



The Overview of Kazbegi General Development Potential

Baseline study

1st December 2015
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Executive Summary

The region of Kazbegi offers a complicated terrain for anyone looking to help the development of the region. After significant decline in local infrastructure and out-migration of the most economic productive, in a not too distant past, the region seems to be improving, benefiting from infrastructure improvements and a local tourism boom. However, the region is highly polarized, with improvements in Stepantsminda occurring far faster than the rest of the region. Therefore, any efforts to develop the region must focus on two goals; facilitating and supporting the natural market improvements that are coming to the region, and ensuring that as wide a range of region benefits from those improvements as possible.

The following research is intended support an EU-financed project to develop and support a Local Action Group (LAG) in Kazbegi. This LAG will bring together local government, the private sector, civil society and individual citizens to discuss development priorities and initiate projects to improve the local environment and to enhance inclusive economic growth.

This piece of research, that started in August 2015, was intended to provide a baseline for the work of the project, and an overview of the local environment that can help to orient the initial work of the Local Action Group. The same team who produced this research, has also provided separate research in the Tourism sector and the organization Elkana have already provided research on agriculture, so this baseline did not cover either of those areas.

The research combined comprehensive analysis of existing material that provides information on the region, including data from a wide range of government agencies, but the main tool for research was a survey of 380 households, out of roughly 1,500 households in total. This covered all of the communities of the region (except Kobi and Gudaurisakrebulo that will be covered in later reports) and covered issues including demographics, employment, seasonality of location, local infrastructure and public service provision. The survey took place between October 22nd and November 17th 2015. Local LAG members were selected as interviewers and the relevant training and supervision was provided. This was intended as enhancing capacities of LAG members. The survey results were combined with the results that were gained from our tourism study where we had conducted interviews with 60 hospitality businesses in Kazbegi.

Kazbegi municipality is divided into 6 sub-municipal entities (Sakrebulo): Kazbegi, Goristsikhe, Sioni, Sno, Kobi, and Gudauri. Officially, there are 47 villages in all of the municipality, but only 25 of them have any sort of permanent population. The administrative center, Stepantsminda, is 150 kilometers and roughly 2.5-3 hours from Tbilisi. It is also 12km or 10 minutes from the Russian border and 45km, or about 1 hour (not including border crossing) from the Russian town of Vladikavkaz, the regional capital of North Ossetia.

One of the biggest structural changes to the region in recent years is improvements in the road. Kazbegi is connected to the East-West highway and Tbilisi by the "Military Highway" that traverses 136km to the Russian border. While the first 2/3 of this road, which leads to the large and developed ski resort of Gudauri, has been in good repair for many years, the road between Gudauri and Stepantsminda has been in a state of severe disrepair until a few years ago. Recent improvements have improved ease and time requirements for travel and,

together with improvements in tourism nationally, have stimulated a tourism boom in the region.

This has led many people to return to set up tourism businesses and stimulated the construction of the Georgian branded hotel chain "Rooms." Both have, generated significant activity and the Rooms Hotel has generated almost 1 million GEL to the local municipal budget from gambling related taxes alone.

However, the returnees to Kazbegi who have set up businesses are often merely seasonal. Many of the people that we talked to, from a range of different backgrounds, suggested that as much as 40% of the Kazbegi population might leave during the winter, most going to Tbilisi. Though our research suggested that this number might be exaggerated (and further research is needed to clarify this issue) migration seems to be particularly heavily concentrated in young people who are studying at University and in young parents, who want better schools for their children that Tbilisi provides.

When looking at the region (excluding Gudauri) it is important to understand that it has very strong core-periphery logic. The core of Stepantsminda and Gergeti are dramatically different to the rest of the region. More than 1/3 of this group claim to have their own businesses, mostly dependent on tourism. Levels of formal employment are also higher. However, in most of the rest of the region, the main means of income and subsistence is a combination of very low output agriculture and social assistance payments. Stepantsminda and Gergeti also have the highest population density and between them represent more than half of the regions 1,500 households.

Around ¼ of the local population receive state pensions, compared to 15% nationally, and is consistent with the percentages that one sees in other mountainous areas, where outward migration has led to a dramatically aging population. Around 30% of households receive targeted social assistance (TSA), the government's means tested social payment. This is far higher than the 12% that recipients receive it nationally. This partially highlights the relative poverty of the region. However, it also highlights the fact that equations for classifying suitability for TSA puts significant weight on people located in high mountainous regions. The number of people officially classified as „with disabilities” is low, but we know from previous research that this can be significantly understated and the key issue for the persons with disabilities is that there is little or no support structure for them.

