



The European Union
for Georgia
ENPARD



RURAL GROWTH POLES IN GEORGIA

Author: Nick Maddock

This publication has been produced with the assistance of the European Union (EU) and the United Nations Development Programme (UNDP). Its contents are the sole responsibility of the author and do not necessarily reflect the views of the EU and UNDP.

TABLE OF CONTENT

Rural growth poles in Georgia	4
Introduction	4
Rural growth poles	4
Policy and strategy for rural development in Georgia	8
EU Support to rural development in Georgia	8
Factors affecting rural growth poles in the target municipalities for EU rural development support	9
Conclusions: possible rural growth poles	14
Actions on potential growth poles	16
Policy for rural growth pole development	17
Annex 1	20
Terms of reference	
Consultant on rural growth pole development	20
Background	20
Duties and Responsibilities	21
Competencies	22
Required Skills and Experience	22
Annex 2	25
Place-based solutions in the places left behind	
Annex 3	28
Extracts from local development strategies and municipal assessment reports for Akhalkalaki, Borjomi, Dedoplistskaro, Kazbegi, Keda, Khulo, Lagodekhi and Tetrtskaro municipalities	
Akhalkalaki	28
Borjomi	28
Dedoplistskaro	30
Kazbegi	30
Keda	32
Khulo	32
Lagodekhi	34
Tetrtskaro	35
Annex 4	37
Feasibility study for development of essential oil production in Lagodekhi	
Background	37
Objective	37
Tasks	37
Annex 5	39
Assistance to cut-flower production in Lagodekhi	
Background	39
Objective	39
Tasks	39
Annex 6	40
The objective is to determine the measures needed for the growth of commercial forestry and related industries.	
Background	40
Objective	40
Tasks	40

Rural growth poles in Georgia

Introduction

Rural growth poles

Policy and strategy for rural development in Georgia

EU Support to rural development in Georgia

Factors affecting rural growth poles in the target municipalities for EU rural development support

Conclusions: possible rural growth poles

Actions on potential growth poles

Policy for rural growth pole development

RURAL GROWTH POLES IN GEORGIA¹

Introduction

This report responds to terms of reference at annex 1. In summary, the task was identification of growth poles and defining related policy and training.

Findings are based on interviews in the target municipalities with public and private stakeholders and on primary and secondary data. Fieldwork was carried out in Borjomi, Dedoplistskaro, Lagodekhi and Tetrtskaro during January to March 2020 and so preceded the COVID-19 pandemic. It was intended that fieldwork would later resume in the other target municipalities for support under EU-funded Improving Rural Development in Georgia, but this was prevented by the pandemic.

Rural growth poles

Rural development has a long history with changing objectives without a commonly accepted purpose². Aims include balanced development, reducing rural poverty, and slowing migration from the countryside to the towns and cities. Most recently, rural development has been a way of helping ‘the places left behind’, often linked to the aim of *leaving no one behind*³.

Balanced development also has a long history with several meanings. The simplest is that all parts of a country develop at the same rate. More recently it has been construed as using the development potential of all areas so that the benefits of growth are shared.

Preventing migration from the countryside to the towns and cities has widespread appeal. There are fears that the towns and cities will be overwhelmed and there will not be enough people to work the land. There is also often strong adherence to the idea of a rural nation as a foundation of society. Keeping people in rural border areas is thought to increase national security, particularly when there are disputes with neighbouring countries.

Economic policy has for many years opposed these ideas. Urbanisation is linked to growth⁴. Having lots of firms close together (‘concentration’) and lots of firms in the same sector close together (‘agglomeration’) is important to growth and employment⁵. This refutes the idea of balanced development and shows that trying to spread out development could make a country poorer.

This morphed into polycentric development⁶. Cities have strong links with surrounding rural areas, with both doing well as a result⁷. The benefits of having several cities at different levels of development rather than the economy dominated by one city seem obvious. Alongside this is the idea of *enterprise cities*⁸ which are well connected to surrounding areas so that the effects of urban growth are spread more widely. In which case, why not concentrate attention on the cities and let people come to prosperity rather than trying to take prosperity to the people? Cities are growth poles⁹ and, for example, Chinese growth has been based on a few dominant cities¹⁰.

1. Report prepared by Nick Maddock (consultant). Skype: nickmaddock, e mail: nick.maddock@yahoo.com; whatsapp +44 748 321 6212.

2. UNDP/IRDG (2019). Policy brief: Raison d’être of Rural Development Policy

3. <https://www.odi.org/our-work/leave-no-one-behind>

4. http://issuu.com/steve_goss/docs/why_are_some_countries_richer_i

5. <http://documents.worldbank.org/curated/en/730971468139804495/pdf/437380REVISD01BLIC1097808213760720.pdf>

6. https://www.espon.eu/sites/default/files/attachments/fr-1.1.1_revised-full_0.pdf; <https://ideas.repec.org/a/gam/jsusta/v10y2018i5p1588-d146565.html>;

7. <https://www.sciencedirect.com/science/article/pii/S235198941930143X>

8. <https://www.heritage.org/budget-and-spending/commentary/enterprise-cities-competition-and-economic-growth>

9. <https://www.clareshort.org/speeches/cities-as-growth-poles>; <http://www.dqxkx.cn/EN/abstract/abstract8438.shtml>

10. <http://www.myrepublica.com/news/30728/?categoryId=81>

Preventing rural-urban migration remains controversial despite its unstopability. Urban areas offer chances for people to get richer, have better services, and a more diverse lifestyle for themselves and their children. Rich countries have much smaller rural populations than poor countries. And labour productivity in the parts of the economy which are not agriculture is higher than in agriculture, so the country gets richer. As a result, trying to stop rural-urban migration is in effect trying to make a country poorer.

The recent backlash against this thinking has been political, with poorer *left behind* parts of countries often voting for populists. This has forced attention on what to do about left behind places, diverting the focus from the previously dominant ideas of economic efficiency. This new thinking says that people have a right to work where they live and that dealing with the problem is a public policy concern. Emerging from this is a search for *place-based* solutions which aim at creating wealth in the *left behind places*. A summary of recent thinking about what to do about left behind places is at annex 2.

Rural growth poles are seen as one of the solutions. Growth poles through a core industry around which linked industries develop¹¹. They exploit the economics of agglomeration and concentration and involve investments in related industries in an area. Growth poles resemble, but are not the same as, special economic zones, which are spatially defined areas which often offer tax or other financial advantages.

Growth poles are often urban but if concentration and agglomeration work so well in the towns and cities, why will they not work on a smaller scale in small towns and villages and in rural areas? The underlying idea is the same as in urban areas. If there are thriving enterprises, competitors will emerge and ancillary industries (parts suppliers, service agents, transport companies, and accountants) will prosper. Growth poles increase market size so that it becomes profitable for other firms to invest¹². The central idea is a group of dynamic industries that grow together. These ‘constellated’ industries are expected to grow and innovate. They create jobs, with local people taking training so that they can get jobs in these industries, with wages increasing as firms compete for staff.

Recent studies support the need for action, showing that regional economic inequalities come at a cost¹³. High regional economic inequality has been negatively associated with growth and macroeconomic stability. In the US, this seems to be due to weaker incentives for labour mobility, especially for poor households in poor regions. In other words, people get fewer benefits from moving than they used to.

Rural areas often seem to be dominated by agriculture and tourism¹⁴. In fact, agriculture is not the main source of rural income (this is true in Georgia). People in rural areas get income from many sources, including jobs in local government, small-scale services (for example taxis, banks, shops, and repairers), trading, and working in schools and hospitals. Agriculture is often a part-time job. They also have remittances from people elsewhere in the country or abroad. They travel to work daily or weekly in neighbouring towns and cities. The rural economy is accordingly diverse, with the so-called non-farm rural economy important to wellbeing. The question therefore is, can this part of the economy develop more quickly and what should governments do in terms of policy and assistance?

But alongside this, there is recognition that not all left behind places can grow and some will stay left behind. Places near to larger towns and cities have a better chance (a rule-of thumb is up to one hour’s travel time to the neighbouring town or city). They ‘borrow’ from nearby urban concentration and agglomeration. But remote left behind places, particularly those which have poor road connections, have worse chances.

11. UNDP/IDRG Input paper: rural growth poles. Potential drivers of rural development in Georgia.

12. http://www3.weforum.org/docs/ACR/2013/ACR_Chapter2.3_2013.pdf

13. <https://www.imf.org/en/Publications/WP/Issues/2019/05/02/The-Great-Divide-Regional-Inequality-and-Fiscal-Policy-46745>

14. The Rural Development Strategy for Georgia 2017-2020 defines rural as ‘not only villages.., but also other settlements – for example, the administrative centres of municipalities, which might be a borough or a town’. It refers to the Georgian Law on Self-Governance which defines a village as ‘a settlement located mostly over agricultural land with natural resources within its boundaries and infrastructure mainly intended for agricultural activities’ and a borough as ‘a settlement with manufacturing sites and/or touristic and resort facilities and/or healthcare and social-cultural institutions that function as an economic and cultural centre. Its infrastructure is not mainly designed for agricultural activities. A settlement may be categorized as a borough if it serves as an administrative centre of a municipality or if it has the prospect of further economic development and population growth. See IRDG/UNDP (2019) policy brief: definition of rural areas.

What to do about such places is still not clear, though in rich countries they have lost population and the local economy is mainly forest or low intensity grazing. Some countries have given incentives for people to leave including, for example, scholarships to go to university, with the expectation that they will not return.

What type of enterprises might grow in a rural growth pole? Firms wanting lots of cheap land are obvious candidates. Logistics firms are an example, though they would want to be close to good roads or a railway. Being near to a source of raw materials is also important, though final food and wood processors tend to base themselves in towns. Firms which are heavy polluters might need to stay out of town since that way fewer people are affected. Mines are where natural resources are found.

What might government do to help the places left behind? Subsidies and other transfers to enterprises are a popular idea. The economic efficiency argument asks why profitable enterprises in prosperous parts of the country should be taxed to prop up shaky firms elsewhere? It also says that if a firm is profitable in a left behind place then there is no need for a subsidy. And if it is not profitable then subsidies are ultimately money wasted. Further, if you subsidise new firms in areas where there is already a little investment, there is a risk of putting the initial investors out of business through the subsidies the newcomers receive. The opposing argument is that transfers from richer parts of the country to poorer areas are a normal part of local government funding, so why should not the same apply to enterprise? And local firms in hard-up areas need initial support to get going.

Firms in the left behind places and rural often have problems getting bank loans. Banks will rarely accept farmland as collateral in low- and middle-income countries because they fear they cannot sell it if the borrower defaults. Credit guarantee schemes, which take part of the risk and are designed to tempt banks to give loans in places that normally would not attract them are the usual answer.

Infrastructure is also an obvious answer. If you make it easier to get to the nearest town or to markets in other parts of the country, problems of remoteness or poor connectivity can be overcome. The economics of transportation are known¹⁵. The problem of course is cost, with governments trading off alternative public investments in different sectors, with economic feasibility high on the list of criteria. Infrastructure connecting remote places with few people is unlikely to score well on economic returns. Energy matters too. Running a profitable business on electricity or diesel generators is difficult so being on the grid is important. Most of Georgia is on the grid and this is not a major problem.

