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Abbreviations

AA	Association Agreement between EU and Georgia
AR	Autonomous Republic
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Area
EC	European Commission
EFTA	European Free Trade Agreement
EU	European Union
EUROSTAT	Directorate-General of the EC in charge of European statistics
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FYROM	Former Yugoslav Republic of Macedonia
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GEL	Georgian Lari
GEOSTAT	National Statistics Office of Georgia
GVA	Gross Value Added
HEI	Higher Education Institution
IDP	Internally Displaced People
IHS	Integrated Household Survey
IMF	International Monetary Fund
IUS	Innovation Union Scoreboard
LFS	Labour Force Survey
MoF	Ministry of Finance of Georgia
MRDI	Ministry of Regional Development and Infrastructure
NACE Rev 2	Statistical Classification of Economic Activities
NUTS	Nomenclature of Territorial Units for Statistics
R&D	Research and Development
SMEs	Small and Medium Enterprises
TRACECA	Intergovernmental Commission Transport Corridor Europe – Caucasus – Asia
USD	US Dollar
VET	Vocational Educational Training

Introduction

This report provides a snapshot of the current socio-economic situation in Georgia's regions[1] and its development trends. It is aimed at helping develop the evidence base for regional development interventions in the 2018–2020 programming perspective. Its main purpose is to ensure that policy-making and decisions lead to efficient and effective spending of limited resources – wisely and in an informed manner on programmes and projects capable of producing sustainable and durable improvements in the country's regions, while contributing to the quality of life of the whole society. These interventions can have a strategic character (needs-driven) and/or exploit competitive and comparative advantages (opportunity-propelled).

It is envisaged that regional policy for 2018–2020 will be built upon this diagnostic report providing appropriate socio-economic assessment available at national and regional levels and visualized by appropriate maps. Where available, municipal assessment or the assessment of functional areas will be provided.

Since Georgia does not feature Nomenclature of Territorial Units for Statistics (NUTS)-2 regions or equivalent units, the analysis of regional disparities has been conducted on the basis of the existing administrative division, which essentially corresponds to NUTS-3 units in the European Union. For this, the report illustrates developmental inequalities at both inter- and intra-regional levels.

The report is based on the relevant statistical data as of end of April 2017, available from the National Statistics Office of Georgia (GEOSTAT) and other national sources. These include e.g. the Ministry of Finance (MoF), the Ministry of Regional Development and Infrastructure (MRDI), the Ministry of Health, Labour and Social Protection, the Ministry of Education and Science, and the National Bank of Georgia.[2] Where possible, data captured by international institutions (e.g. World Bank, IFC) have also been included to elaborate on the country's socio-economic profile, regions and regional disparities. Consequently, the document provides a basic and yet essential snapshot of the state of play in the Georgian regions, yet commensurate to the size of the country and sufficient for a policy planning exercise.

This report was developed within the framework of the Technical Assistance Project *Support to Regional Development Policy in Georgia – Phase II* in the period April through September 2017. The previous document, *An Analysis of Regional Disparities in Georgia* (updated in March 2016), which was prepared as part of the earlier technical assistance project (Phase I), was used as reference content and guidance during analysis.

This report is made up of the following sections:

1. Introduction
2. General overview
3. Analysis of territorial cohesion
4. Assessment of social cohesion
5. Review of economic cohesion
6. Bibliography and references.

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1 Georgian legislation does not provide a clear definition of "region". This term is mostly used for statistical purposes and is applied to the territories under the jurisdiction of the State Trustees – Governors.

2 It should be noted that a number of desired indicators that illustrate economic and social cohesion aspects are not captured by GEOSTAT. There are also data gaps due to difficulties to collect specific data from the territories that are not under Georgian administrative and political control: the Abkhazia Autonomous Republic, the Tskhinvali region (former South Ossetia district formally being a part of the Shida Kartli region and the municipality of Akhalgori being a part of the Mtskheta Mtianeti region).

Executive Summary

Georgia is a lower-middle income country with a gross domestic product (GDP) per capita of US Dollar (USD) 3,800. It is located in the Southern Caucasus, at the crossroads of Europe and Asia, between the Black Sea and the Caspian Sea. It is 69,700 km^2 in size, and the state border has a length of 2,148 km. The country borders on the Russian Federation, Turkey, Azerbaijan, and Armenia.

Georgia has 12 administrative and statistical regions: AR Abkhazia, Samegralo-Zemo Svaneti, Racha-Lechkhumi and Kvemo Svaneti, Imereti, Guria, AR Adjara, Samtskhe-Javakheti, Shida Kartli, Kvemo Kartli, Mtskheta-Mtianeti, Kakheti and Tbilisi. Tskhinvali is formally part of the Shida Kartli region, AR Abkazia and the municipality of Akhalgori (part of the Mtskheta-Mtianeti region), however, remain outside Georgia's administrative and political control. The territory under control of the Georgian Government amounts to 57,000 km^2 and comprises 64 municipalities (including five self-governed cities).[3]

The country features a remarkably diversified **landscape and topography**, which **presents a challenge for communication, transport and accessibility** as critical socio-economic development factors. **Georgia's topography literally limits transport corridors**. Despite recent investments**, the national road network is characterized by low density, especially in regions such as Kakheti (230 km per 1,000 km^2) and requires significant improvements with regard to surface quality and width. Since domestic passenger transport is almost entirely road-based, Georgia's poor infrastructure affects connectivity and mobility**, especially for affordable and reliable rural bus services and passenger rail in general. Lack of efficient transport options paired with low levels of economic value added outside the greater Tbilisi area are deemed to be key contributors to high unemployment rates. While Georgia's rail network comprises a total of 1,326 km, only 293 km is double-track and 1,251 km is electrified. 75% of all total cargo freight of Georgian Railway belong to other countries, which illustrates the huge transit potential of Georgian Railway. Approx. 80% of the network traverse mountainous terrain, and in these areas any expansion is both difficult and costly.

High Caucasus **mountains, rivers and the proximity of two seas determine the country's climate**, which is humid subtropical in western parts and moderate and under the influence of dry continental weather in eastern parts. Average annual rainfall is 2,800 mm in the west and around 300 mm in eastern areas. High mountains feature permanent snow and glaciers. Overall, the **climate and soils create opportunities for diversified agricultural** production and rural economy.

Georgia's landscape features plentiful forests and woods alongside groundwaters. There are some 26,000 rivers and streams, and more than 18,000 of these are located in West Georgia. Moreover, Georgia is home to 860 lakes, most of which are high mountain water reservoirs (and one in depression, below sea level). The country's wetlands are extensive, and there are two designated Ramsar sites in Poti and Ochkhamuri, with a total surface area of 34,480 ha. Georgia is also home to several UNESCO World Heritage Sites, the most famous ones being Gelati Monastery and Bagrati Cathedral, the Historical Monuments of Mtskheta as well as the Upper Svaneti landscape, an exceptional example of mountain scenery with medieval villages and tower houses.

Georgian regions are disparate in regard to territorial, social and economic characteristics. The largest region in terms of size is Kakheti with an area of 11,375 km^2 and the smallest is Guria with an area of 2,033.2 km^2. (not counting Tbilisi with 504.2 km^2). Thus, **the biggest region is almost 5.6 times larger than the smallest**.

Regional population-wise, the biggest (not counting Tbilisi) is Imereti with 529,700 inhabitants and the smallest is Racha-Lechkhumi with only 31,000 residents – i.e. almost 17 times less. With only 6.7 inhabitants per km^2, the latter is also the least populated region in terms of density – similar to **sparsely populated areas** in remote northern regions of Europe. The average density for Georgia is 65.2 inhabitants per km^2, which is similar to countries such as Bulgaria or Ireland (69 and 65 inhabitants per km^2, respectively). Tbilisi has a population density of 2,210 per km^2 – this includes the city's urban territory and adjacent non-urban areas. Tbilisi is the biggest urban zone and its population is bigger than the urban population of all other cities and towns of Georgia combined – **the second biggest city is Batumi, almost seven times smaller than the capital city**. Together with Rustavi (the fourth biggest city-municipality) they form a functional urban area that is the second biggest in the region, after Baku.

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[3] Earlier there were 12 self-governed cities but their number will be reduced through legislation adopted by the Parliament of Georgia in July 2017.

This enormous gap makes Georgia one of the most monocentric countries and has a negative effect on the broader development opportunities in other regions. **The vast disparity between the size of the capital city and that of other urban areas makes the urban-rural divide very pronounced**. Indeed, **only Tbilisi and AR Adjara (thanks to Batumi) have more urban residents than rural ones. All other regions are predominantly rural, with Kakheti, Samtskhe-Javakheti, Racha-Lechkhumi and Kvemo Svaneti and Mtskheta-Mtianeti being the most rural and peripheral territories, where almost 8 of 10 residents live in rural settlements**. The three latter regions are also high mountain regions. The **lack** (or underrepresentation) **of medium-sized urban areas** determines and **exacerbates inequalities at the level of socio-economic development** within the country.

Georgia has been experiencing **high rates of depopulation**. Ever since the collapse of the Soviet Union, Georgia has lost approx. 31% of its population, **despite** a **positive natural increase**. There have been several contributing factors, the most important ones being the departure of Soviet military army personnel and their families as well as migration and the annexation of Georgian territories. Between the 2002 and 2016 censuses alone, all regions but Tbilisi experienced depopulation trends. With 10.6%, the lowest decrease was recorded in AR Adjara, followed by Kvemo Kartli (14.6%). The **most affected regions have been Samegrelo-Zemo Svanati as well as Racha-Lechkumi and Kvemo Svaneti, with depopulation** rates of 29% and 39% respectively. **Depopulation is an issue of major concern** as it may lead to brain drain, territorial integrity risks, fast ageing of demographic structures, a decrease in property value (and abandoned properties), a decline in income of the affected municipalities as well as landscape devastation and negative environmental pressures. In addition, border conflicts in Abkhazia, South Ossetia in the 1990s and in 2008 with Russia contributed to the escalation in the number of Internally Displaced People. Currently, the total number of IDP slightly exceeds 273,000 and accounts for 7% of the country's population. IDP predominantly settle in Tbilisi and Samegrelo-Zemo Svaneti, and these two regions account for 2/3 of IDP arrivals.

In terms of social cohesion, Georgia's age gap is yet another factor of concern. With a median age of 38.1 at national level, Georgians are still younger than EU nations on average. However, the **median age in Guria as well as Racha-Lechkumi and Kvemo Svaneti (41.8 and 48.2 years respectively) should be flagged** as a potential social issue. The latter also features the smallest household size, with 2.5 persons against the average of 3.3 at national level[4] (in comparison, households in AR Adjara are the largest, with an average size of 4 individuals). When compared with the population at large, Racha Lechkhumi and **Kvemo Svaneti is also characterized by a high proportion of residents receiving social benefits: in fact,** 38.3% of Racha Lechkhumi and Kvemo Svaneti's residents appear to depend on social welfare (as opposed to 23.8% of the population at large). This can be considered as a deep degradation of social structures.

At national level, Georgia features similar levels of poverty as some EU Member States, e.g. Croatia, Greece, Bulgaria (19.5%, 21.2% and 22.9% respectively). Relative poverty levels are highest in Shida Kartli (32.6%), Kvemo Kartli (32.7%), and Kakheti (25.5%). In addition, AR Adjara has experienced a steady increase in poverty levels in recent years (21.9% in 2013 and 25.5% in 2016). **All of Georgia's regions – except for Tbilisi and AR Adjara – are predominantly rural,** and the main issue of concern here is the fact that disparities in relative poverty levels between urban and rural areas have increased over the past ten years. While poverty intensities in rural areas have remained largely the same, poverty has decreased in urban settlements. These trends are caused by the expansion of urban areas and a high concentration of income, capital and labour force in the cities. In 2016, national relative poverty amounted to 21.3% and was highest in Shida Kartli (32.6%) and Kvemo Kartli (30.9%) and lowest in Tbilisi (13.7%).

Hired employment is rare – only 42.3% of the working contingent are in employed positions. Tbilisi tops the ranking with an index of 84.5%, followed by AR Adjara with 45.6%. All other regions record employment rates below the country's average. **Georgia has more self-employed individuals than individuals in employed positions, with the lowest rates being recorded in the regions of Guria, Mtskheta-Mtianeti, Kakheti and Shida Kartli**, where less than 1/3 of the workforce are in hired employment. There are regions in Georgia with virtually no employment opportunities provided by local businesses and economic entities or the public sector. Guria, for instance, has a population of 112,600

[4] The household size is decreasing and is likely to put pressure on housing needs and thus associated infrastructure, especially in urban settlements (water, sewage, power grid, parking, etc.)

and only 5,700 individuals are employed in the business sector. Samtskhe-Javakheti has a population of 160,600 and local businesses provide employment to 8,600 individuals.

Those who can find employment face **inequalities in the level of salaries**. Employers in Tbilisi pay the highest salaries, and the average salary is Georgian Lari (GEL) 1,006. Elsewhere the average pay amounts to 40–60% of the salaries available in the capital city, with GEL 641.1 in Guria, GEL 573.9 in Samtskhe-Javakheti, GEL 521.8 in Kakheti and GEL 414.5 in Racha-Lechkumi and Kvemo Svaneti. Such low salaries have an impact on household budgets, and only 37.5% of the average household budget in Georgia is made up of wages. The lowest share of income from gainful employment as a proportion of the household budget is observed in Kakheti, Guria and Samtskhe-Javakheti – between 20% and 23%. It is almost as high as the income derived from pensions, scholarships and other social grants. In regions such as Racha-Lechkhumi and Kvemo Karli 44% of all households are registered for subsistence allowances.

The unemployment rate in Georgia is at 11.8%, which is largely attributable to the high number of self-employed individuals in the rural economy. While **Tbilisi tops the list with a 22% unemployment rate, the lowest rates were recorded in the combined territories of Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti, which are very rural and record a rate of 4.1%, as well as Kakheti, with a rate of 5.4%**. Tbilisi features not only the highest unemployment rate, but also the country's lowest economic activity and employment rates, while the most rural areas experience opposite trends. Trends where urban areas exhibit high unemployment levels are contrary to observations captured in Europe, where the highest unemployment levels are recorded in rural, impoverished regions, e.g. in southern Spain, Greece, or areas in Turkey bordering Syria and Iraq. This phenomenon **can be explained by stagnant manufacturing and service sectors and low survival rates of businesses, as well as grey economy** activities that are not captured and documented by surveys. Moreover, it may also be the case that large numbers of individuals oscillate between unemployment and withdrawing from the labour force without ever finding work.

Georgia's healthcare infrastructure experiences numerous challenges. The distribution of hospitals and their size affect the efficiency of healthcare. **Only Tbilisi, AR Adjara and Imereti are above or close to the country's average** in regard to the density of hospital units and hospital beds per 100,000 inhabitants. In addition to that, Georgian hospitals are smaller than those in EU Member States. **Optimization of healthcare facilities is thus needed**, since healthcare is an important segment of the economy and can meaningfully contribute to socio-economic development. Also, if expenditure on healthcare outpaces economic growth, medical services will become costly and unavailable for many.

Availability and accessibility of educational institutions appears to be an issue of primary concern, especially for Vocational and Educational Training (VETs) and Higher Educational Institutions (HEIs). First, the majority of VET and HEI institutions are private. Second, **regions such as Guria, Mtskheta-Mtianeti alongside Racha-Lechkhumi and Kvemo Svaneti do not feature any public HEI**. There is no single university in Guria, and the other two regions have only one HEI each. The quality of HEIs is also an issue. **The country's most prestigious, second most prestigious and medium prestigious HEIs are all located in Tbilisi**; only the second last and the least prestigious universities are located outside the capital city. When it comes to the availability of public VETs, Kvemo Kartli, Samtskhe-Javakheti and Imereti are most disadvantaged.

Almost all Georgian households are connected to the electrical grid. The only region where electricity coverage is below 100% is Kakheti. However, only 66.9% of households have access to gas systems, with Samegrelo-Zemo Svaneti being the most disadvantaged, followed by AR Adjara, Imereti, Racha-Lechkhumi and Kvemo Svaneti. In fact, there are more households connected to gas pipelines than to tap water supply systems. In the Tbilisi area, almost all households have access to drinking water from bulk water supply systems. **Outside the capital city the share of households with water supply pipes installed in the dwelling varies between 34.2% in Kakheti and 43.7% in Kvemo Kartli, which goes to show that the water supply infrastructure is underdeveloped in all regions except for the capital city**. It is not only insufficient financing that is the main cause of the underdeveloped bulk potable water supply system in Georgia, but also ambiguous and inconsistent legislation.

Innovation in the business sector is a fact. According to a special innovation survey conducted by GEOSTAT between 2013 and 2015, 48.8% of Georgian enterprises engaged in innovation activities introduced new or significantly improved goods, while 51.2% of companies introduced new or significantly improved services. The survey shows that 23.1% of innovation activities were abandoned before

completion and 76.9% were still ongoing. However, this relatively high level of **innovation in enterprises does not translate into a visible increase of international competitiveness** measured by exports-imports ratio. In order to become a knowledge-based society, Georgia needs to strengthen the innovation capacity of local companies as a critical driver of innovation development throughout the economy. Out of 138 economies covered by the Global Competitiveness Index (GCI) 2016–2017, Georgia ranks in 113rd place in innovation and sophistication factors, 65th in technological readiness, 116th in innovations, and 100th in innovations capacity.

It should be noted that innovation and technology statistics as such are not produced in Georgia.[5] Some data are available, but the vast majority of data is not presented at the regional level. From NACE Rev. 2[6] the following sub-sectors considered as a part of the technology/innovations segment can be extracted: manufacture of computer, electronic and optical products; manufacture of electrical equipment; wholesale of information and communication equipment; software publishing; telecommunications; computer programming, consultancy and related activities; information service activities; scientific research and development; other professional, scientific and technical activities and repair of computers and personal and household goods. The total number of active business enterprises in these sub-sectors is more than 1,000. By 2015 the total turnover of these companies was GEL 2,068 billion, constituting 3.6% of total business turnover. A comparison of these data with the same data from 2013 shows that turnover in the technology sector increased by 24% in the period 2014–2015. The highest growth rate was recorded in other professional, scientific and technical activities (258%), followed by computer programming, consultancy and related activities (144%) and manufacture of computer, electronic and optical products (135%). A 24% decrease was recorded in manufacture of electrical equipment.

Georgia and its regions are moderate users of the internet. Results of the same survey demonstrate that:

- 97.5% of enterprises have access to the internet, and 44.3% of enterprises have a web page or website. 32.9% of companies use social networks (such as Facebook, LinkedIn). Only 5% use blogs or microblogs (e.g. Twitter), and multimedia content sharing websites (e.g. YouTube, Flickr, MyVideo) are used by 8.9% of companies. 48.7% of enterprises did not use any of the above mentioned social media platforms, or used them solely for the purpose of posting paid content. As regards e-commerce, only 9.5% of companies received orders for goods or services via their web page.
- 59.3% of residents over the age of 6 use the internet, and thus the share is higher than in developing countries (34.3%) but slightly lower than in the Commonwealth of Independent States (CIS) countries on average (65.1%) and Europe (77.9%). With an index of 76.7%, Tbilisi outperforms all other regions, followed by AR Adjara and Samtskhe-Javakheti, with 57–58% each. In all of the remaining regions, between 40% and 50% of residents use the internet. On a household level, the survey shows that 71.5% of Georgian households had internet access in June 2017, compared with 70.7% in June 2016.

The share of population aged 6 and older who owned a mobile phone in June 2017 was 80.5% (86.4% in urban areas and 72.5% in rural areas). In the preceding year, this share amounted to 78.8% (85.4% in urban areas and 69.5% in rural areas), i.e. there has been an increase of 1.7 percentage points between 2016 and 2017.

The share of population aged 15 and older who used mobile devices (mobile phone, laptop, tablet, etc.) within the last three months to access the wireless internet from any location by June 2017 was 79.5% (81.7% in rural areas and 78.5% in urban areas). In the preceding year, this share amounted to 59% (61.8% rural and 57.8% urban), i.e. there has been an increase of 20.5 percentage points between 2016 and 2017.

In recent years the country has been able to cope with difficult socio-economic externalities. **In 2016 the GDP growth index was 2.9% and thus the lowest rate since 2011**. Tbilisi is the biggest contributor, accounting for 48% of the country's GDP.

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5 This can be benchmarked e.g. with EUROSTAT or IUS methodology.

6 Statistical classification of economic activities

It is not unusual for a capital city to contribute a significant share of the national Gross Value Added (GVA), especially in former post-Soviet or ex-Yugoslav countries, e.g. Yerevan, Baku, Skopje, where such share is even higher than for Tbilisi. However, when paired with topography and accessibility constraints, such concentration of agglomeration and its economies is the greatest developmental challenge for Georgia and its regions. GVA per capita in current prices in Tbilisi is almost twice as high when compared to AR Adjara, which lies in second place (GEL 12,129 and GEL 6,564 respectively). The poorest regions are Samtskhe-Javakheti, Kakheti, Shida Kartli and Mtskheta-Mtianeti, where the GVA per capita is below GEL 5,000. In fact, **Tbilisi and AR Adjara are widening the development gap and socio-economic disparities as they have been growing faster than the remaining regions for many years**.

The distribution of Georgian enterprises mirrors the distribution of GDP, but it is **business turnover that best illustrates the country's socio-economic disparities**: 72% of the total business sector's turnover was attributable to Tbilisi-based companies, while the cumulative turnover of Guria, Racha-Lechkhumi and Kvemo Svaneti accounted for less than 1% of Georgia's total turnover. **The turnover of only Tbilisi companies was 2.5 times greater than the turnover of companies operating in all other regions of Georgia**.

Trade, repairs of motor vehicles and personal and household goods, transport and communication alongside construction sectors are the key drivers of growth in Tbilisi and AR Adjara. Nowhere else do these sectors make such important contributions to regional GVA. For example, **67% of GVA in Tbilisi is generated by trade, transport and communication, industry and construction. AR Adjara's economy, however, is more diversified**, with a more balanced distribution of GVA across the same four sectors.

Industry and manufacturing are the most important economic activity sectors for Kvemo-Kartli, Shida Kartli and Mtskheta-Mtianeti, making up 31% and 25% of their GVA. **AR Adjara, Guria and Samtskhe-Javakheti are the least industrialized Georgian territories**. In these regions, the share of industrial GVA of total GVA amounts to only 8%, 6% and 5% respectively.

