

Rural Economic Diversification in Georgia

PMC Research
Center

People in
Need

2019
Tbilisi

PMC Research Policy Brief

PMC RC Policy Brief

PMC Research Center

People in Need

Mikheil Skhiereli

Rural Economic Diversification in Georgia

2019
Tbilisi



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



The project **“Civil Society Organizations Supporting Free Trade with Europe”** is funded by European Union and implemented by *People in Need*



Project partners are:



This publication has been produced with the assistance of the European Union. Its contents are the sole responsibility of People in Need and PMC Research Centre and do not necessarily reflect the views of the European Union.

CONTENTS

Introduction	6
1. The Importance of Diversification of the Rural Economy	6
1.1 Updated Outlook on Rural Economic Development	6
1.2 The Importance of Creating Links Between Villages and Cities	7
2. EU Priorities for Rural Economic Diversification	7
2.1 The EU Approach to Ensuring Rural Economic Development	7
2.2 Rural Economic Diversification in the EU	8
3. The Development of Rural Areas in Georgia	9
3.1 Rural Economic Development and Overview of Current Priorities	9
3.2 Supporting Rural Economic Diversification	12
4. International Experience - Rural Economy Development in Scotland	14
5. Recommendations	16
Annex A: Workshop Results	17
Bibliography	18

Introduction

Diversification and development of the rural economy are important in overcoming poverty, improving the quality of life, and allowing full enjoyment of rural life. Therefore, diversity in the rural economy is one of the Georgian government's top priorities. In pursuance of this goal, it is necessary to fill in the existing gaps in knowledge and experience in the subject area in government institutions, NGOs, and the general population.

The purpose of the policy paper is to fill in the current informational gaps in the field of diversification of the rural economy and stimulate dialog on the next steps to be taken. It examines the importance of rural economic diversity, the EU's approaches and experience in the development of the rural economy, as well as the relevant problems facing Georgia today. On that basis, we have put forward recommendations aimed at supporting rural economic diversification.

1. The Importance of Diversification of the Rural Economy

We live in an era in which, in big cities, "urban agriculture" is developing, while diversification of the rural economy is an important task on the agenda of policymakers. The development of infrastructure and communication technology, innovations, and creative approaches bring rural and urban centers closer together. It strengthens their interdependence and creates opportunities for synergies between urban and rural development projects.

1.1. Updated Outlook on Rural Economic Development

In order to properly understand rural economic diversification, one must analyze its evolution, which in turn will help us define the concept, the role of economic diversity in achieving the wellbeing of rural inhabitants, and establishing the right priorities.

In 2003, the Salzburg Conference, dedicated to the organization of rural development concluded that the development of rural areas cannot be limited to agriculture. Diversity, in particular with regards to agriculture, as well as beyond its bounds, was recognized as a guarantor of a viable and sustainable rural society (European Communities, 2008). The conference highlights the lack of alternative job opportunities, poor accessibility to public services, as well as aging population contributing to the reduction of development potential. The OECD has expressed a similar position arguing that agriculture is no longer the only economic activity in rural areas.

One reason behind the diversification of agriculture is the risk associated with animal and plant diseases, natural disasters, and unreliable weather conditions, which pose a danger to farmers' sources of income if no alternative sources are readily available to a household. Alternatively, to stabilize or increase their income, farmers could employ their facilities to diversify into non-agricultural operations (European Parliament, 2016). Modernizing the farming sector represents another reason. This leads to higher productivity, which in turn leads to significant non-agricultural rural economic growth (OECD, 2018).

Today, OECD members with diversified economies have branched into tourism, renewable energy production, the arts and cultural industry, and servicing the natural mineral mining sector (OECD, 2018). Within the EU, according to a farm structure survey conducted in 2010 by Eurostats, approximately one out of three farmers carried out non-agricultural, profitable activities (European Parliament, 2016).

