



Administration of the Governor
in Kakheti Region

KAKHETI REGIONAL DEVELOPMENT STRATEGY

2009–2014

Prepared by the Administration of the Governor in Kakheti Region
and Kakheti Regional Development Agency



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The current work presents one of the first analysis of the prospects of one of Georgia's most essential regions — Kakheti.

Kakheti is one of the most outstanding regions of Georgia with its economic potential. The diversity of natural conditions has defined the agricultural profile of the region; and the region's specialization in viticulture and winemaking is not accidental: the main share in the region's well developed food industry falls on the wine production.

It is of high importance to work out the development strategy for separate regions in order to properly identify the region's level of economic development so as to clearly classify the region's full potential and its part in the economy of the country.

It is noteworthy that the directions of the strategic development of Kakheti are framed on the basis of scanned, discussed and summed up suggestions and views of the regional and local authorities, NGO and business sector representatives of Kakheti. At the same time, those regional development priorities are very much in accord and very much the outcome of the main directions of social-economic developments of the whole country.

It is the priority for the Ministry of Regional Development and Infrastructure to prepare the works and analysis of this kind on the regional development in

order to correctly recognize the strategies for future development of this or that region.

We acknowledge the work of the experts being involved in the preparation of this interesting piece of work and we wish them all the success in their future analysis of the regional development.

Minister of Regional Development and Infrastructure

Davit Tkeshelashvili

A handwritten signature in black ink, appearing to be 'Davit Tkeshelashvili', written in a cursive style.



*We aren't what we were. Let's not be what we are:
God saves those who serve as paths for their children.*

*A man is a bridge for those in the rear,
Set your sights on tomorrow to cope with today.*

*Ilia Chavchavadze,
King Dmitri's Sacrifice*

In these two short verses written over a century ago, Georgia's Father of the Fatherland, Ilia Chavchavadze, demonstrated that he well understood the journey upon which his beloved regional homeland, Kakheti, is now embarked. I think no one could have described more aptly than this great Georgian why one undertakes the creation of a strategy for the development of a nation or a region. It is a path or bridge from the past to the future to improve the lives of people today and tomorrow.

Today in Kakheti a visionary leadership has not only seen the problems which abound, but more importantly has recognized the vast untapped potential of this special area of Georgia. They understand not just what their region was yesterday or is today, but what it can become. Together, and with help from those like UNDP, they have put together perhaps the most comprehensive locally-focused plan in Georgia for how a region might go about realizing its hopes and dreams. That plan is this document, the Kakheti Regional Development Strategy, of which UNDP is pleased to have been a part.

When one thinks of Kakheti, the first thing that often comes to mind is its vast vineyards and rolling grasslands, for which the region is known. So when the idea of development is raised, it should not be unexpected that agriculture must be the centerpiece of any related strategy.

Yet as promising as agriculture might be, perhaps no region in Georgia has a greater cultural, historical, and natural richness and promise as Kakheti. It is well positioned geographically to serve the Tbilisi markets to its west, and Azerbaijan and beyond to its east. Furthermore, its historic sites and beautiful nature makes the region a promising destination for tourism.

To realize this vast potential—agriculture, tourism, location—will require further development of the region's infrastructure and of its education, research, health, and financial systems. It will require new and creative approaches to marketing, both itself and its products. And, equally if not more importantly, as it develops, Kakheti must find ways to protect and preserve its natural and cultural environment and social fabric. This strategy is the first step in achieving all these goals. UNDP is honoured to have the opportunity to continue its work with people in the region as they continue their journey towards a better future.

UNDP Resident Representative in Georgia

Robert D. Watkins



The Kakheti Regional Development Strategy (KDRS) 2009–2014, a clearly defined strategy for the socio-economic development of the region, was developed by the Administration of the Governor in Kakheti Region and the Kakheti Regional Development Agency, with the financial and technical assistance of the United Nations Development Programme (UNDP).

The KDRS is paramount for the Kakheti Region because it allows us to understand the current stage of the region's development, helps to define the regional development objectives and ways to attain them, and contributes to mobilizing funds to this end.

The KDRS will facilitate the allocation of budgetary resources for implementing economic development projects, manage the inflow of public investments and enhance the region's attractiveness to investors.

The main purpose of the KDRS is to facilitate sustainable economic development of the region and poverty reduction. The KDRS is a road map to overcoming current problems, to create job opportunities and increase living standards in the region.

KRDS is in line with the *Basic Data and Directions Document* of the Government of Georgia for 2009–2012.

The Administration of the Governor in Kakheti Region is committed to ensure the smooth and efficient implementation of this strategy, which will allow to overcome problems facing economic development with combined strength. This in turn requires that each of

us actively participate in the development processes and initiatives in order to jointly achieve our aims.

Governor of Kakheti Region

Giorgi Gviniashvili

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Giorgi Gviniashvili.

1. INTRODUCTION

The objective of the Kakheti Regional Development Strategy (KRDS) is to facilitate regional economic growth, improve its future economy and enhance the wellbeing of its population. The KRDS brings together the government, the private sector and civil society to discuss and plan on the creation of better conditions for economic development and employment generation.

The process of developing the KRDS allows the public to become real participants in the planning process and to define future directions for their communities. This naturally requires a consolidated effort of people from various backgrounds with extensive experience.

The KRDS aims to outline the discrepancy between current and desired levels of development, and implement a vision and action plan. Kakheti's RDS therefore sets concrete realistic objectives, in keeping with general economic development forecasts and available resources. Moreover, this plan is closely aligned with the national strategy and priorities, as set in the *Basic Data and Directions Document* (BDD) 2009–2012.

KRDS is a joint effort of the Administration of the Governor in Kakheti Region, Kakheti Regional Development Agency (RDA) and the United Nations Development Programme (UNDP). In 2006, UNDP initiated its Kakheti Regional Development Project following the signing of a Memorandum between UNDP and the Administration of the Governor in Kakheti Region. The goal of the project is to contribute to poverty reduction and sustainable human development in the Kakheti Region of Georgia by promoting regional development tools and assisting in identifying means to diversify the economy and generate new jobs.

Since then, the Kakheti Regional Development Project (KRDP) has undertaken a number of important projects, including a study on diversification opportunities for Kakheti's economy. The study revealed problems faced by the regional economy, alternatives, opportunities and priorities. In 2008, in close cooperation with the Administration of the Governor in Kakheti Region and Kakheti RDA, KRDP initiated the participatory process for the development of the KRDS covering five years, 2009–2014.

2. THE VISION FOR KAKHETI REGION DEVELOPMENT, 2009–2014

- Kakheti Region will become recognized by the world as a “motherland” region of wine, with growing wine clusters and successful exports.
- Kakheti Region will be established as an interesting and attractive region for international and domestic investors.
 - ✓ Priority sectors of the economy – wine and viticulture, diversified agriculture with developed system of cooperatives and associations, various types of tourism, processing industry, trade, etc. – will be clearly defined and grow rapidly.
 - ✓ There will be an increasing number of growing and development-oriented businesses and enterprises.
- The region will become known for its programmes in support of entrepreneurship development; real and effective assistance will be provided to current businesses and start-ups. Living conditions will also be improved every year. Kakheti, together with Tbilisi, will gradually become a business centre and provide a successful model of public-private dialogue and cooperation.
- A basis of civil values will be established for the region; sustainable horizontal structures of self-governance will be set up; an optimal level of public participation in the ongoing political and economic processes in the region will be attained; and sustainable mechanisms will be operational.

- By 2014, Kakheti will become a leading region in Georgia’s cultural and economic development, supported by a hospitality infrastructure – hotels, restaurants, networks of café-bars, tour operators, as well as regional and international events.
- The employment rate in the region will be high according to international standards.
- ✓ The region will experience an inflow of workers,
- ✓ The region will set up special educational programmes to improve professional qualifications and skills of the local labor force.

3. THE LEGAL BASIS FOR REGIONAL STRATEGY DEVELOPMENT

3.1. Overview of the regulatory basis for regional development in Georgia

Georgia lacks a comprehensive legislative basis for regional development largely because the status of the region as an administrative-territorial unit has not yet been defined. Regionalization of the country is, however, jeopardized by the Georgian Constitution, Article 2 (3), which allows the Parliament to decide on the territorial arrangement only after the restoration of Georgian jurisdiction throughout the entire territory of the country. This means that the regionalization of the country requires significant legislative changes. It should be noted that this is considered a priority task of the government; the President, Parliament and the State Minister for Regional Issues have authority to identify main directions in this area.

In Georgia, the State Attorney–Governor oversees semi-decentralized governance in the historical-geographic regions. At the same time, due to the lack of an administrative-territorial unit at the regional level, the territorial boundaries of the Governor’s jurisdiction are set according to units of local self-administration based on respective territories.

3.2. Overview and approval of the development process of the Regional Development Strategy

Georgian legislation does not provide any direct authority for the Governor or any other institution to

approve a long- or medium-term plan setting out the directions and priorities for the socio-economic development of the region. This is attributed to the non-definition of the administrative–territorial status of the region and consequently, the lack of a regional budget.

Despite these gaps, Georgian legislation does provide possibilities for partial regulation of the issue through the following mechanisms:

1. As stipulated by the Law of Georgia on the Structure, Authority and Operational Procedures, Article 271 (2)b, one of the responsibilities of the Regional Governor is “implementation of the socio-economic development programmes as tasked by the Government”. Based on this statement, it could be concluded that this refers to concrete regional programmes, which are being implemented with budgetary or other funds for rehabilitating infrastructure and enhancing economic environment in the region. Thus, the development of concrete regional programmes is stipulated by the Law of Georgia on the Structure, Authority and Operational Procedures, Article 271 (2)b.
2. The same Law, Article 271 (2)i states: “The Governor implements other authorities defined by the Georgian legislation.” Based on this statement, it can be concluded that the Governor is authorized to design a development vision and strategy of the territory under his/her jurisdiction.

4. GENERAL CHARACTERISTICS OF KAKHETI REGION

Kakheti Region is located at the far east of Georgia. It consists of eight municipalities – Akhmeta, Gurjaani, Dedoplistskaro, Telavi, Lagodekhi, Sagarejo, Signaghi and Kvareli. The total area of the region is around 11,310 km², which is more than 16 percent of the entire territory of the country.

According to the 2002 census, Kakheti has a population of 407,000, which is the fourth largest after Imereti, Kvemo Kartli and Samegrelo-Zemo Svaneti Regions. (By the end of 2006, the population was 404 000.) It is important to highlight that Kakheti is the least urbanized region in Georgia, with only 20 percent of its population living in towns and settlements. Compared to the regions of a similar scale, Kakheti has fewer cities and towns, which plays an important role in determining its economic profile.

A relatively large rural population plays a positive role in the economic sustainability of the region. The average village size in Kakheti is around 1,200 people, which is twice as large as the average village in Georgia. This means that the abandonment of rural areas is not an acute problem in the Kakheti Region; on the contrary, the large size of the villages provides an excellent basis for efficient planning and implementation of economic development programmes.

Kakheti is one of the regions with the lowest population density, with only 35 people per km². The vast majority of the population, except in Tusheti lives on lowlands, and most villages are located across the main transport routes.

The dynamics of the population replicate the trend in other regions of the country. Between the 1989 and 2002 censuses, the population in Kakheti decreased by 9 percent, although this trend was much less manifest in rural than in urban areas. The average age is 38, and the aging trend of the population is apparent, again similar to that of the rest of the country.

The climate in Kakheti is mainly continental. The far eastern part of the region, Lagodekhi Municipality, is relatively mild.

The lowlands of Kakheti are characterized by low precipitation (400 mm), which gradually increases from the south and south-east towards the Caucasus Mountains, reaching 2000 mm per year. The landscape in Kakheti is diverse, from semi-desert to ice-covered mountains.

Kakheti does not have extensive river coverage, despite having two rivers exceeding 300 km in length – Alazani and Iori. River basins are more extensive towards the Caucasus, especially in Tusheti.

