



REGIONAL DEVELOPMENT PROGRAMME OF GEORGIA

2018-2021



MINISTRY OF REGIONAL
DEVELOPMENT AND INFRASTRUCTURE
OF GEORGIA



ევროკავშირი
საქართველოსთვის
The European Union for Georgia

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ABBREVIATIONS

AA	EU-Georgia Association Agreement, signed in 2014, entered into force since 1 July 2016
ADB	Asian Development Bank
AO	State Audit Office of Georgia
BDD	Basic Data and Directions, 3-years document of Government of Georgia, specifying the directions for disbursement of the budgetary financial resources
BOP	Balance of Payments
CBC	Cross Border Cooperation
CLLD	Community-Led Local Development
CSO	Civil Society Organization
CEGSTAR	Vano Khukhunaishvili Centre for Effective Governance System and Territorial Arrangement Reform
DCFTA	Deep and Comprehensive Free Trade Area – agreement on preferential trade regime between EU and Georgia, introduced by AA
EPTC	Eastern Partnership Territorial Cooperation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
ENPARD	European Neighbourhood Program of Agriculture and Rural Development
EU	European Union
EUD	Delegation of the European Union to Georgia
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FEZ	Free Economic Zone
FIZ	Free Industrial Zone
FTZ	Free Tourism Zone
GCRD	Government Commission on Regional Development of Georgia
GDP	Gross Domestic Product
GEL	Georgian Lari
GIPA	Georgian Institute for Public Administration
GITA	Georgian Innovation and Technological Agency
GEOSTAT	National Statistics Office of Georgia
GoG	Government of Georgia
GVA	Gross Value Added
HEI	Higher Education Institution
IB	Implementing Body
ICCRD	Interagency Coordination Council on Rural Development
IDP	Internally Displaced Person
ITI	Integrated Territorial Investment
LAG	Local Action Group
NCMD	National Council of Mountain Development
NEA	National Environmental Agency
NEET	Not in Employment, Education or Training
NGO	Non-Governmental Organization
NTA	National Tourism Administration
MA	Ministry of Agriculture
MC	Monitoring Committee
MoCMP	Ministry of Culture and Monuments Protection
MDF	Municipal Development Fund
ME	Ministry of Energy
MENRP	Ministry of Environment and Natural Resources Protection
MES	Ministry of Education and Science
MESD	Ministry of Economy and Sustainable Development
MFA	Ministry of Foreign Affairs
MoF	Ministry of Finance of Georgia
MLHSA	Ministry of Labour, Health and Social Affairs
MRDI	Ministry of Regional Development and Infrastructure of Georgia
MYAS	Ministry of Youth Affairs and Sports
OECD	Organisation for Economic Co-operation and Development
PPS	Purchasing Power Standards
RCC	Regional Consultative Council
RDA	Regional Development Agency

R&D	Research & Development
RDF	Fund of Projects to be implemented in Regions of Georgia
RDP 2015 – 2017	Regional Development Programme of Georgia for 2015 – 2017
RDP 2018 – 2021	Regional Development Programme of Georgia for 2018 – 2021
SME	Small and Medium-sized Enterprise
SSA	Social Service Agency
SSF	Single Support Framework
SSRD	State Strategy for Regional Development 2010–2017
SWOT	Strengths-Weaknesses- Opportunities- Threats
TA	Technical Assistance
TCC	Technical Coordination Committee
TSA	Targeted Social Assistance
UNDP	United Nations Development Programme
VET	Vocational Education and Training
WB	World Bank
WTO	World Trade Organisation

I. EXECUTIVE SUMMARY

The Regional Development Programme of Georgia (hereinafter: the Programme) is a medium-term government document setting out main goals in Georgia's regional development and determining priorities and measures for the period 2018–2021. The Programme follows up on the national planning documents: the Social-economic Development Strategy of Georgia ("Georgia 2020), the State Strategy for Regional Development 2010-2017 and the Regional Development Programme 2015-2017. The Programme's strategic vision and delivery modalities are in line with the European Union recent approaches to social-economic cohesion policy, including territorial integrated interventions and focus on the exploitation of territorially differentiated potentials.

The Programme provides a coherent framework for public and private investments promoting regional development, enabling all stakeholders to concentrate resources along a single, common strategy in order to maximise the effectiveness and efficiency of intervention.

Situation and trends with regard to territorial cohesion and competitiveness

Located in the Southern Caucasus, at the crossroads of Europe and Asia – between the Black Sea and the Caspian Sea – Georgia features remarkably diversified landscape and topography, being at the same time a challenge for communication, transport and accessibility. Historically, Georgia is an interchange for international trade and is a strategic transit corridor for oil and gas. Beautiful landscape, favourable climate and soils create opportunities for diversified agricultural production and development of tourism, based on rich natural and cultural heritage.

Georgia is divided into 12 administrative and statistical regions, which are disparate in regard to territorial, social and economic characteristics. The biggest in size region is almost 5.6 times larger than the smallest. Population-wise, the smallest region has almost 17 times less inhabitants than the biggest one (not counting Tbilisi). The average for Georgia is 65.2 inhabitants per square km, but the density of population of Tbilisi is 2,210 per km² (including the city urban territory and non-urban areas). Tbilisi is the biggest urban zone, with almost 1/3 of total country population and Batumi – the second biggest city – is almost seven times smaller. Vast disparity between the size of the capital city and other urban areas make the urban-rural divide very pronounced – only Tbilisi and AR Adjara have more urban population than rural and all other regions are predominantly rural. The lack of medium-sized urban areas determines inequalities in the level of socio-economic development within the country.

One of the main challenges from the point of view of the social cohesion of the country is high rate of depopulation. During last 25 years, despite positive natural increase of population Georgia lost more than 30% of inhabitants. In some regions depopulation rates are extremely high – with 29% in Samegrelo-Zemo Svaneti and 39% in Racha-Lechkhumi and Kvemo-Svaneti. The mentioned regions, together with Guria, have also significantly higher median age than the average for Georgia, combined with big proportion of persons receiving pensions and social packages (According to the 2016 data approximately 38% of Racha-Lechkhumi-Kvemo Svaneti's residents appear to depend on social welfare¹). This can be viewed as an important challenge of the population social structures, in particular when accompanied with high relative poverty levels, which are still observed in rural areas – while poverty intensities in rural areas remain roughly the same, poverty in urban settlements decreased, mainly due to the expansion of urban areas and high concentration of income, capital and labour force in the cities.

Only 42.3% of the working population enjoys hired job (84.5% in Tbilisi, 45.6% in AR Adjara and all other regions featuring hired employment rates below the country's average). There are more self-employed people in Georgia than those who are in hired employment with the worst performing regions being Guria, Mtskheta-Mtianeti,

¹ Socio-Economic and Territorial Disparities in Georgia elaborated within the EU TA Project "Support to Regional Development Policy Implementation, phase II" – http://www.regpol.ge/images/Socio-economic%20and%20territorial%20disparities_Georgia_Report_final%2012.12.2017.compressed.pdf

Kakheti and Shida Kartli where less than 1/3 of the employed are in hired employment. High inequalities in the level of salaries (of those having hired job) are also observed, with the average pay outside Tbilisi being 40-60% of the wage available in the capital city.

Due to the large number of self-employed in rural economy, the overall unemployment rate in Georgia is at 11.8%. Tbilisi with 22% unemployment rate tops the list whereas the lowest rates (4-5%) are recorded in the mostly in these regions: Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti. Tbilisi also features the lowest economic activity and employment rates in the country, which to some extent can be explained by stagnant manufacturing and service sectors, low survival rates of businesses.

Large regional disparities can be observed in the access to basic public services such as gas systems (only 66.9% of households), water supply systems (in some regions only 34% of households) and the waste water treatment system (considered to be poor or very poor outside urban areas). The solid waste collection system is introduced only in some of the municipalities and needs further improvement. Almost all households are connected to electrical grid but the system requires modernisation and installation of new facilities.

The uneven access to basic social services still can be observed on the level of regions. Healthcare system needs further optimization in order to increase geographical availability of healthcare infrastructure and services. In case of education, the issue of primary challenge is the availability of VET and High Education institutions. Most of HEI are located in Tbilisi and in several other major cities. The most disadvantaged in the availability of VET institutions are Kvemo Kartli, and Samtskhe-Javakheti.

According to World Bank, in 2015 Georgia has moved from lower-middle income country to upper-middle income country, with gross domestic product (GDP) per capita of US Dollar (USD) 3.8 thousand (2016 data). Due to substantial liberal economic reforms introduced in recent years Georgia is rating high in terms of economic freedom (ranked 13th by Heritage Foundation's in *Economic Freedom Index* with "Mostly Free" status whilst the World Bank Group ranks Georgia 9th for Business Freedom and 21st for Investment Freedom in its "Doing Business" ranking). Stable macroeconomic environment, despite regional economic turbulence after 2014, is confirmed by international sovereign credit ratings (2017 improvement from Ba3 to Ba2 in Moody's and Standard & Poor's and Fitch rating Georgia "BB-"). The monetary policy of the NBG relies on a regime of inflation targeting. The NBG has set an inflation target of 5 % for the years 2015-2016, for 2017 – 4% and for 2018 – 3%.

Although since 2010 Georgia records high GDP growth, the GDP growth index slowed down in recent years, reaching 2.8% in 2016, being the lowest rate since 2011. At the same time, significant GDP per capita disparities can be observed: the difference between the richest and the poorest region is 2.7 times and between the richest and the second richest – 1.8. The biggest contributor to the country's GDP is Tbilisi, accounting for 49%. Such significant share of the capital city in national Gross Value Added (GVA) is not unusual, but when paired with topography and accessibility constraints, such concentration of agglomeration and its economies is the greatest developmental challenge for Georgia and its regions. GVA per capita in current prices in Tbilisi is almost twice higher when compared to second AR Adjara. In the poorest regions (Samtskhe-Javakheti, Kakheti, Shida Kartli and Mtskheta-Mtianeti) GVA per capita is below GEL 5,000. The growing gap between Tbilisi and AR Adjara and the rest of the country can be observed. 72% of the total business sector turnover comes from Tbilisi-based companies, being 2.5 times larger than the turnover of the companies operating in all other regions of Georgia. Tbilisi companies created 63% of all jobs in Georgia, whilst in Guria, Racha-Lechkhumi and Kvemo Svaneti less than 1% of the total number of the employed work.

Georgia's economy is diversified in its structure, with industry and trade providing 17% and 16% respectively, followed by transport and communication (10%), agriculture (9%), construction (8%) and real estate (7%). Trade, repairs of motor vehicles and personal and household goods, transport and communication alongside construction sectors are the key drivers of growth in Tbilisi and AR Adjara. Industry and manufacturing are the most important economic activity sectors for Kvemo-Kartli, Shida Kartli and Mtskheta-Mtianeti making up 31% and 25% of their GVA. The least industrialised are AR Adjara, Guria and Samtskhe-Javakheti are the least industrialized Georgian territories with the share of industry in regional GVA in total GVA between 5 and 8%.

Tbilisi's economy is the most competitive in Georgia, attracting investments and creating new jobs (it accounts for 76% of all investments in fixed assets and 86% of FDI), while investment levels and their trends in many regions (Guria, Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli and Mtskheta-Mtianeti) are in decline. However, lack of specialized value chains and low labour productivity as well as low innovativeness of business sector are the main barriers for further economic growth of the capital city.

Innovation and technology statistics as such are not produced in Georgia. Some data are available, but their vast majority is not presented at the regional level. According to special innovation survey conducted by GEOSTAT, during 2013-2015 48.8% of Georgian enterprises engaged in innovation activities introduced new or significantly improved goods, while 51.2% of companies introduced new or significantly improved services. Out of 138 economies covered by the Global Competitiveness Index (GCI) 2016-2017, Georgia ranks 113rd place in innovation and sophistication factors, 65th in technological readiness, 116th in innovations, 100th in innovations capacity. In order to become a knowledge-based society, Georgia needs to strengthen the innovation capacity of local companies and their cooperation with science sector.

Due to the geographical location of Georgia, its national recourses and climate conditions, as well as rich cultural heritage, tourism is one of the most important sectors of the country's economy. The total output of the tourism industry between 2006 and 2016 has increased 6.9 times reaching 2.2 billion USD. Increasing number of international arrivals, with the annual growth between 2016 and 2017 reaching 18.8%, is the important source of the foreign currency inflow and source of new jobs creation, also in remote and less developed areas. Unfortunately, statistics do not capture international arrivals by region – only domestic tourism statistics are available on regional level.

Georgia and its regions are reasonable users of the internet. 97.5% of enterprises have access to the Internet and 44.3% of enterprises have a webpage or website, but only 9.5% of companies are receiving orders via webpage for goods or services. Almost 60% of population older than 6 years use internet, but also here the disparities between the regions can be observed: the figure for Tbilisi is 76.7%, for AR Adjara and Samtskhe-Javakheti 57-58% and between 40% and 50% in all remaining regions. 71.5% of Georgian households have internet access.

Despite recent investments, road network features low density, especially in regions such as Kakheti requires significant upgrade in regard to the surface quality and width. Out of 1,342 km long rail network only 294 km is double track and is 100% electrified. Approx. 80% of the railway network traverse mountainous terrain where any expansion is difficult and costly. Since domestic passenger transport is almost entirely road-based, poor infrastructure affects connectivity and mobility – lack of efficient transport options paired with low levels of economic value added outside the greater Tbilisi area are deemed to be key contributors to high unemployment rates.

Agriculture is an important sector of the Georgian economy, delivering 9% of GDP, but at the same time being the main occupation for more than a half of the country's population. In some regions more than 70% of work force is employed in agriculture, with 77% of farms smaller than 1 ha.

The most popular crops are corn, wheat and barley. The fruit and nuts are grown mostly in Shida Kartli, Kakheti and Samegrelo-Zemo Svaneti. The biggest cattle breeding and dairy cow breeding regions are Samegrelo-Zemo Svaneti, Imereti and Kvemo Kartli but because of the low productivity of the sector, low quality of milk and insufficient food safety standards dairy sector features development barriers. Georgia is one of the oldest wine producers in the world. The combination of terrain, elevation, soil, drain and sunshine provides optimal conditions for viticulture, with Kakheti being the lead producer of grapes in Georgia (approx. 70% of the national production).

Georgia is still a fiscally centralised country. Although the fiscal sustainability index (per capita revenue from taxes and fees) increased and for 2016 with the GEL 422 in Tbilisi and GEL 86 in Shida Kartli municipalities it is still much lower than in the least developed EU Member States, significantly limiting developmental potentials of the regions.

Despite several reforms of the system of official statistics in Georgia, there is still lack of some regional data on local economies, competitiveness, trade, migration, innovations, labour market etc. Municipal statistics is almost unavailable.

Territorial development needs and potentials

The analyses conducted revealed that Georgia is a country with many unmet development needs but at the same time a number of potentials can be identified which can be exploited with the aim to enhance economic development and improve the quality of citizens' life. Many of needs and potentials have clear territorial dimension – some of them are associated only with particular location or type of territory.

On the basis of analyses three horizontal needs can be distinguished, first of them and one of the major pressing being the enhancement of the competitiveness of the Georgian economy, still ranking low in the international comparisons. Promoting integrated and concerted development of competitiveness factors, which are very much rooted in the socio-economic characteristics of individual regions, requires a territorially sensitive competitiveness oriented regional policy embracing the whole country.

Competitiveness and growth factors related to the socio-economic characteristics of the individual regions are significantly different from each other. Consequently, the efficient detection and use of these factors requires the integrated development policy tailored on territories and consistent implementation embracing the whole country.

The second identified horizontal need to be tackled by the regional policy is the high (and increasing in recent years) level of disparities observed in Georgia at the level of planning regions, both in economic and social dimension. The economic life of the country concentrates in Tbilisi functional area and the dominant position of the capital city influences almost all economic factors, albeit the low employment activity and low employment rate in the capital city show the strong need to address these problems separately.

The economic performance and structure influences the territorial pattern of social disparities and contributes significantly to persistent (and even growing) differences in the level of poverty between Tbilisi and other regions. The main factors affecting much higher level of poverty in the regions in comparison to capital city are: high employment in agriculture outside Tbilisi, lack of good quality jobs, depopulation and aging (mostly in rural areas), large number of population living on social benefits and extremely high share of pensioners in some regions. A significant territorial disparity in access to basic services and the uneven geographical distribution of healthcare facilities in regions are another factor having impact on the quality of citizens' life.

The third identified horizontal factor is a need for stabilising legal basis for regional development policy, enhancing the local authorities in terms of financial powers and increasing institutional capacity of institutions involved in programming, implementation, monitoring and evaluation of regional policy. Existing programming base, with the 2010-2017 Regional Development Strategy and Strategies and Action Plans of the individual regions, may require to be updated and better synchronized with national development policy. The coordination function of MRDI in implementation of the regional development policy needs to be strengthened, as well as capacities of other national and regional institutions and stakeholders to run integrated regional development programmes, at the beginning in some pilot regions.

Addressing the identified needs requires an ambitious regional policy oriented towards increasing sustainable competitiveness factors and at the same time promoting more balanced social and territorial development of the country. The policy choices should take into account globalisation pattern, overall socio-economic environment, short (3 years) implementation time as well as limited institutional and financial resources involved in the implementation of the RDP. In sectoral approach, the identified horizontal needs and potentials can be organised in 5 major groups, including:

- Key infrastructure: key strategic physical infrastructure such as motorways in transport corridors, railways, airports and seaports; modernization and development of environmental infrastructure (water supply system, solid waste management, natural disasters prevention system); energy and broadband infrastructure; protection of cultural and natural heritage; promotion of integrated urban transport solutions.
- Economy: increase support to entrepreneurs, including SMEs; increase access to financing for innovative firms and improving involvement of existing research and academic institutions with business to produce and implement innovation projects; enhance export volume and structure; support to further development of potentials in tourism and agriculture and food processing; increase of investments, including FDI.
- Human resources: further reforms in education and health sector, assuring adequate social infrastructure not only in regions but also in Tbilisi; continuation of vocational education system reform; building and stabilising the high education system offer, increase skills and infrastructure of academic base, internationalisation of HEI; developing potential of R&D institutions in Georgia to innovate, support cooperation with business community, enhance links with international research institutions; reform labour market to diminish the mismatch between skills offered and demand from the market; pro-active policy aimed at unemployed and economically disadvantaged groups, mostly in poorer regions.
- Endogenous development: stronger involvement of citizens in improving living conditions at the level of municipalities; improvement of local, small scale infrastructure; diversification of local economies and improvement of the infrastructure in rural settlements; support to economic development and improvement of the access to and availability of public services (education, health care, basic infrastructure, etc.) in high mountainous areas; support to development of Black Sea ports areas to enhance development potential of Georgia as a transit country; connecting Tbilisi with neighbouring municipalities of Eastern Georgia to increase opportunities for inhabitants to exploit the potentials of the capital city.
- Institutional development: increasing capacities of national and local authorities to support them in successful implementation of the RDP; strengthening analytical capacity of the ministries and state agencies, including the need to increase further GEOSTAT capabilities to provide the administration with the sufficient trend analyses and series of data needed for programming and evaluation of national and regional policies; development of partnership principle in the policy cycle; preparation and implementation of pilot integrated regional development programmes, co-financed directly by the EU.

The analyses conducted within the Regional Disparities Report, SWOT analysis and assessment done in the Regional Development Strategies showed that despite many similarities between basic needs of individual regions, business support schemes available or necessary public services, the planning regions are characterized also by some unique features which are territorially specific or common for limited number of regions. Table 33 presents specific barriers to be overcome on the level of each region as well as potentials to be developed. The analyses constituted the basis for determining four planning regions which may be considered as to be the best suited to play the role of pilot regions, in which the integrated regional development programme can be implemented – Samtskhe-Javakheti, Imereti, Samegrelo–Zemo Svaneti and Kakheti.

It is also to be stressed that in geographical terms some socio-economic problems and potentials tend to cluster not necessarily following the logic of administrative (or planning regions) – in Georgia three distinctive functional regions can be identified: Black Sea Coastal Area, Tbilisi Functional Area and high mountainous region.

Strategic challenges for Georgia

Georgia struggles with persisting territorial, economic and social problems but at the same time it possesses significant not utilised development potential. For using this potential, the stable overall political situation is needed as well as good macroeconomic policy and addressing major problems and barriers by structural policies aiming at building on strengths and utilising opportunities.

Among the opportunities the possibilities offered by globalisation can be listed, such as increase in trade and investment, export of Georgian products and taking full use of the process of growing political and socio-economic ties with the European Union. Opening up markets, alignment of legislation, transfer of know-how and financial support of the EU can contribute to the stable socio-economic development. To effectively use these opportunities, Georgia needs an ambitious, but at the same time realistic developmental strategy, building on country's planning documents (Georgia 2020 and other sectoral and regional strategies) as well as on Association Agreement provisions and DCFTA strategy. This implies strong structural transformation policies, which need to take into account territorially differentiated geographical and socio-economic situation of individual areas across the country. Policies for structural change and competitiveness need to be combined with a strong push towards social and territorial inclusiveness – only such inclusive development may expand in the sustainable way the economic performance of the whole country and increase the well-being of citizens.

To contribute effectively to achievement of the strategic objectives of the national development strategy regional development policy in Georgia should be governed by 3 principles:

- National, sectoral and regional development policies and strategies must be formulated with reference to the needs and development potentials of regions and territories, encompassing comprehensive territorial analyses and the differentiation of policy interventions and public investments in territorial terms.
- Further strengthening of co-ordination among all government policies and investment instruments aiming at the socio-economic development of Georgia is needed, as well as improved coherence between interventions at the national and local levels in all stages of the policy cycle.
- Partnership and multi-level governance are to be established as cornerstones of regional development policy.

The above-mentioned principles, being part of a broader integrated territorial approach to development, allow for the integration of the knowledge and interests of stakeholders at international, national and sub-national levels, creating as a result a well-functioning multi-level governance system rooted in local knowledge, creativity and innovations.

Georgia's on-going European integration process gives an opportunity to approximate regional policy with international best practices. Thus, the horizontally applied requirements, such as the need to focus resources in order to maximise the effectiveness of investments, taking into account policy objectives related to sustainable development, equal opportunities, non-discrimination and social inclusion, have been addressed in the RDP, as well as new challenges to regional policy, resulting from demographic developments and climate change.

Strategic objectives of the Programme

While formulating the strategic objectives of regional development policy for Georgia international experience, the political choices made by the country (the EU integration process) and overall development goals have been taken into account.

The primary objective of the regional policy in Georgia is to contribute to the achievement of national policy goals (which is, according to Georgia 2020, supporting inclusive economic growth and competitiveness of the economy at national level) by using territorial potentials and eliminating barriers to development at various territorial management levels. To achieve this, coordinated activities in the areas of legislation and institution building as well as investments enabling delivery of essential public goods and services (e.g. key transport projects, health, education, labour market, etc.), increasing levels of private investment and employment, supporting innovation, enterprises (especially SMEs) and business organisations and development of the human capital are needed.

The focus of national regional policy should concentrate on competitiveness in order to increase external cohesion of Georgia and its regions with Europe and other developed economies – every territory should grow and contribute to competitive position of the whole country (accumulative productivity growth). Such strategy would have an effect on the internal cohesion as naturally the regions already developed will have more capacity to make use from the European integration and opening up markets but in the longer run also improvement of poorer areas development prospects would be achieved through concerted actions aiming at delivering necessary

infrastructure, improving quality of human resources, fighting poverty and social inequality as well as strengthening institutions and promoting endogenous development.

For measuring the long-term impacts of regional development policy several indicators have been chosen, such as GDP per capita on national level, exports of goods and services as percentage of GDP, share of Tbilisi in total GVA, share of population living below the poverty line (national level) and share of investments in fixed assets as percentage of GDP (regional level).

Programme Objectives and Priorities

In order to support Georgia's growth, in coming 10 – 15 years an ambitious pro-development and inclusive socio-economic policy with a strong territorial element should be implemented, referring to the territorial aspects and helping to achieve the overall objectives of the development strategy.

In medium term perspective the policy should focus on limited number of key objectives, quantified at national and local level, with expected results referring to increase of competitiveness and decrease of various identified gaps (infrastructural, human resources, productivity, financial). In longer run this will lead to decrease in disparities between Georgia and its regions and the EU, as well as increase internal economic, social and territorial cohesion of the country.

The following strategic medium-term objectives of regional development policy of Georgia addressing the needs and allowing for identified potentials have been indicated:

- **Contribution to fast economic development of the country by using potential of all regions according to their specific potentials**, with the expected (long-medium term) results being: improvement of productivity level in relation to EU average for all regions, higher contribution of areas outside Tbilisi to the national GDP (GVA), drop in the level of unemployment in all regions/ increase in the level of employment rate, increase in the level of private investment in all regions – more investments outside Tbilisi and increase in spending on innovation (% of GDP).
- **Increasing social equality and job opportunities for development for all citizens, regardless where they live.** The following results are expected to be achieved in long-medium term: decrease in the level of poverty in all regions, increase in the level of childhood care (children aged 0-3 covered by institutional child care, decrease the rate of self-employed, especially in Tbilisi, increase in the level of dropout rate of children from primary schools in all regions and increase in accessibility to essential public services, especially in poorer areas (health, primary and secondary education, social care, vocational services).
- **Promoting spatially balanced development of the country**, with the following long-medium term results: Increase in international, national and regional accessibility (increase in length of motorways), decrease in accessibility of infrastructure disparities between planning regions and functional areas (mountainous and rural areas), coverage of most settlements of the country by broadband internet and increase of and economic activity (measured by turnover of companies) in medium size cities and centres of the planning regions.

The objectives of the Regional Development Programme 2018-2021 are defined on the basis of the analysis in Chapter 2. The reference is also made to 3 principles defined in the „Georgia 2020”, i.e. ensuring fast and efficient economic growth driven by development of real (production) sector of the economy, implementation of economic policies that facilitate inclusive economic growth and rational use of natural resources, ensuring safety and sustainability and avoiding natural disasters during the process of economic development. The overall and specific objectives of the State Strategy for Regional Development 2010-2017 (although the strategy expired at the end of 2017), i.e. create a favourable environment for the socio-economic development of the regions and improve living standards and conditions of the population, which is to be achieved through balanced socio-economic development of the regions, increased competitiveness and minimised socio-economic imbalances amongst the regions are also addressed. Additionally, the experiences gained during the implementation of the first Regional Development Programme 2015-2017 are taken into account.

To achieve these objectives relevant legislative, institutional and investment actions need to be implemented within various national, sectoral and regional policies, with the use of instruments financed by national and regional (municipal) authorities and international donors, including the EU.

Georgia has to continue on a path of accelerated economic growth, which requires the further diversification of the economy, but also smart specialisation on sectors that are best suited to Georgia's comparative advantages. Due to the major imbalances among Georgia's regions as well as within the regions, there is a need for inclusive growth – unfavourable demographic situation especially in the rural areas and specific development difficulties of mountainous areas require special attention, as well as the large numbers of internally displaced persons who have fled their homes as a result of recent armed conflicts and the foreign occupation of Georgian territories. Development of human capital – in terms of general education, vocational education and life-long learning alike – will have a key role. Modernization and development of infrastructure must retain its priority status, too, including telecommunication and transport networks, as accessibility is a key problem all over in Georgia. Improving infrastructure and increasing accessibility will have direct impact on enhancement of investments (including FDI) outside the major city agglomerations. In addition, with a view to the environment, the modal split of transport needs to improve by investing in railway network and intelligent public transport systems. Rehabilitation and expansion of the energy, water supply and sewage treatment networks and solid waste management systems are also indispensable.

Since the Programme resources, although significant, will not be able to cover all mentioned areas to the extent needed, concentration of resources, based on sector reform priorities and the consistent and efficient utilisation of the specific resources of each region and territory, will be required.

The analysis conducted in the preparatory phase of work on the RDP 2018 – 2021 concentrated on regional differences in natural, social and economic conditions in every sector. The reinforced territorial approach in overcoming these regional differences shall be a basic guiding principle during the selection of investment measures under the RDP. Key public investment projects shall increase the accessibility and help create the basic infrastructural conditions for FDI and private investments in all regions.

Integrated territorial investment (ITI) measures on the one hand should effectively address the diverse needs of different territories, and on the other hand should ensure maximum utilization of these territories' specific capabilities through implementation of regional development programmes serving as a basis for combining resources and efforts from different sectors and territories. The management and coordination bodies of the RDP is GCRD and MRDI. Their reinforced mandates will allow them to ensure effective inter-sectoral co-ordination and a continuous dialogue with local authorities. On that basis, they also have the possibility, and responsibility, to shape and monitor the project selection and implementation process in line with the overall strategy of the RDP.

Considering the above, the **overall objective** of the programme is **to contribute to the overall national policy objectives of balanced socio-economic development and the improvement of living conditions across the national territory, reducing regional disparities and increasing territorial cohesion.**

The overall objective is to be achieved through three specific programme objectives:

1. Promoting economic growth, systematically exploiting Georgia's comparative advantages in the dynamic international context, eliminating barriers for potential use and development of relevant territorial units;
2. Sustainable development, the rehabilitation and expansion of infrastructure and energy and communication networks and public utilities in an environmentally friendly manner
3. Promoting social and territorial cohesion – creating equal opportunities for all citizens, irrespective of their social background and place of residence.

To achieve those goals, the RDP applies a programme structure based on five priorities:

Priority 1. Improvement of key infrastructure supporting competitiveness and sustainable development of the country and its regions

Priority 2. Support to SMEs, growth-oriented sectors of economy and export promotion

Priority 3. Support to Development of Human Capital

Priority 4. Promoting local development and support to specific areas based on their endogenous development

Priority 5. Increase the quality and effectiveness of regional development institutions and preparation of pilot regional development programmes

Chapter 6 of the programme provides justification of the priorities and their detailed description, while Chapter 7 provides measures, activities and instruments for their implementation.

Financial Plan

The RDP 2018-2021 measures (total indicative budget is GEL 18 billion) will be implemented through the State Budget of the years 2018-2021, donor funding (in the form of Sector budget support, provided via the Central Budget or outside the Central Budget and managed by donors or instruments envisaged by contracts) and co-financing provided by the beneficiaries of RDP support.

The indicative figures of allocations are included in the description of Measures and in the Financial Table attached to the RDP, containing specific allocations to the RDP via the State Budget within the framework of the annual budget planning, with the approval of Parliament), information whether the allocation via the State Budget includes donor funding, any financial information that may be available regarding additional donor funding, the name of the donor programme that is providing financing via, or parallel to the RDP and an estimation regarding the expected rate of co-financing that beneficiaries of RDP support will provide.

The financial responsibility for all agencies contributing to the RDP is regulated by the applicable national legislation on the implementation of the State Budget as well as any additional agreements with the donors. Financial allocations for RDP are based on BDD (which defines state budget financial resources spending direction) and other sources.

Implementation Terms and Arrangements

Implementation of RDP 2018-2021 is based on the limited on the principles of reinforced co-ordination, continuity, and partnership, also predictability, transparency and accountability, comprehensive capacity building and proportionality. Although the implementation systems build on current Georgian practice, some innovations of an evolutionary character, based on the best European practices.

The implementation system of RDP 2018-2021 consists of the following stakeholders:

- Governmental Commission on Regional Development (GCRD) with the main function to assure efficient coordination of activities between ministries. The GCRD on behalf of the Government initially endorse or discuss all strategic documents related to the RDP programming, implementation, monitoring and evaluation. The Commission review or approve all strategic and methodological documents, which are related to the planning, monitoring, accountability and evaluation of the regional development programme. At the same time through consideration of relevant programming aspects and implementation preparatory arrangements (including selection criteria of specific projects) the Commission facilitate thematic coordination with the development partners (including donors) and stakeholders.
- The Ministry of Regional Development and Infrastructure (MRDI) – co-ordinates implementation, liaise with the line ministries in charge of implementing programme measures, as well as other programme authorities and key beneficiaries and ensures collection, processing and availability of comprehensive information and reports on the progress of the RDP to the GCRD, MC, the Government and the general public.

- Technical Coordination Unit - an extended Inter-ministerial Working Group involved in the elaboration and implementation of the programme is accountable with the GCRD. It meets periodically to discuss the progress of programming and implementation of the programme, including methodological issues, operational planning, as well as the day-to-day management and programming of the RDP.
- Coordination Unit of donor programs – a special working group created within the GCRD which is authorised for the implementation of the Regional development programme to provide thematic consultation with stakeholders and development partners, prepare proposals on relevant programming aspects and preparatory arrangements for implementation (including selection criteria of specific projects)
- Intermediate Bodies (IB) – the responsible sectoral body within its competence implement the programme measures and ensure reporting, according to the provisions of the RDP. The IBs will periodically report to the MRDI on the progress of the implementation of the programme measures.
- Local Self-government bodies administrations of State Representative Governors may be involved in implementation of some measures through ad hoc participation in the works of the MCC or TCC. Governors and municipalities may be directly involved in implementation of some measures through involvement in the project selection.
- State Audit Office of Georgia (AO) inspect performance and spending of the budget allocation of the implementing bodies according to the Georgian legislation.
- Beneficiaries of the programme include a broad range of institutions operating at national and local levels as well enterprises and citizens under human development and other social measures.

Programme Monitoring and Evaluation.

The detailed procedures for implementation and accountability will be described in the Manual developed by MRDI with the use of experience gained during implementation of the previous Programme and based on EU practice.

II. FOREWORD

II.1 INTRODUCTION

The Regional Development Programme of Georgia (hereinafter: the Programme) is a **medium-term government action plan**, prepared against the backdrop of the Social-economic Development Strategy of Georgia (“Georgia 2020”). Based on applicable Government policies, the Programme sets out the Country’s main goals for regional and territorial development and determines operational priorities and development measures for the period 2018-2021. In so doing, it follows up on previous national planning documents, in particular, the State Strategy for Regional Development 2010-2017 and the Regional Development Programme 2015-2017.

In practical terms, the Programme is to provide a **coherent framework for public and private investments promoting regional development**, enabling all stakeholders to concentrate scarce resources along a single, common strategy. This in turn is expected to maximise the effectiveness and efficiency of such investment. Measures proposed by the Programme serve the balanced development of Georgia and all of its regions, contributing to an increase in the quality of life for the whole of society. They are of a strategic character, responding to needs and exploiting possibilities and comparative advantages for long-lasting outcomes.

Importantly, in line with recent European practice, the Programme is based on integrated territorial development approach. In this regard, it is designed to serve as a reference basis for other national and sector-level strategies, so that the territorial aspects of development, and the promotion of **economic, social and territorial cohesion**, may receive increasing attention in future, in all areas of public policy.

II.2 LEGAL PROVISIONS

Georgia is a **unitary state with two autonomous republics** – the AR Adjara and the AR Abkhazia. The latter of the two is currently under Russian occupation, and outside the *de facto* jurisdiction of the Georgian government. The same applies to “Autonomous District of South-Ossetia”, a formerly autonomous territorial entity in Soviet times, forming part of the Shida Kartli Region – and currently defined as a temporary administrative-territorial unit. Considering that, according to the Constitution of Georgia, the territorial organisation of the country will be revised – based on a sharing of power between the national and sub-national levels – after the complete restoration of the jurisdiction of Georgia on the whole national territory.

Currently, **Georgian legislation does not define the term „region”**. One of the main national planning documents of recent years – the State Strategy for Regional Development of Georgia for 2010-2017 – viewed it, in the context of the implementation of the state’s policy for sustainable development, as a functional planning unit representing a group of administrative territorial entities, typically coinciding with the area of responsibility of a State Trustee-Governor.² In the State Strategy, Tbilisi City Municipality, the Autonomous Republics as well as the temporary administrative-territorial unit were also defined as regions.

With the exception of the Autonomous Republics, and Tbilisi City Municipality, **Georgia’s regions are not administrative units** – i.e. they do not possess an authority to either develop or implement policy or make administrative-territorial decisions.

At the same time, the Law “on the Development of **High Mountainous Regions**” has established one specific category of **functional territory**, with the aim of encouraging dedicated measures for the social and economic progress of these territories in line with their own social and economic conditions.

²Chapter 1.1, Basic concepts – page 4, paragraph 3

Georgia's structure of **regional administration is to be aligned with the EU practices** in the medium or long term. The country's regions are very diverse as regards their territory, population and demography. In terms of size they are rather comparable to NUTS 3 units in the European Union – or smaller. Tbilisi has a population above the NUTS 2 floor limit.

II.3 PROGRAMMING SYSTEM

Until now, the main national planning document for regional policy was the State **Strategy for Regional Development** 2010-2017 (SSRD). However, since the adoption of the SSRD, circumstances have significantly changed, and public policies, including sectoral policies have also evolved. Most importantly, a new Local Self-Government Code has been adopted, the EU-Georgia Association Agreement has entered into force, and a new Reform Strategy³ has been adopted to reinforce the system of policy development. As a result of the latter, development policy programming is to gradually align with EU best practices.

Against that backdrop, the present **RDP 2018-2021** is to define challenges, needs, objectives and priorities for action in the medium term, in the area of regional development policy over the entire national territory that is under the jurisdiction of Georgia.

As regards current national policy priorities, the **Government's programme for 2016-2020**⁴ features a four-point reform plan, concentrating on:

- economic growth
- education
- spatial planning, and
- public administration

More specifically, **economic reform** will focus on the promotion and strengthening of the private sector. In this regard, the government has a whole package of initiatives, which will make doing business in the country more attractive and profitable. In addition to even more business-friendly tax laws, the government of Georgia aims to promote investments, facilitate the creation of start-ups, innovation, leading to increased employment in the private sector.

Through the **reform of spatial planning**, the Government is seeking to provide a clearer overall framework for the country's sustainable development. As part of that, the development of cities and villages is to be regulated more effectively. Furthermore, the transport network is to be improved throughout Georgia. As a result, geographic location should no longer represent an obstacle to developing business. Improved transport should also contribute to the development of tourism, as well as agriculture in highland and remote areas of the country. Ultimately, Georgia is to completely realize its development potential in a sustainable manner, and Georgia's position as a transit hub should be further strengthened.

Last but not least, as in a number of other areas, **relations with the European Union** also have a key influence on regional development policy. Specifically, in this area, the Association Agreement foresees joint activities of the Georgian authorities and the EU to:

- promote mutual understanding and bilateral cooperation in the field of regional development **policy**, including **methods** of formulation and implementation of regional policies, **multi-level governance and partnership**;
- co-operate to **consolidate** the institutional and **operational capacities** of Georgian institutions (including the mechanisms of vertical and horizontal interaction of central and local public authorities);
- **sharing knowledge**, information and best practices on regional development policies;
- strengthen and encourage the development of **cross-border cooperation**.

³ http://gov.ge/files/425_49310_540377_PolicyPlanningSystemReformStrategyandActionPlan.pdf

⁴ „Freedom, Rapid Development and Prosperity 2016-2020”, p. 4 - http://gov.ge/files/41_61087_816118_GoG_Platform_LKF_19_05_2017.pdf

Co-operation with the EU is underpinned by **financial assistance** in the form of Budget Support. Priorities for financial co-operation in 2014-2016 focused on public administration reform, agriculture and justice. In the period 2017-2020 emphasis is expected to shift towards economic and territorial development and market opportunities; strengthening institutions and good governance; connectivity, energy efficiency, environmental protection and climate change; mobility and people-to-people contacts. Furthermore, in the next planning period, the programming measures will be implemented in selected **“pilot” regions** allowing for the testing of new types of approaches based on integrated development initiatives. The appointment of pilot regions does not mean that EU assistance would be limited to these territories.

II.4 THE INSTITUTIONAL FRAMEWORK OF REGIONAL POLICY

Inter-sectoral co-ordination

In Georgia, in line with the general distribution of functions within the Government, the overall co-ordination of policies, and the co-ordination of relations with local self-government bodies is the responsibility of the **Prime Minister** and the **Administration of the Government (AoG)**. Thereby, they are to be supported by the relevant government ministries.

The ministry responsible for the design, implementation and monitoring of regional development policy, is the **Ministry for Regional Development and Infrastructure (MRDI)**. The Ministry also co-ordinates the work of ministries and national agencies involved, as well as the relations between state institutions and municipalities with respect to regional development.

There are also **several inter-ministerial committees** to support implementation and coordination of regional development in Georgia, including the:

- Government Commission on Regional Development of Georgia (GCRD)
- National Council of Mountain Development (NCMD)
- Interagency Coordination Council on Rural Development (ICCRD) of Georgia
- Georgian Regional Development and Local Self-government Reform Commission

The coordination of the aforementioned bodies is carried out by the Ministry of Regional Development and Infrastructure (except for the ICCRD, co-ordinated and supported by the Ministry of Environment and Agriculture of Georgia).

Sector level

Sector policies contributing to regional development are formulated and implemented under the auspices of **line ministries**. However, the mode of their participation in the formulation of regional development policy is currently not fully regulated.

When implementing the RDP, line ministries use a number of **implementing bodies**. These are national agencies with a task to prepare and implement investment projects. The most relevant ones for this programme purposes include:

- Roads Department of Georgia under MRDI
- LTD Solid Waste Management Company of Georgia
- LTD United Water Supply Company of Georgia
- LEPL Municipal Development Fund of Georgia
- LEPL “Produce in Georgia” LEPL Georgia’s Innovation and Technology Agency, and the
- LEPL Georgian National Tourism Administration.

In addition, **CEGSTAR** – a legal entity of public law under the Ministry of Regional Development and Infrastructure – has been established to provide additional expertise and support to the planning and implementation of regional development. It is also actively involved incapacity building for national and local civil servants.

Planning Regional level

With the exception of the autonomous republics, a **region** is not a self-government level in Georgia. The regional administration is supervised by the Governor, appointed by the national level. The Governor also has co-ordination task among the regional de-concentrated bodies of the ministries, between the national and local authorities, as well as among the local self-governments themselves. Specifically, with respect to regional development the Governor, as representative of the state:

- By the GoG order, within their competence ensures the elaboration of the socio-economic development strategies and programmes of the respective region, participates in regional development activities
- Makes recommendations regarding economic development priorities and submits them to the GoG
- Coordinates implementation of regional policy and specific measures within local government reforms
- Coordinates relations among Georgian Government and state institutions with local self-governments
- Coordinates the activities of the territorial bodies of ministries by the order of the Government

Each State Representative - Governor's work is assisted by a **Regional Consultative Council (RCC)** established on the basis of the [Code on Local Self-Government - Organic Law of Georgia](#). The purpose of the Council is to **represent and discuss the interests of municipalities in the process of regional development**. The RCC is **composed of the State Representative - Governor, and the representatives of all municipalities of the region**.

Local level

The **tasks of local self-governments are quite comprehensive**, as listed by the Code on Local Self-Government - [Organic Law of Georgia](#) - . According to the law, local governments have authorities, inter alia, to manage local importance natural resources (including water, forest, land owned by the municipality, etc.); ensure spatial and territorial planning; develop local infrastructure (parks, squares, roads, street lights and etc.); manage municipal waste, wastewater; ensure water supply; establish and operation of pre-school and extramural educational institutions; organize local transport; develop local facilities for disabled persons, children and the elderly; as well as promote employment, agriculture, tourism; social aid and healthcare; youth policy; gender equality; environmental protection; public education; the attraction of investments to the municipality's territory; innovative development, etc. Their specific role of a municipality in the design and delivery of different areas of public policy is determined further by sectoral legislation.

II.5 DONOR SUPPORT

Georgia is enjoying substantial support from international donors and development partners, inter alia:

- The European Union – via bilateral, regional and thematic programmes
- World Bank
- French Development Agency
- Council of Europe
- Asian Development Bank
- The European Bank for Reconstruction and Development (EBRD)
- The European Investment Bank (EIB)
- UNDP
- Austrian Development Agency
- Denis International Development Agency
- GIZ
- KFW
- JIKA
- Sweden International Development Agency
- Switzerland Development and Cooperation Agency
- USAID

In the Annex X.1, a detailed overview is provided of the donor programmes directly related to regional development.

