RURAL DEVELOPMENT – CHALLENGES, OPPORTUNITIES AND POLICY

Mariam JIBUTI
Ivane Javakhishvili Tbilisi State University, Georgia
mariami.jibuti382@eab.tsu.edu.ge

Abstract

The paper provides discussion about the administration arrangement of Georgia and assesses the possibilities of development of the regions in terms of existing approaches. The approaches to the economic development of the regions in Georgia don't respond to the challenges faced by the country and fail to ensure the competitiveness of the regions.

The study reveals the problem of regional inequity based on the different indicators, that show Georgia is strongly monocentric country with territorial, social and economic disparities. The research identifies common potentials of development for the most regions and emphasizes importance of determination the priorities of particular regions.

The research focuses on the study of economic development models of regions in EU member countries. Considering international experience and on-going projects funded by EU to support regional development policy in Georgia, influence of EU cohesion policy will become more noticeable. That means there is a high chance that Georgian policy makers will focus on equity objective without relevant analysis and evaluation cost-benefit sides of both policy approaches.

The paper presents recommendations that will facilitate the improvement of regional development strategy in Georgia and minimize problems which Georgia faces on the way of implementation of EU requirements / recommendations.

Key Words: *Regional Policy, Strategic Planning, Economic Development, Regional Disparities.*

JEL Classification: *R11, R12, R58*

I. INTRODUCTION

Why do some regions grow more rapidly than others? Which factors causes persistent and high difference in level of social welfare across regions? What supports development of regions and which are the most influential factors for regional development? Over the past several decades, researchers have been interested in studying and digging for answers for these and other relevant questions. The subject of their research was regional growth and development, but the perception of the concept of region was differently seen due to their aim and specificity of research.

How should we define the term "region"? While there are many theories around the issues of growth and development of regions, the joint and comprehensive definition of region is still a subject of discussion, especially in Georgia, where regional level of governance and the notion of the region is not backed up by law.

In Georgia, the rural development is a complicated way, full of challenges; aiming at raise of welfare, reduction of economic inequality, improvement of social background and development of environment. In 2017, the Government of Georgia adopted Rural Development Strategy for 2017-2020, which sets as priorities improvement of living standard of rural population, elimination of economic inequality and safety of environment.

It's difficult to draw the line between regional and rural development in Georgia since legislation and policy documents not at all or vaguely define their notions. This explains why analyze of regional and rural conditions is not possible separately and why studying rural and regional areas of Georgia should be one objective of the research. Research aimed identification of the priorities, needs and current condition on regional level, study regional/rural development policy and assessment its relevance for current challenges.

Within the framework of the research semi-structured in-depth interviews and focus group meetings were conducted with representatives of local and international non-governmental organizations working on regional development, professors and researchers of universities and other research institutions; representatives of the Ministry of Regional Development and Infrastructure, Ministry of Agriculture of Georgia and other government agencies; field experts, representative of local self-government and the administration of the state representative – governor, private sector, local people and other relevant stakeholders. The article is prepared based on available statistical information, analytical reports published by international and local organizations, outcomes of the active consultation with regional stakeholders and conducted qualitative research.

Existing data demonstrate significant difference between the living standards of urban and rural population, from economic and social prospective. However, it is noteworthy that there is also significant difference between the regions, in terms of severity of problems as well as opportunities of economic development.

II. REGIONAL DISPARITIES IN GEORGIA

Georgia is located in one of the world's most important geopolitical regions, at the junction of the great Silk Road, which historically played huge role in the interrelation and development of Europe and Asia (Tvalchrelidze, Silagadze et al, 2011, p.15). The territory under control of the GoG amounts to 57,000 km2 and comprises 64 municipalities. Georgia has 2 autonomous republics (AR Abkhazia; AR Ajara) and 9 regions. Landscape, topography, climate conditions are remarkably diversified in different areas of the country. The above statement is clearly indicated by several statistics. The largest region in terms of size is Kakheti (11,375 km2) and the smallest is Guria (2,033.2 km2), so the biggest region is 5.6 times larger than the smallest. The difference between the regions with regard to the number of populations should also be mentioned:

The number of inhabitants in the biggest region (Imereti - 529,700 inhabitants) is 17 times more than the same indicator in the least populated region (Racha-Lechkhumi and Kvemo Svaneti);

The population of the second biggest city (Batumi - 155.6 thousands) is seven times smaller than the population of the biggest urban zone (Tbilisi - 1,114.6 thousands).