The Kakheti lowlands are not rich in forest resources. Forest areas are becoming more extensive towards Caucasus and Tusheti. Timber production is growing in certain areas of Kakheti, such as Akhmeta; effective use of forest resources is vital.

The soil structure is relatively favourable for agriculture development. It is important to mention that fertile alluvial soils are widespread in the Alazani River Basin. Large amounts of brownish and black soils can be found in Kakheti. Kakheti has the highest ratio of fertile agriculture lands to the entire land resources and area per population in the country.

Kakheti natural resources are not as significant as in Kartli and Imereti, with the exception of minerals, which are important for economic development. Lopoti marble resources and the thermal waters of Torgva Baths are its most important natural resources. Akhtala mud in Gurjaani Municipality is famous throughout the country. Oil is extracted in Signagi, Sagarejo and Dedoplistskaro Municipalities. Kakheti is also rich in construction and finishing materials, including clay and plaster. Shakriani and October mineral water springs are found in Kvareli.

Kakheti is famous for its protected territories, Vashlovani, Batsara-Babaneuri, Lagodekhi and Chachuna, which were created to preserve the unique flora and fauna of the region. Vashlovani and Tusheti National Parks as well as Lagodekhi Reserve play a critical role in developing its tourism industry.

5. ANALYSIS OF THE CURRENT SITUATION

5.1 Labour Resources

Most of the Kakheti population are employed in agriculture and trade. Employment opportunities in the region are fairly limited due to monopprofile of its agriculture-dominated economy.

The estimated labour force in Kakheti is 252,068 people, or 61.5 percent of the population; 47,398 people, or 18.8 percent of the population, are unemployed, while 294,670 people, or 81.2 percent, are employed. The major sectors of employment are as follows: agriculture, 82.1 percent (168,035 people); industry, 9.5 percent (19,440 people); education and healthcare, 6.3 percent (12,894); and other sectors, 2.1 percent (4,300). Special note should be made here to clarify that, according to official statistics, the rural population which owns certain amount of land is considered to be employed in agriculture. This methodology certainly leads to some unreliability and the unemployment problem in the region is much more acute than is suggested by the statistics.

The average salary per month in the public sector is GEL140, equivalent to US\$82, while it is US\$98 per month GEL167

in the private sector, which is relatively competitive in the country. However, according to unit cost of production, Kakheti is the lowest among the regions of the country, which could be explained by domination of subsistence agriculture where level of productivity is typically low.

The educational level in Kakheti is similar to that of the rest of Georgia. The region's large geographical area and population, and the characteristics of its population distribution are contributing factors to the development of its labour market. Most of the population lives near the highways. The large size of the villages could also be considered an advantage for the region in developing local infrastructure in the short term.

Nevertheless, the region might face an escalated labour resource deficit, due to the gradual ageing of the population, as well as migration, especially from the border regions (e.g. Dedoplistskaro). In fact, maintaining labour resources would be almost impossible without rapidly stimulating the agricultural sector. In addition, as in the entire country, there is no organized labour market in Kakheti Region, which might threaten investment inflow in the region, as employers face the problem of finding a qualified labour force.

LABOUR RESOURCES – SWOT ANALYSIS

STRENGTHS

- Large population
- Advantageous location of settlements
- Large size of villages
- Cheap labour force
- Industrious population
- High level of basic education

WEAKNESSES

- High level of structural unemployment
- Low degree of adaptation to modern market conditions
- Lack of qualifications
- An ageing population trend
- Migration
- Low level of urbanization

OPPORTUNITIES

- A large and cheap workforce that can be mobilized in case of new developing sectors
- Government-funded infrastructure projects
- Growth of private investment
- Potential growth of prices for Kakheti products

THREATS

- Insufficient investment
- Limited opportunities for developing skills
- Lack of management skills
- Increased migration from the region
- Inflation and other macro-economic shocks

5.2 The Healthcare Sector

The level of the healthcare sector in Kakheti was similar to that of other regions of Georgia in the recent past. Economic disasters of the 1990s have completely undermined and in many instances destroyed the inefficient and corrupted system.

The main goal of the current comprehensive healthcare sector reform is to ensure its accessibility, aiming to overcome problems associated with poverty. This naturally implies developing financial mechanisms that would allow large portions of the population to have access to healthcare services.

Among the latest trend, the most noteworthy is doubling of budgetary funding for healthcare and social sectors throughout the entire region.

A relatively developed network of primary healthcare facilities/centres is one of the advantages of the regional healthcare sector. In addition, the trend of developing skills of local general practitioners and medical doctors, as well as their credibility, is

another contributing factor to local healthcare development, with growing numbers of individuals seeking medical care locally. However, an in-depth analysis has not been undertaken due to a lack of data and information, making it impossible to arrive at any definitive conclusions. Possible reasons for the reduced travel to Tbilisi for seeking healthcare services could be attributed to increased transportation costs and more rapid commercialization of healthcare, which impedes its accessibility. The positive development is increased participation of local medical doctors in seminars and other specialized training throughout the country.

Notwithstanding the promising development of the institutional reforms, the medical equipment, supplies and technology base of the local healthcare system, especially that required for high-tech treatment, remains in poor condition. Equally unsatisfactory are the management practices of local healthcare institutions. Healthcare policy still remains uncoordinated. The insurance system needs many more years to develop, being in the embryonic stage in the region.

HEALTHCARE SECTOR – SWOT ANALYSIS

STRENGTHS

- Developed healthcare network
- Widespread medical infrastructure
- Specialists with high quality basic education and skills
- Credibility of, and trust in, local medical specialists
- Accessibility of opportunities for enhancing skills and qualifications

WEAKNESSES

- Lack of technical facilities
- Lack of managerial staff
- Lack of specialized staff and equipment
- Lack of international experience
- Low remuneration of healthcare specialists
- Weak institutional base (embryonic insurance system)

OPPORTUNITIES

- Staff re-training
- Perspectives for attracting donors and investors

THREATS

- Undecided status and ownership of the healthcare facilities
- Potential negligence of the interests of certain groups of population during the healthcare sector reform process
- Lack of transparent information

5.3 The Education System

The percentage of people with secondary and higher education in Kakheti is similar to the rest of Georgia. In addition, the deteriorated quality of education gives sufficient reasons for having moderate expectations regarding education in Kakheti and the rest of Georgia. Only one of the higher education institutions in the region has been granted national accreditation in 2006. Moreover, education in the past, even in the basic sciences, may not have been adequate for modern labour requirements. This is an area that calls for support; some of the measures in this regard are already underway.

Most of the population recognizes the importance of education, yet it remains unclear how many resources they are able and willing to allocate for the desired level and type of education.

The problems faced by the regional education sector, which require national-level solutions, include inadequate remuneration of staff and teaching quality, as well as deficiencies in the management system,

which could not be considered specific to the region.

The limited opportunities for education workers in the region for their participation in the international grant programmes and skills improvement courses are also national problems. Transforming education into a competitive advantage for the population of Georgia in general and Kakheti in particular would first require an increase in budgetary funding for the education sector followed by successful implementation of the comprehensive institutional reform, which will require several years.

There is no comprehensive information on the type of labour force needed for the Kakheti economy in the long run. Undoubtedly, the regional economy will remain heavily focused on the agriculture and processing sectors in the coming decade, which will require specialists in the respective fields. There is some potential for developing skills in the tourism and industry sectors, although the competitive advantage of the Kakheti Region compared to other regions of Georgia is less visible.

EDUCATION – SWOT ANALYSIS

STRENGTHS

- Effective coordination system of the secondary education system
- Reform of the secondary education system
- Deepening international contacts and increased number of exchange programmes
- Recognition of the value of education per se by the population
- High demand on education by population

WEAKNESSES

- Inadequate quality and level of education
- Low labour remuneration of education system workers
- Still weak capacities and low level of qualification of education system workers
- Deficiencies in the education system management

OPPORTUNITIES

- Opportunities for capacity strengthening / increasing of level of qualification of the education system workers
- National and international grant programs
- Transparency of all levels of education institutions' management
- Availability of relevant skilled personnel

THREATS

- Lack of initiative
- Inconsistencies in the legislation

5.4 Sectoral Structure of the Economy and Economic Growth

The economy of Kakheti Region heavily depends on the agricultural production and processing industry; other sectors of the economy – industry, trade, transport, construction and tourism – are less visible in the economic profile of the Region.

Analysis of economic growth in 2001–2006 indicates that Kakheti Region has experienced difficulties in developing potential for commercialization. The agriculture and processing industry remains heavily concentrated on the wine sector. Fruits and vegetable processing is almost non-existent in the region, despite its clear comparative advantage.

The share of the Kakheti economy in the national economy, excluding agriculture, is less than 2 percent. In addition, the regional growth rate of the economy falls behind that of the national level. In the near future, the low level of urbanization of the region will not facilitate development of the secondary and tertiary (industry and services) sectors of the economy, which is an impediment for regional growth.

Labour productivity is also below the national average. The real growth rate of the entire economy of the region during the past five years is around 0 percent,

and the sectoral composition of the economy is being shifted to some extent towards trade and the restaurant business.

A trend of enterprises expansion is also observed in the region. However, the turnover of medium-size enterprises still remains very low. Accelerated development of the trade sector is noteworthy in this context, which is in line with the national trend. This could be explained by the fact that although the economy in general suffers from limited capital, trade has modest requirements for initial capital and a higher turnover of this capital. Further development of trade is anticipated if the road from Tbilisi to Telavi is restored through the Gombori Pass.

Relevant consideration should be given to the fact that rapid growth of the industry, construction and transport sectors is not anticipated in the short and medium term due to the high interest rates of local banking capital and lack of alternative financing, as well as pattern of population distribution, character of economic profile and labor market.

If a high growth rate is not achieved in the processing industry, the Kakheti population will face aggravated poverty in case of increasing world prices of fuel and food commodities.

ECONOMY OF THE KAKHETI REGION (AGRICULTURE AND TOURISM EXCLUDED) – SWOT ANALYSIS

STRENGTHS

- Favourable conditions for the development of the processing industry
- Cheap base of raw materials (primary agriculture)
- Proximity to markets and relatively good transportation roads
- Capacity and potential for timber processing and construction
- Large population
- Cheap but unskilled labour force

WEAKNESSES

- Extremely limited financial capital
- Low compatibility of labour resources with market requirements
- Low labour productivity
- Small size of enterprises
- Management problems
- Low level of urbanization and relatively weak urban infrastructure

ECONOMY OF THE KAKHETI REGION (AGRICULTURE AND TOURISM EXCLUDED) – SWOT ANALYSIS

OPPORTUNITIES

- Potential for improved efficiency in the processing industry in view of increasing world prices
- Local use of raw materials needed for trade
- Good potential for effectively using of cheap labour in case of its training
- Incentives created for the local private sector through the implementation of the national infrastructure projects

THREATS

- Fluctuating fuel prices
- Further deterioration of the terms of trade in Georgia
- Demographic problems, ageing population, migration and further reduction of labour resources
- Shortage of investment and capital
- Inconsistency in government priorities
- Global economic crisis, inflation

5.5 Agriculture and Viticulture

AGRICULTURE

Kakheti is one of the most important regions with respect to agriculture, having the biggest share, 38 percent, of the total arable land of Georgia. Agriculture is important for the socio-economic development of the region, employing 82 percent of the labour force.

Kakheti is rich in agricultural land resources. As shown in Figure 1, it is the leading region in the country for all major categories of agricultural land use: arable (annually cultivated, or fallow but available for annual cultivation), perennial crops (trees, shrubs, and vine crops) and pastureland, including mown land. With respect to the latter category, nearly 60 percent of all such lands in Georgia are found in Kakheti. As a result of these types of land and the climate in the region, Kakheti is the leading producer of cereals and cattle (beef/dairy).

