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Growth of Rural Towns in Georgia – New Centers of Gravity



Author Ana Katamidze

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UNDP Policy Briefs aim at practitioners and policy makers in Georgia. They provide conceptual insights and ideas deemed relevant to rural policy development and engagement.

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Ana Katamidze, summarised and additional inputs provided by Stephan Schmitt-Degenhardt and Giorgi Tsmintia / UNDP.

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Small rural towns play a critical role in the structural transformation from largely agrarian to service rural economies by serving as Centers of Gravity for the development of the surrounding rural areas. Through transport and trade networks, they bridge rural areas and larger cities and thus also support poverty alleviation by, for example, attracting rural migrants who would otherwise move to those large cities in search of employment. Agglomeration economies of rural small towns benefit firms and people located near one another, increases production efficiencies and offers prospects for better jobs, industrialization and specialization.

Because “no city has zero locational advantage in the long-term,” rural towns can balance urban primacy and regional development, thus creating markets for rural residents and generating more inclusive growth. If the efficiency of smaller towns were to improve, this could double or triple the GDP of many poor cities and rural regions. In general, countries that are not dominated by a single megacity have lower levels of regional development disparities and higher levels of national productivity and income per capita.

Despite a growing consensus on the positive correlation between urbanization and economic growth, 80 percent of national governments have policies to lower rural-to-urban migration. These policies have had limited effects; the share of the rural population is declining worldwide (the rural population has declined by 5 percent since 1994 in the European Union and Georgia). Much emphasis is put also on inclusive urban development that ‘leaves no one behind’ (McGranahan et al. 2016) that is challenged by exclusive focus on either urban or rural domains.

What are rural towns?

National governments use a variety of criteria to define urban and rural areas. While Europe uses the standardized ‘Nomenclature of Territorial Units for Statistics’ classification for rural policymaking, Georgia defines all territory apart from the five self-governing districts as **rural**, thus including all rural towns in the definition of rural areas. Generally, however, population centres with up to 50,000 inhabitants may be classified as small towns. Small towns play a vital role in the function and operation of a country’s national system of cities. Three broad types of small towns may be distinguished (regional, clustered and corridor), with variations on and mixes of these.

Regional small towns have a sizeable central business district or services centre that is surrounded by smaller and larger subregional towns. Regional small towns serve

mostly rural regional populations. Examples in Georgia include Akhalkalaki and Akhaltsikhe (see Figure 1).

Clustered small towns tend to develop on the periphery of metropolitan or urban regions and take the form of new towns, spill-overgrowth centres located on radial and lateral connector roads that surround a metropolitan centre. The closest to this type in Georgia are the towns and larger villages in the Kakheti region (see Figure 2).

Corridor small towns comprise multiple, small expanded towns that have joined up along an inland or coastal transportation route to become a 'linear' or 'strip' city. Typical examples are 'gorge' towns in Adjara from Beshumi to Batumi (see Figure 3), but also the large Rustavi to Batumi corridor (see Figure 4).

Small towns' economic, political and governance systems are usually either predominantly oriented towards servicing metropolitan regions or towards collaborating with other towns to create greater trade, exchanges and value-adding between them. The advantages of former emphasizes the integration of the small town's industry into value chains driven by firms located in metropolitan regions.

The advantages of the latter, the so-called polycentric approach, include that it can help reduce common-user costs for infrastructure and services across a wide range of public and private goods and services. This ad-