The average density for Georgia is 65.2 inhabitants per km2. The population density of the capital (2,210.6 people / km2) is 34 times higher than the country's average and 19 times higher than the second most densely populated region. The density rate is significantly different for regions: Imereti – 83 people / km2, Shida Kartli - 76.9 people / km2; Guria - 55.4 people / km2; Samtskhe-Javakheti – 25 people / km2; Racha-Lechkhumi and Kvemo Svaneti - 6.7 people / km2.

Residents of all regions (except Tbilisi and AR Adjara) mostly live in rural areas. Difference is significant in terms of number of populations as well. In all regions, except for Autonomous Republic of Adjara and Imereti, the share of rural population is above 60%.

The lack of medium sized urban areas is one of the most important challenges for spatial territorial arrangement and regional development policy.
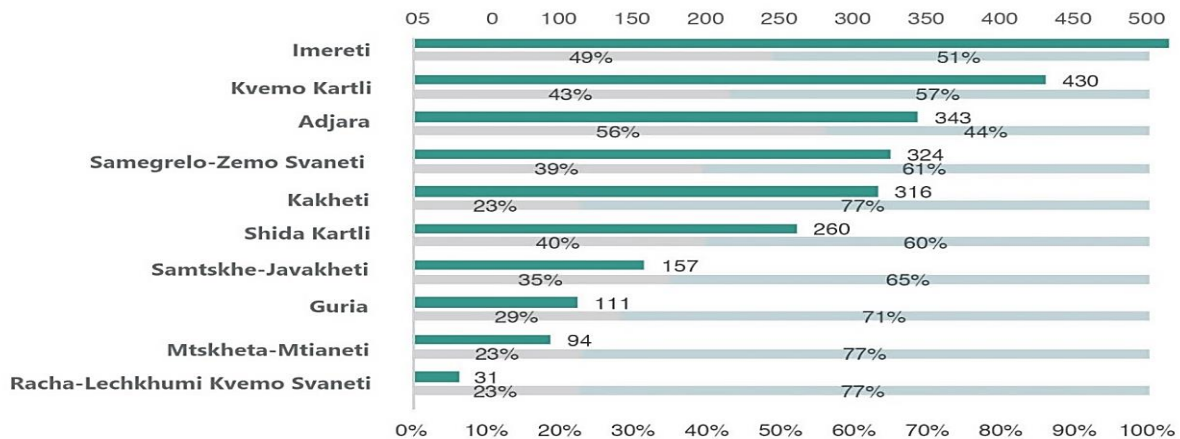

Figure 1. Number and percentage share of urban and rural population by regions
Source: National Statistics Office of Georgia, http://www.geostat.ge

The situation is quite unattractive if we look at the distribution of the industrial output by regions (Tvalchrelidze, Silagadze et al, 2011, p.96). The level of unequal development of territorial units in Georgia is clearly reflected in the following economic indicators (Jibuti, 2018, p. 527-528):

Capital city is a significant contributor to the national Gross Value Added (50%), the second biggest contribution comes from the combined regions: Imereti, Racha-Lechkhumi and Kvemo Svaneti (total 11%); the smallest contributor to GVA is Guria (2%).

70% of the total business sector's turnover comes from Tbilisi-based companies, while the mentioned indicator for AR Ajara is only 8%, for Kvemo Kartli – 6%, for Mtskheta-Mtianeti – 1.4%, for Racha-Lechkhumi and Kvemo Svaneti – 0.12%. The turnover of Tbilisi-based companies is about 3 times greater than the turnover of companies operating in all other regions of Georgia.

66% of jobs in business sector are attributable to Tbilisi companies, 9% to AR Ajara, followed by Samegrelo-Zemo Svaneti with only 3.6 %.

77% of FDI attracts the capital city, 12% - AR Ajara and the remaining 11% are unevenly distributed among other regions.