III. SITUATION AND TRENDS WITH REGARD TO TERRITORIAL COHESION AND COMPETITIVENESS

III.1 GENERAL CONTEXT

III.1.1 Natural conditions

Georgia is located in the Southern Caucasus, **at the crossroads of Europe and Asia** - between the Black Sea and the Caspian Sea. Its territory is 69.7 thousand km². The total length of the state border is 2,148 km. Georgia borders on the Russian Federation, Republic of Turkey, Republic of Azerbaijan and Republic of Armenia.

The country features a **remarkably diversified topography**, presenting a major challenge for transport and communications. As a result, **accessibility and functionality of these systems** is one of the critical socio-economic development factors in the country.

Climate is determined by the Caucasus Mountains, and the proximity of two seas. The West is humid and subtropical, while Eastern regions are more continental, with a generally moderate, drier weather. Average annual rainfall is 2,800 mm in the West and around 300 mm in Eastern areas. High mountains feature eternal snow and glaciers. Overall, the climate and good quality soils create **opportunities for diversified a diversified rural economy** and agriculture.

Georgia's landscapes feature plentiful **forests and woods**, with numerous **surface waters**. Altogether, there are ca. 26 thousand rivers and streams, 18 thousand of which are in West Georgia. There are also 860 lakes, most of which are situated in the high mountains. By contrast, Lake Paliastomi is located below sea level. Georgia also has extended and voluminous **wetlands**. Two of them – near Poti and Ochkhmuri – are designated Ramsar sites⁵, with total surface area of 34,480 ha. There is also an abundance of sub-surface waters.

Nowadays there are three UNESCO World Cultural Heritage sites in the country: the Gelati Monastery and the Bagrati Cathedral, as well as Historical Monuments in Mtskheta and Upper Svaneti. Also, in the List of the World Intangible Cultural Heritage has been nominated the following three monuments: Georgian polyphony, ancient Georgian traditional method of wine making, live culture of three species of Georgian alphabet, while "Georgian Wrestling" is nominated for the purpose of entering in the representative list.

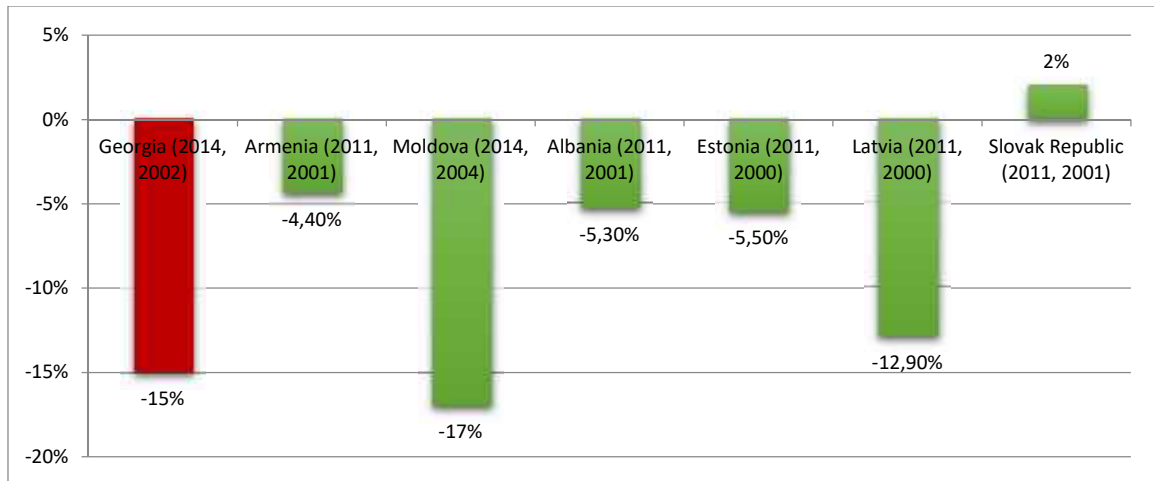
III.1.2 Administrative division

Georgia is sub-divided into **2 administrative regions** (the Autonomous Republic (AR) of Abkhazia and Autonomous Republic of Adjara) and **temporary administrative territorial unit created on the former South Ossetia autonomous District and 10 statistical and economic-geographical regions**:, (Samegrelo-Zemo Svaneti, Racha-Lechkhumi and Kvemo Svaneti, Imereti, Guria, Samtskhe-Javakheti, Shida Kartli, Kvemo Kartli, Mtskheta-Mtianeti, Kakheti and Tbilisi), which except Tbilisi do not have the status of administrative territorial unit.

⁵ A Ramsar Site is a wetland site designated of international importance under the [Ramsar Convention](#)

Since the collapse of the Soviet Union, despite a positive natural growth rates, **Georgia has lost ca. 31% of its population**. The main factors contributing to this are outward migration, the occupation of Georgian territories, and the departure of Soviet military army personnel. Between 2002 and 2014 all regions – except Tbilisi (3% growth) – experienced depopulation. The areas most affected are Samegrelo - Zemo Svaneti and Racha-Lechkhumi and Kvemo Svaneti, where, depopulation rates reached 29% and 39% respectively. Adjara’s population shrank the least (-10.6%). **Depopulation is an issue of major concern** as it may lead to brain drain, territorial integrity risks, fast aging of population, decrease in property values (and abandoned properties), a decline in income of the affected municipalities, the devastation of the landscape as well as negative environmental pressures.

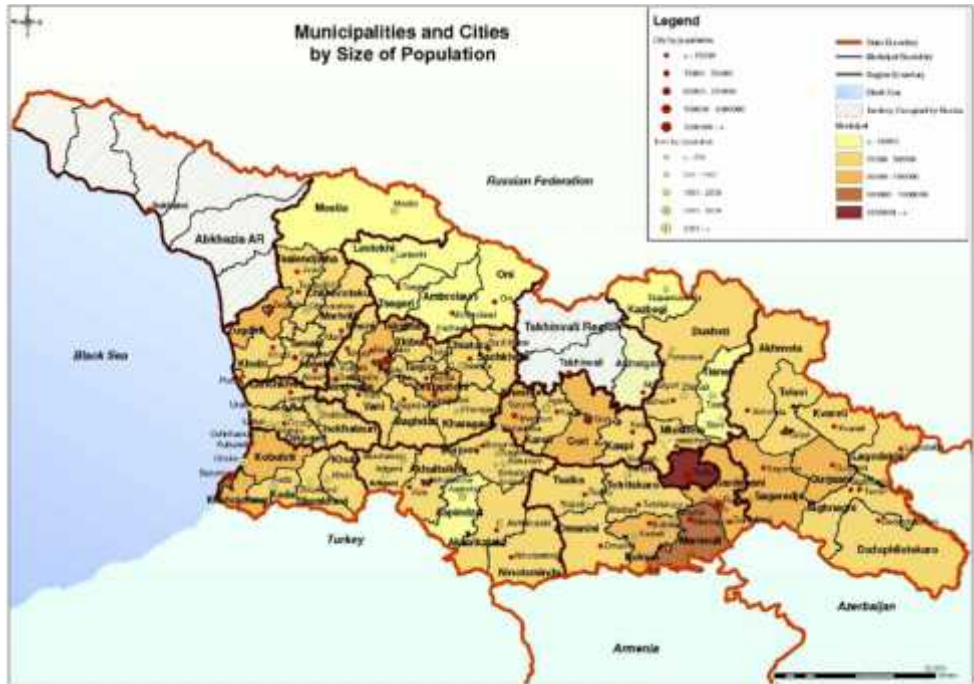
Figure 2 - Population change - recent census data, international comparison



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

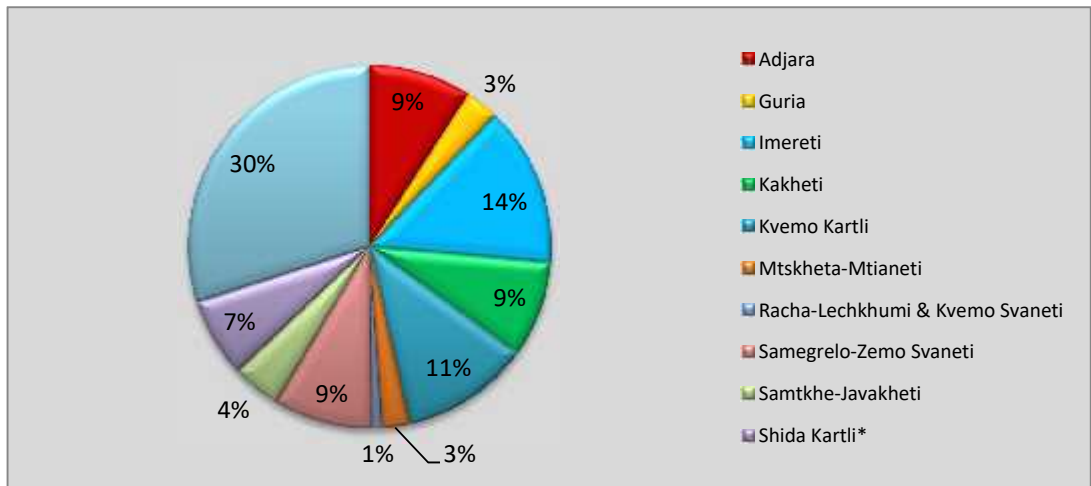
In addition, border conflicts in Abkhazia, South Ossetia in the 90’s, and in 2008 with Russia, contributed to the escalation in the number of **Internally Displaced Persons (IDP)**. As of November 2017, the total number of IDPs exceeds 278 thousand – accounting for 7% of the country’s population. 2/3 of those internally displaced have settled in Tbilisi and Samegrelo-Zemo Svaneti.

Map 2– Population in Municipalities and Urban Areas



30% of Georgia’s population live in the capital of Tbilisi. Other than that, the region with the most inhabitants is Imereti (529.7 thousand). The region with the smallest population is Racha-Lechkhumi and Kvemo Svaneti with only 31 thousand residents (i.e. almost 17 times less). The population of **Tbilisi** exceeds that of all other cities and towns in Georgia combined. Together with Rustavi (the fourth biggest city) they form a functional urban area, the second largest in the South Caucasus, after Baku. The second largest Georgian city by population, **Batumi** is almost seven times smaller than the capital.

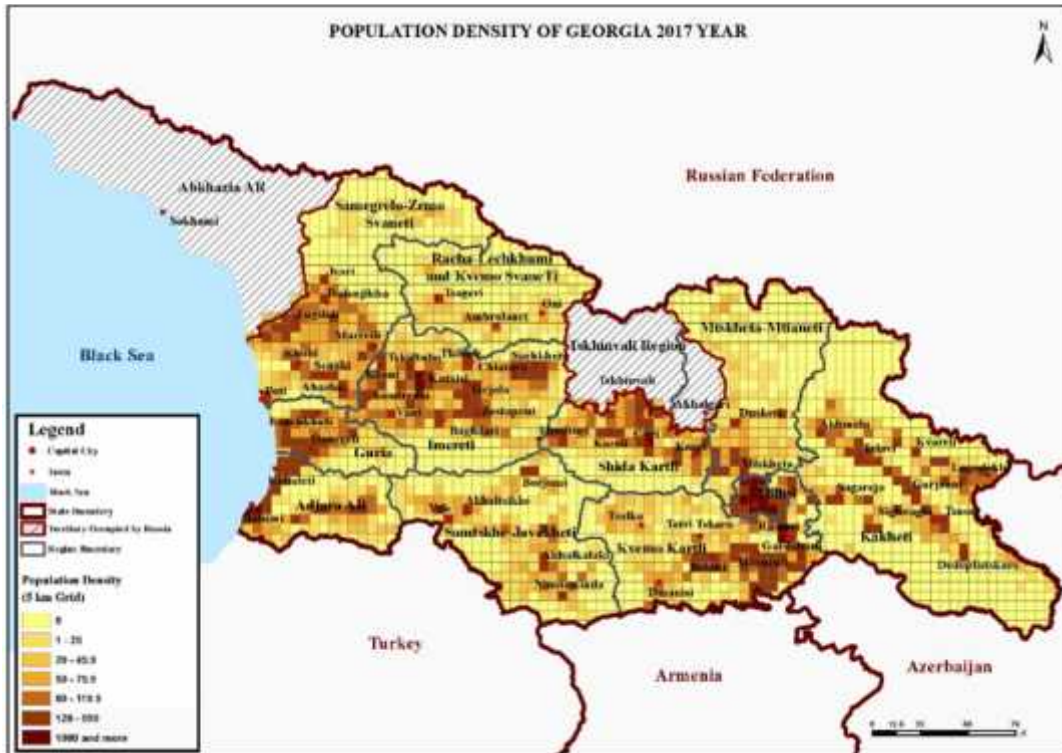
Figure 3-Share of population of Georgia by region in percentage (2014)



Source: GEOSTAT, * territory under control of Georgian administration

The average population density of Georgia is 65.2 inhabitants per square km – similar to countries like Bulgaria or Ireland (69 and 65 inhabitants per km², respectively). Population density in Tbilisi is 2,210 per km² – counted including the city’s urban territory as well as adjacent non-urban areas. The region with the lowest **population density** –6.7 inhabitants per km² – is Racha-Lechkhumi and Kvemo Svaneti. This figure is similar to sparsely populated areas in the remote Northern regions of Europe.

Map 3 - Population density

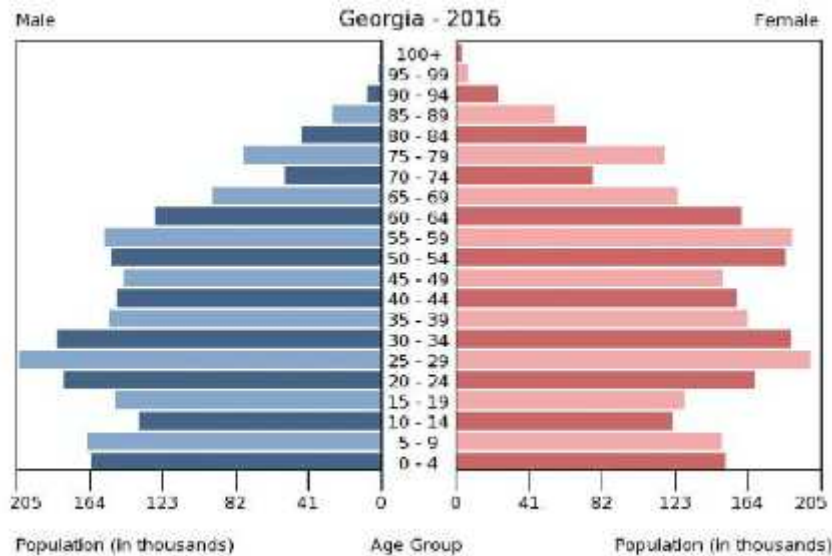


Overall, **Georgia is among the most monocentric countries** in Europe, and this negatively affects the broader development opportunities of the regions. The lack (or underrepresentation) of medium-sized urban areas exacerbates inequalities in the level of socio-economic development within Georgia. The urban-rural divide is very pronounced. Indeed, it is only Tbilisi and Adjara that have urban population larger than rural one. All other regions predominantly feature the countryside, with Samtskhe-Javakheti, Racha-Lechkhumi and Kvemo Svaneti, Mtskheta-Mtianeti, being the most rural, and peripheral territories, were almost 8 out of 10 residents live in rural settlements. In addition, the listed regions are located in the high mountains.

Aging is yet another negative occurrence in terms of social- economic development. With a median age of 38.1 on the country level, Georgians are still younger than EU nations on average. However, the median age values in Guria and Racha-Lechkhumi and Kvemo Svaneti (41.8 and 48.2 years respectively) should be flagged as a potential social problem. The latter also features the smallest household size of 2.5 persons against the average of 3.3 at country level⁶. By contrast, households in Adjara are largest, with an average size of 4 individuals.

⁶ The household size is decreasing and likely to put pressure on housing needs and thus associated infrastructure, especially in urban settlements (water, sewage power grid, parking, etc.)

Figure 4 - Age structure of the population⁷



III.1.4 Macroeconomy

According to the data released by the World Bank in 2016, the country classification in terms of income, Georgia has moved from the list of countries with medium and low income to the list of medium and high-income countries. In 2016 GDP per capita was 3,800 USD. During the last 15 years the country has implemented substantial liberal economic reforms resulting in increased capital inflows. In 2007 GDP growth rate reached 12.6% and FDI reached 2 billion USD (almost 20% of GDP).

The monetary policy of the NBG relies on a regime of inflation targeting. The NBG has set an inflation target of 5 percent for the years 2015-2016, for 2017 – 4% and for 2018 – 3%.

In September 2017 Moody's improved Georgia's **sovereign credit rating** from Ba3 to Ba2. Standard & Poor's and Fitch rated Georgia "BB-".⁸ The improvement of rating and its perspective was underpinned by a stable macroeconomic environment despite regional economic turbulence after 2014. Georgia's rating stability illustrates decreasing economic vulnerability of the country and improvement of investment environment. According to the Index of Economic Freedom by Heritage Foundation, in 2018 Georgia occupies 16th place and gets in the category "Most Free"; In the World Bank's "Doing Business" rating, Georgia is ranked 9th in terms of simplicity of doing business among 190 countries in the world.

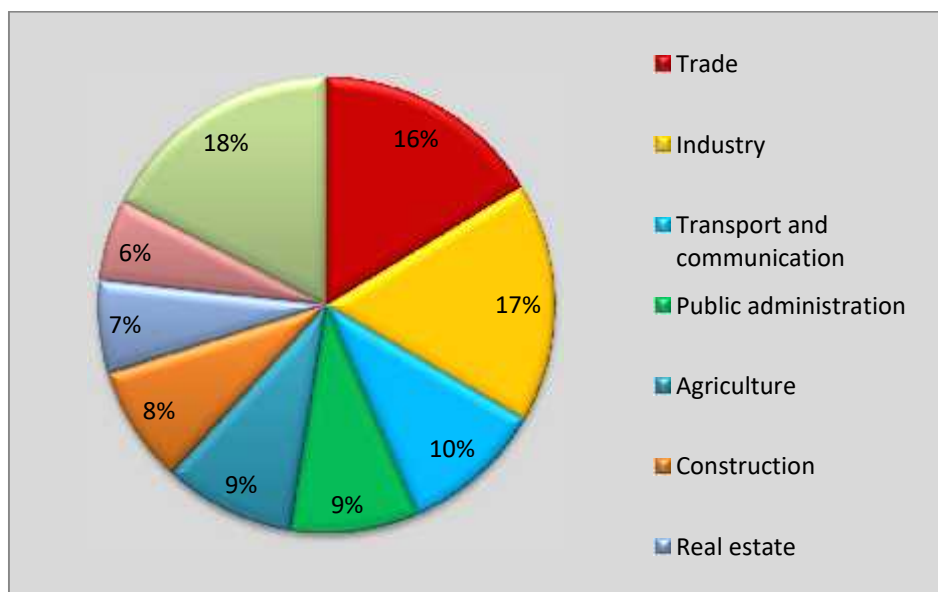
According to the "Budget Transparency Survey 2017" published by the International Budget Partnership, Georgia occupied the 5th place amongst 115 countries with 82 points. Georgia is the only country in the region that has moved to this category and the standards of which, according to the research, only 5 countries can meet in the world. Consequently, Georgia in the public finances management occupies a place with such successful countries like New Zealand, South Africa, Sweden and Norway.

One of the strengths of Georgia's economy is its **diversified structure** of GDP- with no dependence on single sector(s), sources of FTA or trade market.

⁷ http://www.indexmundi.com/georgia/age_structure.html

⁸ http://www.economy.ge/uploads/publications/economy_9029680559e5e371037115.21245915.pdf

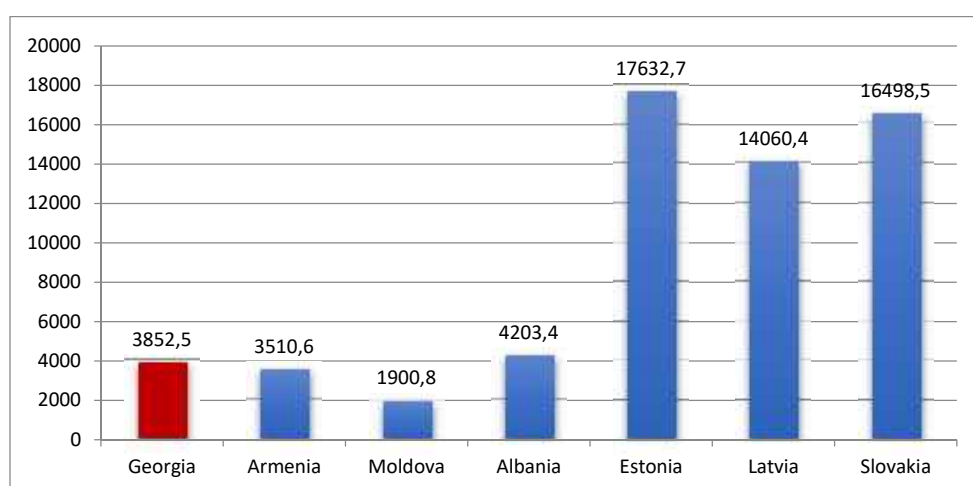
Figure 5- GDP composition by sectors in 2016, %



Source: own elaboration based on GEOSTAT data

The comparatively balanced composition of GDP helped Georgia to maintain economic growth despite the trade embargo, unilaterally introduced by Russia in 2006 on all Georgian agricultural products.

Figure 6—International comparison of GDP per capita (nominal), USD



During recent years, Georgia's economy continued to cope with **difficult external environment**, despite an economic slowdown and macroeconomic imbalances that are particularly reflected in the negative trade balance, which resulted in the depreciation of the national currency.

Table 1- Foreign trade statistics of Georgia, million USD

Item	2009	2010	2011	2012	2013	2014	2015	2016
Turnover	5,609	6,913	9,259	10,433	10,933	11,463	9,505	9,407
Export	1,134	1,677	2,186	2,377	2,910	2,861	2,205	2,113
Import	4,479	5,236	7,072	8,056	8,023	8,602	7,300	7,294
Balance	-3,342	-3,559	-4,886	-5,680	-5,112	-5,741	-5,096	-5,181
Negative balance as a percent of turnover	59.5%	51.5%	52.7%	54.4%	46.7%	50%	53%	55%

Source: GEOSTAT

The negative trade balance and sluggish exports also illustrate still relatively low competitiveness of Georgia's economy.

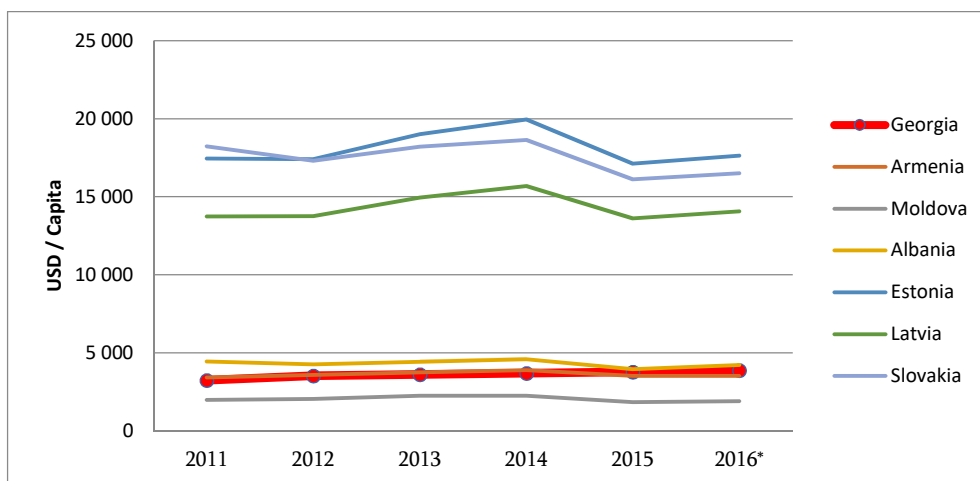
Table 2- Export of goods and services as a percentage of GDP (international comparison)

Country	2011	2012	2013	2014	2015	2016
Georgia	36,2	38,1	44,6	42,9	44,7	43,4
Armenia	23,7	27,5	28,3	28,5	29,7	33,1
Moldova	44,9	43,4	43,3	41,5	42,8	43,6
Albania	34	33,3	35,4	28,2	27,2	28,7
Estonia	86,5	86	84,5	83	79,2	79,5
Latvia	57,8	61,3	60,3	59,5	58,9	58
Slovak Republic	85	91,4	93,8	91,8	93,4	93,8

Source: World Bank

Despite regional economic shocks, **Georgia's economy continues to grow** albeit the growth rate is lower in recent years. In 2016 the real GDP growth rate was 2.7% (preliminary data) being the lowest since 2011. For the first 11 months of 2017 the average real growth of GDP reached 4.8%, while in 2018 according to the forecast of the World Bank for 2018 this indicator is possible to drop down to 4.2%.

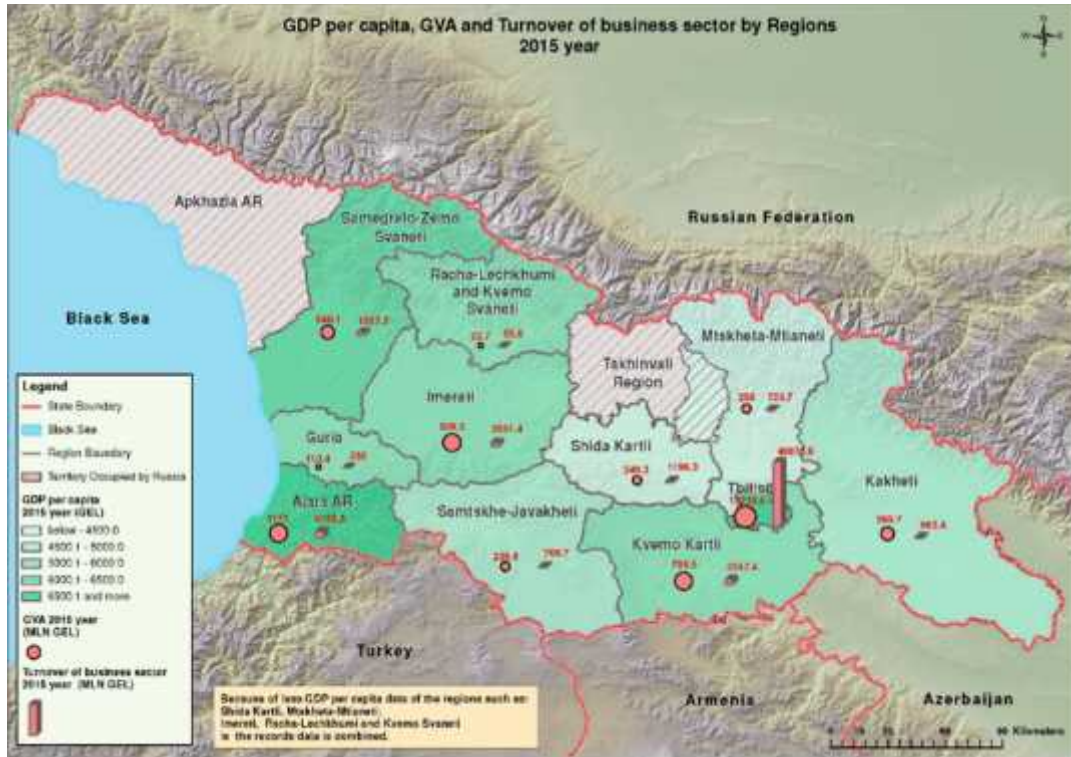
Figure 7- Real GDP growth 2011-2016 (international comparison)



Source: IMF, *preliminary

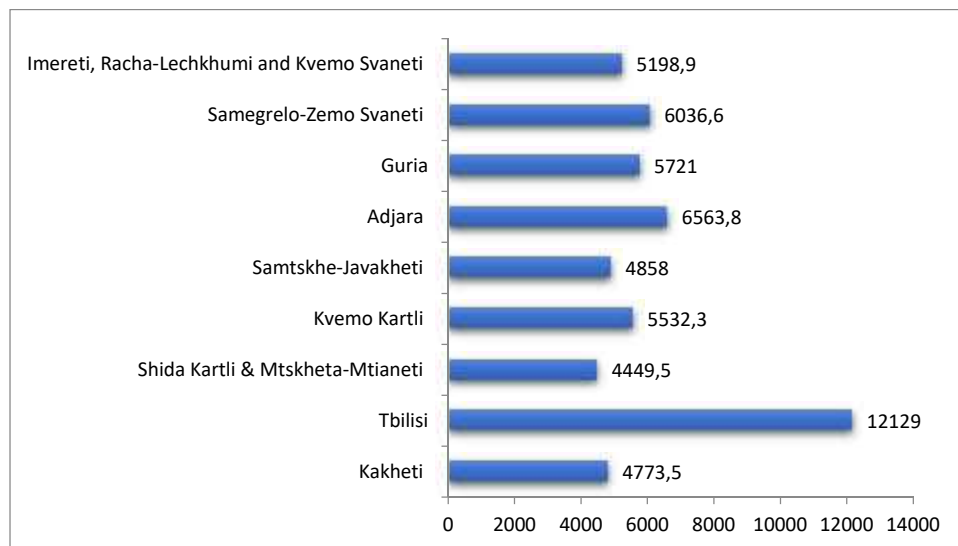
Tbilisi is the biggest contributor to national GVA (49%). The significant share of the capital city in national GVA is not unusual, especially in former post-Soviet or ex-Yugoslav countries, e.g. Yerevan, Baku or Skopje where such share is even higher than for Tbilisi. However, such concentration of agglomeration and its economies is the greatest developmental challenge for Georgia's regions only when paired with topography, poor infrastructural linkages and connectivity issues resulting in migration of population to urban areas.

Map 4- GDP per capita, GVA and Turnover of business sectors by regions, 2015



GDP per capita in current prices in Tbilisi is almost twice higher when compared to second AR Adjara (GEL 12,129 and GEL 6,564 respectively). The poorest regions are Samtskhe-Javakheti, Kakheti, Shida Kartli and Mtskheta-Mtianeti where GDP per capita is below GEL 5,000. In fact, Tbilisi and AR Adjara are **widening the development gap** and socio-economic disparities just because for years they are growing faster than the other remaining regions.

Figure 8-GDPper capita in Georgian regions, 2015, GEL



Source: own elaboration based on GEOSTAT data

III.2 TERRITORIAL COHESION

III.2.1 General Infrastructure

The country serves as a **bridge connecting several important economic regions** including the EU, South Caucasus and Central Asia. Georgia has immense potential to perform a more important regional player function and for the development of the broader geographical region. It is a key link in the shortest transit route between Western Europe and Central Asia for transportation of oil and gas as well as dry cargo.

Georgia's transport system comprises five modes: **road, rail, sea, air and pipelines**. All of them are vital for the country's economy. Reforms have helped draw private capital including road transport and pipelines, also development of air and maritime transport. The railway is a state-owned company with capacity to raise capital in the open market with road network remaining the only mode of transport owned and operated in full public-sector manner. According to the Georgian legislation motor roads are classified as public and departmental roads, while common use roads are classified as roads of international, national and local importance.

Georgia's oil and gas pipelines, Black Sea ports, railway system and airports (including three international airports - in Tbilisi, Batumi and Kutaisi) are playing significant role in **linking Europe and Asia**. At the same time, Georgia functions as the vertical **North-South transportation link**. Around 60% of all types of overland international freight throughout are items in transit⁹.

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

Table 3- Length of road network by region, end of year, km

	2011	2012	2013	2014	2015
Tbilisi	—	52,0*	52,0*	52,0*	52,0*
Adjara AR	1593,3	1556,3	1556,3	1565,9	1565,9
Abkhazia AR	594,6	605,6	605,6	605,6	605,6
Guria	881,0	881,0	881,0	884,5	884,4
Racha-Lechkhumi and Kvemo Svaneti	1276,3	1282,3	1645,8	1645,8	1645,8
Samegrelo-Zemo Svaneti	2789,2	2742,4	2742,4	2765,7	3685,6
Imereti	2647,0	2647,0	2656,0	2648,7	2767,4
Kakheti	2523,3	2580,3	2625,3	2645,3	2630,9
Mtskheta-Mtianeti	1476,6	1476,6	1476,6	1456,6	1514,7
Samtskhe-Javakheti	1508,8	1514,8	1514,8	1519,7	1519,7
Kvemo Kartli	1980,5	2023,6	2028,1	1998,4	2033,0
Shida Kartli	1583,6	1582,8	1596,3	1640,9	1648,0
Georgia total	18854,2	18944,7	19380,2	19429,1	20553

Source: GEOSTAT, * Roads Department of Georgia under the jurisdiction of the Ministry of Regional Development and Infrastructure

Despite recent important investments, the **road network** still features low density, especially in regions such as Kakheti (230 km per 1,000 km²) and **requires a significant upgrade** in regard to the surface quality and width. Since domestic passenger transport is almost entirely road-based, poor infrastructure affects connectivity and mobility. From 1,342 km long rail network only 294 km is double track and is 100% electrified. Approximately 80% of the network traverse mountainous terrain where any expansion is difficult and costly. Seventy five percent (75%) of all total cargo freights of Georgian Railway belongs to other countries, which shows huge transit potential of Georgian Railway. The lack of efficient transport options paired with low levels of economic value added outside the greater Tbilisi area are deemed to be key contributors to high unemployment rates.

⁹ Georgia Transport Sector Assessment, Strategy and Road Map, ADB, Metro Manila, the Philippines, 2014

III.2.2 Energy, water and sewage infrastructure

Almost all Georgian households are connected to **electrical grid**. The only region where electricity coverage is below 100% is Kakheti.

To the contrary, by 2016 data, only 66.9% of households have access to the **gas supply network** with Samegrelo-Zemo Svaneti being most disadvantaged, followed by AR Adjara, Imereti, Racha-Lechkhumi and Kvemo Svaneti. Indeed, there are more households connected to gas pipelines rather than to tap water supply systems. Gas distribution infrastructure is being expanded and in the last 5 years the percentage of households connected to gas supply systems grew from 43.8% to 66.9%. As far as regions are concerned, Tbilisi tops with 98.4% of the households enjoying direct connection to gas pipelines, followed by Kvemo Kartli and Kakheti. The most disadvantaged are AR Adjara and Samegelo-Zemo Svaneti where only 40.4% and 25.8% of households can use gas for cooking and heating.

Table 4-Percentage share of the households provided with central system of gas supply (%)

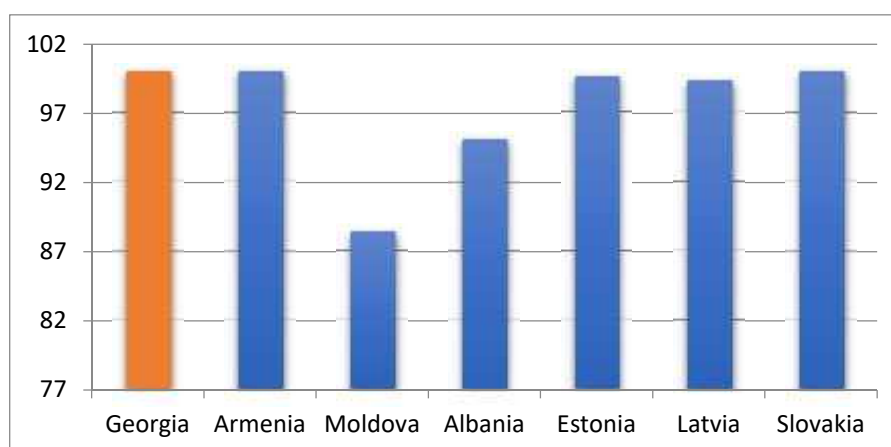
	2011	2012	2013	2014	2015	2016
Kakheti	37,5	37,2	43,0	49,4	60,0	68,1
Tbilisi	91,5	93,1	96,0	96,2	97,6	98,4
Shida Kartli	24,7	31,8	38,7	39,5	52,2	63,5
Kvemo Kartli	46,0	50,8	58,3	64,5	71,3	81,2
AR Adjara	12,1	17,7	24,8	30,5	36,5	40,4
Samegrelo-Zemo Svaneti	3,1	2,9	5,1	10,5	15,5	25,8
Imereti, Racha-Lechkhumi and Kvemo Svaneti	31,3	34,5	41,2	43,1	45,9	52,2
Other regions*	19,2	19,4	34,4	46,1	50,4	59,6
Georgia	43,8	45,9	51,9	55,6	60,6	66,9

Source: GEOSTAT, * Includes Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti regions

In the Tbilisi area, almost all households enjoy **drinking water** from bulk water supply systems. Outside the capital city the percentage of households with water supply pipe installed in the dwelling varies between 34.2% in Kakheti and 43.7% in Kvemo Kartli demonstrating underdeveloped water supply infrastructure in all regions than the capital city. It is not only insufficient financing that is the main cause of the underdeveloped bulk potable water supply system in Georgia but also ambiguous and inconsistent legislation.

Despite poor water supply infrastructure in general, Georgian population fully enjoys access to improved water sources on par with Slovakia and Armenia.

Figure 9- Improved water source (% of population with access)



Source: World Bank

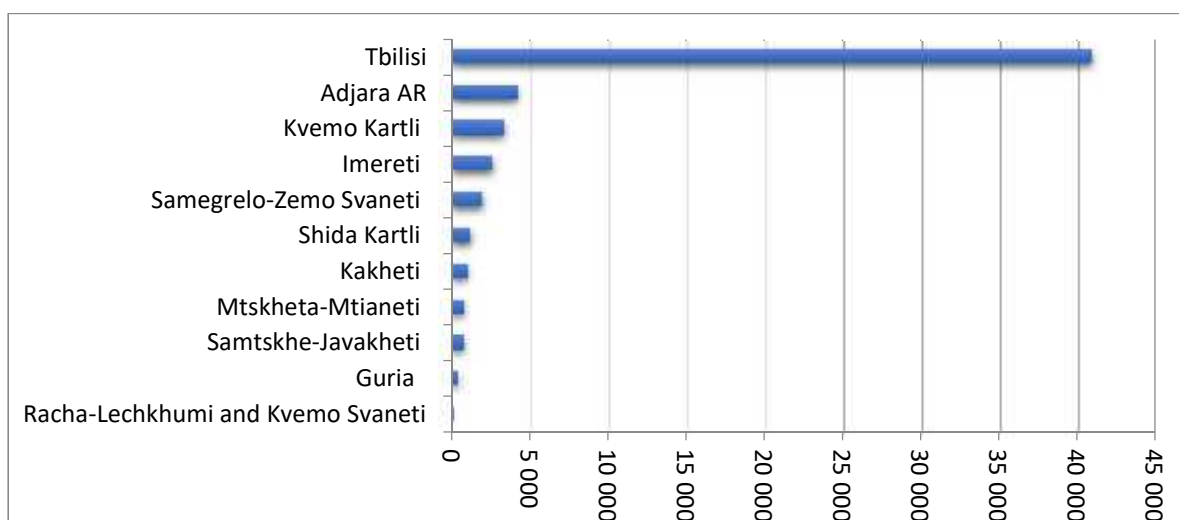
Access to the waste water treatment system is considered to be poor or very poor outside urban areas.

III.3 ECONOMIC COHESION

III.3.1 Business sector

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

Figure 10- Turnover of business sector by regions, in mln GEL



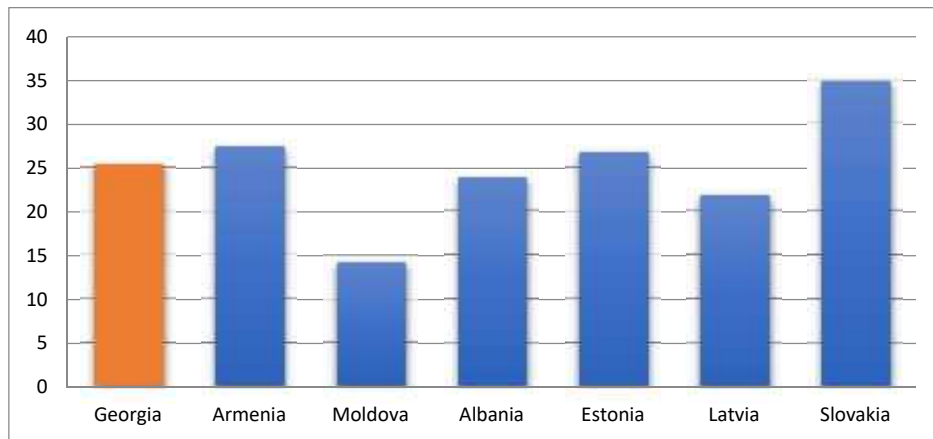
Source: GEOSTAT

Trade, repairs of motor vehicles and personal and household goods, transport and communication alongside construction sectors are the key drivers of growth in Tbilisi and AR Adjara. Nowhere else have these sectors such important contribution to regional GVA. For example, **67% of GVA in Tbilisi is created by Trade, transport and communication, industry and construction. AR Adjara economy however is more diversified**, with more balanced distribution of GAV across the same 4 sectors. 67% of all goods and services are produced in Tbilisi.

Industry and manufacturing are the most important economic activity sectors for Kvemo-Kartli, Shida Kartli and Mtskheta-Mtianeti making up 31% and 25% of their GVA.

Conversely, AR Adjara, Guria and Samtskhe-Javakheti are the least industrialised Georgian territories. Share of industrial GVA in total GVA in those regions is meagre 8%, 6% and 5% respectively. Overall, Georgian industry is an important contributor to GDP.

Figure 11- Industry value added as a percent of GDP



Source: World Bank

Employment-wise, 63% of the jobs is attributable to Tbilisi companies, while in Guria and in Racha-Lechkhumi and Kvemo Svaneti less than 1% of the total number of the employed work.

Tbilisi being the largest growth pole attracts 86% of FDI's, followed by AR Adjara with 6% share. All remaining regions account for meagre 8% of foreign direct investments with Shida Kartli and Mtskheta-Mtianeti (0.16%) and Kakheti (0.12%) being most marginalised. Unarguably, FDI's contribute to the increase in innovation of Georgian enterprises. On average, investments in Georgia account for significant share in GDP - approx. 30% or more in most recent years. It is more than in several countries comparable in size to Georgia and an evidence that mid-term economic outlook is somehow positive, substantiating optimistic ratings of Georgian economy.

Table 5- Total investments as a percent of GDP

	2011	2012	2013	2014	2015	2016
Georgia	26,1	28,9	24,7	29,8	32	31,8
Armenia	27	22,7	20,7	20,8	20,9	21,1
Moldova	24,1	23,6	24,6	26	22,9	19
Albania	33,4	29,8	27,1	25,9	24,5	26,8
Estonia	25,1	29	28	27,1	24,7	23,9
Latvia	25,1	26,1	23,9	23,1	22	19,8
Slovakia	24,9	20,9	20,9	21,6	23,2	21,5

Source: IMF

Investment in fixed assets however is yet another index illustrating the Tbilisi-rest-of-the-country divide. The capital city accounts for 76% of all investments in fixed assets, followed by Kvemo-Kartli and AR Adjara. Only these three regions feature growth in investments in the last 5 years. On contrary, investment levels and their trends in Guria, Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli and Mtskheta-Mtianeti are in decline.

III.3.2 Small and Medium Enterprises (SMEs)

As of 2016 data across the whole territory of Georgia the share of SMEs in total business turnover was 17.8%¹⁰. As for Georgia's regions, in Racha-Lechkhumi and Kvemo Svaneti's SMEs have 82% share in total business

¹⁰ The above data is based on the methodology existing before 2017 on determining the size of enterprises, which is still used by Geostat, together with the new methodology. According to the new criteria for determining the size of enterprises this indicator reaches 56%, though even in this case the turnover of small and medium businesses across the country does not exceed GEL 358 million (only 1.1% towards the GDP).

turnover, while in Tbilisi the SMEs contributed meagre 13.2%. That best illustrates the concentration of large industries mostly in the capital city.