Skills matter. If you want to run a company, you obviously need the right staff. If you cannot find them locally, then you need to train staff or find them in other parts of the country. But few people are prepared to leave the city and return to the countryside, unless there are big salary inducements. And new or struggling firms in left behind places are unlikely to be able to offer that kind of money. Training staff needed for the firms in the area can therefore be worthwhile. Vocational training is usually seen as the business of the state ('public goods'), at least to the level where firms can then top-up skills in-house.

What other public goods might help? Enterprise zones offer a place for firms to locate with reliable utilities and quick permitting. The idea is that if you make it easy for firms, then they will want to come to your area rather than going elsewhere. Their record is mixed with some successes. But other studies find they have not always had much success in creating jobs¹⁶. Enterprise zones are sometimes conceived specifically for rural areas as hubs that draw benefit from tax incentives¹⁷, relaxed planning and super-fast broadband that will,

¹⁵ https://transportgeography.org/?page_id=141

¹⁶ <https://www.aei.org/poverty-studies/do-enterprise-zones-really-work-to-lift-inner-cities/>

¹⁷ Tax incentives can be considerable. Firms in the Zones de Revitalisation Rurale in France can get complete exemption from income tax for 5 years, followed by exemption at decreasing rates until year 8. <https://www.french-property.com/guides/france/working-in-france/starting-a-business/financial-assistance/development-schemes>

as a result, become the catalyst for new companies to spring into being in the countryside¹⁸. Analysis of their impact is limited¹⁹, though studies have found firm-level benefits from lower costs of labour, land and buildings, with grants proving an incentive to locate²⁰. Other studies find that the effect of the tax and regulatory relief is to encourage firms to relocate to the zones from nearby locations (this applies to economic zones in general and not solely rural economic zones)²¹. As a result, there is limited additional investment.

Countries which were previously socialist are a special case. Many firms were located for central planning reasons which had little to do with the market. Most collapsed after the end of socialism, but some had more logical reasons to be where they were. They benefitted from good conditions for agriculture, or because there were natural resources nearby, or because a place was beautiful and good for tourism. Many also collapsed after the end of socialism. Might there be chance of new private enterprises which take advantage of these local conditions?

How quickly might a rural growth pole develop? With little experience so far, there is little to go on. There is consensus that an initial investor ('first mover') is essential and that a growth pole cannot somehow be induced. In other words, somebody must see something worth doing in the area and start things up. They must be there and start the process of concentration and agglomeration, with other firms following behind the first mover. How long this takes to build a critical mass of firms which thrive is unclear. The trouble is that donors and development projects want quick results and so hopes of rapid success figure strongly in what they do. This threatens to rule out things that take a lot longer – like forestry.

The cost of job creation also comes into the equation. Calculating how much it costs to create a job is difficult, partly because a new job can lead to further jobs ('indirect job creation'). People who get a job spend money and this helps create other jobs. Costs of job creation vary between sectors. Rough estimates from Tunisia say that US\$10 million spent on agriculture creates about 180 jobs plus another 250 indirect jobs – so about 430 jobs at a cost of around US\$23,000 per job²². The same amount invested in the wood industry creates about the same number of jobs. But investment in food industries results in job losses – presumably as mechanisation replaces people.

Unfortunately, there seem not to have been any evaluations of place-based solutions and so almost nothing is known about whether they work. There is literature on the way they could be evaluated²³ but apparently no published findings so far.

The impacts of COVID-19 on economic structure and the dynamics of growth are not yet understood. One assumption is that local production will become more important, with the risks of international chains highlighted by the lockdowns. This does not necessarily point to very local supply chains but rather increased emphasis on supply within a country. Expected changes in economic models nonetheless remain speculative.

18. <https://ruralsolutions.co.uk/rural-enterprise-zones-rezs/>

19. <https://www.oregon4biz.com/Oregon-Business/Tax-Incentives/Enterprise-Zones/Long-Term-Rural/>

20. <http://pubs.mumabusinesreview.org/2018/MBR-2018-02-10-129-145-Bettendorf-EDZ-Businesses.pdf>

21. <https://www.huduser.gov/Periodicals/CITYSCPE/VOL1NUM1/ch10.pdf>

22. <http://blogs.worldbank.org/jobs/how-much-does-it-cost-create-job>

23. See for example <https://www.clearhorizon.com.au/all-blog-posts/evaluating-place-based-approaches-and-measuring-progress.aspx>

Policy and strategy for rural development in Georgia

What does policy say about rural growth poles?

Rural Development Strategy of Georgia 2017-2020²⁴ focuses on economy and competitiveness; social conditions and living standards; and environmental protection and sustainable management of natural resources. In economy and competitiveness, the priorities are the economic recovery of farming by 'diversification and development of effective supply chains'. Tourism is also stressed, as is the non-farm rural economy.

Georgian tourism development strategy 2025²⁵ has eight objectives: 1) respect, enhance, and protect Georgia's natural and cultural heritage, 2) create unique and authentic visitor experiences centred on those natural and cultural assets, 3) enhance competitiveness, through delivery of world-class visitor services, 4) attract higher spending markets, through increased and more effective marketing and promotion, 5) expand and enhance Georgia's ability to collect and analyse tourism data and measure industry performance, 6) expand public and private sector investment in the tourism sector, 7) enhance the business environment, to facilitate increased foreign and domestic investment, and 8) build partnerships between government, industry, non-governmental organizations, and communities that will be needed to achieve all of the above.

Rural Development Strategy for Adjara 2016 – 2020 focuses on 'Enhancing farm viability and competitiveness of all types of agriculture in Adjara and promoting innovative farm technologies and sustainable management of forests' and 'Promoting social inclusion, poverty reduction and economic development in rural areas'. Almost all measures target agriculture.

Mtskheta - Mtianeti Regional Tourism Development Strategy 2015-2020. This focuses on high growth sectors for the region, including adventure tourism, wellness, and health. Mtskheta – Mtianeti includes Kazbegi municipality.

Samtskhe-Javakheti Regional Development Strategy 2014-2021. Agriculture and tourism are the target sectors, to be backed by improved infrastructure. Samtskhe-Javakheti region includes Akhalkalaki and Borjomi municipalities.

Tourism Masterplan for Borjomi Municipality. This sees Borjomi as an international all-season destination, which is better integrated within national tourism and capitalizes on nature, mineral waters, and mountains as key resources. It is also seen as a way of improving the local population's conditions and incomes, diversifying tourism markets, and making tourism in Borjomi younger. Actions will include focusing higher spending markets and segments; developing boutique accommodation and restaurants; developing new experiences and activities around attractions; and developing traditional products (balneology and skiing).

EU Support to rural development in Georgia

The EU's support for rural development in the member states forms a backdrop to support to rural development in Georgia. And while measures do not exactly correspond, the thinking behind support to rural development in the member states informs support in Georgia. How therefore does this contribute to thinking on rural growth poles?

Rural development became a second pillar of the Common Agricultural Policy after 1992 largely because of the economic differences between urban and rural areas. Whereas rural areas were previously regarded as the domain of farmers, the shift to rural development put more emphasis on environmental protection and

24. <http://enpard.ge/en/wp-content/uploads/2015/05/Rural-Development-Strategy-of-Georgia-2017-2020.pdf>

25. <https://www.worldbank.org/en/news/feature/2015/12/07/a-tourism-strategy-for-georgia-new-path-ahead>

diversification of the rural economy. The focus shifted to the potential of rural areas with the aim of boosting labour productivity growth through a skilled, knowledge-based economy. There was linked emphasis on *subsidiarity*, with policies and actions to be designed at the lowest level.

Related support under the least favoured area measure had the objective to ensure the continuation of farming, maintaining a minimum population level, and conserving the countryside. Measures were aimed at avoiding large-scale depopulation of farming areas, which would influence rural viability and continued habitation. The logic of intervention was to maintain a farming industry to prevent the process of rural depopulation and to act against the abandonment of agricultural land or its conversion to alternative land uses.

It was argued that an exodus from farming could be prevented if farm business viability were maintained and therefore, raising farm incomes in these areas to a reasonable level was central to achieving the objectives. This later evolved to ensuring ‘continued agricultural land use’ which, in turn would contribute to the ‘maintenance of a viable rural community’.

Rural development measures introduced by the EU in 2005²⁶ included actions under three axes. These are:

- Axis 1: improving the competitiveness of agriculture and forestry sector. This includes human resource development in the farming community, physical capital related to food production, rural energy, forestry, and water management with a focus on small and medium enterprises
- Axis 2: improving the environment and the countryside. Payments to farmers for voluntarily to agri-environmental commitment and support to forestry
- Axis 3: quality of life in rural areas and diversification of the rural economy. The objective is a ‘living countryside’ and to help maintain and improve the social and economic fabric, particularly in the more remote rural areas facing depopulation. Actions include *diversification of the rural economy* into non-agricultural activities, support for business creation and development, and encouragement of tourism. It also includes basic services for the rural economy and rural population and training and skills development.

Later revisions to objectives included *achieving a balanced territorial development of rural economies and communities, including the creation and maintenance of employment* and, within this (as priority 6) *Facilitating diversification, creation, and development of small enterprises, as well as job creation*²⁷;

This was to include business start-up aid for non-agricultural activities in rural areas and investments in the creation and development of non-agricultural activities in rural areas.

Current EU rural development support to Georgia²⁸ under the European Neighbourhood Programme for Agriculture and Rural Development through the project on Improving Rural Development in Georgia targets 8 municipalities (Akhalkalaki, Borjomi, Dedoplistskaro, Kazbegi, Keda, Khulo, Lagodekhi and Tetrtskaro). The project addresses economic development in the non-farm rural economy and so corresponds to axis 3.

Factors affecting rural growth poles in the target municipalities for EU rural development support

What might influence the development of growth poles? Clearly the characteristics of the local economy are important since growth poles are mostly expected to develop around an established industry or enterprise. Services provide most Georgia’s Gross Domestic Product (68%), while industry contributes 24% and agriculture 8%. Georgia’s rural GDP is also dominated by services (51 %, including construction).

26. <https://enrd.ec.europa.eu/enrd-static/fms/pdf/BEC22A59-E570-413B-5A9B-682D3306E183.pdf>

27. https://enrd.ec.europa.eu/sites/enrd/files/focus-area-summary_6a.pdf

28. <https://www.ge.undp.org/content/georgia/en/home/projects/ENPARD-3.html>

Nationally, most new firms are in wholesaling and retailing and car and motorbike repair. In 2018, 43% of new firms were in these areas, while 11% were in manufacturing (mainly in food and drinks, rubber and plastics, minerals and plastic, and furniture)²⁹. Firm creation was mostly in Tbilisi (40%).

Georgia's rural economy is dominated by wholesale and retail trade and repair of motor vehicles (see figure below). Enterprises in these areas constitute over 90% of rural enterprises. Manufacturing, transportation and storage, and accommodation and food are the next biggest categories. Georgia's second tier cities (Batumi, Rustavi, Kutaisi, Marneuli and Poti) show similar trends, although with a higher proportion of manufacturing enterprises.