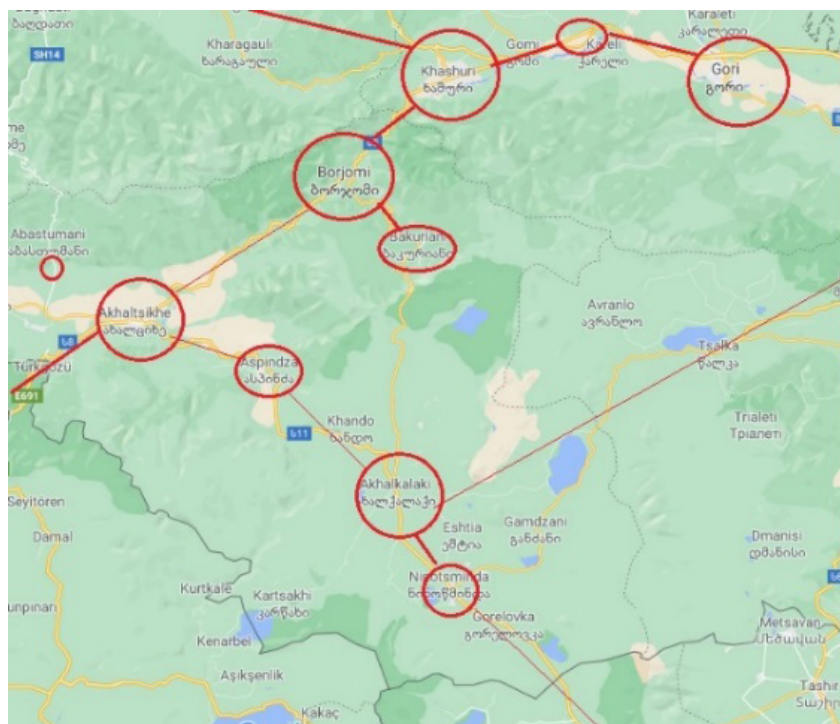


Figure 1 – Examples of regional small towns

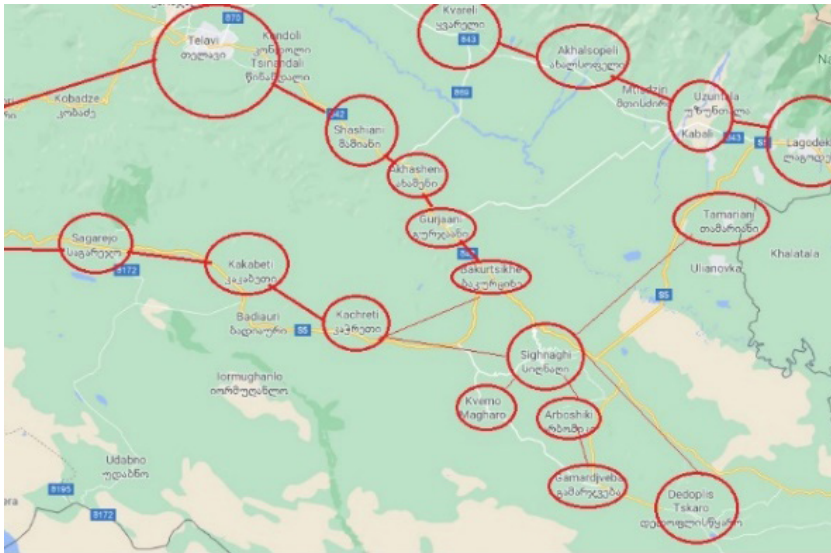


Figure 2 - Examples of clustered towns (around Telavi and other small regional towns)



