qualified workers are accepted) than permanent employment. It should reduce the number of discouraged workers, as there is a real chance to find a job, even if temporary. On the other hand, it also increases the level of unemployment due to growth of the labour force (determined by the number of employees or active jobseekers).

There is a great similarity between employment levels in various regions. Employment rates fell during the August 2008 war and with the beginning of the global financial crisis and have just slightly increased since then. The only exception was Adjara, where the employment rate has been growing steadily during the crisis. This might be explained by the development of the tourism and construction sectors, as well as by the low level of existing employment in 2008. On the other hand,

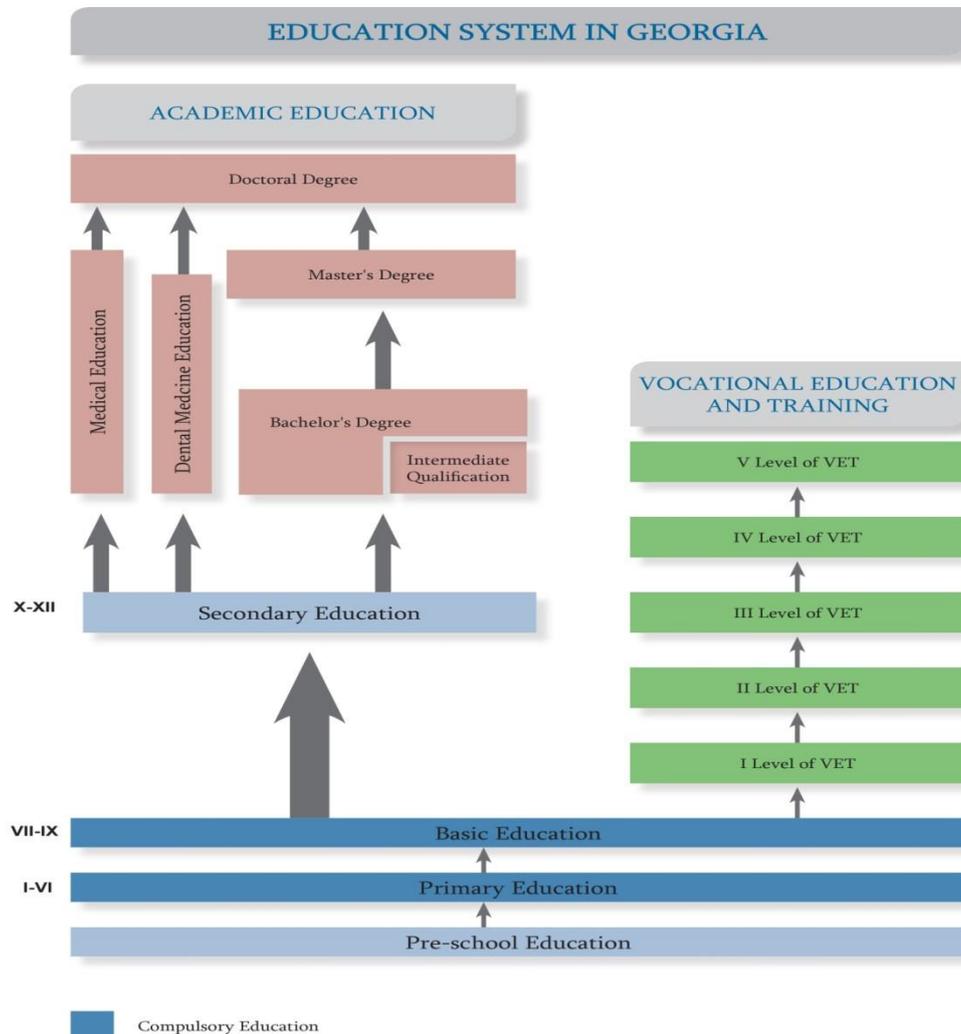
the employment rate in Tbilisi is significantly lower than of any other region of Georgia. In other respects there are no other serious disparities identified among the regions.

### **Education and Training**

There is a significant difference in qualification level by regions. Tbilisi is the undisputed centre for the national higher education system of Georgia with 49 universities (10 public and 39 private) and 5 public professional education institutions, which is more than in the rest of the country. The quantity of students in general educational institutions in Tbilisi is also significantly higher than in other regions. At the same time, the number of schools per 1000 students is fewer than elsewhere. In terms of higher and secondary educational institutions Imereti is the next most important after Tbilisi. Adjara takes third place. There are no universities in either Racha-Lechkhumi or Kvemo Svaneti regions. Despite the fact that the overall proportion of higher-educated population of Tbilisi is significantly higher than that of any other regions, the greater part of the populations of Samegrelo, Imereti and Guria regions has higher education.

It should be noted that the level of education in the two regions of Kvemo Kartli, which includes a number of urban centers, and the rural region of Samtskhe-Javakheti, is lower than average. This appears to be due to the high concentration of ethnic minorities in these regions who are not well integrated either into the educational system or in the labour market. It can also be a result of gradual reduction of population in small and large cities (e.g. Tsalka and Ninotsminda). The structure of education system is given below (Diagram 1.3).

Figure 1.3. The structure of the Education System of Georgia

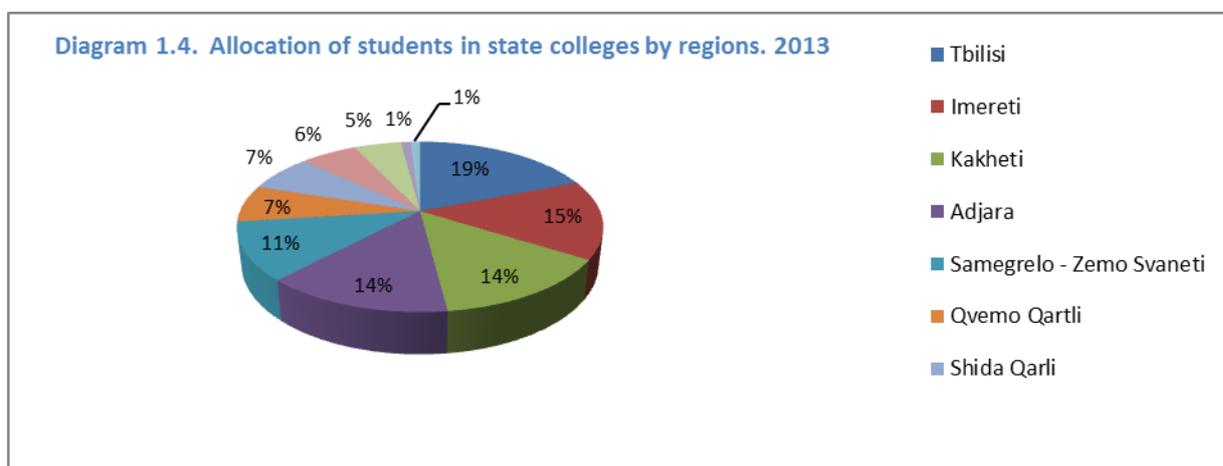


Vocational education is an alternative to higher education. In the 1990s, the vast majority of vocational schools stopped functioning due to economic difficulties, the increased number of vocational and higher education institutions, simplified enrolment opportunities and minimal state funding. At the same time, demand for secondary vocational education grew, since it did not coincide with market demand and was based on prestige and standards. Most of the secondary vocational schools changed their profile during the transition period. Most of them, especially medical ones, were associated with reduced period of study, low-quality education and facilitated enrolment opportunities. Such prestigious professions (specialties) like medicine and law resulted in problems of corruption, low level of education and many other problems as well. Due to the closing of large enterprises and reducing demand for industrial occupations, the State stopped funding such educational programmes on the grounds that those wishing to enter those professions should pay for the tuition themselves. Consequently, the share of paid services in state institutions increased but this process did not become the main form for training of specialists for the labour market because of the inability of the population to pay for it.

Under the implemented reforms and with strong support from international organisations over the

last decade with the purpose of modernisation of vocational education, the Laws of Georgia “on Vocational Education” and “on Education Quality Development” have been adopted. Authorisation and Accreditation Provisions have been enacted; the practice of self-evaluation has been introduced to Colleges; a Qualification Framework and up to 300 professional standards have been approved; new educational programmes have been implemented; training sessions for developing teachers’ professional and specific skills have been conducted; new textbooks have been developed; and physical rehabilitation projects of State Vocational Colleges have been implemented. However, despite these changes, the vocational education system could not provide a significant contribution to the creation of a skilled labour force and failed to respond to the economic and social challenges because of weak social ties, inconsistent political support and lack of allocated resources which created serious challenges for the system itself.

There are only 18 state (co)funded colleges throughout Georgia. Although the Ministry of Education and Science put some investment in infrastructure projects at the expense of decreasing the network of vocational education institutions, these arrangements are not enough to remedy the critical situation existing in regions in terms of availability of vocational education.



Source: Ministry of Education and Science of Georgia

## 2.7 Investments, Innovation and Technological Development

### Investments

According to the World Bank’s “Doing Business” report, radical reforms of the business environment have been implemented by Georgia in recent years. Due to the success of these reforms, Georgia moved from 112th (according to “Doing Business” report from 2006) to 8th place in 2014. In addition, the country received the leading reformer’s status during 2005 – 2012. All of these contributed to foreign direct investment (FDI) and economic growth, reaching 9% annually over the period from 2005 to 2008.

The war of August 2008, however, followed by the global economic crisis, led to a sharp decline in foreign investment, exports, wages and bank loans. During the second half of 2008, the economy contracted by 6.5% while in 2009 this rate became 3.8%. Foreign direct investment has fallen; in 2007 it made up 16.4% of GDP, it fell to 6.1% in 2009. Exports have decreased from 31% of GDP in 2007 to 29.8% of GDP in 2009.