Recent analyses of Georgia's rural economy and specifically those of the target municipalities offer pointers to the feasibility of rural growth poles³⁰. Findings are diverse, although with almost all stressing tourism development. Thus, analyses for Borjomi concentrate almost entirely on tourism (and actions there could respond to the recently developed tourism masterplan (which was formulated with support under *Improving Rural Development in Georgia*), which emphasizes health and wellness, together with outdoor pursuits.

Studies on Dedoplistskaro emphasize 'development of innovative and diversified businesses' with a focus on tourism, with links to adjoining municipalities. Those for Kazbegi also concentrate on tourism, as does Keda, which also addresses non-timber forest products. Khulo concentrates on tourism and agroprocessing. Lagodekhi covers agriculture, tourism, and links to adjoining municipalities, while Tetrtskaro is oriented to tourism and hospitality. All studies also stress agricultural development.

The exception is Akhalkalaki which focuses on transit trade and manufacture of construction materials. There is an expectation that services will grow from transit trade through the town, which is on the border with Turkey and close to Armenia. The services are hotels, hospitality, car wash, cash exchanges, and petty trading.

A summary of the conclusions and recommendations of the local development strategies and the municipal assessment reports is at annex 2. Note that all include provision for the development of a municipal masterplan.

Other recent analyses were also reviewed for their guidance on potential growth poles.

A study on *Rural development in the regions of Georgia*³¹ identifies priorities by region. Most are in tourism, agriculture, and infrastructure.

*Mapping Emerging and Potential Manufacturing and Agri-Business Clusters in Georgia*³². UNIDO mapped emerging and potential clusters³³ with a focus on manufacturing and agribusiness. More than 50 agglomerations were identified in 7 sectors. Those in manufacturing are in Tbilisi and comprise pharmaceuticals and jewellery.

29. Figures are based on data collected by the project. Calculation is complicated by many firms (nearly 16,000) classed as 'activity unknown'. These firms have been omitted from the calculation.

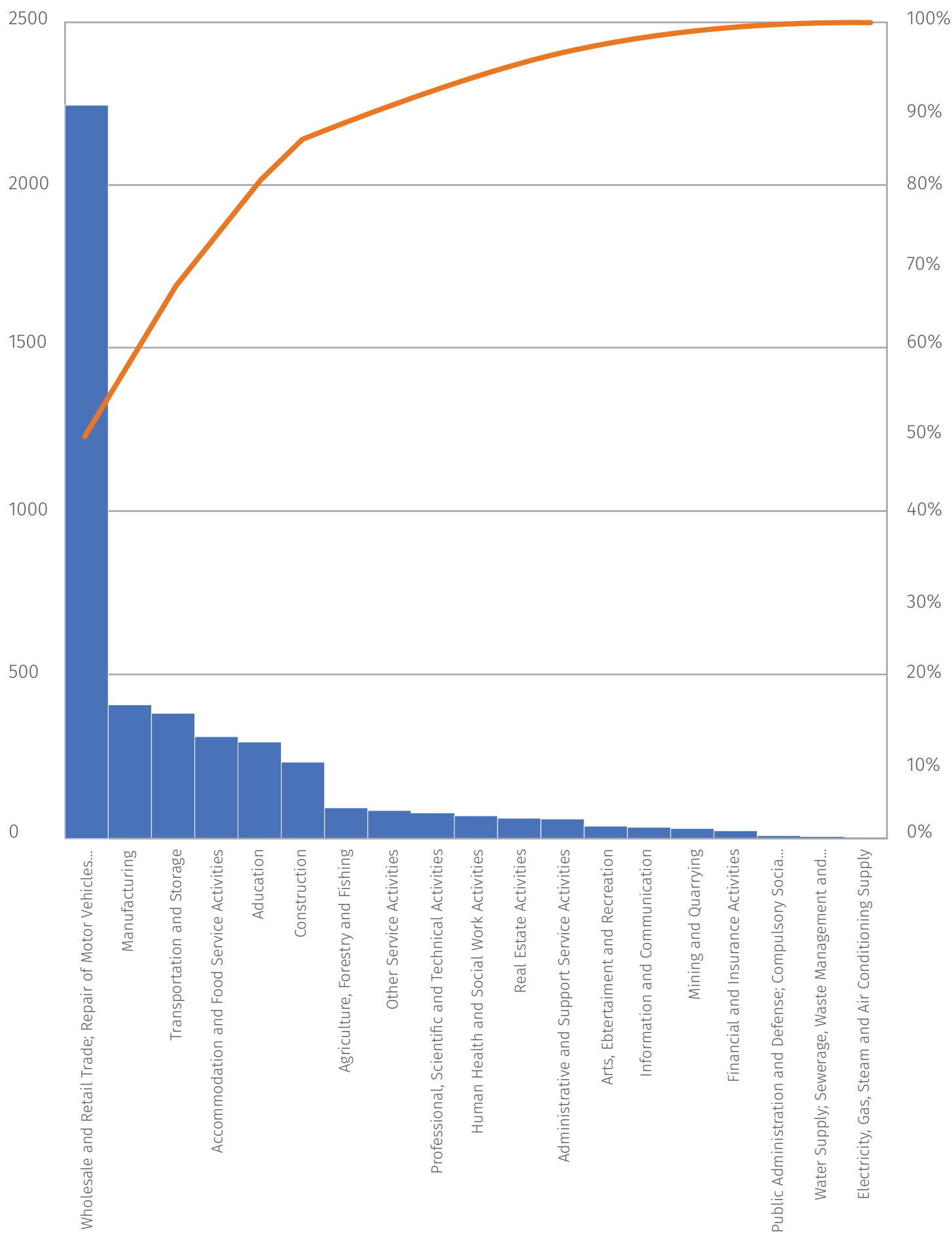
30. Local development strategies and municipal assessment reports have been compiled for each of the 8 target municipalities for EU support to rural development. Municipal assessment reports are 'to provide .. thorough evidence base and analysis of rural development needs and priorities at municipal level and to define relevant interventions, options and criteria of direct support mechanisms in relevance with existing public, private and donor support programs and projects with emphasis on women, youth and other special groups'.

31. <http://www.economists.ge/en/project/100-promote-rural-development-in-the-regions-of-georgia>

32. <https://iset-pi.ge/index.php/en/rr-private-sector-development/2575-mapping-emerging-and-potential-manufacturing-and-agri-business-clusters-in-georgia>

33. A cluster is a sectoral and geographical concentration of enterprises and/or individual producers that produce a similar range of goods or services. A cluster encompasses enterprises as well as their supporting institutions (public and private), and civil society and academia.

Enterprises by sector in the municipalities supported under ENPARD (by number and percentage)



*Identification of functional regions and their competitive advantages in Kakheti, Georgia*³⁴ Wine was the most competitive subsector in six of the functional regions of Kakheti, with egg production in the seventh.

A study *Competitive advantages of the mountainous regions of Georgia*³⁵ identifies dairying and tourism as priorities in mountainous areas. These include six of the target municipalities under EU support to rural development – only Dedoplistskaro and Lagodekhi are not classed as mountainous.

*Developing non-farm economic activities in rural Georgia*³⁶. This notes the domination of employment in low productivity agriculture, with a minority of the rural population working outside agriculture.

In summary, the target municipalities' economies are dominated by agriculture and tourism. There are services in the 'urban' economy of the principal settlements. Outside tourism, these comprise banks and petty services, including shops, taxis, and repair facilities. Agriculture is typically a mix of production for sale and own consumption, with part-time farming commonplace. This reflects farm size with, nationally, over two thirds of farms between 0.1ha and 1 ha. The wine economy is strong and offers good income from quite small farms. There is little evidence of commercial forestry.

Rural tourism accommodation nationally is substantially in small hotels and guesthouses – over 40% of registered accommodation in rural areas has five guest bedrooms or fewer³⁷. Growth in small hotels and guesthouses has been strong.

There is mining and quarrying in Dedoplistskaro, Tetrtskaro, and Akhalkalaki. Limestone is quarried in Dedoplistskaro, with the raw material processed outside the municipality. Basalt mining in Tetrtskaro has largely ended with the result that the industry is moribund (only some 50 people are now employed in the industry) and is not a focus of the local development strategy. There is basalt, andesite, and volcanic slag mining in Akhalkalaki, with construction materials manufacturers in the area. There is no sign that firms or services linked to mining and quarrying have grown in response to the industry in Dedoplistskaro and Tetrtskaro, although these may have been there during the Soviet era. Processing of any basalt from Tetrtskaro is in Marneuli. Limestone mining in Dedoplistskaro remains viable, with some 10 companies operating. Construction materials are identified as an area in which there is potential for import substitution³⁸. There are some logistics companies serving the industry.

There is little rural manufacturing. Local development strategies and assessments identify only handicrafts and souvenirs (Tetrtskaro, Dedoplistskaro and Khulo), window glass (Borjomi), wood (Khulo and Lagodekhi) and, as noted, construction materials in Akhalkalaki. This is consistent with the distribution of enterprises by sector in the figure above.

Proximity to transport infrastructure might also influence the emergence of growth poles. Growth poles could develop near to major structures. Thus, ports and airports attract firms working in logistics, spedition, and insurance, as well as airline offices. Major roads provide for easy distribution, with out-of-town sites close to roads offering cheaper land for firms that need space for their operations.

34. <https://think-asia.org/handle/11540/11362>

35. <https://iset-pi.ge/index.php/en/agricultural-projects/completed-projects/2382-identification-of-sectors-with-high-potential-for-economic-growth-in-the-mountainous-regions-of-georgia>

36. Berulava, George and Tsimintia, Giorgi (2018). *Developing non-farm economic activities in rural Georgia*

37. https://www.researchgate.net/publication/330418039_Rural_Tourism_in_Georgia_in_Transition_Challenges_for_Regional_Sustainability

38. Galt and Taggart (2020). *Georgian economy – need for a new economic model in the context of global change*. June.

None of the target municipalities is close to Georgia's main ports. All are distant from Poti and Batumi. Keda is the closest to Batumi (around 40km) and with travel time of around one hour some effects could be felt, if only in terms of commuting to work in the port. Tetritskaro is one hour's travel to Tbilisi International Airport.

Akhalkalaki benefits from location on a major road to Turkey and the local trade and transit economy derives from this. Borjomi is close to the main road from Tbilisi. While too distant for the effects of the Tbilisi economy to be felt, it means that international tourists arriving at Tbilisi or Kutaisi airports can get to Borjomi quickly. Kazgebi is close to the Larsi checkpoint at the border with the Russian Federation, but transit trade benefits are not reported.

Lagodekhi's and Dedoplistskaro's proximity to roads to the border with Azerbaijan has no apparent effect on the local economies, although it may make for easier distribution to other parts of Georgia.

Skills. Shortage of skills locally and limited labour mobility are constraints on the emergence of enterprise. This is a universal complaint in the tourism industry, most notably in Borjomi but also in the other municipalities. There is shortage of skills across the tourism and hospitality industry, with a general deficiency of skills which rarely meet standards expected for the industry. In many cases, including Borjomi, training is not available locally (although a vocational training school is due to open in Borjomi in late 2021), with vocational schools offering suitable courses elsewhere in the country.