For decades now, in rural regions, the explanatory framework for economic growth has shifted from exogenous growth, that is development driven by external factors, to endogenous growth, in which, generally, resources available in a spe-

cific place play a decisive role. The current approach recognizes a mixed model that seeks to utilize the natural, human, and social capital of rural areas without rejecting potential external support and synergies (European Commission, 2016). It is precisely the judicious employment of local wealth and support instruments, the encouragement of synergies between different development projects, and the involvement of rural inhabitants what should become the driving force of economic diversification and development in rural areas.

1.2. The Importance of Creating Links Between Villages and Cities

The Organization for Economic Cooperation and Development considers it important to encourage links between villages and cities in pursuit of the development of rural areas (OECD, 2018). Until recently, rural and urban economic and territorial development were separate issues in regards to both research and policy purposes (OECD, 2013). Currently, the OECD classifies the forms of interaction between village and city into five categories:

- demographic linkages
- economic transactions and innovation activities
- delivery of public services
- exchange in amenities and environmental goods
- multi-level governance interactions

Demographic linkages reflect the structure of migration and the movement of daily commuters. This category is important for the development and diversification of the rural economy, given that the growth in rural population adds new dynamics to local development and helps boost demand for certain products and services. In terms of economic transactions and innovative activities, it is noteworthy that the services provided by cities for the entrepreneurial sector of rural areas are important for the dynamic

development of the agricultural, as well as other sectors. In relatively developed countries where rural enterprises and research centers located in urban areas have strong partnerships, business and research sectors are undertaking joint research projects. Access to public services such as education, health care, transport, social services, waste management, and more, whose main provider institutions are located in urban areas, is also important for the development and diversification of the rural economy. With regards to the environment and communal amenities, the residents of the city are attracted by the fresh air of the village and the ecologically clean, quiet living space, while for rural residents, it is having access to cultural events, shopping centers, and similar services in the city. Generally, rural areas and cities possess their distinct resources which are key for their development.

It is noteworthy that proximity to urban centers as well as aesthetic values significantly determine the ability of rural areas to attract new residents and business opportunities, while rural areas, lacking these characteristics, have to rely largely on their native residents to create new enterprises (OECD, 2018).

2. EU Priorities for Rural Economic Diversification

2.1. The EU Approach to Ensuring Rural Economic Development

EU institutions and member states have accumulated significant experience in rural economic diversification. This includes projects and programs designed to support rural economic development; monitoring and evaluating their implementation; analyzing results to address existing shortcomings; and incorporating lessons learned into the planning of future programs. The experience of EU member states is of singular value in terms of broader involvement of the population in rural economic development processes. It

should also be noted that when planning rural economic development projects, particular attention is paid to the geographical, social, and economic characteristics of the target rural area.

The EU places great emphasis on integrated and place-specific approaches that analyze sectors in detail and take into account local assets and limitations (European Commission, 2016). To understand the dynamics of development in rural areas, research activities should include key trends affecting rural areas, both economically and socially, and should distinguish between areas characterized by different environments and varying degrees of remoteness. These include demographic trends (aging, internal migration, international migration, selective migration of women and youth, and lifestyle), market dynamics (rural financing, market power, concentration in upstream and downstream industries), changing structures, land ownership and employment patterns (especially in farming), climate change, and trends in services and digital development and their impact on the attractiveness of the primary sector (European Commission, 2016).

Diversification of rural economic activities was a key objective of the EU's rural development policy from 2007 to 2013. In this respect, the EU has supported diversification aimed at developing non-agricultural activities, business creation and development, promotion of tourism activities, learning and acquiring new skills, conservation, and renewal of rural heritage.