On the one hand, the difference between the capital and regions is big, however the indicators differ by regions as well.
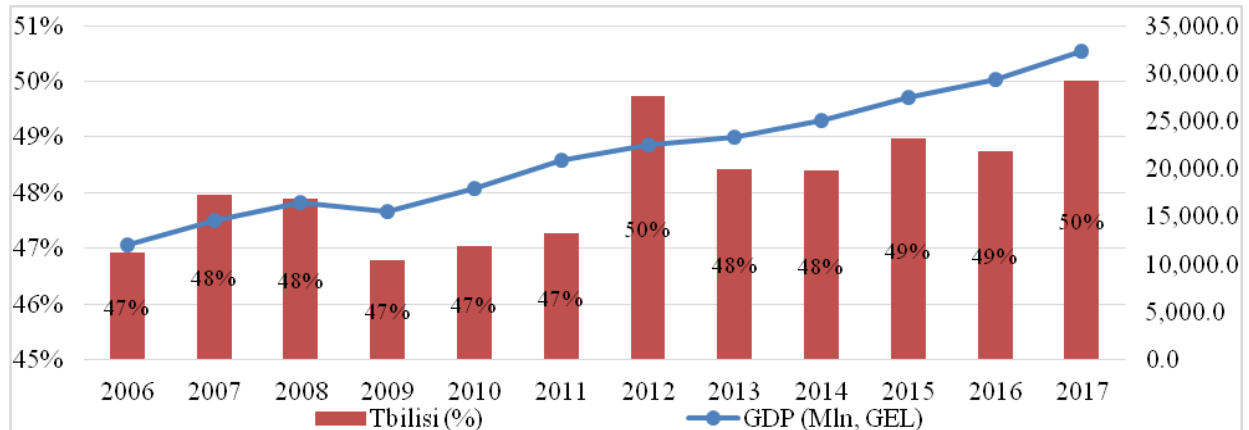

Figure 2. Gross Domestic Product and Weight of Tbilisi
Source: National Statistics Office of Georgia, http://www.geostat.ge

In GDP relatively high share was revealed in the regions with big self-governing cities and industrially developed zones.
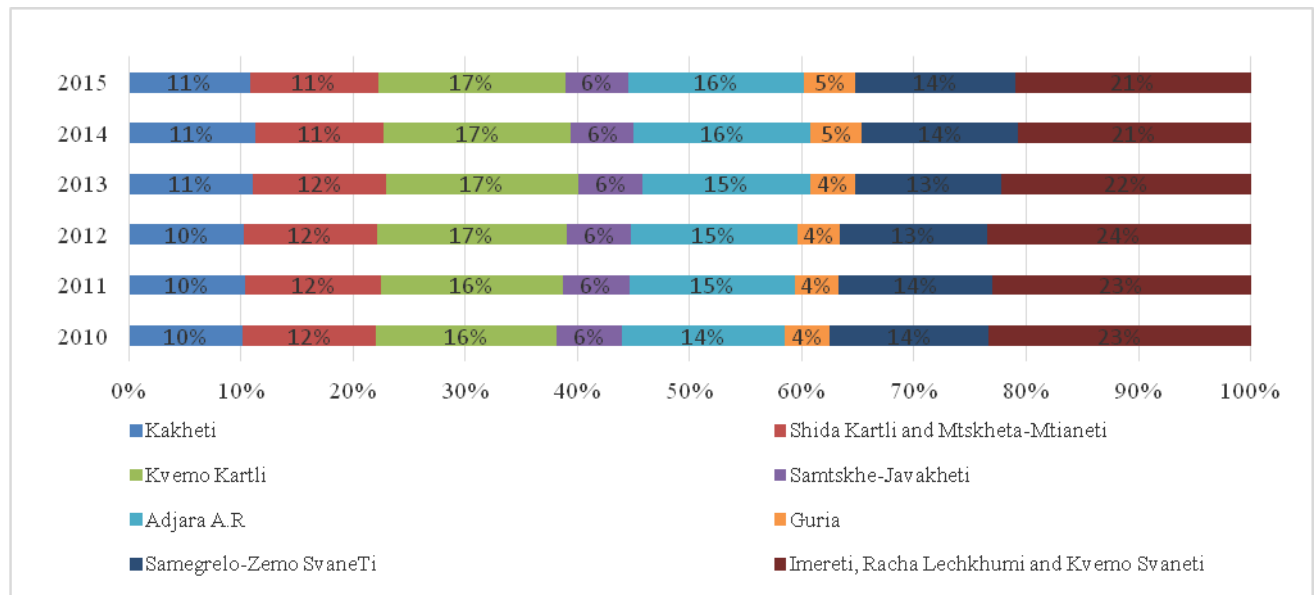

Figure 3. Share of regions in GDP (excluding Tbilisi)
Source: own elaboration based on data from GEOSTAT

Number of the enterprises is not sufficient tool for assessing the level of development of private sector, however mentioned data also describe attractiveness of business environment of the region. Number of business entities registered in Georgia is almost 700 000, out of them just 26% is active. 42% of active subjects are

registered in Tbilisi, Imereti is on the second position with 14%. The lowest number of subjects is registered in Racha Lechkhumi Kvemo Svaneti (1%), Mtskheta-Mtianeti (2%), Samtskhe-Javakheti (3%) and Guria (3%).