This is also evident in other sectors. Investors in steel in Rustavi complain that they were unable to find the skills they need in local or national labour markets and so trained workers themselves. Of course, training in anticipation of the emergence or growth of an industry is difficult but being able to reorient training to the needs of emerging industry is important. Georgia has a well-developed network of vocational training colleges which can provide a foundation for this.

Agglomeration and concentration beyond municipal boundaries. Municipal populations are small and provide thin labour and product markets. Groups of municipalities would represent larger economic areas, offering thicker product and labour markets. An obvious question therefore is whether the agglomeration and concentration which is characteristic of growth poles is more likely to be found with the economic area of a group of adjacent municipalities?

This is already explicit in the proposed Dedoplistskaro masterplan which would include joint activities with the neighbouring Lagodekhi and Sighnaghi municipalities 'to integrate and link development assets and plans of local rural development'. This orientation to a wider economic area implicitly recognises the paucity of economic development options within the boundaries of a single municipality. This is pertinent since the new thinking on *the places left behind* (see annex 2) focuses on larger areas and bigger populations than is typically the case with Georgia's municipalities.

A variant is proximity to Tbilisi or secondary towns and cities. As noted, the rule-of-thumb is that urban areas have effects in areas within one hour's travel time. Anecdotal evidence confirms this for Marneuli and Rustavi, with reports of commuting for work from the surrounding areas and from these towns to Tbilisi. Traders travel longer distances irregularly bringing produce into Marneuli and Rustavi for sale.

Conclusions: possible rural growth poles

In view of the above, what potential growth poles can be identified? Note that fieldwork was completed in only four of the eight target municipalities prior to the pandemic and hence possible growth poles in Khulo, Keda, Kazbegi and Akhalkalaki have not been identified.

In general, **Georgia's rural economy lacks conditions necessary for growth poles.** Rural settlements are small with a weak economy, there is little economic activity outside **agriculture, tourism, and the services sector.** The economy is local (this is true even of the second-tier cities), with the trading economy stronger than the real economy. Municipalities have small towns at their centres whereas evidence, internationally, shows that **multipliers in small towns are lower than in larger towns** and cities³⁹. Rural-urban migration is pronounced and, in the current conditions, points to **a preference for urban employment and lifestyle and a lack of local (rural) job opportunities.**

But this does not mean that growth poles will not emerge, and two possible growth poles were identified, both anchored on agroclimatic advantage in Lagodekhi. There are wider geographical opportunities for a third growth pole in commercial forestry.

Essential oils. An investment of about US\$3million by an international investor in Lagodekhi⁴⁰ involves production of rose oil using 85 ha of roses. A refinery has also been constructed for producing rose oil. Roses were planted several years ago and are now harvested, with two seasons' oil production completed. This is sold outside Georgia for use in cosmetics, perfumes, and food additives. There are several other smaller growers in the area producing crops that could be used for essential oils, including eucalyptus and bay. There are also reports of 4ha of lavender plantations in Marneuli, and there is another rose oil producer in Kakheti⁴¹. An earlier investment in 2009 growing 40ha of flowers failed, with the land replanted with grapes.

The rose oils investor reports difficulty in finding people with the right skills in local labour markets, with all training on-the-job by the firm. Jobs have been created, with 5-6 full-time staff and between 200 and 250 seasonal labourers employed annually. The investment was largely funded from equity, with borrowing ruled out because of banks' lack of interest in lending. The investor did receive a grant for irrigation. Other investors in Lagodekhi – including a brewery – report similar problems in borrowing.

There was essential oils production in Lagodekhi during the socialist era, but this ended following the break-up of the Soviet Union. In the past, essential oils were produced from rose, geranium, basil, eucalyptus, bay, citrus, and wildflowers. Producers had access to refineries working as wineries do now – they could sell their flowers or other raw materials to the refinery. This is important since most growers are too small to justify building their own refinery. While there are no skills in essential oil production remaining locally, there is still a public research body in Tbilisi which works in essential oils. Production of essential oils is also possible in other parts of Georgia, including Adjara⁴².

In summary, essential oils is an industry which existed in Lagodekhi in the soviet era and which was found in the area because it was agroclimatically suitable⁴³ and because Georgia had comparative advantage. There are now some small signs of its re-emergence, with a first-mover and several smaller producers. The first-mover is already a major employer.

39. <http://centaur.reading.ac.uk/8423/>

40. <https://www.greenvillage.ge/who-we-are>

41. <https://pirose.com/>

42. http://www.hrpub.org/journals/article_info.php?aid=7169

43. <http://www.fao.org/3/i1500e/Georgia.pdf>

Cut-flowers. Reflecting the same agroclimatic advantage for flowers⁴⁴ for essential oil production, there are signs of the emergence of cut-flower production in Lagodekhi. Flowers are also grown in other parts of Georgia. This includes alstroemeria and tulips in Mtskheta municipality, gladiolus in Dusheti, lilies in Tsavkisi, Saguramo and in the western part of the country, roses in Kakheti (as noted) and in mountainous parts of Adjara.

Growers and volumes remain small in Lagodekhi. This has not yet brought benefits of agglomeration but there are some nascent signs of concentration given that there are some 25 producers, albeit small-scale. Prospects remain uncertain and it is not yet apparent that the industry will grow, particularly given international competitors' supply to the Georgian market. Support is already provided to greenhouse production of cut-flowers such that about half the production in the area is now from greenhouses.

Georgian producers currently supply the domestic market and are not yet able to export. The Russian market is large (provided Georgian imports were allowed) but Armenian exporters already supply the market. The industry is held back by limited irrigation and poor extension.

Commercial forestry. More tenuously, and in the longer terms, commercial forestry could be a growth pole in several of the target municipalities. As well as production, this could be associated with saplings nurseries, transport, and sawmills. A local furniture industry is possible but remains speculative, although furniture has been identified as having potential for import substitution⁴⁵. Borjomi has substantial forest resources but has only a rudimentary small-scale furniture industry which imports raw materials from other parts of Georgia.

There are grants available for afforestation and, under international obligations, the government is obliged to afforest 1,350 ha per year. The National Forest Agency currently favours fast growing plantations which can be harvested after 7 years (five years for poplar). But there are no subsidies for private plantation, as found in some Western European countries (including France). These are designed to increase forest cover while compensating for the long delay in receiving income. Illegal felling is widespread.

The retention of significant amounts of land in state and local authority ownership also constrains forest planting. There is no natural forest in Dedoplistskaro. Marginal land is often covered by scrubby growth or used for extensive grazing and is unlikely to be planted to forest while it remains in public ownership. Land privatisation or long-term leases would be needed if this land were to be planted to forest. Policy on felling is also thought to be limiting and almost all commercial logging is prohibited. Overall, the policy and regulatory environment for forestry is complicated and growth poles around forestry are not an immediate prospect.

Other ideas are underdeveloped and speculative. These include call centres. Elsewhere these are in major urban areas and benefit from thick labour markets which offer the necessary language skills. Non-timber forest products have been mooted, but collection is typically for recreation and they offer modest income if gathered commercially⁴⁶. Commercial harvesting of wild mushrooms is widely found internationally⁴⁷, though not yet in Georgia.

44. <http://enpard.ge/en/media/a-blooming-industry-georgia-faces-a-growing-demand-for-flowers/>

45. Galt and Taggart (2020). *Georgian economy – need for a new economic model in the context of global change*. June.

46. <https://www.forestresearch.gov.uk/research/wild-harvests-the-social-cultural-and-economic-value-of-non-timber-forest-products>

47. <https://rbg-web2.rbge.org.uk/ethnobotany/ntfp/Mushrooms.htm>

Actions on potential growth poles

Further analyses are needed before providing support to any of the potential growth poles.

Essential oils. Expansion of essential oils production would depend on technical support in flower and oil production; skills for flower and oil production; and availability of refineries.

Advice on technical horticultural production (which includes flower production) can be regarded as a public good. But it is unlikely that the extension services can provide this advice, particularly in regard of flower production for essential oils. Technical support in essential oil production is specific to the industry and probably not offered by the public sector. The main producer found technical support from outside Georgia, but this would not be affordable for smaller producers. There is nonetheless public sector research capacity in essential oils in Georgia.

Technical skills for essential oil production are not offered by the public vocational training system, with the main producer in Lagodekhi training staff. With the industry re-emerging, some core skills could be provided through the vocational system, with additional 'top up' skills given on-the-job by producers.

The main producer in Lagodekhi has built a refinery but this is unlikely to be feasible for smaller producers. One option, as noted, is a refinery to which flower producers sell for oil production.

The above provisions are in the context of the feasibility of expansion of the essential oils industry in Lagodekhi. This remains uncertain and rests on provision of the above, as well as access to finance for investment. Accordingly, a feasibility study of essential oil production in Lagodekhi is proposed. Draft terms of reference are at annex 4.

Cut flowers. Development of cut flower production depends on some of the same factors as essential oils. Extension support to flower production and access to finance will be important.

Flower marketing will also be important, particularly with Georgian flowers entering domestic markets in competition with imports. In the medium term, exporting may also be feasible but would require initial support in market access and advice on market requirements.

Terms of reference to assess further assistance to the flower industry in Lagodekhi are at annex 5.

Commercial forestry. Limited commercial forestry in Georgia suggests structural barriers. Initial discussions suggest that these are regulatory and related to continued state ownership of land. In addition, access to finance for afforestation is likely to be a constraint, as may silviculture skills. While timber is likely to be the main source of income from commercial forestry, non-timber forest products could also contribute – most notably forest mushrooms for export.

Terms of reference for an assessment of the measures for development of commercial forestry are at annex 6.

Policy for rural growth pole development

Renewed interest in the places left behind gives weight to investigating the potential for rural growth poles. This has a political motivation since the evidence in favour of enterprise concentration and agglomeration in high potential areas of a country is strong⁴⁸ and spreading growth to remote places with weaker potential could make a country poorer. But this remains an unpopular view, which is fuelling a backlash against economic efficiency arguments in favour of looking again at poorer, left behind places. The thinking is now more in terms of overcoming geographical disadvantage. Despite this, there is recognition that some left behind places will stay that way and, even with substantial public support, will not grow or create jobs.

The preconditions for enterprise growth apply as much to growth poles as they do more generally. Secure property rights, a predictable and supportive policy and business environment, and access to finance are important. Georgia has secure property rights and has a very good business environment rating⁴⁹, although with anecdotal evidence that the reality is sometimes less favourable than the rating. Rural growth poles are away from the main urban centres, with enterprises in rural areas – even the urban parts – complaining that banks will not lend there. This is despite the 90% coverage of loans offered by Georgia's credit guarantee mechanism⁵⁰. Rural access to finance is accordingly constrained, even for sectors other than agriculture – which is almost entirely outside banks' lending portfolios.

The literature on the places left behind gives little guidance on how to proceed, with proposals oriented to larger left behind urban areas. There is little said on measures to support enterprise development in largely rural areas. EU support to rural development explicitly focuses on this, with axis 3 of the 2005 rural development measures aimed at rural business creation and development. What is needed to support a rural growth pole and what is the role of public policy and public finance?