Employment-wise, 63% of jobs are attributable to Tbilisi companies, while Guria, Racha-Lechkhumi and Kvemo Svaneti serve as the workplace for less than 1% of the employed workforce. **Tbilisi's economy is thus the most competitive**. However, a lack of specialized value chains and low labour productivity are the main factors of growing disparities and low economic growth. Tbilisi **displays very low levels of labour force productivity** – below those e.g. for Yerevan, Baku, Skopje, Belgrade or Moscow. Since labour force productivity measures the relation between output and labour time input, its low levels indicate that both the labour force is inefficient and the value of economic output is dwindling. **Arguably, this is one of the most fundamental issues of concern for Georgia's economy, and it partly results from a mismatch of labour market supply and demand for specific skills and expertise**.

Tbilisi is the largest growth pole and attracts 86% of FDIs, followed by AR Adjara with a 6% share. All remaining regions account for a meagre 8% of foreign direct investments, with Shida Kartli and Mtskheta-Mtianeti (0.16%) as well as Kakheti (0.12%) being most marginalized. Unarguably, FDIs contribute to innovations, but the Georgian methodology to capture innovation activity of enterprises significantly differs from that used by Eurostat (e.g. IUS method). Currently, it is impossible to establish the share of enterprises innovating in-house, introducing product/process innovation or marketing/organizational innovation.

Investment in fixed assets is yet another index illustrating the Tbilisi-rest-of-the-country divide. The capital city accounts for 76% of all investments in fixed assets, followed by Kvemo-Kartli and AR Adjara. Only these three regions have experienced growth in investments over the past five years. However, investment levels and their trends in Guria, Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli and Mtskheta-Mtianeti are in decline. What is more, 67% of all goods and services are produced in Tbilisi.

In 2015 the share of of small and medium enterprises (SMEs) in total business turnover was 17.5%. As for Georgia's regions, in Racha-Lechkhumi and Kvemo Svaneti SMEs has 74.4% in total business turnover, while in Tbilisi the share of SMEs was 13%. Referring to employment, in 2015 the share of SMEs in total business employment was 43.1%. As for Georgia's regions, in Racha-Lechkhumi and Kvemo Svaneti's SMEs has 93.9% of employees of total business employment, while in Tbilisi the share of SMEs in total business employment was 35.4%.

The condition of municipal budgets is yet another factor illustrating economic development capacities and regional disparities across the country. **Georgia is considered to be fiscally centralized,** and the **fiscal sustainability index** (per capita revenue) **is low,** varying between GEL 86 (for the Shida Kartli municipalities) to GEL 422 in Tbilisi. In other regions, this index varies from GEL 100 to approx. GEL 260. The regions of Racha-Lechkhumi, Shida Kartli and Kvemo Svaneti and Guria feature the poorest and most disadvantaged municipalities.

The **fiscal sustainability index** has increased over the last few years, since personal income tax has been included in local budgetary revenues (in addition to property tax and stamp fees) but it **is abnormally low when benchmarked even with the least developed EU Member States, where this index is above EUR 150 in the least developed areas**.

Georgia's **agriculture** appears to be more important for its residents than for the country's wealth. This **is the sector where more than half of the country's population is engaged in and which accounts for a meagre 9.3% of GDP**. There are regions where more than 70% of the workforce is employed in agriculture, e.g. Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti. **Small farms and subsistence agricultural holdings[7] dominate in the country, with 77% of farms being smaller in size than 1 ha**. The regions of Kvemo Kartli, Imereti, Kakheti and Shida Kartli are partially located in plains and lowlands and feature an exceptionally high ratio of arable land share of total agricultural land. The rural economy in Imereti is the most intensive: the region's greenhouses with a total area of 462 ha account for 2/3 of all greenhouses in the country.

The most popular crop in Georgia is **corn**. The sown area totalled 95,500 ha in 2016, with **Imereti and Kakheti featuring more than 46% of sown area and more than 53% of crops**. **Wheat and barley are the second and third most popular crops,** with a sown area in 2016 totalling 50,100 and 24,400 ha respectively. **Kakheti is the main producer of both wheat and barley**. Yield per ha is steady in this region but yield in other regions fluctuates from season to season, mostly on account of changing weather conditions and inappropriate agricultural practices.

Shida Kartli is the fruit basket of Georgia, accounting for almost 38% of total fruit production in 2016. It is followed by Kakheti and Samegralo-Zemo Svaneti. The latter is also the leading producer of various nuts and accounts for almost half of Georgia's crop volume.

Samegrelo-Zemo Svaneti, Imereti and Kvemo Kartli are the biggest cattle breeding regions of Georgia. These three regions are also leading in the area of dairy cow breeding. An average Georgian cow produces only 1/5 of an average Ukrainian cow, despite ideal agro-climatic conditions for dairy farming. An increase in productivity and food safety standards could contribute to improving the competitiveness of Georgia's dairy sector.

The **country is one of the oldest wine producers** in the world. The **combination of terrain, elevation, soil, drain and sunshine provides optimal conditions for viniculture**. Kakheti is the leading producer of grapes in Georgia, accounting for approx. 70% of the national production, followed by Imereti with circa 14%.

Georgia is experiencing an increase in tourism traffic. Between 2006 and 2015, the total output of the tourism industry increased 2.8 times, reaching GEL 3.9 billion. In 2016, **7.6% of the country's total output was attributable to tourism output**. The number of international arrivals in Georgia reached a record number of 6,350.825 in 2016, which is 449,731 more than in the previous year and represents an annual growth rate of 7.6%. In 2014 the number of foreign visitors was 5,515.559. Unfortunately, statistics do not capture international arrivals by region. Only domestic tourism statistics are available at regional level. Last year this number amounted to 877,000. Tbilisi continues to be the most popular destination, followed by Imereti and AR Adjara.

7 Agricultural holdings all households and legal entities, who, as of October 1, 2014, were owning or temporarily operating agricultural land, livestock, poultry, beehive or permanent crop (agricultural), regardless the fact whether there was produced any kind of agricultural product or not during the reference year.

1 General Overview

Georgia is a lower-middle income country with a GDP of USD 3,800 per capita (slightly higher than that of Armenia and lower than that of Azerbaijan). It is located in the Southern Caucasus, at the crossroads of Europe and Asia – between the Black Sea and the Caspian Sea. It is 69,700 km^2 in size, and the state borders have a length of 2,148 km, including 1,839 kilometres of land borders with the Russian Federation, Turkey, Azerbaijan, and Armenia.

Currently, there are 64 municipalities in Georgia with territory under control of the Government of Georgia, including five self-governed cities. The country comprises 12 territorial regions. There are two autonomous republics in Georgia – the Autonomous Republics of Adjara and Abkhazia. On the territory of the former South Ossetia Autonomous Region, a temporary administrative-territorial unit has been created.

Following recent legislative changes, the number of self-governed cities has decreased to five out of a total of twelve. Only Tbilisi, Rustavi, Kutaisi, Poti and Batumi have been granted the status of self-governing city. The cities that have lost the status of self-governing city are now united, with respective municipalities with direct election of head of executive bodies.

The country serves as a bridge connecting several important economic regions, including the EU, the Caucasus and Central Asia. Georgia has immense potential for enhancing integration and development of the broader geographical region. It is a key link within the shortest transit route between Western Europe and Central Asia for transporting oil and gas as well as dry cargo. Georgia's oil and gas pipelines, Black Sea ports, the railway system and airports are playing a key role in linking East and West. At the same time, Georgia functions as the vertical North-South transportation link between Russia and Turkey and, via Armenia, to Iran. Around 60% of all types of overland international freight throughout are items in transit[8].

Georgia’s liberal trade regimes provide investors with a favourable opportunity not only to access the country’s 3.7 million residents, but also the wider regions’ markets. With free trade agreements, Georgia

8 Georgia Transport Sector Assessment, Strategy and Road Map, ADB, Metro Manila, the Philippines, 2014.

has access to a 2.4 billion market that is not subject to customs tax. In June 2014, Georgia signed an Association Agreement (AA) with the EU, and the Deep and Comprehensive Free Trade Area (DCFTA) agreement is part of the AA. The DCFTA came into force in September 2014 and is intended to liberalize trade between Georgia and the EU by lowering tariffs and reducing non-tariff barriers. In May 2017 Georgia signed a free trade agreement with China.

The following reforms have been conducted by the Government of Georgia: fighting corruption, tax reforms, reforms in customs and trade policy, deregulation of the economy, reduction of number of licenses and permits, privatization, improvement of public services, improvement of budget policy, price liberalization, legal framework, etc. Through anti-corruption legislation, effective law enforcement and free access to online registries, the Georgian economy promotes transparency and reduces the bureaucratic burden. The country's impressive progress in improving the business climate has been well documented in several international indices. Georgia has shown significant improvement in the World Bank Doing Business ranking, from 112 in 2005 Georgia reached 16th place by 2016 in the overall ranking.

Georgia features a remarkably diversified landscape. Given that the main infrastructures are located in the midland between the North and South Caucasus mountain ranges, the country's topography presents a challenge for communication, transport and accessibility, which are critical socio-economic development factors. Georgia's highest peak is Shkhara at 5,068 m above sea level. The ten highest peaks exceed 4,400 m and the four highest peaks exceed 5000 m. The mountainous character of the land (approx. 2/3 of entire territory) is one of the drivers and causes of socio-economic inequalities across the country.

The western part of the country is dominated by a humid subtropical climate, while eastern Georgia is moderate, under the influence of the drier continental Aral Caspian area. Given the topography, climate zones range from humid to dry with permanent snow and glaciers in between. Year-round snow and ice are present above the altitude of 3,600 m. In contrast, the average monthly air temperature in Tbilisi is above zero all year round.

Despite its small territory, Georgia is home to a diverse flora, thanks to various geographical and climatic zones giving rise to a wide variety of plant species. Eastern Georgia is rather dry and semi-dry, with annual precipitation of around 300 mm, while the western part of the country is humid with an annual amount of rainfall of approx. 2,800 mm and dense coniferous forests, green areas and foliage.

Georgia provides an abundance of surface waters. There are 26,060 rivers in Georgia, creating opportunities for sustainable electricity production. Western Georgia is home to more than 18,000 rivers. The total length of rivers in Georgia amounts to approx. 60,000 km. The longest is Mtkvari (Kura), followed by Alazani, Rioni, Iori and Enguri. Rivers are fed by melting glaciers, snow, rain and ground waters.

There are 860 lakes in Georgia, and most of these are fairly small in size. The largest lake, Paravani, has a surface area of 37.5 km^2 and a depth of 9.3 m. The tenth largest lake is Bazaleti and its surface comprises only 1.2 km^2. Most of the lakes are high mountain water reservoirs, although the Paliastomi lake (18.2 km^2) is in a depression – below sea level.

Reservoirs and wetlands are vast, with a total area of approx. 790 km^2. The total number of reservoirs is 44, with a total area of 163 km^2. The total area of wetlands is 627 km^2. Two wetlands, one north of Poti and the other one in Ochkhamuri, are designated Ramsar sites with a surface area of 34,480 ha (www.ramsar.org).

Georgia is also home to several UNESCO World Heritage Sites, the most famous ones being Gelati Monastery and Bagrati Cathedral, the Historical Monuments of Mtskheta as well as the Upper Svaneti landscape, an exceptional example of mountain scenery with medieval villages and tower houses.

The country boasts a rich cultural heritage, with an abundance of archaeological sites, natural monuments, protected areas, mineral sources, balneology, as well as seaside and mountain ski resorts. One of the main priorities of the Government of Georgia is to promote the development of tourism, which has already seen dynamic growth. The total output of the tourism industry increased 2.8 times between 2006 and 2015, reaching a volume of GEL 3.9 million. In 2016, 7.6% of the country's total output was attributable to tourism output.

The development of tourism (including agro-tourism) is especially important for regional and rural development. In 2016 the total number of domestic visitors was 877,000. Tbilisi is the most visited tourist destination. In 2016 23.3% of all domestic guests visited Tbilisi.

As of 1 January 2017, Georgia's population amounted to 3.718 million inhabitants. The urban population amounts to 2.128 million (57.2% of the total population) and the rural population comprises 1.589 million inhabitants (42.8%). Historical change in Georgia's population is illustrated in the table below.

Table 1: Historical change in Georgia's population, 1913–2017 and urban-rural distribution

Year	Population (thousands)	% distribution		Change, %
		Urban	Rural	
1913	2,601.0	25.6	74.4	---
1926	2,677.2	22.2	77.8	2.9%
1939	3,540.0	30.1	69.9	32.2%
1959	4,044.0	42.4	57.6	12.4%
1970	4,686.4	47.8	52.2	13.7%
1979	5,014.8	51.9	48.1	7.0%
1989	5,443.3	55.8	44.2	8.5%
2002	4,355.7	52.4	47.6	-20.0%
2017	3,718.2	57.2	42.8	-16.6%

Source: GEOSTAT.

With regard to the distribution of urban and rural population, Georgia is on par with Albania, Romania, Serbia, Croatia and the Former Yugoslav Republic Macedonia (FYROM). To compare with neighbouring countries, the urban population in Armenia was 62.6% in 2016 and in Azerbaijan 54.6% (2015).

Table 2: Urban population, international comparisons (% of total)

Country	2011	2012	2013	2014	2015	2016
Georgia	53.2	53.8	53.6	57.2	57.2	57.2
Armenia	63.4	63.1	63.0	62.8	62.7	62.6
Moldova	45.0	45.0	45.0	45.0	45.0	45.0
Albania	53.2	54.3	55.4	56.4	57.4	58.4
Estonia	68.0	67.8	67.7	67.6	67.5	67.5
Latvia	67.6	67.5	67.5	67.4	67.4	67.4
Slovak Republic	54.4	54.2	53.9	53.7	53.6	53.5
World	51.9	52.4	52.9	53.3	53.8	54.3

Source: World Bank, GEOSTAT.

The country has experienced depopulation since 1989. Depopulation is characteristic to many nations, especially post-Soviet and Western Balkan countries (see table below).

Table 3: Population, international comparisons, thousand % change

Country	Recent census	Previous census	% change
Georgia (2014, 2002)	3,713.8	4,371.5	-15.0%
Armenia (2011, 2001)	2,871.8	3,002.6	-4.4%
Moldova (2014, 2004)	2,804.8	3,383.3	-17.0%
Albania (2011, 2001)	2,907.0	3,069.0	-5.3%
Estonia (2011, 2000)	1,294.5	1,370.1	-5.5%
Latvia (2011, 2000)	2,070.4	2,377.4	-12.9%
Slovak Republic (2011, 2001)	5,397.0	5,292.0	2.0%

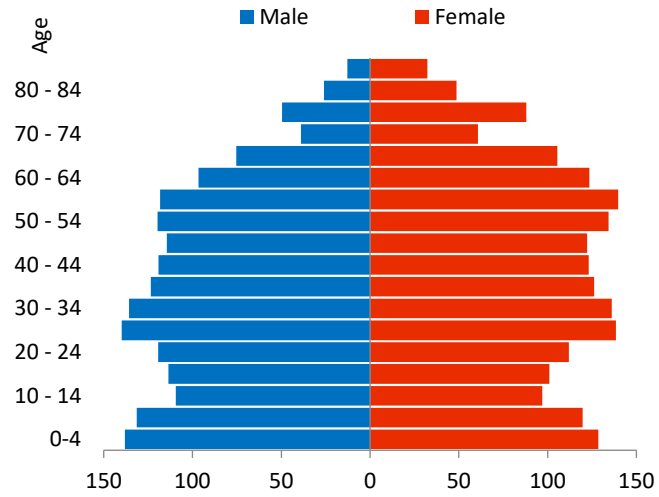
Source: National Statistics Office.

Ethnicity-wise, Georgians make up 86.8% of the country's population (2014 General Population Census). Major ethnic minorities include Azerbaijanis (6.2%) and Armenians (4.5%), followed by Russians (0.7%), Ossetians (0.38%) and Kurds (0.32%). 76% of the Azerbaijani population live in the Kvemo Kartli region, while 48% of Armenians live in Samtskhe-Javakheti. 32% of Armenians and 50% of Russians live in Tbilisi.

As of 1 January 2017, females accounted for 52% of the country's population. As for the rural-urban and regional distribution of the population by sex, females accounted for 53.7% of the total urban population and 50% of the total rural population (figures according to the 2014 General Population Census). The share of females is largest in Tbilisi (54.6%), and in all other regions the share of females amounts

to 50–51%, with the exception of Mtskheta-Mtianeti (49.6%). The distribution of population by sex and age is outlined in the chart below.

Chart 1: Age and sex pyramid, as of 1 January 2017, in thousand



Source: GEOSTAT.

The working-age contingent of Georgia (as a share of the total population) is increasing at the cost of youths and those aged 64+. Historical data is outlined in the table below.

Table 4: Share of younger than working age and older than working age population of total population, %

Year	Younger than 15 years	Older than 64 years
1989	26.3	17.4
2002	21.0	15.0
2007	17.7	14.6
2017	19.4	14.4

Source: GEOSTAT.

In 2017, life expectancy at birth is 72.7 years (68.3 for men and 77.2 for women), which is lower than the average life expectancy in the EU. Life expectancy in Georgia lies within the same range as in Estonia, Croatia, Serbia, Romania, and Turkey. In Armenia this index is 71.4, while in Azerbaijan life expectancy is 69.5. A snapshot of past trends is provided in the table below.

Table 5: Life expectancy at birth in Georgia, years

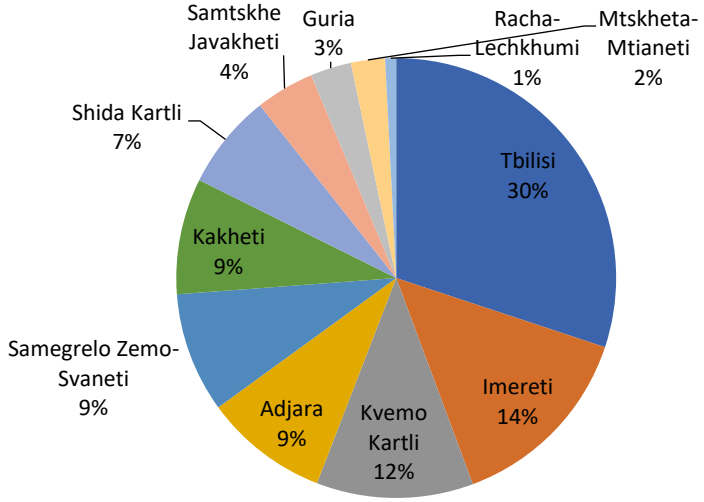
Item	1970	1979	1989	2014
Both sexes	71.9	71.0	71.3	72.9
Men	67.9	66.7	67.3	68.6
Women	75.4	74.6	75.0	77.2

Source: GEOSTAT.

2 Territorial Cohesion

Georgia consists of one large capital city, Tbilisi, where almost 30% of the country's population and 51% of the country's urban inhabitants are located, as well as predominantly small urban settlements in eleven regions that significantly vary in size. However, there are three regions that account for merely 3% of the total population each (cf. the chart below).

Chart 2: Distribution of the Georgian population by region, 2017, %



Source: Own elaboration based on data from GEOSTAT.

The second biggest city in terms of population size is Batumi, followed by Kutaisi, Rustavi, Gori, and Zugdidi. As for the size of population by region, Imereti is the second largest region (after the capital city) with a population of 529,000, followed by Kvemo Kartli (427,400), AR Adjara (339,000), Samegrelo-Zemo Svaneti (328,300) and Kakheti (317,500). The smallest is Racha-Lechkhumi – with a population of only 31,000 inhabitants.

Table 6: Population (thousands), area (km$^{2)}$, and population density by region, 2002 and 2017 census

Region	2002			2017		
	Popu-lation	Area	Density	Population	Area	Density
AR Adjara	376	2,900.0	129.7	339.0	2,900.0	116.8
Guria	143.3	2,033.2	70.5	112.6	2,033.2	55.4
Imereti	699.6	6,552.3	106.8	529.7	6,414.7	83.0
Kakheti	407.1	1,309.5	36.0	317.5	11,375.0	27.9
Kvemo Kartli	497.5	6,527.6	76.2	427.4	6,436.3	66.4
Mtskheta-Mtianeti	125.4	6,785.5	18.5	93.8	5,606.0	16.7
Racha-Lechkhumi	50.9	4,954.0	10.3	31.0	4,600.0	6.7
Samegrelo-Zemo Svaneti	466.1	7,441.5	62.6	328.3	7,468.2	44.0
Samtkhe-Javakheti	207.6	6,412.9	32.4	160.6	6,412.9	25.0
Shida Kartli*	314.0	4,807.7	65.3	263.7	3,428.3	76.9
Tbilisi	1,081.6	244.4	4,425.8	1,114.6	504.2	2,210.6
Georgia*	4,371.5	60,106.3	72.8	3,718.2	57,000.0	65.2

** Territory under control of Georgian administration.*
Source: GEOSTAT.

Based on the above figures, Georgia's population decreased in the period over the last three censuses, (1989, 2002 and 2014). While the sharp decline in population size is also attributable to constraints in conducting the 2014 census, this is not the only cause of official depopulation levels. Earlier, Georgia

had experienced depopulation due to border conflicts and migration. Thus, e.g. the decrease in population size in the years 1993–1997 is reflected in the figures recorded between 1989 and 2002. In 1989 Abkhazia and so-called South Ossetia were included in the census, and in 2002 they were not included. Moreover, numerous ethnic migrants as well as thousands of Soviet military personnel and their families left the country after the collapse of the Soviet Union. Finally, many Georgian migrants left the country to seek a better life and improved working conditions abroad. Outward migration (especially unregistered and not captured during the 2002 and 2014 censuses) is believed to have been the main contributor to depopulation.

Tbilisi is the region that is least affected by depopulation. Over the years, due to administrative reforms, it expanded its size at the cost of the rural areas of the Mtskheta and Gardabani municipalities. The most affected are the regions of Racha-Lechkhumi and Kvemo Svaneti as well as Samegrelo-Zemo Svaneti, where the number of inhabitants has dropped by almost one third. Depopulation is an issue of major concern as it may lead to territorial integrity risks, fast ageing of demographic structures, a decrease in property prices, a decrease of income of affected municipalities, negative environmental pressures (especially in rural areas), landscape devastation, etc.

Even though Georgia is predominantly urban, the rural population dominates outside Tbilisi and AR Adjara (see table below). This means that Georgia has a somewhat monocentric structure, especially when considering the moderate size of urban settlements other than the capital.