However, in this case population size shall also be taken into consideration, for example in Racha lives 0,8% of total population. Local population size and average number of people employed by registered and active business entities give different picture about them. In this context, the lowest figures have Tbilisi and Ajara. However, the regions, such as Guria, Imereti, Samegrelo-Zemo Svaneti are distinguished by relatively higher number of economic subjects. Besides, Mtskheta-Mtianeti, Kvemo Kartli and Samegrelo have relatively good indicators in regard to employment in business sector.

Distribution of business sector, as effective tool for creation of jobs, by zones is interesting in the context of economic empowerment of rural population and development of respective opportunities.

According to available data, 63% of the employment in private sector accounts for big business, however this basically happens at an extent of big cities. In regional context, the data give different picture, demonstrating that currently rural population basically is employed in small enterprises.

Though local stakeholders mostly mention importance of promotion of processing, the job creation function of small and medium business cannot be neglected, especially in the context of economic development of rural population. Currently, in Georgia small and medium business cannot act as drive, like this happens in developed countries. Consequently, it is necessary to promote small and medium business. Small and medium business are considered as backbone of economy in EU countries. 99% of business entities account for business sector. Besides, according to Eurostat data 85% of new jobs created during last 5 years and two thirds of employment account namely for small and medium business.
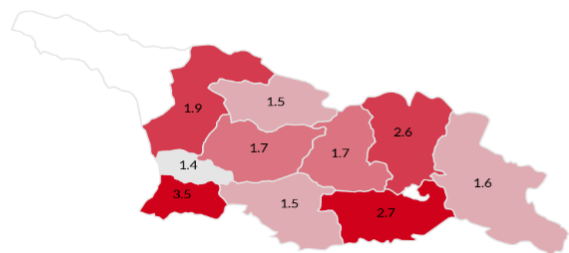
The number of active business entities
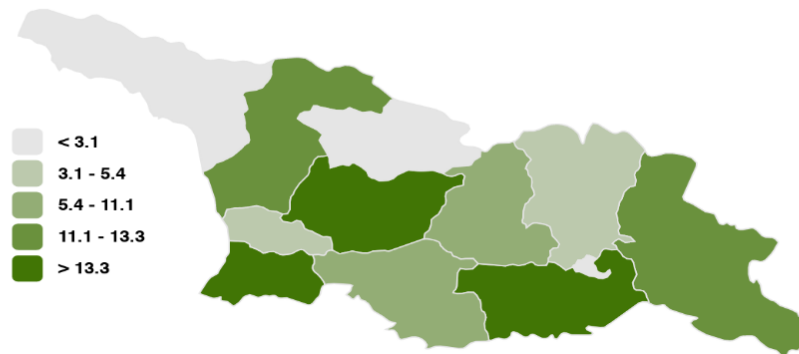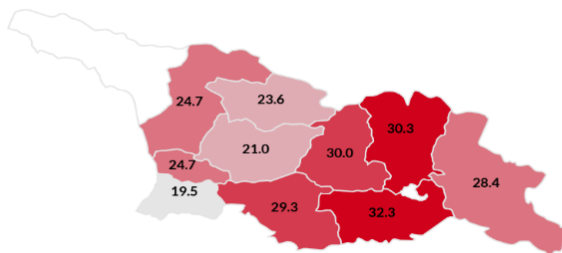
Figure 4. Number of active business entities/number of local population and average indicator of people employed by business entities
Source: own elaboration based on data from GEOSTAT

Weight and average remuneration of the employees hired by business entities also differ by regions. In the regions, where the cities are not relatively developed industrially, respective data are quite low and indicate to low level of economic development and diversification. Share and average monthly remuneration of hired employment in private sector, once more prove significant differences between the regions. In average, 75% of hired employment in the country accounts for private sector, while average of the regions (except for Tbilisi and Autonomous Republic of Adjara) is just 37%.