An underlying question is whether growth poles are identified or identify themselves through growth and development? In other words, are they managed developments, or should they be left to emerge spontaneously? Clearly a growth pole that develops naturally and responds to underlying market conditions is likely to be stronger and to last longer than one that is somehow induced. Some growth poles are implicitly selected when governments decide on infrastructure. But it is not possible to build or create a growth pole from scratch and there needs to be an existing firm or firms which form the core of the growth pole.

This does not of course rule out supporting their emergence. The evidence from the nascent rural growth poles in Georgia is that finance and skills are constraining. Investments in essential oils in Lagodekhi have been funded from equity because banks were uninterested in lending. Grants to cut-flower producers in Lagodekhi and elsewhere are provided for the same reason. This suggests that unless first-movers and others can finance investments themselves or grants are given, rural growth poles will not develop.

Financing everything from equity is unrealistic. Grants are an imperfect mechanism and may not always finance viable actions. There are examples where grant finance has supported enterprises which are not viable, and which have thereby provided incentives to local entrepreneurs to take undue risk (recycling in Borjomi is an example). It is tempting to believe that the more appealing the area of intervention – recycling is obviously appealing – the less the attention to financial viability. There is clearly no point in using public funding to support unviable enterprise in the cause of assisting places left behind.

The very high loan coverage (90%) provided by credit guarantee mechanism seems not to have induced banks to lend outside Tbilisi and the secondary cities (though a systematic review of bank lending might tell

48. <https://openknowledge.worldbank.org/handle/10986/5991>

49. <https://www.doingbusiness.org/content/dam/doingBusiness/country/g/georgia/GEO.pdf>

50. <http://www.enterprisegeorgia.gov.ge/en/business-development/Credit-guarantee-mechanism>

a different story). In other words, it seems that even with a very small risk, banks will not lend even in the municipal centres of the smaller, rural municipalities, let alone in fully rural areas. Diagnosing the reasons for this is not a function of this study, but it clearly represents a major constraint on access to finance outside the main urban centres.

This assumes of course that applications for loans are for viable proposals but are rejected by banks for other reasons. If so, this is a market failure and would justify intervention. It is still worth noting that bank lending decisions might represent a rational evaluation of risks and returns, with banks preferring to lend in the buoyant urban economy. As noted, loan guarantees seem not to have worked for rural lending and, since guarantees cannot plausibly be raised above 90%, it must be concluded that this is an ineffective mechanism for overcoming rural disadvantage in access to finance.

That leaves grant financing as the option. Targeting grant finance on growth poles would require astute analytical capacity in grant awarding bodies. Netting-out growth pole development from wider enterprise development would obviously be difficult. That means that support to enterprises which constitute part of a growth pole would likely fall under general grant support to rural enterprise development. A specific facility for enterprises in rural growth poles seems unlikely, particularly since ‘picking winners’ in enterprise development has proved unreliable.

Skills shortages are a universal complaint in the target municipalities. This is apparent in Borjomi where there is a shortage of skills for the tourism and hospitality industry. There is as yet no suitable training locally and staff must be sent elsewhere in Georgia. Lack of skills is likely to hold back any rural growth pole, as was apparent from essential oils in Lagodekhi.

Responding to skills shortages requires agile public vocational training provision, which can orient to needs. Anticipating needs requires even more agility, based on labour market needs forecasting and contacts with employers, often through local employment offices. Training for the known employer has the advantage that trainees will be placed in the firm ‘ordering’ the training, with the client typically offering ‘finishing’ training augmenting that offered through public vocational schools. This process is no different for growth poles than it would be for skills development in general. Vocational training is seen as a public good, with this strengthening the case for public finance.

In summary, policy for growth poles is not likely to be different from enterprise development more generally in the target areas, or more widely in rural municipalities. Public actions and public finance would be applicable in increasing enterprises’ access to finance (if there is indeed market failure) and in making sure that public vocational training can respond to employers’ needs.

Rather than a defined policy, bespoke actions will be required which respond to the specific needs of the possible growth pole. These could include public investment, grants, loan guarantees, skills development, business advisory services, and assistance in technology. This will rely on detailed analyses as a basis for defining actions (see annexes 4-6 for terms of reference for such analysis for the possible growth poles set out in this report). It is possible that these analyses will eventually offer insights into more generalisable support to growth poles. But, in the interim, such analysis will be essential.

This in turn brings back into question why rural industries should receive preferential treatment in terms possible publicly-financed support. Urban industries are left to develop largely of their own accord and with little or no public support so why should rural enterprise merit attention? The answer has a large political component in terms of justifying the transfer of public funds from the vibrant and largely urban parts of the economy to lagging rural areas. As Georgia becomes more urban from the current 60% (percentage of urban population)⁵¹, the political support for these transfers may wane. This nonetheless remains speculative.

51. <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS>. In comparison, Armenia is 63% urbanised, Azerbaijan 56%, Bulgaria 75% and Turkey 76%. Urbanisation in Georgia fell after the end of the Soviet Union but has now resumed the path of increasing urbanisation.

ANEX 1

Terms of reference

Consultant on rural growth pole development

Background

Duties and Responsibilities

Competencies

Required Skills and Experience

ANNEX 1

Terms of reference

Consultant on rural growth pole development

Location :	Home based consultancy with one mission to Georgia, GEORGIA
Application Deadline:	19-Sep-19 (Midnight New York, USA)
Type of Contract:	Individual Contract
Post Level:	International Consultant
Languages Required:	English
Expected Duration of Assignment :	45 working days during October - November 2019, with 42 days in Georgia

Background

Rural development is a process that delivers improvements in the quality of life and economic well-being of people living in relatively isolated and sparsely populated rural areas. Rural development, traditionally, has focused on the exploitation of land-intensive natural resources, such as agriculture and forestry. However, changes in global production networks, increased urbanization and dynamic links between rural and urban environments have changed the character of rural areas. Increasingly tourism, other service industries, niche products and recreation have replaced resource extraction and agriculture as dominant sources of income. These subsectors attract the rural population with higher labour productivity reflected in wage above those available in agriculture.

The need for rural communities to approach development from a wider perspective has created more focus on a broad range of development goals rather than merely creating incentives for agricultural or resource-based businesses. Building human capital through health and education, entrepreneurship and enterprise financing, physical and social infrastructure, biodiversity protection and enhancement, climate change adaptation and mitigation all play an important role in developing rural regions. Rural development is also characterized by its emphasis on locally produced economic development strategies.

The EU signed an Association Agreement (AA) with Georgia in June 2014. This aims to deepen political and economic relations and to gradually integrate Georgia into the EU's internal market. This entails, as one element, creating a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Georgia. Under Article 333 of the Association Agreement (Cooperation between the Parties in the field of agriculture and rural development), there is provision for 'facilitating the mutual understanding of agricultural and rural development policies. This was the basis for the formulation of a Rural Development Strategy for Georgia which will in turn yield specification of measures which will benefit from funding under the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD).

Rural development has an important role to play in the sustainable development of Georgia. The government of Georgia approved the first ever National Rural Development Strategy and Action Plan in 2017. The goal of the Rural Development Strategy (RDS) for Georgia 2017-2020 is to support Georgia's economic development through enhanced social-economic activities in rural areas and improved living condition of rural population. It provides the country's vision for 2017-2020 in key areas of rural development – growth and diversification of local economies, improvement of social and public services, sustainable use of national resources and local engagement in the development process.

The EU financed and UNDP implemented project "Improving Rural Development in Georgia" (IRDG) specifi-

cally targets eight municipalities, including Lagodekhi and Dedoplistskaro municipalities. The project's grant programme is implemented by the Agriculture and Rural Development Agency (ARDA) of the project's partner, the Ministry for Environmental Protection and Agriculture (MEPA).

Repeatedly, rural growth poles have been identified as one of the few approaches for rural diversification (e.g. Brookings Institution). This concept shall now be introduced to and tested in rural Georgia, starting with these municipalities. The fundamental concept of growth poles is that they exploit agglomeration economies and spillover effects to spread prosperity from the core of the pole to the periphery. Concentrated on the territory, interrelated companies - suppliers of equipment, components and special service, research institutes and other organizations - complement each other and strengthen the competitive advantages. A growth pole usually has one or more existing resources that serves as an inherent revenue producer.

Growth poles frequently concentrate around a core industry around which linked industries develop through direct and indirect effects. Direct effects imply the core industry purchasing goods and services from its suppliers (upstream linked industries) or providing goods and services to its customers (downstream linked industries). Indirect effects can involve the demand for goods and services by people employed by the core and linked industries supporting the development and expansion of economic activities such as retail. The expansion of the core industry is expected to generate further investment, employment and distribution of factor payments, including profits that may be reinvested. The growth of dominant industries generates external effects that stimulate the growth of other industries because of inter-industry linkages.

Duties and Responsibilities

The overall objective of this technical assistance is to support IRDG, the project's municipalities (especially the aforementioned) and the relevant stakeholders in identifying and developing rural growth poles.

Specifically, the consultant will conduct the following tasks:

Building upon a cut-flower value chain assessment for the export market, conducted by FAO on behalf of MEPA, assessment of the development potential of a cut-flower growth pole (oriented to the domestic market) and an essential oils growth pole in Lagodekhi and Dedoplistskaro. Obtain clearance from UNDP.

Brief UNDP and MEPA (including ARDA) on the results.

Identification of the potential for developing (additional) growth poles (outside the agri-food sector) in the mentioned two municipalities and in each of the other focus municipalities (Keda, Khulo, Borjomi, Akhalkalaki, Tetritskaro, Kazbegi).

Brief UNDP and MEPA (including ARDA) on the results.

Drafting of a paper outlining key steps and do's/don'ts when elaborating a growth pole strategy, using the most promising identified growth poles as sample. The paper will serve as guide for one or more local consultant(s) who would then be contracted to elaborate such strategy in a participatory manner.

Training of up to 20 selected, English speaking municipal officials, ARDA representatives, other partners and IRDG staff in the growth pole approach, strategy development and strategy implementation (about 2-3-day training).

Elaboration of succinct policy papers (max 3 pages each) on:

Growth poles in rural development

The sub-sector of the growth-pole with the identified highest development potential (in terms of feasibility and sustainability), outlining that sector's specific potential in rural Georgia and urban-rural linkages.

Elaboration of final report.

At local level and during trainings, the consultant will be supported by an interpreter, volunteer, intern or junior expert speaking both, English and Georgian. All tasks need to integrate a focus on women, youth, minorities and environment.

Deliverables and payment modality:

The Consultant should submit the following deliverables:

Work plan and framework (home based) – due by 8 October 2019; Overview report on results of tasks 1 and 2 – due by 17 October 2019: 10% of the consultancy fee

Overview report on results of tasks 3 and 4 – due by 30 October 2019: 60% of the consultancy fee

Guiding paper (deliverable 5), training (deliverable 6), policy papers (deliverable 7) and final report (deliverable 8 – home based) – due by 30 November 2019: 30% of the consultancy fee.

The timely and high-quality submission of the deliverables is a pre-condition of the payments. The official language of communication for the present contract is English.

The consultant will report to the Project Technical Leader and Manager of the “Improving Rural Development in Georgia” Project and will work in close cooperation with the Ministry of Environmental Protection and Agriculture of Georgia and in consultation with the UNDP Economic Development Team Leader.