Table 7: Urban and rural population of Georgia (%)

Region	2002		2017	
	Urban	Rural	Urban	Rural
AR Adjara	44.3%	55.7%	55.4%	44.6%
Guria	26.2%	73.8%	28.2%	71.8%
Imereti	46.3%	53.7%	48.6%	51.4%
Kakheti	20.8%	79.2%	22.4%	77.6%
Kvemo Kartli	37.5%	62.5%	42.5%	57.5%
Mtskheta-Mtianeti	25.6%	74.4%	22.2%	77.8%
Racha-Lechkhumi	18.8%	81.2%	22.3%	77.7%
Samegrelo-Zemo Svaneti	39.3%	60.7%	39.0%	61.0%
Samtskhe-Javakheti	31.6%	68.4%	34.1%	65.9%
Shida Kartli*	36.2%	63.8%	40.0%	60.0%
Tbilisi	100.0%	0.0%	97.2%	2.8%
Georgia*	52.3%	47.7%	57.2%	42.8%

** Territory under control of Georgian administration.*
Source: GEOSTAT.

Rustavi is a big city-municipality and features functional links with the capital city through mobility, economic ties, cultural exchange and commuting residents for work, studies and services. The Tbilisi-Rustavi functional area also extends to the city-municipalities of Mtskheta and Gardabani. The greater urban capital city area dominates the country, with only two other city-municipalities, Batumi and Kutaisi, having more than 100,000 inhabitants. All other urban settlements and municipalities are significantly smaller in size. Figures regarding the number of inhabitants in major urban settlements of Georgia are depicted in the table below. As shown in the table, 65% of all residents living in the cities are located in Tbilisi. If we add Rustavi, we will see that the Tbilisi-Rustavi functional area serves as the place of residence for 72.4% of the total population living in cities and 33% of the total country population.

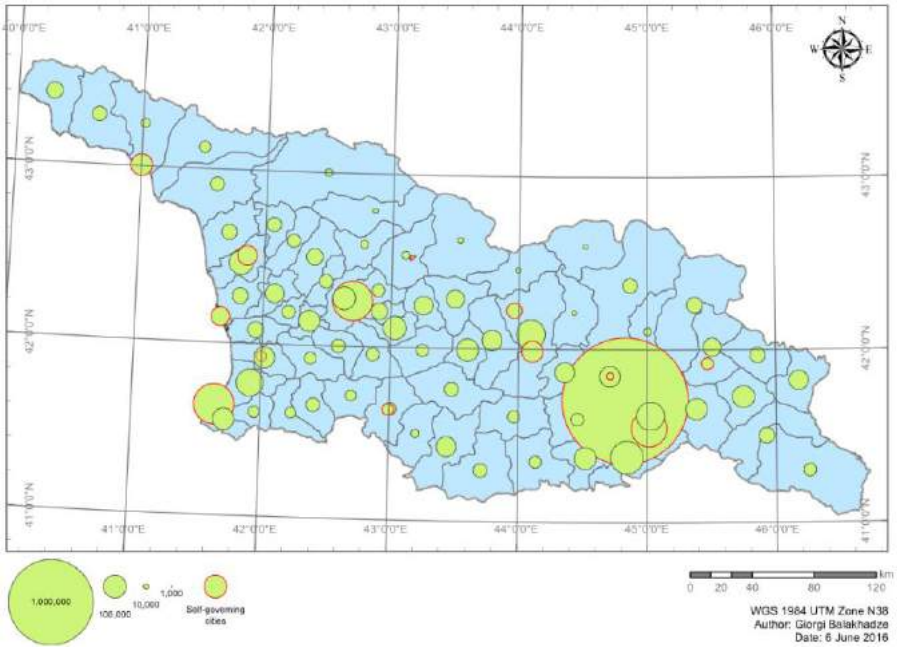
Table 8: Population size in major Georgian cities and urban settlements

City/Town	Number of inhabitants
Tbilisi	1,108,717
Batumi	152,839
Kutaisi	147,635
Rustavi	125,103
Gori	48,143
Zugdidi	42,998
Poti	41,465
Telavi	19,629

City/Town	Number of inhabitants
Akhaltsikhe	17,903
Ozurgeti	14,785
Mtskheta	7,940
Ambrolauri	2,047

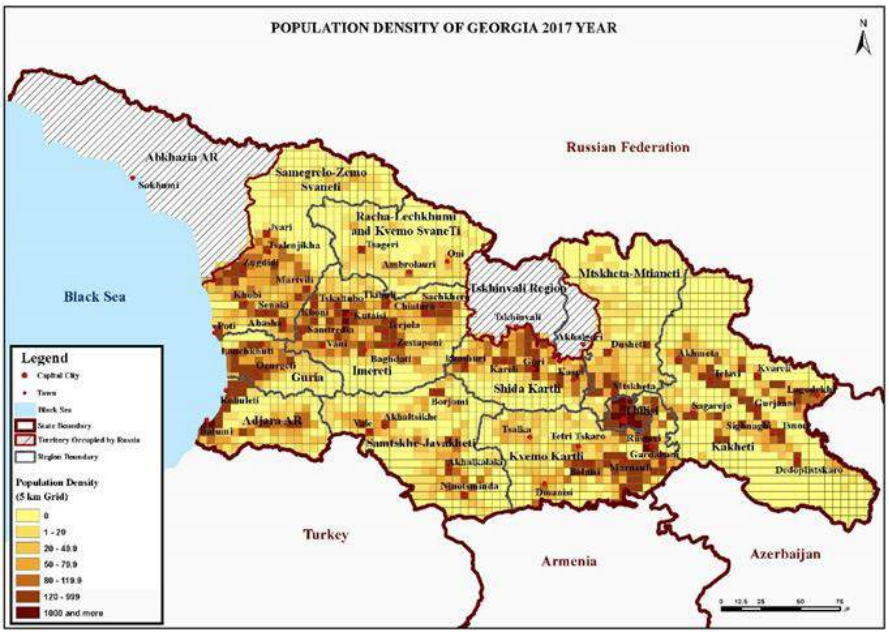
Source: GEOSTAT, 2014 census.

Georgia is thus clearly polarized: there is only one major functional urban area around the capital city, and this area is also Georgia's largest growth pole. There are more urban residents in Tbilisi than in all other urban settlements combined. The rest of the territory is characterized by much smaller towns, mountainous or peripheral settlements, and rural areas. A lack of large cities that could serve as an alternative to Tbilisi and an underrepresentation of medium-sized urban areas determines and further exacerbates inequalities in the level of socio-economic development.



Source: G. Balakhadze, Wikimedia Commons.

An illustration of the population density is provided in the figure below.



Source: Own elaboration.

Urban areas (and municipalities with the highest population density) are essentially located along the East-West transport corridor (with Kutaisi being a functional urban area of regional disposition) and on the Black Sea coast, where coastal towns and cities are multi-modal transport centres and functional urban areas of regional importance (Batumi, Poti). In addition to this, the biggest municipalities by population are Marneuli (105,900 inhabitants), Gardabani (82,500), Gori (77,900), and Kobuleti (75,500).

Georgia's transport system comprises five modes: road, rail, sea, air, and pipelines. All of these are vital for the country's economy. Reforms have helped draw private capital into airports and airlines, maritime services, road transport and pipelines. Georgia's railway is a state-owned company with capacity to raise capital in the open market. The road network remains the only mode of transport owned and operated in full by the public sector. Roads are classified as roads of international, national and local importance.

Road infrastructure is unevenly distributed throughout the country, mainly on account of Georgia's topography. The table below provides a snapshot of road infrastructure (in km) in Georgian regions at the end of 2015.

Table 9: Length of transport ways by region, end of year, km

Region	2011	2012	2013	2014	2015
Tbilisi	_	52.0*	52.0*	52.0*	52.0*
AR Adjara	1,593.3	1,556.3	1,556.3	1,565.9	1,565.9
Abkhazia AR	594.6	605.6	605.6	605.6	605.6
Guria	881.0	881.0	881.0	884.5	884.4
Racha-Lechkhumi and Kvemo Svaneti	1,276.3	1,282.3	1,645.8	1,645.8	1,645.8
Samegrelo-Zemo Svaneti	2,789.2	2,742.4	2,742.4	2,765.7	3,685.6
Imereti	2,647.0	2,647.0	2,656.0	2,648.7	2,767.4
Kakheti	2,523.3	2,580.3	2,625.3	2,645.3	2,630.9
Mtskheta-Mtianeti	1,476.6	1,476.6	1,476.6	1,456.6	1,514.7
Samtskhe-Javakheti	1,508.8	1,514.8	1,514.8	1,519.7	1,519.7
Kvemo Kartli	1,980.5	2,023.6	2,028.1	1,998.4	2,033.0
Shida Kartli	1,583.6	1,582.8	1,596.3	1,640.9	1,648.0
Georgia total	**18,854.2**	**18,944.7**	**19,380.2**	**19,429.1**	**20,553**

**Under the jurisdiction of the Department of Roads.*
Source: GEOSTAT.

As shown in the table, the total length of roads increased by 9% between 2011 and 2015, including international roads (by 5%). The two most important roads are the E60 and E70 of the European network. They traverse from Sarpi at the border with Turkey, serving ports in Batumi and Poti on the Black Sea, then directing freight to Kutaisi, Tbilisi and then southeast to the border with Armenia.

Despite recent investments, the road network is lacking density, especially in regions such as Kakheti (230 km per 1,000 km^2), and requires significant improvements with regard to surface quality and width. Since domestic passenger transport is almost entirely road-based, the poor infrastructure affects connectivity and mobility, especially for affordable and reliable rural bus services and passenger rail in general. Lack of efficient transport options paired with low levels of economic value added outside the greater Tbilisi area are considered to be key contributors to high unemployment rates.

Georgia's rail network comprises 1,326 km of tracks. Only 293 km is double track and 1,251 km is electrified (Georgian Railway 2012). 75% of all total cargo freight of Georgian Railway belongs to other countries, which suggests huge transit potential for Georgian Railway. Approx. 80% of the network traverse mountainous terrain, where any expansion would be difficult and costly. Most tunnels and bridges are very old. The expansion of the railway network has been prioritized, with the Tbilisi bypass and Kars-Tbilisi-Baku being the largest flagship projects for freight operations.

In terms of its geological structure, Georgia is a highland country. Lowland zones cover only 46% of the country's territory. The land resources are characterized by a high level of agricultural utilization and high natural fertility of arable lands. Territorial distribution of lands in Georgia can be classified according to the following vertical zoning system: zone I (up to 250 m above sea level): mainly characterized by subtropical cultures of western Georgia; zone II (250–500 m): area of horticulture, viticulture, market-gardening and intensive field activities; zone III (500–1,000 m): dominated by cereals, arable lands, and

animal husbandry; zone IV (1,000–1,500 m): grasslands; field activities are weakly developed; zone V (1,500–2,000 m): mainly grasslands; zone VI (above 2,000 m): agriculture does not exist.

Existing inclusive land statistics are outdated (from 2004) and they do not satisfy research needs but merely provide a snapshot of the status quo in agriculture and the rural economy. According to these data sets, the size of arable land amounted to approx. 802,000 ha, accounting for ca. 26.5% of the total available agricultural land. Even though most recent data capture only a part of Georgia's agricultural land (figures provided by agricultural holdings), they distinctly illustrate the diversity of regions and their associated potential.

Table 10: Agricultural land operated by holdings according to land use, ha

Region	Agricultural land	Of which:			
		Arable	Under permanent crops	Green-houses	Meadows and pasture
Tbilisi	2,817	2,159	258	15	385
AR Adjara	19,731	9,011	6,054	12	4,653
Guria	26,909	13,474	12,366	7	1,060
Imereti	65,737	51,033	8,831	462	5,410
Kakheti	315,499	133,099	33,117	53	149,230
Mtskheta-Mtianeti	20,829	12,253	1,238	25	7,313
Racha-Lechkhumi and Kvemo Svaneti	5,757	2,700	901	0	2,156
Samegrelo-Zemo Svaneti	66,662	36,609	27,003	24	3,027
Samtskhe-Javakheti	76,057	28,626	687	2	26,742
Kvemo Kartli	122,316	59,087	2,098	88	70,043
Shida Kartli	65,400	41,351	14,056	11	9,983
Georgia	**787,714**	**377,445**	**109,567**	**699**	**300,004**

Source: Natural Resources of Georgia and Environmental Protection, GEOSTAT, 2016.

The regions of Imereti and Shida Kartli, which are located in plains and lowlands, are characterized by an exceptionally high ratio of arable land share in total agricultural land. In other regions, the ratio is close to or below the national average. However, Kakheti and Kvemo-Kartli feature more meadows and pastures than arable land. Differences and disparities in land use across regions are attributable to relief and vertical zoning. Horticulture, gardening, cereals and animal husbandry are possible in areas up to approx. 1,000 m above sea level. Grasslands dominate the zone between 1,000 and 2,000 m, and above an altitude of 2,000 there is virtually no agriculture to be found. Three out of four agricultural holdings have small-sized land. According to the 2014 census data, 89% of agricultural holdings have or use agricultural land.

Georgian farms are small and thus their reduced competitiveness is an issue of major concern – 77% of agricultural holdings are operating agricultural land that is less than 1 ha in size.

North-eastern and eastern regions through Tbilisi are prone to flooding and flash floods. These are caused by high precipitation, and torrential rainfalls at times. In contrast, Kvemo Kartli and Kakheti are known for frequent droughts. Both floods and droughts have a negative impact on land use, and thus livelihoods of rural households are in need of undertakings concerning climate-resilient measures.

As regard forests, a total area of ca. 2.2 million ha is covered by woodlands, accounting for 34% of Georgia's territory. The regional distribution of woods and forests is depicted in the table below.

Table 11: Forest cover of Georgia by region, 2015, thousand ha

Region	Forest area
Shida Kartli	237.3
AR Adjara	149.5
Guria	86.1
Imereti	312.7
Kakheti	288.4
Mtskheta-Mtianeti	250.6
Racha-Lechkhumi and Kvemo Svaneti	282.1
Samegrelo-Zemo Svaneti	272.8
Samtskhe-Javakheti	131.8
Kvemo Kartli	144.1
Forest cover, total	**2,155.4**

Source: Ministry of Environment and Natural Resources Protection of Georgia. National Forestry Agency. Data does not include protected areas.

3 Social Cohesion

With an average age of 38.1 years, Georgia has a younger population than the EU-28 and European Free Trade Area (EFTA) countries combined, where the median age is 39.8 years. Compared with the 2002 census, the average age of residents increased by two years. Accordingly, the average age of male residents increased from 34.3 to 35.9 years and that of female residents from 37.8 to 40.1 years. A comparison of the 2002 and 2014 census shows that the Georgian population is ageing. There are significant differences among the regions, the youngest being Kvemo Kartli and the oldest being Racha-Lechkhumi and Kvemo Svaneti. Such differences cause concern about future trends in working contingent, availability of workforce and old age dependency across regions.

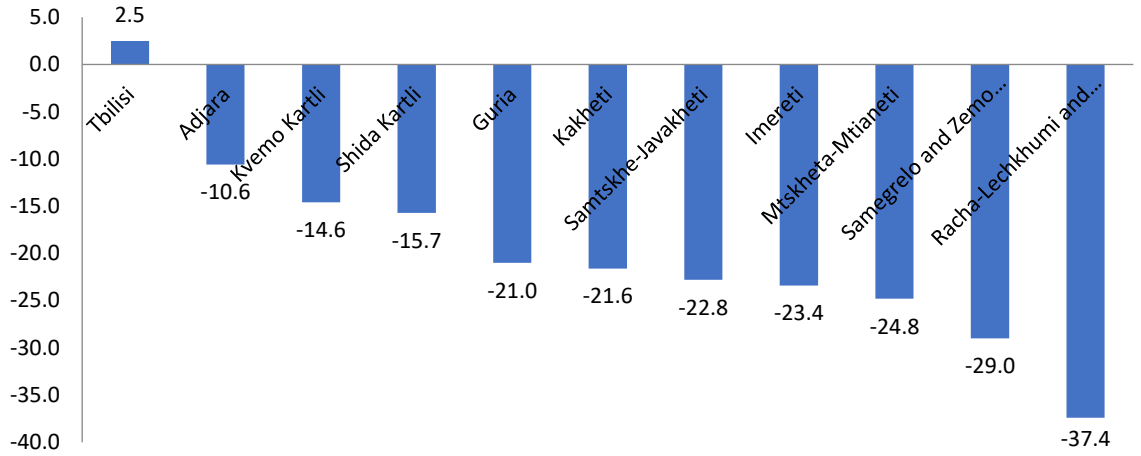
Table 12: Mean age of population by sex, by region (years)

Regions	Total	Male	Female
Georgia	38.1	35.9	40.1
Tbilisi	36.3	33.8	38.4
AR Adjara	35.7	34.0	37.4
Guria	41.8	39.4	44.1
Imereti	40.5	38.3	42.6
Kakheti	40.2	37.9	42.5
Mtskheta-Mtianeti	39.8	37.8	41.9
Racha-Lechkhumi and Kvemo Svaneti	48.2	45.4	50.8
Samegrelo-Zemo Svaneti	40.8	38.4	43.1
Samtskhe-Javakheti	37.7	35.6	39.7
Kvemo Kartli	35.6	33.6	37.5
Shida Kartli	38.8	36.8	40.6

Source: GEOSTAT, 2014 census.

Consequently, the Georgian population is becoming more urbanized. As shown in Table 7 further above, the share of urban population increased by 4.8 percentage points between the 2002 and the 2017 census and reached 57.2%. This growth is mainly attributable to the fact that rural areas are undergoing depopulation at a much faster rate than urban nodes. In the period under consideration, rural population declined by 23.7% while the number of urban residents decreased by 7.1%. The highest rates of depopulation were recorded in Georgia's largely rural, high mountain border territories in the north, raising exacerbating concerns about the country's territorial integrity and compression of socio-economic space due to geographical conditions, underdevelopment, challenging environments, as well as historical and political characteristics of the regions affected.

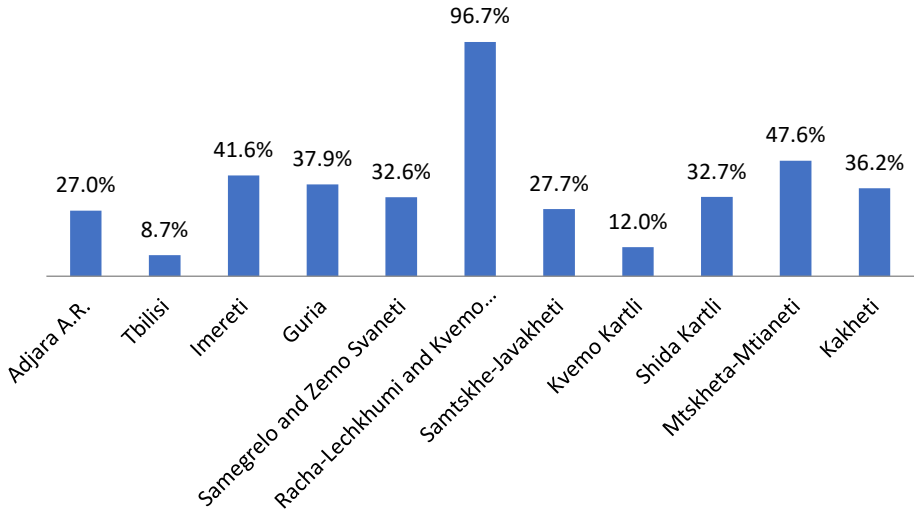
Chart 3: Increase/decrease in population size by 2014, by region, compared to 2002 census (%)



Source: GEOSTAT, 2014 census.

Internal migrants, i.e. persons who have changed their permanent place of residence (moved to live in another settlement) within Georgia, account for 28.5% of the population. Male individuals constitute 33.6% of internal migrants, and the share of females amounts to 66.4%. As Chart 4 illustrates, a significant share of the population has migrated internally from mountainous regions. This number is the highest in Racha-Lechkhumi and Kvemo Svaneti. If we count the total number of people migrated from the region since 2002, it is 96.7% of the current population. Tbilisi accounts for 33.1% of internal migration, followed by Imereti (15.1%). The least affected region is Racha-Lechkhumi and Kvemo Svaneti, with a share of 1.1%). All other regions recorded a single-digit contribution to internal migration. The significant share of female migrants, especially to urban areas, is likely to put pressure on social care in the near future, e.g. childcare and schooling in cities – at the cost of similar facilities becoming redundant in rural areas and smaller towns. This trend may be exacerbated by removing self-governance arrangements of several cities and towns.

Chart 4: Internal migrants from Georgian regions as a proportion of the region's population (as of 2017), %



Source: GEOSTAT, 2014 census.

According to the 2014 census, immigrants account for as much as 5% of the total population. More than half of these immigrants arrived from Russia (51.6%), followed by Greece (8.2%), Ukraine (8.1%), Germany (4.2%), Armenia (3.8%), and Azerbaijan (3.7%). Immigrants predominantly settle in the regions of Tbilisi, Imereti, and Kvemo Kartli. While there are no specific studies or data on migrants' profiles or

reasons for relocation, the scale of migration into Georgia suggests that opportunity cost could be one of the main causes. Immigration may bring positive effects on investments, innovation and entrepreneurship, but can also put a strain on the welfare and education systems.

2.3% of Georgia's population has been identified as emigrants by the 2014 census. Most of these left for Russia, Greece, Italy, and Germany. Emigrants are chiefly males in age cohorts between 20 and 34 years and females in age cohorts between 40 and 59 years. These cohorts constitute the main pillars of the workforce, for both low-skilled and high-skilled jobs, having higher education and professional experience.

Orthodox Christians are the largest religious group, accounting for 83.4% of all believers. They are followed by Muslims (10.7%), Armenian Apostolics (2.9%), and Catholics (0.5%). The highest concentration of Muslims is to be found in the regions of AR Adjara and Kvemo Kartli, as well as in a number of villages of Kakheti. Armenian Apostolics mostly live in the Samtkhe-Javakheti region.