Just 12% of total direct foreign investments implemented in the country account for 9 regions. Assessment of the investment attractiveness of the regions and preparation of respective investment packages and maps are especially important, for improving investment visibility of regions and facilitating diversification

of economy and strengthening competitiveness. In this term several sectors were identified: tourism, use of natural resources, processing, which obviously require additional study.

54% of the investments made to fixed assets during last five years, account for three sectors: transport and communications; electricity, air and water production and distribution; construction. Undoubtedly, mentioned sectors are crucial for the country's economy. However, promotion of other sectors is essential for addressing disparities in the regions, which provides more opportunities for economic engagement of rural population.

III. DIVERSIFICATION OF ECONOMIC ACTIVITIES

It could be said frankly, that agriculture is the most important sector in terms of social economic development of rural population, however promotion of its development in food security context deserves special attention. Involvement of the population in agricultural activities has long history and traditions, comprising, on one hand, the country's strength and on the other – significant challenge for it, as the most part of the farmers manages production process based on the old machinery and technologies. As a result, their competitiveness is low at both, domestic and international markets and the process of economy management is more like the random set of poorly organized actions than the process planned in advance (Keshelashvili, 2018, p.61).

According to the business demography data published by Geostat, about 40% of the enterprises established in 2012 survived for 4 years. Relatively high indicator of the enterprises' survival has Kakheti (43,2%) and Guria (41,5%) regions, while Racha Lechkhumi – Kvemo Svaneti – have the poorest, just 33% of enterprises survived here.
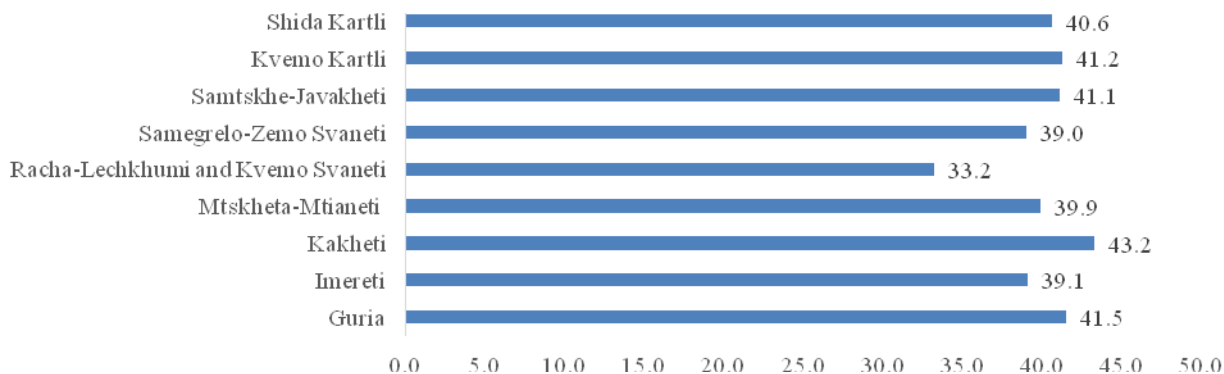

Figure 5. 2012 Percentage of the survival of business entities, founded in 2012
Source: National Statistics Office of Georgia, http://www.geostat.ge

Business survival indicator in regions is interesting for data interpretation. The rural, forestry and fishery sectors have the worst survival rate in all regions. For instance, in Guria and Shida Kartli, only 33% of agricultural enterprises founded in 2012 survived for 4 years. In the most of regions, the transport and warehousing sector is distinguished with the highest survival indicator.

According to the 2014 census of Georgia's population, the number of residents in mountainous regions decreased by 30% compared to 2002. Despite the fact that almost 80% of the high mountain area population is self-employed, the food security level in the mountainous regions of Georgia is lower than the country's average (Jibuti, 2018, p.138).

Geographic concentration of government programs' results is interesting to analyze. Study of the distribution of preferential agro credits by regions is very important for relatively equal development of the regions. The largest share of loans (45.7%) was disbursed in Kakheti region followed by Kvemo Kartli region (22.2%). The respective figure for Shida Kartli is 13.8%. The volume of loans provided to other regions is insignificant, cannot play the role of promoting development of agriculture in these regions (Kharaishvili, 2018, p.1-6).