The 6 main directions included in The EU's Rural Development Policy for 2014-2020 are¹:

- Knowledge transfer and innovation
- Farm viability and competitiveness
- Food chain organization and risk management

¹ https://enrd.ec.europa.eu/policy-in-action/rural-development-policy-figures/priority-focus-area-summaries_en

- Restoring, preserving, and enhancing ecosystems
- Resource-efficient, climate-resilient economy
- Social inclusion and economic development

The 6th priority, social inclusion and economic development, aims to reduce rural poverty by facilitating diversification, encouraging the creation and development of small enterprises, enhancing local economic development and access to information and communication technologies². Supporting start-up businesses and investing in this area has been acknowledged as the most important means of diversifying rural economies.³

2.2. Rural Economic Diversification in the EU

EU rural areas have undergone major changes in recent decades. The relative importance of agriculture and forestry has declined, productivity growth has led to a decline in employment in the agricultural sector. The service sector has become a major employer in the rural economy and the driver of economic growth (European Commission, 2016). In addition, the development of upstream and downstream industries⁴ and the retail sector are worth noting. In rural areas, new activities such as tourism, small-scale and niche production, food production, and business services have developed. The development of the information and communication sectors has partially solved the problem of remoteness and offers rural areas a wide range of business opportunities (European Commission, 2016).

EU farmers have developed various diversification initiatives. Their decision to opt

² <https://enrd.ec.europa.eu/sites/enrd/files/priority-6-summary.pdf>

³ https://enrd.ec.europa.eu/sites/enrd/files/focus-area-summary_6a.pdf

⁴ The upstream industry turns raw materials into intermediate products, while the downstream industry produces finished products from the intermediary product.

for non-farming activities is determined by the size of the particular farm, the farm’s area of specialization, location, farmer’s age, level of education and other individual characteristics, local conditions, and potential markets (European Parliament, 2016).

It is also noteworthy that the EU is quite polarized in terms of diversifying the rural economy. It is widespread in one group of EU member states, while in other groups it is almost non-existent. The share of diversified farms is less than 5% in Italy, Poland, Malta, Spain, Greece, Bulgaria, Romania, Cyprus, and Lithuania, while the figure extends to 52% in Denmark, 37.3% in Austria, 33.8% in Sweden, 31% in Germany, and 26% in Finland (European Parliament, 2016). For instance, one of the reasons for the low rate of diversification in Poland is the lack of desire or skills among small farmers to expand their sources of income. Accordingly, changing this approach in Poland is one of the important factors influencing the creation of new businesses in rural areas (OECD, 2018).

Additionally, population decline in some EU rural areas is of such scale that it is difficult to see a recovery path, while in other cases there is a ‘population turnaround’ (ENRD, 2017).

The EU rural areas are classified as follows:

Table 1: Classification of rural areas

Regional Typologies	Performance Typology
Agrarian regions, in which the economy is still very dependent upon primary activities.	Low performers, showing characteristics of the process of socio-economic “depletion”.
Consumption countryside regions, in which farming is relatively small-scale, and recreation and tourism are key activities	High performers

Diversified regions with a relatively strong manufacturing base.	Low performers, dependent upon declining industries.
Diversified regions, in which market services are strong.	High performers

Source: ENRD, 2017

It is worth noting that the European Union pays special attention to the development of so-called “Smart Villages”, which is evidenced in ‘EU Action for Smart Villages’, a document developed in 2017. Five main drivers determine the development of smart villages: responding to population decline and demographic change, finding local solutions to cutbacks in public funding, looking for linkages between small towns and cities, maximizing the role of rural areas in low-carbon and circular economies, and promoting the digital transformation of rural areas (ENRD, 2018). Clearly, the concept of smart villages means economic diversification, which focuses on the usage of the strongest assets of a particular place.

3. The Development of Rural Areas in Georgia

3.1. Rural Economic Development and Overview of Current Priorities

According to the National Statistics Office of Georgia, 42.8% of Georgia’s population (3.71 million people) lives in rural areas. According to the “Rural Development Strategy of Georgia 2017-2020” the main source of employment and income for the rural population is the agricultural sector, and alternative employment opportunities are scarce. This, alongside the lack of access to higher education and modern knowledge and technologies, constitutes a major weakness of the rural economy. According to the classification presented in the previous chapter, such rural areas are characterized by low performance and signs of socio-economic depletion.