Table 6- Share of turnover by size of enterprises by regions, 2016 (%)

Region	Large	Medium	Small
Georgia Total	44.1	21.9	34
Tbilisi	50.6	21.3	28
Adjara AR	25.1	24.2	50.7
Guria	7.7	30.9	61.4
Imereti	24.6	17.8	57.6
Kakheti	5.2	25.1	69.6
Mtskheta-Mtianeti	45.5	17.1	37.3
Racha-Lechkhumi and Kvemo Svaneti		19.8	80.2
Samegrelo-Zemo Svaneti	17	35.3	47.7
Samtskhe-Javakheti	34.2	17.5	48.3
Kvemo Kartli	42.2	23.4	34.5
Shida Kartli	28.5	16.1	55.4

Source: GEOSTAT

Referring to employment, in 2016 SMEs accounted for 41.6% of the total registered employment in the country. There are significant regional disproportions in terms of employment creation by SMEs: e.g. in Racha-Lechkhumi and Kvemo Svaneti's SMEs accounted for 91.2% of the total number of registered employees in enterprises, while in Tbilisi that share was 31.7%.

Table 7- Share of employment by size of enterprises by regions, 2016 (%)

Region	Large	Medium	Small
Georgia Total	32.7	21.4	46
Tbilisi	41.1	21.8	37.1
Adjara AR	23.2	19.8	57
Guria	10.2	15.5	74.3
Imereti	23.9	16.1	60
Kakheti	4.8	28.7	66.6
Mtskheta-Mtianeti	23.2	20.8	56.1
Racha-Lechkhumi and Kvemo Svaneti		17.5	82.5
Samegrelo-Zemo Svaneti	11.6	25.1	63.3
Samtskhe-Javakheti	5.7	22	72.3
Kvemo Kartli	24.9	22.2	32.9
Shida Kartli	13.9	18.5	67.6

Source: GEOSTAT

III.3.3 Innovation and technology

Out of 137 economies covered by the World Economic Forum's Global Competitiveness Index (GCI) 2017-2018, Georgia ranks 112nd place in innovation and sophistication factors, 70th in technological readiness, 118th in innovations and 99th in innovations capacity.

Though comprehensive innovation, R&D and technology statistics are not regularly captured in Georgia, some data are available (but not presented at the regional level). Specific NACE Rev. 2 groupings are considered to be technology/innovative sectors such as: manufacture of computer, electronic and optical products; manufacture of electrical equipment; wholesale of information and communication equipment; software publishing; telecommunications; computer programming, consultancy and related activities; information service activities; scientific research and development; other professional, scientific and technical activities

and repair of computers and personal and household goods. The total number of active businesses in these sub-sectors is more than a thousand. Between 2013 and 2015 (last available figures) the total turnover in those sub-sectors increased by 24% and amounted to 2,068 billion GEL, accounting for 3.6% of the total business turnover. Highest growth was in areas such as: professional, scientific and technical activities (258%), followed by computer programming, consultancy and related activities (144%) and manufacture of computer, electronic and optical products (135%). A 24% decrease was recorded in manufacture of electrical equipment.

Overall, R&D activities being the backbone of competitive economies are still considered to be poor and fragmented in Georgia.

According to special innovation survey conducted by Geostat, during 2013-2015 48.8% of Georgian enterprises engaged in innovation activities introduced new or significantly improved goods, while 51.2% of companies introduced new or significantly improved services. The survey shows that 23.1% of innovation activities are abandoned before completion and 76.9% is still ongoing. Results of the same survey shows that 97.5% of enterprises have access to the Internet and 44.3% of enterprises have a webpage or website. 32.9% of companies use social networks (such as Facebook, LinkedIn), only 5% uses blog or microblog (for example twitter) and multimedia content sharing websites (youtube, flickr, myvideo) is used by 8.9%. 48.7% of enterprise did not use any of the above mentioned social media or used them only for posting paid adverts. Referring to e-commerce, only 9.5% of companies are receiving orders via webpage for goods or services.

Georgia and its regions are reasonable users of the internet. The households' survey shows that the share of Georgian households with internet access by June 2017 was 71.5%. The same proportion for June 2016 was 70.7%. The share of population older than 6 years, who use internet is 59.3%, which is higher than in developing countries (34.3%) but slightly lower than in CIS countries on average (65.1%) and Europe (77.9%). Tbilisi with index of 76.7% outperforms all other regions, followed by AR Adjara and Samtskhe-Javakheti sitting at 57-58%. In all remaining regions between 40% and 50% of residents use the web network.

Table 8- Individuals using the Internet, by countries and country groups, %

Country	2011	2012	2013	2014	2015	2016
Developed countries	72,9	75,4	78,5	79,1	80,3	81,5
Developing Countries	25,3	27,3	29,4	31,3	32,9	34,3
World	38,1	40,2	42,4	43,9	45,3	46,6
Less Developed Countries	3,8	4,4	5	5,8	6	7,6
Commonwealth of Independent States (CIS)	39,5	49,4	54,4	58,2	62	65,1
Europe	67,8	70	71,7	73,8	75,3	77,9
Georgia	31,5	36,9	43,3	44	47,5	59,3
Armenia	32	37,5	41,9	54,6	59,1	62
Albania	49	54,6	57,2	60,1	63,2	66,3
Moldova	38	43,3	45	46,6	63,3	71
Estonia	76,5	78,3	80	84,2	88,4	87,2
Latvia	69,7	73,1	75,2	75,8	79,2	79,8
Slovak Republic	74,4	76,7	77,8	79,9	77,6	80,4

Source: International Telecommunication Union (ITU), GEOSTAT

The share of population aged 6 and older who own mobile phone by June 2017 was 80.5% (86.4% in urban areas and 72.5% in rural areas). In 2016 this index was 78.8% (85.4% in urban areas and 69.5% in rural areas) - there is increase of 1.7 percentage points between 2016 and 2017.

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

III.3.4 Tourism

Georgia features increase in tourism traffic. The number of visits of travellers and international arrivals in Georgia reached a record number of 7.5 million in 2017, which is 1.2 million more than the previous year representing annual growth of 18.8%. In 2016 the number of foreign visitors was 6.36%

Total value added of the tourism industry between 2006-2016 has increased 2.3 times reaching 2 billion GEL. In 2016, **tourism output resulted in 6.8% of the country's total output**. Nowadays, statistics do not capture international arrivals by region. Only domestic tourism statistics are available on regional level. In 2016 the number of domestic visitors reached 13 million. Tbilisi remains the most popular destination, followed by Imereti and AR Adjara. Regular publication of the external tourism data is expected in the first half of 2018.

III.3.5 Cultural Heritage

The country has a **rich cultural heritage, with an abundance of archaeological sites**, natural monuments, protected areas¹¹, mineral water, balneology, as well as seaside and mountain ski resorts. One of the main priorities of the Government of Georgia is to promote the development of tourism, which has already seen dynamic growth.

The country has rich cultural and natural heritage, including archaeological, architectural, engineering, and other monuments and complexes, historic towns and settlements, cultural landscapes modified by humans, the national treasure that is protected by Georgian museums, also diverse nature the part of which is included in Georgia's Protected Areas. Thorium system. The varied intangible heritage is especially remarkable, which like other cultural and natural heritage resources, is one of the most important factors of local economic development.

III.3.6 Agriculture

In Georgia more than a half of the country's population is engaged in agriculture, which accounts for meagre 9.3% of GDP. There are regions where more than 70% work force works in agriculture, e.g. Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti. Small farms, subsistence agricultural holdings dominate in the country with 77% of farms being smaller in size than 1 ha. Kvemo Kartli, Imereti, Kakheti and Shida Kartli regions are partially located in plains and lowlands - they feature exceptionally high ratio of arable land share in total agricultural land. Rural economy in Imereti is the most intensive - the region's greenhouses with total area of 462 ha account for 2/3 of all greenhouses in the country.

The most popular crop in Georgia is corn. Sown area totalled 95.5 thousand ha in 2016 with Imereti and Kakheti featuring more than 45% of sown area and more than 53% of the crops. Wheat and barley are the second and third most popular crops with sown area in 2016 totalling 50.1 and 24.4 thousand ha respectively. Kakheti is main producer of both. Yield per ha is steady in the region but yield in other regions fluctuates from season to season, mostly on account of changing weather conditions and inappropriate agricultural practice.

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

Samegrelo-Zemo Svaneti, Imereti and Kvemo Kartli are the biggest cattle breeding regions of Georgia. The same three regions are leading dairy cow breeding. **The decrease in dairy cow production is paired with escalating levels of milk local production deficit. According to Geostat, 124,000 tons of milk and milk products were imported in 2016.** This is **because of low productivity in the sector** - an average Georgian cow produces only 1/5 of an average Ukrainian cow despite ideal agro-climatic conditions for dairy farming. Quality of milk is also low, which reduces opportunities for making quality dairy products. The increase in productivity and food safety standards could contribute to better competitiveness of dairy sector in the country.

The country is one of the oldest wine producers in the world. The combination of terrain, elevation, soil, drain and sunshine provides optimal conditions for viticulture. Currently, Georgia features more than 500 indigenous grape varieties and produces approx. 126 ths tones of grapes. Kakheti is the lead producer of grapes in Georgia accounting for approx. 70% of the national production, followed by Imereti with circa 14%.

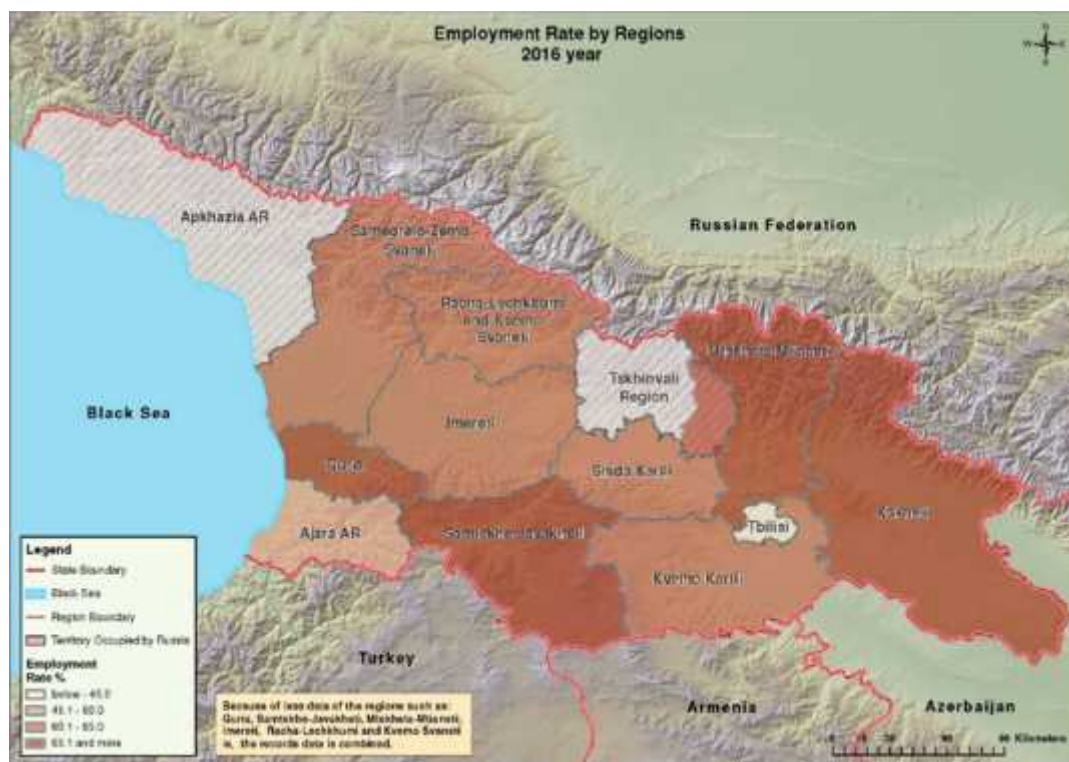
¹¹The total area of protected areas is 598.4 thousand ha and protected areas are located in all regions of Georgia

III.4 SOCIAL COHESION

III.4.1 Labour force

Hired employment is rare - only 42.3% of the working contingent is hired. Tbilisi tops the ranking with 84.5% index, followed by AR Adjara with 45.6%. All other regions feature hired employment rates below the country's average. **There are more self-employed people in Georgia than those who are in hired employment with the worst performing regions being Guria, Mtskheta-Mtianeti, Kakheti and Shida Kartli** where less than 1/3 of the employed are in hired employment. There are regions in Georgia where virtually no hired employment opportunities exist that would be produced by local businesses and economic entities or public sector. For example, in Guria with 112.6 thousand of population only 5.7thousand (5%) of individuals are employed. In Samtskhe-Javakheti with population of 160.6 thousand local businesses and state administration provide employment to 8.6 thousand (5.3%) individuals.

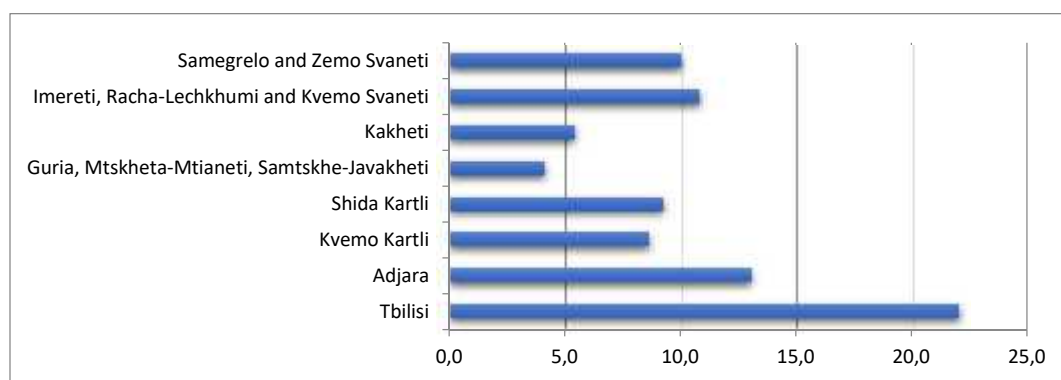
Map 5-Employment rate by region, 2016



Those who can find a hired job, face **inequalities in low salaries**. Employers in Tbilisi pay highest and the average salary is GEL 1,006. Elsewhere the average pay is 40-60% of the wage available in the capital city, e.g. in Guria at GEL 641.1 and Samtskhe-Javakheti at GEL 573.9, Kakheti at GEL 521.8 or Racha-Lechkhumi and Kvemo Svaneti at GEL 414.5. Such low salaries impact household budgets and only 37.5% of the average household budget in Georgia is made from wages. The lowest share of hired employment salary in household budget is observed in Kakheti, Guria and Samtskhe-Javakheti - between 20% and 23%. It is almost as high as income derived from pensions, scholarships and other social grants. As of 2016 in regions like Racha-Lechkhumi and Kvemo Kartli, 32.4% of all households are registered for subsistence allowances, while in 2017 this indicator dropped down to 30.5%. Unemployment rate in Georgia is at 11.8%, mostly on account of large numbers of the self-employed in rural economy. Tbilisi with 22% unemployment rate tops the list whereas the lowest rates were for the combined territories of Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti (being very rural) standing at 4.1% and Kakheti - at 5.4%.

Tbilisi also features the lowest economic activity and employment rates in the country and the highest unemployment whilst the most rural areas experience the opposite trends.

Figure 12- Unemployment rate in regions, 2016



Source: GEOSTAT

Trends where urban areas exhibit high unemployment levels are contrary to observations captured in Europe featuring highest unemployment levels in rural, impoverished regions, e.g. southern Spain, Greece or areas in Turkey bordering Syria and Iraq. Such phenomenon here can be explained by stagnant manufacturing and service sectors and low survival rates of businesses. There may also be presence of large numbers of individuals who oscillate between unemployment and withdrawing from labour force without ever finding work like e.g. in Moldova.

Table 9- Unemployment, % (international comparison)

Country	2011	2012	2013	2014	2015	2016
Georgia	15,1	15	14,6	12,4	12	11,8
Armenia	18,4	17,3	16,2	17,6	18,5	18,8
Moldova	6,7	5,6	5,1	3,9	4,9	4,2
Albania	14	13,4	16	17,5	17,1	16,1
Estonia	12,3	10	8,6	7,3	6,1	6,9
Latvia	16,2	15	11,8	10,8	9,8	9,6
Slovak Republic	13,7	13,9	14,2	13,1	11,4	9,6

Source: IMF

Though Tbilisi's economy is the most competitive and productive, it lacks specialized value chains and low labour productivity are the main factors of growing disparities and low economic growth. Tbilisi has very low levels of productivity of the labour force - below those e.g. for Yerevan, Baku, Skopje, Belgrade or Moscow¹². Since labour productivity measures the relation between output and labour time input, its low levels indicate that both labour force and output is inefficient. **Arguably, this is one of the most fundamental issues of concern for Georgia's economy partly resulting from mismatch of labour market supply and demand for specific skills and expertise.**

III.4.2 Poverty

On country level Georgia features similar levels of poverty to some EU Member States, e.g. Croatia, Greece, Bulgaria (19.5%, 21.2% and 22.9% respectively). Relative poverty levels in Shida Kartli (32.6%) and Kvemo Kartli (32.7%)¹³ are highest. In addition, Adjara features steady increase in poverty levels in recent years (21.9% in 2013 and 25.5% in 2016). All regions are predominantly rural except Tbilisi and the disparities in relative poverty levels between urban and rural areas that have increased during the last 10 years is the main issue of

¹² Urban Strategy of Georgia, Economic Role of Major Cities, Ministry of Economy and Sustainable Development of Georgia, the World Bank, 01, 2016

¹³ Relative and absolute poverty levels are also very high in Racha-Lechkhumi and Kvemo-Svaneti. However, because of the methodological peculiarities of GeoStat, statistics of Racha-Lechkhumi and Kvemo-Svaneti are not produced separately, but together with Imereti. In addition, statistical data of Guria, Samtskhe-Javakheti and Mtskheta-Mtianeti are not available as well.

concern. While poverty intensities in rural areas remain roughly the same, poverty in urban settlements has decreased. Those trends are caused by the expansion of urban areas and high concentration of income, capital and labour force in the cities. National relative poverty in 2016 was 21.3%, being highest in Shida Kartli (32.6%) and Kvemo Kartli (30.9%) and the lowest in Tbilisi (13.7%).

Similar divide is observed for absolute poverty trends. Absolute poverty is highest in Shida Kartli and Kvemo Kartli and lowest - in Tbilisi.

Table 10- Absolute poverty in Georgian regions, 2013-2016, %

Region	2013	2014	2015	2016
Georgia	25,6	22,4	20,8	21,3
Tbilisi	17,3	15,3	14,9	13,7
Adjara	22,4	21,5	20,6	26,8
Guria, Samtskhe-Javakheti, Mtskheta-Mtianeti	28,0	22,1	19,8	20,0
Imereti, Racha-Lechkhumi and Kvemo Svaneti	25,5	19,8	20,1	19,4
Kakheti	32,4	28,3	28,8	25,8
Samegrelo-Zemo Svaneti	27,9	24,0	17,8	18,4
Kvemo Kartli	34,0	32,4	27,3	30,9
Shida Kartli	33,7	32,0	30,8	32,6

Source: GEOSTAT

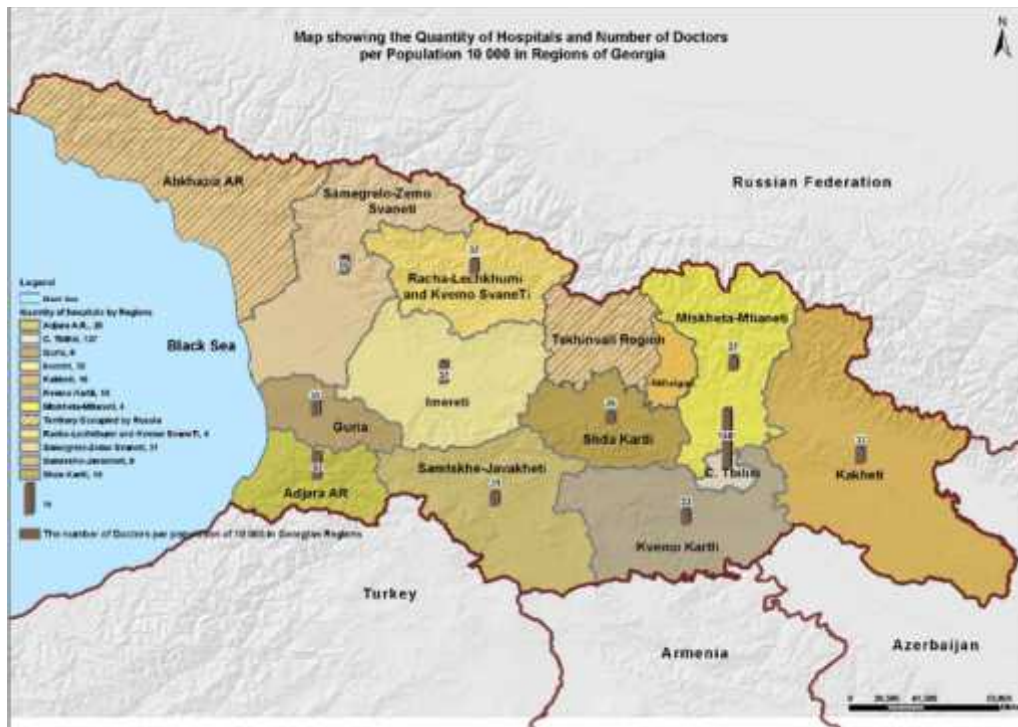
A big proportion of persons receiving pensions and social packages in regional population across the entire country (23.8%). 38.3% of Racha-Lechkhumi and Kvemo Svaneti's residents appear to depend on social welfare.

III.4.3 Essential Social services

Healthcare infrastructure requires further improvement in some regions. Only Tbilisi, AR Adjara and Imereti are above or close to the country's average in regard to the density of hospital units and hospital beds per 100,000 population¹⁴. In addition to that Georgian hospitals are smaller than in the EU. Further optimisation of healthcare facilities is thus needed since healthcare is an important segment of economy and can meaningfully contribute to socio-economic development of the country and its regions.

¹⁴ The study developed within the EU funded TA project "Socio-economic and Territorial Disparities in Georgia 2017" http://www.regpol.ge/images/Socio-economic%20and%20territorial%20disparities_Georgia_Report_final%2012.12.2017.compressed.pdf

Map 6-Number of hospitals and doctors per population by Region



Source: Geostat

Availability and accessibility of educational institutions appears to be an issue of primary concern, especially for Vocational and Educational Training (VETs) and Higher Educational Institutions (HEIs). Nowadays, there is no single university in Guria, while in **Mtskheta-Mtianeti and Racha-Lechkhumi and Kvemo Svaneti** regions have only one HEI each. Quality of HEIs is also an issue. According to the National Center for Assessment and Examinations, **top 10 HEIs are located in Tbilisi**. Only less prestigious universities are located out of the capital city. Kvemo Kartli and Samtskhe-Javakheti are most disadvantaged in regard to availability of public VETs.

III.5 GOVERNANCE

III.5.1 Self-governments

Self-governance has passed several stages in Georgia. From 1991 to the end of 1998, Local government system was changed From Local Governing to Local-Self Governance. Municipal governing was carried out only in the form of state governing. During 1998-2006, there were two elections of legislative bodies, executive bodies and three city mayors. The authority to appoint the mayor in the capital Tbilisi and the city of Poti resided at the President of Georgia. From 2006 until 2010, with the adoption of the 'Georgian Law on Local-Self Government,' Local-Self Governments (LSGs) were consolidated into their respective "rayon". (except Ajhara, Tighvi, Kurta and Eredvi communities, which were formed as municipalities, and the cities which were not part of the Raion and were formed as self-government cities)The Law provided for a reduction of the number of LSGs from 1,110 to 69. Nationwide elections of local representative bodies are held in all Georgian municipalities in territories under the control of Georgian Government At the same time, for the first time, through the municipal council elections, population of Tbilisi directly elected the Mayor of Tbilisi. From 2014, the citizens elect all mayors and councillors of municipalities directly.

Despite the implemented local self-government reforms,

- Municipalities and settlements in Georgia still don't have borders
- financial resources at local level are not sufficient
- many public services for citizens and businesses are organised at central level

- the formula for equalization among local governments needs clarification
- the role of municipalities in economic and social development is not well clarified.

The Georgian Constitution grant the right to the citizens of Georgia to regulate issues of local importance through the self-governance. . The Organic Law of Georgian on Local Self-Government defines the own powers and provisions related to delegated powers of municipalities. Delegated powers from central government to municipalities are assigned along with the applicable material and financial resources.

III.5.2 Fiscal sustainability

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

Table 11– Structure of municipal revenues, by regions in GEL million in 2014-2016

Region	2014		2015		2016		
	Total revenue	Tax revenues	Total revenue	Tax revenues	Total revenue	Tax revenues	Fiscal sustainability (GEL)
Tbilisi	673,3	130,9	853,7	158,2	717,3	326,0	422
Adjara AR	143,7	16,7	179,6	22,9	204,1	51,7	266
Guria	50,9	3,4	57,6	4,0	60,9	8,1	115
Imereti	176,4	16,1	193,4	15,6	201,0	41,9	118
Kakheti	89,6	15,5	100,3	16,8	103,8	26,9	112
Mtskheta-Mtianeti	45,0	9,5	44,7	9,7	52,8	16,7	238
Racha-Lechkhumi and Kvemo Svaneti	24,8	0,8	31,8	0,8	34,2	1,6	103
Samegrelo-Zemo Svaneti	120,3	16,3	135,0	17,3	147,5	39,6	151
Samtskhe-Javakheti	52,8	6,0	64,4	7,2	83,6	26,5	257
Kvemo Kartli	105,0	23,7	127,4	31,6	138,3	55,2	188
Shida Kartli	78,8	7,2	81,1	6,3	86,4	14,4	86

Source: Ministry of Finance

The **fiscal sustainability index** increased over the last few years since income tax against entrepreneurial activity is included in budgetary revenues (on top of property tax and stamp fees) but it is **abnormally low when benchmarked even against least developed EU Member States - where such index is above €150 in least developed areas.**

The newly adopted Constitutions of Georgia features important fiscal decentralisation aspects stipulating for 7% of GDP to remain within municipal sphere. Also, Georgian decentralisation strategy (currently under development) is going to provide measures that are expected to increase fiscal sustainability at local level and thus create more conducive conditions for investments.

IV. TERRITORIAL DEVELOPMENT NEEDS AND POTENTIALS

IV.1 INTRODUCTION

Information provided in the chapter II, strategic policy documents (including general, sectoral and regional documents) and related studies allowed for preparation of a SWOT analysis (below).

The SWOT analysis helps to identify a limited number of key development needs and potentials, on which regional policy of Georgia is to concentrate in coming years. Not all identified needs and potentials can be met by RDP 2018-2021 alone. Implementation of Association Agreement and Association Agenda in particular and generally introduction of the best European practice offers the possibility, in case of implementation of further reforms and administrative potential is built, to extend the scope and magnitude of development activities important for achieving modern regional development policy goals.

IV.2 SWOT ANALYSIS

Table 12 – SWOT analysis

Area	Strengths		Weaknesses	
	Factor	Concentration in specific regions/areas	Factor	Concentration in specific regions/areas
Macroeconomic policies	<p>Macroeconomic reforms introduced</p> <p>Low inflation</p>		<p>Growing fiscal risks, linked to rising spending and limited growth of revenues.</p> <p>Fiscal deficit, mostly due to the increase in the social spending</p> <p>Negative trade balance</p>	
Economy				
GDP/GVA	<p>GDP growth since 2010</p> <p>Steady growth of GDP per capita</p>	<p>High concentration of economic activity in Tbilisi</p> <p>Tbilisi providing 49% of GVA</p>	<p>Significant GDP per capita disparities (the difference between the richest and the poorest region is 2.7 times and between the richest and the second richest – 1.8)</p> <p>Low productivity of economy</p> <p>Value added of Georgian products generally lower than in EU</p>	<p>Growth concentrated only in Tbilisi and Batumi</p> <p>Guria, Samstkhe-Javakheti and Kakheti delivering only between 2 and 5% of GVA</p>

<p>Structure of economy/Sectors/export</p>	<p>Steady growth of exports volumes for last 20 years: raw materials, motor cars, agricultural products (mostly wine) and medicines.</p> <p>Tourism potential based on cultural, social and natural heritage</p> <p>Favourable conditions for agricultural production</p>		<p>Monocentric economy: highly uneven distribution of business activity among regions in terms of turnover, number of companies and employees, production value etc.</p> <p>High proportion of self-employed persons, which may be an evidence of stagnant manufacturing industries and potentially escalating volume of unobserved economy</p> <p>Limited diversity of exports, high percentage of unprocessed export: raw materials, motor cars (re-export), agricultural products (mostly wine) and medicines</p> <p>Limited variety of manufacturing products</p> <p>Agriculture potential is utilized weakly in terms of the volume of the production, creation of value added, processing industry and use of new technologies.</p>	<p>67% of all goods and services produced in Tbilisi, 8% in Adjara and 7% in Imereti</p> <p>86% of all FDI invested in Tbilisi, 8% in Adjara</p>
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Investment (FDIs)	<p>Investment in fixed assets growth in three regions (Tbilisi, Kvemo-Kartli and AR Adjara) in the last 5 years</p> <p>Steady inflow of FDI, ca 1 billion GEL invested in job intensive sectors (manufacturing, construction, transport, hotels and restaurants)</p>		<p>Uneven territorial spread of FDIs especially direct ones</p>	<p>Tbilisi accounting for 76% of all investments in fixed assets and 86% of direct FDI, while in other regions except Adjara this indicator is very low.</p> <p>Investment levels and their trends in Guria, Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli and Mtskheta-Mtianeti in decline</p> <p>No of jobs in business sector increased mostly in Adjara, Mtskheta-Mtianeti and Tbilisi</p>
Enterprises/SMEs/Business environment:	<p>Deregulated economy, simplified procedures for permits and licenses</p> <p>Increasing number of jobs in business sector</p> <p>Small and medium size business support programmes introduced by the government</p>		<p>Significant imbalance in number of companies per inhabitant at the level of regions</p> <p>Low access of enterprises to support programs, including newly established small companies (e.g. due to the lack of collateral provisions</p> <p>Access to finance for companies still needs to improve</p> <p>Low level of support for SMEs in regions</p>	<p>41% of all companies are registered in Tbilisi, followed by Imereti (13.9% and Adjara – 9.7%)</p>

Innovation/research	Innovation activity can be observed mostly among large companies (especially in telecommunication sector, utilities and banking sector) and exporters, as well as companies with foreign ownership		<p>Low innovativeness level of companies - GE only 113th (of 138) in WB GCI innovation rankings</p> <p>Innovation activity of companies mostly in the form of technology absorption through the acquisition of machinery and equipment, the effect of which is minimal on creation of local innovative products or/and processes</p> <p>Extremely low level of R&D activities of companies</p> <p>Almost no industry – academia collaboration</p> <p>Science sector focusing mostly on basic research, low level of citations and patenting activities</p>	Research activities concentrated in Tbilisi and the limited number of other centres
Human resources				
Demographic trends	<p>Young population (average 38.1)</p> <p>Positive natural increase of inhabitants on country level</p>		<p>Decrease in number of citizens and workforce over last 25 years</p> <p>Depopulation trends (especially in most rural, high mountain border northern territories of Georgia)</p> <p>Though Georgia is predominantly urban, outside Tbilisi and AR Adjara the rural population dominates</p> <p>Large disparities in population density</p> <p>Ageing population in some region</p>	The most affected by depopulation are Racha-Lechkhumi, Kvemo Svaneti and Samegrelo-Zemo Svaneti, the least – Tbilisi

<p>Economic activity/Workforce</p>	<p>High level of tertiary education graduates</p> <p>Relatively low, decreasing unemployment rate</p>		<p>High proportion of self-employed persons</p> <p>Low rate of hired employment, with 2/3 of all jobs offered by business and institutions in Tbilisi</p> <p>Despite increasing employment and economic activity rates, the respective figures for Georgia are still lower than in the EU</p> <p>High-level of mismatch between the skills of workers and job market requirement</p>	<p>Tbilisi has the lowest economic activity rate in Georgia</p> <p>Unemployment rates in Tbilisi and Adjara above the unemployment rate for Georgia, with the Tbilisi peak at 22%</p>
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<p>Incomes/poverty/social inequalities</p>	<p>Significant increase in nominal wages in recent years (but still the wages remain low) Decreasing GINI coefficient</p>		<p>The vast majority of self-employed people don't have an alternative source of income than agriculture and some basic services.</p> <p>Employment rate is significantly higher for males than for females</p> <p>Relative poverty (calculated at the level of 60% of median consumption) stays at the level of 20.6%, with significant regional disparities</p> <p>Agriculture is the source of employment for almost half of total employed, which paired with low salary/income in the sector (64% of average wage) remains one of the main contributor to poverty levels</p> <p>Most of Georgian workers are low-wage employees ("working poor" phenomenon)</p> <p>Heavy reliance on payments from social welfare schemes, which make up at average 15% of Georgian households' income</p>	<p>Big differences between average salary levels in regions</p> <p>Relative poverty in Tbilisi is 3 times less than in Kvemo Kartli and Shida Kartli</p> <p>Average salary in some regions is at the level of half of the Tbilisi salary (in Samtskhe-Javakheti, Kakheti, Racha-Lechkhumi and Kvemo Svaneti)</p> <p>In several regions of Georgia reliance on social payments is higher than than average for Georgia</p>
<p>Education</p>	<p>Increasing number of VET education institutions, with better geographical coverage</p>		<p>Education is strongly affected by depopulation</p> <p>High education facilities are not evenly distributed</p> <p>Top ten HEIs are located in Tbilisi.</p>	<p>Schools in Tbilisi are overcrowded while the educational infrastructure in the regions is underutilized</p> <p>Less demanded HEIs are located out of the capital city. The VET availability is the lowest in Kvemo Kartli and Samtskhe-Javakheti regions, while there is no any HEI in Guria.</p>

Health	<p>Decreasing infant mortality (but still high in comparison to EU-28)</p> <p>Increasing number of hospital beds which lags behind EU-28 average (372.1 and 394 per 100000 accordingly)</p>	Tbilisi accounts for 49% of hospital units and 54% of all hospital beds	Underdeveloped healthcare	Despite the growth, the PHL per capita is Low (primary healthcare level) number of patients' visits (4.0 – 2016) compared to the EU-28.
Infrastructure				
Transport	<p>Good geographical location in international transport corridors (east- west; south-north);</p> <p>High speed of construction and rehabilitation of motorways</p> <p>Expansion of the rail transport with two large projects: Railway Modernization and Baku -Tbilisi-Kars - new railway line</p> <p>Three international airports</p>	Expansion of Anaklia Port (Samegrelo)	<p>Domestic passenger transport almost entirely road-based</p> <p>Unsatisfactory condition of local importance roads</p> <p>Road infrastructure (mainly local importance roads) unevenly distributed throughout the country</p> <p>Limited rail network, mostly one-track, electrified, with old infrastructure such as tunnels and bridges</p> <p>Insufficient availability of affordable train and bus services for passengers</p> <p>Traffic congestions in many Georgian cities can be observed due to the growing number of vehicles, insufficient traffic management and lack of funds for organisation of public transport on municipal levels</p>	<p>Low accessibility of majority of mountainous regions</p> <p>Unsatisfactory condition of local importance road network in some regions (e.g. Kakheti)</p>

Environmental resources /natural resources	<p>Rich and diversified natural resources, including water (and mineral waters), forests and others</p> <p>Rich manganese, copper, gold, silver and iron resources</p> <p>88 different categories of protected areas</p>		<p>Low level of access to drinking water</p> <p>Low level of treatment of water</p> <p>Low efficiency of the solid waste collections system</p> <p>In recent years increased temperature, sea level rise, changes in rivers flows, more frequent flooding, landslides and costal erosion can be observed</p> <p>Air pollution increasing, especially in industrial areas, and mainly due to overload of road transport</p>	<p>North-eastern and eastern regions through Tbilisi prone to flooding and flash floods</p> <p>Frequent droughts in Kvemo Kartli and Kakheti</p>
Broadband infrastructure	Relatively high level of access to internet for households (71.5%)	High level of internet access in urban type settlements (81.8%)	Much lower than average for the country levels of access to internet in rural areas (56.2%)	Regional disparities in access for households can be observed (84.9% in Tbilisi and 53.7% in Kakheti)
Energy	<p>Universal access by households to electricity grid</p> <p>Significant potential for hydro-electric power</p>		<p>Low level of electricity supply in many locations outside Tbilisi due to the amortized infrastructure</p> <p>Gas supply network to population outside Tbilisi still requires extension</p>	

Settlement pattern	<p>Good geographical location in international transport corridors (east- west; south-north);</p> <p>Urban population low by European standards (57.2% in 2017)</p> <p>Urban areas (and municipalities with the highest population density) are located mostly along the East-West transport corridor and on the Black Sea</p>	<p>Tbilisi is the biggest urban area, with almost 1/3 of the total Georgia population</p>	<ul style="list-style-type: none"> • The dominant position of Tbilisi, which appears in almost every economic factors, especially per capita in the GVA production • Lack of middle-sized cities as economic attraction centers, which does not help to overcome socio-economic disparities within the country • Georgia is explicitly monocentric country 	<ul style="list-style-type: none"> • Only Tbilisi and Adjara population is more than the whole population of the village; • All other regions are mainly made up of rural settlements, including Samtskhe-Javakheti, Racha-Lechkhumi and Kvemo Svaneti and Mtskheta-Mtianeti regions (There are 8 to 10 inhabitants living in the village). <p>Only 3 other cities (Batumi, Rustavi, Kutaisi) having population over 100 thous. Inhabitants</p> <p>Extremely low density of inhabited settlements in some mountainous and border areas</p>
Institutions – quality of the government at national and subnational level				
	<p>Recent fiscal decentralization reform (personal income tax reform)</p> <p>Low level of corruption</p>	<p>Government commitment to rural development</p> <p>Legal framework for supporting high mountainous regions</p>	<p>High fiscal centralisation</p> <p>Limited responsibilities of local authorities (Mayor, City Hall, municipal institutions)</p> <p>Low level of quality of administration capacity (especially at local level)</p>	

	Opportunities	Threats
External factors	<p>Association Agreement with EU, DCFTA with EU, FTA with China</p> <p>Changes in global tourism patterns (destinations, expectations)</p> <p>Increasing FDIs, including inward investments by diaspora and brownfield investments</p> <p>Strong involvement of donors in preparation and implementation of strategic reforms and programmes in Georgia</p>	<p>Political instability in the region, including situation in the occupied territories (20% of the country is occupied)</p> <p>Lack of macroeconomic stability dependent on the national and international situation</p> <p>Pressure on depreciation of national currency</p> <p>Slow pace of implementation of the Georgia EU Association Agreement</p> <p>Natural disasters</p>
Internal factors	<p>High quality of synchronization and coordination of development policies</p> <p>Better and efficient utilization of natural resources</p> <p>Low-cost labour force better specialized and re-trained</p> <p>Using potential of the country and individual regions based on more modern, smart specialisation approach. Possible leading sectors distinguished with high potential:</p> <ul style="list-style-type: none"> • Transit of goods, • Hydro- and solar power • Food processing (especially dairy and fruit processing) • Tourism • Viniculture and associated value chains 	<p>Political instability in the region, including existing situation in occupied territories</p> <p>Weak synchronization of development policies and Lack of sufficient financial resources</p> <p>Lack of structural reforms. For regional policy especially in the area of fiscal decentralisation.</p> <p>Persisting lack of legal and programming strategic basis for regional policy (lack of law regulating regional policy programming and implementation system including definition of the role of sub-national authorities and other bodies like RDSS)</p>

IV.3 MAIN DEVELOPMENT CHALLENGES, NEEDS AND POTENTIAL –

As analysis of SWOT confirms Georgia is a country with a lot of development needs, which due to the level of development but also other geographical and historically rooted factors cannot be fully meet. On the other hand, the country features also sufficient potential which can be used for increasing the economic performance and the quality of life of citizens. Many of needs and potentials have clear territorial dimension – some of them are associated only with particular location or type of territories.

This requires an ambitious regional policy oriented towards increasing sustainable competitiveness factors and at the same time promoting more balanced social and territorial development of the country (more on regional policy in chapter 4 and 5).

IV.3.1 Horizontal challenges for regional development policy in Georgia

As analysis revealed there **is a couple of challenges**, which Georgia is facing, and which **have a clear territorial dimension**. The most sound are related **to competitiveness of the economy**, which generally in international comparison, despite recent improvements, is very low, especially in the business environment, Even the potential of the most competitive area – the capital city of Tbilisi, better scoring in comparison to other regions, in terms of the structure of economy, productivity, access to services and goods, including infrastructure endowments, quality of human resources, including access to higher education and quality of administration, is still not fully used.

This means that, **one of the most pressing needs** to be tackled by the Georgian economic policy - and at the same time regional policy - is **to promote integrated and concerted development of competitiveness factors**, which are very much rooted in the socio-economic and institutional structures of individual regions. This requires a territorially sensitive **competitiveness oriented** regional policy embracing the whole country – where the jurisdiction of the Government of Georgia is exercised, allowing for adaptation of existing sectoral policies to the identified territorial needs, creating complementary regional policy instruments addressing territorial problems and additional efforts to identify and use economic potentials ranging from agriculture, tourism, industry to innovation and knowledge based economy.

The **second obvious conclusion** from the analysis is that **disparities in Georgia**, measured at the level of planning regions¹⁵ are very high in comparison to the situation in the EU countries, however they are similar to those observed in other countries of the region. Economic life is concentrated in Tbilisi functional area. The dominant position of Tbilisi is to be observed in almost all economic factors especially in GVA per capita but also in other economic life related factors. Increase in disparities continued in recent years has been driven almost entirely by the city of Tbilisi, with the most other regions' contributions to growth being roughly in line with their economic size.

The economic performance and structure influences the territorial pattern of social disparities. High employment in agriculture outside Tbilisi (and in limited number of other municipalities) and lack of good quality jobs is the cause of widespread poverty and dependence on social benefits. The low employment activity and low employment rate in Tbilisi on the other hand, show a need for efforts to target separately also social problems in the capital. Depopulation and aging tendency of the population mostly in the rural

¹⁵Equivalent to NUTS III rather than two NUTS II regions.

areas do not create incentives for the development of entrepreneurship. Large number of population receives social assistance and the share of pensioners in some regions is critically high. There is a huge difference between capital and regions in poverty. In most of the regions the poverty is higher than a national average. There is a significant territorial disparity in access to basic services, especially higher education. There is uneven geographical distribution of healthcare facilities in regions.

Third horizontal need is identified by conducted analysis: need for further improvement of development policy instruments, including capacity building of the structures involved in the policy planning, implementation, monitoring and evaluation processes. Also, in terms of increase of budget revenues it is necessary to strengthen the bodies of local authorities. In order to provide more efficient services by local authorities further strengthening of their powers and resources is required.

Existing programming base (expiring this year – 2017 Regional Development Strategy, Strategies and Action Plans of the individual regions, existing decentralization strategy,) may need more synchronization with development common national policy. In implementation terms, there is a need for further strengthening the coordination function of MRDI and built in coming years at national and regional levels the capacity to run (at the beginning in some pilot regions) integrated territorial development programs. In implementation of these programs will participate various stakeholders.

Despite several reforms of the system of official statistics in Georgia, there is still lack of some regional data on local economies, competitiveness, trade, migration, innovations, labour market etc. Excluding some exceptions, due to the high cost, difficulty in collection and processing of data, municipal statistics is almost unavailable.

Table 13– Summary of needs and potentials to be developed (organised sectorally)

Area	Needs for action from regional development policy point of view
Key Infrastructure	<ol style="list-style-type: none"> 1. Further development of key strategic physical infrastructure projects. This include further development of motorway in the transport corridors, development of other type of transport infrastructure like railway, airports and sea ports. 2. Further development and modernisation of environmental infrastructure including: <ol style="list-style-type: none"> a. water supply allowing for full coverage of population with good quality potable water; b. waste utilisation and management systems; c. Modernization of risk prevention system from natural disasters. 3. Developing energy infrastructure allowing for broader use of wide spread renewable resources and access of population to cheap and environmentally friendly energy means such as natural gas. Delivery of this type of infrastructure helps in diversification of productive base of the regions. 4. Developing broadband and other infrastructure to allow for full coverage and access of all population to internet what is a precondition to take part in economic development and increase in human capital. 5. Protection of cultural heritage and converting it into source for local sustainable development and tourism attraction 6. Protection of natural heritage, counteracting air pollution (including from industry and traffic) and contamination of soil 7. Promotion of integrated transport solutions in cities to help solve the problem of congestion, air pollution and health threat.