The study revealed directions, which could be cost effective in almost all regions, have high potential and provide opportunities for engagement of local population:

Collection of non-timber forest products and promotion of their commercialization - One of the real sources for growth of population is the ability to collect and sell non-timber forest products. Nevertheless, in the main part of the communities they are totally unused. Non-timber forest products have significant commercial potential, on either local and or international markets. Wild mushroom spices also have interesting potential, as well as medical herbs.

Promotion of drying and packaging facilities, especially horticulture products, through supporting farmers cooperation - Study of export markets is especially important, with purpose of identification of specific ones, where supply is not surplus. In this regard, we could discuss certain potential direction, which could be developed in almost all regions of Georgia. (1). Dry fruit – according to the studies and reports the demand is especially high for dry black plum, apple and wild fruit. (2). Production of dried and grinded herbs and vegetables (carrots, onions, garlic, pepper etc.).

Efficient and sustainable use of natural resources - Study of natural resources and proper use in the regions could become significant direction of diversification of rural economy. All regions are rich with natural resources, however at this stage in economy basically spring waters are used, thermal waters not used much. Besides, several resources were identified as having high economic potential, for example: rock crystal in Racha, diatomite mine in Samtskhe-Javakheti, clay in Guria.

Promoting development of micro and small service, trade and catering sites, which will contribute to diversification of local economy, improvement of access of local population to household services and development of tourism sector. For successful realization of this possibility, it is essential to raise entrepreneurial awareness of local population and implementation of respective supporting measures.

Production of the tourism related products and services - Development of tourism is one of the important and topical priorities for all regions. However, in this sense, local population mostly considers the development of family type hotels and cafes. There is particularly high potential for the production of traditional handicraft products. Main challenge is commercialization and modernization of the field in the context of manufacturing technologies as well as of supply to sales markets. These could be packaging and labelling (providing small story about traditions, usage instructions and so on) the products.

It is also important to provide services such as planned tours, transportation and guiding. In some municipalities, activities in tourism, preparation of lunch boxes, renting various tourism and hiking equipment are developing but there is a still gap between tourists' demand and supply of services and goods local people are able to provide.

Promotion of greenhouse farming is important in terms of production of import substituting products. The prospective of using thermal waters deserves attention. According to agricultural census data, in Georgia 7,450 farms have greenhouses, with total area 699 ha. The biggest part of that (66%) accounts for Imereti, where the most greenhouses are located in Tskaltubo (367 ha).

High tariffs on energy resources was mentioned as key challenge for development of greenhouse farming, which in fact reduces competitiveness. Potential of thermal waters existing in Georgia shall be mentioned in this regard. In certain regions thermal waters supplies are viewed only from the prospective of balneological development, while it could significantly promote profitability of greenhouses. At this stage, in total 23 licenses are issued for mining thermal waters, out of them just 6 are used for greenhouses.

The study revealed common priorities for the most of the regions but farther research is necessary to identify specific evidence-based priorities for particular regions.

The above-mentioned analyze clearly justifies that Government of Georgia faces several challenges related to regional policy and development. Thus "universal development strategy" should be changed with "specific territory development strategy".

IV. REGIONAL POLICY, EU COHESION POLICY AND ITS INFLUENCE

The notion of the region in Georgia is not defined by law and regional division is based on historical justification. All regions in Georgia have elaborated development strategies, but their existence isn't effective as in most cases united territorial entities under one region are significantly different in terms of climate; cultural, social and economic conditions; existing resources; the possibility of development of agricultural and non-agricultural fields; investment attractiveness or business environment and other factors while consideration of these aspects is important for planning and implementation of area development strategies.

Lack of criteria-based spatial-territorial planning results in territorial, social and economic disparities between the regions. Unified approach towards the development of region that covers territorial entities with different problems, resources, economic potential, climate, geographic specificity and attractiveness is not possible to be effective. It is like patients with different health problems, medical history, age, physical conditions etc. getting the same treatment. Some of the patients might accidentally get better, some will get worse, from time to time their health conditions will become more and more diverse. The doctor trying to find universal treatment for all of his patients represent regional policy makers in Georgia and patients' conditions after such treatment after several years represent development level of the regions and disparities between them.

Georgia has not adopted legislation that would provide a legal definition of what regional development is, so regional development objectives still aren't clear and doesn't cover quantitative measurement indicators. There is no hierarchy of objectives between different levels precisely because of the lack of a common regulatory act governing the integrity of objectives.