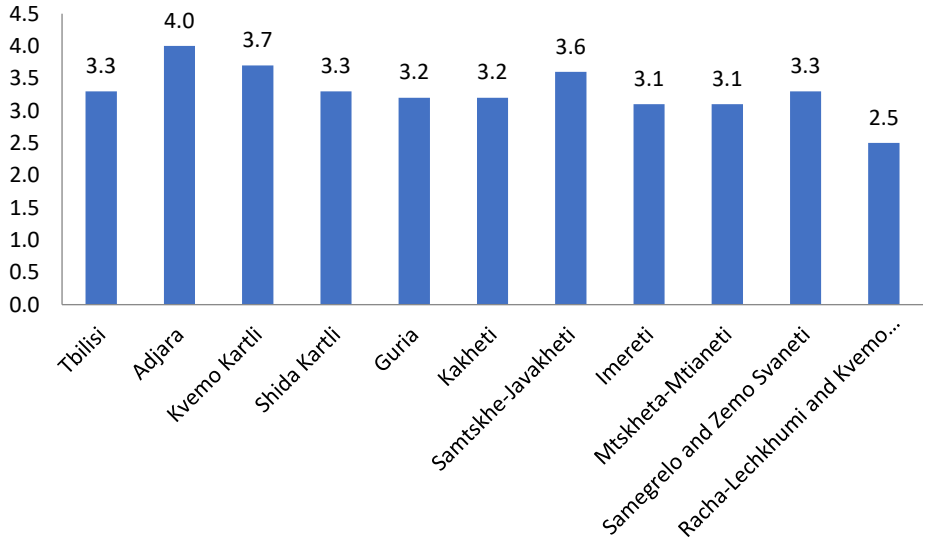
In August 2017, there were 273,411 internally displaced people (IDP) in Georgia (7% of the total population). They settle predominantly in Tbilisi and Samegrelo-Zemo Svaneti, each accounting for 38.7% and 26.4% of all IDP respectively.

Georgia has always experienced positive natural increase at national level. Positive contributions are made by the city of Tbilisi, AR Adjara, Samtskhe-Javakheti, Kvemo Kartli, and Shida Kartli. In all other regions, the natural increase rate has been negative in recent years.

In 2016, Georgia's birth rate was 15.2 per 1,000 people. The lowest birth rate was recorded in the Racha-Lechkhumi and Kvemo Svaneti region (10.4), and the highest in Adjara (17.7). Birth rate trends in recent years are considered to be steady.

As part of the 2014 census, a total of 1,109,100 private households were identified. The average Georgian household comprises 3.3 persons (the average household size in EU-28 is 2.3, EUROSTAT). According to the 2002 census results, the average size of a Georgian household was 3.5 at the time. Moreover, there are considerable variations at regional level – from 2.5 persons per household in Racha-Lechkhumi and Kvemo Svaneti to 4 persons per household in AR Adjara, which is exceptionally high. Household proliferation occurs due to ageing, an increase in the divorce rate, changes in multi-generational household structures and general urbanization processes.

Chart 5: Average number of private household members, by region

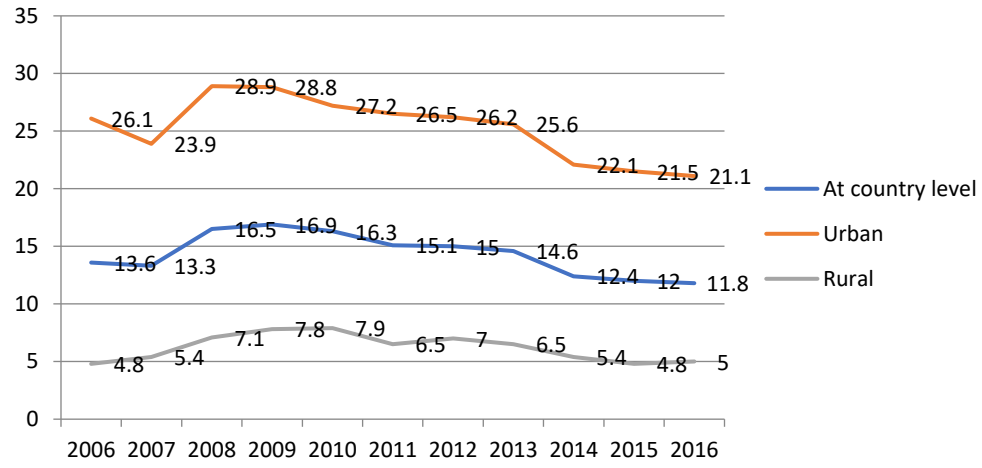


Source: GEOSTAT, 2014 census.

The average household size is likely to decrease in forthcoming years. Paired with migration from rural areas to urban settlements, this trend is likely to put pressure on housing needs and associated infrastructure (water, sewage, power grid, parking, etc.), especially in urban settlements.

Between the years 2009 and 2016, unemployment measured through the Integrated Household Survey (including the Labour Force Survey) methodology decreased at national level from 16.9% to 11.8%.

Chart 6: Unemployment rate, 2006–2016, %



Source: Own elaboration based on GEOSTAT data.

The significant difference between urban and rural unemployment rates can be explained by the high numbers of self-employed people in rural areas, mostly engaged in primary agriculture (these individuals may be members of any agricultural holding). Since the urban population is lacking these opportunities, the unemployment rate in urban areas is high. In 2016, the share of self-employed persons in the total workforce was 57.3% – almost matching 2015 figures (57.2%) and yet lower than in the preceding years (60% in 2014 and 61% in 2013). This is the reason why Georgia's unemployment rate is lower e.g. than that of Spain (17.1%) and slightly higher than that of Italy (11.1%).[9] The high proportion of self-employed persons is also evidence of stagnant manufacturing industries and a potentially escalating volume of grey economy activities. A comparison with other countries is provided in the table below.

Table 13: Unemployment rate in international comparison, %

Country	2011	2012	2013	2014	2015	2016
Georgia	15.1	15	14.6	12.4	12	11.8
Armenia	18.4	17.3	16.2	17.6	18.5	18.8
Moldova	6.7	5.6	5.1	3.9	4.9	4.2
Albania	14.0	13.4	16.0	17.5	17.1	16.1
Estonia	12.3	10.0	8.6	7.3	6.1	6.9
Latvia	16.2	15.0	11.8	10.8	9.8	9.6
Slovak Republic	13.7	13.9	14.2	13.1	11.4	9.6

Source: International Monetary Fund (IMF).

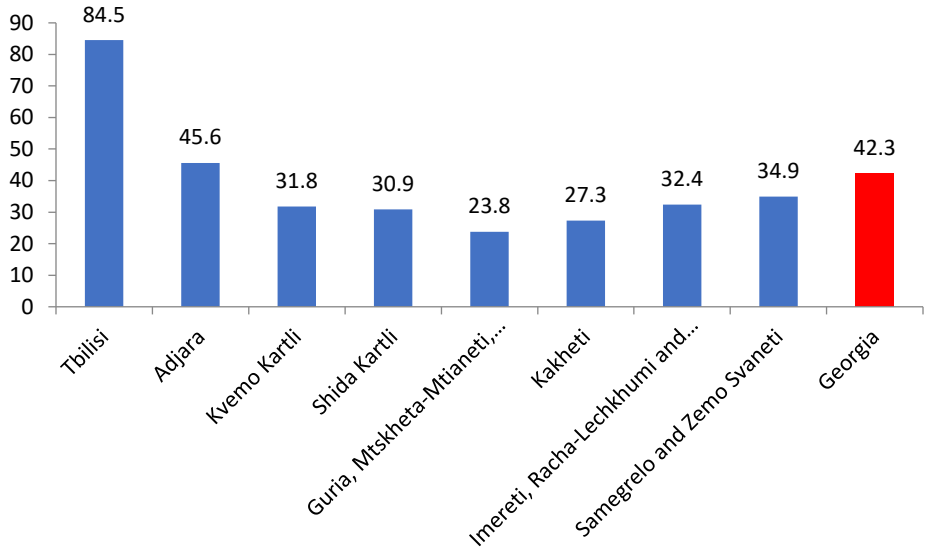
Employment rates outside of Tbilisi are low and it is the capital city with its most adjacent areas that provides the majority of employment opportunities available in Georgia, which encourages rural residents to relocate from their constituencies (note that employment also includes jobs in the public sector).

The high unemployment rate of Tbilisi (vis-à-vis lower unemployment rates outside the capital city) can be explained by significant levels of self-employment in agriculture and the rural economy in the countryside.

As illustrated in the chart below, in all regions but Tbilisi and AR Adjara the share of gainfully employed persons is below the national average.

9 According to ILO methodology, all persons who worked at least 1 hour during the last 7 days are considered to be employed.

Chart 7: Employment as a proportion of the total workforce, by region, 2016, %

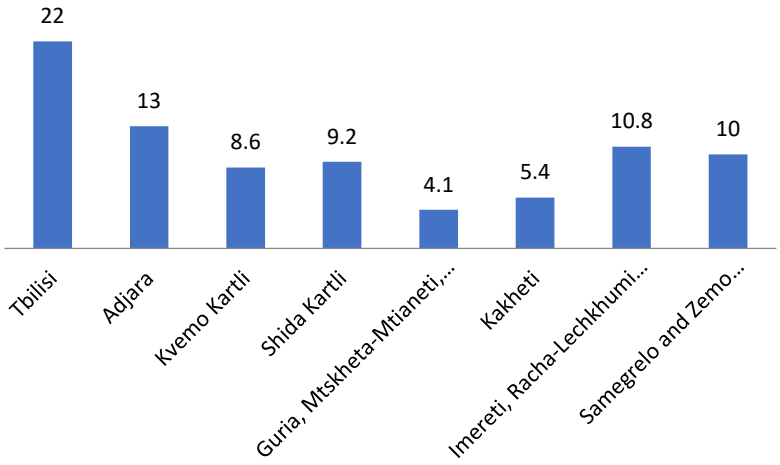


Source: Own elaboration based on GEOSTAT data.

Between 2006 and 2016, Georgia's overall unemployment rate declined from 13.6% to 11.8%. The sharpest decline was recorded in Tbilisi (from 30.2% to 22%), followed by AR Adjara (from 18.9% to 13%). In Imereti, Racha-Lechkhumi and Kvemo Svaneti as well as Samegrelo-Zemo Svaneti, unemployment rates increased from 9.7% to 10.8% and from 6.4% to 10% respectively. Other regions recorded only minor changes in unemployment levels.

Most recent levels of unemployment rates in the regions are illustrated in the chart below.

Chart 8: Unemployment rate according to region, 2016, %[10]



Source: GEOSTAT.

As regards 2016 unemployment figures, Tbilisi recorded a very high rate of 22%, whereas the lowest rates were recorded in the combined territories of Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti, standing at 4.1% and Kakheti at 5.4%. Trends where urban areas exhibit high unemployment levels are contrary to observations captured in Europe, where the highest unemployment levels are observed in rural, impoverished regions, e.g. southern Spain, Greece or areas in Turkey bordering Syria and Iraq. The above phenomenon can be explained by Georgia's stagnant manufacturing and service sectors

[10] Due to the small sample size, unemployment rates for Guria, Samtkhe-Javakheti, Mtskheta-Mtianeti and Racha-Lechkhumi Kvemo Svaneti are not included. For the calculation, Racha-Lechkhumi is calculated with Imereti and Guria, Samtkhe-Javakheti and Mtskheta-Mtianeti are combined. In 2017, GEOSTAT launched its Labour Force Survey, and data on all regions will be available in the future.

and low survival rates of businesses, as well as grey economy activities that are never reported or documented in surveys, etc. There may also be a large number of individuals who oscillate between unemployment and withdrawing from the labour force without ever finding work. Persistence of high unemployment rates in the capital city arguably contributes to long-term structural unemployment, which has not been captured yet in Georgia. Structural unemployment (which is a representative feature of economies in transition) in the capital city also indicates a high-level mismatch between the skills of workers and job market requirements, which may be attributable to individuals educated during the Soviet era.

In the period 2006–2016, the employment rate increased from 52.9% to 59.5%, and both rates are indicative of economic recovery after the conflict with Russia in 2008. Georgia's current employment rate is higher than that of Greece, Spain, Croatia, FYROM, and Turkey (EUROSTAT, 2016, 2015).

There are significant deviations in economic activity, employment and unemployment rates across the regions. Tbilisi features the lowest economic activity and employment rates in the country and the highest unemployment rate, whilst the most rural areas experience the opposite trends. These tendencies have been observed since 2006 (cf. table below).

Table 14: Employment and economic activity rates (%), changes between 2006 and 2016

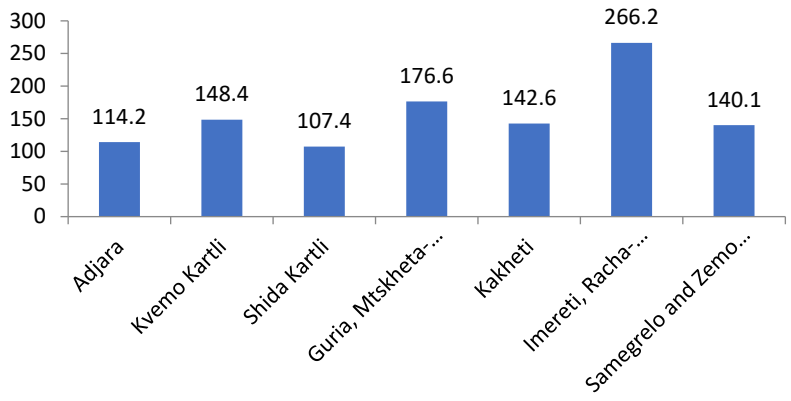
Region	2006		2011		2016	
	Employment rate	Economic activity rate	Employment rate	Economic activity rate	Employment rate	Economic activity rate
Georgia	53.8	62.2	55.4	65.2	59.5	67.5
Tbilisi	37.0	52.9	38.7	54.7	44.2	56.7
AR Adjara	40.7	50.2	54.8	66.8	59.9	68.8
Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti	68.7	73.4	65.6	70.6	72.5	75.6
Imereti, Racha-Lechkhumi and Kvemo Svaneti	60.8	67.3	63.2	69.6	63.2	70.8
Kakheti	65.8	70.3	64.0	70.2	69.0	72.9
Samegrelo-Zemo Svaneti	59.7	63.8	59.0	70.7	63.8	71.0
Kvemo Kartli	60.5	66.1	58.2	64.2	63.8	69.7
Shida Kartli	55.9	62.3	64.4	70.7	63.7	70.2

Source: GEOSTAT.

Georgia's overall economic activity rate increased from 62.2% in 2006 to 67.5% in 2016. The current rate is on par with countries such as Belgium or Greece (EUROSTAT, 2016). In 2016 Tbilisi featured the lowest rate in the country at 56.7%, and the highest rate (75.6%) was observed in Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti. The current employment rate (2016) for Georgia lies at 59.5%. It varies from 44.2% in Tbilisi to 72.5% in the combined territories of Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti. Indeed, employment rates in all regions except for Tbilisi exceed the country's median. Between 2006 and 2011, there had been no significant increase in both employment and economic activity rates in Shida Kartli, Imereti, as well as Racha-Lechkhumi and Kvemo Svaneti. In the Samegrelo-Zemo Svaneti region, the economic activity rate increased by only 0.3 percentage points in the period 2011–2016.

In fact, there are more members of the workforce available in every region of Georgia than the official number of unemployed persons. The vast majority of self-employed people don't have an alternative source of income beyond agriculture and a number of basic services. Whenever job opportunities appear, they may move from self-employment to employment, which may require re-training and adaptation to new working areas or tasks.

Chart 9: Number of unemployed and self-employed persons, by region, 2016, thousands



Source: own elaboration based on GEOSTAT data.

When comparing the figures displayed in the chart above to the total population size in these regions, one will find that 48% of residents of Guria, Samtskhe-Javakheti and Mtskheta-Mtianeti are unemployed or in search for better jobs. In the regions of Imereti and Racha-Lechkhumi and Kvemo Svaneti, this share amounts to 47.2% and in Kakheti to almost 45%. In all other regions, this proportion is slightly above 34%.

The employment rate is significantly higher for males (67.5%) than for females (52.9%). Paired with employment rates of 71.6% in rural areas and 47% in urban areas, this clearly indicates that the **main driving force of employment is low-scale, subsistence agriculture**, run predominantly by men.[11] There are regions in Georgia where virtually no employment opportunities are provided by local businesses and economic entities. Guria, for instance, has a population of 112,600 and only 5,700 individuals are employed in the business sector. Samtskhe-Javakheti has a population of 160,600 and local businesses provide employment to 8,600 individuals. By contrast, businesses and institutions in Tbilisi offer almost 2/3 of all jobs available in Georgia.[12] These figures clearly demonstrate a scarcity of economic opportunities outside the capital city and the scale of disparity between Tbilisi and the rest of Georgia.

A snapshot of employment rates in agriculture is provided in the table below.

Table 15: Number of persons employed in agriculture, by region, thousands, 2016

Region	Total number of employed persons	Number of persons employed in agriculture	Number of persons employed in agriculture as % of total employment
Georgia	1,779.9	865.0	48.6%
Tbilisi	352.0	6.1	1.7%
AR Adjara	170.4	78.3	46.0%
Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti	216.1	152.7	70.6%
Imereti, Racha-Lechkhumi and Kvemo Svaneti	343.5	204.2	59.4%
Kakheti	180.7	123.8	68.5%
Samegrelo-Zemo Svaneti	189.5	96.4	50.8%
Kvemo Kartli	192.2	118.8	61.8%
Shida Kartli	135.5	84.7	62.5%

Source: GEOSTAT.

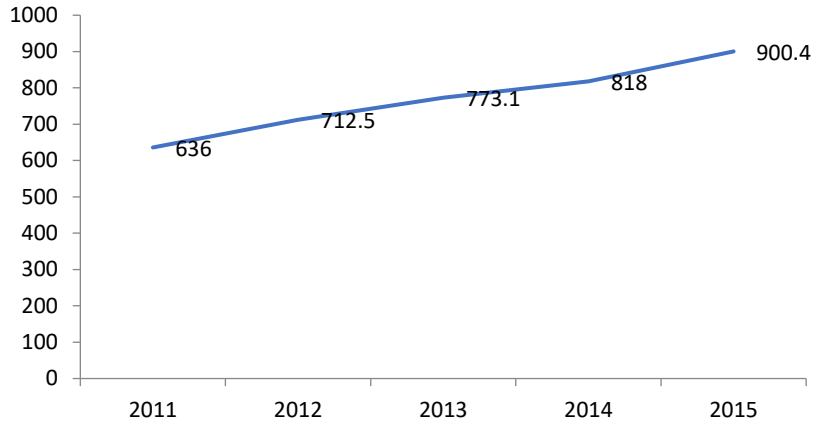
11 Source: www.labour.gov.ge.

12 Source: www.geostat.ge, regional statistics for the business sector, employment by ownership types.

The table above highlights the high dependency on agriculture in Georgia's regions, which – when paired with low salary/income levels in the sector (64% of average wage) – remains one of the main contributors to poverty levels.

Georgia's nominal wages have increased over the years. In 2015 the average monthly remuneration amounted to GEL 900.4.

Chart 10: Gross average monthly wage in Georgia in 2011–2015, GEL



Source: GEOSTAT.

With an average salary of GEL 1006.7 Tbilisi features the highest salaries in the country, whereas the poorest regions feature average salary levels well below the national average, e.g. GEL 641.1 in Guria, GEL 573.9 in Samtskhe-Javakheti, GEL 521.8 in Kakheti or GEL 414.5 in Racha-Lechkhumi and Kvemo Svaneti.[13] The majority of Georgian workers are low-wage employees, which can be taken as an indication of the "working poor" phenomenon. This may be attributable to the weakening of workers' bargaining power under the pressure of unemployment, a lack of work/social standards or legislation on minimum wage, a lack of "wage floors", changes in the composition of the workforce, low productivity of sectors where jobs are available, etc. Irrespective of the actual cause of low wages in several regions, low pay usually harms workers' ability to maintain decent living standards. Low wages in the regions discourage people to stay in their region of origin, only aggravating migration to bigger cities, brain drain and depopulation. In agriculture, the average salary in 2015 was GEL 578.2, which constitutes only 64% of the average pay.

Georgian households frequently struggle to make ends meet, as evidenced by the distribution of their average monthly income (monetary and non-monetary). Although its amount increased from GEL 706 in 2011 to GEL 1,042 in 2016 (almost by 47%), only 37.5% of the income was made up of wages and salaries. Together, self-employment as a main source of income and the sale of agricultural products made up only 15% of households' budgets in Georgia.

Yet there are significant variations in household income levels across the regions. According to the table below, households have the lowest income in the regions of Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti and Shida Kartli. While in Tbilisi 8.6% of the total household income is derived from self-employment, this share is lower in other regions, with the exception of AR Adjara (11.4%) and Semegrelo-Zemo Svaneti (8.6%). In Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti, income from self-employment is the lowest – at 4.5%.

13 GEOSTAT.

Table 16: Distribution of average monthly household income, by region, 2016, GEL

Type	Kakheti	Tbilisi	Shida Kartli	Kvemo Kartli	Adjara AR	Samegrelo-Zemo Svaneti	Imereti, Racha-Lechkhumi and Kvemo	Guria, Samtskhe-Javakheti,	Georgia
1. Income (total) (2+3)	806.5	1173.6	764.9	741.2	992.6	1,016.8	809.4	740.7	924.9
2. Cash income and transfers	714.4	1159.3	649.4	665.6	911.9	874.5	688.6	617.1	840.9
Wages	196.1	712.2	261.7	301.2	427.5	352.7	233.9	208.0	391.3
From self-employment	60.0	109.4	73.7	48.9	124.8	96.4	64.1	39.7	80.6
From selling agricultural produce	206.4	1.1	87.7	83.0	43.9	126.3	64.7	120.7	75.0
Property income	3.1	11.5	6.7	3.0	46.2	3.9	6.8	5.0	10.0
Pensions, scholarships, assistance	156.1	136.5	169.2	134.2	151.7	178.0	186.4	171.8	158.7
Remittances from abroad	21.0	21.2	16.6	33.7	52.4	23.3	45.8	23.6	29.6
Money received as a gift	71.7	167.5	33.8	61.7	65.3	93.9	86.9	48.2	95.8
3.Non-cash income	92.1	14.3	115.4	75.6	80.7	142.3	120.7	123.7	84.0
4.Other cash inflows	157.8	102.2	136.7	117.2	102.8	103.8	113.2	136.8	117.3
Property disposal	10.2	5.1	8.4	22.9	8.5	1.9	8.6	3.7	8.0
Borrowing and dissaving	147.6	97.1	128.3	94.4	94.3	101.9	104.7	133.1	109.3
5.Cash inflows, total (2+4)	872.2	1,261.5	786.2	782.9	1014.7	978.3	801.9	753.9	958.2
6.Cash and non-cash inflows, total (3+5)	**964.3**	**1,275.8**	**901.6**	**858.5**	**1,095.4**	**1,120.6**	**922.6**	**877.6**	**1,042.2**

Source: GEOSTAT.