According to the Rural Development Strategy of Georgia 2017-2020, the situation is even more difficult in the high mountain regions compared to the lowlands and urban areas, where weak economic diversification, migration, extreme poverty, underdeveloped infrastructure and health care are major problems. Activities that create jobs are scarce, which in turn leads to the migration of young people and the natural decline of the population.

The World Bank’s 2019 report underscores how rural poverty (26.4%) will continue to pose a problem in Georgia. Consequently, providing new job opportunities for people working in low productive agriculture and increasing productivity of agricultural yields will become a crucial migration strategy (World Bank, 2019).

Rural economic development, with economic diversification as one of its main driving forces, is an economic, political, and social objective. Overcoming it successfully is important for local and regional economic development.

The Georgia-EU Association Agreement envisages the parties' cooperation in agriculture and rural development, including the development of administrative capacity, dissemination of knowledge, and best practices concerning rural development policy, agricultural modernization, and support of sustainable development. The agreement between the European Union and Georgia on the 2017-2020 agenda, which was adopted in order to facilitate the implementation of the Association Agreement, identifies the development of employment and living conditions in rural areas through the improvement of natural resource management, services and infrastructure, and diversification of the agricultural economy as a medium-term priority.

In 2017, with rural development in mind, the Government of Georgia approved the Rural Development Strategy 2017-2020, which has identified 9 objectives categorized according to three priority areas:

Figure 2: Rural development priorities, objectives and their importance for the diversification of the rural economy

Priority Area	Objective	Importance for the diversification of the rural economy
Economy and Competitiveness	Economic recovery of farming, restructuring, and modernization through the diversification and development of effective supply chains.	Modernized farms allow farmers to engage in non-agricultural activities and use farm infrastructure to do so.
	Diversification of the rural economy through strengthening the agricultural value chain and promoting various sustainable non-agricultural activities	Strong agricultural value chain fosters linkages between agricultural and non-agricultural sectors
	The development of tourism and tourist products in rural areas, based on rural specificity and unique cultural identity.	According to the international experience, tourism is a strategic direction for the diversification of the rural economy

Social Conditions and Living Standards	Raising awareness of innovation and entrepreneurship, as well as the promotion of cooperation through the promotion of skill development and employment.	An increase in entrepreneurial activity and innovative initiatives is one of the driving forces of rural economy diversification
	Infrastructure and services. Improvement of basic rural infrastructure and the availability of high-quality public services, including information and communication technologies.	Developed infrastructure and improved service delivery are the basis for the development of agriculture and other sectors
	Local population engagement. Increasing the involvement of rural population (especially youth and women) in the identification of local needs and how to meet them.	Initiatives designed through public participation are more viable
Environmental Protection and Sustainable Management of Natural Resources	Water, forests, and other resources. The improvement of the management of water, forest, and other resources in targeted rural areas.	Improved management of these resources leads to new entrepreneurial initiatives and encourages diversification
	Waste Management. The promotion of sustainable systems of waste management in rural areas.	Sustainable waste management makes rural life and economic activity more attractive
	Climate Change. Measures taken to mitigate the possible negative impact of climate change. Risk assessment.	Identifying and materializing economic opportunities in the fight against climate change

The table clearly shows that the implementation of all the priorities and related objectives is important for the diversification of the rural economy.

The main problem in Georgia is that because of rural economic development and economic diversification policy not existing until recently, the country has not gained the relevant knowledge and experience.

This is partly offset by the wealth of experience accumulated in EU institutions and member states, but it must be very carefully adapted to the local context. This requires the active involvement of the rural population as well as capacity building of local and regional public institutions and non-governmental organisations in the planning, implementation, monitoring, and evaluation of relevant

projects. At the same time, lagging behind in rural development policy make it more difficult for the state to devise innovative approaches or develop support measures that incentivise rural innovation.