FIGURE #1. DISTRIBUTION OF AGRICULTURAL LAND IN KAKHETI REGIONI, 1 000 HA



Source: Georgian Agriculture, Department of Statistics, Tbilisi, 2007

Dedoplistskaro is the largest municipality in Kakheti with the most agricultural land, followed by Akhmeta, Sagarejo and Signagi. Dedoplistskaro and Akhmeta, with the smallest populations, together with Signagi have the most agricultural land resources per person. In these three municipalities most of the agricultural land is under annual crops or pasture, while in Gurjaani and Telavi Municipalities, the land is mainly used for perennial crops. Thus, the profile of agriculture development for the municipalities is defined accordingly.

Kakheti has traditionally been a leading region in cereal production in Georgia. This could be partly due to the availability of land resources, but also underdeveloped irrigation, which limits opportunities for higher value crop production in non-irrigated areas. **Naturally, higher value crops with higher per hectare efficiency are produced in irrigated areas, while non-irrigated lands are left for cereals – wheat, barley, sunflower and corn.**

Cereals

Kakheti has also traditionally been the country's cereal production region. It is responsible for half of the total lands under wheat and the largest share of the wheat produced in the country. The share of Kakheti-produced wheat has increased over the last years with other regions gradually decreasing wheat production. Due to large areas of non-irrigated agriculture land, Dedoplistskaro and Signagi Municipalities remain the leading wheat-producing areas.

Barley is Georgia's second most important cereal crop and is used primarily to feed cattle. As a consequence, annual production is generally defined by the situation in the cattle industry, i.e. its expansions, contractions and profitability. Although Georgia has a rapidly growing beer industry, it does not currently produce malting barley and therefore imports it. However, this might be an opportunity for the future. Kakheti, together with Samtskhe-Javakheti, are the leading barley producers in the country.

Corn is another important cereal crop. Although Samegrelo and Imereti Regions have traditionally been leading corn producers in the country, it is also important for Kakheti both in terms of cultivated area and number of producers.

Corn requires irrigation in eastern Georgia. It is therefore produced mainly in the municipalities where irrigation is accessible and the precipitation level is satisfactory, such as in Akhmeta, Lagodekhi, Telavi and Kvareli Municipalities.

Sunflower is another important cereal for Kakheti Region. It is primarily used for oil extraction and is grown in non-irrigated areas in rotation with other cereal crops. Oilseed cake is also widely used for animal feed. Kakheti is responsible for around 80–95 percent of the total sunflower production in Georgia. However, its per hectare yield and profitability is far below that of wheat, and farmers usually plant sunflower if there are no other crop alternatives.

Within Kakheti, nearly 50 percent of the entire sunflower production in 2004–2005 came from the Dedoplistskaro Municipality. However, productivity is significantly higher in Telavi and Gurjaani Municipalities due to the higher levels of precipitation.

Melons and Vegetables

Around 70–80 percent of the total melon and squash production (melon, sugar melon, pumpkin) in Georgia comes from Kakheti. Per hectare profitability of melons exceeds that of cereals, yet production requires higher costs. Melons also necessarily require irrigation, which at the same time is a limiting factor for its production in certain areas. Most of the irrigated areas are thus used for melons and vegetables production, with Signagi, Sagarejo, Kvareli and Lagodekhi being the leading producers.

Kakheti is also a leader in peanuts production. The same limitation as above applies here; its production is therefore restricted to Lagodekhi and partially to Kvareli Municipalities.

In terms of area under vegetable crops, Kakheti falls below Kvemo Kartli and is on average the same size as Shida Kartli Region. However, the average yield in Kakheti is lower than in these regions. Lagodekhi, Signagi and Gurjaani are the main vegetable-producing municipalities due to their climatic conditions and the availability of irrigation water.

Fruits

Although Kakheti is not specialized in fruit production, the region still produces a large variety of fruits –

stone fruits, seed fruits, subtropical fruits, berries and nuts. However, there are no large areas under fruit. Accordingly, fruit processing is small-scale, primarily at the household level. The only exception is Gurjaani Municipality, which specializes on the production of peaches. Kakheti is the top peach producer region in Georgia. The main fruit production municipalities are Kvareli, Signagi, Gurjaani and Telavi.

Livestock

Kakheti is one of the leading regions in Georgia in livestock production, which is an important sector of its economy. Availability of pastures and mown lands, as well as production of crops suitable for animal feeding are some of the favourable conditions for developing this sector.

Cattle

Kakheti is the region with the largest number of cattle in Georgia followed by Imereti, Samegrelo and Kvemo Kartli. Sagarejo, Lagodekhi and Akhmeta are the leading municipalities within Kakheti in this regard.

As concerns meat production, Signagi is also among the leaders, together with the above municipalities. Development of this sector of livestock production is largely due to the availability of pastures and mowing land, and residues of crop production.

Milk production is becoming increasingly important for the region. Increased world market prices of milk powder has stimulated Georgian dairy producers to respond to the demand for locally produced raw milk, which included the expansion of the network of milk collection centres in Kakheti and Kvemo Kartli.

Lagodekhi, Sagarejo and Akhmeta are the largest milk producers in the Kakheti Region, with development tendencies observed in all other municipalities. However, milk yield remains low at 1.2 tonnes per cow per year. Animal productivity could be increased through improved feed management and quality veterinary services, breed improvement and calving management to smoothen the seasonality of milk production.

Pigs

Samegrelo, Imereti and Kakheti are the largest the swine-production regions. All municipalities of Kakheti Region produce pork, and according to 2005 data, the leading producers were Kvareli, Telavi, Akhmeta and Lagodekhi. In these four municipalities,

forest resources are used for swine feed. In 2005, in six out of eight municipalities, pork production exceeded beef production. This shows increased demand for this product and its important role in the Kakheti economy and for households. In 2007, the number of pigs significantly decreased in Kakheti due to the spread of Montgomery's disease.

Sheep

Kakheti has a long tradition of sheep raising, and not surprisingly, it is the region with the largest number of sheep in the country. Favourable conditions for sheep production in Kakheti are the availability of winter and summer pasturelands. Sheep and goats are present in all municipalities of Kakheti Region and their number exceeds that of swine. Akhmeta and Sagarejo are first among Kakheti Municipalities in producing lamb, sheep milk and wool, emphasizing the importance of this sector to the local economy.

Poultry

Samegrelo, Imereti, Kvemo Kartli and Kakheti Regions have the most developed poultry industries. A relatively large volume of cereal production is a contributing factor to poultry development in these regions. Sagarejo and Lagodekhi Municipalities are the leading municipalities of the region in the poultry industry. Large-scale poultry farm enterprises are located in Patardzeuli village of Sagarejo Municipality.

Beekeeping

Kakheti, with almost 20 percent of the total beehives in country, is considered a lead beekeeping region together with Imereti and Samtskhe-Javakheti Regions. It is also the leader in honey production together with Imereti. Since 2006, Kakheti has shown the trend of increasing honey production, in contrast to other Georgian regions. Beekeeping may be considered one of the region's priorities, because it is rich with forests, flowers and fields under crops, which provide it with adequate resources.

Kvareli and Gurjaani Municipalities in Kakheti Region lead in number of beehives and honey production. These municipalities also show the trend of increasing honey production. While most of Kakheti in general demonstrated a similar trend, Telavi, Signagi and Akhmeta show the reverse trend.

KAKHETI AGRICULTURE – SWOT ANALYSIS

STRENGTHS

- Favourable climate and fertile lands
- Existing infrastructure: roads, irrigation, gas and electricity supply systems
- Abundance of agricultural lands
- Large stock of livestock
- Large experienced labour force
- Original traditions and culture

WEAKNESSES

- Lack of a long-term plan for agriculture development at the national level
- Low level of agricultural education
- Lack of agricultural research centres and extension services
- Lack of communication between farmers and researchers
- Low productivity of agricultural crops
- Low use of high-technology
- Downgraded agricultural equipment
- Insufficient irrigation infrastructure
- Low productivity breeds of animals
- Underdeveloped feed production
- Lack of animal breeding
- Lack of consolidation centres and processing facilities for agriculture products
- Lack of food processing/canary factories
- Lack of fruit storage facilities
- Low level of farmer cooperation
- Lack of longer-term and cheap credit resources
- Lack of specialized agrarian markets in the region
- Lack of crop insurance markets
- Non-regulated forward contractual system between farmers and buyers
- Inefficient system of food safety, plant protection and veterinary services

OPPORTUNITIES

- Construction of new 78 km road – Telavi-Vaziani-Tbilisi
- Newly operational state supervision service on food safety
- Development of a national long-term development strategy for agriculture
- Improved quality of higher agrarian education
- Development of agricultural research and extension services
- Increasing productivity of agriculture crops through the introduction of innovative technologies, higher-value planting materials and agriculture technologies
- Facilitation of the formation of seed farms
- Upgrading of the agrarian technological park
- Improvement of animal breeding and veterinary services
- Strengthening of the raw materials base for feed production
- Development of consolidation and processing infrastructure for agriculture products
- Facilitating and strengthening of farmers' cooperatives
- Development of insurance systems
- Development of agro-tourism

THREATS

- Political instability within and outside the country
- Global economic crisis, inflation
- Global warming and other natural disasters
- Low diversity of products and markets
- Massive spread of pests, and animal and plant diseases
- Consumer health hazards due to the lack of food safety control system

VITICULTURE

General Overview of Kakheti wine and vine sectors

Kakheti is an ancient vine-growing and wine-producing region in Georgia. It is divided in two zones, inner and outer Kakheti, and has more than 25 microzones that have traditionally produced wines of appellation origin – Tsinandali, Napareuli, Teliani, Akhasheni, Mukuzani, Kindzmarauli, Gurjaani, Kardenakhi, Manavi and others.

Today, around 65–70 percent of all vineyards in Georgia are concentrated in Kakheti Region. Production vineyards giving the best wines are located in the basins of Alazani and Iori Rivers, at 400-700 m altitude.

The main orientations of the Kakheti wine-producing sector are high quality wine and quality table wines, both white and red, dry, semi-dry, naturally sweet and dessert wines.

High quality European-type table white wines with a superior taste are produced in Tsinandali, Napareuli, Gurjaani, Manavi and other microzones from Rkatsiteli, Kakhuri Mtsvane, Khikhvi, Kisi and other ancient local varieties.

Table red dry wines are produced in Teliani, Akhasheni, Mukuzani and other microzones of Kakheti from the Georgian red grape variety Saperavi. Naturally sweet appellation wines are produced in the microzones of Akhasheni and Kindzmarauli. Varietal qualities of Saperavi as well as the microclimate and soils contribute to the rich taste of these wines.

Table wine types were developed in Kakheti over the centuries. This is a particular type of wine produced according to special recipes – when the hard parts of the grape are also involved in the fermentation process. Such wines are produced in special clay jars deep in ground to ensure constant temperature throughout the entire process. Wines produced in this way have high sugar concentration, phenolic extracts and tannin content and a pleasant bouquet, as well as rich flavour and taste.

The Current Situation in the Kakheti Vine Growing and Wine Production Sector

■ Vine Growing – Main Statistical Indicators

Gurjaani Municipality has the largest vineyards in Kakheti, with total area covering 7,618 ha, followed by

Kvareli, with 6,382 ha and Telavi with 6,048 ha. The smallest vineyards are in Dedoplistskaro, with 1,499 ha and Akhmeta with 1,747 ha.

In Kakheti vineyards, the dominating variety is Rkatsiteli, which exceeds Saperavi. The largest Saperavi areas are in Kvareli (2,316 ha), due to the increased demand for Saperavi produced in Kindzmarauli wine zone.

In 2007, the best harvests of Rkatsiteli were in Kvareli (6.8 tonnes/ha), Akhmeta (6.6 tonnes/ha), Signagi (6.8 tonnes/ha) and Sagarejo (6.5 tonnes/ha), while the lowest was in Telavi (4.9 tonnes/ha).

The highest yields of Saperavi were in Akhmeta, Telavi, Gurjaani, Sagarejo and Kvareli, and the lowest in Lagodekhi and Signagi. In 2007, according to the Ministry of Agriculture data, more than 200,000 tonnes of grapes were harvested, of which up to 52,000 tonnes were processed by the wine producers, 110,000 tonnes were distributed in Tbilisi and other regions of Georgia, and 50,000 were consumed and/or processed by households.