Area**Needs for action from regional development policy point of view****Economy**

1. Increasing support to enterprises, especially SMEs. As the level of entrepreneurship is the precondition for private investment the primary focus should be on regions with the low economic activity levels.
2. Increasing access to financing for innovative firms and improving involvement of existing research and academic institutions with business to produce and implement innovation project. This type of need is very much concentrated and applies only to Tbilisi and limited number of other cities.
3. In order to earn more and increase quality of life Georgia needs to export more value-added products. As lot of regions has not utilised potential in this regard, the regional policy should help in developing the export base rooted in territorial comparative advantages. This would require applying the latest smart specialisation approach for identification of proper sectors and products.
4. As analysis show Georgia has two sectors in which brand products are already developed: tourism and agriculture. However, these sectors still have the potential for market development and in increase of revenues. As FDIs investment is very important for structural transformation of economy and individual regions diversification there is a need for more geographically balanced investment. This requires creating incentives, including preparation of necessary institutional base (trade and investment zones) in regions outside Tbilisi.

Area**Needs for action from regional development policy point of view****Human Resources**

1. Analysis suggests that in regard to essential public services such as primary education, health and social services one of the challenges remains not only poor quality of infrastructure but further improvement of quality of services especially in remote, rural areas. This calls for both further reforms in education and health sector in order to increase access to those services in regions of the country also assuring adequate infrastructure not only in regions but also in capital city of Tbilisi with big demand for this type of services.
2. The vocational education system is under well advanced reform; however, it is still in need of investment in infrastructure and quality of services to make system effective, efficient and accessible in all regions.
3. High education services are very spatially concentrated (in Tbilisi). In order to allow for building necessary potential for structural change and thus increasing productivity of regions focus on development of potentials should be on limited number of cities (however including Tbilisi) – helping them in building and stabilising the educational offer, increase skills of academic base, internationalisation and development of infrastructural base.
4. In order Georgian economy research institutions to be able to support creation of innovations needed for economic growth, it is important to improve their performance in regard to applied research, in terms of cooperation with international research institutions, public and business sectors.
5. Labour market reforms are needed in order to offer better skills to population and decrease mismatch between demand from the market both in rural areas and in cities. This requires diversification and adaptation of labour market strategy to local labour market characteristics.
6. Georgia is much diversified in regard to economic situation of population. In addition, the rate of geographical distribution of income shows that there is a further need for proactive policy implementation focused on improving economic conditions of the population of mostly poorer regions and economically vulnerable groups. However high unemployment in Tbilisi and low employment activity figures for regions show that specific measures are needed everywhere.

Area**Needs for action from regional development policy point of view****Endogenous development**

1. The analysis shows the low level of citizen involvement in improving living conditions at the level of municipalities. There is an obvious need for regional policy to promote bottom-up approach to initiate projects supporting local endogenous development and to actively take part in the process of improvement of the broadly understood living conditions on the local level.
2. The analyses show that there is a huge need for improvement of the local infrastructure such as local importance roads, sewage and waste management systems, water supply, street lightening, preschool institutions, libraries, sport facilities etc. To improve this infrastructure a support for municipalities will be required, due to the scarcity of funds in disposal of the municipalities.
3. The significant disparities in quality of life between the urban and rural population call for activities devoted to diversification of local economies and improvement of the infrastructure in rural settlements (like roads, water and sewage systems etc.).
4. Special attention should be devoted to high mountainous areas in order to retain their depopulation and to improve the quality of life for the inhabitants. Among the most important problems to be addressed in these settlements are the need to support their economic development and improvement of the access to and availability of public services such as education, health care, basic infrastructure.
5. The analysis shows Georgia's great potential as the transit country, but this potential is still to be developed. On the Black Sea coast one of the most important logistic centres can be the Anaklia port with its Free Industrial Zone. Investments in Anaklia Port should increase its role in the international trade and logistics and have significant influence on the neighbouring municipalities.
6. Low level of development of most of the Georgian regions calls for implementation of diversified instruments, which may impact their economic and social status. One of the instruments should be the cooperation of the regions with other countries and regions, among others within the multinational cross-border programmes and projects, aiming at increasing cross-border trade opportunities, exchange of good practice, implementing joint initiatives in the field of business, cultural or environmental cooperation.
7. Although Tbilisi is by far the most developed region in Georgia, due to constraints related to the poor transport infrastructure and lack of public transport connecting the capital city with the neighbouring municipalities, the opportunities for inhabitants of Eastern Georgia to exploit the potentials of Tbilisi are rather limited. This calls for significant investments in the public transport systems (road and railways as well as underground) to improve the connectivity of the neighbouring municipalities with the capital city, increase the mobility of their inhabitants and ensuring them possibility to work and study in Tbilisi.

Area	Needs for action from regional development policy point of view
Institutional development	<ol style="list-style-type: none"> 1. As the analyses and evaluations show, the capacities of national and local authorities and implementing bodies to successful implementation of the Regional Development Programme should be further expanded. 2. For conducting the effective, evidence-based development policy there is a need to enhance further the analytical capacity of the ministries and state agencies. Among others, there is a need to further strengthen GEOSTAT in providing the administration with the sufficient trend analyses and series of data needed for programming and evaluation of national and regional policies. 3. Development of partnership principle in the policy cycle is one of the most important requirements for conducting responsible and effective regional policy. The analysis shows that there is a need to enhance the capacities of stakeholders – social partners, economic interest groups, non-governmental organisations, academia, as well as local population and bodies of local authorities in order to ensure their effective participation in the policy process. 4. As examples from other countries show, the best way to build capacity of the administration and achieving tangible development results is the preparation and realisation of pilot integrated regional development programmes. Such pilot programme (-s) co-financed and managed at first stage directly by the EC, should be developed in line with regional development strategy (-ies) and involve a broad range of national, regional and local stakeholders allowing for mutual exchange and cooperation with use of Multi- Level Governance approach.

IV.3.2 Needs and potentials of individual territories

Although there is a big similarity between needs of individual regions, when it comes to basic needs, business support schemes and necessary public services (e.g. basic transport and environmental infrastructure, SMEs development and business support institutions, development of tourism and agriculture potential, increasing quality and access to essential public services like primary education, health and social services), there is also a big variety of factors, which are particular (territorially specific) or common for limited number of planning regions. The table below tries to capture those unique features of planning regions on the basis of analysis conducted in the Analysis of Regional Disparities, information provided in the chapter 2, findings of the SWOT analysis as well as assessment done during preparation of recently adopted region-specific development strategies.

Table 14 – Summary of needs and potentials to be tackled identified at the level of planning region

Planning Region	Specific barriers to be overcome	Specific potentials to be developed
Kakheti	<ul style="list-style-type: none"> • High level of youth migration and aging of population • High level of self-employed among local population and unemployment among people with high education, lack of qualified labour force • Poor conditions of sewage system and poor condition of local importance roads, shortage of gas supply • Absence of spatial planning system • Amortized public transport • Low quality of tourist services • Land registration unregulated by legislation • Incomplete gas supply of villages and high mountainous municipalities 	<ul style="list-style-type: none"> • Favourable geographical location (close to Tbilisi and Azerbaijani board) • Further modernisation of wine making (as a strategic export sector) • Further development and modernisation of agriculture and agro-processing sector • Rich cultural heritage for tourism development • Existing landing strip in Telavi airport • Forests resources • High potential for tourism development (agro, cultural, wine, adventure, eco and , recreation tourism), especially in Signaghi, Telavi, Kvareli, Sagarejo and Akhmeta (Tusheti area) municipalities • Existing high education facility (Telavi State University) as a base for development of innovations • Hydro- and solar energy potential
Kvemo Kartli	<ul style="list-style-type: none"> • Lack of logistics services and agriculture extension centres • Large number of industrial spots with harm effect over the environment • Absence of sewage system • Amortized water supply system 	<ul style="list-style-type: none"> • Close location and transport communication with Tbilisi, Tbilisi airport, Azerbaijan and Armenia borders • Location in the transport corridor (national, roads of international importance and railway goes through the region) • Rich with natural resources for mining (including gold) • Renewable energy resources (water, solar and hydro) • High potential for green economy development • Potential for tourism development in certain areas (agro, cultural and eco-tourism) • Suitable climate conditions for further development and modernisation of agriculture and agro-processing

Guria	<ul style="list-style-type: none"> • High level of youth migration and aging of population • High level of unemployment, lack of qualified work force • Undeveloped tourist infrastructure • Small acreage of arable lands and old agriculture machinery and technologies, undeveloped logistics • Amortised schools' infrastructure • Lack of professional education facilities • Amortised water supply system and low quality of water • Less developed spatial planning system and lack of spatial planning documents • 	<ul style="list-style-type: none"> • Close location to Poti and Batumi ports, Batumi and Kutaisi airports. • Supsa oil terminal • Potential for development of high mountain, seaside and medical tourism • Potential for water, wind, bio-mass and solar energy producing • Forest resources
Racha Lechkhumi - Kvemo Svaneti	<ul style="list-style-type: none"> • High level of unemployment, unqualified work force. • Low level of economic development and diversification • Bad conditions of local importance roads • Amortised touristic infrastructure • Amortised agriculture machinery and technologies, undeveloped logistics services and agro processing • Amortised infrastructure of schools and kindergartens • Lack of professional education facilities • Lack of community education, cultural and youth centres, libraries and sport facilities • Low quality of water • Less developed spatial planning system and lack of spatial planning documents • 	<ul style="list-style-type: none"> • Large area of forests and pastures • Water resources • Raw materials (arsenic) • medical, adventure and recreational tourism potential
Shida Kartli	<ul style="list-style-type: none"> • unsatisfactory conditions of local importance roads • Amortised water supply system • Amortised public transport • Low income of population and poor living conditions of IDPs • Old agriculture equipment and technologies • Lack of pre-school education facilities 	<ul style="list-style-type: none"> • Favourable geographical location: connecting East-West motorway and railway go through the region, close to Tbilisi • Large acreage of arable lands and pastures to be used for modernised agriculture and agro processing • Important potential for livestock development • Cultural monuments for development of the tourism • Development potential of vine tourism • Existing high education facility (Gori State University) as a factor for development of innovations • Renewable energy production (wind, solar and water)

Samtskhe - Javakheti	<ul style="list-style-type: none"> • Unsatisfactory conditions of local importance roads, water supply, sewerage system and waste management • Amortised agriculture machinery and technologies, undeveloped logistics • Mismatch between supply/demand on labour market • Amortised schools' infrastructure • Amortised tourism infrastructure 	<ul style="list-style-type: none"> • Water resources for exports (Borjomi) • Baku-Tbilisi-Karsi railway (Turkey) railway goes through the region • Potential for recreational, cultural, mountain and adventure tourism (Borjomi, Vardzia, and others) • Existing high education facility (Akhaltzikhe State University) as a base for development of innovations • Favourable climate conditions for further development and modernisation of agriculture and agro processing • Hydro-, solar and wind energy production
Samegrelo-Zemo Svaneti	<ul style="list-style-type: none"> • Long distance to Tbilisi, proximity of occupied territory (Abkhazia) • Rapidly growing unemployment and poverty • Large number of IDPs with low living conditions • Need for full-pledge integration of IDPs with host communities • Undeveloped industrial sector • Low qualification of workforce • Low level of agriculture modernization 	<ul style="list-style-type: none"> • Favourable location: to Poti port, Kulevi oil terminal, Poti industrial zones, Anaklia port and free economic zone • Hydro- energy resources • Geo-thermal water resources, solar and biomass energy potential • Potential to develop cultural, mountain, adventure and recreational tourism • Favourable climate conditions for further development and modernisation of agriculture and agro production
Imereti	<ul style="list-style-type: none"> • High level of youth migration and aging of population • Low quality of workforce • Amortised schools' infrastructure • Limited access to pre-school education facilities, for some IDP settlements • Old tourist infrastructure • Amortised agriculture machinery and equipment 	<ul style="list-style-type: none"> • Kutaisi – in terms of population third biggest city in the country • Close location to the sea ports (Poti, Batumi, Anaklia) • Kutaisi international airport • Railway and East-West connecting highway go through the region • Existence of 2 Free Zones in Kutaisi • Hydro, wind, solar and biomass energy resources • Potential for cultural, vine and recreational tourism development • Existing and planned high education facilities as a base for technological advancement and innovations
Mtskheta Mtianeti	<ul style="list-style-type: none"> • Less developed spatial planning system and lack of spatial planning documents • High level of unemployment and poverty, low qualification of workforce • Bad quality of tourism infrastructure • Old agriculture machinery and technologies, absence of logistics • Unsatisfactory conditions of local importance roads • Lack of preschool and general education facilities 	<ul style="list-style-type: none"> • Good condition of national and international roads • Close location to Tbilisi • Large acreage of pastures and forest • Water resources • Cultural, adventure, mountain tourism development potential • Hydro, wind, solar and biomass energy potential

Adjara	<ul style="list-style-type: none"> • Unsatisfactory conditions of local importance roads • Bad condition of urban and public transport • Amortised energy transmission infrastructure 	<ul style="list-style-type: none"> • Railway, airport, Batumi sea cargo and passenger ports, close to Supsa oil terminal • International importance highway (E70) and railway go through Adjara • Potential for further development of sea-side adventure, eco and mountain tourism • Border with Turkey – as a potential of further development of trade and cross-border cooperation • Existing of high education facility as a base for innovations • Hydro and wind energy potential
Tbilisi	<ul style="list-style-type: none"> • Spatial disparities due to uneven distribution of urban services • High level of immigration from the rest of Georgia • High unemployment rate • Amortised transport stock followed by high level of air pollution and noise • Underdeveloped public spaces and green areas • Heavy transport/tracks transit through the city centre; lack of parking space • Lack of local funds for capital investments • Limited access to pre-school education facilities, for IDP settlements. 	<ul style="list-style-type: none"> • Strategic location – traditionally recognised as the centre of Trans Caucasus • Airport, railway stations • Location within the TRACECA corridor • The centre of economic activity of Georgia with highly developed financial institutions • Attractive market for further tourism and business development • Centre of education, research and innovations with high level of using modern communication and information technologies • Geothermal and sun energy potential.

IV.3.3 Policy needs

Taking into account the magnitude and the broad range of development needs and underused potentials, regional development policy in Georgia should be implemented over the whole country territory where its jurisdiction spreads, however the analysis of needs and potentials of individual territories shows that that there is a lot of unique features supporting differentiation of policy instruments. This can be done through better alignment of existing sectoral and regional development instruments to needs and potentials identified under regional development strategies or through creation of development programmes for planning regions allowing for implementation in integrated and coherent manner as set of instruments adapted to regional characteristic covering at least local development, SMEs support and human resources issues.

In the first stage it could be rational **to prepare integrated regional development programmes for at least two pilot regions** in which can be found unusual concentration of common for all regions or territory specific development obstacles as well unused potentials requiring action from the public policy in order to be utilised. Preparation and subsequent preparation of such pilot projects in line with the principles of regional cohesion policy would allow to practise modern regional policy approach by national and local authorities (with active involvement of other stakeholders) and provide some necessary additional sources (know-how and funding) for development of regions concerned.

On the basis of analysis made **in this chapter four planning regions seem to be** the best suited to play the pilot role:

- **Samtskhe-Javakheti.** This region with predominantly rural type settlements (more 70% of workforce in agriculture) being among the poorest in terms of GDP per capita less than GEL 5 thousand. The share of industrial GVA in total GVA is 5 % social and infrastructure accessibility indicators. The region is among those with lowest share of hired employment salary in household budget which is between 20% and 23%. The region has the largest representation of Armenian ethnic minority in the country (48%) accompanied by the challenge of their inclusion into education system and social life. The quality of hard infrastructure still remains the problem, most of the population has not access to 24 hours potable water and sewerage system, local importance roads are in bad conditions and transport communication between rural settlements is poor. The agriculture equipment and irrigation system are amortized, the infrastructure of preschool and educational facilities is old. At the same time there are education facilities (including University) represented in the regions and astronomical observatory in Abastumani, that gives the base for further scientific and innovations development. The region is bordering with Armenia and Turkey that offers transit potentials but in the same time is important development barrier which should be tackled separately by e.g. cross-border development programs. The building Baku – Tbilisi – Karsi railway with the break-of-gauge point, customs terminal and depots will create the largest railways station in South-Caucasus region, connecting Georgia with Azerbaijan, Turkey and rest of the middle Asia region, which will become an asset for the development of Samtskhe-Javakheti region. The unique potentials to be further developed include: hydro resources for development renewable energy, water, including medical (Borjomi – the famous one). Within the boundaries of Borjomi municipality there is one of the most popular summer and mountain ski resorts - Bakuriani. There are a lot of historical monuments for tourism development (Vardzia Monastery Complex is in the UNESCO list).
- **Imereti** – is the region located in the Western part of Georgia, which is divided from East Georgia by Rikoti mountain pass. On the territory of the region the international importance highways E60 and E70 are located and are currently under modernisation. They connect the region with the East Georgia and its capital and Black Sea Ports on the West. The modernisation of Rikoti mountain pass -which is planned during 2018-2021 will increase the transportation capacity and limit the transit time. Imereti is the biggest region with 529.7 thousand inhabitants and Kutaisi- the regional centre represents the third city in Georgia (147 thousand) after Tbilisi and Batumi with population. The region shows growing unemployment accompanied by highest level of welfare dependency. There are a lot of touristic spots (cultural monuments, health resorts), together with Tbilisi AR Adjara, Imereti remains the most popular tourist destination, therefore this sector has a potential for further using. GDP per capita in this region is close to national average. The main centre of the region is Kutaisi – former industrial town which has lost during last 26 years a lot economic activities and substantial part of population. There are also other industrial towns - Zestaponi and Tkibuli - in need of industrial modernisation and diversification. The current economic activity of the region is currently very much based on agriculture. Rural economy is the most intensive - the region's greenhouses with total area of 462 ha account for 2/3 of all greenhouses in the country. Imereti is one of the biggest cattle breeding regions of Georgia and one of the leaders of dairy cow breeding. Traditionally Imereti was the centre of agriculture production selling, however, for nowadays the links are destroyed. There is a need to support modernisation of food processing, marketing and value chain. The realisation of new big infrastructural project – extension of Tbilisi – Kutaisi – Batumi motorway development,

modernisation of the main Georgian railway line and development of Kutaisi Airport will support the further development of the region. There are two Free Zones in Kutaisi. There is a University in Kutaisi that might be used as a base for innovations and further economic development of the region. The development of Imereti will support to create business and trade links with Guria – the neighbouring and poor region.

- **Samegrelo–Zemo Svaneti.** The region is stretching from the Black Sea coast up to the high Caucasus Mountain (above 5 thousand meters above the sea level) of Svaneti. It has partially peripheral location under occupation of Abkhazia by Russia. It orders Russian Federation however due to the high mountain range there is no border crossing. The region has second biggest share of IDP(s) after Tbilisi Large number of IDPs with low living conditions (26.4%) – the second from Tbilisi and depopulation of the boarder places is continuing. The region is located within the transport corridors. There are Poti cargo port and Kulevi oil terminals, Poti industrial zones and Anaklia Port and FEZ under the construction. The region is reach with hydro energy resources, the largest hydropower station located on the administrative border with Autonomous Republic of Abkhazia – “Engurhesi”. There are climate conditions suitable for agriculture development. The region is the large exporter of hazel nuts. There is a potential for citrus production and exports, however the agriculture equipment and technologies should be modernised. The region with its Black sea coast and Zemo Svaneti area is suitable for development sea-side and mountain tourism that will create additional jobs for population.
- **Kakheti.** The largest region of Georgia in terms of size, with area of 11,375 km². Its strategic geographical location couldn't be underestimating since it is bordered from East and South by Azerbaijan and by Russia from North – both countries being the largest Georgia's exports destination; however, the border checkpoint is only with Azerbaijan. Kakheti is a rural region with one of the highest poverty levels across the country (25.5%). The region is also one of the poorest, with annual GDP per capita below GEL 5,000. Despite the recent years' efforts of the Government to improve hard infrastructure of the region, the problems with water supply, sewerage system, solid waste management and roads still occur, especially in villages. Youth migration and aging of population is one of the major problems the region faces. The region is the largest wine-maker and wine exporter of the country. Being the biggest in terms of share of meadows and winter pastures across the country, Kakheti is one the largest contributors of sheep breeding. Sheep and cattle from Kakheti are exported to the Middle East countries. Telavi State University might be used as the base for research and innovation for agro technologies. The region with its historical monuments and unique traditions is the favourite destination of both foreign and local tourists. The increasing number of tourist flow including cultural, wine, agro and recreational should be noted. Further economic development of the region would strengthen Georgian exports potential, support creation of new business and jobs and make the region attractive for living, including also for ethnic minorities.

The map illustrating those areas with functional spaces is included in *Chapter IX.3 – Table 51*.

In geographical terms some socio-economic problems and potential are tending to cluster not necessarily following the logic of administrative (or planning regions). In Georgia three distinctive **functional regions** of this type can be identified:

- **Black Sea Coastal Area** characterised by Mediterranean type climate conditions – rich nature, variety of plants and fruits, good partially exploited tourism potential built on the Black Sea, natural and cultural heritage. Apart of agriculture and tourism the area is the place of maritime

and fisheries industry, localisation of sea ports (Batumi and Poti, plus oil terminals in Supsa, Kulevi and plans to develop Anaklia Deep Sea Port in Samegrelo and urban development of Anaklia). The region is important transit area for products from/to Azerbaijan and to/from Turkey. The biggest urban centre is Batumi.

- **Functional Area of Tbilisi.** Analysis suggests that many development problems and potentials of the capital would be better addressed by development strategy going beyond administrative borders of the city. The long list of problems requiring concerted action of the City Authorities, authorities from neighbouring municipalities as well the central government and State Representative governors and Mayors of two bordering the Capital regions (Mtskheta-Mtianeti and Kvemo-Kartli) include: better regulating traffic of private cars, organisation of public transport for daily commuters (railway, buses, exchanges places between railway, metro, other forms of transport), spatial planning and land use, access to natural and cultural heritage, system of delivery of services (e.g. education facilities are overcrowded), preparation of lands for investment, solid and liquid waste treatment, water provision etc.
- **High mountainous regions.** The common problem of almost all mountainous areas scattered over the whole Georgian territory is very low density of population (despite Adjara), lack of basic infrastructure and limited access to any public services. This causes further depopulation and lack of economic, a part of basic agriculture related, activity. Additional common feature of those mountainous areas is that majority of them have peripheral location that influence negatively their accessibility and growth opportunities.

V. BROADER VISION OF THE REGIONAL DEVELOPMENT POLICY IN GEORGIA. OBJECTIVES AND PRINCIPLES OF REGIONAL POLICY

V.1 RATIONALE AND IMPORTANCE OF REGIONAL POLICY FOR GEORGIA

Globalisation and the process of socio-economic and **political integration**, which we can observe in Europe, brings **new opportunities** to people and countries but in the same time a lot of **threats** to those citizens and territories, which are not catching up with the new situation. As academic research, EU and OECD papers show the process of catching up should be regarded as multidimensional transformation of the economy and society to prepare for new challenges through finding a production or service niche or specialisation, which supports an increase in productivity and leads to better quality of life.

Recent crisis in the developed world, which started in 2007-2008 with its negative consequences still present in many countries of Europe, underlined the fact the catching-up shouldn't be seen as an increase of national and regional GDP vis-a vis other territories. **Before the crisis** many countries of the EU enjoyed a **rapid growth** of GDP giving their citizens increase in nominal wages, but as turned out, without endowment in productivity factors like good quality institutions, creative human resources, innovation or competitive internationally industrial or services sectors, this **proved not to be sustainable** over longer period. At present (data for 2016) there are as many as 34 regions in the EU which GDP measured in PPS against EU average, decreased in comparison to the situation before the crisis. For the same period, we can observe that some countries and regions were able, after relatively short time of adaptation to the new situation, return to the pre-crisis level of development or even improve their competitive position¹⁶.

As OECD's recent research shows, the main factors behind the diverging performance of countries and regions after the crisis include territorially differentiated productivity factors like capital, infrastructure, innovation, human capital, competitiveness of services and industry, quality of institutions but also what is worth to underline good macroeconomic and public policies.

As different economic theories predict – and empirical observations confirm– the first group of factors favours **large agglomerations and highly urbanised areas**, which are already developed and competitive at international scale. They have sufficient own resources or can attract resources from other areas (by acquiring additional capital or people) to maintain its high (so called frontier) position as global or European hubs for financial, economic and technological development.

The second group of factors, however is very much connected with policy side. Good macroeconomic policy and public support in favour of structural transformation of countries and regions can help in balanced development of territories which are in disadvantaged position because of historic, geographic or political reasons (like in the case of former socialist countries).

As lessons from EU cohesion policy and from many EU countries show, the **creation of good macroeconomic conditions** and **the co-ordinated implementation of structural policies**, oriented towards the development of competitiveness factors, taking into account their spatial differentiation, promotes crucial building the necessary environment for an increase in labour productivity and job opportunities, which in turn lead to a generating increase in the income of the population.

¹⁶The best examples are Germany, Austria, Scandinavian and CEE countries

V.2 PRINCIPLES OF REGIONAL POLICY IN GEORGIA

The competitiveness and inclusiveness components of the development strategy for Georgia in the longer run both require **strong regional policy**. As the OECD argues, an increase of regional productivity in less developed regions can contribute significantly to national productivity growth. This requires the **mobilisation of specific regional assets** and an **appropriate governance model across** all levels of the government. Taking this observation and experiences of the EU countries into account it seems that, the regional development policy in Georgia to be able to contribute effectively to the achievement of the strategic goals of the overall national development strategy should be governed by 3 principles:

- National, sectoral as well as regional development **policies and strategies must be formulated with reference to the needs and development potentials of regions and territories**. This must encompass both comprehensive territorial analyses, and the differentiation of policy interventions and public investments in territorial terms.
- There is a need to further strengthen **co-ordination among all government policies** and investment instruments aiming at the socio-economic development of Georgia. Regional policy must be co-ordinated with sectoral policies, and sectoral policies need to be co-ordinated with each-other overall, as well as in the particular territorial context of each region. Also, there needs to be an improved coherence between interventions at the national and local levels. Such co-ordination is to encompass all stages of the policy cycle.
- **Partnership and multi-level governance** need to be established as cornerstones of regional development policy. This in turn requires the strengthening of the capacities of all actors at different tiers of government, as well as the representatives of business, academic and civil society. Capacity building should thereby encompass all stages of the policy and programme cycles.

Together, these three principles are a part of broader **integrated territorial approach** to development, which allows for the integration of the knowledge and interests of stakeholders at international, national and sub-national levels as well different private and social development actors in the process of regional development. Ultimate result of a well-functioning multi-level governance system is rooted in local knowledge, creativity and innovations (brought about, *inter alia*, by policy experiments); as the example of many well-developed areas in Europe has shown, this is the best approach how the goals stated in the **Georgia 2020 strategy** - which **also underlines the need for building an efficient and transparent government** (public institutions) **at all levels** effectively supporting the initiatives of the private sector **can be reached**.

Georgia's on-going European integration process – on the basis of the Association Agreement – also provides an **opportunity to approximate regional policy with international best practices**. From this perspective, the RDP has been designed taking into account a number of horizontally applied requirements, including:

- The **need to focus resources** in order to maximise the **effectiveness** of investments. A concentration of both public and private efforts is all the more important taking into account the level of development of Georgia, which limits the availability of funds for development.
- The consideration of horizontal policy objectives related to **sustainable development**, gender equality, **non-discrimination**, and **social inclusion**. Also, the RDP has been developed with a view to new challenges to regional policy, resulting from **demographic developments** and **climate change**, which are also listed among the key areas addressed by regional policy in Europe.

V.3 STRATEGIC OBJECTIVES OF REGIONAL POLICY IN GEORGIA IN THE PERSPECTIVE OF 2030

As mentioned above, the formulation of the **strategic objectives of regional development policy for Georgia** should take into account **international experience, the political choices made by the country (embarking on the EU integration process) and overall development goals.**

The overall development goals of Georgia at present (**Georgia 2020 strategy**) relate to supporting inclusive economic growth and competitiveness of the economy at national level. Regional development is viewed as an important factor for achieving success on the national level but without setting specific objective at strategic level. However, national competitiveness, growth in productivity and decrease in unemployment (which are expected results of the Georgia 2020 strategy) very much depend on tackling development barriers and using potentials at local and regional level.

The primary role of regional policy in Georgia is therefore to **contribute to the achievement of national policy goals** by using territorial potentials and eliminating barriers to development at various territorial management levels. This requires well-coordinated and concerted actions in the areas of **legislation, institution building and investments**. Investment should be seen as a delivery by the State (Government together with municipalities and other development partners including donors) of essential public goods and services (e.g. key projects in area of transport, health, education, labour market, etc.), important for increasing levels of private investment and employment, supporting innovation, enterprises (especially SMEs), business organisations and development of the human capital crucial for the realisation of any development strategy in the context of globalisation and economic integration with the EU.

The **focus of national regional policy on competitiveness** should allow Georgia to increase chances of **external cohesion** of the whole country and its regions with Europe and other countries – every territory should grow and contribute to competitive position of the country (accumulative productivity growth). As examples from many CEE countries show such a regional development strategy would have an effect on the internal cohesion as naturally the regions already developed will have more capacity to make use from the European integration and opening up markets. The role of national regional policy is improvement of poorer areas prospects of development in a longer run – delivering infrastructure, improving human resources, fighting poverty and social inequality, strengthening quality of institutions and promoting endogenous development.

Considering the context, below are given the most appropriate indicators that measure long-term impacts of Regional Policy:

Strategic indicators:

Table 15- Strategic indicators

Indicator	Measurement unit	Baseline value and year	Target value in 2021	Source of indicator
GDP per capita on national level	USD	3.8 thous.in 2015	External cohesion increasing in comparison to EU average	Geostat
Exports of goods and services as percentage of GDP	%	44.7% in 2015	Increase in competitiveness of the Georgian economy	Geostat
Share of Tbilisi in total GVA	%	Tbilisi providing 49% of GVA in 2015	Share of Tbilisi decreasing – increase of internal cohesion	Geostat
Share of population living below the poverty line – national level	%	9.7% in 2015	Decrease in percentage of population living below the poverty line	Geostat
Share of investments in fixed assets as percentage of GDP – regional level	%	13.6% in 2015	Decrease in the share of Tbilisi (accounting for 76% of all investments in fixed assets in 2015) – increased internal cohesion	Geostat

VI. PROGRAMME OBJECTIVES AND PRIORITIES

VI.1 REGIONAL DEVELOPMENT POLICY GOALS IN MEDIUM TERM PERSPECTIVE

The analysis done in Chapter 2 and 3 shows, that Georgia, in order to grow and bring more sustainable jobs, should implement more ambitious pro-development and inclusive socio-economic **policy with a strong territorial element**. Regional policy development goals should therefore in coming 10-15 years, refer to its territorial aspects, and help in achieving the overall objectives of the development strategy.

In medium term perspective, it means that **policy is focussed on limited number of key objectives**, which can be quantified at national and regional level. Expected results in terms of those objectives refer both increase competitiveness and decreasing various type of gaps (infrastructural, human resources, productivity, financial identified) leading in a longer run to decrease in disparities between situation in Georgia and its regions with those in the EU and increase internal cohesion in three dimensions: economic, social and territorial.

Three strategic **medium-term objectives of regional development policy** in Georgian addressing the needs and allowing for identified potentials are as follows:

1. Contribution to economic development of the country by using potential of all regions according to their specific potentials

Expected results (long-medium term):

- **all regions improve their productivity** level in relation to EU average
- higher contribution of **areas outside Tbilisi** to the national GDP (GVA)
- **drop in the level of unemployment** in all regions/ increase in the level of employment rate
- **increase in the level of private investment** in all regions – more investments outside Tbilisi
- increase in spending on **innovation** (% of GDP).

2. Increasing social equality and job opportunities for development for all citizens

Expected results (long-medium term):

- decrease in the level of **poverty** in all regions
- increase in the level of **childhood care**
- decrease the **rate of self-employed**
- Decrease in the level of **dropout rate** of children from primary schools in all regions
- increase in **accessibility to essential public services**, especially in poorer areas (health, pre-school and general education, social and, vocational services).

3. Promoting sustainable spatially balanced development of the country

Expected results (long-medium term):

- Increase **accessibility** in international, national and local importance roads (increase in length of motorways)
- Decrease in accessibility of **infrastructure disparities** between planning regions and functional areas (regions with mountainous and rural settlements)
- Full coverage of the country by **broadband internet**
- Increase of and economic activity (measured by turnover of companies) in regions

To accomplish these goals, it is necessary to take relevant legislative, institutional and investment actions within national, sectoral and regional policies by using the instruments, which are financed through the state and local budgets, international donors and development partners, including the EU.

VI.2 THE ROLE OF RDP 2018-2021

The RDP 2018-2021 is **one of the instruments for achievement of set overall regional development policy objectives** - it offers the **framework for the coordination of various sectoral activities** of the Government and combining it with specifically regional instruments (like at present Fund of Projects to be Implemented in the Regions of Georgia). By **proposing comprehensive set of priorities and measures and showing their relevance** to achievement of set regional development policy medium goals shows as well what kind of activities (and key projects legal, institutional, investment) should be implemented and how to **align project selection criteria** in order to achieve maximum territorial effect.

During the elaboration of the programme several **gaps** were identified to be addressed in existing and planned until 2021 under the medium-term budget perspective (BDD – basic data and directions document) development actions financed by the National Budget (on the basis of BDD 2018-2021), municipalities and international donors to be covered in order to improve policy relevance to the set strategic regional development goals. Those identified goals could be a subject of **additional financing** provided by the Georgian Government or international donors and implemented gradually as part of this programme or its processor after 2021.

Naturally, in the programming structure of RDP 2018-2021 were included those measures, which are considered of the highest importance not only for the overall development of the country but also for regional development policy goals. Below, there is a **short description of proposed priorities** to be implemented under RDP 2018-2021 and information about corresponding measures in which public actions should be concentrated to contribute best to achievement of medium-term goals of regional policy in Georgia.

The objectives of the Regional Development Programme 2018-2021 are defined on the basis of the analysis in **Chapter 2**. In addition, reference is also made to the **Social–Economic Development Programme „Georgia 2020”**, which defines 3 “principles”, which national policies – and therefore also: regional policy – must follow.

Table 16- Georgia 2020 policy principles

Principle 1 - ensuring fast and efficient economic growth driven by development of real (production) sector of the economy [and thereby]

- resolve economic problems
- create jobs
- reduce poverty

Principle 2 - implementation of economic policies that facilitate inclusive economic growth [including]

- universal involvement of the population in the economic development process
- prosperity for each member of society through economic growth
- social equality
- improvement of the living standards of population

Principle 3 - rational use of natural resources, ensuring environmental safety and sustainability and avoiding natural disasters during the process of economic development

2010-2017 Regional Development State Strategy of Georgia – which could give further guidance for the RDP 2018-2021 – is no longer available. The **State Strategy for Regional Development**, which started in 2010, expired at the end of 2017. Still, some of its elements, which were also the basis for the predecessor RDP 2015-2017, are valid. Therefore, its overall and specific objectives were also considered for new RDP.

Table 17 – State Strategy for Regional Development - objectives and priorities

<p>Overall objective:</p> <ul style="list-style-type: none"> • create a favourable environment for the socio-economic development of the regions and improve living standards and conditions of the population <p>which is to be achieved through:</p> <ul style="list-style-type: none"> • balanced socio-economic development of the regions • increased competitiveness and • minimised socio-economic imbalances amongst the regions

Based on the **analysis** of current socio-economic conditions, and the trends in the international environment – as expressed through the **SWOT** in **Chapter 3** – we can conclude that Georgia’s overall development needs echo those of the less developed member states of the European Union, and those of the pre-accession countries of the Western Balkans. In particular, Georgia must continue on a **path of accelerated economic growth**, which requires the further **diversification** of the economy, but also **smart specialisation** on sectors that are best suited to Georgia’s comparative advantages. Thereby, the development of **human capital** – in terms of general education, vocational education and life-long learning alike – will have a key role. The development of infrastructure must retain its priority status, too. Telecommunication and transport networks must be expanded, as **accessibility** is a key problem all over in Georgia. Without improving it, there is no hope for increased FDI outside the major city agglomerations. In addition, , the modal split of transport needs to improve, so there is a need to expand the railway network and invest into intelligent public transport systems. Also, there is a need to continue with the rehabilitation and expansion of the **energy, water supply and sewage treatment networks**, as well as **solid waste management services**.

Given the major imbalances among Georgia’s regions as well as within the regions, development needs to be **inclusive**. Unfavourable demographic condition especially in the **rural regions** as well as the specific development difficulties of **mountainous areas** require special attention. Last but not least, regional development policy must also consider the needs of the large numbers of **internally displaced persons** who have fled their homes as a result of recent armed conflicts and the foreign occupation of Georgian territories.

As visible, there are **justified development needs across the board**, and RDP resources, although significant will not be able to cover all needs at the same time. Therefore, considering also recent EU practice, there is a need for

- concentration based on sector development priorities and
- the consistent and maximum utilisation of the specific resources of each region and territory.

As regards **concentration**, development national policy priorities expressed by the **Government programme for 2016-2020** feature a **four-point reform plan**, concentrating on economic growth, education, improved spatial planning, and strengthening public administration. (**See Chapter 1.3 for details**). All four are in line with the conclusions of the RDP’s analysis, and are present among the programme’s priorities, **weighted according to applicable sector strategies**.

In addition, the RDP 2018-2021 has been programmed on the basis of a **reinforced territorial approach**. The analysis has specifically covered regional differences of natural, social and economic conditions in every sector. Overcoming these regional differences shall be a basic guiding principle during the **selection of investment** measures under the RDP. Specifically:

- **Key public investment projects** that the RDP supports shall prioritise the **accessibility** and help create, successively, the basic infrastructural conditions for FDI and private investments **in all regions**.
- **Integrated territorial investment measures** (ITI) are foreseen to coherently address the diverse needs of different territories. This will also apply to rural and mountainous areas, and areas with a high proportion of IDPs. Regional development programmes are already in place in all regions and will serve as a basis for the synergetic combination of resources from different sectors. The RDP will specifically invest in building up to those capacities.
- The **implementation framework** of the RDP is based on partnership and strengthened coordination, even more than in the previous period. The reinforced mandates of the GCRD and MRDI – as monitoring committee and managing authority of the RDP – enable them to ensure effective inter-sectoral co-ordination and a continuous dialogue with local authorities. Besides, it is recommended to improve specific projects' selection instruments so that they are in line with the overall vision of the programme.

Considering the above, the intervention logic of the RDP 2018-2021 is proposed as follows:

The **overall objective** of the programme is to contribute to Increasing overall national and regional competitiveness, balanced socio-economic development and the improvement of living conditions across the country, reducing regional disparities and increasing territorial cohesion.

The overall objective is to be achieved through three **specific programme objectives**:

1. Promoting fast **economic growth**, systematically exploiting Georgia's comparative advantages in the dynamic international context, utilization of the potential of the territorial units on different level of governance through elimination of development barriers.
2. **Sustainable development**, the rehabilitation and expansion of infrastructure, energy and communication networks and public utilities through safe ways.
3. Promoting **social and territorial cohesion** – creating equal opportunities for all citizens, irrespective of their social background and place of residence.

To achieve those goals, the RDP applies a **programme structure based on five priorities**. The contribution of these priorities to programme objectives, and the detailed programme structure are presented in the tables below.

Figure 13- RDP 2018-2021 Intervention logic

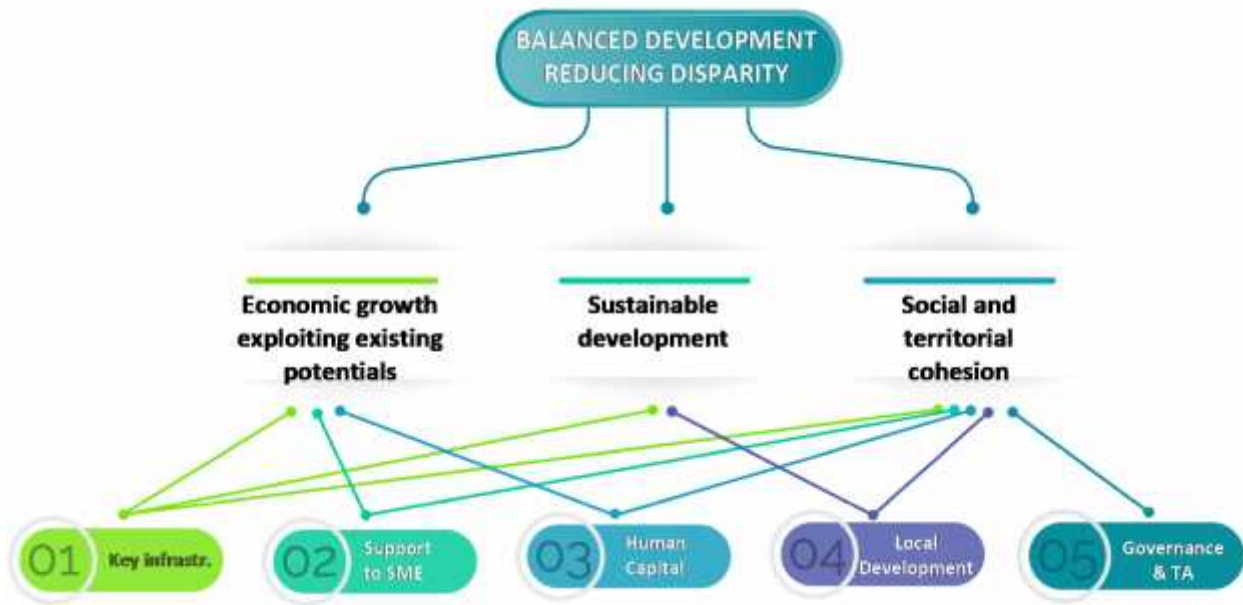


Figure 14- Programme structure



VI.2.1 Priority 1. Improvement of key infrastructure supporting competitiveness and sustainable development of the country and its regions

Taking into account the level of development of Georgia and its strategic transit position in the South-Eastern Europe (Caucasus, Black Sea Area alternatively), **the development of strategic transport, energy and environmental infrastructure** should be regarded as a precondition for realisation of structural change strategy for growth. As many researches demonstrate, addressing infrastructural gaps in these areas should for many years positively influence the level of economic activity through expansion of investment opportunities, increasing trade levels and productivity of many tradable services.

In recent and coming years, the Government realises a series of ambitious **strategic transport projects**, which will help to increase economic attractiveness of the country and make better use of its transit potential including: improving the quality of strategic road infrastructure (Tbilisi- Kutaisi- Batumi motorway), development of Anaklia deep sea port, completion of Tbilisi – Kars railroad, recent expansion of Tbilisi airport capacity up to 4 mln passengers, construction of Tbilisi and Kutaisi logistic centers As far as possible taking into account environmental threats and also the commitments by Georgia under

Association Agreement, should be considered mentioned projects' environmental protection aspects, , so it means e.g. growing over time preference for alternative modes of public transport.

From **regional development policy** point of view development of strategic transport infrastructure increases the chances of regions where it is located for attracting new investment (along transport corridors, airport hubs, ports) supporting thus development of production at international, national and regional levels. through increasing accessibility to the well-organized transport and communications systems job opportunities for inhabitants of rural and poorer areas grow. Taking into account the importance of the biggest urban centres in the national economy, into the list of key strategic infrastructure should be included investment in public transport systems, interchangeability between different modes of transport– foremost Tbilisi, Kutaisi and other cities.

At the same time, development of key transport infrastructure **must be combined and closely coordinated** with increasing quality of transport services and to the development of transport in various municipalities supporting investment in local enterprises and creation of new jobs, also will reduce migration of the population to big urban centers.