Poverty in Georgia is captured using two different concepts: i) relative poverty and ii) absolute poverty. While the relative poverty line is set at 60% of median consumption (corresponding to the at-risk-of-poverty rate of EUROSTAT), absolute poverty is calculated based on minimal cost of calories needed for a working age male (World Bank methodology). The regional distribution of relative poverty is depicted in the table below.

Table 17: Relative poverty in Georgian regions, 2013–2016, %

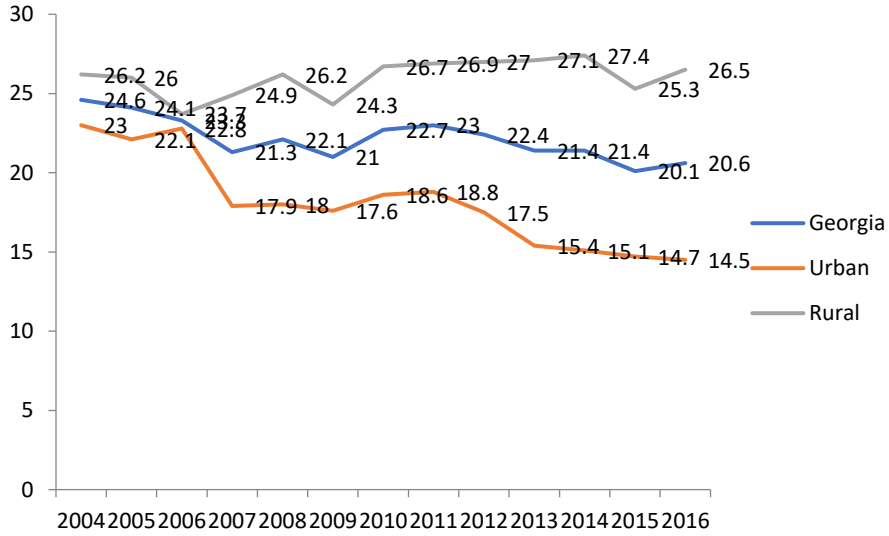
Region	2013	2014	2015	2016
Georgia	21.4	21.4	20.1	20.6
Tbilisi	11.9	12.7	11.1	10.4
AR Adjara	21.9	23.4	21.4	25.4
Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti	22.1	21.9	19.7	21.4
Imereti, Racha-Lechkhumi and Kvemo Svaneti	21.2	19.4	19.6	19.3
Kakheti	27.6	28.8	28.5	25.5
Samegrelo-Zemo Svaneti	25.0	23.0	18.3	19.2
Kvemo Kartli	29.4	29.4	30.8	32.7
Shida Kartli	31.2	32.7	30.5	32.6

Source: GEOSTAT.

At national level, Georgia records similar levels of poverty as some EU Member States, e.g. Croatia, Greece, Bulgaria (19.5%, 21.2% and 22.9% respectively). As shown in the table above, relative poverty levels are highest in Shida Kartli, Kvemo Kartli and Kakheti. In addition, AR Adjara has been recording a steady increase in poverty levels in recent years. Shida Kartli and Kvemo Kartli are predominantly rural, and it is the disparities in relative poverty levels between urban and rural areas that have increased over the past ten years and are the main issue of concern: **while poverty intensities in rural areas remain roughly the same, poverty in urban settlements has decreased**. These trends are caused by the expansion of urban areas and a high concentration of income, capital and labour force in the cities and towns.

Changes in the relative poverty index in the years 2004–2016 is provided in the chart below, which clearly illustrates the urban-rural divide.

Chart 11: Relative poverty in Georgia, urban and rural areas, %

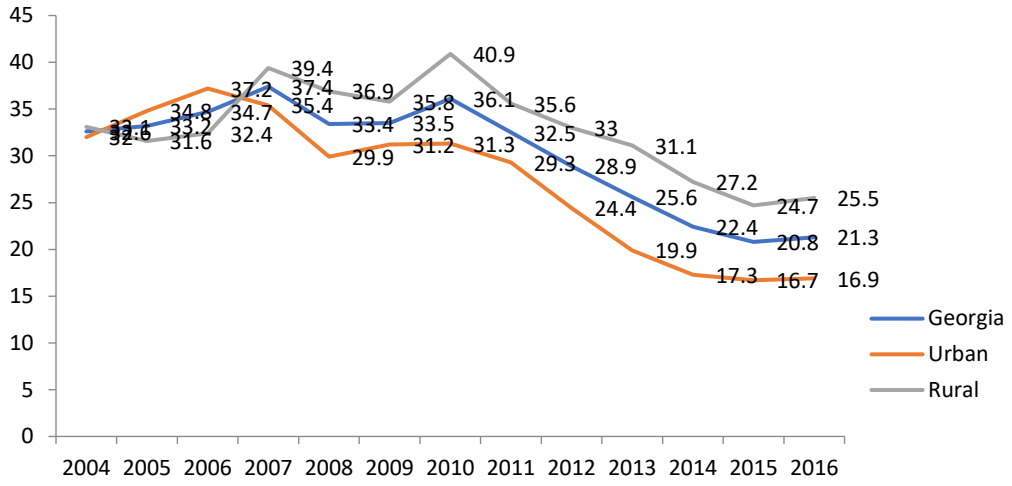


Source: GEOSTAT.

A similar divide can be observed in terms of absolute poverty trends, with only one exception: in all of Georgia's areas, the situation improved when compared with figures for 2004. This is mainly attributable to a decrease in food prices in relation to disposable income. It is also attributable to the fact that relative poverty refers to a standard that is defined in terms of the society an individual lives – and which therefore differs between countries over time (living on less than X% of average Georgian income).

In contrast, absolute poverty refers to a set standard that is the same in all countries and does not change over time (living on less than GEL X per day). This is why absolute poverty indices are decreasing in general. However, while in 2005 and 2006 urban poverty was higher than rural poverty, an opposite trend has emerged in the period starting from 2007. At the end of 2016 the absolute rural poverty index exceeded urban poverty by 8.6 percentage points.

Chart 12: Absolute poverty in Georgia, urban and rural areas, %



Source: GEOSTAT.

Absolute poverty levels also decreased across all regions, with the exception of AR Adjara.

Table 18: Absolute poverty in Georgian regions, 2013–2016, %

Region	2013	2014	2015	2016
Georgia	25.6	22.4	20.8	21.3
Tbilisi	17.3	15.3	14.9	13.7
AR Adjara	22.4	21.5	20.6	26.8
Guria, Samtskhe-Javakheti, Mtkheta-Mtianeti	28.0	22.1	19.8	20.0
Imereti, Racha-Lechkhumi and Kvemo Svaneti	25.5	19.8	20.1	19.4
Kakheti	32.4	28.3	28.8	25.8
Samegrelo-Zemo Svaneti	27.9	24.0	17.8	18.4
Kvemo Kartli	34.0	32.4	27.3	30.9
Shida Kartli	33.7	32.0	30.8	32.6

Source: GEOSTAT.

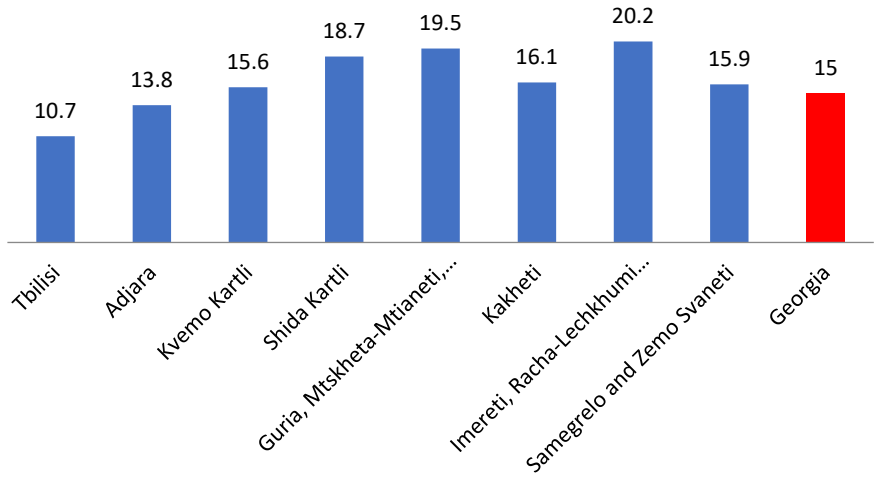
Persistent poverty (be it relative or absolute) can lead to social exclusion, including: mental health difficulties from stress or managing low income, deprived living circumstances, decreased opportunities for positive self-esteem, family breakdown, poor acquisition of skills, poor educational attainment (including early leaving from education), labour market entry problems, teenage pregnancy, trouble with police, alcohol abuse, criminal conviction, etc.

According to GEOSTAT, Georgia's 2016 GINI coefficient (measured on total income) amounted to 0.40 (2006: 0.43), which is on par with Turkey, lower than in China and Russia, higher than in the United States and much higher than in EU Member Countries.

Georgian families and households heavily rely on payments from social welfare schemes, which make up 15% of Georgian households' budgets. Only Tbilisi and AR Adjara perform below the country's average reliance on welfare grants. All other regions exceed the level of welfare dependency, the most serious situation being in Imereti, Racha-Lechkhumi and Kvemo Svaneti, where social welfare payments make up more than one fifth of average monthly household budgets. For details see the chart below.[14]

[14] Source: GEOSTAT, ibid.

Chart 13: Pensions, scholarships, assistance, as a percentage of households' budgets, 2016



Source: GEOSTAT.

Although the number of registered families in need decreased from 498,000 in 2015 to 383,000 in 2016, the actual number of beneficiaries increased from 125,000 to almost 143,000 – thus stretching the social care system. The highest percentage of actual beneficiaries in relation to those registered was observed in Racha-Lechkhumi and Kvemo Svaneti (44%), followed by Shida Kartli (20%), Mtskheta-Mtianeti (20%) and Kakheti (17%). At national level, the average is 13%.

Table 19: Number of families in need receiving subsistence allowance

Region	2015	2016
AR Adjara	7,122	9,157
Guria	4,697	5,141
Imereti	21,664	23,177
Kakheti	16,983	17,171
Kvemo Kartli	9,126	12,073
Mtskheta-Mtianeti	6,060	5,875
Racha-Lechkhumi	5,830	5,674
Samegrelo-Zemo Svaneti	12,327	14,511
Samtkhe-Javakheti	2,843	3,383
Shida Kartli	15,884	15,949
Tbilisi	22,765	30,856
Georgia	**125,301**	**142,967**

Source: Ministry of Labour, Health and Social Affairs of Georgia.

The actual number of individuals receiving pensions and social grants is provided in the table below.

Table 20: Persons receiving pension and social packages, at the end of year

Region	2015	2016	Persons receiving pension and social packages as % of region's population, 2016
AR Adjara	67,904	68,929	20.4%
Guria	31,382	31,656	28.0%
Imereti	152,103	152,577	28.6%
Kakheti	80,125	80,662	25.3%
Kvemo Kartli	77,425	79,826	18.7%
Mtskheta-Mtianeti	22,401	22,539	23.9%
Racha-Lechkhumi	12,213	12,094	38.3%
Samegrelo-Zemo Svaneti	95,185	96,244	29.2%
Samtkhe-Javakheti	35,235	35,527	22.1%
Shida Kartli	60,669	61,024	23.1%

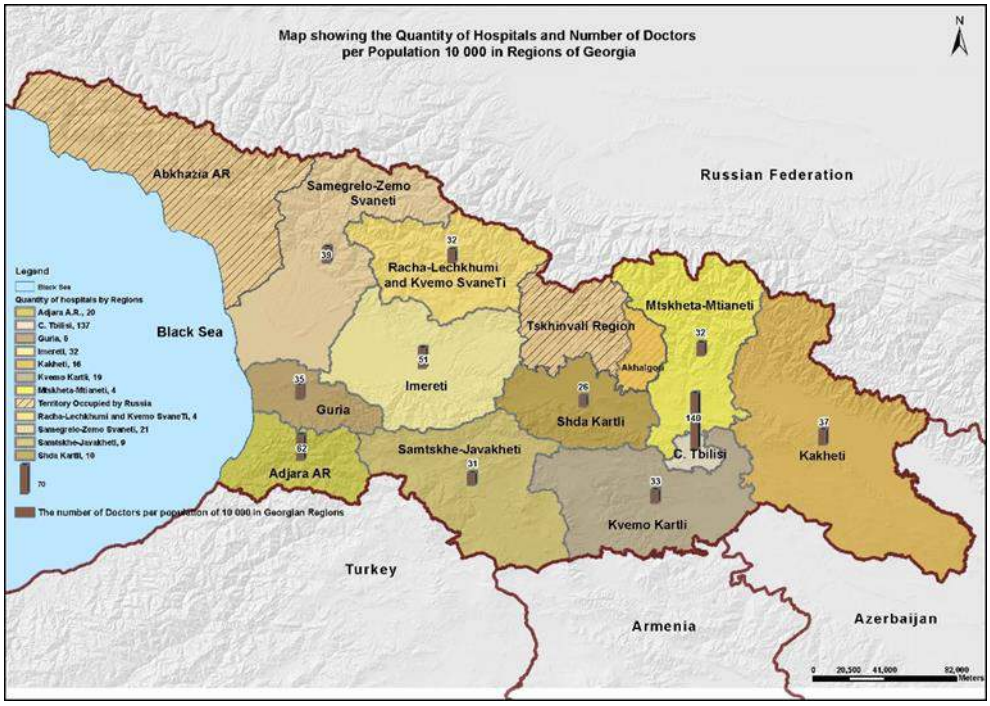
Region	2015	2016	Persons receiving pension and social packages as % of region's population, 2016
Tbilisi	240,293	246,260	22.1%
Georgia	**874,935**	**887,338**	**23.8%**

Source: Ministry of Labour, Health and Social Affairs of Georgia.

Almost 20% of the Georgian population are elderly pensioners. The highest proportion of elderly pensioners of the regional population can be found in the Racha-Lechkhumi and Kvemo Svaneti region (32.6%) followed by Samegrelo-Zemo Svaneti, while the lowest proportion can be found in AR Adjara (15.2%). Georgia's average is 19.5%.[15]

Georgia's healthcare infrastructure and facilities are insufficient. Although the number of hospitals in Georgia increased from 245 in 2014 to 259 in 2015, their geographical distribution is uneven. While Tbilisi still accounts for 49% of hospital units and 54% of all hospital beds, the capital city is home to only ca. 30% of the country's population.

In Georgia, there are seven hospitals per 100,000 population, compared to ca. three hospitals per 100,000 population in EU-28.



Source: own elaboration based on GEOSTAT data

Table 21: The number of hospitals per 100,000 population in Georgian regions, 2016

Georgian average	Tbilisi	Adjara AR	Guria	Imereti	Kakheti	Mtskheta-Mtianeti	Racha-lechkhumi and	Samegrelo-Zemo svaneti	Samtskhe-javakheti	Kvemo kartli	Shida kartli
7	12	6	5	6	5	4	4*	6	5	4	4

Source: Ministry of Labour, Health and Social Affairs of Georgia.
** Racha-Lechkhumi and Kvemo Svaneti has a population of 31,500 and the region is home to four hospitals.*

15 Source: Ministry of Labour, Health and Social Affairs of Georgia.

However, Georgian hospitals tend to be much smaller than those in EU Member States: in Georgia, the number of hospital beds per 100,000 inhabitants amounts to 370 – in comparison to 530 in the EU.[16] Only in AR Adjara, Imereti, Racha-Lechkhumi and Kvemo Svaneti as well as Samtskhe-Javakheti does the number of hospital beds largely correspond to the population size. Elsewhere, the number of beds is considered to be insufficient when measured against the region's population size, especially in Guria, Mtskheta-Mtianeti, Shida Kartli and Kakheti, where disproportions between the number of available hospital beds and size of the population are most pronounced.

Table 22: Number of hospital beds per 100,000 population in Georgian regions, 2016

Georgia average	Tbilisi	Adjara AR	Guria	Imereti	Kakheti	Mtskheta-Mtianeti	Racha-lechkhumi and	Samegrelo-Zemo svaneti	Samtskhe-javakheti	Kvemo Kartli	Shida Kartli
370	660	380	110	370	160	110	320	180	250	190	150

Source: own calculations based on data from the Ministry of Labour, Health and Social Affairs of Georgia.

Since healthcare is an important sector of the economy and can contribute to socio-economic development, Georgia's healthcare facilities are in need of optimization. However, if expenditure on healthcare outpaces economic growth, medical services will become costly and unavailable for many.

The distribution of doctors and physicians is largely on par with the available healthcare infrastructure, with the exception of AR Adjara, Imereti, and Samtskhe-Javakheti. Doctors providing out-patient services to the population (including prophylactics) are busiest in Shida-Kartli. The region accounts for 3% of Georgia's healthcare facilities and 8% of all registered out-patient services and procedures.

Table 23: Number of doctors per 10,000 population in Georgian regions, 2016

Georgian average	Tbilisi	Adjara AR	Guria	Imereti	Kakheti	Mtskheta-Mtianeti	Racha-lechkhumi and	Samegrelo-Zemo svaneti	Samtskhe-javakheti	Kvemo kartli	Shida kartli
72	140	62	35	51	37	32	32	39	31	33	26

Source: own calculations based on data from the Ministry of Labour, Health and Social Affairs of Georgia.

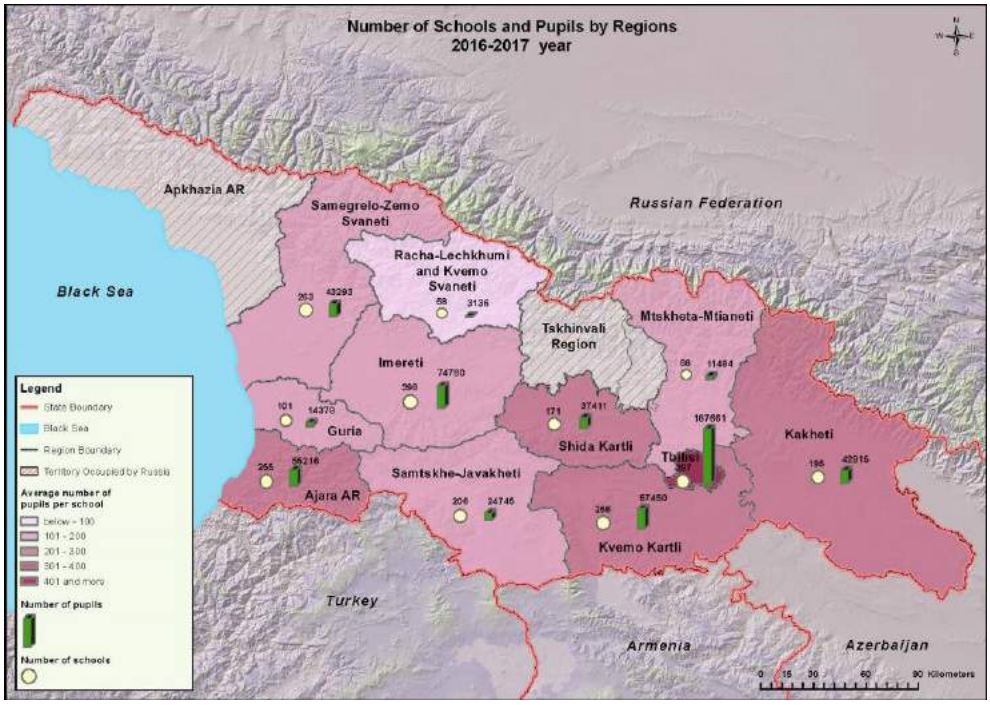
Residents of Guria, Kakheti and Kvemo-Kartli use healthcare services moderately. In these regions, the number of out-patient services per capita is 2–3 times lower than elsewhere, with the exception of Tbilisi. This may be due to the actual availability of quality healthcare or limited accessibility of facilities. Kvemo-Kartli and Guria are among the regions with the highest infant mortality (at the same time, residents of Kvemo-Kartli are the youngest in all of Georgia, while residents of Guria are amongst the oldest in the country (average age of 35.6 and 41.8 years respectively).

Infant mortality has decreased in Georgia since 2006 and currently remains at 9.02%. This rate is considered to be very high (in comparison: 3.6% in EU-28, 8.6% in FYROM and 10.7% in Turkey; EUROSTAT). The most alarming figures are recorded in Kakheti, Kvemo Kartli, Guria and Mtskheta-Mtianeti, where the rate exceeds 10%. The lowest rate is observed in Racha-Lechkhumi and Kvemo Svaneti (6.1%) as well as Tbilisi (7.1%).

At the beginning of the 2016/2017 school year, there were 2,321 schools in Georgia, with 564,729 pupils and students enrolled. Tbilisi provides 12.7% of all the schools and 33.2% of all pupils and students. Whilst schools in the capital city tend to be overcrowded, the educational infrastructure in the regions appears to be underutilized. The most significant disproportion between the number of schools

16 Source: Own calculation based on GEOSTAT data "Healthcare and Social Protection" and EUROSTAT.

and the number of students can be observed in Imereti, Samegrelo-Zemo Svaneti and Samtskhe-Javakheti. Depopulation affects the education sector, and more efficient long-term planning of schooling facilities is required to ensure quality of education at rational cost for public authorities.[17]



Source: own elaboration based on GEOSTAT data

Georgia's higher education sector currently comprises 74 universities, of which 20 are public and 54 are private. There are nine public tertiary educational establishments and 38 private ones in the capital city. Regions such as Guria, Mtskheta-Mtianeti, Svaneti and Kvemo Kartli do not feature any public universities and provide privately owned institutions only. There is no single tertiary educational institution in Guria.

Table 24: Number of higher education institutions in Georgia, by region

Region	Public		Private	
	2015/2016	2016/2017	2015/2016	2016/2017
Georgia	20	20	54	54
Tbilisi	9	9	39	38
Abkhazia AR	1	1	-	-
Adjara AR	3	3	5	5
Guria	-	-	-	-
Imereti	2	2	2	2
Kakheti	1	1	2	2
Mtskheta-Mtianeti	-	-	1	1
Racha-Lechkhumi and Kvemo Svaneti	-	-	1	1
Samegrelo-Zemo Svaneti	1	1	1	1
Samtskhe-Javakheti	1	1	-	1
Kvemo Kartli	-	-	2	2
Shida Kartli	2	2	1	1

Source: Ministry of Education and Science of Georgia.