Competencies

Corporate competencies:

- Demonstrates integrity by modelling the UN’s values and ethical standards;
- Promotes the vision, mission, and strategic goals of UNDP
- Displays cultural, gender, religion, race, nationality and age sensitivity and adaptability;
- Treats all people fairly without favouritism.

Functional competencies:

Knowledge management and learning:

- Actively works towards continuing personal learning and development in one or more Practice Areas, acts on learning plan and applies newly acquired skills.

Development and operational effectiveness:

- Ability to lead strategic planning, results-based management and reporting;
- Ability to lead formulation, implementation, monitoring and evaluation of development programmes and projects, mobilize resources;
- Strong IT skills, particularly with MS Office;
- Excellent written and oral presentation skills.

Management and leadership:

- Focuses on impact and result for the client and responds positively to feedback;
- Leads teams effectively and shows conflict resolution skills;
- Consistently approaches work with energy and a positive, constructive attitude;
- Demonstrates strong oral and written communication skills;
- Builds strong relationships with clients and external actors;
- Remains calm, in control and good humoured even under pressure;
- Demonstrates openness to change and ability to manage complexities

Required Skills and Experience

Education:

Master’s degree in economics, business administration or other related discipline (minimum requirement – 5 points).

Experience:

8 years of professional work experience in rural business development and strategy elaboration (minimum requirement – 13 points).

Proven record of international experience in feasibility analysis of rural development approaches and in a similar professional role i.e. providing advisory functions to the government and/or international organi-

zations and writing policy papers or similar on local economic development (minimum requirement – 10 points).

Relevant experience in conducting trainings will be an asset (additional 6 points).

Good knowledge of the current development context in Georgia will be an asset (additional 6 points).

Language Requirements:

Fluency in English.

Evaluation:

Individual consultants will be evaluated based on the cumulative analysis against combination of technical and financial criteria. Technical evaluation stage encompasses desk review and interview of applications. Experts not meeting any of minimum technical qualification requirements will be automatically excluded from the list of candidates for further technical evaluation. Maximum obtainable score is 100, out of which the total score for technical criteria equals to 70 points (70%) and for financial criteria 30 (30%). Technical criteria composed of desk review (40 points) and interview (30 points). Offerors who pass 70% of maximum obtainable scores of the desk review (i.e. $40 \times 70\% = 28$ points as a result of a desk review of applications will be invited for the interview. Those offerors who pass 70% of maximum obtainable scores for interviews (i.e. $30 \times 70\% = 21$ points) will be considered as short-listed offerors and included in the roster of qualified consultants.

Financial Proposal:

The financial proposal shall specify a total lump sum. Payments are based upon delivery of the services specified in the TOR. All envisaged travel costs must be included in the financial proposal. This includes all travel to join duty station/repatriation travel. In general, UNDP does not accept travel costs exceeding those of an economy class ticket. Should the IC wish to travel on a higher class he/she should do so using their own resources. In order, to assist the requesting unit in the comparison of financial proposals, the financial proposal will include a breakdown of this lump sum amount.

The financial proposal shall specify a total lump sum including consultancy fee, travel costs and living allowances. A breakdown of those cost will be requested. UNDP will provide the venue, transportation, technical set-up and other logistical arrangements needed within Georgia and for the workshop.

ANEX 2

Place-based solutions in the places left behind

ANNEX 2

Place-based solutions in the places left behind

Growing regional inequality has shifted attention to the *places left behind*. Rising nationwide income inequality is associated with rising within-region income inequality and differences in average income across regions⁵².

Places in decline are poverty traps. A shrinking tax base leads to deteriorating local services, including the public education that might provide young people with the skills to succeed elsewhere. This in turn leads to rejection of the notion that the decay of places is an acceptable part of the rough-and-tumble of a dynamic economy. In response, voters turn against the institutions of globalisation⁵³.

In many rich economies, prosperous areas support poor ones with transfers. Subsidies provide a cushion against regional decline but have not offered a basis for long-run economic recovery, and seem not to be able to stem the growth of populist political movements. The is because aspirations are unachievable: good jobs at salary rates comparable to prosperous areas, but without having to move to get them.

Attempts to jump-start local economies are an obvious response. Governments have a long record of experimentation with place-based policies: from the infrastructure investments of the Tennessee Valley Authority to structural funds in the EU and enterprise zone programmes, all providing incentives for hiring and investment in struggling areas⁵⁴. These rest on the economic logic that places thrive because of the benefits to firms and workers of crowding together. Clustering speeds the flow of ideas, cuts the cost of dealing with clients, and enriches social lives.

The focus is now once again on place-based policies. In the past, economists and economic policy emphasized people-based policies. These say: invest in people through education and health services, encourage their mobility, and good things will come. But the rise in spatial inequality and the political backlash it has engendered in the form of populism—has convinced some of the need to embrace place-based policies to bolster the economic conditions of declining places⁵⁵, particularly depressed urban areas⁵⁶.

This new thinking encapsulates several notions:

- people have a right to work where they live and there should be no obligation to move in search of rewarding work
- slowing rural-urban migration to limit urban marginalisation is desirable, even if there is a cost in terms of growth;
- keeping people in the countryside is good for non-economic reasons (including security in border areas), as is keeping a balanced age structure in rural areas and preventing progressive ageing of the rural population; and
- rural life is more pleasant than urban life and some people would prefer to leave the cities and return to rural areas if they could get jobs that paid a decent wage.

52. <https://www.imf.org/en/Publications/WP/Issues/2019/05/02/The-Great-Divide-Regional-Inequality-and-Fiscal-Policy-46745>

53. <https://www.economist.com/finance-and-economics/2016/12/15/place-based-economic-policies-as-a-response-to-populism>

54. <https://www.brookings.edu/multi-chapter-report/place-based-policies-for-shared-economic-growth/>

55. <https://www.citylab.com/life/2019/03/place-based-policies-economic-development-kalamazoo/585694/>

56. https://www.oecd-ilibrary.org/urban-rural-and-regional-development/competitive-cities-in-the-global-economy/can-distressed-urban-areas-become-growth-poles_9789264027091-15-en

COVID-19 has introduced a new element in that it is supposed that the loss of urban jobs will see people returning to the countryside in search of a safety net. It is also argued that this will result in a positive brain-drain from urban to rural and will result in the professionalisation of farming.

Studies of place-based policies offer something less than a ringing endorsement. Though some programmes have boosted employment or the number of firms, others have not had any significant effect or bring local benefits only at the expense of other areas. Research suggests that the Tennessee Valley Authority fostered a manufacturing cluster but to the detriment of other regions. In other words, it can hard to help one place without harming another.

The use of business incentives and subsidies aimed at attracting firms has been ineffective⁵⁷, and leads to diversion of employment rather than new jobs⁵⁸. Young businesses drive job creation, but business incentives disproportionately go toward large, incumbent firms⁵⁹. Fiscal transfers have a mixed record in placing distressed regions on a path towards economic growth⁶⁰.

The new thinking on place-based approaches has several dimensions⁶¹.

Better education and training. Local training will be aimed at people who live locally, within a broader framework of business and community development. So-called education ‘promise programmes’ are expected to increase the likelihood of recipients remaining in the community, because of better education and jobs.

Business prosperity. Incentives will target industries which create the most jobs and can be filled by hiring locally. Local business environments will make locating easy, with procedures quick, transparent, and cheap. Business advisory services could also be provided. This is consistent with the idea that making it easy to *do business* is the best policy for enterprise development.

Workforce Development. *Neighbourhood Employment Hubs* will offer training and employment services and be will be part of community institutions. *Employer Resource Networks* will ‘pull together a consortium of small- to mid-size businesses to provide job retention services, work supports, and training opportunities for entry level employees, many of whom are receiving public assistance⁶²’. They prospectively bring together businesses partners and organisations working in training and employment.

Building Vital Communities. Focusing on governance and civic leadership, this brings together business leaders, residents, and other stakeholders to ‘bring trust through regular interaction’.

There is also consensus on the importance of digital skills, with a focus on preparing the workforce to take part in the digital economy as a route to increasing labour productivity. Universal fast broadband is also seen as essential. Paradoxically, accelerating labour mobility is still seen as a route to prosperity, to be supported through relocation grants and relaxed zoning in major towns and cities to reduce housing costs.

57. https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Report_Counteracting-geography-of-discontent_Hendrickson-Muro-Galston.pdf

58. <https://www.brookings.edu/research/examining-the-local-value-of-economic-development-incentives/>

59. http://research.upjohn.org/cgi/viewcontent.cgi?article=1037&context=up_technicalreport

60. <https://www.wsj.com/articles/the-eu-spent-a-bundle-to-unify-the-continent-its-not-working-1533743729>

61. <https://research.upjohn.org/cgi/viewcontent.cgi?article=1238&context=reports>

62. <https://www.ern-usa.com/blob/site-files.ashx?ID=1>

ANEX 3

Extracts from local development strategies and municipal assessment reports for Akhalkalaki, Borjomi, Dedoplistskaro, Kazbegi, Keda, Khulo, Lagodekhi and Tetrtskaro municipalities

Akhalkalaki

Borjomi

Dedoplistskaro

Kazbegi

Keda

Khulo

Lagodekhi

Tetrtskaro

ANNEX 3

Extracts from local development strategies and municipal assessment reports for Akhalkalaki, Borjomi, Dedoplistskaro, Kazbegi, Keda, Khulo, Lagodekhi and Tetrtskaro municipalities

Akhalkalaki

Local development strategy

Aim: to improve quality of life, diversify local economy, integrate local population and make the municipality a better place to live.

To achieve this aim:

Extend local income and promote the sustainable development of the local economy.

Improve social integration with a major focus on education, culture, youth, and gender equality.

Extend local tourism potential and support the conservation & appreciation of the local cultural heritage.

Improve ecological environment and introduce environmentally friendly practices in the municipality'.

Municipal assessment report

Asset	Opportunity
Akhalkalaki town and transit road	If the transit traffic increases, more and diverse businesses can benefit from it (e.g. quality hotels, car wash, cash exchanges, petty trading, bars/pubs, etc.)
Manufacturing and trade	Based on location, natural resources, existing business experience, municipality can become a hub for trading and producing construction materials, if number trading, production businesses continue grow. Although data on volume of production and trade is currently unavailable, more than half of property tax in municipal budget is paid by the enterprises in these activities, and import of cement, construction blocks and some other materials is trending from Armenia. Therefore, it can be assumed that production/trade of construction materials is a significant niche of local economy that might have perspectives to grow. Furthermore, local producers can explore potential to use volcanic minerals can be used for new segments of markets as well. For example: pumice can be also used for health and beauty:
Additionally:	New products and services related to serve construction materials businesses. Service in villages (e.g. barber shops).

Borjomi

Local development strategy

Aim: To improve the quality of life of Borjomi residents and create a more attractive destination for visitors.

To achieve this aim:

Increase the contribution of sustainable tourism to the local economy making it a model for the whole of Georgia.

Improve agricultural productivity and diversification, and to enhance professional knowledge, making farming a more attractive and profitable business sector.

Strengthen sports and cultural activities to enhance quality of life and increase a sense of belonging
Protect the environment through sustainable use of natural resources, effective land and waste management and awareness raising to enable local people to take a more active role on environmental issues.