Development prospects of a region nowadays is played by the **broadband** and other types of infrastructure expanding possibility of population and companies to use internet solutions. Expansion of the core network and assuring that all citizens of the country will be able (physically and having minimum skills) to connect and make use of the internet network should be on the focus of public policy in coming years. As analysis shows, that Georgia is the country **with persistent huge needs in environmental and energy infrastructure**, which at present doesn't satisfy even basic needs of considerable percentage of population that hampers supporting investment in enterprise. The problem has a visible territorial dimension – the lack of basic environmental and clean energy infrastructure undermines development prospects of many, especially poorest rural regions - influencing negatively the quality of life of citizens and creation of job opportunities and thus accelerating emigration from that areas.

In the regional policy terms, for the next couple of years a focus is on visible improvement in accessibility of population to **potable water** and assuring increase in levels of treated **wastewater** and **waste management**. Continuation of **gasification** process and connecting new customers should be regarded as an important step towards improving population's accessibility to the energy Development of gas infrastructure should be subject of economic effectiveness and increase in capacities of customers, municipalities or other operators to cover the cost of functioning of enterprises. The improvement in this regard should be visible not only in major urban centres but also in rural areas, especially in the least favoured regions, contributing therefore to decrease level of infrastructural disparities in the regions of the country.

Analysis shows that internationally competitive strength of Georgia is the **richness and diversity of natural and cultural heritage**, including material (national parks, mountains, forests, monuments, monasteries, historical cities, etc.) and nonmaterial (cuisine, music, dance, folklore, drama, traditional agriculture and craft etc.). Unlike the infrastructure or other economic development factors they are well distributed within the country making virtually all corners of Georgia interesting from the tourism point of view. Activities supporting preserving natural and cultural heritage, its promotion and making it more accessible for society are quite numerous and involve the Government, citizens, private companies as well as many international projects, however there is still a considerable amount of needs in this regard, especially in remote and far from the road areas.

Under this priority following measures will be realised:

- **1.1** Improvement of international and national importance road infrastructure
- **1.2** Development of strategic transport infrastructure except roads
- **1.3** Development of broadband infrastructure

- **1.4** Improvement of energy infrastructure and expanding renewable energy potential
- **1.5** Improvement of infrastructure for protection from natural disasters
- **1.6** Development of water and sewage and waste infrastructure
- **1.7** Preserving and promoting cultural heritage
- **1.8** Preserving and promoting natural heritage (National Parks, reservoirs, protected areas of other categories)
- **1.9** Development of integrated municipal transport.

VI.2.2 Priority 2. Support to SMEs, growth-oriented sectors of economy and export promotion

Despite continuous efforts of the Government to create favourable business conditions (in Doing Business 2018 Georgia is indicated among the top 20 economies as the country which implemented the highest number of business regulation reforms since the launch of Doing Business in 2003 – in total 47 reforms) the level of entrepreneurship and investments of Georgian private companies is very low in comparison to European countries. This reflects the level of development of the country but also can be associated with the heritage of central planning system and the weak institutional framework. As analysis revealed to start business and/or to expand existing companies and SMEs in particular, **need improved access to capital**, increased **business and managerial skills** and in general **more active institutional framework**. Currently programmes financed through the budget supporting private companies address only limited number of those needs and are focusing on **export expansion** of already well functioning firms (“Enterprise Georgia”) or leading sectors (e.g. wine producers, tourism). To develop and use potential of individual regions and thus contribute to structural change, the regional policy should offer wider variety of support focusing on SMEs and the institutional environment tailored to the specific situation in different areas of the country.¹⁷ SMEs support should have two directions: **supporting firms with high potential for growth** (start-ups or existing) and **supporting firms in the most productive** or profitable sectors **from regional point of view**. In addition, as this type of support to SMEs tends to be very territorial factor-dependent, to assure the effectiveness there is a need for increasing the number and quality of services provided by business support institutions (like business incubators, potential pilot Regional Development Agencies, other regional development instruments and institutions). Naturally, taking into account low level of entrepreneurship needs for supporting well-tailored programs combining direct support to SMEs and **strengthening of the business institutions** are much higher in poorer regions, however the whole territory of Georgia needs support of this type (including Tbilisi) enabling use of specific territorial assets.

Analysis shows that in order to use completely **opportunities steaming from the EU association and globalisation process** Georgian economy has to increase its capacity to market internationally competitive products. This requires active economic policy oriented towards expanding export capacity of new and already competitive sectors, active support for start-ups and SMEs as well actions oriented towards strengthening of business support institutions helping to increase know-how and managerial skills of entrepreneurs. Support in these areas has a **clear regional development dimension** – incentives are needed to study and use underdeveloped potentials of each region which can contribute to strengthening export capacity of existing champions (in agriculture, tourism etc.) or in which completely new export niches can be developed including through creation of high quality cultural products. Lack of proper

¹⁷ Government of Georgia approved the strategy “Georgia’s SME Development Strategy 2016-2020” and its Action Plan, which provides for development of 5 strategic directions.

identifications of those new sectors or product niches in territorial context is apparent and should be addressed by regional policy.

Apart of the export orientation Georgian economy needs also **increase in private investment**, including **FDIs** (especially in regions), which require good **macroeconomic conditions** and stable favourable **institutional framework** (which is the case in Georgia according to international comparisons like Doing Business etc.). FDIs, when properly incentivised, can bring to the country needed know-how, investment, employment and innovations. From regional development point of view, it is substantial that this new investment (especially in productive or tradable sectors) are taken place also outside Tbilisi and Batumi – active regional policy therefore may need to offer extra incentives for investments in less attractive areas.

As regards innovations, Georgia's limited potential in this regard should be gradually expanded by making proper use of inflow of foreign investment, European integration (participation in EU funded research projects) mixing it with academic and research potentials. Taking into account existing circumstances the natural focus of the policy should be to gradually build and make use of already existing limited potential to produce innovation in Tbilisi and limited number of other academic and research centres. Increasing the innovativeness level of Georgian enterprises, especially SMEs and start-ups, require also some new instruments assisting them in development of the innovation projects.

Under this priority following measures will be realised:

- **2.1** Support to Enterprises including, SMEs
- **2.2** Support to innovation
- **2.3** Support to strategic sectors: tourism
- **2.4** Support to strategic sectors: agriculture
- **2.5** Export promotion
- **2.6** Support promotion of investment

VI.2.3 Priority 3. Improvement of human capital

Human capital is the crucial development factor for all countries trying to make a good use of globalisation processes. As experience from EU countries shows it is also a major factor determining the level of regional and local competitiveness – so it has direct link with productivity of its economies and the quality of life of citizens. In this context, analysis of human capital revealed that, Georgia needs to invest a lot in coming years in improvement of human capital almost in all categories. The specific needs have been already identified both by the Georgian Government and within framework of EU -Georgia cooperation. This include: improvement of the equality of education, decreasing mismatch between demand from the business sector and skills of population, need for development of the active labour policy including strengthening of the labour market analysis, further implementation of VET policy.

The issue has very **visible territorial dimension** – the quality of educational, health and other social services outside Tbilisi and limited number of other cities is very poor. Disparities in regard to accessibility to social infrastructure and good quality general educational, VET and health services are very high – leaving those in rural, remote and high mountainous areas without little skills and options, very often for young people. This is the reason behind migration` to Tbilisi, other cities or abroad.

Another important factor influencing the development prospects **is the level of social cohesion and inclusiveness**. As analysis revealed Georgia is confronted with the decreasing but still very high disparities among social groups and among citizens of different territories. This can be explained by economic factors (low level of employment matching lack of work places, unemployment, skills mismatch) and social factors disfavours some groups on the labour market such women, youth, and IDPs.

Despite gradual improvement in recent years due to better economic situation poverty is experienced by more than 20 % of population (% of those leaving below national poverty line)¹⁸– especially in remote rural areas. This needs special attention and to overcome existing challenges in the specific region in this regard.

High Education system and research institutions have very important role in economic development of the country and but also individual regions in which they are located. This is not only due to their ability to innovate but also building positive creative image and offering good quality human resources. The high education and research institutions are very concentrated – the majority of them, especially those relatively recognisable abroad, are located In Tbilisi, however there are some ambitious ideas especially from private sector to developed academic and research potentials in such places like Kutaisi (Technology University) or Batumi. The focus of cooperation in this field between Georgia and EU is on making more possibilities to involve academic and research institutions in cooperation with EU counterparts (e.g. through Horizon 2020 programme) but this - without creation of proper territorially rooted innovation systems (including infrastructure and creative culture) can incentivise researchers to move abroad rather than looking for not so well paid and appreciated job at home. In a longer perspective regional policy should help in developing research and high educational infrastructure and facilitate creation of effective commercially oriented cooperation links between academic and research, public institutions and business taking into account specific territorial situation of areas in which those first are located. Naturally those activities at present should concentrate in limited number of cities and their neighbourhoods: Tbilisi, Gori, Kutaisi, and Batumi.

Under this priority following measures will be realised:

- **3.1** Support quality improvement of general education
- **3.2** Improvement of vocational education system
- **3.3** Increasing the quality and accessibility of high education system
- **3.4** Support to research sector
- **3.5** Better accessibility to labour market
- **3.6** Support Integration of vulnerable groups
- **3.7** Social Inclusion

¹⁸For 2014 World Bank estimated the % of population living on less than 2,5 USD a day at 32%

VI.2.4 Priority 4. Promoting local development and support to specific areas based on their endogenous development

Implementation of the public policy sectoral instruments covering the whole country without properly considering territorial needs, tend to increase the concentration of socio-economic activities in agglomerations (in case of Georgia mostly in Tbilisi) and in limited number of other areas thus contributing to increase in disparities. The role of regional policy is to counteract this natural, but negative for majority of territories, effects of sectoral policies by providing complementary support at regional and local scale tailored to specific territorial needs. Such support at present is provided by very limited number of financed by the state budget or international community instruments. The most important role is played in this regard by Fund for Project to be implemented in the Regions of Georgia and Municipal Development Fund of Georgia both offering possibility to finance various, mostly municipal projects identified in line with provisions of regional development strategies and action plans. Taking into account the low level of fiscal decentralisation of the country (only 5% of total public revenues are collected at local level) very often, especially Fund for Projects to be implemented in the Regions of Georgia, covers basic infrastructural needs of municipalities, which have very limited wider regional development effect.

Sustainable and balanced development of the country requires an increase of attention of the regional policy for financing projects prepared and implemented locally with wider regional effect. Effective implementation of this approach requires not only sufficient funds but also an increase in revenues of municipalities and new instruments supporting strengthening of programming and implementing skills of local authorities, as well as active involvement of local stakeholders, including business and civil society representatives. There is an obvious need for regional policy to promote bottom-up approach to initiate projects supporting local endogenous development and to actively take part in the process of improvement of the broadly understood living conditions on the local level.

In line with the concentration of needs, in geographical terms a special focus of the regional policy should be on four types of areas:

- **Predominantly rural areas** with very low level of non-agricultural activities, poor infrastructure and low level of human capital. In this type of areas specific instruments are required for **high mountainous**, sparsely populated areas. The necessity of specific actions for areas with rural settlements, including mountainous areas is recognised by the Georgian Government, however activities from the central budget and international support are very limited in number and size. In fact, rural development objectives are supported in large extent also by the Fund of Projects to be implemented in the Regions of Georgia and MDF.

- **All planning regions** with special focus on those with the high concentration of economic and social problems. Focus of the policy should be on providing possibilities to finance projects, identified according to regional strategies provisions, which have the biggest territorial impact and socio-economic spill over effects. Operating currently in this area national instruments over time should be adapted,¹⁹ better coordinated (also with local projects financed from international sources implemented at local level) and increased both in terms of number, size and scope (to include human development and economic development dimension). For practising implementation of such fully integrated approach to regional development with active participation of regional and local stakeholders, it would be desirable to implement at least two pilot regional operational programs in the near future. They should have an effective implementation system using local and regional authorities and other instruments (e.g. potential pilot RDAs and/or other institutions), be based on regional development strategies and combine different types of funds – regional and local infrastructure, human resources development, including counteracting poverty and expansion of economic – non-agricultural activities.
- **Areas with strategic** (from national point of view) **potential**, requiring specific instruments addressing their needs and developing its assets. Some geographical areas, which borders doesn't match necessarily with administrative division, could contribute better to the overall economic growth when targeted by specific instruments of regional policy directed only towards them. This category of areas includes:
 - **Border areas** with development problems and potential to be used effectively through development of cross-border cooperation;
 - **Functional areas of big cities** (mostly Tbilisi but also Kutaisi and Batumi) in need of specific instruments to tackle traffic congestion, energy efficiency, urban poverty, revitalisation, and enhancing cooperation with bordering municipalities and with other municipalities with similar challenges (spatial planning, joint coordination mechanisms, organisation of services including agglomeration public transport).
 - **Areas requiring additional support** in making **full use of ongoing or planned strategic investment**. In coming years, development of Tbilisi-Kutaisi-Batumi motorway, development of Anaklia Port, and planned Technological University in Kutaisi may bring new opportunities not only for the whole country, but also for regions in which those investments are located (potential Black Sea area and development corridor along the motorway). This requires specific actions from regional policy offering among others mechanism for increased coordination between sectoral policies, special incentives for enterprises and researches to settle in the area, development of secondary road network, utility infrastructure and adapting local work force profile.

At present, this type of activities are not clearly visible among existing policy instruments, however there are already in place some limited instruments of support to cross-border cooperation (financed by the EU), macro-regional cooperation in the Black Sea Area, cooperation between cities (Mayors for Economic Growth), development of Anaklia port (Special Agencies). With time some specific instruments should be developed, especially in the context of enhancing cooperation in functional area of Tbilisi between different development actors as well fighting economic and social exclusion.

Under this priority following measures will be realised:

¹⁹ Law of Georgia on the Development of High Mountainous Regions, which includes specific actions for developing these regions, adopted by the Parliament of Georgia in 2015

- **4.1** Support to realisation of regional development strategies: development of small scale technical and social infrastructure
- **4.2** Rural Development
- **4.3** Development of High Mountainous Areas
- **4.4** Support Development of area around Anaklia Deep Sea Port
- **4.5** Cross-border and macro-regional cooperation
- **4.6** Support functional integration of Georgian urban territories

VI.2.5 Priority 5. Increase the quality and effectiveness of regional development institutions and preparation of pilot regional development programs.

Quality of institutions and services they provide to citizens and entrepreneurs is one of the most important factors of economic and territorial development in particular. The ability of the Governmental institutions, local authorities as well other development partners, including business, NGOs and citizens organisations to cooperate effectively in all aspects of management of regional development issues, (including setting realistic programs and instruments, creating effective system of implementation, using monitoring and evaluation for improving the quality of public policies), determine to a large extent effectiveness of regional policy in addressing needs and potentials identified in the strategic documents. According to the Association Agenda **strengthening institutions and promoting good governance** is one of the top priorities for cooperation between Georgia and EU – planned activities, closely related to the needs of regional development policy, include among others: increasing capacities of the government for conducting evidence based public policies; further improvement in public finance policy processes as well as transparency, accessibility and quality of Government services; strengthening the structures and processes of local governance. Implementation of the RDP 2015-2017 increased capacity of Georgian public administration to plan and monitor development activities and increased awareness of the importance of territorial dimension among public officials. However, according to conducted recently studies,²⁰ entering new phase of regional development policy implementation and preparing for realisation of direct regional development programs co-financed by the EU, there is a need to introduce in coming years several well-coordinated and planned activities aiming at:

- Enhancing institutional capacity at national level to facilitate the implementation of modern regional development policies (including this program), especially in terms of components such as coordination of territorially oriented public intervention, programming, implementation, monitoring and evaluation.
- Improving the quality and access to territorial data at different levels (central, local, regional / functional), and development of analytical skills of institutions for the development and implementation of modern regional development policy.
- Development of local institutions for implementation of regional development policy and promotion of partnership with non-governmental takeholders of regional policy.
- Implementing new instruments of regional development policy (or improvement of existing ones) that will fit the needs and potential for development of specific territories; Including preparation and implementation of Pilot Integrated Regional Development Program (s).

²⁰ For reference see recommendations developed under the EU TA project papers: “Coordination system of regional policy in Georgia (draft working paper) and “Map of functions of institutions in regard to regional development in Georgia”.

This priority of RDP aims to help in organisation of the complex system of strengthening regional development institutions to deal in coming years with increasing complexity of regional development issues and making effective use of existing and potentially available for regional development new sources of funding, including EU financing of integrated regional development programs in the chosen regions. In longer run, **expected result** of the implementation of the priority is **to set the institutional system ready to participate in the EU cohesion type** regional development policy.

Under this priority following measures will be realised:

- **5.1** Capacity building for regional development institutions at national level;
- **5.2** Strengthening the analytical base for conducting evidence based regional development policy
- **5.3** Active involvement of local authorities and promotion of partnership and cooperation with development partners
- **5.4** Development of instruments for regional policy: preparation of regional development program(s) for pilot regions.

VII. PROGRAMME MEASURES AND INSTRUMENTS

Note: Measures to be implemented under each of the priorities described below, the relevant activities and budgets are basically indicative and depend on the existence of resources and the amendments made by the relevant agencies. Indicative budgets, as well as output and result indicators, may be subject to adjustments in the current year and at the end of each subsequent year, taking into account the budget cycle in Georgia, approval of this program and the Program Monitoring Plan. Indicative budgets are provided in a detailed financial plan (see Annex 4).

VII.1 PRIORITY 1. IMPROVEMENT OF KEY INFRASTRUCTURE SUPPORTING COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT OF THE COUNTRY AND ITS REGIONS

VII.1.1 Measure 1.1. Improvement of international and national importance roads

Domestic cargo and passenger transport in Georgia is almost entirely road-based. Decent quality of roads affects mobility and connectivity of the country and its particular regions. To increase competitiveness of the country it is important to further increase the length of the international and national roads and improve their quality including rehabilitation of surface and construction of new bridges and tunnels.

The activities implemented within this measure will help to increase the volume of cargo transport in international and national relations, increase the mobility of inhabitants, create new jobs and increase the opportunities for business. In financial terms in coming years public spendings will be concentrated on:

- completion of remaining sections of the East – West highway: that will allow for increasing international transit cargo turnover and strengthening functional interrelation between biggest Georgian cities. It will include the modernisation of the Rikoti mountain tunnel and construction of Poti bridge on Rioni and one on Debeda River
- improvement accessibility to ports in Batumi, Poti and Anaklia Deep Sea, that would have potentially positive influence on the development prospects of the whole Black Sea
- Construction/rehabilitation of international and national importance access roads to the borders of the Republic of Azerbaijan and Republic of Armenia.

Beneficiaries of the Measure in broader sense will be the inhabitants and enterprises of the regions in which the projects are to be implemented, transport and logistics companies and tourists.

Objectives

- Improve conditions and safety on the roads in order to increase mobility of population and tourists.

Activities:

The measure will be implemented by the following Activities:

- Development of E60 and E70 international transport corridors and other highways through modernization of international importance roads
- Development and rehabilitation of existing national importance road networks
- Rehabilitation and construction of bridges

Budget

Indicative budget of the Measure is GEL 7.3 billion.

Output indicators:

- Length of international and national roads/motorways constructed
- Length of international and national roads rehabilitated
- Number of bridges constructed/rehabilitated

Result indicator:

- Reduced time of traveling and cargo transit on national and international importance roads
- Reduced number of car accidents

Implementing Body and partners:

Roads Department of Georgia under MRDI, Municipal Development Fund of Georgia, Eurasian Transport Corridor Investment Center under MRDI.

VII.1.2 Measure 1.2. Development of other than road strategic transport infrastructure

Railway, air and marine transport represent other strategic transport sectors in Georgia, apart from the roads. Problems with amortised infrastructure and low transit capacity interfere those sectors to meet requirements of rapidly developing global trade.

Railway

Completion of basic works on construction of the new railway link between Baku-Tbilisi-Kars (at the moment 74.5% of works are completed) and commencement of pilot transportation of cargo in 2017 was a significant step forward for strengthening Georgia's transit potential. Construction of the mentioned line began in 2008 and includes rehabilitation, reconstruction and construction of the Marabda-Kartsakhi 180 km long railway zone, comprising of Marabda-Akhalkalaki reconstruction rehabilitation zone – with operating length of 153 km of operation and Akhalkalaki-Kartsakhi (Turkish border) -27 km long new construction zone. The project aims to develop Asia-Europe railway corridor and provides for both cargo traffic and transportation of passengers.

Investment in coming years will concentrate on the one hand on modernisation of existing railway infrastructure and construction of a new railway, and on the other hand on the construction of railway access to Anaklia Deep Sea port.

Airports

There are three international airports in Georgia: Tbilisi, Kutaisi and Batumi. Local airports - in Mestia and Ambrolauri also in Telavi and Natakhtari.

Air passenger traffic has been steadily increasing in all airport over the last few years. Tbilisi being the only international airport in the capital city and at the same time the country's largest airport, is mainly attributed to the airlines which are interested in performing flights in the main airports of the country. A new terminal was added to the building of Tbilisi Airport in 2017. Also, expansion and rehabilitation of aerodrome infrastructure and significant repair works on the runway were carried out. The Kutaisi Airport is mainly focused on attracting low-cost airlines and is aimed at forming an accessible transport hub for both inbound and outbound tourist flow. The airport offers cheap flights to customers, which increases demand for expansion of the service. In 2016-2017, construction works for expanding the aerodrome infrastructure were carried out - the number of aircrafts was tripled, was constructed the aircraft parking and the runway connecting, the second route of the airship pass (taxiway), several administrative and technical buildings were also built. In the nearest future investment will be directed towards the expansion of the passenger terminal in Kutaisi, the construction works of which already started in September 2017.

The Batumi Airport is mainly focused on holiday seasonal flights, and local airports of Mestia and Ambrolauri (the flights depart from Natakhtari local airport) are located in highland regions and provide internal aviation traffic for local population as well as for growing tourist flow.

Maritime Ports

As the result of grow in global trade there is growing interest toward expanding capacity of Georgian Sea ports. Existing network of sea ports in Batumi city and Poti city will be complemented by building Deep Sea Port in Anaklia.

Anaklia Deep Sea port has very favourable natural features to accept very large vessels. The design of the port will bypass competing ports in the region with superior connections to existing rail and road infrastructure, equipment and communications infrastructure, berthing for 65,000 TEU vessels, flexibility for multiple cargo and vessel types, and introduction of environmental practice.

On October 3, 2016 the Government of Georgia and Anaklia Development Consortium (ADC) (See measure signed the investment agreement relating to the build, operation and transfer to the State of the Anaklia Deep Sea Port. The project consists of 9 phases. Currently there is ongoing pre-construction phase for the phase 1 of the project which includes early works (feasibility studies, master plan, preliminary design and etc.) to be completed. In December 2017, the preparatory type construction works started and is still ongoing.

The majority of hired jobs are created in Tbilisi (see Executive Summary). Therefore, development of transport sectors will create significant job opportunities for population of related regions of Georgia.

Logistic centers

Within the framework of the East-West Highway Improvement Project, which is implemented with financial support of the World Bank, the feasibility study for the development of two modern logistics centers in Georgia has been prepared. The document was prepared by a well-known German company Dornier Consulting International. According to the feasibility study document, two best locations were selected - in East Georgia (Tbilisi Logistics Center) and at Kutaisi Airport (Kutaisi Logistic Center) in West Georgia. Also, for each logistics center conceptual design, business model, market analysis and social and environmental impact assessments were prepared.

The total cost of Tbilisi Logistics Center is 80.3 million USD (the first phase cost is 60.7 million) and the total value of Kutaisi Logistic Center is 72.5 million (1st phase cost is 27.1 million). Considering the results of the Feasibility Study Document, the Ministry of Economy and Sustainable Development of Georgia, on behalf of the Government of Georgia, has expressed its interest in developing the logistic centers. Expression of interest was announced for developing the Logistic Center Separately In Kutaisi and in Tbilisi. The selection process will be conducted in several phases, namely: in the first stage interested persons have to provide relevant documentation, including information about the company, its experience, financial resources and any current disputes. If the requested documentations submitted are complete, the Government Commission will select the best few candidates who will be required to submit a proposal to the next phase (RFP). These proposals should include full technical and commercial proposals on the construction, operation and financing of the logistics center. Development of Logistic Centers will facilitate the development of logistical services, including value-added services, allowing increase of the country's transit and logistical potential, as well as encourage export. In addition, in both logistics centers, over 800 direct new jobs will be created, and the country will receive additional direct foreign investments. The expression of interest was completed on 29 January 2018. 5 companies expressed interest towards the Tbilisi Logistic Center and 3 applications were submitted for the Kutaisi Logistical Center.

Objectives of the measure

- Increase inter-modal transport, travel and logistics capacities

Activities

- Modernisation of existing railway (including improvement infrastructure, optimisation of stations and depots, freight and passenger trains' optimisation and purchasing new trains)
- Support development of Anaklia Deep Sea Port Construction, road and railway connection to Anaklia Port
- Developing airports infrastructure, including arrangement of supplementary infrastructure
- Arrangement of transport hub at Kutaisi International airport (Kopitnari)
-
- Development of Tbilisi and Kutaisi logistic centers

Budget

The indicative budget of the Measure GEL 732mln.

Output indicators

- Km of railway modernized/expanded and constructed
- Number of new railway carriages purchased
- Number of stations and depots modernised/constructed
- Railway station arranged adjacent to David Aghmashenebeli Kutaisi International Airport
- Expanded airport terminals (m2)
- Tbilisi and Kutaisi (new) logistic centers (m2)

Result indicators

- Travel time between Tbilisi and Batumi by railway
- Passenger traffic of Tbilisi and Kutaisi airports
- Volume of cargo (Air, railway, sea, road)

Implementing Body

Ministry of Economic and Sustainable Development of Georgia, Maritime Transport Agency, Union of Georgian Airports; State Hydrographic Service of Georgia, Georgian Railway, Ltd "Marabda-Kartsakhi", Ltd. "Anaklia Port Development Consortium", Anaklia Deep Sea Port Development Agency, Roads Department of Georgia.

VII.1.3 Measure 1.3. Development of broadband infrastructure

In the modern world, including Georgia the right to access and free use of internet is the basic human right, along with other fundamental human rights. Overcoming digital inequalities in the country and increase of access to internet is a necessary condition for the development of knowledge based economy in the country. High-speed Internet gives a significant impulse for micro, small, medium and large businesses to develop at a faster pace to increase their competitiveness both on local and global markets. Along with economic development, access to high-speed internet is of particular importance for strengthening democratic institutions, private and public services, enhancing knowledge and other areas.

To address the possibilities and potential of broadband, both the private and public entities are building networks all over the globe to support the Internet needs of both today and the foreseeable future.

Despite considerable improvements (as a result of reforms implemented in this field) in recent years access to internet has 71.5 % (July 2017) of households which is not very far from the average from EU countries (79%). However, there are considerable disparities in this regard - the figure for urban areas is 81,8% and only 56,5% for rural. As regards regional dimension the best availability of internet can

be found in Tbilisi and Adjara (around 85%) and the lowest rate observed in Kakheti and Guria (below 60%). Access to internet influences the usage of internet by population and companies. Value of internet users aged 6 and more for Georgia is considerably lower (59,6%) than in EU countries (77,9%) and even in CIS and neighbouring countries. There are also big regional variations following the same pattern as for internet accessibility in households.

Taking into account those circumstances and low density of population and its low purchasing power outside major urban centres, other target projects and investments in improvement access to the internet is important tool to support development of businesses and job opportunities for individuals, especially in the remote areas of Georgia. In coming years efforts will be concentrated on expanding network of broadband infrastructure – the investment plan which is realised with the World Bank loan, foresees increasing digital and e-literacy of population and access to broadband internet. Besides, it is planned to implement the following investments:

- The Investment Plan implemented by the World Bank loan, provides for increase of digital and electronic literacy of the population enabling them to access the high-speed internet (voucher program).
- Within the framework of the European Commission project "Harmonization of Digital Markets (HDM)", will be developed a "Broadband Infrastructure Development Strategy of Georgia", which will focus on the implementation of relevant policy and regulation of EU practice in order to overcome digital inequality in Georgia.
- In order to eliminate digital disparity in the country and promote the development of broadband networks and services, relevant regulations will be developed allowing to simplify access to electronic communication network operator on physical infrastructure useful for communication purposes (lines, pipes, cables, waste water, collectors, wells, towers, buildings, building engineering systems, distribution cases and etc.). It will also allow telecommunication operators to expand their networks with less financial spending, simplify information on physical infrastructure useful for communication purposes, and etc.
- The gradual implementation of the state program on development of broadband and optical-fiber infrastructure serves to promote broadband services throughout the country and access to high-speed internet. This is planned on the one hand, through encouraging companies in the field and on the other hand by investments where market mechanisms do not provide the desired goal.

As a result, the country will be covered by optical network that will facilitate developing of retail networks by local operators and delivery to internet subscribers. Residents of the regions of Georgia will enjoy the high-speed internet and the programs and services such as electronic health, e-education, e-governance, commerce and more. This will further increase involvement of citizens in the socio-economic life of the country. In addition, it will also promote free enterprise activities in the field of telecommunication, development of competition and attraction of private investments.

Objective

- Overcoming digital disparities and increase access to the Internet and its use by population and entrepreneurs
-

The beneficiaries of the Measure will be the households and small entrepreneurs of the regions.

Activities

The measure will be implemented by the following Activities:

- Internet for Development - digital literacy training for socially vulnerable 60 thousand families living in regions of Georgia. In case of successful completion of the training, payment of the internet fee via voucher (voucher of 150 GEL); As well as trainings in electronic commerce, electronic business and electronic governance for 10 000 micro, small and medium entrepreneurs operating in the regions of Georgia. In case of successful completion of the trainings 10 000 enterprises will have access to the internet/increased internet speed via voucher (200 GEL voucher)
- Within the framework of broadband, optical-fiber infrastructure development state program, development of broadband infrastructure in the populated areas where private operators do not operate with continuous mains optical infrastructure or are not going to develop such for the next 3 years, including the design and construction of infrastructure; network planning and arrangement; infrastructure and network services; providing wholesale broadband services.
- Elaboration of the draft law on telecommunication infrastructure sharing through development of broadband system (within the project initiated by the World Bank)

Development of projects for infrastructure sharing regulations in order to develop Georgia's "broadband infrastructure development strategy" and broadband networks.

Budget

The indicative budget of the Measure is GEL 166 million.

Output indicators:

- The draft Law on sharing of telecommunication infrastructure in order to develop broadband networks
- Broadband Internet Infrastructure Development Strategy and regulations on sharing of telecommunication infrastructure elaborated
- Number of trainings delivered
- Households receiving Internet installation vouchers
- Small Businesses receiving Internet installation vouchers
- At the first stage considering the technical and geographical factors, construction of passive optical-fiber infrastructure planned in Zugdidi-Jvari-Mestia, Kutaisi-Tkibuli-Ambrolauri, Samtredia-Chokhatauri-Ozurgeti, Kutaisi-Tsageri-Lentekhi.

Result indicator:

- Share of population with access to Internet in regions
- Share of entrepreneurs with access to Internet in regions

Implementing Body and partners

Ministry of Economic and Sustainable Development, Georgian Innovations and Technology Agency, NPNCLE "Open Net"; Georgian National Communications Commission; Other Donors / Partners including Fund "Cartu", EU Project "Development of Digital Markets", World Bank

VII.1.4 Measure 1.4. Improvement of energy infrastructure and expanding potential of renewable energy resources

Notwithstanding Georgia is rich with hydro-resources and exports electricity, the energy sector represents the challenge. Due to the amortized infrastructure the quality of electricity supply is poor in many locations outside Tbilisi. Georgia participates in the international gas pipeline project, however the population of the country, especially in rural and high mountain regions is still lacking gasification. At the same time, the natural resources of Georgia make opportunities to develop hydro, solar, biomass and wind power stations in the country and improve quality of life of the population and support business development and creation new jobs.

In coming years public finances will be concentrated on expanding and modernisation of network of electricity and natural gas in regions with low access of population to those energy grids and facilitating investment of private companies in renewable natural resources (hydro, solar, wind, biomass).

Objectives

Improvement of electricity and gas supply to households in selected regions; The measure will be implemented in several locations in the country (see below).

The beneficiaries of the Measure will be the inhabitants of the regions in which the projects will be implemented, and business located in the regions in which the projects will be realised.

Activities

The measure will be implemented by the following Activities:

- Improvement of electricity and gas supply to population
- Rehabilitation project of Enguri and Vardnili hydro power stations
- Development of system importance electricity network (which includes: construction of Akhaltsikhe- Batumi line)
- Construction of Jvari-Khorga electricity network
- Construction of power transmission line in Ksani – Stepantsminda
- Evaluation of Georgian electricity sector development, etc.
- Promotion of investment in renewable energy sources by private enterprises

Budget

The total indicative budget of the Measure is GEL 256 million Gel

Output indicators:

- Length of new gas pipeline constructed (km)
- New households connected to gas network
- Number of beneficiaries received subsidies for gas usage
- Length of new electrical grid constructed
- Hydro-power sub-station built Jvari

Result indicators:

- Share of households connected to gas supply systems
- Average annual production of new/rehabilitated hydro stations

Implementing Body and partners

Ministry of Economic and Sustainable Development, Georgian State Electrosystem;

VII.1.5 Measure 1.5 Improvement of infrastructure for protection from natural disasters

Natural disasters are one of the threats affecting the quality of life of the Georgian population and the opportunities for business activities. Among the identified threats are floods, flash floods, frequent droughts, landslides and storm landslides in Imereti, Racha-Lechkhumi and Kvemo Svaneti, Adjara and Guria regions. Mudflows are frequent in Mtskheta-Mtianeti, Racha-Lechkhumi and Kvemo Svaneti, Kakheti and Zemo Svaneti regions. There is a large number of eco-migrants in the regions of Adjara, Imereti, Guria and Samegrelo-Zemo Svaneti that have suffered from such natural disasters as: landslides, mudflows, strong sediments, snow avalanches, stone fall and etc. The measure aims at construction and maintenance of infrastructure for the protection of regions and population against the effect of natural disasters. The activities will be carried out on the territory of Georgia to assess current and expected hydrometeorological conditions and geologic situation in order to increase the

accuracy of hydro meteorological forecasts and the efficiency of notification on expected hydrometeorological threats.

As the result of the activities within the Measure the erosion of banks will be detained and the liquidation of the natural disaster's consequences, including recovering of damaged part of roads and related construction will be provided.

Objective

- Protection of regions and inhabitants against the effects of natural disasters

The Measure will be implemented on the territory of the whole country.

Beneficiaries of the Measure will be the inhabitants and businesses from the regions in which the projects will be implemented.

Activities

The measure will be implemented by the following Activities:

- River banks and sea shores' fortification works
- Construction/arrangement of infrastructure against natural disasters
- Monitoring, forecast and prevention in the field of environment
- Provide durable housing for eco-migrants

Budget

The indicative budget of the Measure is GEL 521 million.

Output indicators:

- Length of the banks (km) with fortification facilities
- Number of facilities related to construction and arrangement of infrastructure against natural disasters except monitoring stations
- Number of hydrometeorological, areological and radar stations established

Result indicator:

- Cumulative number of inhabitants protected from the disaster by bank fortification works in 2 km buffer zones
- Share of municipalities having adopted Disaster Prevention Plan
- Reliable hydrological and weather forecast, increased efficiency of issued notice on expected hydrometeorological disaster.

Implementing Body and partners

Roads Department of Georgia under MRDI, National Environmental Agency, Ministry of Economy and Sustainable Development of Georgia, Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia.

VII.1.6 Measure 1.6. Development of water and sewage and waste infrastructure

Due to the increasing needs of inhabitants and growing number of tourist the extended demand for water consumption is observed in many regions of Georgia, and especially in Kakheti, Imereti, Mtskheta-Mtianeti, Samtskhe-Javakheti, Samegrelo Zemo-Svaneti and Guria. In order to reduce negative environmental impact on the Black Sea, with which most of the towns within these regions are linked through waste water systems, construction of waste water treatment plants is being funded. Examples of on-going bulk works on waste water facilities include: new water supply infrastructure in Zugdidi, Poti, Abasha, Jvari and Ureki. In addition to those, construction of water treatment plants is in progress in the village of Anaklia and in the borough Ureki, while in Zugdidi city, Kutaisi city, Poti city,

borough Gudauri, Chiatura City, Marneuli city and borough Mestia construction of wastewater treatment plants is planned.

Over the last 5 years, solid waste management system has significantly improved: have been rehabilitated 31 municipal landfills, have been closed 23 landfills and have been arranged 5 waste transfer stations. This significantly reduced the adverse effects on environment and population. In the future, until 2023 closing of existing municipal landfills and in parallel building of new regional landfills with international standards is planned. Despite this fact, in most of the regions, not only in rural areas but also in some large towns, the conditions of landfills are still very poor and the process of solid waste management is ineffective, especially in case of existing municipal waste landfills. Usually, waste is dumped in nearby rivers and ravines; similar practice has been observed also in many villages. This negatively affects the environment and the health of the citizens, creating unfavourable conditions for living, recreation and for the exploitation of regions' tourism potential. The expected result of this Measure is the decrease of landfills' negative impact on the environment, public health and enhancement of waste management system and infrastructure – that will catch up with international standards and best practice.

This will have influence on expanding business opportunities especially tourist development in regions.

Objective

Increase population quality of life through supply of uninterrupted spring potable water and increase of waste management infrastructure The Measure will be implemented on the entire territory of the country, except of Adjara AR and Tbilisi.

Beneficiaries of the Measure will be municipalities, inhabitants and businesses from the regions, in which the projects will be implemented, as well as visitors of these regions.

Activities

The measure will be implemented by the following Activities:

- Modernisation and development of water and sewage network, including construction and rehabilitation of treatment plants.
- Solid waste management system development (closing old, construction of new regional landfills according to the international standards),

Budget

The indicative budget of the Measure is GEL 841million.

Output indicators:

- Number of water supply projects implemented
- Number of waste water projects implemented
- Number of customers connected to water system
- Number of closed landfills
- Number of new landfills built

Result indicators:

- Share of inhabitants having uninterrupted access to potable water
- The share of landfill with the reduced negative impact on environment and human health

Implementing Body and partners

United Water Supply Company of Georgia under MRDI, Solid Waste Management Company of Georgia under MRDI, MDF and Municipalities.

VII.1.7 Measure 1.7. Preserving and promoting cultural heritage

Georgian cultural heritage is well known world-wide. With modern approach to museums and cultural monuments (material and non-material) – as the centres of tourism and life-long learning centres, Georgia has a big potential to gain through the sustainable use of cultural heritage. Geographical diversification of cultural monuments and museums gives all regions of Georgia an opportunity to receive the cultural, social and economic outcomes through developing the relevant service fields, increase of income of individuals involved in production of souvenirs, traditional crafts and agriculture and also through integration of disabled people and other vulnerable groups into economic activities.

The Measure aims at protection of cultural heritage, supporting modernisation of museums and cultural monuments/facilities including infrastructure, management, capacity building and integration into international system. Additionally, the efforts will be made to improve the access to the cultural heritage infrastructure for disabled.

The measure will be realised based on the long-term cultural heritage strategy through the system of grants for preserving and promoting cultural heritage through the funds provided by the Ministry of Culture and Sport, MDF, international donors and local self- governments.

The Beneficiaries of the Measure will be population of Georgia, including ethnic minorities and disabled people, also international visitors.

Objective

- Support sustainable territorially diversified cultural heritage in order to increase the cultural, economic and social potential of regions

Activities

The measure will be implemented by the following Activities:

- Preserving cultural heritage and improving museum system
- Development of infrastructure and financial sustainability of the culture field
- Support for small scale infrastructure development surrounding areas of cultural heritage sites
- Support culture in regions - Support for small scale investment (material and non- material) for preservation of cultural heritage (material and non-material)
-

Budget

The Indicative Budget of the Measure is GEL 124 million.

Output indicators:

- Number of historical monuments rehabilitated
- Number of museums modernised
- Number of trained employees of museums and museum- reserves, also state and local self-government servants

Result indicator:

- Increased number of visitors in museums
- Increased income from museums and museum- reserves

Implementing Body and partners

Ministry of Culture and Sport of Georgia and National Agency for Cultural Heritage Preservation of Georgia and other relevant agencies under the ministry.

VII.1.8 Measure 1.8. Preserving and promoting natural heritage (National Parks, reservoirs, protected areas of other category)

Preserving and promoting natural heritage provide unique value for the current and future generations. The guarantor of preserving Georgia's biological and landscape diversity, ecological security and economic potential of natural resources, protection of natural heritage, ensuring comfortable environment for the population of Georgia and for the development of tourism, is the development of protected area system and territorial expansion. At the regional level, there is a need to improve the relevant policies and to provide multi-stakeholder involvement for protection and sustainable use of the natural capital. The constraints in protection and sustaining biodiversity and natural heritage, originate from the geographical specifics and is stipulated by social, political and economic drivers.

The Measure will be implemented on the territory of the Protected Areas throughout the country. Beneficiaries of the measure will be the inhabitants adjacent to the protected areas, visitors and businesses.

Objective

- Enhance sustainable use of natural ecosystems, biodiversity, geological structures and sustainable exploitation of protected areas for utilization of economic and social potential of regions

Activities

The measure will be implemented by the following Activities:

- Preserving biological diversity
- Formation and management of the system of Georgia's protected areas
- Development of the supplementary zones of Algeti, Kazbegi, Kintrishi and Pshav- Khevsureti 's protected areas (Improvement of social- economic conditions of the population residing at surrounding territories) and arrangements related to aware raising and eco- education on these areas
- Development of Georgia's protected areas
- related to natural heritage

Budget

The indicative budget of the Measure is GEL 37.8

(Note: At this stage the exact amount of funding from donor organizations for 2018- 2019 is not clarified and will be specified within the monitoring plan of the Programme.

Output indicators:

- Infrastructure facilities developed/renovated (buildings, touristic trails, visitor centres)
- Number of management plans for protected areas (new or updated)

Result indicator:

- Increased number of visitors in protected areas
- Increased number of businesses/ households receiving income from protected areas, by regions.

Implementing Body

Agency of Protected Areas under the Ministry of Environment and Agriculture, KFW, Caucasus Nature Fund (CNF).

VII.1.9 Measure 1.9. Development of integrated urban transport systems

During the last decade social and economic transformation in Georgia has had visible impact also on the public transport sector. With the growing number of vehicles on Georgian roads, the large share of which are the second-hand vehicles (with the average age of the vehicles being 10 years), emission and fuel standards set on low levels, insufficient traffic management and shortages of funds at the municipal level devoted to public transport, in many Georgian cities the traffic congestions can be observed as well as a rising level of harmful emissions from the transport sector. The worst situation in this regard can be observed in Tbilisi, however also other cities like Batumi and Kutaisi as well a number of smaller cities experience the same kind of problems.

The growing demand for improvements in public transport has not been addressed adequately in most of the cities due to lack of resources, insufficient urban transport infrastructure and services and lack of qualified staff and adequate management structures, including cooperation platforms for various actors from broader functional areas of cities concerned (transport companies, citizens, municipalities, Government).

Due to the fiscal policy the Georgian Government is the main source of financing of the urban transport activities, however in case of Tbilisi and Batumi also Municipal and Autonomous Republic budgets have also important role to play.

In order to address the challenges of the urban transport in Georgia an integrated reform is needed, transforming the overall transport system organization and financing as well as changing the mobility patterns and behaviour of people and businesses in urban areas and reducing the emissions generated by the transport sector. Naturally, realisation of such reform should be accompanied by the long-term investment plans in crucial infrastructure and re-organisation of public transport systems in functional areas of biggest cities: Tbilisi, Batumi, Kutaisi and - when relevant – others. Planned for coming years limited number of activities in the area of public transport in urban areas are not sufficient to tackle in an integrated way all related issues and problems.

Taking the a/m into account, a specific Measure will be implemented within the RDP. Beneficiaries of the Measure will be: municipal bodies, inhabitants and business of urban areas.