Regional policy documents are elaborated on three levels: municipal, regional and central levels. Though public investments for regional development may be financed by the national government, or local self-governments. Regions' development strategies have no specified budgets, so the ability and ways to achieve targeted result proposed in nine strategic documents are unclear. Those policy documents mostly provide analysis of current situation and highlights sectoral development opportunities, they aren't coherent and, in most cases, cover a wide range of sectors and any possible priorities.

10 policy documents (development strategies) were analyzed to assess the formulation of rural and regional policy and evaluate its effectiveness. The main focus was on "Regional Development Programme for Georgia, 2015 – 2017", "Regional Development Programme of Georgia, 2018-2021" and "Rural Development Strategy of Georgia 2017-2020".

It's worth to mention that while Rural Development Strategy describes the disparity between socio-economic conditions in rural and urban areas the document states that *"The term "rural" covers not only villages (as the village is determined by the law), but also other settlements – for example, the administrative centres of municipalities, which might be a borough or a town. In the case of Tbilisi, administrative centres – districts, within the borders of Tbilisi are considered as well" (Rural Development Strategy of Georgia 2017-2020, 2016, p.6).* To formulate effective rural and regional policy the basis should be relevant definition of rural territory and regions that are areas where government policy supports development. An explicit delimitation of the countryside is not possible – different combinations of quantitative or qualitative indicators result in various outputs (Klufova, 2016, p. 231).

The analysis of strategies for rural and regional development shows that:

mostly the coherence between various strategic documents is unbalanced;

the rural development strategy fails to explain the difference between rural and Regional Development Policy and fails to justify of having a separate rural strategy;

some strategies have a strong reference to the regional dimension however the regional concept is mixed up and inconsequential while references are made often simultaneously to "historical regions", "planning regions", "traditional regions", ''special region", "problem regions", "functional regions", some of the strategies are using incompatible definitions of the term "regional", etc.

International Experience. Regional Policy is part of the EU's cohesion policy. Cohesion policy' is the EU approach that aims to promote more balanced, more sustainable 'territorial development' – a broader concept than regional policy.

Each EU country has a different way of dividing its territory into administrative units. For the purposes of managing programmes and comparing statistics, the EU devised the NUTS system - dividing each country into statistical units (NUTS regions). The most frequently used term in regional policy is the "NUTS 2 level region", which is the basis of calculating the eligibility of regions for EU financial support.

There is a strong relationship between EU Cohesion policy and member countries' internal regional policy which includes policies for economic, social and territorial convergence. The extent of EU influence over the strategic objectives is different and depends on level of development of the member country and on the source for investments, whether strategic projects are mainly financed by national or EU funds.

Bulgaria. Bulgaria is among the countries where EU cohesion policy had significant influence. Most of the regional development projects are supported by ESI funds and national funds in most cases are used to co-financing EU programmes. EU Cohesion policy is a very significant financial resource in Bulgaria, where EU co-financing exceeds 0.75 percent of GDP (Bachtler, Mendez, Vironen, 2014, p. 47).

In Bulgaria interregional disparities are very noticeable and well pronounced especially in the remote regions. Regional policy is based on the documents, which are elaborated on the four level: municipal, district, regional and central. According to Bulgarian experts' evaluation, district level is useless and should be taken out from the strategic planning area as it has only coordination function and is not backed up with financial flows for project implementation. Regional division in Bulgaria meets NUTS LEVEL 2 classification, which defines regions based on population sizes. Due to the fact that from time to time number of inhabitants in regions is variable, Bulgaria had to start re-division process of regions to meet NUTS 2 requirements. Generally, NUTS classification primarily serves statistical purposes. Therefore, there is no obligation towards EU Member States to give NUTS 2 regions any public administration responsibilities, or indeed to equip them with any level of self-government.

The objectives of strategic documents cover the major aspects of cohesion – economic, social, and territorial. Interventions mostly prioritizes reduction of interregional disparities rather than identification of prospective sectors in every region that could contribute to quick and long-term economic growth.

Sweden. Sweden's regional policy covers the whole country but has a strong focus on the northern regions. The country is characterized by prominent regional disparities and on the same time low level of inequalities.

Policy makers are dedicated to ensure that all regions provide good living environments and standards to support minimization of labor flow from relatively less developed and sparsely-populated regions. As part of the

equity-oriented policy Sweden started establishment of public service centers in the areas where employment rate was high to create job opportunities for local people. Sweden has three levels of governance: local regional and national. The function of regional level isn't clearly defined, as the main responsibility on that level of governance is related to provision of health care service.