The total areas of vineyards and average yield are given in Annex 2.

■ Genetic Fund of the Kakheti Grape Varieties

Unique Kakheti grape varieties are Kisi, Khikhvi, Kakhuri Mtsvane, Saperavi and Rkatsiteli, among others. In addition, there are many domestic grape varieties and populations that combine the main part of the genetic resources and provide the basis for improving production variety.

Since 1930, a collection of Georgian grape varieties has been established within the Research Institute for Horticulture, Viticulture and Wine. To date, there are 422 grape varieties in this collection.

Kakheti Vineyards – Current Situation

To date, Kakheti viticulture is represented by the old vineyards established in the 1960s–1970s (around 85–90 percent of the total vineyards) and new ones (10-15 percent of the total vineyards).

Rkatsiteli and Saperavi were the dominating varieties in the old vineyards from Soviet times, when the focus was on quantity, causing an almost complete elimination of famous Georgian varieties such as Kisi, Khikhvi, Mtsvane and Mcvivana.

Old vineyards are depreciated, and therefore, the per hectare yield is low – around 2–2.5 tonnes/ha. They need urgent rehabilitation to increase productivity and improve quality.

At the end of 2007, the Ministry of Agriculture has started implementing a special programme for eliminating the hybrid variety “Vakirula” and has allocated GEL 1 million for this purpose in order to compensate farmers for every destroyed hectare with GEL 2,000 per ha.

The second half of 1990s was distinguished by the creation of new vineyards. This process took off most rapidly in Telavi, Kvareli and Gurjaani Municipalities, because there are world-famous wine-producing microzones: Kindzmarauli, Akhasheni, Mukuzani, Tsinandali, Vazisubani and Napareuli. This period also coincided with the growth of investor interest. Statistics on new vineyard areas per municipality is incomplete, however. The estimated area under the new vineyards is around 5,000 ha with estimated investments of US\$40–55 million, assuming that 1 ha requires around US\$8,000–11,000. This process has not been significant in Akhmeta, Signagi, Sagarejo, Lagodekhi and Dedoplistskaro Municipalities, where vine growing is not a leading sector.

The breakdown of new vineyards per variety is as follows: Saperavi, 96 percent; Cabernet Franc, Cabernet Sauvignon, Pinot Noire, Merlot, Malbec and other red French varieties, 1.8–2 percent; and ancient Georgian white varieties – Kisi, Khikhvi and Kakhuri Mtsvane, 2–2.2 percent.

■ Grape Seedling Production

“Arivie-Georgia” nursery, established by foreign and Georgian investors in Kondoli village of the Telavi Municipality is the only nursery in Georgia, whose seedlings comply with European standards. Part of the seedlings produced here are exported and part are sold domestically. This is a unique nursery, not only in Georgia, but in the entire South Caucasus, and naturally, its production capacities do not satisfy existing market demand for seedlings. There are three more nurseries in Kakheti, and some household farms that produce seedlings, but they do not follow the seedling production technologies and practices. Good quality seedlings are therefore not produced there, which is

the biggest problem of the vine sector, impeding its further development.

Kakheti Wine Production Sector - Main Statistical Indicators

■ Export of the Georgian Wines

Statistics on wines exported from Kakheti are not available; however, given that around 65–70 percent of the total wines exported from Georgia come from Kakheti, some conclusions can be made based on general national statistics.

As seen from Annex 2, Table 2, 2005 was the most successful year for wine export – 59,323,520 bottles exported, followed by a sharp decline in 2006 to 19,493,219 bottles, and then a further drop in 2007 to 10,155,042 bottles. This decline was due to the embargo on Georgian wines and agriculture products imposed by the Russian Federation. **Georgian wine exports to the European Union (EU) and Central and Eastern Asian countries have increased to a certain extent in parallel with the Russian embargo of 2005–2007.**

More detailed data on wine exports showing the dynamics of export markets is given in Annex 2.

■ Domestic Consumption of Georgian Wine

No statistics are available on the domestic consumption of wine. This is largely due to the tradition of home wine-making and consumption, which is not recorded, and which reaches estimated substantive volumes.

It is estimated that consumption of domestic wine far exceeds that of export. However, little interest of the wine sector in the domestic market is, on the one hand, due to widespread home wine consumption tradition, and on the other, consumption of falsified wine. Both of these are consumed in large quantities in Georgia and occupy a large segment of the market. Enforcement of state supervision on food safety is expected to reduce sales of falsified wines, which would open up opportunities for unbottled wines at the domestic market. **However, the unbottled wines sector should be prepared to assume quality control enhancement and the expansion of marketing outlets.**

KAKHETI VINE AND WINE SECTOR – SWOT ANALYSIS

STRENGTHS

- Favourable soils and climate for vine growing
- Historically established vine microzones
- Large areas of vineyards
- Existing infrastructure (roads, electricity and gas supply systems, communications, banking sector)
- Large experienced labour force
- Availability of transportation and agricultural equipment
- Availability of wine-processing factories of various sizes and scales
- Original traditions and culture of wine and vine
- Unique gene fund of the grape varieties
- High demand for Georgian wines in the domestic market
- High recognition and visibility of Georgian wines in Commonwealth of Independent States (CIS) markets
- Increasing visibility and recognition of Georgian wines in European and American markets

WEAKNESSES

- Lack of a long-term plan for vine growing and wine production development
- Lack of a wine cadastre
- Fragmentation of primary production plots
- Lack of a quality research centre in the region
- Gap between research and production
- Low level of innovation implementation
- Aged vineyards causing low yields
- Outdated schemes of vineyard arrangements
- Lack of quality planting materials
- Lack of nurseries
- Mix of various grape varieties on primary production plots
- Large areas of hybrid varieties
- Outdated agricultural equipment
- Limited long-term and cheap credit resources
- Lack of a harvest insurance scheme
- Outdated equipment and wine containers in the wine factories
- Inefficient state control system of wine quality
- Large-scale wine falsification
- Underdeveloped unbottled wine sales network

OPPORTUNITIES

- Development of a national strategy for vine growing and wine production sectors
- Setting up of a wine cadastre, providing vineyards with identification documents (including name, size, location, grape(s) produced)
- Land market development and farm enlargement
- Rehabilitation of the Telavi-Vaziani-Tbilisi road
- Bringing together research and production
- Increased varietal purity in vineyards
- Vineyards arrangement according to modern schemes
- Setting up of modern nurseries
- Upgrading of agriculture equipment
- Increased accessibility of cheap and long-term credit resources
- Setting up of harvest insurance systems
- Setting up of a vine growers' union
- Professional re-training of farmers and establishment of the extension services
- Establishment of wine production cooperatives
- Increased effectiveness of wine quality control
- Development of unbottled wine sales network
- Elimination of wine falsification and sales of falsified wine
- Investigation of international markets and export expansion
- Decreased costs of vine production due to increased yield; price optimization and increased competitiveness of Georgian wines

THREATS

- Global economic crisis, inflation
- Increased scales of falsification
- Climate change in Kakheti due to global warming
- Vine price increases that reduces competitiveness of wine

5.6 Tourism

Tourism revitalization in the entire country has sparked tourism in Kakheti. Kakheti certainly has some advantages for attracting both local and international tourists, such as its many historical monuments and potential for developing wine tourism.

Tusheti is a special tourism attraction for its unique landscape and nature, as well as its protected areas. There has recently been a sharp increase in small hotels and guesthouses in Tusheti, which makes these areas increasingly attractive to Georgian and foreign tourists. However, the road connecting these areas to Kakheti passes through a complicated landscape, and most of the year, helicopter is the only means of transportation to reach those areas. This obviously limits the number of tourists in these areas.

Kakheti protected areas, especially the Vashlovani Reserve, have great potential for ecotourism development. This has particular importance for Dedoplistskaro Municipality, which is the most exposed to ecological problems and has the highest poverty rates.

The wine tourism concept has recently become popular. Signagi is considered the centre of wine tourism in Kakheti due to its wine traditions, historic monuments and central location in the region. Many impressive steps have been taken following cooperation of the government and business sector in rehabilitating the historical facades of this town and developing the wine industry.

As of 1 August 2007, the total capacity of hotels in support territories of the Vashlovani, Tusheti, Batsara-Babaneuri and Lagodekhi was only 237 places, which was far below demand. In general, Kakheti Region has the lowest gross and per capita turnover of hotels and restaurants. The same is true for the growth rate of the hospitality sector. It is most likely that the largest share of visitors to Kakheti come for business and not for tourism. Tourism development will also require investment in training and re-training of local staff.

TOURISM SECTOR – SWOT ANALYSIS

STRENGTHS

- Proximity to Tbilisi
- Original traditions and culture
- Diversity of agricultural products
- Rich historical past
- Abundance of historic monuments
- Proximity of monuments to the main roads
- Diverse and beautiful landscape
- Hospitality of local people
- Kakheti, as a cradle of wine and centre of winemaking

WEAKNESSES

- Limited experience in the hospitality sector
- Lack of knowledge in operating tourism as a business
- Deficit of qualified personnel
- Underdeveloped tourism infrastructure
- Georgia's distance from the developed countries
- Limited information on Georgia and Kakheti abroad
- Peripheral location in Georgia

TOURISM SECTOR – SWOT ANALYSIS

OPPORTUNITIES

- Construction of new roads/highways
- Air connection to Tbilisi and other cities to enable small jet travel
- Tourism and recreation potential
- Development of a tourism strategy in parallel with sector development
- Absorption of new markets (in tourism, wine, handicrafts, etc.)
- Development of innovative-alternative sources of energy
- Optimization of state information centres and services
- Expansion of winter tourism
- Revitalization of Georgian festival traditions and various cultural practices
- Development of the Kakheti tourist map
- Set-up of activities to promote Kakheti as a tourist destination
- Increased quality of regionally produced products
- Growth opportunities for internal tourism
- Simplified visa regime with neighbouring countries

THREATS

- Transportation problems, outdated railway
- Natural hazards
- High costs of transportation to Georgia
- Heavy traffic in cities and highways
- Competition from other touristic zones, within the country and from outside
- Lack of tourism information in the municipalities
- Unexplored wine tourism, eco-tourism and adventurous tourism
- Underdeveloped hotels and restaurant sectors
- Unprepared and insufficient tourist industry personnel
- Weak marketing of regional hotels
- Limited capacities for tourist accommodation; limited choice of hotels and guesthouses
- Underdeveloped signage system for the tourism infrastructure (billboards, trademarks and /brand identity signs); lack of signs in English (street names, information on hotels, etc.)
- Lack of a tourism and recreation programme in the municipalities

5.7 Environmental Considerations

Increased frequency of droughts is the most significant environmental concern in Kakheti. This has a negative impact on the desertification processes in the east of the region and the degradation of pastures.

As shown by 2000–2006 data, the region suffered heavily from droughts. This often caused a complete loss of harvest (wheat, barley, and sunflower) for households, especially in Dedoplistskaro Municipality. During the drought years, the households increased consumption of livestock products, which in turn sharply reduced the number of animal heads. The inefficient and sometimes lack of an irrigation system as well as state ownership of pastures aggravate the heavy economic and social conditions, which in turn has further negative effects on the ecological situation, as desertified pastures cannot satisfy animal needs.

The inability to solve the drought problem might become the most serious impediment to the socio-economic development of the region. It might also cause the population to migrate from Dedoplistskaro, the bordering municipality, as well as an increase in deforested lands and pastures no longer used for cattle breeding. The collapse of organized farming threatens the tourism industry in the region, as the desertification directly and indirectly would affect the Vashlovani Reserve, with an increased vulnerable population seeking wood for heating. This in turn would negatively affect the fauna in the region.

In terms of natural resource potential, Kakheti Region and especially its eastern part, have certain advantages, such as the length and intensity of sunlight in the Dedoplistskaro Municipality. The Kakheti climate therefore provides favourable conditions for alternative energy usage. Moreover, there is potential for im-

plementing pilot projects on growing plantation trees, which might provide some compensation to the population for agriculture stagnation.