Objective

- Development of sustainable urban transport systems in selected cities in Georgia

Activities

The Measure will be implemented by the following Activities:

- Modernisation of metro stations
- Development of new low carbon emissions public transport (busses, construction/rehabilitation of cable car lines) in Tbilisi and Batumi
- Investment in infrastructure allowing for better organisation of public transport and use of alternative modes of transport (, multimodal hubs, parking places, bicycle paths etc.);
- Construction/rehabilitation of infrastructure for decreasing overload traffic in Tbilisi and other cities; Organizing the internal city transport system and improving the connection of Tbilisi districts with integrated transport system of Tbilisi functional area (Integrated Transport system of Tbilisi Functional Area)

Budget

The total indicative budget of the Measure GEL 225 million.

Output indicators

- Number of modernised metro stations in Tbilisi

- Number of purchased new eco-friendly and adaptive buses

Result indicators:

- Drop down of air pollution by CO2 traffic in Tbilisi
- Increasing percentage of commuters using public transport

Implementing Body and partners

Municipal Development Fund under/Ministry of Regional Development and Infrastructure of Georgia, 5 self-governing cities.

VII.2 PRIORITY 2 - SUPPORT TO SMEs, GROWTH ORIENTED SECTORS OF ECONOMY AND EXPORT PROMOTION

VII.2.1 Measure 2.1. Support to Enterprises, including SMEs

Despite many changes introduced in recent years to improve the conditions for doing business in Georgia, SMEs still face development problems. Limited access to finances, low competitiveness, low productivity, high level of amortization of the machinery and equipment in case of manufacturing companies, lack of cooperation within the national and international value chains, but also problems with finding skilled workforce are the main barriers for micro and SME development. Extensive agriculture makes the unit cost of the agro products high and uncompetitive on the international market, causes the substitution of the domestic agriculture products by cheaper imports, hampers investment and job creation especially in rural areas. Additionally, micro and SMEs and farmers face problems in access to financing their activities since they are not the attractive client for the banks, lacking necessary collateral and not able to pay high interests. The constraints in development of SMEs are also reflected in the limited number of jobs the small and medium companies are creating.

The Measure aims to create better conditions for business activities of SMEs through support in access to finance, development of manufacturing production and advanced services, creation of jobs, increasing the productivity and competitiveness of enterprises.

Final beneficiaries are: small and medium entrepreneurs in urban and rural areas, farmers.

Objective

- Creating better conditions for development of SMEs

Activities

The measure will be implemented by the following Activities:

- Increasing access to finance for SMEs by co-financing interest repayments and participation in collaterals for bank loans.
- Providing small grants to Micro and Small Enterprises for purchase of equipment for development of production and advanced services as well as for purchase of advisory services necessary for the implementation of business activities.
- Developing human resources in SMEs (training programmes for owners, managers and employees of the SMEs).
- Promotion of film industry development
- Promotion of institutions supporting increase and development of Georgian SMEs,
- SME development and DCFTA

Budget

The indicative budget of the Measure is GEL 133 million

Output indicators

- Number of loans issued for SMEs
- Number of modernised enterprises by region
- Number of start-ups created by region

Result indicators:

- Number of jobs created in supported businesses

Implementing Body and partners

Enterprise Georgia, Georgian Innovation and Technology Agency, GIZ, EU TA project (SME development and DCFTA).

VII.2.2 Measure 2.2. Support to innovation

Innovativeness of the enterprise sector in Georgia is low even in comparison to other countries of the region. The highest innovation activity can be observed among large companies (especially in telecommunication sector, utilities and banking sector) and exporters, as well as companies with foreign ownership. Innovation activity of Georgian companies is mostly in the form of technology absorption through the acquisition of machinery and equipment. There is almost no industry-academia collaboration in Georgia and the science sector itself is also not very innovative and rather focusing on basic research.

The measure will promote the development of innovation ecosystem in Georgia by creation of tech-parks and innovation centres, providing trainings and educational programmes, supporting collaborative projects between enterprises and research institutions and assisting SMEs in development of innovative projects.

Beneficiaries: business start-ups, entrepreneurs, universities and researchers.

Objective

- Promotion on development of innovation ecosystem in Georgia

Activities

The measure will be implemented by the following Activities:

- Promotion of innovation and technology development in Georgia
 - Development of infrastructure for innovations
 - Ensure access to finances (including implementation of micro grants)
 - Organizing trainings and other events across Georgia
- Development of Georgian national innovative eco-system
 - Creation of infrastructure for innovations; Repair, equipment and ensure their functioning of regional innovation hubs and/or innovation centers in Georgian municipalities based on the feasibility study (initially 13 pilot municipalities. At the end of the project the number have to reach 50)
 - Development of innovation services
 - Co-financing of innovations including co-financing of grant start-ups, co- financing of innovative activities of existing enterprises, support formation of different innovation funding systems

Budget

The indicative budget of the Measure is GEL 92 million.

Output indicators

- Number of innovative infrastructure developed; number of created/equipped regional innovation hubs and innovation centers
- Number of enterprises/start-ups supported
- Number of training and events organized

Result indicators:

- Total number of start-ups created supported by regional innovation hubs and/or innovation centers (by regions and years)
- Share of innovative enterprises in total number of SMEs

Implementing Body and partners

Georgian Innovation and Technology Agency (GITA) under the Ministry of Economy and Sustainable Development of Georgia, IBRD.

VII.2.3 Measure 2.3. Support to strategic sectors: Tourism

Due to the geographical location of Georgia, its national resources and climate conditions, as well as rich cultural heritage, tourism sector has a big potential for further development and job creation. As of 2016, the share of income received from tourists out of all exports of services was 64%. The foreign currency inflow received from tourism supports the macro-economic stability of the country.

The aim of this Measure is to increase the potential of tourism industry and its impact on development of individual regions by increasing number of foreign tourists visiting Georgia and its regions by marketing activities and promotional campaigns abroad, by stimulating internal tourism, improving the quality of small-scale infrastructure and service in the tourism sector and development of new tourist products.

The activities envisaged within the Measure should be strongly territorialised, focusing on attracting tourists to the specific Georgian regions.

The Beneficiaries of the Measure will be inhabitants of touristic locations (owners of hotels, restaurants and other sector support services, employees, souvenirs and crafts producers), foreign and local tourists.

Objective

Attracting tourism flows in the country, improving the quality of infrastructure and service in the tourism sector

Activities

The measure will be implemented by the following Activities:

- International tourism exhibitions/fairs and press and info tours
- Advertisement and marketing campaign/activities
- Development of tourist products
- Building small tourist infrastructure
- Quality development in tourism sector
- Project "Check in Georgia"

Budget

The indicative budget of the Measure is GEL 132 million

Output indicators:

- Number of retrained tourism sector workers

- Number of tourism marketing events
- Number of new tourism products
- Number of small – scale tourist infrastructure projects

Result indicator:

- Volume of foreign currency from tourism
- Number of visits of international tourists (by years)

Implementing Body and partners

GNTA and Enterprise Georgia Ministry of Economic and Sustainable Development.

VII.2.4 Measure 2.4. Support to strategic sectors: Agriculture

The share of agriculture in total employment is almost 49%, while the share of agribusiness in the output of total economy represents only 16%. In other words, low-scale, subsistence agriculture represents the main driving force of employment across the country. Extensive agriculture makes the unit cost of the agro products high and uncompetitive on the international market, causes the substitution of the domestic agriculture products by cheaper imports, hampers investment and job creation in rural areas. Old machinery and equipment, storage and processing, technological process, poor logistics, the shortage of finances represent main reasons negatively influencing the production and competitiveness of agriculture in Georgia.

The Measure aims at supporting modernisation of agriculture and increasing quality and production through affordable finances, establishing and improving agricultural cooperatives, increasing exports potential of wine-making sector and revitalising tea-production – a traditional sectors developed in Western Georgia regions.

The Beneficiaries of the Measure will be the individual farmers, agriculture cooperatives, households

Objective

Support modernisation of agriculture and improvement of the quality of agricultural products

Activities

The measure will be implemented by the following Activities:

- Support agriculture production, creation of new enterprises in agriculture sector and expansion of existing ones through cheap and affordable finances, leasing, co-financing of interest rates, collateral of loans, agro insurance.
- Supporting agriculture cooperatives
- Supporting wine production
- Development/diversification of other agricultural production sectors

Budget

The indicative budget of the Measure is GEL 390 million.

Output indicators:

- Volume of loans issued
- Number of supported cooperatives

Result indicator:

Increase turnover of the enterprises in agriculture sector.

Implementing Body and partners

Ministry of Environment and Agriculture of Georgia, National Wine Agency, Agriculture Projects Management Agency and Agriculture Cooperative Support Agency, USAID, ADA.

VII.2.5 Measure 2.5. Export promotion

Although the Georgian exports volumes increase steadily during last 20 years, the growing tendency of negative trade deficit is observed, caused by the limited diversity of exported products (mostly raw materials, agricultural products and pharmaceuticals) and small variety of exported manufacturing products. In order to increase the exports volumes and quality the Government has initiated the program to promote Georgian products internationally on targeted markets and to increase the access to business intelligence for Georgian exporters by organising product exhibitions, inbound and outbound trade missions, online marketing, product completions etc.

The aim of this Measure is to promote the export potential of Georgia, increase the competitiveness of local products on international markets, increase the export volume of domestic products and diversify Georgian export markets.

The Beneficiaries of the Measure will be inhabitants from export-oriented companies' locations and businesses.

Objective:

Increase the competitiveness of local product on international markets and Diversification of export markets

Activities

The measure will be implemented by the following Activities:

- Development of export strategy for Georgia
- Organization of international exhibitions and trade missions
- Connecting foreign buyers with Georgian producers
- Promotion of Georgian products and services on international markets
- Promoting Georgian wine abroad and support of export
- Providing information on export procedures in Georgia and on customs duties in foreign markets
- Developing export guideline
- Training of export managers
- Export certificate program

Budget

The indicative budget of the Measure is GEL 35 million.

Output indicators:

- Number of beneficiary companies participated in the export promotion and export development activities
- Number of export managers trained

Result indicator:

- Increased volume of Exported domestic products and services.

Implementing Body and partners:

Enterprise Georgia under Ministry of Economy and Sustainable Development of Georgia, Environment and Agriculture of Georgia, Chamber of Commerce and Industry, USAID.

VII.2.6 Measure 2.6. Promote attraction of investments

Georgia's liberal trade regimes provide investors with a favourable opportunity to not only access the country's 3.7 m residents, but the wider region's markets, as a direct result of the absence of customs and import duties. To date, Georgia has signed FTAs with Turkey and CIS countries. The Association Agreement ("AA") with EU is, including Deep and Comprehensive Free Trade Agreement ("DCFTA"). Georgia signed FTA with EFTA countries, giving Georgian products duty-free access to markets of Iceland, Liechtenstein, Norway and Switzerland. Georgia is the beneficiary of the General Schemes of Preference with the US, Canada, and Japan., (GSP) The basic essence is to set reduced rate of base import tariffs on imported goods from beneficiary countries, which facilitates the penetration of goods from developing countries to the markets developed countries. Georgia and Peoples Republic of China jointly signed the Free Trade Agreement. Additionally, Georgia is a member of the World Trade Organization (WTO) since 2000.

In terms of border control, there is almost no custom duty, with 80 % of goods being exempt from import tariffs, with no quantitative restrictions. The average time for customs clearance is currently about 20 minutes.

Investment in fixed assets are largest in capital city of Tbilisi (accounting for 76% of all investments in fixed assets), followed by Kvemo-Kartli and AR Adjara. Only these three regions feature growth in investments in the last 5 years. On contrary, investment levels and their trends in Guria, Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli and Mtskheta-Mtianeti are in decline.

Total cumulative amount of Foreign Direct Investments in Georgia amounted to USD 1.584 billion in 2016, almost 2/3 of this amount being invested in transport and communication, financial sector, energy and real estate and USD 254 million in construction and manufacturing. 86% of all FDI is located in Tbilisi. Among the main countries of origin for FDI in Georgia the Azerbaijan, UK, the Netherlands, USA, Turkey and the Arab Emirates can be listed. Domestic and foreign investments contribute to the increase in the number of jobs in the country. Especially, investing in job-intensive sectors has direct positive impact on new job opportunities: investments in financial sector, telecommunications or real estate, does not have big impact on jobs, while investment in manufacturing, construction, transport, hotels and restaurants highly contribute to job creation.

To increase the investments 4 Free industrial Zones have been created in Georgia located in Poti, Kutaisi (2 FIZ) and Tbilisi.

The Zones offer substantial incentives for investors (both Georgian and foreign), encouraging enterprises to establish the companies in the Zones and to create jobs.

Objectives

Creation of new jobs through investments.

Activities

The Measure will be implemented by the following activities:

- Within the direction of infrastructural support of the Program "Produce in Georgia", transferring the state property into the ownership for a symbolic price to interested entrepreneurs with certain investment liabilities.
- Support to entrepreneurs involved in hotel industry in all regions of Georgia except of Tbilisi and Batumi cities (technical and financial assistance – co-financing of franchise/management contracts and development of international brand hotels, co-financing of loan interest rate)

- Promotion of FDI and support to foreign investors through investment direction of LEPL “Produce in Georgia”.

Budget

The indicative budget of the Measure is GEL 115 million.

Output indicators:

- Number of new investment projects initiated under the program “Produce in Georgia – Investment”

Result indicator:

- Number of jobs created within the program “Produce in Georgia – Investment”
- Number of implemented investments within the program “Produce in Georgia – Investment”

Implementing Body and Partners

“Enterprise Georgia” and National Agency of State property under the Ministry of Economy and Sustainable Development of Georgia.

VII.3 PRIORITY 3. SUPPORT PROMOTION OF QUALITY OF GENERAL EDUCATION

VII.3.1 Measure 3.1. Increasing the quality of general education

60% of schools in Georgia have less than 200 pupils, because most of the schools are located in high mountainous and socio-economically less developed regions. Also, the general education service quality is low in high mountain and cross-border regions. The reason of existing problems is insufficient infrastructure of schools and qualification of teachers as well. In these regions pupils have limited opportunities to engage in cultural-sport and educational activities, which are interesting to them beyond the school education. Their motivation is also low in terms of personal growth and development skills.

Consequently, the Ministry of Education and Science of Georgia plans to implement specific activities in 2017-2020, which are reflected in the Action Plan of the Ministry 2017-2020. These measures refer to the improvement of schools' infrastructure as well as the availability of quality education services for the pupils lived in the regions.

The promotion of professional development activities for the teachers, creation of a safe educational environment, encouraging successful students and organizing educational and cognitive summer schools are also planned.

Events are planned in all regions, but special attention will be paid to high mountainous, and cross-border regions and to the regions populated by ethnic minorities. The measure will cover vulnerable groups including young people, women and others giving them the opportunity to access to quality education and trainings.

The Beneficiaries of the Measure will be the school students, adults and teachers living in the regions in which the projects will be implemented.

Objective

- Improvement of quality of general education.

Activities

The measure will be implemented by the following Activities:

- Public School infrastructure development in regions, including adaptive physical environment and improvement of quality of educational service
- Rehabilitation and increase of energy efficiency of public schools in Tbilisi
- Support teachers' professional development
- Support school activities
- Ensuring transport for public school pupils
- Increase motivation of pupils' learning, including promotion of successful pupils, their studies and recreation together

Budget

The indicative budget of the Measures is GEL 518 million.

Output indicators:

- Number of public schools rehabilitated
- Number pupils involved in summer school program
- Number of pupils involved in summer school program;
- Number of teachers trained;
- Number of school projects in various directions
- Number of clubs and classes established by pupils' self-governments

Result indicators:

- Dropout rate in general education institutions on the level of general education
- .

Implementing Body and partners

Ministry of Education and Science of Georgia, Municipal Development Fund, National Centre for Teachers Professional Development, Millennium Challenge Georgia, Education and Science Infrastructure Development Agency.

VII.3.2 Measure 3.2 Improvement of vocational system

Despite the activities done during recent years, the access to vocational education remains among the priorities of education policy. Unemployment in Georgia represents one of the country's most important challenge – the vocational education should become universally accessible to all age and social groups. Geographical availability is considered to be one of the factors that can hamper vocational education, since the economic situation of many of beneficiaries do not allow them to go to other plays for education. To ensure universal access to the vocational education it is important to increase the number of municipalities where it will be possible to get vocational education. In addition, the possibilities for vocational education target educational services should be created for all age groups: youth, teenagers and adults during the whole life. For this purpose, in schools will continue implementation of activities focusing on the development of vocational skills of school children. Also, it is planned to develop the formalised mechanism for adult training.

The Beneficiaries of the Measure will be the school students, teenagers, adults, teachers and all age groups living in the regions.

Objective

- Improve access to quality vocational education

Activities

The measure will be implemented by the following Activities:

- Development of infrastructure of existing VET institutions and/or creation of new VET institution
- Professional development of VET teachers

- In accordance with the requirements of the labour market, based on developed qualifications, implementation of modular and work-based (dual) vocational programs developing entrepreneurial skills
- Development of qualifications in accordance with the requirements of the labour market
- Implementation vocational skills development program at public schools;

Budget

The indicative budget of the first 2 activities is GEL 72.5million.

Output indicators:

- Number of new vocational educational institutions or new branches of existing VET institutions
- Number of persons involved in labour/vocational skills development programs
- Number of vocational education teachers involved in professional development activities (according to specific trainings modules); Number of graduates of modal and work- based (dual) vocational programs
- The number of dual/modular programs introduced in the system

Result indicators:

- Increased indicator of persons involved in vocational education
- Vocational Education Graduates Employment Index (Self-employment Index)

Implementing Body and partners

Ministry of Education and Science, National Center for Teachers Professional Development, Education and Science Infrastructure Development Agency.

VII.3.3 Measure 3.3. Increasing the quality and accessibility of higher education system

The priority of the higher education system in Georgia is strengthening the role of higher education in creating new knowledge, accumulation and transmission and increasing access to the system.

It should be noted that funding for education and science in Georgia is significantly lower than the relevant EU Member States. The share of education and science funding in 2012 was 2.8% of GDP, which is low compared to similar economic development countries.

According to the report “Socio-Economic and Territorial Disparities of Georgia” physical and financial availability of educational institutions appears to be an issue of primary concern, especially for Vocational and Educational Training (VETs) and Higher Educational Institutions (HEIs). Firstly, it should be noted that vocational and high education institutions are mostly private. In the regions like Guria, Mtskheta-Mtianeti alongside Racha-Lechkhumi and Kvemo Svaneti do not feature any public HEI. There is no single university in Guria and the other two regions have only one HEI each. Quality of HEIs is also an issue. The first three most prestigious HEIs are located in Tbilisi and the least prestigious universities are located out of the capital city. Kvemo Kartli and Samtskhe-Javakheti population are most disadvantaged about availability of public VETs.

Also, professional and higher education programs do not fully meet the requirements of the labour market. The existing system of higher education quality assurance does not have sufficient information about the system's results, however, according to external research and assessment, higher education in Georgia cannot answer modern challenges. In particular, it does not help generate new knowledge and form a highly competitive human capital.

The alternative forms and modern technologies of learning are weakly developed (e.g. distance learning etc.). The existing system of higher education financing does not provide guarantees for permanent institutional development of higher education institutions. Higher education financing is, on the one hand, the share of state financing which is low and on the other hand there are no other

sources of funding. The main load comes from households, which leads to the problem of access to higher education, especially for socially vulnerable people.

The Beneficiaries of the Measure will be the students, adults, teachers and lecturers.

Objective

- Increase the quality and accessibility of high education

Activities

The measure will be implemented by the following Activities:

- State master grants and youth encouragement; higher education quality development and management
- Support to higher education

Budget

The indicative budget of the Measures is GEL 518 million.

Output indicators:

- Number of international research (evaluation) conducted
- Number State study grants issued
- Number of scholarship issued for successful students
- Number of Projects and programmes promoting high education

Result indicators:

- Number of students which successfully graduated high education programs
- Share of spendings from the State budget on high education as percent of GDP

Implementing Body and partners

Ministry of Education and Science, National Assessment and Examinations Centre, National Center for Educational Quality Enhancement.

VII.3.4 Measure 3.4. Support to research sector

The government's one of the main priority is to reduce unemployment in the country, create job opportunities and promote innovation-based economy. According to the Government of Georgia four points plan education is one of the main priorities for the country development. In this regard, the government is planning to strengthen the research component, which will eventually facilitate the series of researches for labor market demands, as well as the introduction of innovative approaches.

The rate of productivity of Georgian scientific researchers in international scientific research field is unsatisfactory. Modernization of science, technology and innovation ecosystem, internationalization and diversification of funding schemes is of utmost importance for the creation of new knowledge and sustainable development of the country. The aim of the measure is to support the development of Georgian science, increase its competitiveness and international visibility, which will be implemented through: supporting scientific research; rehabilitation of scientific infrastructure; support for the development of young scientists; support of the activities of Shota Rustaveli Georgian National Science Foundation in order to promote the best quality research, international mobility of scientists, involvement of young scientists in research, maximum integration of educational programs and research area, improvement of forecast in scientific sector, evaluation of science sector and international cooperation; Also, support to the development of agricultural scientific sector, engineering and technologies, with special emphasis on environmental engineering.

The Beneficiaries of the Measure will be Universities, research institutions and business communities, also researchers, students, adults, teachers and lecturers.

Objective

- Increase of the competitiveness and international visibility of the Georgian science

Activities

The measure will be implemented by the following Activities:

- Promoting scientific grants and scientific research
- Development of scientific institutions programs
- Popularization of science
- Promoting scientific research
- Supporting scientists in agriculture

Budget

The indicative budget of the Measure is GEL 230million.

Output indicators:

- Number of state grants issued for research
- Number of conducted research
- Number of programs developed by scientific institutions

Result indicators:

- Value of expenditures for fundamental research
- Increasing Share of expenditure on applied research in total research expenditure

Implementing Body and partners

Ministry of Education and Science and the Shota Rustaveli National Science Foundation, Georgian Academy of Agricultural Sciences, Scientific-Research Center of Agriculture.

VII.3.5 Measure 3.5. Better accessibility to labour market

Unemployment rate in Georgia stands at quite low level of 11.8%, mostly on account of large numbers of the self-employed in rural economy. Tbilisi with 22% unemployment rate tops the list whereas the lowest rates are observed for the combined territories of Samtskhe-Javakheti, Guria and Mtskheta-Mtianeti (being mostly rural), standing at 4.1% and Kakheti – at 5.4%. Self-employment through production and selling of agricultural products together makes up only 15% of households' budgets in Georgia. In 2016, the share of self-employed persons in total employment was 57.3%. While urban population does not have the same opportunity, the unemployment rate in urban areas is high – Tbilisi features the lowest employment rate in the country.

40% of Georgian unemployed has high education, 50 % - has general education, while in Europe unemployed people are undereducated. Low wages in the regions discourage people to stay there, exacerbating migration to bigger cities and depopulation. This influences seriously the situation of mostly young people. According to the Ministry of Education and Science of Georgia 2015 survey on graduates, at the end of the educational program, 44 % of respondents were unemployed (22% were employed during the study, 34% after graduation).

According to NEET index covering young people without jobs and out of educational system, Georgia has high index and is among Republic of Tajikistan, Kosovo and Egypt.

On the other side, both private businesses and public projects (e.g. construction, hard infrastructure sectors and some services) face problem of qualified work force lacking.

The objective of the Measure is to decrease the labour market supply/demand (job) mismatch through creation of employment (including youth employment) support services. The matching of the job supply/demand will lead toward increasing of the employment and decreasing of the self-employment.

The beneficiaries of the Measure include job-seekers (including young people) and employers.

Objectives

- Decrease the labour market supply-demand mismatch

Activities

The Measure will be implemented through the following Activities:

- Introduction and development of labour market analysis information systems
- Employment support service development
- Training/retraining and qualification raise of job-seekers

Budget

The indicative budget of the measure is GEL 12 million.

Output indicators:

- The state employment portal is created and labour market management information system (worknet.gov.ge) is functioning
- Labour market information system developed and in use
- Periodic survey on labour market supply-demand conducted (at least 1 per 3 years)
- Employment-related events for job-seekers and employers organized. (at least 1 per year)

Result indicators:

- Increased rate of employment
- Share of self-employed in total employment decreased

Implementing Body and partners

Ministry of Labour, Health and Social Affairs of Georgia, Ministry of Economy and Sustainable Development of Georgia, Ministry of Education and Science of Georgia, Social Service Agency.

VII.3.6 Measure 3.6. Promoting integration of Vulnerable Groups

The most important social groups which are less favoured on the labour market are Internally Displaced Persons (IDP) and representatives of other vulnerable groups including youth of different groups. Their social integration will allow for increasing the quality of life of these groups' representatives and for improving the intra-regional cohesion of the specific regions.

Most of IDPs were displaced in the early 1990 as a result of conflict in Abkhazia and Tskhinvali regions, while a smaller number were displaced during military attack from the Russian Federation over Tskhinvali region in 2008. Two important groups of populations in Georgia are Social integration is a dynamic and structured process in Georgia. IDPs and ethnic minorities are not equally distributed by regions. By August 2017, there were 273,411 internally displaced people in Georgia (7% of population). They settle down predominantly in Tbilisi and Samegrelo-Zemo Svaneti, each accounting for 38.6% and 32.1% of all IDPs respectively. Main problems related to the IDPs is to provide them with housing facilities, ensure the child care and schools, support adult IDPs with possibilities to work through job seeking, trainings and assistance in establishing their own businesses.

Major ethnic minorities in Georgia are Azerbaijanians (6.2%) and Armenians (4.5%). 76% of Azeri population live in Kvemo Kartli region, while 48% of Armenians live in Samtskhe-Javakheti and 32% in Tbilisi. Main challenge encountered in relation to minorities in Georgia are the connected with their social integration, which can be overcome by providing them with support in education (also the adult education, especially in terms of learning Georgian language) and in promoting growth of their

competitiveness on the labour market (trainings and re-trainings, support in finding jobs) as well as support in conducting business and agricultural activities.

According to the studies conducted in Georgia, the problem of employment is particularly acute in young people. A study²¹ conducted in 2016 showed that most young people (85%) consider unemployment as alarming in the country and four out of ten respondents think that the issue is now the most problematic in the country. One of the most important problems in the recruitment process is the lack of required skills and qualification. According to the rate of 2017-2018 Global Competitiveness, the key factor hindering business in Georgia is the low level of workforce (17%), also low job ethics (9.7%) and lack of innovation capacity (9.7%) are an important barriers. A significant contribution can be made by youth activities in terms of encouraging youth activation and employment, which represents one of the social works using scientific methods, approaches and experiences in its work. One of its key components is the educational activities with youth, which are beyond formal education and promote the development of important competences and "indirect" transitional skills for young people. According to the recommendations of the European Parliament and the Council of the European Union (2006/962 / EC), development of key competences is a guarantee of flexibility of workforce, which enables people to quickly adapt to the ever-changing, modern, globalized world. Also, the document states that the development of competences has a significant impact on the growth of innovation, productivity and competitiveness and promotes motivation, satisfaction and improvement of work quality²².

The Beneficiaries of the Measure will be IDPs – refugees and other vulnerable groups from various regions, including youth belonging to different groups.

Objectives

- Improve living conditions of IDPs – refugees and better integration of other vulnerable groups

Activities

The measure will be implemented by the following Activities:

- Support IDPs and improvement of their living conditions on IDP accommodation places
- Providing livelihood to IDPs
- State support measures for youth; Facilitating development of entrepreneurial skills for the development of personal and professional development of youth, for their employment and income (echoes for the development skills defined by the European Parliament and the European Council "Key Competences for Lifelong Learning")
- Vocational retraining of ethnic minorities
- Ensuring ecomigrants with residential houses/apartments and social- economic reintegration of returned migrants
- Support of vulnerable groups (IDPs, refugees, ecomigrants, people with disabilities and etc.) in self- employment.

Budget

The indicative budget of the Measure is GEL 1.1 billion.

Output indicators:

- Number of living spaces built or bought for the IDP families

²¹ "Generation in transitional period: Youth Study 2016 – Georgia", Friedrich-Ebert-Stiftung.

²² European Union Official Bulletin, I, 394, December 30, 2006.

- Number of IDPs- refugees for whom training/retraining courses were conducted, number of representatives from various vulnerable groups (youth, people with special educational needs, people with disabilities) participated in vocational education, training and in skills' development courses.

Result indicator:

- Decrease the share of IDP families without living spaces in ownership
- Share of the employed or self-employed representatives of vulnerable groups out of total

Implementing Body and partners

Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia, the Ministry of Labour, Health and Social Affairs of Georgia and the Ministry of Education and Science of Georgia, GIZ, USAID.

VII.3.7 Measure 3.7. Social inclusion

Further improvement of Georgia's social security net and further improvement of inclusive education for vulnerable groups is important as a means of increasing the competitiveness of the country's human resources.

Currently, Georgia's social protection system combines two main components: Targeted Social Assistance (TSA) to help households below the poverty threshold, administered by the Social Service Agency (SSA) and a basic pension system. For the target population is also envisaged other social programs However, administered by the SSA.

Social rehabilitation and child care programs are implemented aiming at improving physical and social conditions for persons with disabilities (including children), elderly and children without parental care, socially vulnerable and homeless children and at risk of abandonment and their integration into society, as well as assistance of families with children in crisis. It is also noteworthy that geographical access to social services and development of alternative services still remains as one of the important challenges.

Despite the reduction of relative poverty between 2009 and 2011, which was partially the result of the introduction of the TSA programme, around a fifth of all Georgian households (21.8 %) and a quarter of the country's children (25.2 %) remained below the relative poverty line. At around 0.41 during recent years, Georgia's Gini coefficient is high.

To combat poverty, many activities are planned to undertake.

The Beneficiaries of the Measure will be socially vulnerable groups.

Objective

- Further improvement of social security net and access to education for vulnerable groups

Activities

Within the Measure, the following Activities will be implemented:

- Social assistance of target groups of population
- Social rehabilitation and care for children

- Promote special institutions for children with special education needs
- Support to inclusive education

Budget

The indicative budget of the Measure is GEL3 billion.

Output indicators:

- Number of social assistance provided to target groups
- Number of supported institutions for children with special educational needs
- Number of socially vulnerable students co-financed with the costs of High Education

Result indicators:

- Decrease of percentage of population living below the poverty line (comparative and absolute)

Implementing Body and partners

Social Service Agency under the Ministry of Labour, Health and Social Affairs of Georgia and the Ministry of Education and Science of Georgia.

VII.4 GEORGIA. PRIORITY 4. PROMOTING LOCAL DEVELOPMENT AND SUPPORT TO SPECIFIC AREAS BASED ON THEIR ENDOGENOUS DEVELOPMENT

VII.4.1 Measure 4.1 Support to realisation of regional development strategies: development of small scale technical and social infrastructure

The accessibility to and quality of local infrastructure is one of the most important features having impact on investment decisions of entrepreneurs and the quality of life of the inhabitants. Lack of proper infrastructure combined with low level of job opportunities influence negatively the possibility of development for all citizens and very often accelerates decision of migration to other better developed regions, especially young generations. Development and maintenance of the local infrastructure, such as sewage and waste management systems, water supply but also street lightening, kindergarten, libraries, sport facilities, parks is the own power municipalities, however as analysis revealed, huge needs and low level of own revenues, despite existing equalisation formula, makes modernisation and development of new necessary local infrastructure impossible without Central Government support.

The Central budget represents one of the sources of funding for the municipal projects.

The Fund of Projects to be Implemented in the Regions of Georgia – the fund from which a large portion goes to finance local projects to improve access to local public services (e.g. rehabilitation of roads, water supply and sewage system, underground communications, bridges, street lightening, waste management, houses and public buildings).

The separate regional development strategies represent the basis for identification of projects which are developed with active participation of various stakeholders, selected by municipalities following criteria defined by the Central Government and then submitted to the GCRD. Allocation of funds is conducted on a project-by-project basis: recommendations for each project are developed by the Commission and the final decision according each project is made by the Government of Georgia..

The process of the selection of the projects needs significant improvement, no specific formula currently exists. with limited responsibilities of the local authorities.

There is no formula for calculation of allocation of the amount to municipalities for their projects. Traditionally, the sum of annual allocations to the municipality is equal to the previous year's sums

(historical allocations). The municipalities are also obliged to make co-financing equal to 5 % of the amount necessary for implementation of the project during the current year.

There are also local projects implemented by the Municipal Development Fund of Georgia- the legal entity of public law under MRDI – a project implementing entity that aims to support local authorities in institutional and financial capacity building, invests into local infrastructure and services, development of renewable energy projects (small size hydro power and thermal stations), support to IDPs, rehabilitation of irrigation and drainage systems. MDF implements the projects in Tbilisi as well. The projects under MDF are selected according to the request of the municipalities. The final decision is made by MDF Supervisory Board's quarterly meetings.

The projects implemented by MDF are financed fully or partially by WB, EBRD, ADB, KfW, EU, USAID, EIB among others. The funds are not directly allocated to particular municipalities, but as loans or grants are transferred to the Central Budget.

Although at present both RDF and MDF finance mostly local, small scale projects, the increase of the local budget revenues announced by the Government will offer the opportunity to concentrate operations of two funds on projects with higher regional impact and economic importance.

The objective of this measure is to support realisation of regional development strategies through support to projects identified by the local communities **with visible socio-economic impact**. Priority will be given to those projects, which support local endogenous development (increasing opportunities for investment by local companies), local tourism, preservation and use of cultural and natural heritage and development of infrastructure crucial for assuring increase in quality of essential public services like pre-school, basic education, health facilities and others.

The Measure will be implemented on the territory of the whole country both in rural and urban settlements, however preferential allocation mechanism is planned to be introduced with time for concentrating investment in regions with the biggest needs assessed by using objective indicators (GDP per capita, infrastructural gap, quality of essential public services).

Implementation mechanism will allow for identification of projects by municipalities. Assessment of the proposals will be done at regional level with involvement of regional advisory councils, State Trustee Governors, and ministries to assure conformity with provision of regional development strategies and complementarily with justified investment delivered through sectoral programs.

The projects will be implemented by municipalities and MDF. Direct beneficiary of the project will be municipalities, however wider beneficiaries include first of all inhabitants of the regions in which the projects will be implemented as well as and business community.

Objective

- Support realisation of regional development strategies through support to projects identified by municipalities with visible socio-economic impact.

Activities

The measure will be implemented by the following activities:

- Supporting local, endogenous development (increasing opportunities for investment by local companies), local tourist, preservation and use of cultural and natural heritage and development of infrastructure crucial for assuring increase in quality of essential public services like:
 - Projects to be financed under the Regional Development Fund
 - Construction and rehabilitation of local importance roads (MDF)
 - Development of water supply and wastewater systems (MDF)
 - Construction and maintenance of sport complexes and squares (MDF)

Budget

The indicative budget of the Measure is GEL 851 million.

(Note: Out of this amount 151 million is from MDF and 700 million from RDF).

Output indicators:

- Number of small infrastructure built and rehabilitated
- Length of roads built and rehabilitated

Result indicator:

- Total value of the projects implemented through financing of MDF and RDF.
- Number of SMEs and other economic actors/initiatives which benefit from the new and rehabilitated infrastructure

Implementing Body and partners

The Measure will be implemented by Municipal Development Fund of Georgia, Municipalities, which implied funding from RDF.

VII.4.2 Measure 4.2. Development of rural areas

Rural development has an important role to play in increasing the welfare of rural populations and reducing the economic imbalance between rural and urban areas.

In recent years, Georgia has enhanced its efforts in terms of system support of rural development including the Association Agreement with the European Union. This was reflected in the consistent introduction of relevant strategic approaches and instruments, which implies integrated implementation of the most important measures for the coming years.

These measures, which are planned and implemented with active involvement of all relevant agencies and active cooperation with the **European Union**, are set out in 2017-2020 Rural Development Strategy of Georgia and its 2018-2020 Action Plan²³ aiming to promote improvement of living standards of village population, diversification of rural economy and increase of development capacity.

Since the priority areas and measures, implementation tools and the overall intervention logic are already fully covered in 2017-2020 Rural Development Strategy of Georgia and its Action Plan, it is not reasonable to duplicate them within the framework of 2018-2021 Regional Development Program of Georgia.

Therefore, monitoring of the activities related to rural development and related reporting, taking into consideration their complexity, is implemented separately within the framework of the Rural Development Strategy Action Plan.

The relevant objectives, tasks and approaches of the Rural Development Strategy and Regional Development Program are closely linked and are in harmony with each other. They are considered as comprehensive policy tools for ensuring integrated territorial development.

VII.4.3 Measure 4.3. Development of High Mountainous Areas

One of the Government of Georgia objectives is to increase the social and economic development of high mountain regions by improving the living standards and conditions for the population in high

²³ <https://matsne.gov.ge/ka/document/view/3529522>

mountainous settlements, ensuring a balanced socio-economic development, enhancing the competitiveness of the historical geographic regions and reducing the socio-economic inequality between the high mountainous regions and the other areas of Georgia. The High Mountain Region strategy is to be adopted by the Government and development programs for the high mountain regions will be prepared.

According to Georgian legislation the status of a High Mountainous settlements has been granted to almost 1.7 thousand settlements in 42 municipalities. The inhabitants of the high mountainous settlements constitute 9% of the population of Georgia (30% less compared to 2002). In 400 high mountainous settlements the population does not exceed 10 people and ca 200 settlements are unpopulated at all.

The aim of the Measure is to improve the infrastructure in the high-mountain settlements, including roads, water and canalization systems, support for economic development of the settlements and improvement of the services available for the population living in the high-mountain regions.

The Beneficiaries of the Measure will be inhabitants and businesses in high mountain settlements.

Objectives

- Improve the quality of life and accessibility of services in high mountainous settlements

Activities

The measure will be implemented by the following Activities:

- Improving infrastructure in the high mountain settlements
- Supporting start-ups, SME development and farmers in high mountain settlements
- Social benefits in high mountainous settlements
- Payment of gas fee for the population of high mountainous settlements of Kazbegi municipality and Dusheti municipality

Budget

The indicative budget of the Measure is GEL 655.83.5 in 2018 million.

Output indicators:

- Number of supported business entities with relevant status from high mountain settlements
- Number of farmers living in high mountain settlements supported
- Length of roads constructed and rehabilitated in high mountain settlements (km)
- Rural settlements with connected to water supply system
- Rural settlements with connected to sewage system

Result indicators:

- Number of jobs created by the supported entities within the measures
- Percentage of population from high mountain settlement having access to water and sewage systems

Implementing Body and partners

The Ministry of Environment and Agriculture, Agricultural Cooperatives Development Agency; Ministry of Regional Development and Infrastructure of Georgia, Ministry of Education and Science of Georgia, Ministry of Labour, Health and Social Affairs of Georgia.

VII.4.4 Measure 4.4. Support to development of Anaklia Deep Sea Port Adjacent Area

Georgia's geographic location makes its potential a key transit country facilitating high volumes of international trade between Europe and Asia (especially China) infinite.

For global trade, Anaklia with its location on the Black Sea coast has a potential to become a modern port to accept very large vessels. The combination of the Anaklia Port and Free Industrial Zone (FIZ) will further promote that growth by attracting new foreign direct investment (FDI) into the region and also help the Anaklia Deep-Sea port to gain regional prominence.

On October 3, 2016 the Government of Georgia and Ltd “Anaklia Development Consortium” (ADC) signed the investment agreement relating to the build, operation and transfer of the Anaklia Deep Water Black Sea Port.

From Georgia’s regional development point of view, the industrial zone will stimulate the whole Black Sea area, in particular Samegrelo-Zemo Svaneti planning region and surrounding area. First of all new jobs will be created in infrastructure sector. The demand for various professions will increase together with starting of exploitation of the port and operating of Free Industrial Zone. It will stimulate professional education and development of human capital in the area. Together with the jobs related to the Anaklia port and FIZ the allied sectors (e.g. SMEs in trade and services) will be developed. With the new jobs the income of population of the target region will increase.

The objective of the Measure is to stimulate economic activity in the area and make it attractive for work and living. It’ll be achieved through developing of Free Industrial Zone (apart from Anaklia Deep Port).

The Special Economic Zone – Anaklia City – covering 2,000 hectares of development territory, will be created based on the concept of Green and Smart cities. The light industry cluster will be built upon the advantages of Georgia’s trade. Logistics cluster will be set up to help to strengthen the role of Anaklia’s port as transshipment hub for the region and trade flows between Europe and Asia. Training and Development cluster – to strengthen the competitiveness of Anaklia as production and business destination for regional players and multinationals. Financial Center – JSC Anaklia City plans to transform the Anaklia into commercial and financial centre for the Caucasus and wider region. Tourism, Entertainment and Real Estate cluster will be established to complement the development of other business clusters and create the most attractive place to live in the region.

The Measure will be implemented in Anaklia (Samegrelo-Zemo-Svaneti planning region), however surrounding areas will gain from it as well. The Beneficiaries of the Measure will be the inhabitants of the Anaklia area, transport and logistics companies, tourists, business located in the regions in which the projects will be realised.

Objective

- Stimulate economic activity in the region and make it attractive for work and living.

Activities

The Measure will be implemented within 9 phases. Currently, there is ongoing pre-construction phase for the phase 1 of the project which includes early works (feasibility studies, master plan, preliminary design and etc.) to be completed. The construction works for the phase 1 started in December 2017.

Besides Akalklia Deep Sea Port and its surrounding territories development supportive activities are envisaged in programme measure 1.2.

Budget

The total budget of the Measure is GEL 10 million. ((note: Besides this amount two activities related to the development of adjacent territories of Akalklia Deep Sea Port envisaged in the programme measure 1.2 amounts GEL 395.8 million).

Output indicators:

- Phase of the building of Port and FIZ is in active phase.

Result indicators:

- Volume of cargo turnover
- Number of new jobs created in Anaklia area

Implementing Body and partners

Ltd "Anaklia Development Consortium", LEPL Anaklia Deep Sea Port Development Agency, Ministry of Regional Development and Infrastructure of Georgia.

VII.4.5 Measure 4.5. Cross-border and macro-regional cooperation

According to Georgian legislation municipality is authorized to cooperate with local self-government bodies of other countries. Georgian regions have practices of cross border cooperation. In 2009 the National Association of Local Authorities (NALA) Georgia and Community Association of Armenia created first Trans-border region - Euroregion "Euro Caucasus". It comprises 4 Georgian municipalities and 2 Armenian mazras along the border of Georgia and Armenia. The NALA is actively working on creation of similar cooperation regime along the Georgia-Azerbaijan Border.

EU-funded initiative Eastern Partnership Territorial Cooperation (EaPTC) promoting sustainable territorial cooperation between border areas of the Eastern Partnership (EaP) countries — by building the capacities of local and regional authorities to effectively manage territorial programmes and benefit social and economic development of the participating regions. In case of Georgia – Armenia and Georgia – Azerbaijan territorial cooperation including local authorities, communities and civil society organizations. The program promoting friendly relations between neighbouring regions and municipalities in such areas as agriculture, building-up cross-border tourism potential, business, solving cross-border environmental problems education, culture and sports.

Black Sea Basin 2014-2020 Cross-Border Cooperation (CBC) Programme supports sustainable development along the EU's external borders, helps to reduce differences in living standards and to address common challenges across these borders and promotes cooperation between EU Member States and the neighbouring countries in the Black Sea Basin. The programme priorities are:

Jointly promote business and entrepreneurship in the tourism and cultural sectors

Increase cross-border trade opportunities and modernization in the agricultural and connected sectors

Improve joint environmental monitoring

Increased awareness of environmental challenges and good waste management practices related to river and marine litter within Black Sea Basin.

The aim of the measure is to strengthen cross-border contacts between local authorities, communities, CSO and businesses society for the development of joint solutions to common social and economic challenges.

The Beneficiaries of the Measure will be inhabitants and businesses in cross-border regions.