In case of Sweden, EU Cohesion policy meets country's regional policy and strategy rather than makes influence on it, thus Sweden integrated EU policy elements into the national regional development policy.

V. KEY CONCLUSIONS AND RECOMMENDATIONS

In order to improve economic situation of rural population, it is essential to diversify the rural economy and to promote engagement of local population in the economy and raise its awareness. In a number of regions (especially in Kvemo Kartli, Samtskhe-Javakheti) it was identified that farmers are mostly producing similar species. It will be effective to conduct detailed agricultural analysis with participation of agronomists and specialists to identify species of high potential and profitability on the municipal level. Besides, it is important to envisage the sales markets and import indicators, which also are not accessible for local farmers. It is important to share recommendations about the types of demanded products and market forecast indicators.

Expansion of the possibility for participating in the value chain of farmers is still one of the major challenges. Today, the main part of their part ends at agricultural land or primary production in farm, which provides minimal income. Primary, minor processing, even by cooperating, will significantly increase the farmers' access to markets and their incomes respectively.

It is important to collect the data at least on the regional scale and context, in order to effectively plan and implement special programs developed based on them.

The need for taking into consideration regional differences, peculiarities and identity is obvious. Most of the regional and rural development-oriented strategies require clarification in the regional context. It is necessary to set common priorities for the most of the regions, as well as specific ones for particular zones. Thus, identification regional specifications, which will determine the priorities of particular region and the challenges facing it, is important for results-oriented development policy.

It's obvious that Government of Georgia should develop clear strategy for equity or efficiency objectives. Considering international experience and on-going projects funded by EU to support regional development policy in Georgia, influence of EU cohesion policy will become more noticeable. That means there is a high chance that Georgian policy makers most probably will focus on equity objective without relevant analysis and evaluation cost-benefit sides of the both policy approaches. In terms of EU policy influence on countries' strategic objectives and priorities Polish experience should be taken into account as a good example of thoughtful regional policy. Cohesion policy funding contributed to a shift in Polish regional policy objectives: priorities related to the problems of structurally weak territories have been superseded by priorities related to the potential of areas with the greatest capacity to spur economic growth. In this context, a National Strategy for Regional Development was adopted in 2010 setting out Poland's domestic regional development vision, aligned with but distinct from EU Cohesion policy. Polish approach is considerable example that despite the amount of foreign aid, policy makers should deeply analyze characteristics of country's economy and elaborate strategies based on the evaluation of alternatives.

It is worth to mentioning that the Association Agreement does not oblige Georgia to align with EU regional policy, although EU regional policy, is undoubtedly good practice, and a point of reference for the future.

In order to improve results of regional policy and make planning more coherent on every level of governance:

Government policy should cover territorial aspects of development which ought to be reflected in the strategic documents.

Analyze not only regional disparities but also study linkages between regions/territorial entities is essential.

Specific criteria should be chosen and agreed to for regional definition and classification.

Strategic documents should contain quantitative output indicators defined for the measure of results and analyze of factors influencing the progress of project/programme implementation.

Regional policy is overfocused on supporting Georgian agriculture. Agriculture by itself is unable to lift the rural poor out of poverty and hence a broader vision of rural development is required which goes beyond agriculture and beyond the rural sector (Key, 2009). It turned out that policy instruments, even the relief from taxes, can't provide sufficient incentives for establishing processing enterprises and can't support long-term economic growth (Jibuti, 2017, p. 110-126).

The role of the state and need of support is significant in the process of practical introduction of internationally recognized standards.

Identification of key competitive sectors in each region and improvement of their competitiveness will be a key element of successful growth strategies, which also addresses spatial growth, territorial arrangement and development.

Expected outcomes of strategic planning on regional level while there is no regional level of governance are unclear and lack justification. Most regional projects are defined and financed by national level of governance, while good practice of cooperation among municipalities and implementation of inter-municipal projects could be supported. Active policy on a local level will cause formation of new relationships between government and society (Kharaishvili, 2017, p.1).

There is no doubt that for effective regional development policy, terms of "region", "regional development", "regional policy makers" and other relative concepts must not be ambiguous, should be clearly defined and adopted on national level backed up with relevant law.

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