Other problems in Kakheti Region are accessibility of drinking water and its contamination. Safe use of residual pesticides is yet another problem, such as in Sakobo village of the Signagi Municipality. As a result, these contaminants are seeping into the rivers, which cause serious risks for the population and children.

Uncontrolled use of forest resources, especially at the foothills of the Caucasus Mountains, has increased the risks of floods. This is especially true of the Alazani River Basin, where severe results are already felt – ag-

riculture lands have become marshland, and the wide spread of pests is threatening public health. In addition, local biodiversity is under threat.

The problem of garbage collection and use is another severe problem in the region. Commercial processing of garbage seems unrealistic in the near future, requiring active involvement of government and donor community in solving this problem.

Resolving the problem of Duruji River in Kvareli Municipality is yet another challenge in the region. Here, the riverbank support projects must be financed from the central budget, to lift the risk of floods that have occurred for decades.

ENVIRONMENTAL SECTOR – SWOT ANALYSIS

STRENGTHS

- Favourable climate and fertile soils
- Existing infrastructure: roads, irrigation, gas and electricity supply networks
- Interest of the regional government and local self-governance in environmental issues
- Regular supply of electricity
- Improved organization of garbage collection
- Interest of the local population in environmental issues
- Support from the Ministry of Environmental Protection and Natural Resources
- Potential for tourism development
- Possibility of using flood residues for construction and road building materials
- Long hours of sunlight in the eastern part of the region
- Biodiversity and vast areas of protected areas

WEAKNESSES

- Limited funding
- Non-existence of modern-type of garbage collection centres
- Limited availability of needed equipment
- Lack of qualified personnel and specialists
- Low level of business development
- Low level of the culture of environmental protection
- Lack of experience in carrying out environmental works
- Unsatisfactory state of the water supply networks and water supply headworks in some of the villages and towns
- Irrigation water problems and the poor state of the irrigation system infrastructure
- Limited availability of existing and needed special equipment

OPPORTUNITIES

- Development of infrastructure
- Development of the processing industry
- Monitoring of pesticides storage
- Collection of garbage in special containers and their removal
- Potential for developing the construction industry

THREATS

- Potential deterioration of the economic situation
- Difficulty with finding

6. ASSESSMENT OF THE COMPETITIVENESS OF THE REGION

6.1 Physical and Geographical Environment

Compared to other regions in the country, Kakheti has the largest agriculture land per capita and the best quality land. Further, the settlement pattern of the population, i.e. the vast majority of the population living across the main highways, creates favourable conditions for effective commercial and public infrastructure development. The proximity of the region to Azerbaijan has not been developed into a comparative advantage for the region, although there is potential to stimulate Kakheti's economic development as economic integration of the two countries grows.

Diverse nature and state-protected territories create good conditions for tourism development.

6.2 Agriculture

Kakheti is the Georgian region with the largest amount of total agricultural land, as well as of some categories of the agricultural land (e.g. arable, pastures and meadows, land under perennials, etc.). Abundance of agricultural land largely determines the region's leading role in Georgian agriculture. Kakheti is also top producer of various agricultural crops such as wheat, sunflower, peaches, strawberries, peanuts, watermelon, wool, honey and mutton, and one of the leaders in the production of barley, corn, vegetables, fruits, beef and pork, milk, poultry and eggs. In addition to availability of agricultural lands, Kakheti's vast potential in agriculture is also determined by its favourable soil and climatic conditions, the accessibility and availability of its labour force, and its irrigation and road infrastructure.

Competitiveness of the Kakheti Region in agriculture is apparent in viticulture and wine production. This is due to large areas of productive vineyards, soil and climatic conditions, the long-standing tradition of grape growing and wine production, a network of wine-producing factories, and well-known brands of Kakheti wines based on Kakheti appellations. Kakheti is the leading region in the country in quantities of grapes and wines produced, as well as quality. Therefore, in the future, this sector will continue its strategic importance for the region. Since agriculture is one of the main strengths of the local econ-

omy, special attention is needed to further develop this sector, including the establishment of sustainable extension services and access to credit.

6.3 Physical Infrastructure

The peripheral location of the Kakheti Region is compensated by the satisfactory state of its highway infrastructure connecting the region to the capital.

In the recent past, the region had well-developed and well-functioning irrigation systems. Despite the fact that this infrastructure is currently largely outdated and even degraded, it is still possible to keep it operational, which would greatly facilitate increasing agriculture production in the region.

6.4 The Labour Force

A large and relatively cheap labour force is yet another factor distinguishing Kakheti from other regions in the country. This advantage would gain huge importance if the region increases its agriculture production and develops its food processing industry, since according to economic profile of the region, most of the population is experienced and skilled in these areas.

The fact that the average village size in Kakheti by far exceeds that of the rest of Georgia places it in a better position for setting up small-scale processing facilities in the villages, thus creating local employment opportunities.

6.5 Tourism

Kakheti is well positioned for developing tourism due to its unique natural resources. It is famous for its rich collection of historic-cultural monuments, sites and ruins, as well as protected areas such as Vashlovani, Tusheti, Batsara-Babaneuri and Lagodekhi Reserves. These create favourable conditions for turning Kakheti into an important centre of eco- and adventurous tourism. Agrotourism is also progressing, naturally focusing on wine tourism. Recent investment in, and government-supported

large-scale works for, rehabilitating the historical heritage of the region would facilitate tourism development in the region.

6.6 Other Sectors of the Economy

Kakheti is comparatively weak in the areas of industry, transport and construction. It has limited reserves of mineral resources, although current stocks of building materials definitely merits attention. Their successful use will largely depend on the ability of its economy to expand and develop its leading agriculture and food

processing sectors, among others. Marble is the special resource of the region.

Timber processing might be a growing opportunity for the northwestern part of the region, where this sector is slowly developing.

The peripheral location of the region and its common border with Azerbaijan and the Russian Federation might be turned into a competitive advantage in the long term. However, the current impact of this factor on economic development of the region is marginal and no major changes are expected in the short term.

7. REGIONAL DEVELOPMENT PERSPECTIVES AND TRENDS

7.1 Labour Market, Education and Healthcare

Consideration of these three areas in an integrated manner is motivated by the fact that they are interrelated and fall within the competences of the National Government. Thus, even taking into account regional specifications of Kakheti's economy, geography or social environment, it is almost impossible to have a full understanding of the situation regulating healthcare, education and labour market.

Recent changes and modifications in the methodologies for calculating the poverty rate, its depth and severity prioritize the issue of defining these parameters for the Kakheti Region. Measures undertaken by the government for poverty reduction would largely define the extent to which the labour force in the region would be prepared to meet the labour market demand, and how accessible and efficient healthcare and education services would be to the population.

The state of development of the primary healthcare and education systems directly reflects on the local labour force in the market economy conditions. After implementation of the economic diversification plan of the region, the entire population should have access to primary healthcare.

The region must have professional training and re-training centres, which would prepare the labour force for the changing economy, based on the current needs and labour market demand such as agriculture, food processing, and tourism specialists.

7.2 Sectoral Structure of the Economy and Economic Growth

Analysis of the development of the Kakheti economy over the last few years suggests that stimulating large-scale, positive results in the short term would be complicated due to the current labour market situation. This parameter would be least affected by changes in the social and economic environment in the short and medium term. A breakthrough in economic development will be achieved only if the region experiences a high inflow of investments, both foreign and domestic.

In the short term, the trends of trade and tourism development appear sustainable, which could be further enhanced following the rehabilitation of the highway through Gombori Pass. New perspectives of the Kakheti Region might also be opened up if the region

in particular and Georgia in general are able to take advantage of increased world food prices.

In the meantime, a solid foundation should be made for developing tourism, transport, industry, construction and services, as the economy cannot be solely dependent on agriculture. In general, the most reliable road map for Kakheti economic development and poverty reduction is as follows: investment in infrastructure; investment in the processing industry; increased efficiency and productivity in agriculture; increasing exports; increasing incomes; diversifying the economy in favour of tourism and other tertiary sectors.

7.3 Agriculture and Viticulture

Today, agriculture remains the main source of income for Kakheti's population, a situation that will most likely remain in the future. The important task of this sector is to increase efficiency and profitability, and expand markets both within the country and internationally. This would require improvements in the production processes, the introduction of quality control systems at every stage of the production chain, development of cooperation among farmers and between farmers and wine makers, market segmentation and targeted supply of production.

Diversification of economy would generate alternative employment opportunities to absorb the surplus labour from the agriculture sector. In addition, people with income from other sectors of the economy would gradually abandon agriculture, which would lead to enlarging agricultural plots and land market development. Larger farms in turn would be more flexible in responding to market demand in terms of quality and types of products.

Enforcement of food safety legislation in the country would reduce wine falsification and free up a significant segment of the domestic wine market. Quality control of the unbottled wine and development of its sales network would significantly increase the importance of the domestic wine market and expand income opportunities for the wine sector.

7.4 Tourism

Tourism potential is expected to expand significantly over the medium term, which would be just a beginning for attracting international tourists. Large-scale

government and private sector investment in rehabilitating Signagi and possibly Telavi infrastructure would play an important role in developing short tours from Tbilisi. Tourism is expected to become a main source of income for the population, together with agriculture.

With respect to tourism opportunities in Kakheti Region, it should be pointed out that tourism opportunities in Kakheti are limited and concentrated in the Signagi-Telavi area direction. There is also some potential, though underused and fragmented, in Tusheti and Lagodekhi and Vashlovani Reserves.

7.5 Environmental Considerations

By the time of the completion of the Kakheti economic diversification plan, Kakheti should remain a safe place to live, though economic development and environmental protection are by definition conflicting tasks. Attainment of a higher economic growth rate, primarily fuelled by agriculture and food processing, would increase pressure on the natural resources, calling for their protection. This is especially true when considering the global picture, with tourism becoming an important sector of the economy, since its development largely depends on the availability of natural resources.

Most of the region's environmental problems can be decided at the national level only. The most severe problem that could be singled out in this regard is the removal of outdated pesticides, which calls for actions by the central government and experts.

The central government must have some responsibility in floods prevention, especially given the limited financial resources of the local self-governments.

The problem of droughts is expected to become more severe with global warming. Rapid rehabilitation of the irrigation infrastructure would mitigate this problem for the region.

The long hours of sunlight open up new opportunities for the region to develop alternative sources of energy. It might also be an opportunity to take land that is no longer used for agriculture and use it for plantation forests. Preservation of the biodiversity has potential for tourism sector development.

8. SECTOR DEVELOPMENT PRIORITIES FOR THE KAKHETI REGION

Below are the sector priorities that should be at the top of the development agenda for the coming five-year period. Appropriate consideration should be given to the fact that some of the identified priority activities, due to their scale and nature, are directly linked with the plans of the central government. For example, Telavi-Vaziani-Tbilisi Highway rehabilitation, given its scale and importance, is financed from the state budget; this project would have the biggest impact on the Kakheti Region and its economy. When listing the Telavi-Vaziani-Tbilisi Highway or any similar project as a priority, due consideration should therefore be given to national priorities, so that needs of the Kakheti Region are closely aligned to them. The same is true for the other infrastructure projects, such as irrigation, which cannot be financed from regional funds alone.

8.1 Labour Market, Education, Healthcare and Other Social Issues

Strategic objectives and priorities of doctors' training are similar to those across the country. The healthcare and education systems should be set up in order to allow the government to overcome poverty within an optimal time frame.

Development of education is directly linked to that of the labour market structure, according to the qualifications and skills of the working force. It is unlikely that in the short term Kakheti will have an adequate work force and qualified managerial human resources. Together with the ongoing reforms in healthcare and education, it is important to develop capacities for providing skills training in agriculture, processing and tourism.

Priority Directions:

1. Conducting a detailed study of the region's socio-economic indicators; identifying priorities based on the results of the study; assessing adequate levels of funding and attracting funding.