According to one interviewee, one of the impediments to rural economic development and diversification is the lack of information - that is, information on existing programs is not available. One way to tackle this problem is to hold interagency meetings with the participation of different government bodies that will inform rural inhabitants about existing programs in support of the private sector (Interview, 2019).

3.2 Supporting Rural Economic Diversification

According to the annual report of the Rural Development Strategy 2017 Action Plan, seeking to support the diversification of the rural economy in 2017, under the industrial component of the "Enterprise Georgia" program, 174 companies received financial support, of which 64 joined the program in 2017. Total investment amounted to GEL 395 million. The number of people employed in the resulting projects was 7,639, including more than 2,100 people employed in the new projects. The agency "Enterprise Georgia" signed agreements with the newly engaged companies on loan and co-financing in the fields of furniture, mineral waters, production of construction materials, printing production, and more. The projects are implemented in the regions of Imereti, Mtskheta-Mtianeti, Samtskhe-Javakheti, Samegrelo-Zemo Svaneti and Kvemo Kartli. In 2017, 3,498 beneficiaries were provided with financial support as part of the development of micro and small entrepreneurship projects, resulting in 2,109 business projects.

According to the same report, significant activities were undertaken to promote rural tourism. As part of the hotel industry support program component of "Enterprise Georgia", in 2017, 34 companies

involved in hotel construction were given financial support, including contracts for the construction and development of 22 new hotels. To promote domestic tourism, 44 events were held with the support of the Georgian National Tourism Administration, which included press tours, as well as events to support both existing and new tourist sites and products. In 2017, small tourism infrastructure projects were implemented, which included the installation of 31 information boards and marking of 27 tourist trails. It is noteworthy that the creation of hiking trails connects different villages and tourist destinations, as well as facilitates the rise of demand for services and boosts developmental prospects. In 2017, 224 road information indicators were installed to assist the development of wine tourism in rural areas. 5 brochures were created in 2017 to support tourism in rural areas; in addition to 14 training sessions held on various topics and 1,328 people trained to improve tourism services.

One of the important mechanisms for promoting economic diversification in rural areas is the micro and small entrepreneurship support program "Enterprise Georgia" of the Ministry of Economy and Sustainable Development of Georgia implemented in all regions of Georgia except Tbilisi. The objectives of the program are to increase the competitiveness of regional businesses, improve production quality, diversify production, establish modern business practices, create additional job openings, and reduce the migration of local people.

According to the information provided by the agency "Enterprise Georgia", in the years 2015-2018, micro and small enterprises support program funded 912 family hotels, 493 eateries, 451 miscellaneous services, 338 automotive-technical services, 325 sewing shops, 302 mechanization projects, 221 beekeeping development projects, 201 dairy processing plant, 153 woodworking plants, and 134 building material production sites.

The European Neighborhood Program for Agriculture and Rural Development (ENPARD) is an important contributor to the advancement of rural economic diversification.

The following initiatives were funded through the ENPARD II Rural Development Initiatives to stimulate rural economic diversification:

Table 3. Projects supported through ENPARD II

Municipality	Tourism	Service, trade	Manufacturing
Akhalkalaki	Tourism information database; construction of hotel-type cottages; construction of a public square; construction of a guest house in a rural area	Automotive service; dairy products brand store; a tailor shop	Production of environmentally friendly metal sheets; cheese production; extraction and recycling of volcanic slag
Borjomi	Installing an electronic billboard; development of the equestrian business sector; production of a promotional video clip, making tourist maps; a 3D model creation of Borjomi Park, GIS database and mobile application; arrangement of wine panorama terrace; a traditional wine cellar; setting up an eco-camp; creation of bike park; establishment of national park visitor center	Development of a children and youth training center; construction of a training base and stadium; opening a fitness center	Cloisonné enamel production; manufacturing of hotel accessories; a printing company; souvenir production; production of animal feed additives; egg production; a plastic processing plant
Dedoflistskharo	Visitor service center; historic house museum rehabilitation; arrangement of automobile-led tours; a wine cellar; a tourism service center; family hotels (2); recreational zone	Beauty salon; a sewing shop; a tractor workshop; a carpentry workshop; a warehouse	Chocolate production; manufacture of dried fruit; a beauty salon; bakeries (2); wool/felt production
Kazbegi	A family hotel; tours by electric bus; paragliding; bicycle rental service; tourist guide	Electrical services; a laundry service; a veterinary pharmacy; a bakery and delivery service; a beauty salon; a car wash and auto service-shop; wedding event organizing services; car rental services; ski rental services	Manufacture of wire; legal services; stone processing; ice cream production

Keda	Hotel / barn / mill; camping; hotel / cellar (4); cellar; hotel (2); glamping; hotel cottages; rock climbing;	car-wash business	Manufacture of concrete columns
Lagodekhi	Tourist complex and terrace; a family hotel	Refrigeration business; an auto service center	Used cellophane recycling;
Tetritskharo	Agrotourism complex; a park; hotel; family hotels (4); a family cellar	Mechanization (5); food facility; a refrigeration business; auto services (2); a bakery	Cement block production; manufacturing of essential beekeeping equipment

In the first half of 2019, 120 applications were submitted to the EU-supported project “Support Rural Development and Diversification in the Municipality of Khulo” and 27 projects were announced as winners. Non-agricultural projects such as winemaking, automotive maintenance, mosaic stone production, wool and mattress manufacturing, furniture manufacturing, meat processing and brewery business projects, as well as 12 other rural tourism development projects (10 family hotels, 1 in agrotourism and 1 tour operator) were funded^{5,1}.

One of the respondents mentioned that within the Khulo district grant component the project proposals are mainly received in the tourism sector, which is due to the increase of tourism potential following the infrastructure development. The development of infrastructure and resorts also leads to a demand for the development of a variety of services such as shops, fast food, gas stations, and ski rentals (Interview, 2019). Overall, the people of Khulo are reluctant to undertake new business initiatives, as well as to transition from public service employment to private businesses. Submitted business proposals are mostly identical and a lack of innovative proposals is noticeable. Consequently, there is a need to introduce encouragement mechanisms for the diversification of grant and business projects, and increase public involvement in budget planning and development of local development strategies (Interview, 2019).

⁵ <http://www.khulolag.ge/ka/news/2019-04-17-xulos-municipalitetsi-evrokavshiris>

4. International Experience - Rural Economy Development in Scotland

In terms of population, territory, natural, and cultural wealth, there are many similarities between Scotland and Georgia. Scotland has valuable experience in encouraging rural economic development that is relevant and beneficial to Georgia.

In Scotland, particular attention is paid to the diversity of rural areas and the different needs of rural areas in the country. Consequently, the government adopted a flexible approach in response to the particular circumstances of each rural community (Scottish Executive, 2005).

The rural areas of Scotland are not considered one single unit. The characteristics of rural areas and their problems vary by country: there are remote and densely populated areas, overcrowded areas of the Green Belt, rich areas and areas with economic difficulties. Each area requires a different policy approach (Scottish Executive, 2005).

Scottish authorities explain that diversifying the rural economy means establishing new businesses in rural areas. This may include moving existing businesses into new spheres, or creating entirely new ventures. The diversification of rural economies in Scotland took place in two phases: the first was the diversification of the farming industry and alternative sources of income came mainly from

the processing of products originating on farms, retail, as well as from branching into the markets of tourism, recreation, and forestry. The second wave of diversification is not only related to farming and is affected by urban migration to rural areas, the real estate boom, and increased entrepreneurial activity (OECD, 2008).