Major international financial assistance and relatively small state debts allow the government to

conduct efficient fiscal policy reforms. As a result, the country has continued economic growth despite facing international challenges. Export growth and tourism receipts contributed to this process in 2010 – 2011.

According to the National Statistics Office, real growth of GDP reached 6.2% in 2012, while it was 3.2% during 2013. (I quarter of 2013 – 2.4%, II quarter – 1.5%, III quarter – 1.4% and IV quarter - 7.1%). Based on preliminary data for 2013, active growth was detected in almost all activities, except for mining industry and construction sector. Significant increase was observed in agriculture (9.8%) and manufacturing industry (8.4%).

According to preliminary data for 2013, Foreign Direct Investment in Georgia amounted to 914.4 million USD- 6% higher than preliminary data of 2012 and 0, 3% higher than revised data for the same year. The largest share of FDI (22%) implemented in Georgia for this period has been in the energy sector (198 million USD). It has been followed by the financial sector – 19% (170 million USD) and transport & communications – 15% (138 million USD).

There are some regional differences in terms of business ownership in Georgia. Based on GVA, most businesses in Kvemo Kartli, Imereti and Samtskhe – Javakheti are owned by foreigners, while in Kakheti and Guria most business owners are local citizens. The picture changes significantly when it comes to employment. For example, despite the fact that foreign business makes up 70% of Kvemo Kartli’s GVA, its share in total employment rate is just 15%. This means that foreign owned businesses in the country are engaged in activities in which the GVA per employee is higher.

Regional differences in terms of labour productivity are observed as well, that could be due to the volume of invested capital per employee (investment volume may be influenced by differences in labour productivity though). It would appear that in specific sectors where productivity is higher, share of per employee investment is usually higher. The sectors include the following: industry – in the capital and Kvemo Kartli, construction – in Adjara, hotels and restaurants – in Adjara and Mtkheta-Mtianeti, Transport and Communication – in Tbilisi, Samegrelo and Zemo Svaneti.

**Exhibit 1.5. Direct Foreign Investments (USD, million), 2005-2014, I quarter**

Year	Total	I q	II q	III q	IV q
2005	449.8	89.4	105.9	75.6	178.9
2006	1 190.4	146	306.9	280.7	456.7
2007	2 014.8	421.4	401.5	489.1	702.9
2008	1 564.0	537.7	605.4	134.7	286.2
2009	658.4	114	177.2	173.2	194
2010	814.5	166.5	208.3	225.6	214.1
2011	1117.2	209.7	248.3	316.6	342.6
2012	911.6	261.2	217.7	199	233.7
2013	914.4	226.2	232.4	238.7	217.1
2014		259.8			

Source: National Statistics Office of Georgia. Ministry of Economy and Sustainable Development of Georgia. \*2013-14 Preliminary Data

## Technologies and Innovations

A significant part of Georgian products (and exports) do not undergo processing and their value added is lower than that of the EU and other economies. A preliminary analysis of export quality<sup>12</sup> showed that some of the largest export sectors (e.g. chemicals and transport equipment) increased their market share and quality compared with the EU market competitors. Other exports have been less successful, though. For example, the food sector has lost market share despite the improved quality.

A preliminary assessment of technological perfection and quality of “innovation”<sup>13</sup> shows that the country’s performance is below average (the assessment also revealed some connection between FDI in this field and improved performance. Furthermore, innovation of process is more noticeable than product innovation).

There are no significant regional differences in terms of product/process technology or innovative steps, except for distinctions reflecting general levels of economic activities.

Lack of technological renewal and support to innovation development is obvious in regions of Georgia, as well as old-fashioned technical – technological base, weak production capacity, low labour productivity and the existing development level of other production factors greatly hinder the development of important economic processes in regions. These challenges result from the fact (as well as other factors) that development of the national innovation systems and corresponding platforms fail to get desired results in order to contribute to the country’s overall competitiveness and productivity improvement, if the process is isolated from efficient and synergistic implementation and development of innovation systems at sub-national level.

## 2.8 Income and Poverty

Difference among per capita income of families within particular regions of Georgia significantly exceeds the difference between regions. However, per capita income in Tbilisi is much higher than in any regions of the country – except for Adjara, Imereti and Samtkhe-Javakheti (per capita income is higher in urbanised regions).

Poverty is still a major problem in Georgia despite the progress towards achieving its reduction, since 2013 particularly<sup>14</sup>. In some regions of Georgia poverty is especially severe and requires considerable attention. It is largely caused by unemployment and lack of income from self-employment in urban and rural areas. The global crisis and war with Russia vastly increased the magnitude and severity of poverty. The rural relative poverty rate was 24, 7% in 2009 and reached

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<sup>12</sup> Georgia Competitive Industries Technical Assistance Project Information Sheet, World Bank, June, 2013

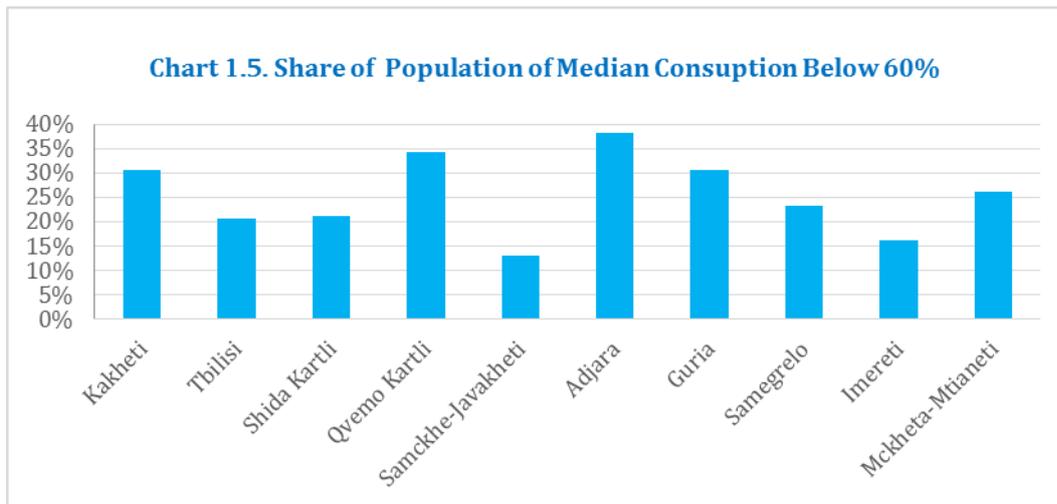
<sup>13</sup> Georgia Competitive Industry sector Preliminary Diagnostic, World Bank, June, 2013

<sup>14</sup> Some studies (e.g. Poverty Assessment in Georgia, World Bank: 2009 Poverty Dynamics in 2000s, World Bank: 2011, associate improvement with economic and social reforms conducted since Rose Revolution of 2003 throughout the country)

27.1% in 2013.

The poverty rate in rural areas is higher than in urban ones and the difference has become even greater since 2000. During the rapid economic growth, poverty reduced from 23, 7% (2003) to 18% (2007) in urban areas, while in rural ones it decreased from 33% to 29.4%. At present, about 2/3 of Georgia's poor live in rural areas.

The Government of Georgia is in the process of implementing some social insurance programmes across the country including subsistence allowance for assisting socially vulnerable families. The share of such families in the entire population is one of the indicators of the community's economic vulnerability.

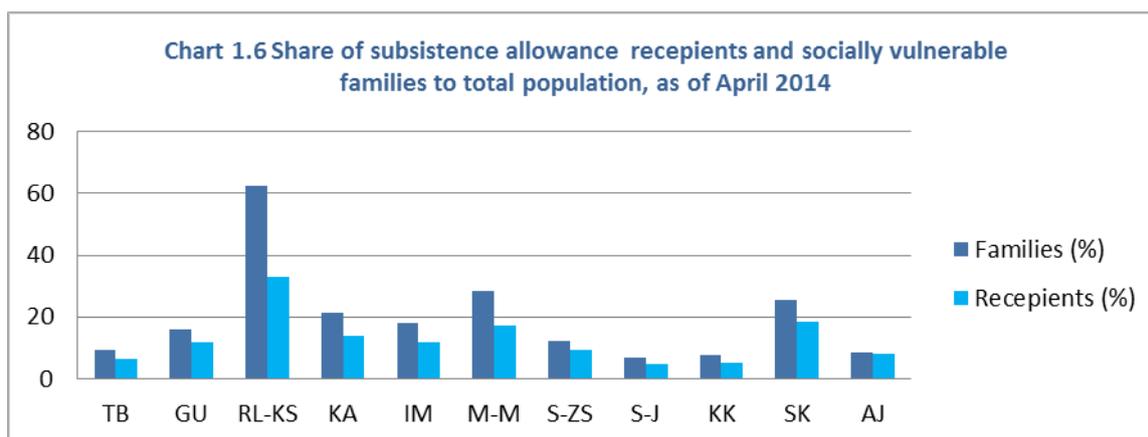


Source: Integrated Household Survey 2011. ISET 2013

Apparent differences are observed in socially vulnerable people's conditions by regions. Tbilisi and Samekhe-Javakheti account for the lowest share of socially vulnerable families, while Shida-Kartli represents the largest one. The lowest percentage of families getting subsistence allowance is in the capital; it is followed by Samekhe-Javakheti, Kvemo Kartli and Adjara. The highest rate of registered people living in poverty is at economically weak Mtskheta-Mtianeti, Racha – Lechkumi and Kvemo Svaneti (Chart 1.5).