Figure 3 - Example of corridor towns in Adjara

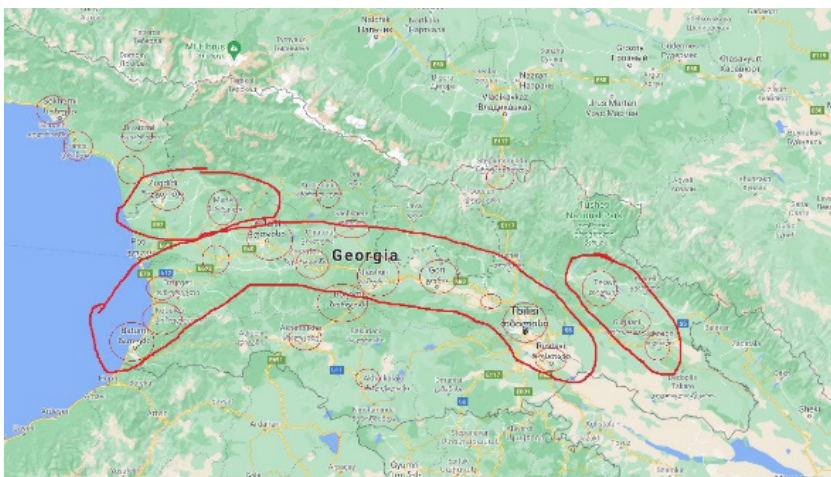


Figure 4 - Example of corridor towns formed by 55 towns and cities

vantage can enable small towns to overcome economies-of-scale issues and create sub-markets and value-adding opportunities to compete against the dominance of goods and services produced and supplied by metropolitan regions. In some cases, the combined resources and production capacity of a polycentric, subregional system of small towns can even exceed that of a larger city. Small towns that form part of this system are usually 1 to 1.5 hours travel time apart. It was the starting point of many important modern cities, like Berlin, Bratislava, Budapest, Ljubljana, Prague and Vienna.

How do small rural towns grow?

The future development of urban economies will be driven by advanced and personal services rather than manufacturing. Local economic development is increasingly being driven by information services and affected by events in global and regional economies. With the development of the Internet, computer-aided technology and the increased growth in traded services, a new system of global networks of small-town business, government and social exchanges and connections is emerging. These networks are less hierarchical and more virtually networked.

Small town growth can be driven by 'pull factors' (e.g. place-based or people-based development or the emergence of industrial poles) and by 'push factors' (e.g. deprivation of rural livelihoods, low agricultural productivity and environmental degradation). Conscious interventions by key decision makers have mostly accelerated town growth driven by pull factors, as these examples from Georgia's history demonstrate: Batumi doubled its population with the construction of the Batumi–Tiflis–Baku railway and the finishing of the Baku–Batumi pipeline. Due to the city port and industrial activities, it continued to swell. Kutaisi benefited from state investments in industrialization and its status as a political centre. Poti, especially, grew as a result of a series of modernization and construction projects during the mayorship of Niko Nikoladze between 1894 and 1912. Rustavi grew rapidly because of state investments in industrialization and an artificially established growth pole. Signaghi and Mestia are becoming centres of socio-economic gravity through the state-financed rehabilitation of the towns as tourism destinations. Zugdidi accelerated its growth due to Soviet-era manufacturing investments.

However, while national government-driven investments are one factor of town growth, growth should predominantly be based on a holistic approach of supporting connectivity and collaboration among towns and their surrounding villages across an urban-rural continuum.

The small-town triad of linkages and networks

A triad of key hard and soft external connectivity factors or linkages must be carefully considered in planning small rural towns' economic development. These are urban-rural, small-town-to-small-town and metropolitan region linkages (see Figure 5). In addition, there are many other intra-city connectivity factors, or linkages, that small towns must ensure are in place and that operate efficiently and effectively to enable local economies to grow.

Urban-rural linkages are a crucial part of production value-adding to consumption supply chains. These supply chains provide most of the materials, food and cash crops that manufacturing and processing require to make value-added products. For cities and nations to maximize their value-adding development opportunities, it is crucial that producers in rural and regional areas have quality access to industry supply chains.