Objective

- The objective of the both programmes is to enhance contacts with border rayons and strengthen cross-border contacts between local authorities, communities, CSO and businesses society

Activities

Within the measure will be implemented two Activities:

- Eastern Partnership territorial cooperation
- Black Sea basin cross border cooperation

These activities will be implemented in the following areas:

- Promote increase of tourism and trading opportunities
- Support to agriculture
- Support to business
- Addressing environmental problems
- Support to education, culture and sport
- Youth involvement and support to establish cooperation

Budget

The total budget of international programs related to this measure is GEL 16.2 million. Within the framework of these programs, the Georgian side is involved in 22 projects.²⁴

(Note: The budgets of the projects of partners, different NGOs and local authorities and their expenditure by years depends on partnership agreement, consequently, at this stage it is impossible to define by years the budget for projects in which Georgia takes part).

Output indicators:

In border and cross-border region:

- Number of initiatives supporting development of cooperation
- Number of business entities
- Number of CSO and Local Authorities supported

Result indicators:

- Number of implemented initiatives and beneficiaries within the priority direction of the programs

Implementing Body and partners

Ministry of Regional Development and Infrastructure of Georgia, Ministry of Foreign Affairs (general coordination) Administration of State Trustee Governors, Municipalities and, NALA, GIZ, other partners.

VII.4.6 Measure 4.6. Supporting functional integration of urban areas of Georgia

Elsewhere in the World the urbanised area of the biggest cities extends far above its administrative borders. The same is true for Georgia in which especially Tbilisi, but taking into account daily commuting, business links and other social, economic and spatial factors, Kutaisi and particular cities of Black Sea, interfere with a number of neighbouring municipalities being independent administrative units located sometimes in different planning regions.

Such situation represents a big challenge from the territorial policy point of view: it is necessary to define how to assure good quality of services and expand economic development opportunities within the whole functional area of the urban centers.

The lack of efficient channels (institutionalised and informal) of cooperation between core urban centers and its neighbours creates barriers for development of individual municipalities and the whole functional areas. The most important spheres in this regard are: efficient transport system, coordination in the area of spatial planning (non- controlled suburbanisation and location of firms), waste treatment and water delivery, environment, education, health care and cultural services, cooperation between high education and research institutions and businesses.

Under this measure will be implemented pre- feasibility activity allowing for building effective cooperation systems in the functional areas of the biggest Georgian cities (Tbilisi, Kutaisi and particular

²⁴ EaPTC - 2 projects of 9 million GEL (co-financing 10%); BS CBC - 20 projects worth of 7.2 million GEL.

cities of the Black Sea) especially in area of spatial planning, delivery of services of common interest for citizens and business (pre-school, basic and general education, health, waste treatment, delivery of water), research, high education and business cooperation.

Objective

- Enhancement of cooperation between municipalities in functional areas of biggest Georgian Urban centers (Tbilisi, Kutaisi and particular cities of the Black Sea) leading to provision of effective elaboration of the long- term policy in terms of better quality and more balanced services of common interest and enhancement of investment attractiveness.

Activities

- Preparation of methodological (guideline, instruments) proposals to enhance cooperation in urban functional areas in the above-mentioned fields
- Preparation of preliminary studies for Tbilisi, Kutaisi and Batumi functional areas

Budget

The indicative budget of the Measure GEL 0.2 million.

Output indicators

- Relevant proposals and methodologies prepared
- Study prepared for functional areas of Tbilisi, Kutaisi and particular cities of Black Sea.

Result indicators:

- Prepared proposals/methodology and studies are reviewed for further responding by relevant stakeholders on national and local level and development partners

Implementing Body and partners

CEGSTAR under MRDI, EU Delegation to Georgia (project Supporting Regions for Sustainable Development within the EU Sector Support Program).

VII.5 PRIORITY 5. INCREASE THE QUALITY AND EFFECTIVENESS OF REGIONAL DEVELOPMENT INSTITUTIONS AND PREPARATION OF PILOT REGIONAL DEVELOPMENT PROGRAMS.

VII.5.1 Measure 5.1. Capacity building for regional development institutions at national level

Considerable efforts of the Georgian Government supported by international donors during recent years helped to increase the capacity of national level administration to deal with modern regional development issues. Notably RDP 2015-2017 contributed to strengthening inter-ministerial coordination and monitoring systems. However, taking into account development needs identified and presented in Chapter 3, Georgia needs to invest further in the capacity of its national level administrative system to programme and implement regional policy capable of delivering cohesion and improving development prospects in all regions, and for all citizens.

Under this measure **will be provided** support to build and develop further capacity of **institutions dealing with regional development policy at national level**. Similar capacity building activities local level will be offered under Measure 5.3.

In Georgia, **most of the bodies** and institutions needed to effectively implement regional policy **already exist**. These bodies have also acquired practical experience during the preparation and implementation of the RDP 2015-2017. However, **further capacity building is required**. In particular:

- There is a need to establish/improve and introduce **advanced methodologies** for effective inclusion of the territorial characteristics into sectoral policy planning and implementation practice. This includes policy planning, strategic programming, project preparation and implementation, financial management and control, as well as the monitoring and evaluation of public investments. Enhanced methodologies will establish **common standards** for all stakeholders concerned. Furthermore, they will help to further approximate national development policy to European best practices, with regard to the **territorial development approach**
- A range of **trainings and other human capacity building opportunities** needs to be offered to the staff of the ministries and implementing institutions involved in the realisation of the RDP. They will encompass the legal background, policy frameworks, methodologies and practice of regional development in Georgia and in the EU. Relevant curricula may be mainstreamed into the overall national framework for public administration trainings and also offered for use by higher education institutions.

Objectives

- Enhance institutional capacity on national level to support implementation of modern regional development policy (including this programme) especially in terms of the components such as: coordination of territorially oriented public intervention, implementation, monitoring and evaluation.

Activities

- **Human capacity building** – e.g. training, counselling, coaching, study tours and exchanges of experts (secondments) within Georgia as well as in Eastern Partnership countries and the European Union.
- **Organisation of events** – conferences, committee meetings, workshops, public information events, study tours, participation at international conferences and consultations with peer authorities in the EU and EaP countries.
- **Knowledge management** – creation of archives, websites and publications with key strategic, methodological documents, information materials and training curricula, networking of experts – with the aim of establishing a national knowledge base on regional development and the strengthening the professional community of regional developers across Georgia.

Budget

The indicative funding for this measure is GEL 14 million.

Note: The exact amount of funding will be specified after consultations with development partners and international donors (implies EU funds under current and next Financing Agreement and various bilateral sources).

Output indicators

- Number of staff undergoing specialised training / counselling / coaching / exchange activities
- Number of conferences and public events organised related to regional development policy in general and RDP in particular
- Monitoring information system for RDP developed and operating

Result indicators

- Timely achievement of output and result indicators according to the relevant measures defined in the RDP.

Implementing Body and partners

Ministry of Regional Development and Infrastructure, EU Delegation to Georgia another development partners and international donors.

VII.5.2 Measure 5.2. Strengthening the analytical base for conducting evidence based regional development policy

Effective regional policy needs to be designed on a thorough basis of scientific knowledge, and an appropriate range of data. Decision-making and the implementation of regional development policy should be based on a good quality data and analysis referring both to the socio-economic situation at various territorial levels (national, planning regions, municipalities) as well as effects of public policies on territories. As experience shows, the availability of data and analysis concerning regional development in Georgia is very limited – neither GEOSTAT nor individual ministries, including Ministry of Finance collect and process enough territorial statistics needed to conduct an effective regional development policy.

This measure shall improve the availability of territorial data and develop analytical and policy strategic planning capacities in all ministries taking part in the RDP. As a part of the effort capacity building support will be provided to strengthen regional development statistics and capacity of GEOSTAT to produce reliable information and data needed to conduct modern regional policy.

In addition, under this measure a sustainable cooperation system between academia (relevant research and high education institutions) and public administration will be developed. The products of these activities shall contribute to the quality of regional and sectoral public investment policies, and their implementation.

Objective

- Strengthening the quality and increasing the territorial data availability at various levels (national, regional, local, functional) and development of analytical skills of administration to programme and implement modern regional development policy

Budget

The indicative funding for this measure is GEL 1.6 million.

Note: The exact amount of funding will be specified after consultations with development partners and international donors (implies EU funds under current and next Financing Agreement and various bilateral sources).

Activities

- Collection of statistical data needed to conduct modern regional policy and monitor the implementation of RDP by GEOSTAT and other institutions;
- Create territorial database at various levels (national, regional, local, functional)
- Methodology to measure territorial impact of public policies
- System of cooperation between academia, GEOSTAT, ministries and implementing institutions on regional development trends and evidence of analysis and studies;

Output indicators

- New dataset to support regional analysis and policy implementation on national, regional, local and functional levels
- Studies produced to support development policy design and implementation;
- Methodology for territorial impact of public policies prepared
- Number of experts taking part in networking and training activities; .
- Number of events organised for the co-operation and networking of regional policy experts

Result indicators

- Number of new courses organised by universities available for students and employees of public administration on regional development

Implementing Body and partners

Ministry of Regional Development and Infrastructure, EU Delegation to Georgia, GEOSTAT and other development partners and international donors.

VII.5.3 Measure 5.3. Active involvement of local authorities and promotion of partnership and cooperation with development partners

The principles of partnership and multi-level governance **are central to modern public policy**. This also applies to EU regional policy, which is a particular point of reference for regional development in Georgia. The **Association Agreement** with the EU also emphasises these principles. The well-functioning system of multilevel governance and partnership with stakeholders outside the national government, especially the representatives of regional and local authorities, social partners, economic interest groups, non-governmental organisations, academia etc., **enhances the quality and effectiveness of regional development policy**. Dialogue with stakeholders enhances the **information base** available to policy makers. It is also an essential tool to ensure that **key stakeholders regard the RDP and relevant initiatives as their own and reference point**.

Considering the above, this measure will contribute to **capacity building and dialogue with non-governmental stakeholders** of regional policy in Georgia. RDP support will be available to these stakeholders – NGOs, social partners, associations of municipalities, etc. – so that they can effectively take part in the policy process, develop and represent their own proposals vis-à-vis the national authorities.

The measure will also finance the **strengthening of capacities at local level**. In particular, development of municipal co-operation system in Georgia that is, as yet, in its early stages. Inter alia under the measure support will be provided for development of legal and institutional basis to encourage, develop and implement integrated projects and will involve existing institutions (Governors and regional councils), the administrations of municipalities with focus on big cities (which could act as “hubs” for inter-municipal projects in their metropolitan area, developing urban and urban-rural partnerships).

Objective

- Strengthening the capacity of local institutions and promoting partnership with non-governmental stakeholders on regional development policy

Budget

The indicative funding for this measure is GEL 37.5 million.

Note: During a 4-year period the indicative budget will be specified after consultations with development partners and international donors (implies EU funds under current and next Financing Agreement and various bilateral sources).

Activities

- **Capacity building** in the regional and local level administrations in the context of regional policy through:
 - **curricula and sustainable training system,**
 - **counselling,**
 - **coaching,**

- **study tours and exchanges** of experts (secondments) within Georgia as well as in Eastern Partnership countries and the European Union;
- **organisation of events** – conferences, committee meetings, seminars, public information events, study tours, participation at international conferences and consultations with peer authorities in the EU and EaP countries.
- **Promotion of involvement of development partners,**
- **development of instruments for inter-municipal cooperation;**

Output indicators

- Number of municipalities supported for municipal cooperation and networking;
- Number of conferences and public events organised related to regional development policy in general and RDP in particular
- Number of training courses for regional and local authorities and sub-national institutions dealing with regional policy programming and implementation;

Result indicators

- Number of inter-municipal projects designed and implemented
- Number of experts and staff undergoing specialised training /counselling / coaching / exchange activities

Implementing Body and partners

- Ministry of Regional Development and Infrastructure, EU Delegation to Georgia, UDAID, GEOSTAT, GIZ, UNDP and other development partners and international donors

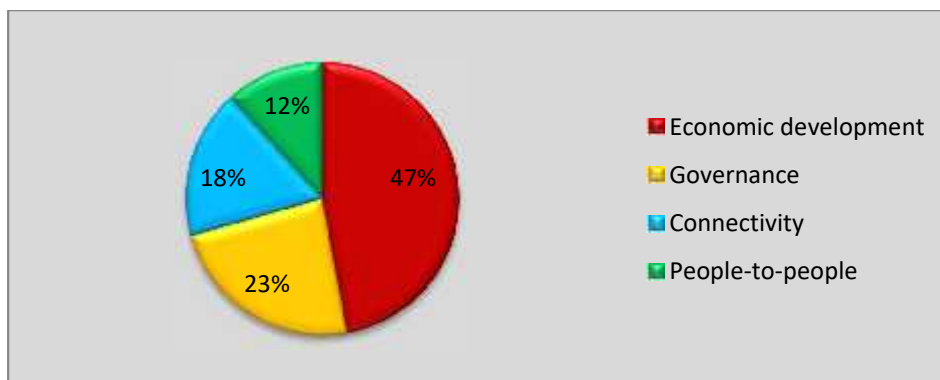
VII.5.4 Measure 5.4. Development of instruments for regional policy: preparation of regional development programs for two pilot regions

As part of the EU’s **Single Support Framework (SSF) for Georgia (2017-2020)** it is envisaged that – in agreement with the Government of Georgia – financial support may be provided for **pilot regions to design and implement integrated investment programmes**, covering all (or most) of the sectors that the SSF contributes to.

At the time of drafting the RDP, the draft list of SSF sectors:

- Economic development and market opportunities
- Strengthening institutions and good governance
- Connectivity, energy efficiency, environment and climate change
- Mobility and people-to-people contacts

Figure 15– Envisaged sectors of the EU SSF 2017-2020



Sector-based support is to take into account **cross cutting issues**, notably environmental protection and climate change, gender, digital and human rights, through mainstreaming. Last but not least, EaP **regional and multi-country programmes** will continue to provide complementary support.

Besides sectoral instruments part of the EU support will be provided under financial agreement on regional development, which would provide additional funds for pilot regions. Pilot regions are still to be named through consultation process between Georgian Government and EU Commission. **Identification of regions will be done on the basis of analysis provided in the Chapter III.**

Countrywide assistance will remain, and RDP as well as donor, will continue to be available in all regions.

For ensuring effective coordination between various sectoral and regional policy instruments it is proposed to prepare and implement EU cohesion type integrated program(s) for chosen pilot regions. This will allow to increase visibility of EU funding, strengthen the multilevel governance system involving different level authorities (national, regional, local) and development partners as well give a real chance to influence the development prospects of regions concerned.

The **programmes in the pilot regions will offer the opportunity to test** in practice those **place-based regional development policy** approaches, which are more and more taking the centre stage in international practice. Key elements of such an approach are:

- a **territorial approach** to programming;
- an effective **co-ordination** of policies and funding sources **in a specific territory**;
- the gradual **delegation of certain implementation tasks** to the regional and local levels.

Objective

- Preparation and implementation of pilot integrated regional development programmes in Georgia, with EU and donor support

Budget

- Preparation of programmes is being planned by EU funded TA project” Support to Regional Development Policy implementation in Georgia. Phase II (1,5 M GEL still to be spend) and TA agreed under Financing memorandum on regional development under SSF 2017-2020.
- Concrete volume of each programme and concrete financing are to be negotiated with the EU.

Activities

- Preparation of integrated regional development programme (s) for pilot regions allowing for implementation of the following sub-activities:
 - Preparation of the regional development programme (s) according to the EU standards;
 - Development of new measures²⁵, including preparation of selection criteria;
 - Development of documentation needed to implement programmes effectively and according to EU standards (templates, procedures, guidelines, etc);

²⁵ The list of measures may include the following: Development of medium-sized urban centers and socio-economic restructuring; Supporting regional small and medium size enterprises, including support to specific enterprises operating in the competitive sector at the regional level; Supporting preservation of cultural and natural heritage and their use for economic purposes; Support to development of small infrastructure, which is directly related to the development of economic potential (e.g. in tourism); Implementation of CLLD activities, which promotes the participation of locals in economic development; Promote regional innovation capacity.

- Development of the institutional system of multilevel coordination and partnership mechanisms;
- Preparation of documentation needed to organise calls;
- Preparation of the project pipeline.
- Strengthening the capacity of regional and local institutions as well development partners involved in the programming and implementation of pilot programme (s).

Output indicators

- Development of integrated regional development programme(s) for pilot regions supported by the EC services by end of 2019;
- Programme implementation system (procedures, structures) fully operational

Result indicators

- EU cohesion policy-type integrated regional development programme(s) in chosen regions implemented as from 2020.

Implementing Body and partners

The Ministry of Regional Development and Infrastructure of Georgia, EU TA assistance project/EU Delegation to Georgia and other potential partners.

VIII. FINANCIAL PLAN

The overall indicative budget of 2018-2021 Regional Development Programme of Georgia is approx. 18 billion GEL. At average 4,5 billion GEL yearly, which is almost 4 times higher than the annual budget of the previous program (RP 2015-2017).

The Regional Development Programme for Georgia 2018-2021 will be financed out of:

- **The State Budget** of Georgia for the years 2018-2021
- **Donor funding**, which may be
 - **Sector budget support, provided via the Central Budget** (and therefore included in the budget allocations mentioned above). These are managed by the Georgian authorities.
 - **Donor funding additional to the support provided via the Central Budget (e.g Technical Assistance)**. These allocations may be managed by the donors themselves, or agencies contracted by the donors for the same purpose.
 - **Co-financing provided by the beneficiaries of RDP support.**

The **financial table (Annex 4) of the RDP includes**, as far as available:

- Indicative expenditure for the implementation of the RDP measures via the State Budget
- information whether the allocation via the State Budget includes donor funding (yes/no)
- any financial information that may be available regarding additional donor funding
- the name of the donor programme that is providing financing via, or parallel to the RDP
- an estimation regarding the expected rate of co-financing that beneficiaries of RDP support will provide.

All financial figures are indicative:

- Specific commitments by the State budget will be made in the framework of the annual budget planning and require the approval of Parliament.
- Additional commitments by donors will be made within the established programming processes, and donor funding agreements.

Commitments by beneficiaries regarding their own co-financing will be made in the support contracts between the responsible ministry and the beneficiary.

The **MRDI will take part in the annual budget planning process**, and ensure, in co-operation with the Ministry of Finance of Georgia, and the line ministries who are contributing to the RDP, that financial allocations for RDP are based on BDD and other sources. However, on annual basis, the allocations can be revised in line of the provisions of the state annual budget and other sources. **In case**, during the budgeting process, **the actual allocation** of any Ministry, or donor in the RDP, **shall change**, the responsible ministry shall inform about it the Ministry of Regional Development which shall **initiate a modification of the RDP document. This will facilitate the full awareness of all stakeholders on the RPP and effective planning of the monitoring process of the Programme measures and their implementation.**

The **financial responsibility** for all funds contributing to the RDP is regulated by the applicable Georgian legislation on the implementation of the State budget, as well as any additional agreements with the donors and development partners.

State agencies in charge of RDP allocations shall, as part of the regular **monitoring process of the RDP**, periodically inform the MRDI – as managing authority – about

- the list of projects co-financed out of the RDP

- the amount of funds assigned / contracted to those projects (commitments)
- the agreed rates of co-financing by beneficiaries (own resources)
- the actual amount of funds actually spent and reimbursed to beneficiaries (disbursements).

This information shall be submitted by MRDI to the Monitoring Committee and the Government, as part of RDP monitoring reports, prepared at least once a year. **Monitoring reports shall, as a matter of principle, be public.**

The rate of co-financing, whereas applicable, to be provided by beneficiaries is set, also indicatively, at the level of the 5 main programme priorities.

As a matter of principle, the rate of co-financing expected from the beneficiary is to be substantial enough to ensure that the beneficiary is committed to the project. At the same time, it should not be higher than what the beneficiary can realistically afford. The co-financing rates for, e.g., disadvantaged local governments, or civil society organisations may be as low as 0%. For small enterprises, the rates of co-financing shall take into account the revenue generating ability of the project co-financed. Public funding should not be used to cover costs that the project is able to cover itself.

The **maximum rate of public funding** provided to a project – especially projects by enterprises – may furthermore be **differentiated according to the level of development of the region** where the project is being implemented. Higher rates of public support may be agreed in less developed areas, thereby encouraging private investment.

The financial plan table of the RDP is attached in the Annex 4.

IX. IMPLEMENTATION ARRANGEMENTS

PRINCIPLES

The purpose of this chapter is to **describe the arrangements of implementing** the regional development programme. Taking into account the fact, that RDP 2018-2021 will be implemented with the use of different sources of funding, including State and municipal budgets and donor sources, the main function of the implementation system is to assure effective and efficient coordination and cooperation between them in order to achieve set goals and targets. This requires building effective institutions facilitating those process (among them, Monitoring Committee) but also requires development of stronger administrative capacity for management of the programme, including planning, implementation, monitoring and evaluation of its activities.

Implementation of RDP 2018-2021 is based on the limited number of principles, which guide preparation of institutional system:

- **Reinforced co-ordination.** Regional policy requires cross-sectoral co-operation. The measures of the RDP are within the competence of different ministries and authorities. Still, their implementation must be harmonised. Conflicts and overlaps must be avoided, and synergies need to be exploited, if public funds are to be invested efficiently and effectively. Monitoring Committee will ensure coordination between respective development partners, whilst activities of the GCRD will focus on inter-ministerial coordination.
- **Continuity.** The institutional framework takes account of existing, well established practices. Changes are proposed only where there is a justified objective, and a realistic perspective of achieving significant added value.
- **Partnership.** The RDP is “owned” by all of its stakeholders. It is a programme built on the alliance and partnership between the public authorities at national and local levels, donors as well as non-governmental stakeholders and civil society, behind a commonly agreed set of objectives. The authorities implementing the programme are accountable to each-other, and to the general public, to mutually co-operate, contribute their knowledge and resources, and implement their responsibilities to their best ability.
- **Predictability.** The RDP represents a political and financial commitment by all stakeholders regarding objectives, activities and financing. Plans and measures are indicative, and their value may be adjusted and modified during the implementation period if necessary unilateral, uncoordinated divergence from programme objectives or budgets is to be avoided.
- **Transparency and accountability.** Effective management, efficiency, transparency and accountability require that functions are clearly and unequivocally allocated. Overall responsibility for the RDP rests with MRDI. Financial responsibility for the funds contributed to the programme goals rests – in line with applicable national laws on the budget and international agreements – with the line ministry or other institutions in charge being involved in implementation of the given measure (or project).
- **Comprehensive capacity building.** The smooth functioning of the institutional system is an essential requirement for the success of the RDP. Therefore, the Programme includes a set of comprehensive capacity building measures (under Priority 5), and resources to enable the programme authorities to properly comply with their responsibilities.
- **Proportionality.** Implementation arrangements and processes under each priority and measure must be designed in a way that the administrative burden on beneficiaries, as well as programme authorities is kept to a minimum. Wherever possible, all programme authorities should apply the same harmonised procedures, and the same requirements

towards beneficiaries so that a waste of scarce resources is avoided. Where using the same arrangements is not possible, as a minimum, compatibility has to be ensured. Best practices are to be exchanged regularly and introduced across sectors.

The system envisaged **builds on current Georgian practice**. At the same time, there are also differences from established arrangements, representing **innovations of an evolutionary character based on best EU examples like introduction of Monitoring Committee**. In this regard, the implementation system of the RDP 2018-2021 takes Georgia's **regional policy one step closer to European practices**. This is done in particular view of preparing the national administration, at national and local levels alike, **to additionally receive and effectively absorb specific donor funding** for regional development in future. The successful negotiation with the EU of the financial support for the realisation of this RDP in the form of direct support e.g. for realisation of integrated territorial programs in two pilot regions, would require, at least for the EU supported part, development of the implementation system according to the EU standards of good governance in which the role of DG Near, DG REGIO, EUD, national and local authorities and bodies (like for example pilot RDAs) is clarified.

INSTITUTIONAL FRAMEWORK

The main stakeholders of the RDP 2018-2021, and their key tasks are as follows:

- **GOVERNMENTAL COMMISSION ON REGIONAL DEVELOPMENT (GCRD)**. The main function of the GCRD is to assure efficient coordination of activities between ministries. The GCRD on behalf of the Government initially endorse or discuss all strategic documents related to the RDP programming, implementation, monitoring and evaluation. The operational arm of the Commission is the *Inter-ministerial Working Group (IWG)* on the RDP programming and implementation, chaired by MRDI and playing the role of *Technical Coordination Committee* and Donor Coordination Unit. The Commission for the program implantation purposes ensures thematic co-ordination among the main stakeholders and development partners (representative of the Government Administration, ministries, implementing bodies, as well as sub-national authorities - governors and municipalities - and other development partners, including donors at ad hoc basis) of the programme with special regard to relevant issues on programming, implementation of preparatory arrangements (e.g. selection criteria for specific projects). **MINISTRY OF REGIONAL DEVELOPMENT AND INFRASTRUCTURE (MRDI)**. The Ministry is the state body in charge of regional development policy (strategic programming function) with the overall responsibility for the management of the RDP (management function). The management and implementation should be as far as possible separated from strategic implementation function. The Ministry co-ordinates implementation and has the task to ensure that the Programme is coordinated and managed in the way allowing for achieving expected results through implementation of programming measures. For this, it will liaise with the state institutions in charge of implementing programme measures, as well as other programme authorities and key beneficiaries. It will also ensure the collection, processing and availability of comprehensive information and reports on the progress of the RDP to the GCRD, Monitoring Committee, the Government and the general public.
- **TECHNICAL COORDINATION COMMITTEE. (TCC)**. The extended (to include representatives of all institutions and authorities involved in implementation) Inter-ministerial Working Group on the RDP Programming and Implementation meets periodically to discuss the progress of programming and implementation of the programme. In particular, the CC will deal with methodological issues, operational planning, as well as the day-to-day management and programming of the RDP. The CC will meet periodically, to assess programme progress, prepare proposals to seek solutions to any problems that might arise during the programme implementation.

- **COORDINATION UNIT OF DONOR PROGRAMS** - a working group created within the frame of the Government Commission on Regional Development, which for the implementation of the RDP is authorized to provide thematic consultations with the key stakeholders and development partners - prepares proposals on the relevant issues of programming and the preparatory measures of implementation (including specific project selection criteria).
- **INTERMEDIATE BODIES (IB)**. For each priority, and measure, as appropriate, the responsible line ministry or other institution will be appointed as an “intermediate body”. IBs are charged with the task of implementing the programming priorities and/or measures within their competence. Thereby, they are to follow the provisions of the RDP, and the rules and processes established under the guidance of the MRDI playing the role of managing authority. The IBs will report to the MRDI on the progress of relevant priorities and measures. Where appropriate, **implementing bodies** (relevant agencies and bodies) of the line Ministries may also be appointed as intermediate bodies, provided that they are not beneficiaries of the RDP under the same RDP measure.
- **Local AUTHORITIES – State-Representative GOVERNORS AND MUNICIPALITIES**. State-representative-Governors and municipalities may be included in implementation of applicable measures through ad hoc participation in the works of the Government Commission on Regional Development and its Coordination Units. This will allow to adapt better sectoral measures and identified projects to regional development strategies as well as increase efficiency of national policies through bringing more territorial perspective. In some measures State- representative Governors and municipalities may be directly involved in their implementation through involvement in the project selection²⁶. In case municipalities are to be beneficiaries of the programme they don’t take part in decisions concerning projects they implement.
- **STATE AUDIT OFFICE OF GEORGIA (AO)** - According to the rule prescribed by the law inspects the implementing bodies’ budget performance and spending of the budgetary allocations.
- **BENEFICIARIES**. Beneficiaries of the programme include a broad range of institutions operating at national and local levels as well enterprises and citizens under human development and other social measures. As programme is mostly financed through national funding applicable rules are set by national procedures relevant for given sectors and instruments, however in line with the EU experiences, gradually common procedural framework regarding good practices in terms of partnership, accountability, visibility and minimising bureaucratic constrains will be developed and implemented.

²⁶Please note that in case of the successful negotiation with the EU for direct support to finance implementation of the integrated territorial programs for two pilot regions, still during the implementation of this RDP, there will be a need to develop additional implementation system with more active and direct involvement of State-Representative Governors, Regional Consultative Councils and municipalities in implementation of regionalized measures. This could involve as well regional implementing institutions at local level, potential pilot instruments and/or s already existing other institutions implementing sectoral programs.

Figure 16– Implementation structure



FUNCTIONS AND PROCESSES

The process of implementing the RDP will ensure that – throughout the programme cycle – stakeholders are properly consulted, implementation is co-ordinated, and programme funds are invested in a way that possible synergies among projects in different sectors (and regions) are

effectively exploited. The **detailed procedures for implementation** is described in the **Implementation Manual** for ministries, implementing agencies and beneficiaries developed by MRDI no later than 3 months after acceptance of the RDP, with the use of experience gained during implementation of the previous Programme as well EU best practice. The **Implementation Manual** will include the detailed rules for programming (re-programming), implementation (including selection of projects, whereas applicable and feasible), monitoring and evaluation. Below are described briefly only major processes:

Programming and re-programming

The preparation of the RDP is co-ordinated by the MRDI responsible for regional development policy in Georgia. The MRDI ensures proper consultation with relevant stakeholders in line with the principles of partnership and multi-level governance. Once the programme is drafted, it is submitted to the GCRD for discussion and initial endorsement. Subsequently, the programme is published after it is approved by the Government of Georgia.

The same process applies to any modification of the programme. Modifications may be initiated by any line ministry, or any other member of the Monitoring Committee.

Implementation

Execution of the RDP is realised through the implementation of individual measures and realised under them activities/projects. Projects are identified in accordance with sectoral and/or regional development needs and rules related to different measures and instruments, however, if necessary relevant procedures are adopted to reflect better the goals of the whole RDP and individual measures.

Reporting and Monitoring

The MRDI in cooperation with TCC will prepare, at regular intervals – at least twice a year – a consolidated report to the GCRD, to be also submitted afterwards to the Monitoring Committee and the Government – on the progress of the RDP. For this, the MRDI requests information from the relevant intermediate bodies and if relevant project beneficiaries.

Reporting and monitoring information shall be compiled, at measure / priority level by the responsible intermediate body. Line ministries and their implementing bodies have the task to continuously follow up the implementation of the measures under their responsibility, and report to MRDI in line with common standards. The consolidated report for the RDP will then be prepared by the MRDI and submitted to the GCRD, and subsequently to the Monitoring Committee and the GoG.

The GCRD shall discuss regular reports and may issue recommendations to the implementing ministries and Intermediate Bodies in order to help maximise the effectiveness of the RDP and improve the efficiency of programme implementation. Further recommendations related in particular to the specific donor programs / projects under RDP may also be issued by the Monitoring Committee. The recommendations may cover the discussion of both the use of funds, management common processes (efficiency) and other specific issues related to the fulfilment of the programme targets.

The annual reports on the RDP shall be made public by the Ministry for Regional Development and Infrastructure.

Evaluation

At the beginning of the implementation of the RDP, the MRDI shall establish an overall evaluation plan, targeting the RDP as a whole, or any of its specific aspects. Ministries and other stakeholders may also request evaluations concerning specific aspects of the RDP through Coordination Committee. The plan should include preparation process of the mid-term evaluation and/or ex-post evaluation of achieved socio-economic and territorial effects of RDP implementation. The evaluation plan shall be discussed with line ministries, as well as the MC and GCRD. The GCRD reviews and approves the evaluation plan, shall also receive the evaluation reports for review and approval and if necessary provides relevant

recommendations. Evaluations are to be organised according to international standards with direct involvement of donors' know how and support.

Information and publicity plan for the RDP.

No later than 6 months after acceptance of the RDP information and publicity plan will be developed by MRDI and discussed by the GCRD.

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X. ANNEXES

X.1 DONOR SUPPORT

X.2 DEVELOPMENT MEASURES FUNDED FROM DONOR SOURCES

In addition to – and in conjunction with – the RDP, there are a number of additional development programmes and projects in Georgia addressing regional and local development. Their content and – as far as known – their main results over the recent years are summarised below.

X.2.1 European Union²⁷

The EU cooperates with Georgia in the framework of the **European Neighbourhood Policy** and its eastern regional dimension, the [Eastern Partnership](#). The key goal is to bring Georgia closer to the EU. The **European Neighbourhood Instrument** is the EU financial instrument dedicated to the Neighbourhood for the period **2014-2020**. It replaces the European Neighbourhood and Partnership Instrument (ENPI) of 2007-2013. Other funding sources are the thematic programmes, focused on human rights and civil society.

EU assistance to Georgia takes **mainly the form of country Action Programmes** funded every year under the ENI. Georgia benefits **also** from **regional and multi-country Action Programmes** funded under the ENI.

X.2.1.1 EU bilateral cooperation with Georgia

Bilateral cooperation with Georgia contributes to the objectives of the **Eastern Partnership**. The strategic framework, key results and indicative financial allocations for the EU's bilateral cooperation with Georgia in 2014-2017 are set out in the [Single Support Framework](#) (SSF). Bilateral support is used to assist the **implementation of the Association Agreement** and the **Deep and Comprehensive Free Trade Area** (AA/DCFTA). **In addition, complementary support** for the modernisation of public institutions and for civil society can be provided.

In **2007-2013**, the EU committed €452 million for bilateral assistance to Georgia under the ENPI. In **2014-2017**, ENI bilateral assistance to Georgia may range between a minimum of **€335 million and a maximum of €410 million**. These figures are indicative: final allocations will depend on the country's needs and commitment to reforms. Georgia can also benefit from additional financial assistance granted through the **multi-country 'umbrella programme'**: the incentive-based mechanism that rewards progress in building deep and sustainable democracy with supplementary financial allocations.

Support for public institutions and the promotion of EU best practices are important elements of ongoing and future cooperation across all sectors. Civil society initiatives are supported with the Neighbourhood Civil Society Facility.

²⁷ Information used from the [EU's relevant homepage](#) (Status: October 2017)

ENPI **bilateral programmes** with Georgia in the period 2014-2020 are to concentrate on reforms in regional development; SME; agriculture and rural development; vocational education and training; conflict settlement and assistance for internally displaced persons; criminal justice; the management of public finances.

At the time of drafting the RDP, three **annual action programmes** have been approved under bilateral co-operation ([2014](#), [2015](#), [2016](#)). The key points of the **already on-going bilateral ENPI actions** that are directly related to the RDP are as follows:

Regional Development

Two Framework Programs were implemented to facilitate the regional development of the country. 2012-2014 and 2015-2017 Regional Development Sector Policy Support Programs, the total value of which was 49 million Euros. Both programs focused on the development of the following directions:

- Regional policy planning, implementation and monitoring
- Regional cohesion and Development
- Financial control mechanisms
- Development of human resources and management systems
- Development of regional infrastructure and innovative opportunities
- Statistics.

The overall goal of both programmes was to develop the regions of Georgia and eliminate the disparities through development and implementation of regional development programs of Georgia.

2015-2017 Regional Development Sector Policy Support Program in its turn includes the following projects:

Support to Regional Policy Implementation (Phase II)

The project duration has a duration of two years. The overall objective of the Project is to support Government of Georgia in creating a favorable environment for the socio-economic development of the country and its territorial entities to overcome regional disparities.

The project comprises three components:

- Policy formulation and implementation
- Monitoring and evaluation of policy implementation

Support Regional Development Agencies

Support to Regional Development in Georgia – Applied Research Facility (phase II)

The Applied Research Facility (phase II) is to provide support to the effective formulation and implementation of regional development policies in accordance with European best practices. Priorities include strengthening the analytical and research capacities of Georgian institutions in the field of regional/territorial development, cohesion, and related policies; as well as enhanced co-operation and co-ordination between stakeholders involved in the regional development and related processes.

Twinning project of public services

The main objective of the Twinning project is to share European experience on spatial arrangement and investment portfolios at national and regional/municipal levels and prepare relevant documents and recommendations for their improvement.

SME

The purpose of this [EU sector budget support project](#) is to support the implementation of DCFTA-related institutional and regulatory reforms in Georgia, with a strong focus on strengthening the capacities of Georgian SMEs, both to increase their competitiveness and to ensure their adaptation to the new regulatory environment. The project is implemented in four components (improvement of the enterprise development framework and SME participation in the political dialogue; capacity

development for SME support institutions; Promotion of enterprise development via clustering and support to business networks on national, sector and local levels; Integration of business clusters and networks in relevant existing EU networks for enterprise development, investment and trade promotion).

Agriculture and Rural Development

Promoting Rural Development in Georgia has been on the agenda of ENPI and ENI bilateral co-operation ([2014-2015-2016](#)). The first and the second “ENPARD” projects focus(ed) on agriculture and rural development, the third programme focuses only on rural development. The programmes entail integrated support to agriculture, food safety, sanitary and infrastructure under the overall goal of improving living and employment conditions in rural areas of Georgia.

X.2.1.2 EU Regional programmes²⁸

Georgia participates also in regional programmes funded under the ENPI/ENI, in areas including:

- in cross-border cooperation
- municipal development
- environment,
- energy,
- transport,
- Digital economy and society
- capacity building for local authorities²⁹,
- border management),
- in initiatives open to all Neighbour countries: [Erasmus+](#), [TAIEX](#), [SIGMA](#),
- in the [Neighbourhood Investment Facility \(NIF\)](#), which, in Georgia, targets primarily investment projects in water, energy, environment, and support to small business, and
- in Eastern Partnership Flagship Initiatives,

Details of the instruments linked to the RDP are provided below.

Cross-border co-operation³⁰

The Eastern Partnership Territorial Cooperation (EaPTC) initiative promotes sustainable territorial cooperation between border areas of the Eastern Partnership (EaP) countries — by building the capacities of local and regional authorities to effectively manage territorial programmes on a partnership basis, and to further the social and economic development of the participating regions. The program covers areas such as agriculture, building-up cross-border tourism potential, business, solving cross-border environmental problems education, culture and sports.

The [Black Sea Basin 2014-2020 Cross-Border Cooperation Programme](#) supports sustainable development along the EU’s external borders, helps to reduce differences in living standards and to address common challenges across these borders. Programme priorities are: to jointly promote business and entrepreneurship in the tourism and cultural sectors; increase cross-border trade opportunities and modernization in the agricultural and connected sectors, Joint environmental

²⁸For more information see the [EU’s dedicated website](#), the relevant [programming document for 2014-2020](#) and the [database of regional projects](#) published by the EU.

²⁹[Action Document](#) for Regional Programme in the Eastern Neighborhood in support of the Eastern Partnership Flagship Initiative on Sustainable Municipal Development

³⁰For further information, please consult the [EU’s dedicated website](#), and the [ENI programming document for 2014-2020](#).

monitoring; Increased awareness of environmental challenges and good waste management practices related to river and marine litter within Black Sea Basin

Municipal development

The [Eastern Partnership Flagship Initiative on Sustainable Municipal Development](#)– with a total estimated budget of EUR 22.5 million – facilitates the co-operation of local with civil society organisations, to enhance accountability, exchange best practices and strengthen their capacities as efficient and effective administrations for local development.

Regional environmental programme³¹

The **European Union Water Initiative Plus** for the Eastern Partnership (EUWI+ 4 EaP) – under action documents dating back to [2014](#) and [2015](#), with a total estimated budget of EUR 24.8 million – addresses challenges in the efficient management of water resources. It specifically supports the EaP countries to move towards an approximation with the EU acquis in the field of water management with a focus on trans-boundary river basins management as identified by the EU Water Framework Directive (WFD).

The project [Shared Environmental Information System principles and practices in the Eastern Partnership countries](#) (SEIS East) builds on a previous regional EU project implemented by the European Environmental Agency (EEA). Linking together the environmental and statistical authorities in 16 partner countries both in the East and South European Neighbourhood regions, with a total estimated cost of EUR 7.35 million, this action shall support the implementation of SEIS principles, as a tool for improving the quality, availability and access to environmental information to the benefit of effective and knowledge-based policy-making and to improve good governance in the field of the environment.

Regional energy programme³²

The project [Energy Policy in Eastern Partnership countries and Central Asia](#) has the objective to support sound elaboration and implementation of evidence-based medium to long term energy policies in partner countries, based on an improved use of statistics and the sharing of best practice and EU experience. It will contribute to partner countries' developments in achieving commercially and environmentally sound energy sector developments with adequate policy and governance design/structures, in line with the general economic outlook and developmental goals.

Regional transport programme

Currently, regional transport co-operation with EU assistance is going on in the area of [Maritime safety, security and marine environmental protection](#) in the Black and Caspian Sea Regions. The objective of the project is to further improve maritime safety and security and to help prevent marine pollution, strengthening preparedness and response capacities in the region. This will be primarily achieved by supporting ongoing efforts of the beneficiary countries in acceding to and implementing the relevant international legislation, the approximation of their regulatory frameworks with EU legislation and improving the performance of their maritime activities. Beneficiary countries are: Azerbaijan, Georgia,

³¹Further information on the EU's dedicated websites and 2014-2020 ENI programme documents.

³²For policy information please visit the EU's dedicated website.

Iran, Kazakhstan, Republic of Moldova, Ukraine, Turkey and Turkmenistan. Total estimated cost: EUR 4 000 000.

Regional internet infrastructure

The objective of the regional project [E@P Connect](#) is to create an Eastern Partnership Research and Education Network supporting science and education. The action will procure, install and operate equipment and links forming a high speed and highly reliable interconnection network among the six countries as well as towards the pan-European network for research and education GÉANT. It will procure and federate the access to high quality scientific content (publications, web services, software, educational material etc.) for the region and stimulate integration towards GÉANT services. Last but not least, it will provide harmonised access to local wifi infrastructures. Total estimated cost: EUR 13 684 210.

"Digital Market Harmonization (HDM) Project"

The project "Harmonization of Digital Markets" (HDM) is aimed at facilitating the process of harmonization of digital markets between EU and Eastern Partnership countries, development of digital economy and society through joint projects, harmonization and integration of legislative, administrative and technological systems of national ICT policy.

According to the project priority directions have been created EU4Digital: "Digital skills (eSkills)", "ICT innovation" (ICTInnovation) "Electronic Identification, Trust Services, Information & Cyber Security (Trust&Secure), Electronic Trade (eTrade), Electronic Communications Regulatory Authorities (Telecom) and Electronic Health (eHealth) Networks. All relevant agencies are involved in the project, Ministry of Economy and Sustainable Development is the coordinator of all directions of HDM Project from Georgian side.

The European Commission provides for use of the European Neighborhood Instrument (ENI) for gradual allocation of financial resources for the development of the EU4Digital direction in the Eastern Partnership countries. At the first stage funds will be directed to three directions (broadband infrastructure, cyber security, e-commerce). Estimated cost of the program is 7 000 000 Euros.

Neighbourhood Investment Facility

The [Neighbourhood Investment Facility](#) (NIF) is a mechanism mobilising additional funding to finance capital-intensive infrastructure projects in EU partner countries of the European Neighbourhood Policy (ENP), in sectors such as transport, energy, environment and social development. NIF also supports the private sector, mainly through investment grants and risk capital operations targeting small and medium-sized enterprises. The NIF Trust Fund allows EU Member States to complement the NIF resources provided from the general budget of the European Union. 15 EU Member States have committed a total of €84m to the NIF Trust Fund (2016). Their contributions are managed by the European Investment Bank. The approval process follows the same NIF project appraisal and approval procedures.

NIF plays a key role in donor coordination and increasing aid effectiveness, working together with the European Investment Bank (EIB); European Bank for Reconstruction and Development (EBRD); Council of Europe Development Bank (CEB); Nordic Environment Finance Corporation (NEFCO); Nordic Investment Bank (NIB); Agence Française de Développement (AFD); Kreditanstalt für Wiederaufbau (KfW); Oesterreichische Entwicklungsbank AG (OeEB); Società Italiana per le Imprese all'Estero (SIMEST); Sociedade para o Financiamento do Desenvolvimento (SOFID) and Agencia Española de Cooperación Internacional para el Desarrollo (AECID). In 2008 - 2016, supported by NIF was mobilized preferential loans of 1,930.0 million Euros for infrastructural projects, including NIF grant co-financing of 86.7 million Euros.