2. Identifying region's poverty parameters and development of a plan for overcoming poverty;
3. Identifying the roles of the central and local governments, as well as international donors and the private sector in poverty reduction.
4. Assessing the needs of the region in vocational education and forecasting the profile and determining the number of vocational education centres needed.

8.2 Regional Economy (Excluding Agriculture and Tourism)

The peripheral geographic location of the Kakheti Region impedes its development. Economic relations with neighbours – the Russian Federation and Azerbaijan – are almost non-existent.

Turning Kakheti into a main highway to Azerbaijan would accelerate economic development in the region. Rehabilitation of the Telavi-Vaziani-Tbilisi Highway would ease access to the capital and increase the cargo turnover, which in turn would facilitate development of transportation and communication in the region, as well as create grounds for industry rehabilitation.

Development of the construction sector and encouragement of the use of local construction materials in infrastructure projects are priorities, as well as the commercial use of the Lopoti Marble Reserve.

Development of commercial infrastructure as the main basis for economic development is of paramount importance. This involves developing the urban lifestyle in order to attract businesses and facilitate inflow of capital to Kakheti.

Priority Directions:

1. Rehabilitating irrigation systems.
2. Gradually privatizing irrigation systems (carrying out technical economic assessments, evaluating privatization schemes).

3. Maintaining local transport roads in an operational state.
4. Providing technical assessment of the rehabilitation works of Telavi-Vaziani-Tbilisi Highway.
5. Rehabilitating main infrastructure facilities in settlements, with special focus on water supply systems.

8.3 Agriculture and the Wine Sector

Kakheti is a region with vast agricultural potential, having large areas of fertile agricultural land, natural and human resources, agricultural equipment, perennials crops, livestock and processing facilities. Most of the region is covered with roads and electric transmission lines, as well as necessary infrastructure for natural gas supply and irrigation. All of these create favourable conditions for further development of agriculture in the region.

Natural conditions in Kakheti allow for diverse agricultural production. During Soviet times, priority was given to animal husbandry, cereals production and viticulture. Today, these sectors retain their importance in the economy of the region; however, their relevance should be assessed according to current market economy conditions.

When considering regional development perspectives, the following should be taken into account:

- Export of agricultural products from Kakheti region is complicated due to a number of economic and political factors.
- The domestic market is increasingly occupied by imported products.
- The poverty level remains high in Kakheti.

Given these circumstances, Kakheti agricultural development priorities should be in line with the following directions:

- (i) Priority for the short- and medium-term perspective should be given to meeting domestic market demand and import substitution. This is especially relevant in the environment when, due to price liberalization and current tariff policy, agricultural products prices in Georgian domestic market are equal to those in the international market.
- (ii) More attention should be given to the production of higher-value and higher productivity products

that would increase incomes and reduce poverty. Here, the government would have a critical role to play, for instance, in rehabilitating and upgrading infrastructure including irrigation systems rehabilitation and their expansion, road construction and maintenance, further gasification, setting up agriculture advisory services, among others.

- (iii) The expansion of the irrigation infrastructure network in the region would have a critical role in increasing agricultural potential and incomes due to the following factors:

- (a) Irrigated areas would allow for increased productivity and profitability of crops, among which wheat and sunflower are the most important, since they have greater potential to substitute the imported products.
- (b) Irrigated areas would allow for diversification of crops, with a gradual switch to higher-value crops (corn, vegetables, melons, fruits). This would contribute to import reduction and enhance incomes.
- (c) Increased accessibility of irrigation water would substantively mitigate risks of harvest loss during droughts, which occurs frequently in Kakheti's non-irrigated areas. Mitigation of this production risk would be an important response for the low-income population of the region.

Expansion of agricultural land, an increase in the number of producers, and establishment of farmers' cooperatives in production and marketing should be encouraged to attain increased efficiency of agricultural production. This would require support from the government, both in financial incentives and regulatory frameworks. The current taxation system favours farm fragmentation, as only small producers whose turnover is below GEL100,000 are VAT-free. Investment in agriculture will be encouraged if reinvested funds are exempt from profit tax. Support of large agricultural producers and cooperatives by reducing taxation of large agricultural producers and financial mechanisms (e.g. low interest rate loans) and technical measures (e.g. set-up of agricultural extension services and veterinary services) will facilitate an increase in number of producers and efficiency, as well as ensure profitability of agricultural production in the region.

Priority Directions:

a) Grape production and Wine Production

■ **General**

1. Developing the wine sector development strategy.
2. Developing the wine cadastre.
3. Conducting market research internationally for studying current and potential markets for Georgian wines.
4. Promoting Georgian wines internationally through advertising campaigns in magazines, newspapers, brochures, tourist booklets and internet sites.
5. Constructing the new Telavi-Vaziani-Tbilisi Highway.
6. Promoting wine tourism.

■ **State Sector**

1. Making the Food Safety Service operational.
2. Fine-tuning and creating the wine quality control system.
3. Providing support to economic cooperation of Kakheti and its twin regions (from France, Ukraine, etc.).

■ **Education/Research**

1. Modernizing wine and viticulture department at Iakob Gogebashvili Telavi State University.
2. Setting up a Marketing Research Centre.
3. Conducting a survey of domestic and export markets.
4. Bringing together research and production

■ **Grape Production**

1. Establishing modern nurseries for collection varieties, as well as other high-quality planting material for grapes.
2. Implementing and extending modern schemes and technologies in new vineyards.

3. Setting up modern extension services for grape producers within the higher and vocational education institutions.
4. Increasing the area of vineyards of traditional Kakhetian grape varieties: Kisi, Khikhvi, Kakhuri Mtsvane, Mcvivani, and Rkatsiteli.
5. Promoting grape producers' associations and unions.

■ **Wine Production**

1. Conducting a survey on the domestic market and its segmentation.
2. Promoting cooperative wine-making.
3. Implementing effective wine quality control.
4. Limiting sales of falsified wine at the domestic market.
5. Developing the sales network for quality bulk wine at the domestic market.
6. Establishment of contract relationships in advance between grape growers, who are mostly ordinary farmers, and wine producers.

b) Agriculture

1. Developing the National Strategy for Agriculture Development.
2. Expanding the irrigation network.
3. Enforcing veterinary control and provision of veterinary services.
4. Enforcing food safety services.
5. Setting up agriculture extension services within higher and vocational education institutions.
6. Ensuring accessibility of quality seed and planting materials.

8.4 Tourism

Kakheti's potential as the centre of Georgian agrarian tradition and the cradle of wine should become an important tourist attraction. Plans for rehabilitating the highway from Telavi to Tbilisi is of strategic importance. Equally important is to strengthen Telavi's position as the cultural and economic centre of the region.

At the initial stage, Kakheti's tourism industry should target tourism from its own region and from neighbouring countries. Government and staff of Georgian diplomatic services abroad should promote Kakheti through information campaigns. Relations with donor communities should be strengthened in order to fully exploit this source to target potential tourists.

It is important to further support activities for rehabilitating and maintaining cultural and historic monuments. Kakheti tourism development concept and strategic plan need to be developed, which would include a plan for maintaining monuments.

Active involvement of the government and the introduction of standards in the tourism sector would encourage competitive environment. In addition, inclusion of tourism professions in education system reform would enhance the region's opportunities for attracting tourists.

The government also has a role to play in ensuring that the tourism industry does not threaten the image of Kakheti as an agrarian region and that its unique traditions are preserved.

8.5 Environmental Considerations

With regard to the environment, from the perspective of regional development, the following needs to be taken into account:

1. Priority attention should be given to the most urgent problems (see below) that might impact on the economic development of the region and on human health in the short run.
2. The local government needs to take more responsibility in solving less urgent environmental problems.

The rapid removal of outdated pesticides is one of the most urgent problems calling for immediate solutions. This is not a strategic direction but rather, a single task, and once completed and relevant regulations enforced, the problem will be overcome.

Strategic direction is ensuring provision of drinking water to the population and its quality assurance, the results of both of which correlate with poverty reduction.

Another priority direction is, at the minimum, partial rehabilitation of irrigation networks. It would mitigate the risks of negative effects of droughts, which cause some land plots to no longer be used for agricultural production, protect biodiversity and prevent border regions from depopulation. In addition, it has a critical role in facilitating economic development, since access to irrigation means higher agricultural productivity and yields.

Flood protection is yet another problem faced by the region; clearing of dry canals from residues is a priority direction. The same is true of the Alazani River Basin, where marsh formation is reaching alarming rates. The central government needs to develop schemes that would encourage the use of locally available construction materials for infrastructure projects.

Since the local self-government is in the best position for better resource management, its role and responsibility should be increased in the areas of garbage collection, new sources of energy and biodiversity protection. For example, part of the land tax could be used for improving the towns' appearance.

Ways of cooperating with businesses and international donors should be explored with respect to current capacities for alternative energy usage.

Priority Directions:

1. Planning effective measures against desertification of the eastern part of the Kakheti Region (rehabilitation of irrigation; technical and economic assessment on setting up wind breaks and forest plantations; studies carried out on the use of solar energy, etc.).
2. Preventing uncontrolled usage of the forest resources for the Caucasian foothills and seeking funding for Duruji River bank reconstruction.
3. Ensuring quality control of drinking water.
4. Organizing garbage collection and setting up a garbage collection centre.

9. KAKHETI REGIONAL DEVELOPMENT PRIORITIES FOR 2009-2014

As seen from the analysis of sector priorities, many issues require urgent intervention and effective resolution. However, as reality shows, due to the limited financial, technical and labour resources, all of these issues cannot be resolved at once. It is important, therefore, to select the most critical priorities that could realistically be resolved within the time horizon covered by the strategy.

Having analysed all the above priority directions, the Regional Development Committee has agreed on the following five main priorities directions:

1. Setting up food processing enterprises

Processing of fruits and vegetables; setting up milk collection centres and cheese and butter production plants; ensuring accessibility of financial resources (low interest rate and subsidized loans, grants) for small entrepreneurs.

2. Supporting agriculture development:

Supporting the wine and vine sectors, organizing agricultural extension services, facilitating farmers' cooperation, providing support to the animal husbandry sector (breed improvement, feed production, veterinary services, among others).

3. Improving the provision of drinking water to the population:

Improving the quality of the physical infrastructure, installing new water supply networks and water quality control.

4. Developing tourism:

- Improving the tourism infrastructure: signage, sanitary points, local roads.

- Improving the quality of tourist services; popularizing the region, setting up tourism information centres, developing tourist maps.
- Supporting professional education: training of guides and other specialized personnel in the tourism industry.
- Ensuring access to financial resources on affordable terms (subsidized loans, grants) for start-ups in the tourism business (guesthouses, tour operators).
- Ensuring preservation and protection of cultural and historical monuments.

5. Collecting garbage and managing waste:

Arranging special landfills, conducting a feasibility study on setting up garbage collection plants, as well as on various alternatives for garbage collection and management.

Having identified these five main priority directions, it is desirable that the government, donors and other stakeholders target and consult them when planning various development programmes or projects in Kakheti Region.

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Kakha Labuchidze
Head of Gurjaani Municipality

Gia Gozalishvili
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Gia Chalatashvili
Head of Sagarejo Municipality

Zaza Zedelashvili
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ANNEX 1

Methodology, Principles and the Participatory Process of the development of the Regional Development Strategy (RDS)

Ensuring a high level of participation in the RDS process is critical so that it can reflect the real problems of those living in the region, as well as their vision and development priorities. It is equally important to streamline the RDS development process with well-developed methodologies based on participatory principles.

To achieve these objectives, the Kakheti Regional Development Project invited an international consultant of the UNDP Bratislava Regional Centre, Mr. Vladimir Mikhalev. During his two missions to Kakheti Region, Mr. Mikhalev met with the heads of the regional and municipal administrations, NGOs active in the region as well as representatives of the business sector, the educational system and media, among other stakeholders. Following these meetings and consultations, the principles, main approaches and methodology for the RDS were developed, which are in compliance with UNDP guidelines and principles for the development of regional plans.