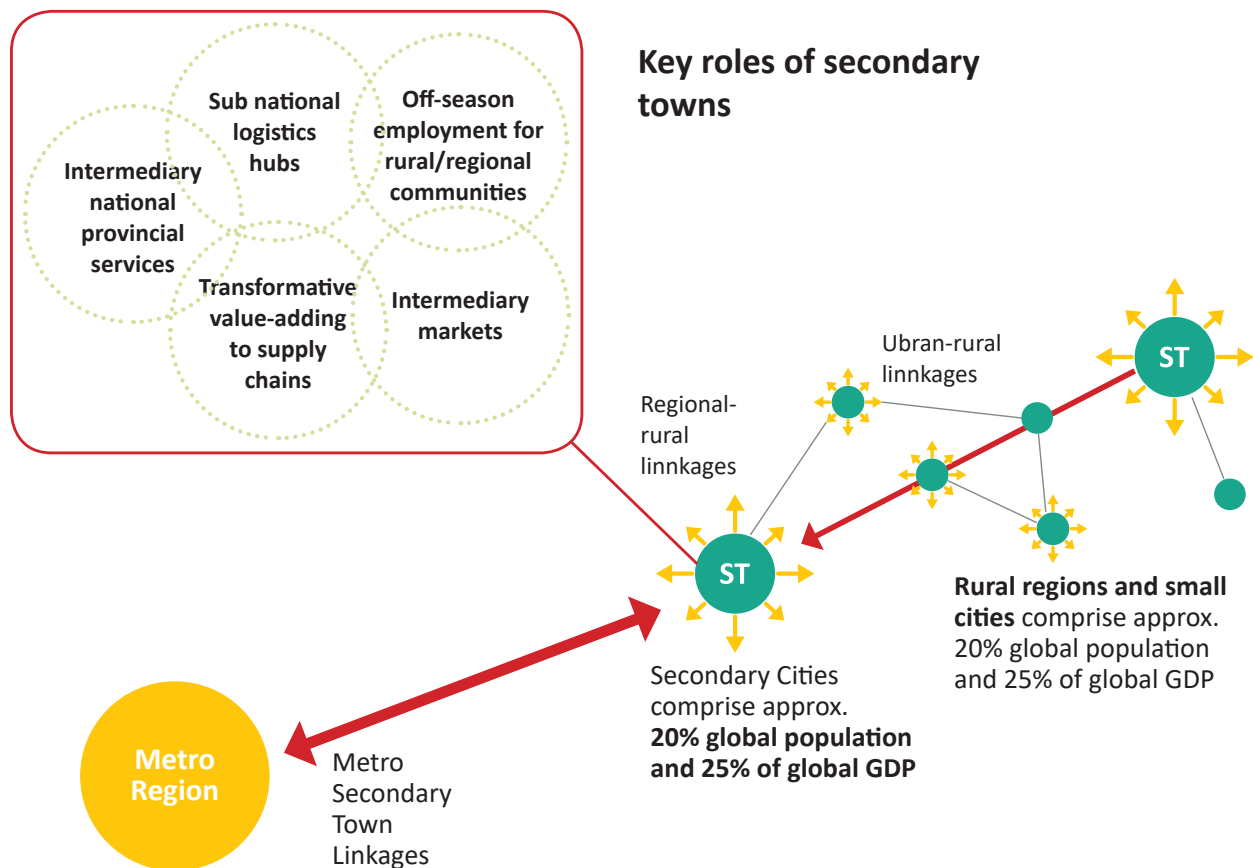


Figure 5 - The Connectivity Triad. Adopted from Roberts, 2019

Through backward and forward linkages, the virtuous circle thus created involves three elements. Through demand from urban areas, rural households earn higher incomes from the production of agricultural goods, which increases rural household demand for consumer goods. This leads to the creation of non-farm jobs and employment diversification, especially in small towns close to agricultural production areas. In turn, agricultural production areas absorb rural surplus labour and increase demand for agricultural produce, which again has the potential to boost agricultural productivity and rural incomes.

Increasing the synergies between urban and rural areas is often seen as key to building more vibrant local economies. Studies have found that productivity and earning levels in rural areas that are within city regions were higher than in rural areas outside city regions (about 8 percent and 18 percent, respectively). Nonetheless, incomes (in terms of gross annual pay) are still concentrated in urban centres.

With the urban effects reaching about one hour's travel time into the surrounding areas, connecting infrastructure development increases the size of this functional area (the area occupied by a city or town and its surrounding areas for which it is the main labour market and the source of specialized services) as an integrated economic space.