Existence of fewer subsistence allowance beneficiaries in Tbilisi and Adjara is consistent with economic development and employment level growth while Samekhe-Javakheti and Kvemo Kartli, with their low rates, are exceptions, though.

The rapid growth of beneficiaries registered in Shida Kartli in recent years is a result of the entry of internally displaced persons after the Russian-Georgian war in 2008. On the other hand, the reason behind a similar trend in Tbilisi and Imereti lies in the fact that more and more families are suffering from economic crisis. As for the reduced number of the subsistence allowance recipients in mountainous regions, it is due to a decrease in local population.



Source: Social Service Agency

## 2.9 Cultural and Recreational Resources

Cultural and recreational resources not only demonstrate quality of life of the population, but what is more important, they also represent potential for employment and economic productivity growth both for internal and international tourists' services.

There are wide varieties of natural and cultural resources in Georgia – more than 12,000 historical and cultural monuments, four of which are included on the UNESCO World Heritage List. The country is distinguished by its well-developed mountain, sea and spa resorts. In addition, there are 87 different – category protected areas, of which 14 are State Nature Reserves, 41 natural monuments, 11 National Parks, 19 Managed Nature Reserves and 2 Protected Landscapes. Georgia is famous for its outstanding cuisine and wines, live music and traditional dances. All of these attract growing international interest.

The number of tourists in Georgia in the last 5 years has grown much faster than the world's average rate of increase. At the beginning of the global financial crisis in 2008, when the number of tourists worldwide globe reduced by 4%, the number of international arrivals to Georgia increased by 16%. In 2011, Georgia's rate among new tourism destination countries was the highest and reached 39%. In 2012, the number of foreign visitors was almost 4.5 million, 56% more than in 2011 and reached 5.4 million in 2013, 21% higher than previous year ratio. (See Table below and Chart 1, 7)

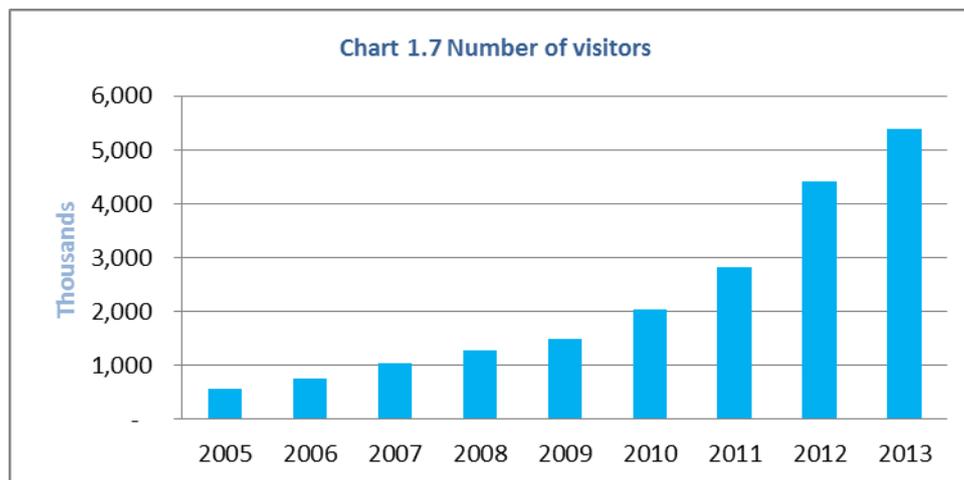
	2009	2010	2011	2012	2013
Visitors	1 500 049	2 031 717	2 820 185	4 428 221	5 365 356
Increase (%)	16	35	39	56	21

Source: National Tourism Administration of Georgia

There are 1000 accommodation units in Georgia with a total of almost 35 000 beds. Therefore, average demand for hotel rooms exceeds existing supply. Coastal region of Adjara (especially Batumi) and the capital Tbilisi are market leaders and there are plenty of popular, internationally branded hotels in both territories.

Differences in tourist activities are significant among regions. Sea tourism is the priority for Adjara. Tbilisi accounts for the biggest share of urban and business travels. Samtkhe-Javakheti (Bakuriani and Borjomi) is famous for winter and medical tourism. However, generally, lack of data does not allow for a thorough analysis of any region's tourism potential yet.

Cultural and recreational resources supply and utilisation data need further addition and modification as well. According to them, cultural resources are mostly concentrated and used in Tbilisi.



Source: Georgian National Tourism Administration

## Chapter III. The Development Needs of Georgia's Regions

**“Our main goal is to ensure that the majority of Georgia's population benefits from economic growth based upon inclusive and comprehensive economic development.”**

**„Inclusive growth largely depends not only on a national policy, but on strong and competitive regions and the efficient planning and implementation of the Regional Development Policy as well. Regional development is considered as the most important factor in achieving overall national success. “**

Georgia 2020

### 3.1 Introduction

From the information provided in the second Chapter, it is evident that regional disparities exist within Georgia even if there is rarely a neat correspondence between these and the country's administrative regions. Significant disparities exist between Tbilisi (and its immediate hinterland) and the rest of the country. There are also obvious differences in the conditions that prevail in urban locations, on the one hand, and the rural areas of Georgia, on the other. At the same time, remote mountainous locations face conditions unlike those confronted anywhere else in Georgia.

To reveal and resolve regional development needs and priorities and to determine the necessary measures the following important factors have to be taken into consideration, namely:

Variations between regions are not identical to socio-economic disparities that warrant public intervention. The identification of such disparities and associated development needs and priorities will require that Georgia's overall development priorities, relevant sectoral priorities and, indeed, international agreements are all taken into account. The fact that some regions are predominantly rural and some predominantly urban is not necessarily a cause for concern but each type will have different development needs and there should be a degree of balance in addressing these.

Weaknesses in available data on Georgia's regions are clearly evident but these are being addressed through on-going work by Geostat and the inter-ministerial Regional Statistics Working Group. Such weaknesses as persist do not preclude the formulation of a regional development programme but they do mean that the programme is obliged to focus on direct outputs and more immediate results where the ongoing monitoring of the programme can provide reasonably reliable management information.

Social and economic inequality of Georgian regions does not have simple and direct correspondence to regional administration structures (as in other countries). Therefore, careful steps need to be made to select the most effective level of intervention and appropriate implementation arrangements. In addition, any reforms associated with administrative structures and responsibilities have to be considered.

This chapter draws on the preceding chapter to identify a limited number of key development needs, on which to concentrate the RDP. The programme is designed to maintain balance between available resources and objectives so that to reach important, tangible results as well as to focus on a limited number of key issues ensuring efficient management of this first programming exercise.

Since the Regional Development Programme should respect the Principle of Concentration (an

internationally recognised principle meaning to concentrate on basic needs of resources and efforts). The Programme’s principle aim is to identify needs associated with supporting the balanced and stable development of the Country. Therefore, below are described the main needs having regional/local dimension. Some national-level priorities of Georgia, such as improved social security and healthcare are of high importance, but the benefits should be provided equally to the whole population. Thus, if a need is important throughout the country, it should be solved by joint national/sectoral policy tools and not within this programme’s framework.

The needs listed below are subject to regional variation and all of them are related ultimately to both cohesion (equalisation) and competitiveness growth needs.

### 3.2 SWOT table

The SWOT table summarises the current situation at the regional level of Georgia. While the SWOT table does not provide immediate solutions to problems, it is a quite useful tool to describe and analyse existing situation.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Tbilisi is a viable and dynamic center of economic activity;</li> <li>• A crucial part of physical infrastructure network (transport, water, electricity, etc.) is developed in regions and especially in Tbilisi;</li> <li>• The business regulatory environment is generally positive;</li> <li>• The Government of Georgia has approved a long-term regional development strategies for each region;</li> <li>• A Vocational Education Strategy has been adopted, which includes commitment to regional coverage;</li> <li>• A limited number of agricultural products has a reliable and growing market;</li> <li>• There is a strong potential for further development of tourism in urban and rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Not only are resources attracted to Tbilisi from the rest of Georgia but there are concentration costs in Tbilisi itself;</li> <li>• A major part of physical infrastructure still requires completion and development especially in less densely populated areas;</li> <li>• Much further VET capacity development and the adoption of standards is needed – remote areas are still at a disadvantage;</li> <li>• Sources of finances for investment (particularly in rural/remote locations) are often insufficient;</li> <li>• Agriculture and rural based economic activities are not sufficiently responsive to market demand;</li> <li>• Land ownership is fragmented and rarely registered;</li> <li>• Remote mountainous municipalities currently are unable to support a viable population at present;</li> <li>• Unemployment (especially, in rural areas) and underemployment still remains a critical problem;</li> <li>• Regional and local governments’ institutional and resource capacity limitations are still acutely problematic.</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• The Association Agreement between Georgia and the EU should provide increasing opportunities for trade and investment;</li> <li>• The development of Regional Development Strategy Action Plans by the end of 2014;</li> <li>• Adoption of the Regional Development Programme for 2015-2017 is a good opportunity for balanced development, with coordinated and multi-sectoral approach.</li> </ul>	<ul style="list-style-type: none"> <li>• International economic crisis is yet not completed;</li> <li>• Geopolitical instability;</li> <li>• Macroeconomic constrains have serious impact on Georgian budget;</li> <li>• Effective implementation of the self-governance reform and sub-national institutional capacity building still remains an acute issue.</li> </ul>

### 3.3 Key Needs

On the basis of the above table the following main needs in relation to regional development in Georgia can be identified:

#### **Need 1: Creation of the Relevant Physical Infrastructure Network in Support of Economic and Social Activities**

Continued improvement of infrastructure of almost every type remains a critical need in Georgia, particularly in rural areas. Indeed if investment in business in Georgia is to increase, continued improvement of infrastructure is a pre-condition. Not least for high technology activity that often has specific requirements in terms of consistency and quality of telecommunications, power and water supply. All infrastructure provision should respond to locationally specific needs and the concern here is to promote balance in such provision.