The developed methodology is based on the main principles followed in the development of KRDS:

- Regional planning is a participatory, consultative process, which includes all stakeholders:
 - ✓ The Administration of the Governor
 - ✓ The municipalities
 - ✓ Local civil society institutions
 - ✓ Business sector representatives
 - ✓ Educational institutions
 - ✓ Mass media
 - ✓ Citizens of the region
- The process should not be viewed as a one-time exercise, but rather as dynamic and flexible, able to reflect new realities of regional developments.
- Full advantage should be taken of building on lessons learned in regional planning elsewhere in the world (e.g. Eastern Europe, Ukraine), where various regional development programmes are now being implemented. It is also important to build on accumulated experience in the country and on available resources.

- The development of the RDS should be tailored to the specifics of the region and take into account such important factors as:
 - ✓ potential for economic diversification of the region;
 - ✓ assessment of the competitiveness of the region;
 - ✓ SWOT analyses of the region.
- KRDS should be oriented on the results and be focused on solving social issues.
- Setting of realistic objectives based on SMART criteria, i.e. the tasks and the vision should be:
 - ✓ Specific,
 - ✓ Measurable,
 - ✓ Affordable,
 - ✓ Realistic and Relevant
 - ✓ Time-bound.
- The following factors should also be taken into account when working on the RDS:
 - ✓ Only realistic and feasible programmes and projects should be reviewed; all unrealistic visions should be excluded.
 - ✓ The RDS should be linked and in line with the priorities set by the Basic Data and Directions Document of the Government of Georgia.
 - ✓ The RDS should take into account the available budgetary resources and external funding.
 - ✓ A concrete action plan needs to be developed after the priority directions are set and approved.

The Regional Development Committee

Following the development of the principles and methodology for the RDS, and based on the consultations with the KRDP and other stakeholders, Mr. Mikhalev developed a plan of action for RDS development, which advised on the establishment of the Regional Development Committee (RDC). The RDC is composed of representatives of the main agencies and organizations active in the Kakheti Region, including those from the Administration of the Governor in Kakheti Region, municipalities, local businesses, educational and civil society institutions.

The RDC first met on 13 February 2007, having decided that, in general, the Committee would be chaired by the First Deputy Governor, who was tasked to supervise and coordinate the strategy development process and set up Working Groups. The main task of the RDC was the coordination of the RDS process together with defining the vision and main priority directions based on stakeholder consultations. The RDC also supervised activities of the Working Groups, reviewed concrete sectoral objectives and reflected them in the strategy. (The Working Groups are discussed in detail in the next section.) In addition, the RDC was made responsible for reviewing the final version of the KRDS and its approval.

Working Groups

The main purpose of the Working Groups was to provide in-depth sectoral analysis with a focus on strategic directions and priorities. It was decided that the Working Groups would be specialized in the following sectors, corresponding to key development priorities of the Kakheti Region:

1. Food, agriculture and wine, covering agricultural production, agro-processing industry, viticulture, and agro-exports.
2. Other sectors of economy and infrastructure, including the manufacturing industry, infrastructure, tourism and other services with special emphasis on small- and medium-sized enterprises (SME) support and development.
3. Water and environment, including water resources protection, irrigation, drinking water supply, sanitation, solid waste management and all issues of environmental protection.
4. The social sector, including education, healthcare, social protection and social services.

Representatives of the Administration of the Governor in Kakheti Region, municipalities, as well as business and non-government institutions formed the four Working Groups. Each Working Group was asked to participate in the development of sectoral inputs for the RDS in view of and based on discussions on the region's main priorities. Each Working Group was facilitated by a Group Leader, who was hired by KRDP to assist the Working Group members in finalizing their inputs to the strategy. At the same time, the Group Leaders were asked to support the Working Groups in obtaining data, carrying out analysis, identifying problems and setting tasks.

Working Groups started their activities with an orientation meeting, where the RDS's main principles, objec-

tives, time frame and methodology were presented. Also, tasks were divided among the Working Group members and the meetings schedule agreed.

The KRDP was actively involved in Working Group meetings, monitoring progress made by the Working Groups, holding regular meetings with Group Leaders, assisting in the coordination within the Working Groups, and contributing to the effective and fruitful review of cross-sectoral problems and priorities.

It is important to note that each of the four Working Groups developed its own working strategy, tailored to their sector specificities. The number of Working Group members also varied between groups, although the minimum was five. All Working Groups had:

- a Group Leader – leading expert-facilitator, provided by the KRDP;
- experts from another relevant government entity or business sector;
- representatives of the municipalities;
- representatives of civil society institutions and community support organizations;

Special attention was given to maintaining the balance of gender and of government/non-government organizations.

Given the specificities of the work, different Working Groups met at different intervals. They succeeded in:

- closely cooperating with the KRDP;
- participating in public discussions to familiarize various institutions and communities with the strategic planning process;
- working in coordination with the RDC and other Working Groups;
- performing tasks as set at the Working Group meetings.

Working Group meetings took place from February to mid-April 2008. Working Groups did not work in isolation from each other, but in cooperation, to ensure a unified approach to the RDS. Also, they worked throughout the entire period of KRDS development.

Guidelines for Participatory Economic Planning, developed by the Urban Institute, were heavily consulted while working on the KRDS. At the same time, the Working Groups benefitted from Municipality Economic Development Plans. By January 2008, the United States Agency for International Development (USAID)-funded Urban Institute Project helped all eight municipalities in Kakheti Region (Akhmeta, Dedoplistskaro, Signagi, Kvareli, Te-

lavi, Gurjaani, Lagodekhi, Sagarejo) to finalize these plans. Almost all departments of the municipal governments were involved in the process, which was implemented in five stages: (i) participatory economic development planning; (ii) data collection; (iii) analysis and assessment; (iv) action plan development; and (v) adoption of the economic development plan and monitoring of its implementation. With support of municipal planning groups, a SWOT analysis was developed for each municipality, priorities identified, competitive sectors and available resources earmarked, and goals and tasks set with time frames for each of the priorities. Economic development plans for all eight municipalities of the Kakheti Region were then set, which largely facilitated the RDS process.

Concerning the strategy process, each Working Group and its Group Leaders were free in their decisions, although all of them were aware of the importance of the participatory process, which implies thorough analysis of public needs and available resources, and of transparent implementation. The Working Groups focused on the most urgent problems and needs, and targeted resources in order to achieve feasible goals. At the same time, they performed an analysis of the demographic situation and trends, the state of Kakheti's infrastructure, economic competitiveness, the financial status of the people living in, and businesses operating in the region, the quality of life, and formulated a vision for their sector development.

After all the above had been undertaken, each Working Group provided sector inputs for the KRDS.

Compilation of the Strategy Document

After the Working Groups had developed sectoral strategies, the KRDP once again organized the mission of Mr. Mikhalev, who met with the Working Group Leaders, discussed their inputs to the RDS and advised on hiring consultants to formulate the final strategy based on the inputs provided by the Working Groups, various studies on Kakheti Region, statistical information, sectoral strategies prepared by the line ministries, priorities set in the Basic Data and Directions Document, and all other documents that contained materials relevant to the region. Due consideration was given to the difficulties caused by the lack or limited availability of statistical data and information, and in many cases, their unreliability.

Two external consultants were asked to assist the Administration and the Regional Development Committee in consolidating all of the inputs into a unified document.

Consultants, together with the RDC, also carried out a competitiveness analysis of the Kakheti Region and developed a vision and a set of priorities for the next five years.

The Public Consultation Process of the Regional Development Strategy

After the draft KRDS was ready, it was presented for public discussion and review to allow the incorporation of comments and suggestions from all stakeholders. KRDP, together with RDA, organized a number of meetings where all interested parties – representatives from the government, public and educational institutions, local businesses, farmers, media and others – were invited to comment on the draft strategy document, which were later reflected in the final version of the document.

The final KRDS was adopted by the RDC in July 2008 at the Council meeting, where the RDC also adopted the vision and the five main priorities of the Kakheti Development Plan for the next five years.

Principles of KRDS Implementation:

- ✓ Strategy implementation is the responsibility of the Administration of the Governor in Kakheti Region and its Regional Development Unit.
- ✓ The KRDS is in line with the Basic Data and Directions Document (BDD) 2009–2012.
- ✓ The Administration of the Governor and the RDA must translate the outlined priorities into concrete projects and initiatives. The KRDS must be updated and adjusted to new realities as needed.
- ✓ The RDA must facilitate KRDS implementation by:
 - facilitating data collection on the Kakheti Region, with continuous updating and analysis;
 - attracting investors to Kakheti Region and supporting their activities;
 - designing concrete project proposals and action plans according to the priorities identified in the KRDS, and presenting them to donors and other interested parties;
 - seeking budgetary funding for supporting KRDS priorities, together with the Administration of the Governor in Kakheti Region;
 - facilitating the municipal planning process in the Kakheti Region municipalities, ensuring their quality and methodological requirements and consistency with the KRDS and national priorities.

ANNEX 2

Statistical information on the wine sector in Kakheti, 2007

TABLE 1. GRAPE VARIETIES AND AVERAGE YIELD, 2007

Kakheti Municipalities	Akhmeta	Gurjaani	Dedoplis.	Telavi	Lagodekhi	Sagarejo	Signagi	Kvareli	Total
Vineyards, ha	1,747	7,618	1,498	6,048	1,846	3,949	4,494	6,382	33,582
Rkatsiteli	1,289	5,250	936	3,903	1,643	2,747	3,486	3,787	23,041
Saperavi	308	1,787	491	1,682	199	952	565	2,316	8,300
Hybrids	150	581	71	463	4	250	443	279	2,241
Grape Harvest, tonnes	11,440	46,095	8,525	29,987	10,924	24,226	29,632	40,474	201,303
Rkatsiteli	8,451	33,510	5,864	19,135	10,121	17,888	23,839	25,666	144,474
Saperavi	2,143	7,625	2,249	7,512	787	4,979	2,130	13,178	40,603
Hybrids	846	4,960	412	3,340	16	1,359	3,663	1,630	16,226
Average Yield, tonne/ha	6.5	6.1	5.7	5.0	5.9	6.1	6.6	6.3	6.0
Rkatsiteli	6.6	6.4	6.3	4.9	6.2	6.5	6.8	6.8	6.3
Saperavi	7.0	4.3	4.6	4.5	4.0	5.2	3.8	5.7	4.9
Hybrids	5.6	8.5	5.8	7.2	4.0	5.4	8.3	5.8	7.2
Grape Price, GEL/kg									
Rkatsiteli	0.35	0.35	0.35	0.30	0.35	0.35	0.27	0.35	0.35
Saperavi	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45
Hybrids	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20

Source: Ministry of Agriculture

KAKHETI WINE PLANTS, BY MUNICIPALITY

Akhmeta Municipality

There are few wine cellars in the Akhmeta Municipality, where the wine produced is mainly sold in neighbouring districts.

The wine companies are:

1. Badagoni Ltd., which has average capacity and owns vineyards.
2. Wine Cellar of the Alaverdi Monastery, which was rehabilitated by Badagoni Ltd.
3. Palavani Ltd.(Kistauri Factory), which is located in the centre of the quality white grape zone; it is a relatively old, but operational.
4. Akhmeta Wine House, Joint Stock Company (JSC) (Akhmeta Factory), which is large scale, but outdated.

Gurjaani Municipality

Gurjaani Municipality is famous for its large-scale wine factories, which mainly have outdated equipment. There is slow progress in terms of updating equipment, although new investments are planned:

The wine companies are:

1. Gurjaani Wine Factory.
2. Mukuzani Wine Factory Ltd.
3. Zegaani Wine Factory Ltd.
4. Vachnadziani Wine Cellar Ltd.
5. Velistsikhe Ltd.
6. Kotekhi-Gurjaani Wine Factory Ltd.
7. Chandari Ltd., which owns large wine factories and has old but operational production line, often rented out, and produces small quantities of wine.
8. Alaverdi Ltd., a new company, with modern equipment.
9. Aguna Ltd., a new company, small cellar with modern equipment.
10. Kardenakhi Wine Factory (Kardenakhi Lower Factory).
11. Alazani Ltd. (Kardenakhi Factory).
12. Kardenakhi Wine Cellar (Upper Cellar), with old equipment; mainly rented out seasonally.