Small-town-to-small-town linkages and networks also play a crucial role in many value-adding industries' processes, especially for industries associated with first- and second-stage value-adding (e.g. processing food, materials and accessory parts and goods). There is evidence that shows that the growth effects of such polycentric development are strong. Factors that affect the connectivity between systems of small towns include:

- ▶ Ease of access to infrastructure networks that support the flow or exchange of information and the physical or spatial movement of many types of goods and services;
- ▶ Quality, scope, scale, flexibility and capacity of infrastructure and networks to respond to change;
- ▶ Economic, governance, ideological, social, legal and other non-physical types of access to public and private goods and services in other locations; and
- ▶ General levels of and attitude towards literacy, education, language, knowledge, skills, competition, change, immigration and openness to change and ideas.

In **metropolitan region linkages**, governments recognize that improvements to transport and communications among small towns and large metropolitan regions will boost trade, investment, and exchange opportunities.

Research suggests that smaller towns or regions with populations starting at 75,000 can influence agglomeration and concentration and thus have beneficial effects. Smaller towns or functional areas have lesser effects but still offer larger consumer and labour markets than other rural areas. In other words, polycentric urbanization offers a balanced form of development that clustered small towns in particular (as well as corridor small towns) are especially well suited for this approach. In all cases, the enterprise density in the area is of also of much importance.

The overarching factor of connectivity

Connectivity is a key driver of improved economic performance (along with factors such as innovation, governance and size and level of human capital development). Connectivity requires well-balanced investments in hard, physical infrastructure to support the movement of materials, goods, services and people (e.g. utilities) and soft networks and infrastructure.

Soft connectivity infrastructure has many faces. Across the polycentric system of small towns, it comprises efficient logistics facilities and networks, inter- and intra-city movement and logistics systems. It also includes shared access to public and private sector services, information, knowledge and ideas between governments, businesses and individuals. Virtual, or peer-to-peer, networks are form of infrastructure that creates opportunities for governments, businesses and organizations within systems of small towns to collaborate and to create virtual economies of scale and critical mass.

These collaborative opportunities can be achieved through the development of virtual industry clusters, where the physical elements of production, assembly and distribution are dispersed, but the core elements connecting them are networks of business organizations and communities of interest.

Labour markets are an important element of soft connectivity, as is social capital. Social capital is built up over many years and becomes deeply embedded in the make-up of the political economy. Labour market is known to be a key driver of regional innovation, creativity and the development of industrial clusters and a top-down development of small towns growth poles and economic enterprise zones has often failed to live up to expectations.

Recommendations

National-level agencies and regional governor's offices could take leadership in facilitating collaborations between small towns. Possible approaches include:

- ▶ Redefining national urban policies by unlocking small towns' potential to fully take on the responsibility for urban management and development through a fair distribution of powers, finances and capacities;
- ▶ Fostering national development by encouraging closer cooperation between small towns and their rural hinterlands and inter-municipal partnerships;
- ▶ Supporting the formation of adequate capacities for good governance;
- ▶ Identifying the existing and potential of small-town based functional areas, urban-rural linkages and concrete potentials for collaboration among small towns;
- ▶ Increasing data availability for connectivity and indexing assessments among villages, small towns and cities;
- ▶ Analysing the connectivity of small towns (e.g. through industry cluster analysis, growth poles, value chain analysis) and conducting need and gap analyses;
- ▶ Investing in strategic hard and soft infrastructure;
- ▶ Setting up small-town joint partnerships or Inter-municipal Cooperation Working Groups and elaborating joint town development strategies (e.g. through participatory approaches like CLLD/LEADER);
- ▶ Supporting rural town-based industry clusters and networks to create collaborative advantages and forming town-to-town and industry-to-industry cluster partnerships; and
- ▶ Raising the national profile of small towns by branding and promoting them as centres of innovation, intermediation, service provision, cultural heritage and prosperity.

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