45% of the adult population is university educated and 29% have vocational education, so that only ¼ have no tertiary education.

The Parliament of Georgia passed the Law on Development of High-mountain Areas in July 2015. The law includes the entire Kazbegi municipality. The new law, could provide considerable impetus for local development. When it takes effect on 1st January 2016, it will provide 100 gel per month to local residents who have a baby, and this will rise to 200 for 3rd children and above. It will also provide exemptions from income tax, profit tax and property tax as well as increased support for schools in the region. In addition, in September 2016, another set of benefits will start, that will increase salaries for doctors and teachers in the region, as well as partially covering heating and electricity costs of local residents.

Regional development plans have been written for Mtskheta-Mtianeti, under projects supported by UNDP and GIZ. However, they provide very little detail about Kazbegi development. UNDP is currently finalizing municipality-based plans for 22 municipalities nationally and is also developing, along with the Ministry of Finance, a new system for the development of municipal budgets. This will require public consultation, and so offers an opportunity for the LAG to connect to local financial decision making.

According to our survey, 57% of the population classify themselves as “unemployed.” This is actually not as bad as it sounds. The National Democratic Institute conduct regular national polling on a range of issues, and in that poll only 33% say that they have a job.

Employment in Kazbegi is concentrated in jobs paid for by the state, with 26% are employed by the state (mostly as teachers) and only 17% are employed by businesses. which may simply reflect the very small population of Kazbegi, and the fact that providing basic government services needs to employ a larger proportion of the population than elsewhere. The five biggest employers (from our survey) include schools and kindergartens, emergency services, Rooms Hotel, the Hydro-electric power station and the border police. This would also suggest that salary increases for teachers that are proposed by the new law on mountainous areas could have a significant impact in Kazbegi.

The general story of economic activity and economic opportunity provides a fairly mixed picture. On the one side, as indicated by the employment numbers, there is a small pool of organizations that will provide full-time employment. This is unfortunate as we know from many other pieces of research that achieving full-time employment is usually the main employment goal. However, we also know that it is not unusual. In rural Georgia, according to official numbers, it is common to only have 20% of the population in private sector salaried employment.

However, in Kazbegi, self-employment, particularly in the Stepantsminda and Gergeti, does seem to be booming in a fairly meaningful way. In Stepantsminda 36% of households said that they have a local business, mostly a guest-house or a driver service. In addition, 46% of households have taken out loans, mostly to expand their businesses, renovating a house or buying a 4x4 vehicle.

Government and Public Services

Local government spending has increased significantly in the last year and the overall budget has gone up from 3.85 million GEL in 2013 to 6.08 million in 2014 to almost 7 million in 2015 and 2016. The bulk of this increase in 2014 has been spent on a line-item shown as „communal management.” This was mostly due to the transfer from the state budget to fund the construction of hotel in the village of Sno, next to the patriarchate’s residence. However, the construction works are still not completed. Also, interestingly, educational spending has doubled (which would relate to pre-school) but environmental spending has halved.

Land registration also continues to be a problem, in Kazbegi, as in the rest of the country. A small proportion of land-owners have their land properly registered on the cadastral register and it is expensive to get it registered in this way. This creates some uncertainty both over private and communal land. This does not really create problems now, but could in the future.

In Stepantsminda, most of the government and other services are available, including a local government, police, hospital, fire-fighters unit, and several schools and kindergartens. Recently, the Ministry of Justice also completed the construction of the Justice Hall, making over 200 government services available for local population all in one place, so that people no longer need travel to Tbilisi. Transportation is problematic, but there is a bus that once a day travels from Stepantsminda to neighboring villages. It has a Socar petrol station but no large supermarkets. Gudauri has a Smart Supermarket. There is no agricultural equipment provider in Kazbegi.

This service provision also has a core-periphery element. Internet service in Stepantsminda is good, but gets worse as one goes out of the center, and in some villages, even mobile phone reception will be unreliable. As one goes out of the center there are fewer shops and the roads become significantly worse. As a result, according to our survey, the top three problems for local population are agricultural equipment, pharmacy stores, and rural roads.

Schools are also a challenge, particularly out of the center. There are 7 schools in a municipality with 25 villages so that some villages are both distant from schools. In both schools of Stepantsminda, although one (St. Iliia Gymnasium) is more well-furnished and equipped than the other public schools., Both schools have at least basic computer equipment, sport facilities, and heating system. In the rest of the schools, except in Arsha and Sioni, people use the wood stoves for heating and other facilities are simply non-existent. One of the stated reasons why so many people go to Tbilisi out of the summer is so that young families can send their children to better schools.