##### **1.a. Transport**

Georgia 2020 identifies the need to further develop the country's transport potential as an important need and identifies national priorities. According to that document, the development of the transport system and the maximization of Georgia's transit potential are among the country's main priorities.

On the regional level there is a clear need to develop smaller-scale, connecting transport infrastructure so that populations currently remote from developing transport hubs can gain access to and benefit from them; and also so that potential investors can consider locations other than the limited number that are on the main transport links.

## 1.b. Water Supply

**“The Government’s goal is to supply the population with water 24 hours a day, to streamline water supply and drainage systems in all urban centres and towns, and to ensure their proper functioning and further improvement; the Government also aims to ensure that the system meets international standards.” Georgia 2020**

As described in Chapter II of the Programme, more than half of rural population and 10% of urban residents still are not connected to mains water system. Therefore, the challenges related to this are rather serious. In addition, there are specific needs with regard to irrigation systems and rural irrigation canals (see below, Need 3b). Finally water quality is of major importance and significant work remains to be done to ensure that piped water is potable and meets minimum health standards.

## 1.c. Waste and Waste-water Treatment & Air Pollution

**“The introduction of modern systems for solid waste management as well as the construction of new sanitary landfill sites and terminal stations in accordance with the EU’s environmental and technical standards is equally important.”**

**Georgia 2020**

As described in Chapter 2, solid waste collection and management in Georgia is carried out mainly in the capital in its surroundings nowadays. As for other types of waste, two-thirds of all air pollution sources are concentrated in four cities only: Ferroalloy Plant in Zestaponi, Power Plant in Gardabani, Nitrogen and Metallurgical Plants in Rustavi and Cement Plant in Kaspi. Air pollution from mobile/vehicle sources is particularly concentrated in greater Tbilisi. Sewerage systems and their management have improved significantly since 2000 but further work remains to be done in rural locations across most of the country.

## 1. d. Provision and Security of Supply of Power (electricity and gas)

Electricity is available in almost the whole territory of Georgia but significant quality improvement of energy supply and its compliance with commercial needs (particularly in rural areas) is necessary.

## 1. e. Telecommunications and Information Technologies

Internet access and use has developed rapidly in Georgia in recent years but further improvement and extension of access to more remote areas is needed.

## **Need 2. Support to local businesses, and so increase their competitiveness as well as employment opportunities in Georgian regions**

Chapter 2 provided evidence that demonstrated the need for support for business development and employment across all of Georgia. A substantial focus on training is needed everywhere and

improved provision of other business support services across Georgia would also be of value. However, variations in conditions and viable activities from one location to another would suggest that support would need to be tailored to the specific mix of requirements in different locations.

To be more specific, Georgia needs:

- a more highly qualified workforce;
- more full-time employment (particularly in rural areas where underemployment in agricultural activities is a very significant problem);
- more long-term employment (particularly in urban areas where there is a substantial “casual/self-employed” labour market);
- Better access to financial resources for investment purposes (particularly in rural locations).

### **2a – A Regionally Balanced Provision of VET and Labour Market Services**

Georgia’s educational system in general, and vocational education in particular, is in need of continued reform and very substantial development. At this stage it makes sense for this Programme to concentrate on vocational education & training and, more particularly, on supporting efforts to ensure the regional spread of improved provision of VET. Labour market data, including their acquisition, processing and analysis also need further improvement.

### **2b – A More Balanced Regional Dispersal of Business Services**

The financial sector in Georgia is relatively underdeveloped and access to finance is especially problematic for small and medium enterprises, start-ups and rural-based enterprises. Business support services and the availability of appropriate, secure and affordable business premises are also subject at present to significant regional variation.

## **Need 3: Modernizing Georgian agriculture and improving the quality of life for the rural population**

The majority of the urban population is concentrated in Tbilisi. This means that rural activities outside Tbilisi are even more important, generally, for regional development.

### **3. a. - Ensuring that National Agricultural Policies and Institutional and Regulatory Frameworks cover all Georgian Regions**

Recent analysis<sup>15</sup> has identified clear needs across the Southern Caucasus for significant improvements in national policies and institutional and regulatory frameworks (and associated capacities). The most important ones among them are the following:

- Stronger property rights – not least in relation to land ownership registration - that would promote land market development
- Protection and rational exploitation of forests

When responding to these needs, it is very important to maintain a regional balance.

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<sup>15</sup> Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries Georgia, EC/FAO 2012

### 3. b. Irrigation and Drainage Infrastructure Development

“The Government of Georgia will work to develop the country’s agricultural infrastructure, including irrigation and drainage systems, in order to increase the Georgian agricultural sector’s competitiveness.” Georgia 2020

Most of the irrigation channels and networks in Georgia need rehabilitation and maintenance. It is worth noting that, generally in a free market economy, proper functioning of irrigation systems at farming/internal network level is the private sector’s responsibility; however, state provision of wider supply and drainage networks is still required from Georgia’s public authorities.

### 3. c. Diversification of Economic Activities in Rural Areas

The analysis made in previous chapters shows that in order to improve the quality of life in rural areas, diversification of existing agricultural and non-agricultural (e.g. tourism) economic activities is necessary.

### 3. d. Improvement of Financial Support for Rural Enterprises

Access to financial resources is an especially acute problem for Georgia’s agricultural sector. Uncertainty over land ownership and tenure, the fragmented nature of much ownership, the need to diversify into non-traditional activity and poor infrastructure of a variety of types all combine to make investment difficult in this field. Farmers need improved access to affordable agribusiness loans, leasing products and crop insurance. To protect agricultural producers from adverse weather conditions and losses from natural disasters, support in the development of insurance systems is necessary.

### Need 4: Balanced Distribution of Resources between Tbilisi and Other Regions of Georgia

Tbilisi not only has relative strengths but also weaknesses (e.g. traffic congestion, pollution, etc.) compared to the rest of the country.

As for balanced distribution of financial resources among regions, it is noted that the state budget funding is still unequal and inefficient. Budget receipts and expenditures by regions, even on a per capita calculation, create horizontal imbalances. The problem is also that the share of individual revenues in local self-governance budget revenues is extremely low, which diminishes the level of budget independence, as well as the quality of public services. The new system of equalization, for its part, failed to efficiently compensate the reduced income after directing income tax into central budget since 2008.

### Need 5: Remote mountainous districts to offer a viable livelihood for at least a core population

High mountainous regions (Svaneti, Zemo Racha, Khevi, Khevsureti, etc) require development through a special state programme, which will be directed at preventing the process of depopulation of territories through supporting traditional business development and introduction of new technologies.

## Other Needs

In addition to the above mentioned key needs, it should also be noted that for effective support to regional development increasing of capacity of regional and local governance institutions is a key need. This would include: support for attracting foreign investment, more efficient planning of local socio-economic development, planning-management of infrastructural projects and implementing innovation and technology transfer systems. The fact that regional and local governments today have limited power and role to attract investments does not help in overcoming challenges. They do not have proper resources, capabilities and outsourcing mechanisms to carry out these activities, e.g. regional development agencies and other alternative organisations.

Together with a lack of investment projects developed in regions, appropriate standard regional passports, regional branding and promotion campaign, the absence of efficient coordination mechanisms with relevant central or local institutions is still the issue. Local opportunities to support establishment of linkages between local supply base and foreign investments remain unused.

Finally, availability of reliable information and official statistics (special economic zones are exceptions) on direct foreign investments and external trade, at the local, regional level is associated with serious difficulties. We can say that such statistics have not been produced in regions, which in the long run, is an important challenge for local institutions and for regional and local governments in the relevant planning process.

## **Chapter IV. Institutional and Policy Context**

This chapter describes the institutional and policy context related to the promotion of the regional development of Georgia. Considering a number of relevant activities, especially the number of international agencies operating in the country, the following information is selective in nature. Appropriate information includes the most important aspects that can influence regional development and its consideration is vital to ensure effective implementation of the Programme.

### **4.1 Institutional and Policy Context in Georgia**

#### **Administrative Arrangement and Structure of Local Authorities**

In accordance with the paragraph 3 of Article 2 of the Constitution, "Georgian territorial state structure based on the principle of separation of powers is defined by the constitutional law after the full restoration of Georgia's jurisdiction throughout the country."

At present there are 12 self-governing cities (municipality) and 59 self-governing communities (municipality). There are two autonomous republics in Georgia: the Autonomous Republic of Adjara and the Autonomous Republic of Abkhazia. Also, on the territory of former South Ossetia Autonomous District is created a temporary administrative - territorial unit.

Since Georgia regained independence in 1991, a considerable part of Georgian territory, namely the Autonomous Republic of Abkhazia and former South Ossetia Autonomous District territory were occupied by the Russian Federation. Today the status of these territories is defined according to the "Law of Georgia on Occupied Territories". Georgia includes 9 historical/geographic regions where governors/plenipotentiaries are appointed within their administrative/territorial units, together with Tbilisi. Only four cities of Georgia (Tbilisi, Kutaisi, Batumi, and Rustavi) have a population of more than 100 000.

In the State Strategy for Regional Development of Georgia for 2010-2017 approved by the Government of Georgia in 2010, "Region" is defined as follows: "region, while implementing the country's stable regional development policy, is defined as the functional-planning unit, representing the complex of administrative-territorial units and usually coinciding with the activity areas of state plenipotentiaries and governors. Following the strategy goals, Tbilisi, Autonomous Republics and temporary administrative-territorial unit are considered as the regions".