Asset	Opportunity
Bakuriani resort	<p>More (new) to offer in winter: snowshoe tours, pizza delivery, broomball, fat biking, tubing, snow biking, spa and fitness facilities. In summer: disc golf, golf, spa, yoga, and gym, ATVs, ziplines, tree, geocaching, forest aerial adventures.</p> <p>+ infrastructure improvements of housing and outdoor in the center of Bakuriani, creating café/shopping pedestrian zone, sewage system, sidewalks new bus stop for “Marshutkas”, sport running area, bicycle lines, etc. should boost tourism activity.</p> <p>+handyman services</p> <p>Creating tourism development plan for Borjomi-Bakuriani joint tourism development (esp. for summer period) for facilitating the creation of businesses that would capitalize on benefiting from tourism from both areas.</p>
Cross-cutting	<p>Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Master plan can should cover adjacent areas of the municipality (e.g. Khashuri – the main supplier of Borjomi) to integrate and link development assets and plans of local rural development.</p>
Borjomi +Likani	<p>Gyms, squash facilities, ziplines, wall climbing, beautify treatments, massage salons, saunas, tree houses, beauty and fitness shops, mountain biking tours, healthy diet and weight management services, relaxation and stress relief sessions, yoga, meditation services, stargazing, late-night bars in summer.</p> <p>+ more convenient “Kukushka” schedule, infrastructure investments in biking lines, Central Park +attracting sponsors, riverside, public parks and spaces (e.g. picnic areas) should boost tourism activity.</p>
Borjomi-Kharagauli National Park	<p>PA offering provision of support for businesses to locate into parks; and attracting national and donor funding for park related business support projects. Increasing number of park visitors, development in the park area needs local economy to be prepared for more demand on lodging, food and beverages, gas, local transportation, souvenirs and other goods and services.</p>
v. Chitakhevi and surrounding areas	Rafting, kayaking
Tsagveri-Tsemi-Daba cluster	<p>Camping sites in Mzetamze, near Tsemi, Tba offering diverse services: (ping pong tables, frisbee games, badminton, campfire, music nights, stargazing, etc.); rock climbing (near Daba and Tsagveri), off-road tours (near Tsemi, Tba).</p>
Akhaldaba to Borjomi roadside	<p>Diversity of roadside businesses: in term of the offering (e.g. burgers, hotdogs) and style. Furthermore, nearby villages can bring handicrafts or other products, locals are producing to the roadside stands.</p>
Additionally:	<p>Tours like: mushroom collection; hiking (in Tsagveri area); deep forest campsites, organizing music and other (e.g. honey) festivals;</p>
	<p>+ Perhaps having potential to develop non-timber forest products (NTFPs) industry due to the large forest areas in the municipality</p>

Dedoplistskaro

Local development strategy

Three objectives:

Fostering the development of innovative and diversified businesses.

Transforming the area in a place of social and cultural welfare.

Enable municipality population to live in a clean environment and make the visitor notice preserved wildlife and wonderful nature first at arrival.

Municipal assessment report

Asset	Opportunity
Vashlovani National Park	hiking tours, jeep/safari tours, campsites, unusual lodging areas like in Arizona (U.S) for relax and meditation, wildlife viewing tours (mainly birdwatching), photographing, fishing, star gazing, etc. + road rehabilitation to the areas should significantly contribute to make Vashlovani NP more popular destination
Cross-cutting	Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Master plan should cover adjacent areas of the municipality (e.g. Lagodekhi (incl. national park), Sighnaghi) to integrate and link development assets and plans of local rural development.
Dedoplistskaro town and surrounding communities	Investing in Vashlovani NP related tourism facilities and services (e.g. wine tasting with traditional dishes, trade with traditional cloths)

Kazbegi

Local development strategy

Priority objectives

Increase of productivity and efficiency of existing directions of agriculture and introduction of new promising directions.

Support to development of tourism services and establishing of diverse income sources in villages.

Facilitation of improvement of the quality of life of Kazbegi population.

Contributing to decrease of migration from Kazbegi.

Facilitation of introduction of environmental practices.

Priority sectors: agriculture; tourism and other non-agricultural business; public infrastructure; and education, sport, and culture.

Cross-cutting priority sectors: environment protection; support to young people; and strengthening institutional capacities.

Municipal assessment report

Asset	Opportunity
Gergeti "Sameba" Monastery	Roadside souvenir booths camp, binoculars rental, wedding site.
Mt. Kazbegi	More can be offered at camps: e.g. walkie-talkies, cooking gear, snacks, etc.

Gveleti waterfalls	Organizing rock, ice climbing services, food cart (in summer), camp development with new services - sport activities (e.g. Frisbee), scavenger hunt, work on crafts, etc. + "Amo" music festival proved that youth is interested to enjoy music and wild nature mix, potentially using other locations as well
Stepantsminda Museum of Arts	New business model/marketing strategies. Offering new services: e.g. collection information about legends of Kazbegi, history and culture and organizing storytelling events in the yard of the museum. This event can become one of the first thing a visitor would do before she/he will start to explore Kazbegi.
Kazbegi National Park	PA offering provision of support for businesses to locate into parks; and attracting national and donor funding to support projects.
Larsi border	Hot meal and beverage delivery to lorry drivers, organizing modern driveway for lorries
Russia – Georgia Friendship Monument	Setting infrastructure and events (e.g. night illuminations, scheduled fireworks, playground, giffer, etc.) and advanced businesses (e.g. dining hall with glass walls) should attract more visitors and make them stay/pay more. + In reasonable distance and number, same type of scenic views hotspots can be organized from Gudauri to Kobi.
Cross-cutting	Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Master plan should cover Stepantsminda, Gudauri and adjacent areas of the municipality (e.g. Khada Gorge) to integrate and link development assets and plans of local rural development.
Truso valley	Truso valley can be interesting for organizing cycling, horseback tours for exploring the legends of abandoned villages. Selling the legend tours of abandoned villages can be done in other parts of Kazbegi, where many settlements are abandoned, combined with 83 cultural monuments (MOESCS data) in the municipality
Village Sno	Village Sno can develop to alternative lodging to tourist crowded Stepantsminda
Juta	Juta has potential to develop existing and new campsites offering diverse services (ping pong tables, hot tubs, badminton, meditation, yoga, star gazing, etc.). Same can be done in other Kazbegi locations (e.g. in Khada gorge)
Khada Gorge	Potentially new destination area. Like in Arshi and Gveleti, this place can offer climbing services as well as be interesting for organizing campsites.
Gudauri skiing resort	New cable car to Kobi can make Kobi site as a hub for transfers in Winter, creating opportunities for on-site lodging, cafés, shops, etc. Gudauri Summer opportunities: cycling tours, trekking tours, mountainside yoga, zipline adventures, off road bugging, ATV tours, disk golf championships, alpine slide, summer tubing, ski buses to Gudauri from Tbilisi/Stepantsminda, etc.
Vladikavkaz, Russia	In 1 hour-drive Vladikavkaz (300,000 residents) the municipality could benefit from increased visitors from Vladikavkaz cluster. Therefore, more informational campaigns and tour agency contacts should be organized with Russian counterparts.
Stepantsminda town	Various: e.g. late-night social bar, souvenir shops, improved guesthouse amenities, relaxing massage services, especially for hikers, human table football. Using Polish tourists to build closer ties with Polish investors, like the case of "Mountain Freaks".
Village Sioni	Pilgrim tourism, small-scale skiing, campsite.
Additionally:	Archery amenities (anywhere in free area, perhaps near the "Military Road"); picnic spots; building business relationships with rafting companies near Pasanauri; hunting; like birdwatching, testing demand for local flora and fauna exploration; organizing music and other (e.g. beer) festivals; meditation, yoga services; if internal roads improve: rental of RVs; Wedding sites; organizing Georgian cuisine on-spot classes;

Keda⁶³

Municipal assessment report

Asset	Opportunity
Vashlovani National Park	More diverse services can be offered on the river: e.g. kayaking, rowing, professional lessons (for Batumi residents), ziplines, slide the rapids, dragon boating, wine tasting, etc. + diversity in food, competitions in riverports can be organized. + diversification of services to cope with winter season + local wine degustation tours
Cross-cutting	Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Such master plan should also cover perhaps whole mountainous Adjara (incl. National Parks) and adjacent areas to integrate and link development assets and plans of local rural development.
Villages with ethno-cultural and adventure tourism	authentic Adjarian guesthouses with its folklore, cuisine and local wine tasting in wine cellars, hiking and ethnographic tours, ATVs, ziplines, horseback riding, biking, etc. + services (e.g. photo) as local attractions, like ancient bridges could be interesting area to explore + facilities/businesses for family farm-holidays
Additionally:	Diversification of local services and products to offer more in winter periods (e.g. winter snow entertainment amenities). In “dead”, off-season period, more service and products offered to Batumi and nearby municipality residents. Potentially, local populations could also use the non-timber forest products (NTFPs) of two adjacent protected areas

Khulo

Local development strategy

Summary of priorities, objectives, and strategic actions

Asset	Opportunity
Rural tourism	Support to rural tourism inventory identification and destination development Promote and market Khulo rural tourism opportunities Increase technical capacities of local tourism businesses Promote targeted and focused destination management based on destination management plan Support to innovative tourism business establishment
Agriculture	Improve productivity of crops and animal husbandry Support to modern agriculture practices by quality inputs Improve technical capacities on agriculture techniques and support market facilitation to maximize harvest profits Support the establishment of agroprocessing, greenhouse, and storage enterprises

63. There is no local development strategy for Keda.

Communal and social infrastructure	Contribute to the development of access to high-speed connectivity for rural areas Support to small-scale infrastructure development
Culture, health, education, sports, and youth	Upgrading of new and existing community, sporting & cultural facilities and other Support to youth development
Non-farm entrepreneurship	Support the establishment of new innovative businesses and expansion of existing ventures Promote Khulo municipality investment opportunities Support to networking, branding, and outreach
Environment and sustainable management of natural resources	Awareness raising of residents on environmental issues, consequences of poor environmental protection and emergency response Increasing efficiency of disaster risk mitigation responses Reforestation of degraded land and forest areas
Additional Khulo LAG actions	Achieving greater sustainability of LDS

Municipal assessment report

Asset	Opportunity
Town Khulo and road to Adigeni	New service and trade businesses in town (e.g. sewing workshop, night bar) so that for some needs, local don't go to Batumi. + new road to Adigeni should stimulate creation of roadside businesses (e.g. cafés, gas stations, souvenir booths), cafés on Goderdzi pass.
Goderdzi resort	Guesthouses around the resort, horse and bike rental, tubing, sled and skiing rental, cafes and bakeries, saunas, etc. + new road to Adigeni should stimulate significantly stimulate increase of visitors. + Trainings for hotel/catering employees
Cross-cutting	Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Such master plan should also cover perhaps whole mountainous Adjara and adjacent areas to integrate and link development assets and plans of local rural development.
Villages with ethno-cultural, adventure tourism and family farm-holiday potential	Authentic Adjarian guesthouses with its folklore, cuisine; hiking and ethnographic tours, ATVs, off-road driving, rafting, horseback riding, biking, etc. + creation of destination areas would stimulate the development of network of ethno-cultural, adventure and family farm-holiday assets.
	It is recommended to select and invest in villages with most authentic appearance, select a traditional house and turn-it into the "destination place". For this, study to reveal such village/house assets should be conducted.
Additionally:	Picnic spots; rafting facilities, trade with petrified wood, and building business relationships with rafting businesses in Keda. Collection and trade with petrified wood stock + local populations could also use the non-timber forest products (NTFPs) as municipality is rich with forest areas

Lagodekhi

Local development strategy

Objective 1 - Improving the Competitiveness of Agriculture and Forestry

Objective 1 points out the solution of problems such as: Poor condition of rural roads in most of the villages, impairment and inadequate maintenance of the irrigation water supply systems, scarcity of storage facilities and low quality of greenhouses.... improving internal roads will serve at the end to increased competitiveness of agriculture. Furthermore, improvement of the irrigation system is essential for most residential and commercial property owners. Rehabilitation of the irrigation system can conserve water while maintaining a healthy landscape.