As more and more people have access to rural areas, the tourism and recreation sectors are increasing in Scottish rural areas (Scottish Executive, 2005). It is noteworthy that Scotland's rich natural and cultural resources such as national parks, forests, mountains, islands, coasts, and biodiversity boost rural tourism. At the beginning of the 21st century, half of Scotland's population traveled to rural areas for recreational activities such as walking, mountaineering, horse riding, canoeing, sailing, fishing, bird watching and mountain biking (OECD, 2008). Bird watching was a relatively new activity during that period, and it is estimated that 170 jobs were created in this domain (OECD, 2008).

Better access to rural areas also means that more people can decide to live in rural areas and continue to work in urban centers. The development of information and communication technologies means that activities that previously required office space in the city can now be performed anywhere, and more and more people are choosing to live and work in rural areas. Diversification of the rural economy aids the deepening of economic activity in the rural areas, providing resources and creating a more balanced and stable economy (Scottish Executive, 2005).

The Scottish authorities take diversification of the rural economy as a way to attract people to problematic areas and help the local economy grow. It can also reduce the number of commuters, preserve local natural and cultural heritage, revitalize abandoned businesses and revitalize the environment. Sustainable diversification may also include new homes. It is important for planners to consider

the economic, social and environmental impacts (Scottish Executive, 2005).

It is noteworthy that rural development in Scotland is characterized by positive dynamics. The rural economy grew by 6.6 billion pounds between 2007-2015 to 34.6 billion pounds, representing 27% of Scotland's economy. By 2015, 20% of Scotland's population lived in rural areas. By comparison, the economies of Scotland's largest cities, Glasgow and Edinburgh, totaled 38 billion pounds in the same period. (NCRA, 2018)

In the view of the National Council for Rural Development in Scotland, the Framework for Rural Development in Scotland should focus on:

- Having a rural economy that is embedded in the National Performance Framework and given equal importance in policy-making and investment decisions across government
- Having national economic plans and industry-related strategies
- Creating and communicating an ambitious and confident narrative on the rural economy
- Having potential for diversified growth in the rural economy, delivered through targeted support and the development of reliable finance models
- Valuing our natural assets and the people who work with them
- Having highly valued, flexible, adaptive, and skilled people
- Having a sustainable and profitable primary production
- Having a supportive business environment for the development and growth of rural businesses
- Having improved access to rural housing solutions
- Having a robust infrastructure (NCRA, 2018)

5. Recommendations

The following recommendations are important in support of the diversification of the rural economy:

- **Innovations in rural development policy and implementation** - Given the limited experience in Georgia, rural development policy approved by the EU, and relevant to the Georgian context and challenges, can be considered as innovation since it supports economic development through diversification. The relevant governmental and non-governmental institutions should actively study and adapt the experiences of successful European countries in this field. The European experience should be reflected in rural development strategies, in the institutional setup of the agencies implementing support programs, and in their activities.
- **Expansion of rural private sector support programs and their modification in accordance with the obtained results and experience** - maximum diversification of private sector support programs based on different rural requirements is necessary. In response to the problems of private sector development in rural areas, support programs need to be innovative and adapted to local conditions. Entrepreneurs should be able to receive support at all stages, from the business idea, to the development of a business plan and to obtaining the financial, expert, and mentorship support needed to implement it. Such programs will significantly stimulate the development of rural entrepreneurship and contribute to the diversification of the rural economy. The programs should be based on an in-depth study and assessment of the needs of rural enterprises. In developing sup-

port programs, it will be useful to involve local action groups, which have gained a thorough understanding of the problems, needs, and perspectives of the private sector in the respective rural areas. Taking into account large distances, central institutions should develop remotely accessible service and consultation platforms that will increase the awareness of rural residents of existing support programs.