Recommendations

The following are issues from the report that seem to deserve attention from the Local Action Group.

- How to get more people who come to run businesses in the summer, to stay for longer. Key issues seem to be
 - o Schools
 - o Pre-schools
 - o Medical services
 - o Other municipal services
- Identifying what matters to the seasonal migrants could increase the number of economically active people in the region and help the local economy and society
- Need to identify exactly how the new law on mountainous areas, and any development in that direction, will open up opportunities for the region.
 - Need to keep connected to the development of „the Methodology of Program Budget Drafting“ as this may provide a mechanism for securing more central government finance, dependent on effectiveness of local consultation.
 - Tourism development (from previous study) needs to focus on adding value and providing reliable services and greater local infrastructure.
 - o Development of more ‘out of Stepantsminda’ touring, might bring the benefits of tourism to the whole region and would add to the added value possibilities of the core.
 - Initial priorities deserving of attention
 - o Local roads improvements
 - o Farm equipment provision – or outreach
 - o Need for some kind of pharmaceutical outreach
 - Need a better understanding of
 - o Seasonal migration
 - o Schools
 - o What is the municipal budget process

Methodology

To understand the details of the current situation and challenges in Kazbegi municipality, we used a mixture of methods. We started work in August of 2015 and while our initial focus was the tourism survey, this also helped to provide us with a general development overview, and provided us with good local in-depth knowledge that we were able to leverage in our broader analysis. This study, like the tourism study, covers Kazbegi municipality, with the exception of Gudauri and Kobi.¹

The central piece of the research methodology is a baseline survey in Kazbegi municipality. The survey was confidential, so we didn't record the names of the interviewees, but we have recorded their phone numbers and our staff from Tbilisi was selectively calling some of the respondents to make ensure the data collection quality.

We covered all settlements of the Kazbegi municipality (except Gudauri Sakrebulo). We didn't know the exact population size before the sampling, but estimated based on the 2002 national survey, later population data from Geostat, and Elkana survey conducted in 2014. We also went in each community and asked about the number of households and population. The total number of households is about 1,500. We have surveyed 380 households in total. To achieve 5% Margin of Error and 95% Confidence Interval, we needed to survey 306. However, we decided to visit every community and use the proportional-to-size methodology.

The survey questionnaire was designed to be simple and relatively short. This task became possible because of the other research pieces of the PiN project. GeoWel has already produced a comprehensive tourism study, while Elkana has produced an agricultural study. This meant that our survey did not include tourism and agricultural questions. But both of the issues are still covered in general development review using other sources. The field-work lasted from October, 22 to November, 17 2015.

The fieldwork team was made up of experienced researchers and Local Action Group (LAG) trainees. The experienced researcher regularly conducts research for other organizations, including Geostat. LAG members were included, to help train them in research methodology, as well as to ensure that they learn as much about the community as possible and have buy-in to the final product. Using LAG members for field research posed several important challenges in terms of timely data collection and quality control. On the one hand, it was very useful to have local interviewers in the localities where we conducted the survey as it helped them to collect detailed information about the settlement. On the other hand, not all LAG members had the same level of interest and ability, to conduct the research, which meant that we had to invest a great deal more time and efforts in ensuring that the information was collected properly. In addition, the timing of the research had to fit the availability of LAG members, and this created some delays. Nonetheless, while this strategy may have slowed the research

¹Gudauri was left out of this assessment for two reasons. First, unlike the rest of Kazbegi, Gudauri operates based on a winter ski season. Therefore, research in the summer would provide a poor sense of the region and its economic activity. Second, while Gudauri is formally part of Kazbegi, it can be thought of as an entirely separate and different entity, since unlike the rest of Kazbegi, it has wide range of developed tourist infrastructure and large volumes of highly commercial tourist activity. Therefore, to review the role of Gudauri in the region, we will conduct a separate analysis of the region in 2016.

process generally, we continue to believe that it was the right decision and will ultimately benefit the priorities of the project.

In addition to the survey, we also collected data from government and non-government entities. Kazbegi budget information was taken from the publicly available legislative database “Matsne” (for 2015) as well as through the facebook page of the Kazbegi municipality (2016). On “Matsne” we were also able to find the relevant legislation. Other government documents, a strategy for regional development we took from the Ministry of Regional Development and Infrastructure (MRDI). Information about land registration was taken from the National Agency of Public Registry (NAPR), as well as secondary sources such as Transparency International (TI). Demographic data was taken from Geostat’s databases. We took data about social assistance, such as a number of pensioners or Targeted Social Assistance recipients from the Social Services Agency (SSA). From the Ministry of Education and Sciences we took information about the schools.