Lack of storage facilities result in pests and diseases, perishability of crops, surplus in products supply during harvests and shortage outside harvest periods, lower quality of farm products and farm products wasting. Therefore, encouraging arrangement of storage facilities is crucial for increasing competitiveness of the agricultural sector. Also, modern greenhouses are stated to be important as they give a farmer the opportunity to sell the product when its price is highest on the market.

Objective 2 - Improving the Environment and Countryside

Waste management problems exist at every stage: from its inception to its final disposal. There is a problem of insufficient number of waste bins, absence of appropriate vehicles; also the municipality does not have a sufficient capacity landfill. Homeless pets is an issue to take care of, as well as bad conditions of river basins (pollution, floods, lack of protecting walls...), lack of wind protection zones, lack of emergency preparedness and response plans, infrastructural damage due to seasonal natural events and disasters.

Objective 3 - Improving the Quality of Life in Rural Areas and Encourage Diversification of the Rural Economy

Lagodekhi residents are employed in agricultural sector mainly, while there is a good potential to develop other sectors as well and in such a way support diversification of the rural economy. Lack of social and tourism infrastructure and services/service facilities (banks, beauty salons, health services...), lack of appropriate tourism infrastructure, lack of knowledge of foreign languages, low quality of service provision, low tourism promotion, low usage of local touristic resources – all these factors serve to low economic diversification in Lagodekhi Municipality and make economic activities problematic and less profitable. Moreover, in most of the villages there is a problem of natural gas supply availability and insufficient access to energy, low quality of electricity supply (black-outs, lack of supply to farms...), low quality of drinkable water systems, insufficient or defective drainage system, inaccessibility to the internet – consequently, living conditions are not attractive.

Municipal assessment report

Asset	Opportunity
Lagodekhi National Park	Arranging adventure tourism related services and infrastructure on the territory of the protected area (e.g. mount-biking, ziplines, fishing, geocaching, and bike routes, etc.). + NP: provision of support for businesses to locate into parks; and attracting national and donor funding for park related business support projects
Lagodekhi town, v. Apeni and surround areas	Arranging entrainment services, campsites offering diverse services: (frisbee games, badminton, campfire, music nights, stargazing, archery, etc.) + beauty salons, forest houses, outdoor cafes, eco-lessons, etc.
Cross-cutting	Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Master plan should cover adjacent areas of the municipality (e.g. Dedoplistskaro (incl. Vashlovani national park) to integrate and link development assets and plans of local rural development.

Additionally:	Exploring trade opportunities with neighboring Azerbaijani regions (e.g. Zakatala) (currently, unclear in what non-farm products) Furthermore, due to the high forest resources, local population could potentially benefit from non-timber forest products (NTFPs) collection/trade.
---------------	--

Tetritskaro

Local development strategy

Four priority directions:

Environmental protection, management of natural resources, and disaster risk reduction.

Support to competitiveness and modernisation of agricultural and non-agricultural activities.

Support to development of rural tourism.

Development/rehabilitation of rural infrastructure.

Municipal assessment report

Asset	Opportunity
Manglisi	Manglisi can specialize in grandparent/grandchildren summer destination area. Private playgrounds, activities in public spaces (e.g. trampolines), services for elderly, cafes, etc. + any business that would keep children busy for entertainment and stimulate socializing among elders should be welcomed. Manglisi can also benefit from increasing popularity of Algeti national Park, that is very close to the townlet.
Cross-cutting	Creation of municipal master plan. Such plan, implemented through coordination of national, local government and business community should facilitate creation of clear, linked seedbeds throughout the municipality and coordination of business community and public-private investments, leading to coherent rural development. Master plan should cover various internal areas of the municipality (e.g. Birtvisi, Algeti reservoir) and external (e.g. Marneuli) to integrate and link development assets and plans of local rural development.
Algeti National Park	Offering support for businesses to locate into parks; and attracting national and donor funding for park related business support projects.
Tetritskaro town	Handicrafts, services, and trade business (for which people go to Tbilisi, but in smaller scale)
Asureti	With more development coming to the area, a German heritage tours can be organized (in January-March 2018, 7,442 German nationals visited Georgia, 27.1% increase compared to the same period of 2017).
Orbeti and surrounding areas	Rental of summer houses, roadside cafés and restaurants, music events in the open spaces.
Tbisi +Trialeti Planned National Park	Algeti reservoir: water sports activities (row boats, paddleboards, aqua cycles, fishing) and dining amenities. Birtvisi: a meditation retreat zone (few small house blocks on the cliffs) + Potentially, Trialeti Planned National Park should bring more visitors to the area
Koda	Opening shopping space, shop(s) for “Tetritskaro products”
Additionally:	Organizing thematic festivals, and music festivals in the open spaces.

ANEX 4

Feasibility study for development of essential oil production in Lagodekhi

Background

Objective

Tasks

ANNEX 4

Feasibility study for development of essential oil production in Lagodekhi

Background

There are signs of the re-emergence of essential oils production in Lagodekhi. A major investment involves production of rose oil using 85 ha of roses, together with a refinery for producing rose oil. Roses were planted several years ago and are now harvested, with two seasons' oil production completed. There are several other smaller growers in the area producing crops that could be used for essential oils, including eucalyptus and bay. There are also reports of 4ha of lavender plantations in Marneuli, and there is another rose oil producer in Kakheti.

Initial analyses suggest that further development is constrained by lack of extension support to flower production, difficulty accessing technical support on oil production, shortage of skills, the high cost of refineries, and difficulties in access to finance.

Objective

The objective of the study would be to assess the viability of essential oil production in Lagodekhi and neighbouring areas and make recommendations on support to be provided.

Tasks

Identify the area and types of crops suitable for essential oil currently under production and annual output of raw materials. Estimate the minimum output necessary for viability, estimating gross margins for individual crops.

Review constraints on production of raw material and make proposals for addressing these constraints.

Assess the suitability of extension provision and how extension to flower production might be delivered.

Identify sources of technical support to essential oil production and make proposals as to how technical support could be given to producers.

Make proposals on ways in which small producers could refine raw materials into oil.

Assess skills requirements for essential oil production. Make recommendations on what skills should be provided by public vocational systems, noting vocational training offered by the vocational training school in Lagodekhi (which offers agriculture training programmes) or vocational schools in neighbouring municipalities.

Determine possible markets and market requirements. Make proposals for support to marketing.

Assess financing requirements for development of essential oils and assess ways in which these can be met.

ANEX 5

Assistance to cut-flower production in Lagodekhi

Background

Objective

Tasks

ANNEX 5

Assistance to cut-flower production in Lagodekhi

Background

There are signs of the emergence of cut-flower production in Lagodekhi, although volumes remain small. This has not yet brought benefits of agglomeration but there are some indications of concentration given that there are some 25 producers, albeit small-scale. Prospects remain uncertain and it is not yet apparent that the industry will grow, particularly given international competitors' supply to the Georgian market. Support is already provided to greenhouse production of cut-flowers⁶⁴ such that about half the production in the area is now from greenhouses.

Georgian producers currently supply the domestic market and are not yet able to export. The Russian market is large, but Armenian exporters already supply that market and it is not certain whether Georgian imports would be allowed. Recent studies have examined cut-flower nationwide including alstroemeria and tulips in Mtskheta municipality, gladiolus in Dusheti, lilies in Tsavkisi, Saguramo and in the western part of the country, roses in Kakheti (as noted) and in mountainous parts of Adjara.

Objective

The objective is to determine additional support to cut-flower production in Lagodekhi and neighbouring areas.

Tasks

Determine current production of cut-flowers and area of production. Make estimates of minimum production levels for viability.

Based on financial analysis of individual varieties, assess which flower types provide the best returns to producers.

Identify current support to producers and remaining constraints on production and expansion. This should include, as a minimum, analysis of skill needs and availability, extension, marketing, and finance needs. Make proposals for addressing these constraints, noting vocational training offered by the vocational training school in Lagodekhi (which offers agriculture training programmes) or vocational schools in neighbouring municipalities.

64. <http://enpard.ge/en/media/a-blooming-industry-georgia-faces-a-growing-demand-for-flowers/>

ANNEX 6

Assessment of the measures needed for development of commercial forestry

Background

Commercial forestry could be a growth pole in several of the target municipalities. As well as production, this could be associated with sapling nurseries, transport, and sawmills. A local furniture industry is possible but remains speculative.

There are grants available for afforestation and, under international obligations, the government must afforest 1,350 ha per year. The National Forest Agency currently favours fast growing plantations which can be harvested after 7 years (or after five years for poplar). But there are no subsidies for private plantation, as found in some Western European countries. These are designed to increase forest cover while compensating for the long delay in receiving income. Illegal felling is widespread.

The retention of significant amounts of land in state and local authority ownership constrains forest planting. Marginal land is often covered by scrubby growth or used for extensive grazing and is unlikely to be planted to forest while it remains in public ownership. Land privatisation or long-term leases would be needed if this land were to be planted to forest. Policy on felling is also limiting and there is almost no commercial logging. Overall, the policy and regulatory environment for forestry is complicated.

Harvesting of non-timber forest products could be developed in parallel to commercial forest. Currently collection is typically for recreation although they offer modest income even if gathered commercially⁶⁵. Commercial harvesting of wild mushrooms is widely found internationally⁶⁶, though not yet in Georgia despite export markets in the EU.

Objectives

The objective is to determine the measures needed for the growth of commercial forestry and related industries.

Tasks

Identify constraints on the development of commercial forestry in Georgia, including legal, regulatory and land ownership.

Make proposals for changes to the legal and regulatory environment and, as feasible, to land ownership and leasing aimed at allowing the development of commercial forestry.

Assess the financial feasibility of commercial forestry, taking note of the potential for sales in domestic and export markets.

Review skill requirements for commercial forestry and related industries, including silviculture, forest management, non-timber forest products (particularly forest mushrooms) and timber marketing.

Assess needs for technical support, and possible ways of provision, in commercial forestry, wood industries and non-timber forest products.

65. <https://www.forestresearch.gov.uk/research/wild-harvests-the-social-cultural-and-economic-value-of-non-timber-forest-products>

66. <https://rbg-web2.rbge.org.uk/ethnobotany/ntfp/Mushrooms.htm>