While the number of graduates from HEIs has increased gradually (19,958 in 2013, 21,865 in 2014, 22,342 in 2015 and 23,356 in 2016), statistics on the number of graduates measured against all students are not available. Therefore, it is difficult to estimate e.g. the drop-out rate for Bachelor's or Master's courses.

[17] Source: Own calculation based on www.geostat.ge, Regional Statistics, Education.

In addition to the issues identified above, there are **significant inequities in access to quality tertiary education**. All of Georgia's most prestigious, second most prestigious and medium prestigious HEIs are in fact located in Tbilisi. Thus only second last and least prestigious universities are located outside the capital city. Against this background, and given key factors associated with HEI selection – such as reputation level, availability of desired curriculum, distance to HEI, labour market, family income and cost of tuition – applicants from rural areas and small towns are much less likely to gain access to Georgia's most prestigious or second most prestigious HEIs. Consequently, these individuals tend to be in a less favourable competitive position when entering the labour market.[18]

In 2016 there were 120 VET institutions in Georgia, most of them in private ownership. Their total number increased by 16 entities when compared with 2013 figures. Their current regional distribution is displayed in the table below.

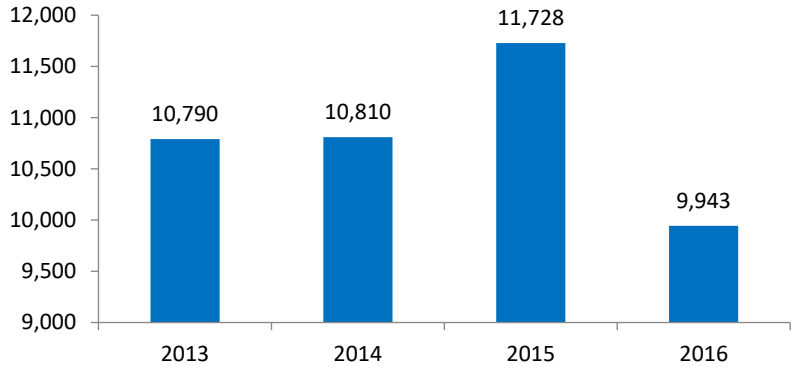
Table 25: Number of VET institutions in Georgia, by region, 2016

Region	Private	Public
Tbilisi	46	12
Adjara AR	4	5
Guria/Racha-Lechkhumi and Kvemo Svaneti/Kakheti/Mtskheta-Mtianeti	3	7
Imereti	9	3
Samegrelo-Zemo Svaneti	4	4
Samtskhe-Javakheti	4	2
Kvemo Kartli	6	1
Shida Kartli	6	4
Total	**82**	**38**

Source: Ministry of Education and Science of Georgia.

Between 2013 and 2015, the number of graduating VET students remained steady, with approximately 10,000–11,000 students annually. There was a decrease in 2016, which was caused by a decrease in the number of VETs.

Chart 14: Number of VET graduates in Georgia, 2013–2016



Source: Ministry of Education and Science of Georgia.

Overall, Georgia's culture and heritage sectors are on the rise. There were 49 theatres and 219 museums in the country as of end of 2016. The number of museums increased by 12 units when compared with 2015, while the number of theatres remained unchanged. 49% of theatres and 25% of museums are located in the capital city, which recorded an increase in the number of museums, similar to Guria. Kakheti, Samegrelo-Zemo Svaneti and Imereti are on par with Tbilisi in terms of total numbers of museum establishments. The number of persons attending theatre performances and visitors to museums also experienced an overall increase in 2016 when compared with the previous year, arguably on account of an increase in tourism traffic. Region-wise, only Imereti and Samtskhe-Javakheti recorded a

[18] Source: Maia Chankseliani, Spatial Inequities in Higher Education Admissions in Georgia: Likelihood of Choosing and Gaining Access to Prestigious Institutions, Caucasus Social Science Review, 2013, Vol. 1, Issue 1.

decline in the number of theatre guests, and in terms of museums, Kvemo Kartli was the only region to attract fewer visitors than in 2015.

Table 26: Data on professional theatres, by region

Region	Number of theatres			Number of performances, unit			Annual attendance, thousand		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Georgia, total	49	49	49	4,433	4,724	4,679	486.9	554.5	601.8
Tbilisi	23	24	24	2,845	3,102	3,022	293.6	350.9	394.1
Adjara AR	3	3	3	135	94	180	20.9	18.0	21.1
Imereti	9	8	8	649	630	620	81.2	82.6	81.7
Samegrelo-Zemo Svaneti	3	3	3	99	123	91	19.5	13.1	17.7
Samtskhe-Javakheti	3	3	3	284	298	265	20.0	20.0	16.0
The remaining regions*	8	8	8	421	477	501	51.7	69.9	71.2

**Abkhazia AR, Guria, Kakheti, Mtskheta-Mtianeti, Racha-Lechkhumi and Kvemo Svaneti, Kvemo Kartli, Shida Kartli. Source: GEOSTAT*

Table 27: Number of museums and museum reserves, by region

Region	Number of museums, unit			Annual attendance, thousand		
	2014	2015	2016	2014	2015	2016
Georgia, total	193	207	219	1,065.8	1,335.9	1,674.9
Tbilisi	41	43	54	224.5	306.1	363.6
Adjara AR	16	16	16	128.7	109.0	141.9
Guria	11	12	14	19.1	19.1	22.9
Imereti	27	27	27	62.6	80.1	82.0
Kakheti	31	32	31	129.7	155.7	182.1
Mtskheta-Mtianeti	10	10	10	25.7	52.7	58.9
Racha-Lechkhumi and Kvemo Svaneti	5	6	6	5.5	5.5	6.6
Samegrelo-Zemo Svaneti	21	29	29	85.2	103.2	107.1
Samtskhe-Javakheti	7	8	8	206.0	248.1	362.9
Kvemo Kartli	10	10	10	21.3	20.7	19.6
Shida Kartli	14	14	14	157.3	235.8	327.3

Source: GEOSTAT.

Almost all Georgian households are fully provided with electricity. The only region with electricity coverage of 99.9% is Kakheti. In all other regions, 100% of households are connected to the electricity grid. Electricity consumption in Georgia is on par with Albania, lower than in Latvia and higher than in Armenia or Moldova.

Table 28: Electric power consumption (kWh per capita), international comparison

Country	2011	2012	2013	2014
Georgia	2,219	2,271.3	2,459.7	2,688.4
Armenia	1,807.6	1,893.5	1,933.9	1,965.7
Moldova	1,470.2	1,514.5	1,352.9	1,386.2
Albania	2,205.7	2,118.3	2,533.2	2,309.3
Estonia	6,314.4	6,689.3	6,664.4	6,732.3
Latvia	3,264	3,587.9	3,472.5	3,507.4
Slovak Republic	5,347.5	5,137.7	5,202.4	5,137

Source: World Bank.

As of 2016, only 66.9% of Georgian households were connected to the central gas supply system. Georgia's gas distribution infrastructure is being expanded, and over the past five years the share of households connected to gas supply systems increased from 43.8% to 66.9%. As far as regions are

concerned, Tbilisi tops the list, with 98.4% of households enjoying direct access to gas pipelines, followed by Kvemo Kartli and Kakheti. The most disadvantaged regions are AR Adjara and Samagelo-Zemo Svaneti, where only 40.4% and 25.8% of households can use gas for cooking and heating.

Table 29: Share of households with access to central gas supply system (%)

Region	2011	2012	2013	2014	2015	2016
Kakheti	37.5	37.2	43.0	49.4	60.0	68.1
Tbilisi	91.5	93.1	96.0	96.2	97.6	98.4
Shida Kartli	24.7	31.8	38.7	39.5	52.2	63.5
Kvemo Kartli	46.0	50.8	58.3	64.5	71.3	81.2
AR Adjara	12.1	17.7	24.8	30.5	36.5	40.4
Samegrelo-Zemo Svaneti	3.1	2.9	5.1	10.5	15.5	25.8
Imereti, Racha-Lechkhumi and Kvemo Svaneti	31.3	34.5	41.2	43.1	45.9	52.2
Other regions*	19.2	19.4	34.4	46.1	50.4	59.6
Georgia	43.8	45.9	51.9	55.6	60.6	66.9

Source: GEOSTAT.
** Including the regions of Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti.*

In Georgia, there are more households connected to the gas supply system than to the tap water supply system. According to GEOSTAT data, the share of households with access to water supplies installed in the dwelling increased from a meagre 50.6% to 56.5% between 2011 and 2016. In the Tbilisi area, almost all households have access to drinking water from bulk water supply systems. Outside the capital city, the share of households with water supply pipes installed in the dwelling varied in 2016 between 34.2% in Kakheti and 43.7% in Kvemo Kartli. These figures clearly indicate that the water supply infrastructure is underdeveloped in all of Georgia's regions.

In Kakheti and Kvemo Kartli, water system taps in the yard or in the vicinity serve as the main potable water source for more than half of all households, whereas residents of Samegrelo-Zemo Svaneti source their drinking water from a well in the yard or in the vicinity.

It is not only insufficient financing that is the main cause of Georgia's underdeveloped bulk potable water supply system, but also ambiguous and inconsistent legislation. Although local self-governments are mandated to manage water supply and wastewater treatment systems, only two companies are in fact in charge of this in urban settlements: LLC Georgian Water and Power – in Tbilisi, Rustavi and Mtskheta – and LLC United Water Supply Company of Georgia in all other urban settlements across the country. Elsewhere, the water supply infrastructure is administered by local self-governments and administrations – their budgets and thus finances are scarce, and they are not in the position to ensure that local residents have convenient access to tap water.

Overall, all of Georgia's population has access to an improved drinking water source in a dwelling or located within a convenient distance from the user's dwelling, which is not the case in a number of other post-Soviet countries (see table below).

Table 30: Improved water source (% of population with access), international comparison

Country	2011	2012	2013	2014	2015
Georgia	97.0	98.0.	99.0	99.6	100.0
Armenia	99.0	99.7	99.9	100.0	100.0
Moldova	87.6	87.9	88.1	88.4	88.4
Albania	95.5	95.4	95.2	95.1	95.1
Estonia	99.5	99.5	99.6	99.6	99.6
Latvia	99	99.1	99.2	99.3	99.3
Slovak Republic	100.0	100.0	100.0	100.0	100.0

Source: World Bank.

As of June 2017, the proportion of Georgia's population aged 15 and older who had used mobile devices (mobile phone, laptop, tablet, etc.) within the preceding three months in order to access a wireless network from any location amounted to 79.5% (81.7% in rural areas and 78.5% in urban areas). In the

preceding year, this share amounted to 59% (61.8% rural and 57.8% urban), illustrating a growth rate of 20.5 percentage points between 2016 and 2017.[19]

While more than six out of ten Georgian households have access to a computer, the urban-rural divide is significant – see table below.

Table 31: Share of households with computer access (%)

Region	June 2016	June 2017
Georgia	**64.7**	**65.1**
Urban	**76.7**	**77.9**
Rural	**47.0**	**46.2**
Tbilisi	83.0	82.2
AR Adjara	65.3	77.1
Guria	42.9	43.1
Imereti, Racha-Lechkhumi and Kvemo Svaneti	55.8	55.7
Kakheti	44.2	45.7
Mtskheta-Mtianeti	56.2	57.6
Samegrelo-Zemo Svaneti	51.3	50.3
Samtskhe-Javakheti	66.7	68.9
Kvemo Kartli	59.4	57.9
Shida Kartli	52.2	57.2

Source: GEOSTAT.

As of June 2017, the proportion of Georgia's population aged 6 and older who owned a mobile phone amounted to 80.5% (86.4% in urban areas and 72.5% in rural areas) – an increase of 1.7 percentage points when compared with 2016, when the relevant proportion amounted to 78.8% (85.4% in urban areas and 69.5% in rural areas).

According to the same household survey, 71.5% of Georgian households had access to the internet as of June 2017 – compared with 70.7% in the preceding year. This value is almost 14 percentage points below the EU average. A regional breakdown is provided in the table below.

Table 32: Share of households with internet access (%)

Region	June 2016	June 2017
Georgia	**70.7**	**71.5**
Urban	**79.7**	**81.8**
Rural	**57.4**	**56.2**
Tbilisi	84.8	84.9
AR Adjara	76.1	85.4
Guria	51.8	58.4
Imereti, Racha-Lechkhumi and Kvemo Svaneti	61.6	62.5
Kakheti	56.0	53.7
Mtskheta-Mtianeti	57.7	60.4
Samegrelo-Zemo Svaneti	64.4	62.5
Samtskhe-Javakheti	69.2	76.6
Kvemo Kartli	66.9	66.8
Shida Kartli	58.7	60.9

Source: GEOSTAT.

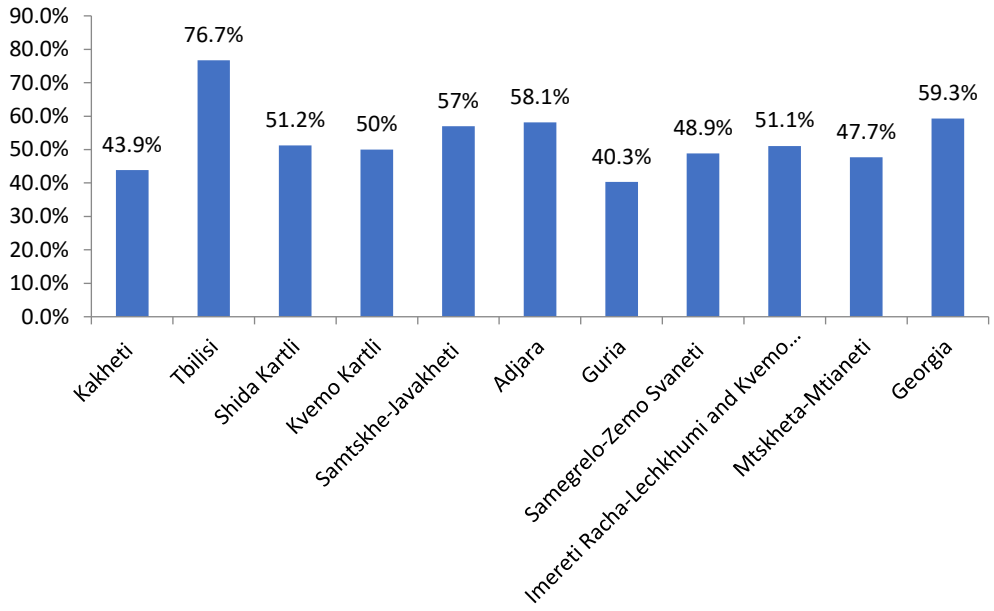
Georgia and its regions are moderate users of the Internet. According to GEOSTAT data, the proportion of population older than 6 years who had used the internet within the preceding three months amounted to 59.3% as of June 2016. This proportion is higher than in developing countries (34.4%) but slightly lower than in CIS countries on average (65.1%) and Europe (77.9).[20]

Details on internet usage in Georgia's regions are provided in the chart below.

[19] Source: GEOSTAT, Information and Communication Technologies Usage in Households survey.

[20] Source: own calculations based on data by the International Telecommunication Union. Historical data for Georgia is not available since the ICT survey module was first included in IHS in 2016.

Chart 15: Proportion of population older than 6 years using the internet in 2016, %



Source: GEOSTAT.

Region-wise, internet use in Tbilisi was close to Europe's median and higher than in the CIS and the Americas on average. Kakheti and Guria are the least digitalized regions of Georgia. An international comparison on internet use is provided in the table below.

Table 33: Individuals using the internet, by country and country group, %

Country	2011	2012	2013	2014	2015	2016
Developed countries	72.9	75.4	78.5	79.1	80.3	81.5
Developing Countries	25.3	27.3	29.4	31.3	32.9	34.3
World	38.1	40.2	42.4	43.9	45.3	46.6
Less Developed Countries	3.8	4.4	5.0	5.8	6.0	7.6
Commonwealth of Independent States (CIS)	39.5	49.4	54.4	58.2	62.0	65.1
Europe	67.8	70.0	71.7	73.8	75.3	77.9
Georgia	31.5	36.9	43.3	44.0	47.5	59.3
Armenia	32.0	37.5	41.9	54.6	59.1	62.0
Albania	49.0	54.6	57.2	60.1	63.2	66.3
Moldova	38.0	43.3	45.0	46.6	63.3	71
Estonia	76.5	78.3	80.0	84.2	88.4	87.2
Latvia	69.7	73.1	75.2	75.8	79.2	79.8
Slovak Republic	74.4	76.7	77.8	79.9	77.6	80.4

Source: International Telecommunication Union (ITU), GEOSTAT.

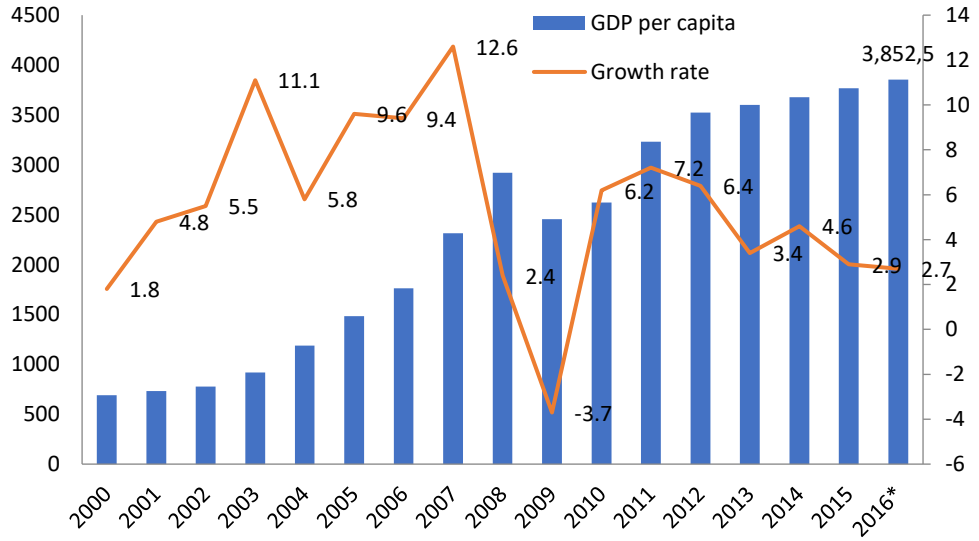
4 Economic Cohesion

Following the collapse of the Soviet Union, Georgia experienced a period of dramatic social, economic and political changes. After severe output losses and a negative GDP real growth rate in 1993 (-29.3%) and 1994 (-8.9%),[21] Georgia's average growth rate between 1995 and 1999 amounted to 7%. Relative to GDP, tax revenue dropped from 22% in 1991 to 8% in 1992 and 2% in 1993. In early 2000s, Georgia faced a number of economic and financial challenges. The Government was not able to consolidate its finances, largely due to problems relating to governance and corruption. Tax collection, as a share of GDP, was among the lowest in the region.

Conditioned by liberal reforms and a large amount of capital inflow, the GDP growth rate reached 12.6% in 2007, and FDI reached USD 2 billion (almost 20% of GDP). Georgia's diversified structure with no dependence on single sectors, sources of free trade area or trade markets proved to be one of the country's strengths[22]. A policy of diversified growth helped Georgia to cope comparatively well with the Russian trade embargo that was unilaterally introduced by Russia in 2006 and applied to all Georgian agricultural products.

In the course of recent years, Georgia's economy continued to cope with the difficult external environment. Economic slowdown and the depreciation of currency against its trading partners lowered Georgia's exports and remittances. Despite these shocks, Georgia's economy continues to grow. In 2016, Georgia's real GDP growth rate was 2.9% (preliminary data), with an expected real GDP growth rate of 3.8% for 2017 and 4.5% for 2018.

Chart 16: Real GDP growth and GDP per capita (nominal) in Georgia



*Source: GEOSTAT, * 2016 preliminary figures.*

In 2016, the world economy grew by 3.1%. Advanced countries grew by 1.7%, while less developed countries grew by 3.6%. As regards countries in the region, Armenia's real GDP growth rate in 2016 was 0.2%, Azerbaijan recorded a decline of 3.1% and the Russian economy stagnated at 0.2%. Turkey's real GDP growth rate in 2016 was 2.9%. Turkey and Azerbaijan are the top trading partners of Georgia.

[21] Among former Soviet Union countries, the decline in GDP was most significant in Georgia after Tajikistan.

[22] Georgia has been a member of the WTO since 2000.

Table 34: Real GDP growth, international comparison, %

Country	2011	2012	2013	2014	2015	2016*
Georgia	7.2	6.4	3.4	4.6	2.9	2.7
Armenia	4.7	7.1	3.3	3.6	3.0	0.2
Moldova	6.8	-0.7	9.4	4.8	-0.4	4.0
Albania	2.5	1.4	1.0	1.8	2.6	3.4
Estonia	7.6	4.3	1.4	2.8	1.4	1.6
Latvia	6.4	4.0	2.6	2.1	2.7	1.9
Slovak Republic	2.8	1.6	1.5	2.6	3.8	3.2
Low-income Developing countries	5.3	5.2	6.2	6.0	4.6	3.6
CIS	4.6	3.5	2.1	1.1	-2.2	0.3
Advanced Economies	1.7	1.2	1.3	3.5	2.1	1.7
EU	1.7	-0.4	0.3	1.7	2.4	2.0

*Source: IMF, *preliminary figures.*

In terms of nominal GDP measured in USD, Georgia overtook Armenia within the region, which was due to the depreciation of the Armenian dram against the USD in the period 2015–2016.

Table 35: *GDP per capita (nominal), USD*

Country	2011	2012	2013	2014	2015	2016*
Georgia	3,230.7	3,523.4	3,599.6	3,676.2	3,766.6	3,852.5
Armenia	3,417.0	3,575.5	3,732.0	3,889.0	3,520.9	3,510.6
Moldova	1,971.5	2,046.2	2,244.4	2,245.5	1,828.4	1,900.8
Albania	4,439.6	4,249.0	4,413.3	4,574.8	3,943.2	4,203.4
Estonia	17,441.4	17,398.3	19,004.3	19,953.5	17,111.3	17,632.7
Latvia	13,735.6	13,762.1	14,951.8	15,689.5	13,614.4	14,060.4
Slovak Republic	18,223.6	17,294.6	18,205.9	18,633.7	16,105.1	16,498.5

*Source: IMF, *preliminary figures.*

In the area of external trade, Georgia's negative trade balance has had an increasing tendency (unfortunately, data on export and import volumes are not available at regional level and therefore regional export competitiveness cannot be measured). Persistent foreign trade deficits are indicative of Georgia's low capacity to produce enough goods for its residents and leads to a decrease in jobs created, especially in the manufacturing sectors.