Before the 2013 presidential elections, it was the President's prerogative to appoint State Plenipotentiaries/Governors. After the elections, constitutional amendments came into force, according to which the President's authority has been limited and the Prime Minister's increased. The authority to appoint governors has been now been given to the Prime Minister. The basic level for local self-government is still a municipality (self-governing city and community).

## The Budgetary Process and Public Finances

The Georgian Budget Code determines the basic principles and process of the budgetary system of Georgia, for budgeting of state, local government units and autonomous republics. The budget, at all governmental levels, is adopted before the start of the year to be planned and includes plans for the next one-year period. The budget-adoption process includes a number of procedures defined by the Budget Code and is in conformity with the government’s appropriate level medium-term (4-year) plans. The plans for the state budget are defined in the document “Basic Data and Directions” and for local self-governing units and autonomous republics plans are defined in the corresponding priority documents. Annexes to the annual budget, as well as priority documents, determine programmes to be implemented with appropriate budgets and approximate volume of their funding for the planning and next 3 years.

Local self-governments have their own budget. Revenues of self-governing unit budget consist of own and other receipts. Own receipts include: local taxes and fees, an equalisation transfer and other receipts intended for self-governing units under Georgian Legislation. Other receipts are: Capital, Special and Targeted transfers, loans and grants received in accordance with the “law of Georgia on grants”. The self-governing unit may spend its receipts independently and at its sole discretion.

**Table 1.6. Transfers allocated from the State budget to a municipality, 2013**

Type of Transfer	Amount (thousand Lari)	% of total transfers
Equalising transfers	750 296.1	70.2%
Special transfers	307 333.6	28.8%
Target transfers	10 825.9	1.0%
Total:	1 068 455.6	100,0%

Source: Annual Report on execution of the State Budget of Georgia for 2013

Equalisation Transfer is an amount allocated from the state budget of Georgia using a special formula. Its purpose is to equalise different financial capacities of municipalities taking into account their economic potential. In addition, the municipality uses the income earned through equalisation at its sole discretion to implement its authority.

Special Transfer is allocated from the state budget of Georgia for the municipality budget, or from the Autonomous Republic budget for corresponding municipality budget, to liquidate consequences (damage) of natural disasters, ecological and other types of disasters, hostilities, epidemics and other extraordinary circumstances, and also to implement other arrangements by municipalities. This transfer will only be allocated if the reserve fund of the relevant municipality is not sufficient to finance measures to eradicate the above mentioned conditions.

Targeted Transfer – is transferred from one budget to another for the financial insurance of a delegated authority.

Capital Transfer – is transferred from one budget to another to implement a targeted capital project. In addition to transfers to municipalities and Autonomous Republics under the Annual Budget Law, the following is allocated to regions from the State Budget as well:

Funds for projects to be implemented by the LEPL Municipal Development Fund, which are mainly allocated by international donors, about 200-300 million GEL is spent annually for this purpose.

Funds allocated from the Fund of Projects to be Implemented in Regions of Georgia (in the form of appropriate transfer) to meet different requirements of municipalities as well as to finance the issues related to the regional needs of other spending institution. 250.0 million GEL is allocated for this purpose in 2014.

Funds allocated for municipalities under the Village Support Programme, the maximum annual amount of which is around 50.0 million GEL.

### **Relevant Policy Documents Related to Regional Development in Georgia**

The Government of Georgia has adopted the Socio-Economic Development Strategy – “Georgia 2020”. The main goal of the strategy is: to ensure that the majority of Georgia’s population benefits from economic growth based upon inclusive and comprehensive economic development.”

The strategy goes on to state that regional development plays a significant role in achieving comprehensive economic development. Consistent decentralisation and the leading role of sub-national units in stimulating local economic processes are seen as very important factors for achieving common national success. Accordingly, during the implementation of the policies outlined in the present Strategy, specific activities must take into account the involvement and needs of self-governing units in accordance with the development priorities of a particular region.

At the same time, a number of comprehensive sector policy documents are being prepared and adopted by different sectoral ministries. A draft Socio-Economic Development Strategy of Conflict-affected Areas has been prepared and the first steps have been taken to draft the strategy for remote mountainous areas. Operation of the ongoing infrastructure development programmes is obviously centralised with respect to the general model of regional development of Georgia regardless of whether they are carried out by the Ministry of Regional Development and Infrastructure, or by the subordinated organisations, such as the Solid Waste Management Company and the United Water Supply Company of Georgia.

In addition the **Ministry of Economy and Sustainable Development of Georgia** undertakes the responsibility for implementing “Georgia 2020”. The Georgian National Tourism Administration and the newly created Innovation and Technology and Enterprise Development agencies are under its control as well. The latter will be working in two pilot regions in 2014 and an important part of its activities will be implemented at regional level.

**The Ministry of Agriculture of Georgia** is finalising a new strategy and its activities are entirely focused on regions. The Ministry differentiates programmes at regional level as well for economically less active regions, through specially prepared targeted interventions. **The Ministry of Environment and Natural Resources** is responsible for forestry and is drafting a National Forest Programme of Georgia. Government Resolution # 343 dated May 8, 2014 approved the “2014-2010 Biodiversity Strategy and Action Plan”. In addition the Ministry plans to revise Georgia’s National Environmental Action Programme. **The Ministry of Education and Science of Georgia** has adopted its Vocational Education Development Strategy (2013 – 2020) in which regional issues and liabilities are presented clearly according to the needs for future actions.

## **Other Initiatives on Regional Development**

In stimulating economic processes in regions and local self-governments, an important role is given to the consecutive implementation of the organic law - “Local Self-Government Code” adopted by the Parliament of Georgia in February, 2014. This Code, in accordance with decentralisation, subsidiarity and management efficiency principles and the basic principles of “the Government’s Decentralisation and Self-government Development Strategy”, builds a proper legal basis for further development of the country’s self-governance in terms of municipalities’ territorial optimisation, strengthening functionality and resources of self-governments and improving local public services.

Further improvement of the reformed system is planned to ensure institutional, financial-economic and management effectiveness, including fiscal decentralisation and adjustment of the property issues, namely:

- i) Income tax distribution ratio and mechanisms within different-level budgets will be determined;
- ii) Property separation process will be implemented;
- iii) Percentage in nominal gross and product of the equalisation transfer’s total fund, targeted to be allocated to municipalities, will be determined;

All of these will contribute to significant growth of local self-governments’ fiscal revenues, their self-sufficiency and socio-economic development.

The works ongoing under “Spatial Planning and Construction Code of Georgia” already reaching the final phase are very important in terms of regional development and for improving urban policy. The Code includes a spatial and urban construction planning system, hierarchy, composition, development and approval procedures and also requests about using lands for construction, building and building materials’ basic quality requirements, construction permits, construction supervision and regulations for building use.

One of the important tasks is efficient implementation of the Regional Development Strategies approved by the Government of Georgia in 2013 as well as successful completion of the recently initiated works related to mountainous regions’ policy.

It should be noted that creation of a GIS (Geographic Information System) database is planned in the Ministry of Regional Development and Infrastructure with integrated comprehensive statistical information (e.g. demographic data, economic, geographic and financial characteristics; infrastructure resources and etc.) by settlements, communities and regions. Creation of such a GIS database is aimed at ensuring the reform processes of regional development strategies and programmes, the implementation of their action programmes and plans and on-going decentralisation with necessary statistical data.

## **4.2 International Agreements and Foreign Funding Sources**

International support has a significant impact on the development of Georgia. The financial part of such support is especially important. Below is a list of the important partners/donors collaborating with Georgia in terms of regional development and a brief description of their activities in the country.

## **The European Union**

Since 1999, relations between Georgia and the EU have been regulated through the Partnership and Cooperation Agreement. The aid allocated by the EU for 2007-2013 amounted to 452 million euros. On June 27 2014, an Association Agreement was signed between the EU and Georgia, together with the Agreement on a Deep and Comprehensive Free Trade Area (DCFTA). The new programme document (Single Support Framework) is a guarantee for future cooperation between the EU and Georgia in 2014-2017 and includes three priority sectors: public administration reform; rural development and justice sector reform. **The European Bank for Reconstruction and Development (EBRD)** is an important partner of Georgia both in terms of financial cooperation and for strengthening relations with Europe and attracting European investments. The EBRD funding for Georgia is more than 1.8 billion euro for about 160 projects (including energy, water infrastructure, waste management, banking sector, agribusiness, and etc.) of which 78% goes to the private sector. **The European Investment Bank (EIB)** has started to finance projects in Georgia since 2010 and currently, both in the public and in private sectors more than 500 million has been allocated to support euro road, water, and energy and banking sectors.

## **The World Bank**

The World Bank is one of the most important development partners of Georgia. Sovereign funding allocated by the World Bank in Georgia is around 2 billion USD to date. The World Bank approved the Country Partnership Strategy of 2014-2017, being consistent with the Socio-Economic Development Strategy of Georgia (Georgia 2020) and aiming to improve private sector competitiveness, development of human capital and access to finance. The total cost of the World Bank-supported projects is about 500 million USD.

## **The Asian Development Bank**

The Asian Development Bank has started cooperation with Georgia in 2007 and it has funded both public and private sector projects. The amount of resources allocated by the Asian Development Bank to the public sector of Georgia is around 1 billion USD as concessional loans.