Year	Project	Financial Institute	Sector	Total value (mln Euro)	NIF financing	Form of assistance
2008	Black Sea Energy Transmission System	KfW, EIB, EBRD	Energy	280.0	9.3	TA
2009	Environmental Regulation of Tbilisi Railway Bypass Road	EBRD	Transport	253.5	2.7	TA
2010	Rehabilitation of Enguri /Vardnili Hydro Power Cascade	EBRD, EIB	Energy	47.0	5.2	Grant/TA
2010 & 2012	Water supply and sewerage systems in Batumi and surrounding villages (Phase 1 and 3)	KfW	Water supply	67.0	8.9	Grant/TA
2010 & 2012	Modernization of Water Supply Infrastructure (Phase 1 and 2)	EIB	Water supply	86.0	12.4	TA
2011	East-West Highway of Georgia	EIB	Transport	592.1	20.4	Grant
2013	Jvari -Khorga Interconnection (Transmission Line and Substation)	KfW, EBRD	Energy	71.4	8.2	Grant
2015	Kutaisi Wastewater Project (KWWP)	EIB	Water supply	280.0	5.0	Grant
2015	ENPARD - Access to finance for small farmers and cooperatives	ADF	Agriculture	28.0	4.2	TA
2016	Expansion of Georgia's Electric Transmission Network	KfW	Energy	225.0	10.4	Grant/TA
Sum				1,930.00	86.70	

Flagship initiative – Mayors for Economic Growth

The [Mayors for Economic Growth Programme](#) covering Belarus, Moldova, Ukraine, Georgia, Armenia and Azerbaijan provides technical assistance for stimulating economic development on the local level. The project will encourage and support LAs in EaP countries to design and implement Local Economic Development Plans (LEDPs) and strengthen the technical skills and capacities of LAs to implement economic strategies in line with the principles of good governance and sound financial management.

X.2.1.3 EU Thematic programmes

In addition to the ENI, Georgia is eligible for funding under the EU thematic programmes:

- Civil Society Organisations and Local Authorities,
- Human Development and
- Migration & Asylum.
- European Instrument for Democracy and Human Rights,
- Instrument contributing to Stability and Peace,

X.2.2 Support by International Organisations and Financial Institutions

X.2.1.4 World Bank

WB Country Partnership Strategy

The objectives of World Bank's Country Partnership Strategy (CPS) for Georgia are to help end extreme poverty and boost shared prosperity in Georgia in a sustainable manner. The design of the CPS identifies two areas of focus:

- Strengthening public service delivery to promote inclusive growth and
- enabling private sector-led job creation through improved competitiveness.

Recently approved projects include the

- Private Sector Competitiveness,
- Second Programmatic Inclusive Growth,
- Improving Preschool Education in Georgia through Social Accountability Processes etc.

Further key projects related to regional development are described below.

Second Regional and Municipal Infrastructure Development Project

The objective of this project is to improve the efficiency and reliability of targeted municipal services and infrastructure. This will be achieved by investing in high priority local infrastructure improvements, and by supporting Local Self-Governments in enhancing their capacity and systems for service delivery. The components for this project are component one infrastructure investment, project management and monitoring. Total project cost is about 70 million USD.

Secondary Road Asset Management Project

The project aims to improve road users' access to social services and markets through the project roads in a sustainable manner and to enhance road asset management for the secondary roads network in Georgia. The project comprises of two components. The first component, secondary road assets improvement and preservation objective is two-fold: to support the improvement and preservation of secondary roads assets and improve access of Georgians to social services and economic activities in less connected and poor regions. Total project cost is about 40 million USD.

East-West Highway Corridor Improvement Project

The project aims to reduce road user costs along the East-West highway corridor section upgraded under the project; and strengthen the capacity of the roads department and the ministry of economy and sustainable development of Georgia to respectively manage the road network and provide an enabling environment to improve logistics services. Total project cost is about 140 million USD.

Third Regional Development Project

This WB project's objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions. The project comprises two components. The first component, infrastructure investment will finance urban regeneration of old towns and villages, including restoration of building facades and roofs, public spaces, museums, roads and water supply, and enhancement of cultural and natural heritage sites, including increase of access. The second component, institutional development will support institutional capacity and performance of the Georgia national tourism administration (GNTA), national agency for culture heritage preservation of Georgia (NACHP), national museum, project implementing entity (municipal development fund (MDF) of Georgia), and other local and regional entities. Total project cost is about 60 million USD.

National Innovation Ecosystem (GENIE)

The World Bank project's objective is objective is to increase innovative activities of firms and individuals in the Borrower's territory and their participation in the digital economy. This will be achieved through investments in regional and community innovation centers, enabling wider adoption of Internet by households and small businesses, developing digital economy skills and capacity of businesses to be innovative, and improving access to finance for innovators. The project comprises of four components: innovation infrastructure, innovation services, innovation financing and project implementation. Total Project Cost is US\$ 40.00 million.

X.2.1.5 UNDP

Economic development

Sustainable growth and democratic reforms are in focus of [UNDP assistance to economic development](#) of Georgia. UNDP works closely with the Government, private sector and local communities to ensure that the benefits of economic growth reach those who still live in poverty. UNDP promotes professional education tailored to the labour market needs and assist local development and small businesses. UNDP programmes in many regions of Georgia help to boost agriculture and provide farmers with better access to knowledge, training and up-to-date agriculture technologies.

Modernizing Vocational Education and Training (VET) and Extension Related to Agriculture in Georgia

With funds from the Swiss Agency for Development and Cooperation (SDC), UNDP is assisting Georgia to establish a modern system of vocational education and training mainly in agriculture and support the qualification of agricultural extension officers across the country. The Vocational and Education and Training (VET) System will concentrate more on skills for practical farming and processing, while the Extension Service in Agriculture is moving towards a demand driven approach. The project includes assistance for the establishment of a well-performing agriculture extension system for farmers, and to the improvement of livelihoods of the rural population in Georgia. The total budget of the project is USD 6,432,729.

The UNDP is also involved in the ENPARD rural development project (see above, as described under the heading of EU bilateral assistance to Georgia).

Sustainable Agriculture in Adjara

UNDP works hand in hand with the Government of Adjara Autonomous Republic to drive the regional and agricultural strategies ahead and help farmers of the region run successful, profitable and high-yielding farms. Funded by the government of Ajara Autonomous Republic. Budget is US\$ 530,395.76.

Environment and Energy

[UNDP assists](#) Georgia to expand access to green solutions and make environmental issues an integral part of development. UNDP promotes sustainable environmental management, Climate Action and disaster risk reduction. UNDP's programmes cover key areas of environment protection and disaster management.

Green Cities: Integrated Sustainable Transport for Batumi and Adjara

The present initiative is piloting sustainable urban transport in the city of Batumi, with the aim to expand this experience to the other municipalities of the Adjara Autonomous Republic. UNDP works in the following areas: Improved planning and management for sustainable urban transport; Investment in infrastructure for sustainable urban transport and green urban development; Improved touristic image of the Adjara Autonomous Republic and City of Batumi through the implementation of the Green City vision; Fulfilment of obligations by Georgia under the global climate change action. Total Budget is US\$ 1,133,000.

Enhancing Management of the Protected Areas in Adjara

UNDP works with the Global Environment Facility (GEF) and Ministry of Environment Protection and Agriculture of Georgia to support the Agency of Protected Areas and administrations of the specific Protected Areas in the Adjara Autonomous Republic. UNDP assistances aims to: Improve the financial and administrative planning and management of the Protected Areas; Introduce adaptable and participatory approaches into the management; engage local population into decision-making; Create

new employment and business opportunities for the local population; Enhance operation of the recently established Machakhela National Park. The total budget of this project is US\$ 1,323,636

X.2.1.6 Asian Development Bank

ADB's Country Partnership Strategy for 2014–2018 is aligned with Georgia 2020. Specifically, ADB will support the government to (i) improve internal and regional market connectivity to enhance private sector competitiveness and to broaden community access to economic opportunities; (ii) make essential drinking water, sewerage, and sanitation services more accessible and reliable, particularly in smaller towns and secondary cities that are potential hubs for agribusiness and tourism; (iii) improve the security and stability of power systems, especially for communities in lagging regions; (iv) strengthen public sector management for domestic resource mobilization and investment in business and infrastructure; and (v) increase access to finance and promote financial inclusion, particularly for micro, small, and medium-sized enterprises.

Key ADB projects include the following:

[The secondary road improvement project](#) will rehabilitate a road which extends for about 50 kilometres from Dzirula to Chumateleti via Kharagauli in Central Georgia to two-lane all-weather standard, including several short access roads to the nearby national park and to Kharagauli and other railway stations. The project impact will be aligned with the increased economic activity in Kharagauli municipality and surrounding regions and national connectivity. The outcome will be increased mobility and accessibility of the residents of Kharagauli municipality and tourists visiting the project area by reducing vehicle operating costs and providing time savings for road users.

[Batumi Bypass Road Project \(Asian Development Bank and Asian Infrastructure Bank\)](#) will (i) construct a new two-lane bypass road of 14.3 km skirting Batumi; and (ii) It is planned contract out routine and periodic maintenance work for about 200 km of international roads combined with connecting secondary roads based on performance-based maintenance contract.

[Georgia: Livable Urban Areas](#): Integrated Urban Plans for Balanced Regional Development will provide assistance to Georgia to mainstream an integrated urban planning and development process through a participatory manner to masterplan and prioritize urban investments that promote the development of inclusive, environmentally responsible, and economically competitive urban centres and economic corridors, aligned with ADB's Urban Operational Plan 2012-2020. The project is including contextualized application of existing models of city development plans such as green city action plans and linking to a follow-on investment program. A proposed Sustainable Cities Development Investment Program (SCDIP) identified for financing will address the basic infrastructure needs of cities and/or towns that are the economic links between rural areas and market centers.

[East-West Highway \(Khevi–Argveta Section\) Improvement Project](#) preparatory technical assistance (PPTA) will support the Roads Department (RD) under the Ministry of Regional Development and Infrastructure (MRDI) with (i) providing an independent technical review, covering technical and contractual aspects, of the detailed design for the highway improvement works; and (ii) providing a comprehensive assessment of the country's road sector from institutional, operational, financial, and technical perspectives and recommending ensuing institution and capacity development activities for enhancing Georgia's existing road asset management system and road safety.

[Urban Services Improvement Investment Program](#) will finance the water supply and sanitation systems in different municipalities of Georgia and helping utilities' improve their planning and management capabilities.

[Sustainable Urban Transport Investment Program](#) is investing in sustainable transport systems and other urban infrastructure. This project will improve the urban environment and strengthen economic and tourism development and regional integration.

X.2.1.7 The European Bank for Reconstruction and Development (EBRD)

In Georgia, EBRD focuses on supporting private sector competitiveness through innovation, developing local currency and capital markets, expanding markets through inter-regional connectivity, and renewable energy, resource efficiency and climate change adaptation.

The construction of the bridge is planned on the river Debeda with financial support of EBRD. The loan amount is 6,000,000 (six million) Euros. The project aims to build a new bridge at Sadakhlo - Bagratasheni border crossing point of the state border of Georgia and the Republic of Armenia.

Kvemo Kartli Waste Management Project; Kvemo Kartli Waste Management Project is being implemented with financial support of EBRD, which costs 4,300,000 (four million three hundred thousand Euros), and the Swedish International Development Agency (SIDA) has allocated 1,843,000 (one million eight hundred and forty three Euros). The project aims to build a new landfill in Kvemo Kartli region (Marneuli).

The implementation of **solid waste management project in Georgia** is financed by **EBRD**. The project cost is 10 million Euros, in addition is allocated a grant of 2 million Euros. Within the framework of the project, about 150 garbage trucks and 7200 solid waste containers have been acquired and transferred to the municipalities.

X.2.1.8 European Investment Bank (EIB)

The overall objectives of EIB lending in Georgia are:

- Development of social and economic infrastructure, including projects in the transport, energy, water, environmental infrastructure, information and communication technology as well as health and education sectors;
- Development of local private sector, particularly supporting small and medium sized enterprises;
- Climate action, covering both climate change mitigation and adaptation projects, in particular the shift to clean energy in traditionally energy-intensive economy in line with the relevant sector cooperation included in the Association Agreement.

EIB major projects are:

- Samtredia-Grigoleti highway project

With financing support of the European Investment Bank, Modernization-Construction Project of the East-West Highway is underway on Samtredia-Grigoleti section. The loan amount is 200,000,000 (two hundred million) Euros. In addition, the grant of 20,000,000 Euros (twenty million) was allocated to support the project. The project provides for the construction of a new four-lane highway from Samtredia to Grigoleti.

- Georgia's Transport Communication Project (A/B)

On 9 December 2016 The European Investment Bank has signed to allocate 250 million Euro to Georgia's Transport Communication Project – A, the cost of which is 250,000,000 (two hundred and fifty million Euros), while on 14 June 2017, "Georgia's Transport Communication project - B" was signed, with a value of 250,000,000 (two hundred and fifty million) Euros. These agreements provide for construction/rehabilitation of main and national roads of approximately 253 km of Georgia' road network. Completion of the projects is planned for 2022.

- Georgia Transport Communication Project II

It is planned to allocate 250 million Euros to Georgia for financing the transport communication project.

- **Municipal Infrastructure Renovation Project of Georgia**

The European Investment Bank finances the Municipal Infrastructure Renovation Project of Georgia. The project value is 100,000,000 (one hundred million mln) Euro and provides for the financing of local self-government investment schemes in compliance with the International Regional Socio-Economic Development Strategy and Action Plan. The target area is: municipal roads, public buildings, water and solid waste infrastructure. The project is expected to be completed by 2021.

- **Georgian Urban Reconstruction and Development Project**

The European Investment Bank finances the Georgian Urban Reconstruction and Development Project, the project cost is 100,000,000 Euros and comprises three components: Municipal infrastructure; Tourism infrastructure and emergency reconstruction of damaged infrastructure. The target sector will be municipal roads, public buildings, tourism infrastructure, kindergartens, water and solid waste infrastructure. The project is scheduled to be completed by 2021.

- **Water Infrastructure Improvement Project II**

On August 20, 2013 Between Georgia and the European Investment Bank was signed a financial agreement on "Water Infrastructure Improvement Project II", costing EUR 40,000,000 (Forty million). The program refers to the priority investment projects of the "United Water Supply Company" in the field of water and wastewater services and aims to improve the efficiency, service, public health and environment. The project will be completed by 2018.

Kutaisi Wastewater Project

On 15 October 2015 between Georgia and the European Investment Bank was signed a financial agreement "Kutaisi Wastewater", the cost of which amounts 100 million Euros. The Kutaisi Wastewater Project aims at improving wastewater in Kutaisi. The objective of this project is to improve sewerage infrastructure and to build/rehabilitate waste water treatment plant in the city of Kutaisi. The project is scheduled to be completed by 2020.

French Development Agency (AFD)

The Agency supports the Government of Georgia to implement the projects and programs that will promote regional development, including infrastructure development in the regions.

The Agency is planning to fund Khashuri water and wastewater infrastructure improvement project together with the Ministry of Regional Development and Infrastructure of Georgia, for which the loan of 44,000,000 (forty-four million) Euros will be allocated.

The project aims to construct Khashuri water supply and wastewater networks and wastewater treatment facilities.

German Reconstruction Credit Bank (KfW)

On October 27, 2017 the loan agreement "Integrated Solid Waste Management Program II", was signed between the German Reconstruction Credit Bank (KfW) and the Government of Georgia the total value of which is 30,000,000 (thirty million) Euros.

"Integrated Solid Waste Management Program II" provides for the implementation of solid waste management system in Kakheti and Samegrelo-Zemo Svaneti regions. The project is implemented by Solid Waste Management Company Ltd, under the Ministry of Regional Development and Infrastructure of Georgia.

To support the above-mentioned project Georgia on November 2, 2017 a grant agreement was signed between KfW and Georgia "Integrated Solid Waste Management Program II Accompanying Measures",

according to which Bank will allocate a grant of 2,000,000.00 (two million) Euros. The project envisages funding of Integrated Solid Waste Management Program II ("Expert Services"), which will provide the conceptual and feasibility study for the abovementioned program.

German Reconstruction Credit Bank is holding negotiations with Georgia's "Integrated Solid Waste Management Program in the priority regions of Georgia (in particular Mtskheta-Mtianeti, Shida Kartli and Samtskhe-Javakheti) Phase III" to provide expertise for assisting Georgia in preparing the project feasibility study.

On October 16, 2017 financial and project agreements were signed between German Reconstruction Credit Bank and Georgia on financing the expert service within the project "Communal Infrastructure for Environment and Tourism in Imereti and Kazbegi Region". The project cost is 1,650,000.00 (one million six hundred and fifty thousand Euros). The project will be designed to develop conceptual and feasibility study. The project is implemented by the United Water Supply Company of Georgia Ltd under the Ministry of Regional Development and Infrastructure of Georgia. Funded by the German Reconstruction Credit Bank (KfW) is planned to implement the Kutaisi Solid Waste Project with the value of 20,000,000 euros (twenty million Euro) and additionally, within the project a grant of Euro 2,000,000 (two million) is allocated.

Within the framework of the project, arrangement of a new landfill (Kutaisi entrance, village Chognari) is planned. Also, procurement of machinery/equipment for transportation of solid waste and operation of the landfill; Closure of the existing landfill in Kutaisi. The project is scheduled to be completed by 2018.

X.2.1.9 Council of Europe Development Bank (CEB)

With the financial support of the Council of Europe Development Bank (CEB), constructions of 45 km section of Kutaisi and Mestia connecting road is planned to be implemented. The project includes construction of a tunnel and access road to tunnel. EUR 80 million will be allocated by the CEB for financing the project.

X.2.1.10 Council of Europe

Council of Europe's [Action Plan for Georgia 2016-2019](#) includes the following priority sectors:

- Protecting and promoting human rights and dignity, ensuring social rights;
- Ensuring justice;
- Strengthening democratic governance;
- Countering threats to the rule of law: corruption, money-laundering, cybercrime, manipulations of sports competitions;
- Confidence-building measures.

X2.3 Bilateral Assistance

X.2.1.11 Austrian development co-operation

Austrian development cooperation with Georgia aims at supporting national economic development and democratisation. Besides making tangible improvements to the conditions of life for the people, the central concern is convergence with European institutions, standards and values. Together with representatives of Georgia, the Austrian Development Agency has specified agriculture and forestry and good governance as priority sectors of cooperation.

X.2.1.12 Danish International Development Agency (DANIDA)

Denmark's assistance to Georgia has a specific focus on the promotion of democracy and human rights as well as the strengthening of sustainable and inclusive Growth. Cooperation for 2017-2021 has two

major objectives: to promote human rights and democracy; to strengthen sustainable and inclusive growth. The objectives are administered through several multi-year programmes within support to civil society organisations, the media, equal rights, human rights, anti-corruption, decentralisation, growth, employment and energy efficiency.

X.2.1.13 German bilateral assistance

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has been supporting Georgia's transition to a social market economy, democracy and the rule of law since 1992. GIZ opened a regional office in Georgia in 2006, which represents the company in the three countries of the South Caucasus: Georgia, Armenia and Azerbaijan.

Within these priority areas, GIZ is implementing six regional programmes in Georgia on the following topics: private sector development, support for legal and judicial reform, promotion of municipal development, the sustainable management of biodiversity, integrated erosion control in mountainous areas, and the management of public finance in the South Caucasus.

Under the Local Governance Programme South Caucasus, the EU commissioned GIZ in late 2013 to act within the framework of 'delegated cooperation' arrangements, focusing on cross-border cooperation between local governments in Georgia, Armenia, Azerbaijan, Ukraine, Belarus and Moldova.

X.2.1.14 Japan International Cooperation Agency (JICA)

Japan's policy towards development assistance to Georgia is guided by promotion of sustainable economic growth and stability of society in the fields of Assistance for Promotion of Economic Growth and Stability of Society.

X.2.1.15 Swedish bilateral assistance

Sweden supports Georgia's efforts to strengthen its ties with the European Union through increased economic competitiveness, strengthened democracy and improved environmental performance. Sweden's support to Georgia is focused on three areas:

- Enhanced economic integration with the EU and development of market economy;
- Strengthened democracy, greater respect for human rights and a more fully developed state under the rule of law;
- A better environment and reduced climate impact and enhanced resilience to environmental impact and climate change. Sida also supports energy efficiency at the municipal level through the regional program Eastern Europe Energy Efficiency and Environment Partnership (E5P).

X.2.1.16 Swiss co-operation

Switzerland entertains a broad array of bilateral donor activities in Georgia and the region. The Swiss Cooperation Strategy South Caucasus 2017-2020 covers sectors such as the economy (with a focus on agriculture), governance and human security, as well as disaster risk reduction and climate change adaptation. Throughout the four-year period of the Strategy, regional cooperation between the three South Caucasus countries will be strengthened through support for regional programmes in cross-border trade and disaster risk reduction.

X.3 SUPPLEMENTARY STATISTICAL TABLES

Table 18 - Urban population – international comparison (% of total)

Country	2011	2012	2013	2014	2015	2016
Georgia	53,2	53,8	53,6	57,2	57,2	57,2
Armenia	63,4	63,1	63	62,8	62,7	62,6
Moldova	45	45	45	45	45	45
Albania	53,2	54,3	55,4	56,4	57,4	58,4
Estonia	68	67,8	67,7	67,6	67,5	67,5
Latvia	67,6	67,5	67,5	67,4	67,4	67,4
Slovak Republic	54,4	54,2	53,9	53,7	53,6	53,5
World average	51,9	52,4	52,9	53,3	53,8	54,3

Source: GEOSTAT, World Bank

Table 19 – Georgia’s population (thousands), by regions, census 2002 and 2017

Region	2002	2014
Georgia*	4,371,5	3,718,2
Adjara	376	339,0
Guria	143,3	112,6
Imereti	699,6	529,7
Kakheti	407,1	317,5
Kvemo Kartli	497,5	427,4
Mtskheta-Mtianeti	125,4	93,8
Racha-Lechkhumi and Kvemo Svaneti	50,9	31,0
Samegrelo-Zemo Svaneti	466,1	328,3
Samtkhe-Javakheti	207,6	160,6
Shida Kartli*	314	263,7
Tbilisi	1,081,6	1,114,6

Source: GEOSTAT, * territory under control of Georgian administration

Table 20 – Population change – international comparison

	Recent census	Previous census	% change
Georgia (2014, 2002)	3 713.8	4 371.5	-15%
Armenia (2011, 2001)	2 871.8	3 002.6	-4.4%
Moldova (2014, 2004)	2 804.8	3 383.3	-17%
Albania (2011, 2001)	2,907	3,069	-5.3%
Estonia (2011, 2000)	1 294.5	1 370.1	-5.5%
Latvia (2011, 2000)	2 070.4	2 377.4	-12.9%
Slovak Republic (2011, 2001)	5 397	5 292	2%

Source: National statistics offices (absolute figures in thousands)

Table 21– GDP per capita (nominal), USD

Country	2011	2012	2013	2014	2015	2016*
Georgia	3230,7	3523,4	3599,6	3676,2	3766,6	3852,5
Armenia	3417	3575,5	3732	3889	3520,9	3510,6
Moldova	1971,5	2046,2	2244,4	2245,5	1828,4	1900,8
Albania	4439,6	4249	4413,3	4574,8	3943,2	4203,4
Estonia	17441,4	17398,3	19004,3	19953,5	17111,3	17632,7
Latvia	13735,6	13762,1	14951,8	15689,5	13614,4	14060,4
Slovak Republic	18223,6	17294,6	18205,9	18633,7	16105,1	16498,5

Source: IMF, *preliminary

Table 22– Real GDP growth, %

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

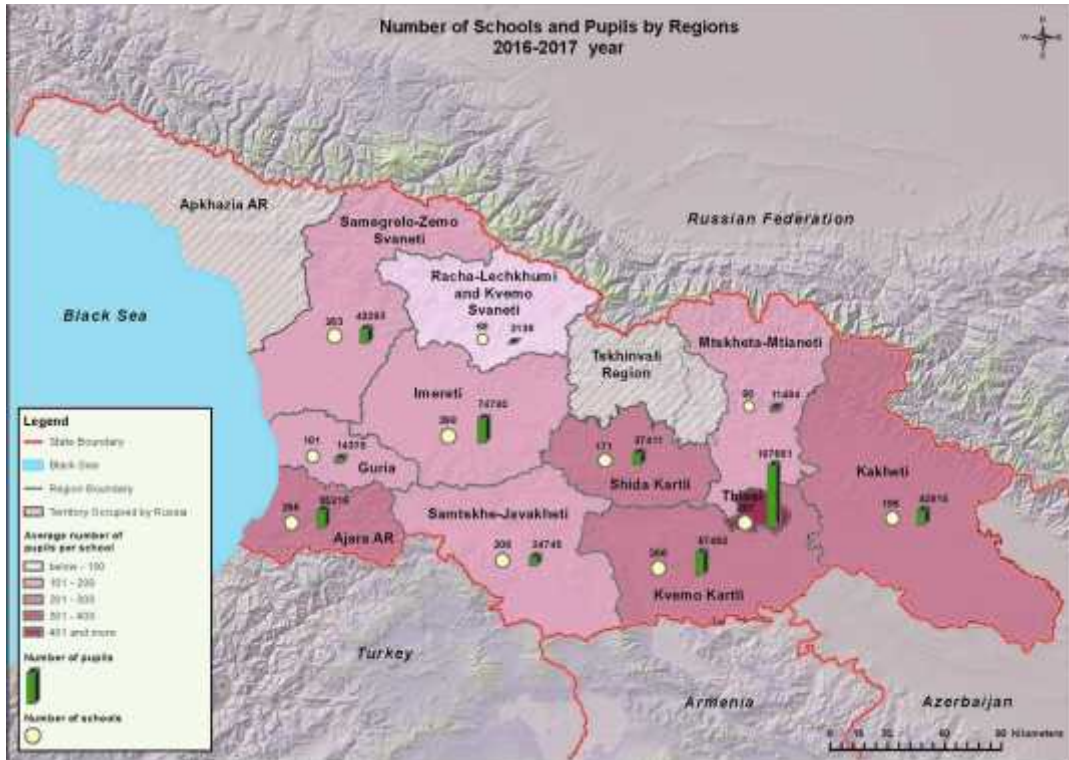
Source: IMF, *preliminary

Table 23– Turnover of business sector by regions, in mln GEL

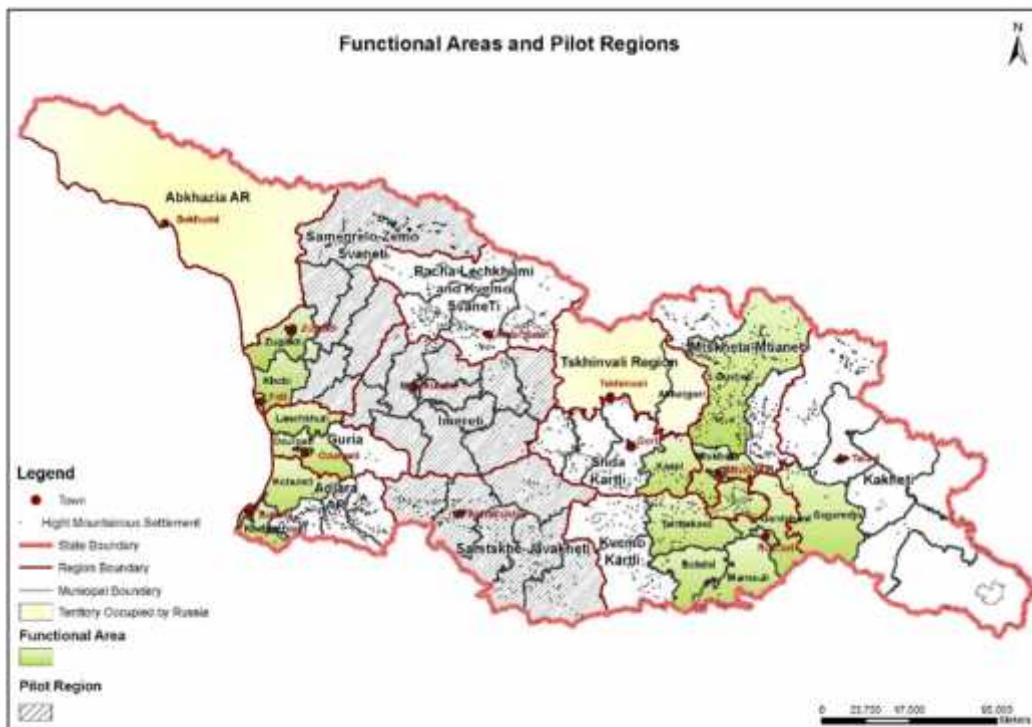
	2010	2011	2012	2013	2014	2015
Georgia Total	24,400.7	36,726.2	42,048.0	44,327.9	50,064.7	56,984.8
Tbilisi	17,847.6	27,088.8	31,323.1	31,957.9	35,996.7	40,873.6
Adjara AR	1,175.2	1,928.8	2,375.6	2,753.8	3,424.1	4,155.5
Guria	120.6	175.0	174.4	212.9	253.4	355.0
Imereti	1,259.1	1,742.3	1,886.0	2,042.4	2,378.6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

Source: GEOSTAT

Map 2– Number of Schools and Pupils by Region 2016-2017



Map 3– Functional Areas



X4. ACHIEVEMENTS OF THE RDP 2015-2017

The Regional Development Programme 2015-2017 was endorsed by the Government Commission on Regional Development of Georgia and adopted by the Government of Georgia in **July 2014**.

The main objective of the Programme is to contribute to a more **balanced and sustainable socio-economic development** across the country. Its two specific objectives are:

- supporting the **economic development and creating new jobs**, especially in those regions where the level of employment is low, and
- **improving the quality of life**, primarily in rural and less developed areas.

The list of identified socio-economic **challenges**, which the RDP seeks to address includes, most importantly:

- the territorially uneven access of citizens and businesses to basic infrastructure and services;
- the imbalance between the Tbilisi City Municipality and the rest of the country;
- specific challenges identified in sparsely populated mountainous areas in the north of the country and in some post mono-industrial cities.

The RDP responds to these challenges through **5 programme priorities**:

- Improvement of Physical Infrastructure and Environment Protection
- Supporting the Development of SMEs and the Creation of New Jobs
- Rural Development
- Tourism Development
- Improvement of Human Capital and Development of Vocational Education Institutional Capacity at National and Sub-National Levels.

The total **budget** of the programme is ca. GEL 3.9 billion and it is financed mostly by the state budget.

After two years of implementation (2015-2016) the cumulative amount of expenditure reached GEL 2.232 billion, which represents 65.8% of total expenditure planned for the period 2015-2017. The implementation progress of the Programme in physical terms for the years 2015-2016 is close to 100% in almost all priorities. Accordingly, both financial and physical targets have been achieved so far for the majority of measures. The targets for 2017 are also likely to be met. Specifically:

At a more general level, the implementation of the programme has significantly increased the capacities of Georgian public administration in the field of strategic programming, implementation and monitoring of the complex set of priorities and measures related to regional policy. But the process also showed that further improvements are needed in order to increase the adequacy of development instruments, to widen their scope as well as to broaden the competences of the administration dealing with regional policy. Last but not least, the gradual approximation with best international practice also requires the application of the principles of partnership and multi-level governance in all stages of the policy cycle.

X5. FINANCIAL PLAN TABLE

Table 26 – Financial Plan (Note: More detailed Financial Plan is also prepared)

Program Priorities and Measures	2018						2019						2020						2021						Grand Total of RDP 2018 - 2021
	National resources				Do nor fun din g out sid e the bud get, Tec hni cal assi sta nce	Tota l	National resources				Do nor fun din g out sid e the bud get, Tec hni cal assi sta nce	Tota l	National resources				Do nor fun din g out sid e the bud get, Tec hni cal assi sta nce	Tota l	National resources				Do nor fun din g out sid e the bud get, Tec hni cal assi sta nce	Tota l	
	State budg et	Finan cin g Don ors and Deve lopment Part ners	Loc al bud get	Ow n Sou rces			State budg et	Finan cin g Don ors and Deve lopment Part ners	Lo cal bud get	Ow n Sou rces			State budg et	Finan cin g Don ors and Deve lopment Part ners	Lo cal bud get	Ow n Sou rces			State budg et	Finan cin g Don ors and Deve lopment Part ners	Lo cal bud get	Ow n Sou rces			
PRIORITY 1. IMPROVEMENT OF KEY INFRASTRUCTURE SUPPORTING COMPETITIVENESS AND ENVIRONMENTAL SUSTAINABILITY OF THE COUNTRY AND REGIONS	878, 906. 00	1,28 7,52 9.00	150, 501. 00	82, 927 .66	-	2,39 9,86 3.66	1,06 8,94 1.00	1,90 6,26 3.00	-	83, 167 .00	-	3,05 8,37 1.00	1,23 4,92 4.00	1,88 5,28 3.00	-	125, 967. 00	-	3,24 6,17 4.00	919, 026. 00	477, 401. 00	-	130, 167. 00	-	1,52 6,59 4.00	10,23 1,002 .66

Measure 1.1. Improvement of international and national road infrastructure	527, 900. 00	810, 600. 00	-	-	-	1,33 8,50 0.00	766, 445. 00	1,51 5,85 0.00	-	-	-	2,28 2,29 5.00	924, 000. 00	1,81 3,00 0.00	-	-	-	2,73 7,00 0.00	592, 000. 00	375, 000. 00	-	-	-	967, 000. 00	7,324 ,795. 00
Measure 1.2. Development of other than road strategic transport infrastructure	81,0 00.0 0	167, 900. 00	-	60, 665. .66	-	309, 565. 66	50,0 00.0 0	-	-	-	60, 667. .00	110, 667. 00	100, 000. 00	-	-	-	56,1 67.0 0	156, 167. 00	100, 000. 00	-	-	-	56,1 67.0 0	156, 167. 00	732,5 66.66
Measure 1.3. Development of broadband infrastructure	-	2,10 0.00	-	7,0 00. 00	-	9,10 0.00	-	6,80 0.00	-	-	-	13, 000 .00	19,8 00.0 0	6,80 0.00	-	-	-	60,0 00.0 0	66,8 00.0 0	-	-	-	64,0 00.0 0	70,8 00.0 0	169,5 00.00
Measure 1.4. Improvement of energy infrastructure and expanding renewable energy potential	2,05 0.00	82,9 00.0 0	-	-	-	84,9 50.0 0	30,0 00.0 0	40,5 30.0 0	-	-	-	70,5 30.0 0	30,0 00.0 0	19,7 40.0 0	-	-	-	49,7 40.0 0	30,0 00.0 0	21,6 00.0 0	-	-	-	51,6 00.0 0	256,8 20.00
Measure 1.5 Improvement of infrastructure for protection from natural disasters	111, 530. 00	10,9 84.0 0	-	9,4 33. 00	-	131, 947. 00	111, 900. 00	-	-	-	9,5 00. 00	121, 400. 00	121, 400. 00	-	-	-	9,80 0.00	131, 200. 00	126, 400. 00	-	-	-	10,0 00.0 0	136, 400. 00	520,9 47.00
Measure 1.6. Development of water and sewage and solid waste infrastructure	64,7 81.0 0	192, 005. 00	-	-	-	256, 786. 00	79,5 74.0 0	334, 893. 00	-	-	-	414, 467. 00	28,6 27.0 0	39,7 43.0 0	-	-	-	68,3 70.0 0	34,8 29.0 0	68,0 01.0 0	-	-	-	102, 830. 00	842,4 53.00
Measure 1.7. Preserving and promoting	25,0 30.0 0	2,00 0.00	-	5,8 29. 00	-	32,8 59.0 0	30,1 47.0 0	700. 00	-	-	-	30,8 47.0 0	30,1 47.0 0	-	-	-	-	30,1 47.0 0	30,3 47.0 0	-	-	-	-	30,3 47.0 0	124,2 00.00

cultural heritage																									
Measure 1.8. Preserving and promoting natural heritage (National Parks, reservoirs, other activities)	1,66 8.00	9,58 0.00	-	-	-	11,2 48.0 0	875. 00	7,49 0.00	-	-	-	8,36 5.00	750. 00	6,00 0.00	-	-	-	6,75 0.00	5,45 0.00	6,00 0.00	-	-	-	11,4 50.0 0	37,81 3.00
Measure 1.9. Development of integrated urban transport systems	64,9 47.0 0	9,46 0.00	150, 501. 00	-	-	224, 908. 00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	224,9 08.00	
PRIORITY 2. SUPPORT TO SMES, GROWTH ORIENTED SECTORS OF ECONOMY AND EXPORT PROMOTION	193, 592. 00	10,0 00.0 0	-	1,3 00. 00	7,5 63. 90	212, 455. 90	187, 240. 00	20,0 00.0 0	1,5 00. 00	6,3 93. 00	215, 133. 00	169, 284. 00	20,0 00.0 0	-	-	-	189, 284. 00	168, 059. 00	20,0 00.0 0	-	-	-	188, 059. 00	804,9 31.90	
Measure 2.1. Support to Enterprises, including SMEs	28,0 85.0 0	-	-	-	7,5 63. 90	35,6 48.9 0	30,2 00.0 0	-	-	-	6,3 93. 00	36,5 93.0 0	30,2 00.0 0	-	-	-	30,2 00.0 0	30,2 00.0 0	-	-	-	-	30,2 00.0 0	132,6 41.90	
Measure 2.2. Support to innovation	20,6 30.0 0	-	-	-	-	20,6 30.0 0	28,2 00.0 0	-	-	-	-	28,2 00.0 0	27,2 00.0 0	-	-	-	27,2 00.0 0	26,4 75.0 0	-	-	-	-	26,4 75.0 0	102,5 05.00	
Measure 2.3. Support to strategic	49,6 75.0 0	-	-	-	-	49,6 75.0 0	39,0 00.0 0	-	-	-	-	39,0 00.0 0	21,6 84.0 0	-	-	-	21,6 84.0 0	21,6 84.0 0	-	-	-	-	21,6 84.0 0	132,0 43.00	

sectors: Tourism																									
Measure 2.4. Support to strategic sectors: Agriculture	81,6 30.0 0	10,0 00.0 0	- 00.0 0	1,3 00.0 0	- 00.0 0	92,9 30.0 0	77,8 10.0 0	20,0 00.0 0	- 00.0 0	1,5 00.0 0	- 00.0 0	99,3 10.0 0	79,1 70.0 0	20,0 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	99,1 70.0 0	78,6 70.0 0	20,0 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	98,6 70.0 0	390,0 80.00
Measure 2.5. Export promotion	11,0 72.0 0	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	11,0 72.0 0	9,03 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	9,03 0.00	8,03 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	8,03 0.00	8,03 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	8,03 0.00	36,16 2.00
Measure 2.6. Promotion of inward investment	2,50 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	2,50 0.00	3,00 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	3,00 0.00	3,00 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	3,00 0.00	3,00 0.00	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	3,00 0.00	11,50 0.00
PRIORITY 3. IMPROVEMENT OF HUMAN CAPITAL	1,18 8,97 5.00	10,3 80.0 0	2,02 0.00	8,5 97.00	6,0 29.36	1,21 6,00 1.36	1,41 0,01 0.00	14,0 00.0 0	7,7 84.00	3,6 90.63	1,43 5,48 4.63	1,42 2,43 0.00	14,0 00.0 0	2,48 4.00	3,2 88.00	1,44 2,20 2.00	1,43 3,28 5.00	14,0 00.0 0	2,48 4.00	- 00.0 0	- 00.0 0	- 00.0 0	1,44 9,76 9.00	5,543 ,456. 99	
Measure 3.1. Increasing the quality of general education	97,0 80.0 0	10,0 00.0 0	- 00.0 0	5,8 40.00	- 00.0 0	112, 920. 00	117, 680. 00	14,0 00.0 0	- 00.0 0	5,7 94.00	- 00.0 0	137, 474. 00	119, 200. 00	14,0 00.0 0	494. 00	- 00.0 0	133, 694. 00	120, 000. 00	14,0 00.0 0	494. 00	- 00.0 0	- 00.0 0	134, 494. 00	518,5 82.00	
Measure 3.2 Improvement of vocational system	7,37 5.00	- 00.0 0	- 00.0 0	- 00.0 0	3,2 88.00	10,6 63.0 0	18,4 25.0 0	- 00.0 0	- 00.0 0	- 00.0 0	3,2 88.00	21,7 13.0 0	18,4 25.0 0	- 00.0 0	- 00.0 0	- 00.0 0	3,2 88.00	21,7 13.0 0	18,4 25.0 0	- 00.0 0	- 00.0 0	- 00.0 0	- 00.0 0	18,4 25.0 0	72,51 5.00
Measure 3.3. Increasing the quality and accessibility of higher education system	125, 220. 00	- 00.0 0	- 00.0 0	2,0 95.00	- 00.0 0	127, 315. 00	131, 520. 00	- 00.0 0	- 00.0 0	1,3 90.00	- 00.0 0	132, 910. 00	128, 070. 00	- 00.0 0	1,39 0.00	- 00.0 0	129, 460. 00	126, 970. 00	- 00.0 0	- 00.0 0	1,39 0.00	- 00.0 0	128, 360. 00	518,0 45.00	
Measure 3.4. Support to research sector	65,4 40.0 0	- 00.0 0	- 00.0 0	150 .00	- 00.0 0	65,5 90.0 0	67,2 90.0 0	- 00.0 0	- 00.0 0	150 .00	- 00.0 0	67,4 40.0 0	66,4 40.0 0	- 00.0 0	150. 00	- 00.0 0	66,5 90.0 0	30,1 70.0 0	- 00.0 0	- 00.0 0	150. 00	- 00.0 0	30,3 20.0 0	229,9 40.00	

Measure 3.5. Better accessibility to labour market	3,16 5.00	-	-	-	-	3,16 5.00	3,16 5.00	-	-	-	-	3,16 5.00	3,16 5.00	-	-	-	-	3,16 5.00	2,79 0.00	-	-	-	-	2,79 0.00	12,28 5.00
Measure 3.6. Promoting integration of Vulnerable Groups	177, 360. 00	380. 00	2,02 0.00	512 .00	2,7 41. 36	183, 013. 36	315, 730. 00	-	-	450 .00	402 .63	316, 582. 63	320, 530. 00	-	-	450. 00	-	320, 980. 00	320, 530. 00	-	-	450. 00	-	320, 980. 00	1,141 ,555. 99
Measure 3.7. Social inclusion	713, 335. 00	-	-	-	-	713, 335. 00	756, 200. 00	-	-	-	-	756, 200. 00	766, 600. 00	-	-	-	-	766, 600. 00	814, 400. 00	-	-	-	-	814, 400. 00	3,050 ,535. 00
PRIORITY 4. PROMOTING LOCAL DEVELOPME NT AND SUPPORT TO SPECIFIC AREAS BASED ON THEIR ENDOGENO US DEVELOPME NT	339, 083. 88	38,4 19.1 2	-	-	-	377, 503. 00	348, 284. 57	36,1 65.4 3	-	-	384, 450. 00	350, 100. 17	26,0 17.8 3	-	-	-	-	376, 118. 00	352, 438. 82	26,4 79.1 8	-	-	-	378, 918. 00	1,516 ,989. 00
Measure 4.1 Support to realisation of regional development strategies: development of small scale technical and social infrastructure	181, 893. 88	38,1 94.1 2	-	-	-	220, 088. 00	182, 284. 57	36,1 65.4 3	-	-	-	218, 450. 00	180, 300. 17	26,0 17.8 3	-	-	-	206, 318. 00	180, 438. 82	26,4 79.1 8	-	-	-	206, 918. 00	851,7 74.00
Measure 4.2. Development of rural areas (Note:																									-

development programs for two pilot regions																									
Total	2,60 0,55 6,88	1,34 6,32 8.12	152, 521. 00	92, 824 .66	13, 593 .26	4,20 5,82 3.92	3,01 4,47 5.57	1,97 6,42 8.43	-	92, 451 .00	10, 083 .63	5,09 5,93 8.63	3,17 6,73 8.17	1,94 5,30 0.83	-	128, 451. 00	3,2 88. 00	5,25 3,77 8.00	2,87 2,80 8.82	537, 880. 18	-	132, 651. 00	-	3,54 3,34 0.00	18,14 9,650 .05