Table 36: Foreign trade statistics of Georgia, million USD

Item	2009	2010	2011	2012	2013	2014	2015	2016
Turnover	5,609	6,913	9,259	10,433	10,933	11,463	9,505	9,407
Export	1,134	1,677	2,186	2,377	2,910	2,861	2,205	2,113
Import	4,479	5,236	7,072	8,056	8,023	8,602	7,300	7,294
Balance	-3,342	-3,559	-4,886	-5,680	-5,112	-5,741	-5,096	-5,181
Negative balance as a percentage of turnover	59.5%	51.5%	52.7%	54.4%	46.7%	50.0%	53.6%	55.0%

Source: GEOSTAT.

The share of exports in Georgia's GDP has remained largely stable since 2013 and equals that of Moldova. Existing foreign trade statistics in international comparison are depicted in the table below.

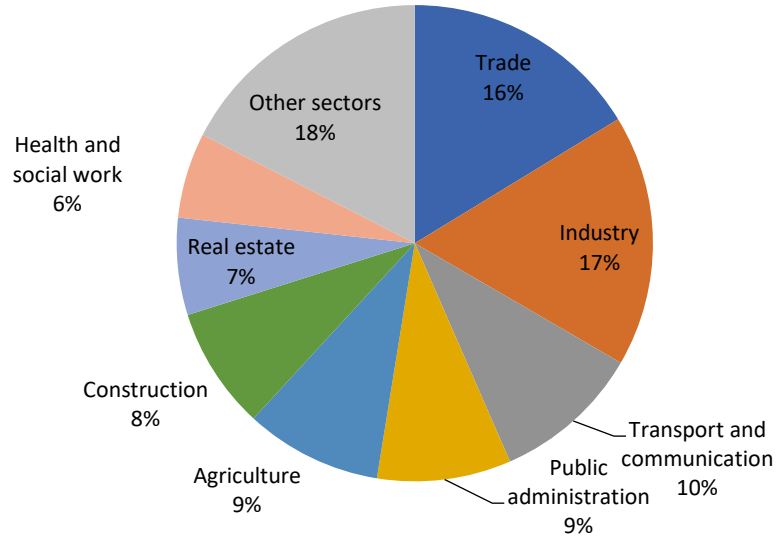
Table 37: Export of goods and services as a percentage of GDP, international comparison

Country	2011	2012	2013	2014	2015	2016
Georgia	36.2	38.1	44.6	42.9	44.7	43.4
Armenia	23.7	27.5	28.3	28.5	29.7	33.1
Moldova	44.9	43.4	43.3	41.5	42.8	43.6
Albania	34.0	33.3	35.4	28.2	27.2	28.7
Estonia	86.5	86.0	84.5	83.0	79.2	79.5
Latvia	57.8	61.3	60.3	59.5	58.9	58.0
Slovak Republic	85.0	91.4	93.8	91.8	93.4	93.8

Source: World Bank.

Georgia's economy is quite diversified when considering GDP composition. Industry (17%) and trade (16%) are the two major contributors to GDP. For more details on GDP composition, please refer to the chart below.

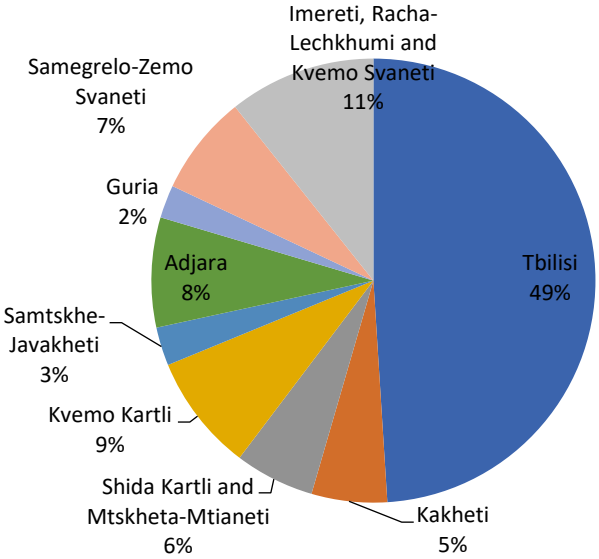
Chart 17: ***GDP structure in 2016, %***



Source: Own elaboration based on GEOSTAT data.

Unarguably, Tbilisi is the biggest contributor to the country's economy. In 2015 the capital city produced almost 49% of GVA at current prices. The second biggest contribution came from the combined regions of Imereti and Racha-Lechkhumi and Kvemo Svaneti (10.7%), followed by Kvemo Kartli (8.54%) and AR Adjara (7.99%). With a share of only 2%, Guria is the smallest contributor to GVA. Further details can be found in the chart below, which illustrates the regional distribution of GVA.

Chart 18: **Regional distribution of GVA in Georgia, 2015**



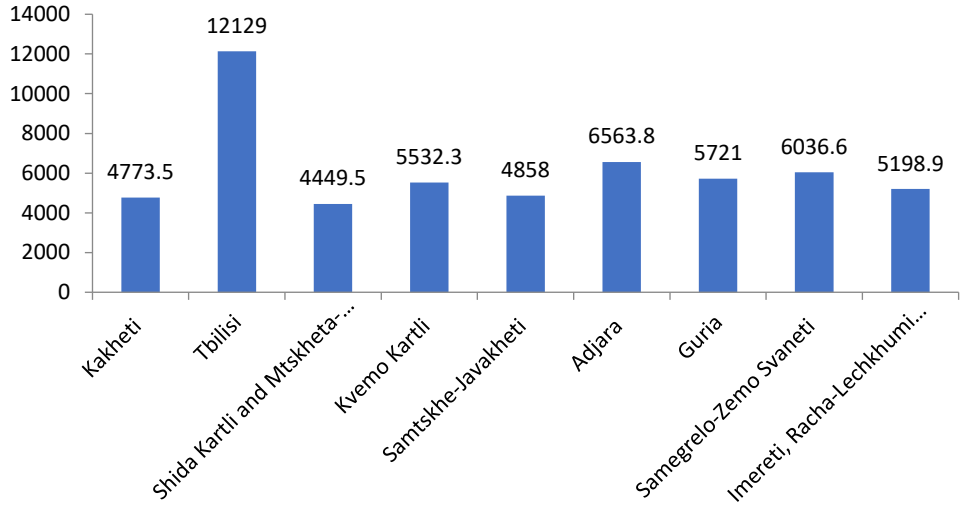
Source: GEOSTAT.

It is not unusual for a capital city to have a significant share in national GVA, especially in former post-Soviet or ex-Yugoslav cities, e.g. Yerevan, Baku, or Skopje, where the share is even higher than that of Tbilisi and where the scale of agglomeration and its economies contributes to imbalances in regional development.

Over the past ten years, all of Georgia's regions almost doubled or tripled their GVA, with AR Adjara growing fastest of all the regions (297%), followed by Tbilisi (238%). Indeed, only these two regions' economies grew faster than the national average, which remained at 228%. All other territorial units recorded slower growth. Between 2006 and 2015, only the capital city and AR Adjara succeeded in increasing their input to national GVA in percentage points. Tbilisi's share increased from 46.93% in 2006 to 48.97% in 2015 and for AR Adjara figures were 6.13% and 7.99% respectively. The economic relevance of all remaining regions decreased, with Kvemo Kartli experiencing the sharpest decline – from 10.2% to 8.54%. In fact, its growth rate was the slowest in the whole period under consideration, reaching 191% – and thus the slowest in the entire country.

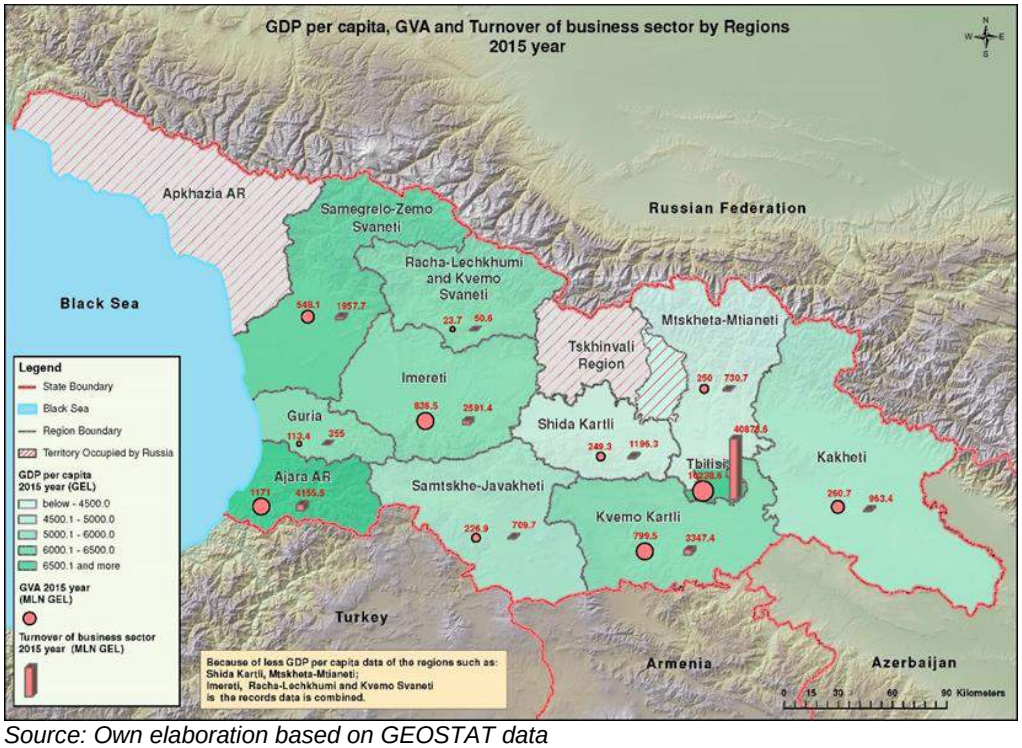
In terms of GVA per capita, it is evident that Tbilisi is the most affluent region in Georgia, followed by Adjara – the chart below shows the GVA per capita in Georgian regions.

Chart 19: GVA per capita in Georgian regions, 2015, GEL



Source: Own calculation based on GEOSTAT data.

Per capita disparities are significant. The difference between the richest and the poorest region is 2.7 times and between the richest and the second richest 1.8 times.



Source: Own elaboration based on GEOSTAT data

Tbilisi's economy is the most competitive and productive. The second "richest" region is AR Adjara, with GEL 6,500 per capita, followed by Samegrelo-Zemo Svaneti with GEL 6,000. The "poorest" regions are Shida Kartli and Mtskheta-Mtianeti alongside Kakheti. In fact, Tbilisi and AR Adjara are widening the development gap and socio-economic disparities simply because they are growing faster than the remaining regions.

Trade, repairs of motor vehicles and personal and household goods, transport and communication alongside construction sectors appear to be the key drivers of growth in Tbilisi and AR Adjara. Nowhere else do these sectors make such important contributions to regional GVA. For example, 67% of GVA in Tbilisi is generated by trade, transport and communication, industry and construction. While Adjara's economy is more diversified, the same four industries are the biggest contributors to regional GVA.

Industry and manufacturing are the most important economic activity sectors for Kvemo-Kartli, Shida Kartli and Mtskheta-Mtianeti, making up 31% and 25% of their GVA. AR Adjara, Guria and Samtskhe-Javakheti are the least industrialized Georgian territories. In these regions, the share of industrial GVA in total GVA amounts to only 8%, 6% and 5% respectively.[23]

Industry's contribution to GDP has recorded a slow but steady increase in Georgia, exhibiting the sector's importance and likely untapped potential – whereas several countries have experienced a decline in industry's contributions to national GDP. This trend has been observed in many post-Soviet countries, albeit e.g. Latvia and Estonia feature complex and more value-added service sectors with a much bigger share in GDP.

Table 38: Value added by industry as a percentage of GDP

Country	2011	2012	2013	2014	2015	2016
Georgia	23.8	24.5	24.0	24.6	24.6	25.3
Armenia	33.8	31.1	30.0	28.4	28.7	27.4
Moldova	16.8	16.7	17.1	17.2	14.4	14.2
Albania	28.1	26.4	26.3	24.6	24.3	23.8
Estonia	29.1	28.7	28.7	28.6	27.4	26.7
Latvia	24.1	24.2	23.7	23.2	22.8	21.8
Slovak Republic	35.5	35.3	33.0	34.5	34.8	34.8

Source: World Bank.

Agriculture, hunting, forestry and fishing dominate the economies of Kakheti, Samtskhe-Javakheti and Guria, accounting for 33%, 32% and 25% of their regional GVA.[24] In fact, these three regions also make the smallest overall contribution to Georgia's total GVA, while displaying the highest employment rates, once again validating the disproportionate scale of employment (and self-employment) in the rural economy. Moreover, it should be noted that two of those three regions are bordering on some of the least developed territories of Georgia's neighbours.

A lack of specialized value chains and low levels of labour productivity are the main reasons for these disparities. Indeed, even Tbilisi exhibits very low levels of labour force productivity – below those of e.g. Yerevan, Baku, Skopje, Belgrade, or Moscow[25]. Since labour productivity measures the relation between output and labour time input, its low levels indicate that both the labour force is inefficient and the value of economic output is dwindling. **Arguably, this is one of the most fundamental issues of concern for Georgia's economy**. Low labour productivity may be attributable to overtime, low morale and attitude, joint occupancy, concurrent and uncontrolled operations, absenteeism and staff turnover, errors, omissions, crew size inefficiency, mismatches between skills and requirements, constrained space, over-manning, shortage of technology, proximity to work, lack of materials, low value-added work, etc.

According to GEOSTAT, foreign direct investments in Georgia amounted to USD 1,566 billion in 2016. These were primarily allocated to transport and communication and the financial sector as well as to energy and real estate sectors. Investments in these sectors tend to have no visible effects on employment and do not accelerate economic growth as expected. In 2016, the total volume of investment in

23 ibid.

24 GEOSTAT.

25 Urban Strategy of Georgia, Economic Role of Major Cities, the Ministry of Economy and Sustainable Development of Georgia, World Bank, January 2016.

these sectors amounted to more than USD 1 billion (66% of total FDI). The most job-intensive sectors, such as construction and manufacturing, contributed USD 254 million to total FDI (16% of total FDI). Domestic and foreign investments contribute to an increase in the number of jobs in the country. Investments in job-intensive sectors in particular have a direct positive impact on new job opportunities. Investments in the financial sector, telecommunications or real estate do not have major effects on jobs, while investments in manufacturing, construction, transport, hotels and restaurants considerably contribute to job creation. In 2016 more than GEL 1 billion was invested in job-intensive sectors in Georgia.

86% of all FDI was allocated to Tbilisi and 6% in AR Adjara. In addition, 2% was allocated to Samegrelo-Zemo Svaneti and Guria, 1.8% to Kvemo Kartli, 1.7% to Imereti, Racha Lechkhumi and Kvemo Svaneti. The rest of the country is indeed marginalized, especially Shida Kartli and Mtskheta-Mtianeti (0.16%) and Kakheti (0.12%).[26]

According to data from Georgia's business register, 41% of all active companies are currently registered in Tbilisi. This correlates with the dominating role of the capital city in terms of GVA distribution.

Table 39: Number of registered active companies, by region, as of 1 June 2017

Region	Number	Total share (%)
Georgia	167,554	100
Tbilisi	69,950	41.7
AR Abkhazia	15	0.0
AR Adjara	16,346	9.7
Guria	4,281	2.5
Imereti	23,301	13.9
Kakheti	10,738	6.4
Mtskheta-Mtianeti	2,945	1.8
Racha-Lechkhumi & Kvemo Svaneti	1,247	0.7
Samegrelo-Zemo Svaneti	12,612	7.5
Samtskhe-Javakheti	5,058	3.0
Kvemo Kartli	12,726	7.5
Shida Kartli	8,335	4.9

Source: GEOSTAT.

In Racha-Lechkhumi and Kvemo Svaneti, construction is the leading business sector (accounting for 40.5% of all enterprises), while the leading sector of Samegrelo-Zemo is transport and communication. The most diversified region in this regard is Samegrelo-Zemo Svaneti, with transport and communication at 33.6%, wholesale and retail at 29.6% and manufacturing at 25.6%.

Georgia has a business density index of 22. (The index measures the number of citizens in relation to the number of enterprises). The most "entrepreneurial" region is Tbilisi, where this index amounts to 16. The least "entrepreneurial" regions are Kvemo Kartli, with a ratio of 34 citizens for each single company, followed by Shida Kartli, Samtskhe-Javakheti and Mtskheta-Mtianeti with the index value of 32.[27]

Between 2010 and 2015, the number of jobs in the Georgian business sector increased by 57%. The highest increase was observed in AR Adjara and Mtskheta-Mtianeti, which saw a surge of 80% each, followed by Tbilisi with an increase of 67%. Yet there are also regions where the increase in the number of jobs in the period under consideration was very limited, e.g. 28% in Racha-Lechkhumi and Kvemo Svaneti and 17% in Samtskhe-Javakheti. Overall, inward investments do contribute to new employment opportunities, but these effects largely offset the number of jobs lost after the war with Russia in 2008. In 2015, 63% of employment was attributable to Tbilisi companies, while less than 1% of the total number of employed persons worked in Guria and Racha-Lechkhumi and Kvemo Svaneti.

[26] According to the FDI computation methodology, flows are calculated according to business registration place and not according to the enterprise's actual physical location, i.e. if a company is registered in Tbilisi but is investing in another region, such investment will be assigned to Tbilisi.

[27] Source: Own calculation based on GEOSTAT data.

Table 40: Number of persons employed in the business sector in Georgian regions

Region	2010	2011	2012	2013	2014	2015
Georgia Total	397,806	503,236	534,397	550,885	592,147	626,739
Tbilisi	236,822	310,074	335,360	344,982	372,009	395,716
Adjara AR	31,847	39,975	44,691	49,759	54,655	57,555
Guria	3,884	5,466	4,661	4,243	4,959	5,724
Imereti	35,534	40,087	43,815	43,122	46,897	46,934
Kakheti	14,699	15,361	16,158	17,791	18,402	19,414
Mtskheta-Mtianeti	4,587	5,118	6,727	6,687	7,539	8,348
Racha-Lechkhumi and Kvemo Svaneti	1,942	1,965	2,097	2,018	1,771	2,489
Samegrelo-Zemo Svaneti	19,886	25,238	23,709	24,004	26,709	27,304
Samtskhe-Javakheti	7,392	8,200	8,745	9,188	7,925	8,636
Kvemo Kartli	28,411	32,268	33,509	34,214	34,864	36,600
Shida Kartli	11,702	18,411	13,815	13,725	15,287	16,844

Source: GEOSTAT.

Salaries of persons employed in the business sector increased in the course of the past six years. Between 2005 and 2010, the average salary in the Georgian business sector increased by 51%. The most significant increase was observed in Guria – of 142%. AR Adjara saw an increase of 85%, Mtskheta-Mtianeti recorded an increase of 72% and Imereti and Samthkhe-Javakheti witnessed an increase of 63%. The least affected region was Racha-Lechkhumi and Kvemo Svaneti, where salaries increased by only 20%.

Overall, there are vast disparities in the salary levels between regions: in 2015, the average salary in the Racha-Lechkhumi and Kvemo Svaneti region was only 41% of the average salary in Tbilisi. In all regions of Georgia but Tbilisi, average salaries are below the national average. For more details, please see the table below.

Table 41: Average monthly salaries of persons employed in the business sector in Georgian regions, GEL

Region	2010	2011	2012	2013	2014	2015
Georgian average	592.7	622.6	714.3	760.1	800.5	896.8
Tbilisi	697.5	728.6	828.3	876.9	920.1	1,006.7
Adjara AR	441.4	477.8	536.7	577.3	644.9	821.5
Guria	264.8	276.4	264.4	327.8	397.0	641.1
Imereti	370.7	435.4	481.0	489.3	505.1	604.6
Kakheti	355.1	323.2	384.0	447.7	460.3	521.8
Mtskheta-Mtianeti	518.4	608.0	574.1	775.0	814.9	890.3
Racha-Lechkhumi and Kvemo Svaneti	343.2	259.8	300.1	351.5	391.6	414.5
Samegrelo-Zemo Svaneti	443.7	436.4	527.4	587.0	605.2	644.7
Samtskhe-Javakheti	350.8	372.1	441.3	591.4	587.5	573.9
Kvemo Kartli	571.5	547.5	663.0	679.6	690.2	779.2
Shida Kartli	332.5	361.2	436.1	421.2	464.8	511.3

Source: GEOSTAT.

In the year 2015, 72% of Georgia's total business sector turnover was attributable to Tbilisi-based companies, while in Guria and Racha-Lechkhumi and Kvemo Svaneti the cumulative turnover accounted for less than 1% of Georgia's total turnover. The turnover of Tbilisi companies alone was 2.5 times greater than the turnover of companies operating in all other regions of Georgia.