13. Nagdi Marani Ltd. (Tsarapi Marani), newly established small cellar.

14. Kachreti Ltd. (Kachreti wine factory), located in outer Kakheti. Large size and capacity factory; non-operational.

Dedoplistskaro Municipality

1. Mshvidoba + Ltd., outdated, although operational equipment, mainly produces white non-bottled wine.
2. Tushishvili Wine Sorts, outdated, but well functioning factory.
3. Gonashvili Cellar, small Kakhetian wine cellar, highly attractive for tourists.

Telavi Municipality

Most of the famous wine producers, from farmer cellars to large producers, are located in Telavi Municipality:

1. Georgian Wine and Spirits Company (GWS) Ltd., one of the first quality Georgian wine producers. Represents the branch of “Pernod Ricard Europe” Group in Georgia.
2. Telavi Wine Cellar Ltd., one of the first quality Georgian wine producers in Georgia.
3. Teliani Valley, JSC, one of the best known brand names in and outside Georgia.
4. SHUMI Wine Company Ltd.
5. Old Wine Cellar of Tsinandali Ltd.
6. Kakhuri Ltd.
7. Corporation Georgian Wine (CGW) Ltd.
8. BESINI Ltd., a promising project; it has its own vineyards and the wine cellar is under construction.
9. Vinoterra Ltd, a small-scale, high quality, typical Kakhetian wine cellar.
10. Tsinandali Wine Factory Ltd.
11. Teliani Wine Factory 1950, Ltd., with wine cellars of rich tradition and history. The best quality wines have traditionally been produced here. Currently, it does not produce its own wine.
12. Telavi Wine Ltd., a wine cellar of the former research institute. Currently, it does not produce its own wine.

13. Akura Wine Factory, a medium-size and quality wine cellar.
14. Napareuli 1890 Ltd.
15. Kakheti Wine House Ltd. (Saniore Factory), a well-equipped wine cellar from Napareuli microzone, working at low capacity.
16. Napareuli Old Wine Cellar Ltd., a small wine cellar producing good quality wine.

Lagodekhi Municipality

1. Baisubani Wine Factory, large-scale, old factory.

Sagarejo Municipality

1. Khashmi Factory, with modern and Soviet equipment, mainly serving other companies.
2. Manavi Wine Cellar Ltd., a newly established, well-equipped and functional wine cellar.
3. Manavi, JSC, under construction on the old factory site.
4. Saamo Ltd.
5. Badiauri, JSC, large-scale wine factories, with slightly outdated but operational equipment. Produce wines in small quantities; they often rent out their production lines.
6. Keburia Factory, newly established medium-size wine cellar.
7. Kakhuri Traditional Winery Ltd., medium-capacity factory.

Signagi Municipality

1. Anaga Ltd. (Anaga Factory).
2. Tibaani + Ltd., Tibaani Wine Factory, outdated factories, not operational.
3. Khirsi Factory, JSC, outdated but operational.
4. Taro Invest, with modern equipment; owns diverse varietal vineyards.

Kvareli Municipality

1. Corporation Kindzmarauli, JSC, a wine cellar with modern equipment; its management has progressive views

2. Kindzmarauli Marani Ltd., a newly established, modern wine cellar in the middle of Kindzmarauli vineyards.
3. Sakartvelos Marani Ltd., which built a new factory on the site of an older one; owns a tunnel in the rock, with an antique wine cellar; currently not producing wine.
4. Gallery of Georgian Wines, a large factory, used by several companies.
5. Peter Mertes Sakartvelo Ltd., a medium-capacity modern factory.
6. Shildi Wine Factory, a medium-size factory with old equipment.
7. Shildi Wine Factory II, a medium-size factory with old equipment.
8. Chikaani Wine Factory Ltd., currently refurbishing the equipment of the old factory.
9. I. P. Tengiz Lomidze (Akhalsopeli Wine Factory), mid-size, old style Kakheti-type wine cellar.

WINE EXPORTS IN 2005–2007 AND THE DYNAMICS OF EXPORT MARKET
DEVELOPMENT

TABLE 2. GEORGIAN WINE EXPORTS

COUNTRY	WINE			WINE MATERIALS			BRENDY			CHACHA (GRAPPA)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
CIS Countries												
1 Russia	3,925,212	814,281	0			0	193,422	59,975	0	40,321	3,943	0
2 Ukraine	218,582	304,240	412,276			5,500	24,904	41,792	1,475,354	950	396	19,975
3 Belarus	6,460	45,375	41,080			5,576	13,360	4,852	101,452	0	0	27,792
4 Latvia	17,088	43,216	40,721			2,298	4,352	1,632	47,074	13	314	4,724
5 Lithuania	12,157	8,534	10,277			0	0	25	0	0	0	0
6 Estonia	6,505	10,901	10,109			0	0	0	0	0	0	0
7 Kazakhstan	29,169	115,955	113,501			0	3,232	39,256	112,236	0	480	22,392
8 Kirgistan	494	0	0			0	0	0	0	0	0	0
9 Tajykystan	245	754	1,216			0	0	14	1,380	0	0	0
10 Turkmenistan	2,250	752	0			0	0	0	0	0	0	0
11 Uzbekystan	0	0	3,326			0	0		0	0	0	0
12 Azerbaijan	3,065	9,821	3,402			55,604	0	12,094	502,200	0	9	0
13 Armenia	2,757	0	455			1,238	0	0	0	0	9	0
14 Moldova	0	545	0			0	0	0	0	0	0	0
Total/Dalis/*	4,223,984	1,354,374	636,363			70,216	239,270	159,640		41,284	5,151	
Total/Bottles	5,6319,787	18,058,307	8,484,835					3,192,798	2,239,696			74,883
EU Countries												
15 France	3,626	15	1,654			0	0	2	0	0	0	656
16 Germany	10,352	4,420	9,136			0	0	30	138	12	226	240
17 Italy	0	45	216			0	0	0	0	0	0	0
18 United Kingdom	7,014	5877	3,295			0	0	0	0	0	5	0
19 Denmark	68	54	0			0	0	0	0	0	0	0
20 Netherlands	3,173	992	2,655			0	0	0	0	0	2	0
21 Belgium	678	2,759	632			0	0	0	0	0	0	108

ANNEX 2. Statistical information on
the wine sector in Kakheti, 2007

TABLE 2. GEORGIAN WINE EXPORTS

COUNTRY	WINE			WINE MATERIALS			BRENDY			CHACHA (GRAPPA)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
22 Sweden	972	0	393			0	0	0	0	0	0	0
23 Switzerland	0	1,030	764			0	0	0	0	0	0	0
24 Ireland	0	1,054	2,907			0	0	0	0	0	0	0
25 Spain	0	0	1,272			0	0	0	0	0	0	0
26 Austria	0	198	0			0	0	0	0	0	0	0
27 Scotland	0	0	224			0	0	0	0	0	0	0
28 Finland	0	990	833			0	0	0	700	0	0	960
29 Bulgaria	77	140	378			64,000	0	0	0	0	0	0
30 Poland	11,692	19,170	26,629			0	0	0	21,992	354	0	0
31 Hungary	452	0	0			0	0	0	0	0	0	0
32 Czech Republic	2,500	2,021	5,501			4,600	325	658	35,676	0	38	0
33 Romania	532	0	0			0	0	0	0	0	0	0
34 Slovak Republic	227	0	1			0	0	0	0	0	0	0
35 Slovenia	0	0	29			0	0	0	384	0	0	0
36 Greece	921	86	548			0	0	0	0	0	0	0
37 Portugal	2	0	0			0	0	0	0	0	0	0
38 Cyprus	2,018	1,974	0			0	0	0	0	0	0	0
39 Turkey	2,887	165	792			0	0	0	0	0	0	0
Total/Dalis	47,191	40,990	57,859	0	0	68,600	325	690		366	271	
Total/Bottles	629,213	546,537	771,452	0	0	0	0	0	58,890	0	0	1,964
Central Asian Countries												
40 Israel	8,559	7,536	9,026			0	0	0	11,684	30	126	13,335
41 UAE	0	690	1,545			0	0	0	0		0	0
Total/Dalis	8559	8,226	10,571	0	0	0	0	0		30	126	
Total/Bottles	114,120	109,677	140,949						11,684			13,335
East Asian Countries												
42 China	2,813	5,472	8,794			0	919	0	0	7,343	0	0
43 Japan	3,905	4,970	2,581			0	0	5	0		2	0

TABLE 2. GEORGIAN WINE EXPORTS

COUNTRY	WINE			WINE MATERIALS			BRENDY			CHACHA (GRAPPA)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
44 South Korea	0	53	1,088				0	0	0		0	0
45 Korea	202	0	709				0	0	0		0	0
46 Mongolia	0	0	1,132				0	0	0	2,550	0	0
47 Taiwan	788	9	16				0	0	0		0	0
Total/Dalis	7,708	10,504	14,320	0	0	0	919	5		7,343	2	0
Total/Bottles	102,773	14,0053	190,925							2,550		

North Americas

48 USA	160,360	43,276	33,217				0	1,522	1,058	3,622	3	61	780
49 Canada	1,462	3,601	5,583				0	0	168	10,812	30	78	0
Total/Dalis	161,822	46,877	38,800	0	0	0	1,522	1,226		33	139		
Total/Bottles	2,157,627	625,022	517,327										780

South America

50 Panama	0	1,022	0				0	0	0	0	252	0
Total/Dalis	0	1,022	0				0	0	0	0	252	0
Total/Bottles												

Duty-free/ Airport

Total/Dalis	0	0	3,717	0	0	0	0	0		0	0	
Total/Bottles	0	0	49,554	0	0	0	0	0	2,047	0	0	1,868
Total exports												
Total/Dalis	4,449,264	1,461,993	761,630				138,816	242,036	161,561	0	49,056	5,941
Total/Bottles	59,323,520	19,493,219	10,155,042				3,227,147	2,873,746	2,329,301		80,931	92,830

* Dali-10 litres

ANNEX 3

Linkage of Kakheti Regional Development Strategy with the *Basic Data and Directions Document* and Central Budget Expenditure Priorities

For the KRDS to be successful, good knowledge of the central government priorities is required, as set in the Basic Data and Directions Document (BDD). It is equally important to consult the Medium-Term Expenditure Framework (MTEF) concerning which activities within the Kakheti Region are financed

through Central Budget funding. It is recommended to include in the KRDS aspects of BDD 2009–2012 that concern Akhmeta, Gurjaani, Dedoplistskaro, Telavi, Lagodekhi, Sagarejo and Kvareli Municipalities, as shown below:

Extract from Basic Data and Directions Document (2009–2012)

2009-2012 PRIORITY DIRECTIONS FOR AKHMETA, GURJAANI, DEDOPLISTSKARO, TELAVI, LAGODEKHI, SAGAREJO, SIGNAGI AND KVARELI MUNICIPALITIES

Priorities	1. Infrastructure Development	2. Tourism Development	3. Industry and Agriculture Development
Justification of the priorities in respect of the current situation	There is need for construction and development: water supply systems, outdoor lighting, local roads, flood canals, medium and high pressure networks for natural gas.	The natural beauty of the region and ancient historic monuments create favourable conditions for tourism industry development. Tourism would also benefit from state forest and reserve funds, whose flora and fauna are unique in the world.	Processing facilities are needed for agriculture products, especially those for fruits and grapes. Tractors and agricultural service centres are needed
Expected time frame	2009–2012	2009–2012	2009–2012
Expected results	Water supply will be improved. The socio-economic situation in the region will be improved. Forest reserves will be safeguarded. Risks of floods and landslides of settlements and agriculture land will be mitigated. Electricity will be provided to the population.	Maintenance of the historic heritage will be improved. The population's economic conditions will be improved. Living conditions will be improved. A healthy lifestyle will be promoted.	People will be employed in the agriculture processing industry. Agricultural producers will have a guaranteed market.