## **The Millennium Challenge Corporation**

Under the Millennium Challenge II compact a Grant Agreement of 140 million USD was signed last July to improve the quality of education in the fields of science, technologies, engineering and mathematics (STEM). Within the framework of The Millennium Challenge Corporation's first compact, the allotted grant was directed to rehabilitation of roads in Samtskhe-Javakheti, energy infrastructure (North-South main gas pipelines, underground gas storage facility design), regional infrastructure (water and sewer systems) and small and medium-sized enterprises.

## **The United States Agency for International Development (USAID)**

The USAID cooperation strategy in Georgia covers the 2013-2017 period and implements projects aimed at improving the business environment and private sector capacities; supporting energy security and infrastructure improvements necessary for the country's economic growth; and strengthening the public health care system to provide better quality medical services for the Georgian population.

### **European States' Bi-lateral Programmes**

Some European countries are implementing bilateral aid programs with Georgia. Among them are Germany, notably the **German Society for International Cooperation (GIZ)** and **German Reconstruction Credit Bank (KfW)** as well as **France** and **Austria**. **The Swiss Agency for Development and Cooperation (SDC)** and **the Austrian Development Agency (ADA)** have also been actively involved in rural development and have recently begun to co-operate with UNDP on more general regional development activities. **The Swedish International Development Cooperation Agency (SIDA)** is co-funding projects financed with loans of other donors. Resources of this type go to the government for funding such priority and important areas as solid waste management, and water and wastewater infrastructure.

## **Chapter V. Programme Objectives and Priorities**

### **5.1 Introduction**

The preceding chapter outlined the wide range of policies and activities that have some influence on regional development in Georgia. This chapter describes the structure of the programme of specific activities that the Government of Georgia intends to undertake through the Programme to respond to the needs identified in Chapter 3. Considering the nature and complexity of existing challenges, as well as the availability of resources to resolve them, it is entirely logical that the Programme will not be able to respond to all identified needs. Therefore, the priorities listed are related to the most urgent and basic needs. Each priority refers to a particular sector or subject of the Programme goals.

When determining the main objectives of the Programme, consideration of two relatively important processes was required:

- the structure of local/regional governments and the distribution of both responsibilities and resources between the national and local/regional level have a critical influence on regional development and its prospects in Georgia – it is particularly important that the ongoing process of local government reform in Georgia is carefully monitored;
- It has recently been announced that a comprehensive spatial development framework is to be elaborated for all of Georgia covering both the regional and national levels.

### **5.2 Overall Objective**

The overall objective of the programme identifies the ultimate intended impact of the RDP. The analysis in the preceding Chapters has clearly identified a range of issues that contribute to uneven economic and social development. In particular, the analysis has highlighted the imbalance between what might be called “greater Tbilisi” and the rest of the country. It has also identified the imbalance outside Tbilisi between the major urban settlements and the surrounding rural areas and it noted that the more sparsely populated mountainous areas in the north of the country faced particularly intense challenges.

As an instrument of regional policy, therefore, this Programme concentrates on addressing the issues that contribute to these imbalances and its Overall Objective is to contribute to more balanced and sustainable socio-economic development across Georgia.

### **5.3 Specific Objectives**

Specific objectives define the main components of the overall objectives.

The development needs described in Chapter 3 can be grouped into two main categories:

- A) Those that limit economic development and therefore job-creation process in less developed regions; and
- B) Those that result in a poor quality of life in some regions.

Hence, this programme has 2 specific objectives to meet these needs:

- To support economic development and create new jobs, especially in those regions where the level of employment is low;
- To improve the quality of life especially in rural and less developed areas.

In order to achieve these objectives, a set of operational priorities is defined below, which provide the main thematic areas of intervention of the Programme. Costly regional disparities in Georgia are thus to be countered by promoting a specific combination of priorities and levels of resources devoted to each of them in response to the specific needs of any given region. Each Regional Development Strategy, for example, includes a list of the particular priorities of the region in question. Similarly, the subject of the remote mountainous areas of Georgia comes under recurrent scrutiny and it is possible that a programme to address the particular needs of these areas will emerge in the near future; similar to the draft strategy that has been prepared already for the socio-economic development of the conflict-affected regions.

The RDSs, and the development of remote mountainous areas or of conflict-affected areas then are not “priorities” in a programming sense; they are particular subsidiary programmes addressing the particular needs of the locations in question.

## **5.4 Priorities**

### **Priority 1 - Improvement of Physical Infrastructure and Environment Protection**

The analysis has shown that the continued improvement of infrastructure of almost every type remains a critical need in Georgia, particularly in rural areas. Moreover if investment in business in Georgia is to be encouraged, continued improvement of infrastructure is a pre-requisite. Priority should therefore be given to infrastructure investment that will contribute to the improvement of the business environment, for example transport and waste management. In addition to the need to improve infrastructure in the context of the business environment, however, the analysis showed that there is also a pressing social need to improving the provision of basic services such as mains supply of potable water and mains sewerage systems to rural areas as well as addressing the lack of treatment plants throughout the country and assessing and reacting to natural risks.

### **Priority 2 – Supporting the Development of SMEs and the Creation of New Jobs**

The analysis clearly shows that there is a significant lack of economic activity, and thus a lack of jobs, right across Georgia but particularly outside of the “Greater Tbilisi” area. The assessment of employment and unemployment rates is implemented according to the methodology of International Labor Organization (ILO) and a person who undertakes activities during the reporting period, for profit or for family income (in money or in kind), is deemed to be employed. Accordingly, employment data are somewhat masked by the categorisation of self-employment in the rural economy which is not really economic activity. Therefore, the focus of this priority in the Regional Development Programme will be to support economic activity, to develop the small and medium business sector and to promote job creation. In this respect, an important role is given to LEPL “Enterprise Development Agency” established in April, 2014.

### **Priority 3 – Rural Development**

The Ministry of Agriculture of Georgia is implementing many different programmes to develop the agricultural sector of the country. The overwhelming majority of them are concentrated in regions outside Tbilisi. Accordingly, the mentioned programmes have regional dimensions. This priority is oriented on improving the quality of life in rural areas and encouraging diversification

of the economy. (It is broadly compatible with the EU's Rural Development Policy). This priority also includes the sustainable development of the forestry sector, which is considered as potentially one of the main assets from an environmental and economic point of view.

#### **Priority 4 – Tourism Development**

Tourism is one of the fastest growing sectors of the Georgian economy and it has significant potential to promote regional and rural economic growth. Tourism contributes to the development of small and medium-size businesses, tourism-related fields (transport, trade, etc.) and agriculture, including primary production. This sector has a high potential for development and the effective utilisation of the country's tourism potential will have a positive effect on the development of the regions. But this will require further enhancing of tourism infrastructure, support to the improvement of the quality of tourism related services and the development of small and medium scale hotels and new touristic products.

#### **Priority 5 – Improvement of Human Capital and Development of Vocational Education Institutional Capacity at National and Sub-National Levels**

In order to support the development of the productive sector, a substantial focus on training is needed everywhere. Specifically Georgia needs a more highly qualified labour force that is responsive to the needs of business. This requires both a greater understanding of the skill needs of business and the availability of appropriate training facilities throughout the country in order to provide those skills. Georgia's educational system in general and its vocational education in particular, is in need of continued reform and very substantial development. This Programme concentrates on vocational education & training and, more particularly, on supporting efforts to ensure the regional spread of improved provision of VET.

At the same time, it is clear that the lack of institutional capacity at sub national level is a real barrier to economic and social development. This priority therefore will seek to address this through institutional capacity building measures.

*In addition to these five thematic priorities, as set above, there are potentially two geographically specific areas of intervention that may be coordinated through this Programme:*

**Implementation of Region-specific Development Strategies** - it is expected that to support the implementation of regional development strategies, substantial resources will be allocated from the "Fund of Projects to be implemented in Regions of Georgia"/FPIR (Regional Development Fund). It implies funding mostly for physical and technical infrastructure development projects. In pursuance with the established rule and taking into account the applicable criteria and procedures, the municipalities - following the review of the projects at the regional consultative councils - shall submit the respective projects to the Ministry of Regional Development and Infrastructure (for preliminary screening) before the Governmental Commission on Regional Development undertakes their subsequent appraisal and selection".

**Policies targeted at the remote mountainous areas** - a new policy initiative to address specific problems of residents of mountainous areas is expected to enter into active phase in the near future. The initiative is not fully formulated yet, but any such effort would form part of regional policy.

## Chapter VI. Programme Measures

This chapter provides the measures that the Government of Georgia is going to implement under this Programme in accordance with the defined tasks and priorities. (The measures are organised in line with the development priorities outlined in the previous chapter). To ensure efficient monitoring of their implementation, Annex 2 includes the 2015- 2017 Regional Development Programme guideline form, which responsible institutions will use to submit appropriate information as prescribed by law. The measures set out below do not fully cover all of the activities to be funded by either Georgia's own resources or donor contributions for regional development purposes across Georgia. Rather they set out the main selective activities that together constitute the Georgian Government's first programmed response to the problem of potentially damaging regional disparities and the need to promote balanced development of the country.

**Note:** Indicative budgets of the programme aiming to implement appropriate measures may be subject to significant changes in the end of the current and each subsequent year, in accordance with the budget process cycle in Georgia and approval period of the programme.

### Priority 1- Improvement of physical infrastructure and Environment Protection

#### 1.1 Roads of International and National importance.

This measure will provide for the construction, rehabilitation and maintenance of roads of international and national importance based upon their current technical standard and the current or expected traffic volumes. The absence of adequate quality roads in many locations in Georgia, particularly when related to increasing traffic volume, is clearly a barrier to economic development.

##### Indicative budget:

- 2015 – 550 million GEL
- 2016 – 570 million GEL
- 2017 – 580 million GEL

(Note: the budget includes roads of international and national significance (crossing regions of Georgia).