Table 42: Turnover of business sector by region, in GEL

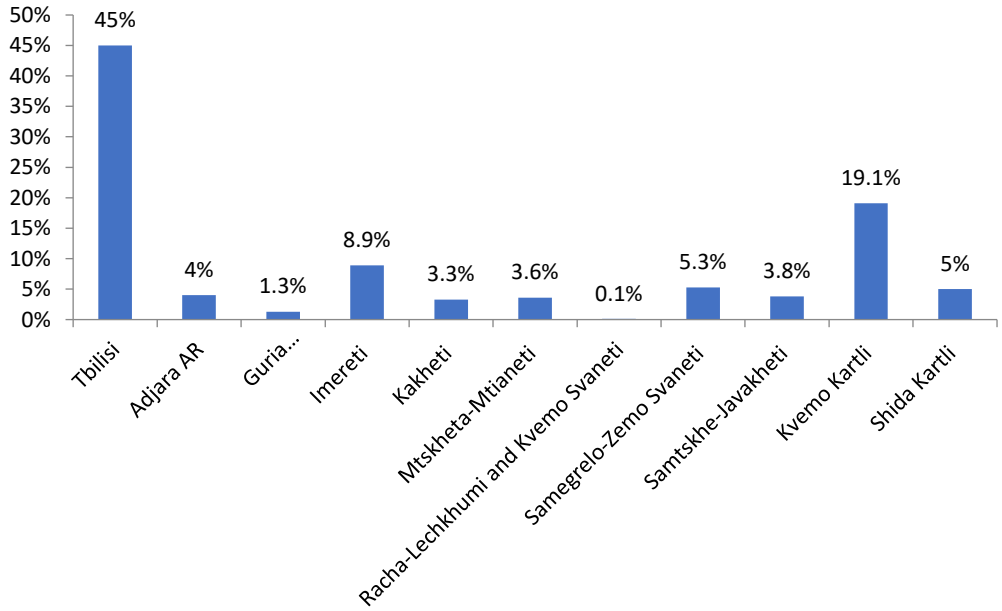
Region	2010	2011	2012	2013	2014	2015
Georgian total	24,400.7	36,726.2	42,048.0	44,327.9	50,064.7	56,984.8
Tbilisi	17,847.6	27,088.8	31,323.1	31,957.9	35,996.7	40,873.6
AR Adjara	1,175.2	1,928.8	2,375.6	2,753.8	3,424.1	4,155.5
Guria	120.6	175.0	174.4	212.9	253.4	355.0
Imereti	1,259.1	1,742.3	1,886.0	2,042.4	2,378.6	2,591.4
Kakheti	332.4	541.1	642.0	908.6	1,018.3	963.4
Mtskheta-Mtianeti	204.0	284.0	413.3	576.9	693.2	730.7
Racha-Lechkhumi and Kvemo Svaneti	29.9	32.7	37.7	42.5	35.4	50.6
Samegrelo-Zemo Svaneti	924.5	1,332.0	1,210.2	1,595.4	1,719.8	1,957.7
Samtskhe-Javakheti	260.4	367.2	468.6	620.1	635.8	709.7
Kvemo Kartli	1,726.2	2,302.4	2,506.4	2,661.8	2,830.1	3,347.4
Shida Kartli	461.3	886.6	966.6	905.6	1,017.5	1,196.3

Source: GEOSTAT.

At national level, the wholesale and retail trade accounts for almost 47% of Georgia's total business turnover. In six of Georgia's regions, the wholesale and retail trade is by far the biggest contributor to total enterprise turnover, with a share of 50.8% in Tbilisi, 40.5% in AR Adjara, 44.7% in Guria, 43.8% in Imereti, 50.7% in Kakheti, and 40% in Shida Kartli. The manufacturing sector is the biggest contributor to enterprise turnover in Mtskheta-Mtianeti (44.5%), Samtskhe-Javakheti (43.8%) and Kvemo Kartli (30.4%). At national level, the wholesale and retail trade accounts for 25% of all jobs in the business sector, followed by manufacturing (14.2%) and construction (11.2%).

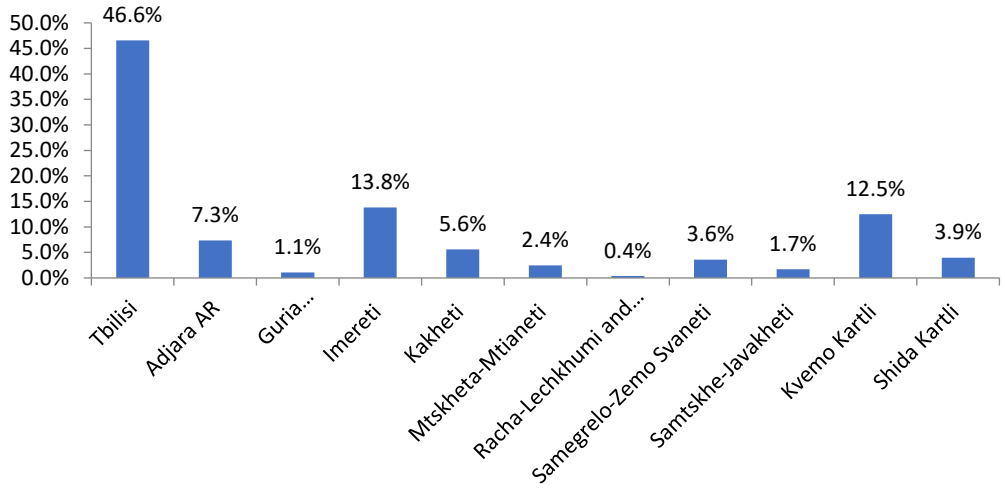
The regional significance and importance of Georgian industry sectors is on par with that of the business sectors, both in terms of turnover and employment (see charts below).

Chart 20: Share of turnover of industry, by region, %, 2015



Source: GEOSTAT.

Chart 21: Share of regional employment in industry, by region, %, 2015



Source: GEOSTAT.

Over the past ten years (until 2015), investments in fixed assets increased by 110% in all of Georgia's regions. A 300% growth rate was observed in Samtskhe-Javakheti, and a growth rate of more than 100% in Tbilisi, Kakheti and Mtskheta-Mtianeti. Overall, the ratio of investments to GDP (Gross Capital Formation) exceeding 30% suggest a positive economic outlook (see table below for international benchmarks).

Table 43: Total investments as a percentage of GDP, international comparison

Country	2011	2012	2013	2014	2015	2016
Georgia	26.1	28.9	24.7	29.8	32.0	31.8
Armenia	27.0	22.7	20.7	20.8	20.9	21.1
Moldova	24.1	23.6	24.6	26.0	22.9	19.0
Albania	33.4	29.8	27.1	25.9	24.5	26.8
Estonia	25.1	29.0	28.0	27.1	24.7	23.9
Latvia	25.1	26.1	23.9	23.1	22.0	19.8
Slovak Republic	24.9	20.9	20.9	21.6	23.2	21.5

Source: IMF.

In the more recent period of 2010–2015 investments in fixed assets increased by 35% at national level. While the biggest growth was seen in AR Adjara (179%) and Kakheti (143%), it is Tbilisi that accounts for 76% of all investments in the country. In contrast, investment levels and their trends in Guria, Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli and Mtskheta-Mtianeti are in serious decline.

Table 44: Investments in fixed assets, regional distribution, GEL million

Region	2010	2011	2012	2013	2014	2015
Georgia Total	3,210.1	2,602.5	3,245.6	3,937.3	3,559.6	4,333.6
Tbilisi	2,489.1	1,827.9	2,329.6	3,008.0	2,206.3	3,318.5
AR Adjara	98.6	112.8	151.5	238.3	281.1	274.9
Guria	24.7	16.6	12.5	12.5	9.1	9.5
Imereti	61.5	92.3	133.4	75.7	80.5	99.5
Kakheti	17.0	80.3	51.4	136.4	111.7	41.3
Mtskheta-Mtianeti	70.0	41.3	48.9	32.0	65.5	53.5
Racha-Lechkhumi and Kvemo Svaneti	1.7	0.9	2.2	1.4	0.8	1.2
Samegrelo-Zemo Svaneti	99.3	162.1	265.7	88.0	140.7	160.4
Samtskhe-Javakheti	30.1	14.0	38.7	61.7	426.0	45.9
Kvemo Kartli	241.5	214.8	177.6	208.4	169.8	286.0
Shida Kartli	47.8	29.3	33.0	48.0	38.5	41.4

Source: GEOSTAT.

The regional contribution to the production of goods and services correspond to the regional share in total investments in the country: 67% of all goods and services are produced in Tbilisi – followed by the Autonomous Republic of Adjara with 8%, as well as Kvemo-Kartli with -7%, Imereti with -5% and Samegrelo-Zemo Svaneti with -4%. The smallest contributors are Racha-Lechkhumi and Kvemo Svaneti as well as Guria – with a share of less than 1% each. The situation is aggravated by underdeveloped infrastructure and poor connectivity resulting in migration of population to urban areas.

In 2015 the share of SMEs in total business turnover was 17.5%. As for Georgia's regions, in Racha-Lechkhumi and Kvemo Svaneti SMEs has 74.4% in ototal business turnover, while in Tbilisi the share of SMEs was 13%. Referring to employment, in 2015 the share of SMEs in total business employment was 43.1%. As for Georgia's regions, in Racha-Lechkhumi and Kvemo Svaneti's SMEs has 93.9% of employees of total business employment, while in Tbilisi the share of SMEs in total business employment was

According to the Georgia 2020 Innovation Strategy, the country features low levels of innovativeness in the enterprise sector (even when compared to neighbouring countries). Out of 138 economies covered by GCI 2016–2017, Georgia ranks 113th in innovation and sophistication factors, 65th in technological readiness, 116th in innovations, and 100th in innovation capacity.

Although comprehensive innovation, R&D and technology statistics are not regularly captured in Georgia, some data are available (but not presented at regional level). Specific NACE Rev. 2 groupings are considered to be the technology/innovative sectors, such as manufacture of computer, electronic and optical products; manufacture of electrical equipment; wholesale of information and communication equipment; software publishing; telecommunications; computer programming, consultancy and related activities; information service activities; scientific research and development; other professional, scientific and technical activities and repair of computers and personal and household goods. These subsectors comprised more than 1,000 active businesses in total. Between 2013 and 2015 (last available figures) the total turnover in these sub-sectors increased by 24% and amounted to GEL 2,068 billion, accounting for 3.6% of Georgia's total business turnover. Strongest growth was witnessed in professional, scientific and technical activities (258%), followed by computer programming, consultancy and related activities (144%) and manufacture of computer, electronic and optical products (135%). A 24% decrease was recorded in manufacture of electrical equipment. There were more than 18,000 employees in these sectors in 2015 (an increase of 26% when compared to 2013), accounting for 3% of total employment in enterprises.

According to a special innovation survey conducted by GEOSTAT[28], in the period between 2013 and 2015 48.8% of Georgian enterprises engaged in innovation activities, introduced new or significantly improved goods, while 51.2% of companies introduced new or significantly improved services. The survey shows that 23.1% of innovation activities are abandoned before completion and 76.9% are continued further. Other findings of the survey are exhibited in the table below.

Table 45: Enterprise engagement in innovation activities in the period 2013–2015, (%)

In-house R&D	12.1%
External R&D	5.0%
Acquisition of machinery, equipment and software	27.2%
Acquisition of external knowledge	7.8%
Training for innovative activities	15.1%
Market introduction of innovations	11.7%
Design	13.5%
Other	7.5%
Total	**100.0%**

Source: GEOSTAT.

According to the same survey, 97.5% of enterprises have access to the internet and 44.3% of enterprises have a web page or website. 32.9% of companies use social networks (such as Facebook, LinkedIn), only 5% use blogs or microblogs (e.g. Twitter) and multimedia content sharing websites (YouTube, Flickr, MyVideo) are used by 8.9% of companies. 48.7% of enterprises did not use any of the above mentioned social media platforms or used them solely for the purpose of posting paid content.

28 Information and Communication Technologies Usage in Households survey by GEOSTAT.

As regards e-commerce, only 9.5% of companies received orders for goods or services via their web page.

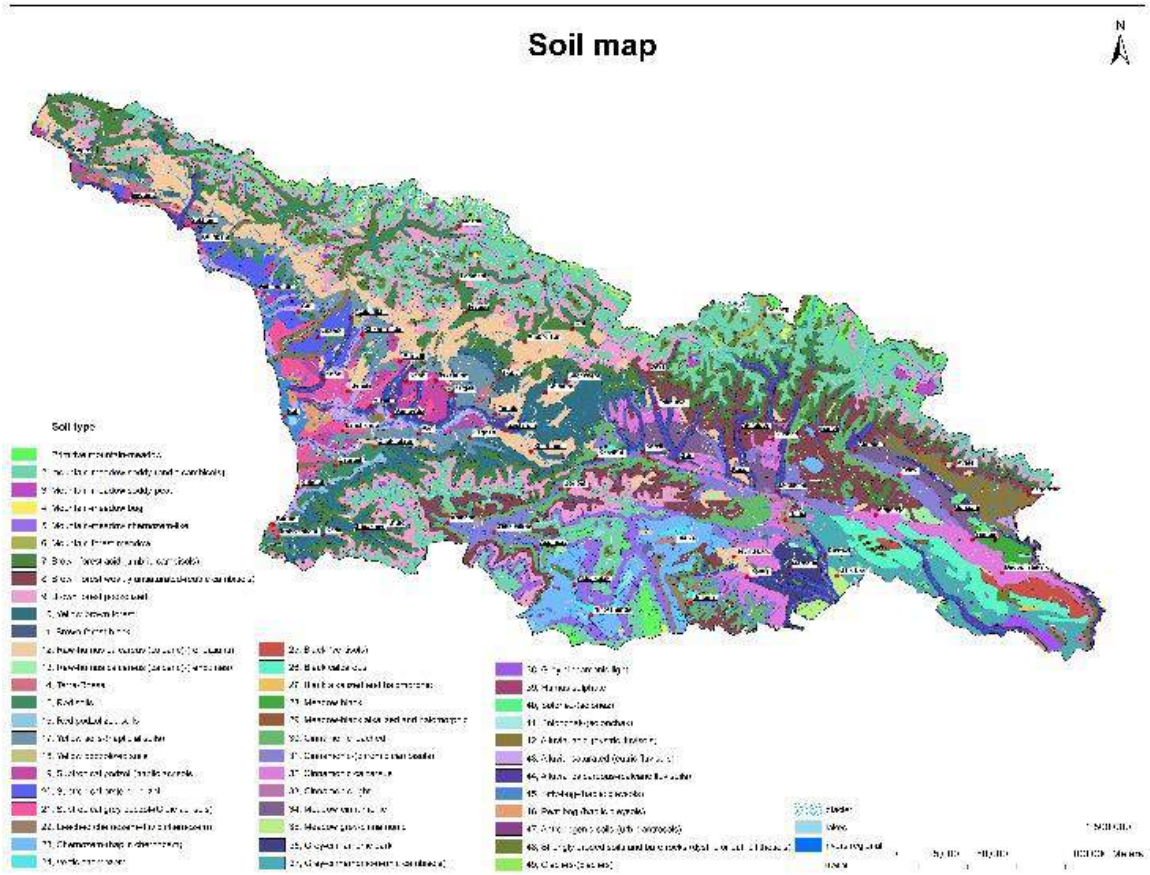
Low levels of innovation and labour productivity (covered earlier in this report) are thus key challenges for Georgian enterprises to become more competitive internationally. There is a need for significant improvement with regard to the introduction of new products, technology, conducting own R&D, collaborative and contract research, and technology transfer/acceleration.

Agriculture and rural economy are the sectors almost half of the labour force is engaged in. However, due to low productivity and low value added, these sectors account for only 9.3% of Georgia's GDP. In all regions except for Tbilisi, Georgia's residents are actively engaged in agriculture. Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti are home to more than 70% of those employed in agriculture. In Kakheti, this proportion amounts to almost 70% and in Kvemo Kartli and Shida Kartli it slightly exceeds 60%. In all of Georgia's regions, except AR Adjara and Tbilisi, more than half of the labour force is engaged in agriculture.[29]

The most popular crop in Georgia is corn. The sown area totalled 95,500 ha in 2016, with Imereti and Kakheti featuring more than 46% of the sown area and more than 53% of crops.

Wheat and barley are the second and third most popular crops, with a sown area in 2016 totalling 50,100 and 24,400 ha respectively. Kakheti is the main producer of both wheat and barley. Yield per ha is steady in this region, but yield in other regions fluctuates from season to season, mostly on account of changing weather conditions and inappropriate agricultural practices.

Shida Kartli is the fruit basket of Georgia, accounting for almost 38% of total fruit production in 2016 thanks to favourable climate and soils. It is followed by Kakheti and Samegrelo-Zemo Svaneti. The latter is also the leading producer of various nuts and accounts for almost half of Georgia's crop.



Source: Own elaboration.

29 Unfortunately, data on the rural economy – especially in regard to crop production, yield per ha and animal husbandry – are available for 2015 and 2016 only; for some of the regions, 2015 data are missing. Therefore, it has not been possible to conduct a sound time series analysis.

Cattle breeding is in decline: the number of cattle decreased from 992,100 in 2015 to 962,700 in 2016. Samegrelo-Zemo Svaneti, Imereti and Kvemo Kartli are the main cattle breeding regions of Georgia. Breeding of dairy cows and buffaloes is also in decline – their numbers dropped from 545,000 in 2015 to 509,300 in 2016. An increase in productivity and food safety standards could contribute to improving the competitiveness of Georgia's dairy sector.

Pork production is also decreasing – similar to cattle and dairy cow breeding. The number of pigs dropped from 161,500 in 2015 to 136,200 in 2016. The biggest producers are Samegrelo-Zemo Svaneti, Kakheti and Kvemo Kartli, and only the latter recorded a slight increase in production volumes.

Sheep and goat breeding are the only sectors of animal husbandry that are actually on the rise: sheep breeding increased from 841,600 in 2015 to 875,900 in 2016, and goat breeding increased from 49,800 to 60,600 within the same period. Kakheti and Kvemo Kartli are the main contributors here, accounting for 78% of sheep and 58% of goat breeding.

In 2016, the number of international arrivals in Georgia reached a record number of 6,350,825 – which is 449,731 more than in the previous year and represents an annual growth rate of 7.6%. In 2014 the number of foreign visitors was 5,515,559. Georgian tourism statistics do not capture international arrivals by regions; only domestic tourism statistics are available at regional level. In 2015, a total of 840,000 visitors were registered across all of Georgia's regions, and in 2016 this number increased to 877,000. Tbilisi continues to be the most popular destination, followed by Imereti and AR Adjara.

Table 46: Percentage distribution of visits, by region, in 2016, %

Tbilisi	AR Adjara	Guria	Imereti	Kakheti	Mtskheta-Mtianeti	Racha-Lechkhumi and Kvemo Svaneti	Samegrelo-Zemo Svaneti	Samtskhe-Javakheti	Kvemo Kartli	Shida Kartli
24.3	10.8	2.8	20.5	7.7	6.1	1.4	7.5	4.0	7.0	7.7

Source: GEOSTAT.

The number of new building permits is considered to be indicative of an economy's overall condition, as the construction process affects investment levels and thus employment and financing. Thus, new jobs created in the course of the construction process have an impact on consumption levels. In the period 2013–2015, the number of new building permits issued in Georgia increased gradually, with Tbilisi accounting for ca. 48% of all permits, followed by Kvemo Kartli (13%) and AR Adjara (12%).

Table 47: Building permits granted for construction, by region

Region	2013		2014		2015	
	number	space, m^2	number	space, m^2	number	space, m^2
Georgian total	9,232	8,374,817	9,479	7,258,011	10,186	7,839,726
Tbilisi	4,715	5,957,076	4,578	4,626,021	4,857	4,842,318
AR Adjara	1,040	1,589,905	1,261	1,650,138	1,212	1,804,297
Guria	101	22,052	127	44,688	156	67,651
Imereti	693	158,974	691	155,154	680	122,759
Kakheti	485	113,603	392	86,939	489	104,983
Mtskheta-Mtianeti	336	96,231	347	130,127	385	123,922
Racha-Lechkhumi and Kvemo Svaneti	33	7,110	25	62,06	47	7,706
Samegrelo-Zemo Svaneti	280	73,814	326	114,351	443	177,208
Samtskhe-Javakheti	176	60,544	211	100,092	230	99,717
Kvemo Kartli	1,181	230,056	1,261	281,185	1,346	413,799
Shida Kartli	192	65,452	260	63,110	341	75,366

Source: GEOSTAT.

Arguably, the condition of municipal budgets is yet another factor illustrating economic capacities and regional disparities across the country. Georgia is considered to be fiscally centralized, and the country's fiscal sustainability index (per capita revenue) is low, varying between GEL 86 (in the Shida Kartli

municipalities) and GEL 422 in Tbilisi. In other regions, this index varies from GEL 100 to approx. GEL 260.

Over the past few years, Georgia's fiscal sustainability index increased, since personal income tax has been included in local budgetary revenues (in addition to property tax and stamp fees) but it is abnormally low when benchmarked even with the least developed EU Member States, where such index is above EUR 150.00 in the least developed areas. A snapshot of municipal budgets' revenue volumes is provided in the table below.

Table 48: Structure of municipal revenues, by region, in GEL million, 2014–2016

Region	2014		2015		2016	
	Total revenue	Tax revenue	Total revenue	Tax revenue	Total revenue	Tax revenue
Tbilisi	673.3	130.9	853.7	158.2	717.3	326.0
AR Adjara	143.7	16.7	179.6	22.9	204.1	51.7
Guria	50.9	3.4	57.6	4.0	60.9	8.1
Imereti	176.4	16.1	193.4	15.6	201.0	41.9
Kakheti	89.6	15.5	100.3	16.8	103.8	26.9
Mtskheta-Mtianeti	45.0	9.5	44.7	9.7	52.8	16.7
Racha-Lechkhumi and Kvemo Svaneti	24.8	0.8	31.8	0.8	34.2	1.6
Samegrelo-Zemo Svaneti	120.3	16.3	135.0	17.3	147.5	39.6
Samtskhe-Javakheti	52.8	6.0	64.4	7.2	83.6	26.5
Kvemo Kartli	105.0	23.7	127.4	31.6	138.3	55.2
Shida Kartli	78.8	7.2	81.1	6.3	86.4	14.4

Source: MoF.

Tbilisi features the highest volume of budget and tax revenues, accounting for more than 45% of total revenue. Arguably, Racha-Lechkhumi and Kvemo Svaneti as well as Shida Kartli and Guria are home to the poorest and most disadvantaged municipalities. In addition to that, Shida Kartli recorded the lowest fiscal sustainability index in the whole country.

Georgia's financial sector is well developed. According to the National Bank of Georgia, there are 16 commercial banks registered in the country, of which 15 are foreign-controlled. Combined, they operate 134 branch offices across Georgia. In July 2017, the total volume of commercial bank loans (in GEL) amounted to GEL 7.6 billion. Loans denominated in USD totalled GEL 10.8 billion. The regional distribution of these loans is shown in the table below.

Table 49: Percentage distribution of commercial bank loans in GEL, by region

Region	in GEL	in USD
Tbilisi	63%	80.3%
AR Adjara	6%	9.3%
Guria	0.8%	0.1%
Imereti	8.1%	3.4%
Kakheti	5.3%	1.2%
Mtskheta-Mtianeti	0.4%	0.04%
Racha-Lechkhumi and Kvemo Svaneti	0.2%	0.004%
Samegrelo-Zemo Svaneti	5.2%	1.8%
Samtskhe-Javakheti	1.8%	0.6%
Kvemo Kartli	4.8%	1.9%
Shida Kartli	4%	1.3%

Source: National Bank of Georgia.

Georgia is also home to 83 microfinance organizations, which provide short-term consumer loans and financing for microfirms. Microfinancing – although insignificant in terms of total lending volumes – is an important source of financing for economically active and viable individuals, due to scarcity of collateral and low levels of income, especially outside Tbilisi.

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