- **Improvement of Internet access in rural areas** - To increase the attractiveness of living and working in rural areas, to start agricultural and non-agricultural businesses, and to create an environment conducive to diversification internet access should be a priority. High-speed Internet provides rural people with access to information, e-commerce platforms, enables the delivery of products and services produced in rural areas to consumers, supports the delivery of public services, and the provision of medical services. In some cases, the use of public-private partnership platforms to provide access to the Internet may be considered.
- **Supporting the development of the experience economic sector.** This sector should become the driver of diversification of the rural economy. It is based on natural riches in the form of mountains, forests, beaches, cultural and historical sites, and local speciality products (ENRD, 2017). The growing tourism sector in Georgia and the increase in visitors provide a good basis for developing this sector in rural areas. In-depth research on the potential of developing an "experience economy" in different regions, development of knowledge of people in rural areas about potential resources, and implementing pilot projects is necessary.

ANNEX A: WORKSHOP RESULTS

The PMC Research Center presented a draft policy paper at the GAARD meeting, as well as workshops in Mtskheta-Mtianeti, Imereti and Adjara with the participation of representatives of regional civil society organisations and local authorities. The researcher introduced key findings, international experience, and recommendations to the attendants. In meeting discussions, several factors were identified, which are outlined in this appendix.

Support adapted to small farmers' needs

When designing entrepreneurship support projects, more attention needs to be given to the needs of small farmers and their support in diversifying economic activity. In identifying the needs of small farmers, local action group (LAG) resources should be actively employed. Small farmers should be informed about the potential benefits of diversifying their economic activities, as well as honing financial and technical support instruments and tailoring them to their needs.

Increasing awareness of private sector support programs

Obstacles to making use of current state programs include difficulties in preparing relevant documentation, lack of access to on-site information and consultation, and, in some cases, the recurrent need to visit Tbilisi. To overcome these problems, it is necessary to improve the services of the private sector support institutions and expand cooperation with local authorities in order to jointly provide information and consultation to entrepreneurs operating in the regions.

System for monitoring and evaluation of private sector support programs

Monitoring and evaluation systems need to be developed and implemented in order to evaluate the effectiveness of entrepreneurship support programs, identify and eliminate existing flaws, and improve programs. In the process, international experience should be actively studied and adapted to the reality of Georgia.

BIBLIOGRAPHY

- European Communities (2008) – “EU Rural Development Policy 2007-2013”, Fact Sheet
- European Commission (2016) – “A Strategy Approach to EU Agricultural Research & Innovation”
- Perpar A., Udivc A. (...) – “Development Potentials of Rural Areas – The Case of Slovenia”
- OECD (2008) – “OECD Rural Policy Reviews – Scotland, UK”
- OECD (2013) – “Rural-Urban Partnerships – An Integrated Approach to Economic Development”
- OECD (2018) – “Rural 3.0 – A Framework for Rural Development”, Policy Note
- OECD (2018) – “OECD Rural Policy Reviews: Poland 2018”
- European Parliament (2016) – “Farm Diversification in the EU”
- European Parliament, Council of the European Union (2013) – “REGULATION (EU) No 1305/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 december 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005
- European Network for Rural Development, European Agricultural Fund for Rural Development, 2016 – “Smart and Competitive Rural Areas”
- European Network for Rural Development, 2018 – “Smart Village: Revitalizing Rural Services”
- European Network for Rural Development, (2017) – “Re-imagining Rural Business Opportunities”
- National Council for Rural Advisers (2018) – “A New Blueprint for Scotland’s Rural Economy: Recommendations to Scottish Ministers”
- Scottish Executive, (2005) – “Rural Diversification”
- World Bank Group, (2019) – “Financial Inclusion - Europe and Central Asia Economic Update”
- Government of Georgia (2017) – “Rural Development Strategy 2017-2020”
- Association Agenda between the European Union and Georgia for 2017-2020 (2017)
- Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part (2014)



Research