Implementing body: Ministry of Regional Development and Infrastructure of Georgia.

#### 1.2 Solid Waste Management

This measure provides for the construction of regional landfills and transfer stations where they are mostly needed, primarily in major cities of the country and their suburbs. This measure aims to minimise the risk of a negative effect on human health and the environment (in particular the largest cities by population and landfills close to residential areas and rivers). There are 63 former municipal landfills. At present the Solid Waste Management Company under the Ministry of Regional Development and Infrastructure of Georgia is in charge of the management of 54 municipal landfills in the country. The main challenge is to one by one close old municipal landfills in accordance with international standards and to place the generated municipal waste in new regional ones. The problem includes not only obtaining vehicles but identifying the most appropriate location for new

landfills.

(Note: currently, a bill on waste management is being debated by the Parliament taking into account the legislative requirements of the new and existing landfills across the country in accordance with the relevant EU directives. As soon as the bill enters into force, construction of regional landfills and remediation of existing ones will be implemented according to the criteria defined by the law).

Indicative Budget:

- 2015 – 10 million GEL
- 2016 – 15 million GEL
- 2017 – 15 million GEL

Implementing body: Ministry for Regional Development and Infrastructure of Georgia

### **1.3 Water Supply, Sewage and Sewerage Systems**

This measure includes the rehabilitation and building of new sewerage and water cleaning headworks and water supply systems, the maintenance of existing infrastructure and installing water meters in regions. Currently, water supply systems have been rehabilitated in the following large cities of Georgia: Kutaisi, Poti, Zugdidi and Marneuli. Rehabilitation of sewerage systems is planned in tourist centers: Mestia, Anaklia and Ureki as well as in 51 municipal centers. It is also planned to rehabilitate the sewerage system in the city of Telavi. As far as water safety is concerned, all of the activities will include building / rehabilitation of water and sewerage systems headworks in those cities where they are either in need of improvement or do not exist.

Indicative Budget:

- 2015 – 100 million GEL
- 2016 – 120 million GEL
- 2017 – 120 million GEL

(Note: this budget is intended for rehabilitation of water supply and sewerage systems, treatment works and potable water supply)

Implementing body: The United Water Supply Company of Georgia

### **1.4 Disaster Risk Reduction and Management of Polluted areas of old industrial sites**

Due to the complicated mountainous terrain, specific atmospheric conditions and the negative impact of human activities, natural hazards in Georgia are extensive and frequent. Major natural hazards (floods, flash floods, landslides, mudflows, snow avalanches, earthquakes, hail, heavy rains, storm winds, droughts, wash up of shores and etc.) substantially affect the national economy, causing damage to infrastructure and human casualties. Taking into account all the above, when the economic development of the country and people's daily existence is at risk, development of an early warning system and proper analysis to forecast the natural hazards are of vital importance. The second National Environmental Action Programme (NEAP, 2012-2016) of Georgia identified the following short-term goals:

- Improvement/modernization of early warning system;
- Prevention/reduction of the negative impact of floods and flash floods from river basins;
- Resumption of artificial influence on certain types of natural phenomena (hail, drought,

snow avalanches) and reducing risks of accidents on industrial sites.

LEPL-National Environmental Agency (NEA) carries out monitoring of hydro meteorological, geological and environmental pollution and provides actual and forecasted information about hydro meteorological, geological and environmental conditions at the national level.

Industrial sites (especially those where were produced and/or recycled petroleum products, chemicals, plastics, minerals and building materials, metallurgy and mining products) are at great risk in case of accident or a leak. A threat to the environment and to human safety is posed not only by active industrial facilities but also by the legacy of past operators. A number of industrial sites in Georgia that used oil products and various chemicals have been abandoned with limited or no safety measures in place. Substances accumulated as waste products often remain on site without proper control or supervision. The risk of pollution from these sites exists and can be increased by natural hazards and human activities. Therefore taking of immediate actions is necessary that contribute to neutralization of such sites.

Indicative Budget:

- 2015 – 5.1 million GEL
- 2016 – 5.2 million GEL
- 2017 – 5.3 million GEL

Implementing body: Ministry of Environment and Natural Resources Protection of Georgia/LEPL-National Environmental Agency

Based on the monitoring carried out by the LEPL National Environmental Agency as well as prediction of the natural disaster risks and recommendations about preventive measures to be taken, the Ministry of Regional Development and Infrastructure will implement appropriate protective and restoring measures, specifically bank protection activities in areas with increasingly higher risks of natural disasters in order to ensure safe and smooth traffic. At the same time, the role of the Ministry of Regional Development and Infrastructure is to rehabilitate damaged infrastructure and to play a role of mediator between the Government and affected municipalities for allocation of additional funds.

Indicative Budget:

- 2015 – 5 million GEL
- 2016 – 5 million GEL
- 2017 – 5 million GEL

Implementing body: Ministry of Regional Development and Infrastructure of Georgia

### **1.5 Georgia Forest Inventory and Implementation of a Stable Forestry Strategy**

Forests occupy about 40% of the territory of Georgia and its density is some fifty per cent higher than the average density of forest in the world. The largest part of forests is growing on slopes with just two per cent on the plains. There are swamped forests in Colchis Lowland and other regions of western Georgia. Most trees are grown and the most common species are beeches. Forests suffered tremendous loss due to illegal exploitation and the fire during the Russian-Georgian war. However, a complete inventory of forest has not been carried out in the last 20 years so there is no detailed information about their condition yet.

This measure aims to promote stable forest management and use to ensure fair and equal distribution

of benefits among local communities.

It involves the implementation of the following activities:

- Perfection of current legislative and methodological bases in the field of forestry to establish efficient forest management system;
- Further development of current electronic system of forest resource management;
- Continuous professional development and training of the employees of LEPL-National Environmental Agency;
- Meeting demand for wood resource (including firewood);
- Identification of allowable wood cutting;
- Development of mechanisms for diverse use of forests;
- Implementation of forests maintenance and restoration measures;
- Undertake necessary measures for institutional strengthening of LEPL-National Environmental Agency to ensure effective monitoring and improving of physical protection of forests;
- Clarification of the forest fund territories by means of state forest fund registration to prevent fragmentation and reduction of the forest territory;

Indicative Budget:

- 2015 – 18 million GEL
- 2016 – 18 million GEL
- 2017 – 19 million GEL

Implementing body: Ministry of Environment and Natural Resources of Georgia

## **Priority 2- Supporting the Development of SMEs, and Creation of New Jobs – Measures**

### **Supporting Business in Georgia’s Regions through Institutional and Programming Initiatives**

60% of companies registered in Georgia are small or medium enterprises. 45% per cent of them are concentrated in Tbilisi. It is noteworthy that the vast majority of businesses registered in the country do not operate and their existence is just formal. Lack of financial support instruments and resources represents a real challenge for business development. In order to support micro, small and medium businesses in Georgia, LEPL Entrepreneurship Development Agency was created under the Ministry of Economy and Sustainable Development of Georgia. The main responsibility of this Agency is to provide 3-year start-up business support, technical assistance and consulting services to beneficiaries. Consulting services will be provided by contracted businessmen and experts. It is planned to choose two pilot regions during 2014 which are particularly weak and vulnerable economically. The choice of pilot regions will be defined based on the corresponding criteria.

Meanwhile, a new government programme “Produce in Georgia” launched in Georgia in June, 2014 aims to stimulate local industrial and agricultural production. LEPL – “Enterprise Development Agency” will support start-up businesses in various industrial fields for the next three years (production of paper, paperboard, construction materials, textile, electrical equipment, diagnostic facilities, rubber and plastic products, steel products, wood processing, pharmaceutical

manufacturing). The annual interest rate for 2-year period loans will be from 1% to 3% and LEPL – “Enterprise Development Agency” will cover 10% of the loan interest rate and 30% of the loan collateral allowing enterprises to reinvest profits.

Total Indicative Budget:

- 2015 – 20 million GEL
- 2016 – 20 million GEL
- 2017 – 20 million GEL

Implementing body: Ministry of Economy and Sustainable Development of Georgia/LEPL Entrepreneurship Development Agency.

### **Priority 3 – Rural Development -Measures**

#### **3.1 Modernisation of Irrigation Systems**

Ensuring effective irrigation and drainage services are essential foundations for greater private investment in high value production. Rehabilitation of this infrastructure is a necessary condition for the development of agriculture and at the same time it is essential to introduce and promote modern irrigation systems. The final beneficiaries of this measure will be small, medium and large-scale farmers. Irrigation infrastructure will be mainly localised in Kakheti, Mtskheta – Mtianeti, Kvemo Kartli and Shida Kartli regions. As for rehabilitation of drainage systems, the target regions will be Imereti, Samegrelo, Guria and Kakheti.

Indicative Budget:

- 2015 – 70 million GEL
- 2016 – 80 million GEL
- 2017 – 100 million GEL

Implementing body: Ministry of Agriculture of Georgia/ Ltd. - Georgian United Systems of Melioration Company

#### **3.2 Concessional Agro-Credit**

Access to affordable finance is one of the most important factors for agriculture and agribusiness development. Competitiveness of the local farmers and companies is directly connected with the adoption of modern technologies and practices, for both of which financial resources are needed.

It is important to ensure affordable private finance for farmers and agribusinesses which would be impossible without various financial mechanisms and instruments.

The following is going to be implemented under the scheduled programmes: opening new enterprises and expanding existing ones in agriculture sector; expanding primary agriculture production; reducing the cost of bank credit and improving availability for rural enterprises; availability of agriculture machinery via leasing; stimulating farmers with small land plots involved in agriculture activities.

The governmental programme “Produce in Georgia” will be implemented through concessional agro credits. The following activities will be involved: horticulture; development of high-tech greenhouses; livestock farming; poultry farming; wool & leather processing; cultivation and processing of tea, laurel, tobacco, walnuts, hazelnuts; processing of fruit, berries, vegetables and

citrus. Specific projects will be selected via tender process.

Indicative Budget:

- 2015 - 30 million GEL
- 2016 - 30 million GEL
- 2017 - 30 million GEL

Implementing body: Ministry of Agriculture of Georgia/Agriculture Projects Management Agency

### **3.3 Other Planned Programmes for Rural Development**

For agriculture development purposes new and innovative agrarian technologies will be introduced; new varieties and hybrids will be spread and agro-biodiversity maintained; cooperation of small farmers (peasants) and their effective functioning will be implemented.

It is also planned to implement food safety risk prevention and appropriate control measures; strengthening laboratory study capacities; maintenance of epizootic security; protection of rural lands from the most dangerous pests; enhancing the phytosanitary safety in the country; raising the level of knowledge of farmers.

For the development of viticulture and the wine-making field the introduction of new consumer markets, registration, certification of vineyards, and specification of borders of definite zones will be supported and the promotion of the sale of the grape harvest of individuals is planned.

Indicative Budget

- 2015 - 50 million GEL
- 2016 - 55 million GEL
- 2017 - 60 million GEL

Implementing body: Ministry of Agriculture of Georgia

### **3.4 Land Market Development**

Currently the land market in Georgia is not well developed. The Government of Georgia (GoG) still controls a significant acreage of agriculture land that has yet to be privatised. A large portion of the land parcels owned by small and medium scale farmers are not registered and this limits the possibilities of secondary market development and private investments in agriculture. The Government of Georgia is going to re-define policies and procedures of land registration allowing registration of the majority of land.

This measure aims to promote the development of the land market. It is planned to choose pilot regions of a good geographic location, well-developed or rehabilitated irrigation and drainage infrastructure to promote investment in agriculture and agribusiness. Selection will be made among the following regions: Kakheti, Kvemo Kartli, Shida Kartli, Imereti, Samegrelo and Guria.

Indicative Budget:

- 2015 - 1,6 million GEL
- 2016 - 1,6 million GEL
- 2017 - 0,01 million GEL

Implementing body: Ministry of Justice of Georgia (funding - World Bank).

## **Priority 4 – Tourism Development -Measures**

### **Multilateral Promotion of Tourism Development**

One of the main assets of Georgia is its attractive location for international tourism. However, no analysis has been carried out to evaluate the tourist potential of regions of Georgia and there is no consolidated database in place. Moreover, promotion of Georgia as an international tourist destination is not properly managed and existing information sources in the country are not developed. Furthermore, the level of basic skills, such as hotel management and services, is low.

This measure aims to support and promote sustainable development of the tourism industry through balanced activities and sub-activities addressing both demand and supply. These include the following:

- Study of tourism resources and potential of each region, including cultural and natural resources;
- Promotion of domestic and international tourism;
- Development of a tourism information centre network;
- Improvement in the quality of service in tourism industry through training;
- Development of small-scale tourism infrastructure.

#### Indicative Budget:

- 2015 – 10 million GEL
- 2016 – 10 million GEL
- 2017 – 10 million GEL

Implementing body: National Tourism Administration of Georgia

## **Priority 5 - Improvement of Human Capital and Development of Vocational Education Institutional Capacity at Sub-national Level – Measures**

### **5.1 Labour Market Demand Survey**

Unemployment in Georgia is one of the most acute socio-economic problems and the main challenge. For supporting employment together and for completion of the common economic policy, it is important to create appropriate conditions for the efficient functioning of the labour market.

For a general picture of the labour market it is necessary to obtain a range of information and comparative analysis which requires conducting labour market research to determine the balance between labour demand and supply in the country. Without systematic study and the creation of a common information base the demand for labour in Georgia cannot be defined.

The labour market survey will systematise the data: will identify positions which are in deficit and in demand, will collect information on those regions where there is a lack of qualified staff, and will determine the expected trend in the labour market.

#### Indicative Budget:

- 2015 – 200.000 GEL
- 2016 – 200.000 GEL
- 2017 – 200.000 GEL

Implementing body: Ministry of Labour, Health and Social Affairs of Georgia

## **5.2 Rehabilitation of Existing Colleges; Construction, Equipment and Staffing of New Regional VET Colleges**

The Key area of ongoing educational reforms is to improve vocational education quality and to ensure access to vocational education throughout the country. According to the recommendations of the “Commission studying the needs, expediency and implementation issues of new vocational institutions” established by the order of the Minister of Education and Science of Georgia in 2013 (based on analysis conducted in regions of Georgia about the need for training), it has been decided to open 26 well-equipped vocational colleges to meet the socio- economic challenges existing in Georgian regions in order to provide a high quality service.

In order to implement this initiative it is planned at the initial stage to establish at least one vocational college each year. In addition, the efficiency of the existing colleges will be evaluated and their development plans reconciled to regional needs. Rehabilitation of infrastructure and equipping of colleges are also envisaged.

### Indicative Budget:

- 2015 – 4 million GEL;
- 2016 – 4 million GEL;
- 2017 – 4 million GEL;

Implementing body: Ministry of Education and Science of Georgia

## **5.3 Vocational Teaching and Education, Agriculture-Related Extension Systems**

In 2013, the Ministry of Education of Georgia, the Ministry of Agriculture of Georgia and the United Nations Development Programme (UNDP) signed a project document: “Modernisation of Vocational Education and Training and Extension Systems”. This project aims to contribute to the development of high-quality vocational training and extension systems in agriculture which will be reflected in and improvement in the living standards of the rural population.

It is a 6-year project and development of these systems will be implemented through 3 different approaches:

- Supporting seven vocational colleges and seven state information consultation centres, allowing them to work out more flexible, innovative, relevant and effective training programmes and consulting services. At least 10,000 farmers will have access to these systems.
- Creation of multilateral systems of qualified human resources offering farmers different training courses and services and providing them with practical knowledge and skills through the assistance projects of the country’s partners and the Swiss Agency for Development and Cooperation (SDC).
- By strengthening public and private sectors, as well as coordinating consultation services and vocational trainings, the project will contribute to establishing collaboration and partnership models of the public and private sectors in agriculture. Financial summaries of stakeholders from private and public sectors will be drafted and international grants (UNDP, SDC) will be mobilised.

### Indicative Budget:

5.9 million US Dollars

(Note: Donors – UNDP/SDC funding)

Implementing body: Ministry of Education and Science of Georgia; Ministry of Agriculture

of Georgia; (with financial assistance of the United Nations Development Programme and the Swiss Agency for Development and Cooperation).

#### **5.4 Training of VET Teachers and Continuous Professional Development**

Having no system of pedagogical training, entry into the profession and further professional development is one of the important challenges in the education system of Georgia. Therefore, one of the main objectives of the Ministry of Education and Science of Georgia is to improve the quality of teaching in vocational institutions in the country. While reforming the education system it is especially important to raise the level of qualifications of teachers.

In the Vocational Education Reform Strategy (2013 – 2020) the following was prioritised: Training and development of vocational teachers in accordance with modern standards and requirements; regular and systematic trainings in educational institutions to develop competence; attracting new human resources; keeping existing staff and supporting professional development.

The Teachers' Professional Development Centre of the Ministry of Education and Science is focused on long and short-term training of teachers aiming at their continuing professional development. Teachers have an opportunity to learn about using modern technologies, share successful teaching practices and use the knowledge obtained in their teaching.

Each subject of training is based on vocational teacher's standards, vocational standards and teachers' needs analysis.

Indicative Budget:

- 2015 – 280 000 GEL
- 2016 – 280 000 GEL
- 2017 – 280 000 GEL

Implementing body: LEPL Centre for Professional Development of Teachers.

#### **5.5 Training of Local Public Servants**

Development of institutional capacities at sub-national level is largely linked with the necessity for institutional capacity building of local public servants. This is becoming even more urgent due to local government elections, when the number of the civil servants increases, for whom, along with other officials, it will be vital to develop professional abilities and knowledge through training and continuous professional development.

In 2014 and subsequent years, the Ministry of Regional Development and Infrastructure and the LEPL Vano Khukhunaishvili Center for Effective Governance System and Territorial Arrangement Reform ("CEGSTAR") - with financial and technical assistance of international donors (Swiss Agency for Development and Cooperation (SDC), the Austrian Development Agency (ADA), United Nations Development Programme (UNDP)) - is going to conduct a multi-module training cycle for civil servants employed in local self-governments and regional administrations, according to an Action Plan already approved by the Ministry of Regional Development and Infrastructure.

Indicative Budget:

400.000 US Dollars

(Note: Funding of donors – SDC, ADA, UNDP may increase in 2015-2017 due to other

adjacent components of the project and/or their combination)

Implementing body: Ministry of Regional Development and Infrastructure / „CEGSTAR“;  
(SDC, ADA, UNDP).

**2015-2017 Regional Development Programme of Georgia Guideline Form for supporting the Monitoring of the Programme (Annex 2)**

<b>Priorities</b>		
<b>Measure</b>		
<b>Rationale</b>		
<b>Objectives</b>		
<b>Activities/Sub-activities</b>		
<b>Target Areas, Groups, Sectors</b>		
<b>Indicators &amp; Targets</b>	Outputs:	Results:
<b>Financial Summary</b>	Total value by year	Budget Code
<b>Period &amp; terms</b>		
<b>Implementing Body</b>		