We had a continuous communication with the PiN and Elkana project staff in Kazbegi. We attended PiN’s initial community meetings in the villages of Vardisubani, Sioni, Garbani, Arsha, and Juta. This allowed us to gain initial information before our field-work started. Through our tourism study, we also have talked to more than 60 businesses in Kazbegi, local and central government representatives in Kazbegi.

Description of Kazbegi municipality

Kazbegi municipality is divided into 6 sub-municipal entities (Sakrebulo): Kazbegi, Goristsikhe, Sioni, Sno, Kobi, and Gudauri. Officially, there are 47 villages in all of the municipality, but only 25 of them have any sort of permanent population. In our study, we cover all settlements except Gudauri (which contains 4 villages).

Kazbegi sub-municipal entity consists of the town of Stepantsminda (administrative center with roughly 550 permanently occupied households), Gergeti area (120 households), and 2 small villages of Tsdos (5 households) and Gveleti (1 household) near the border with Russia.²

Stepantsminda is 150 kilometers, and roughly 2.5-3 hours from Tbilisi. It is also 12km or 15 minutes from the Russian border and 45km, and about 1 hour (not including border crossing) from the Russian town of Vladikavkaz, the regional capital of North Ossetia.

Stepantsminda and Gergeti are dramatically different from other settlements of Kazbegi. While in villages of Kazbegi population heavily rely on subsistence-farming, the Stepantsminda/Gergeti population greatly benefit from a booming tourism sector, offering numerous places for accommodation and other tourist services to its guests. All the main economic activities of Kazbegi municipality primarily take place in Stepantsminda, including local council and executive body offices, representatives of the central government, schools, restaurants, and other businesses, primarily related to tourism.

²The official demographic data from the Geostat census will be available in Spring, 2016. We have asked our interviewers to collect demographic data in the communities where they worked. We then compared our data to the 2002 data from Geostat and results of the 2014 survey conducted by Elkana (not published) and revised the figures.

The main North-South road that connects Tbilisi to Stepantsminda is commonly referred to as the “Military Highway”. This road is 136km, and connects Georgia’s main East-West highway (near Tbilisi) with the Russian border. One can think of this road as having three sections; the first 90km or so, which connects to the main ski-resort of Gudauri. The next 35km that connects Gudauri to Stepantsminda and the final 10km to the Russian border have been in extremely bad condition until very recently. A couple of years ago, the 35km to Stepantsminda could longer to traverse as than the 90km from Tbilisi.

However, in the last couple of years, sections of the road beyond Gudauri have been significantly rehabilitated. Now the section from Gudauri to Stepantsminda can be traversed in less than an hour when the weather conditions are good. In Winter, however, it is not uncommon that Gudauri-Kobi segment of the road, some of which are more than 2,400 meters above the sea level, will be made inaccessible by snow. Heavy equipment usually clears it quite quickly, but there is no clearing of roads for villages like Tsdo or Juta, so people are stuck there for months.

The “military road” and the Larsiborder check-point is an important transit route to Russia. According to the Incoming Transport Dynamics data³, the total number of vehicles that entered Georgia in 2012 was 921 thousand, of which 91 thousand entered through the Larsi check-point. Although there is no official data now, the number must have been even further increased due to increased trade and cooperation between Russia and Georgia since 2012. The route is also very important for Armenia as this is the only route that connect Armenia to Russia. On the one hand, this increased transit function of the road poses some hazard to local population. We have come across villagers that have the live animals killed by fast-moving trucks. On the other hand, in Winter, Kazbegi gets snowed in and truck drivers rent rooms and buy food locally.

Sioni is the largest sub-municipal entity after Kazbegi. It is quite close to Stepantsminda and has relatively little economic potential compared to other sub-municipal entities. It has 3 relatively large villages which are located close to the “Military Highway”, two small villages and 2 villages that do not have a year-round population. The large villages are Sioni (80 permanent households), Arsha (90 households) and Garbani (100 households). The small villages are: Vardisubani (on the highway with 12 households), and Pansheti (off the highway with 15 households). The 2 villages that don’t have a permanent population any more: Gaiboteni and Toti.

Sno area is located just off the main road, with Achkhotias the first village on the way to Juta. While Achkoti (with 50 households) is basically on the highway, and 3 kilometers from Achkoti there is a good road leading to Sno the village (80 households). It is hard to reach other villages of the Sno valley in winter: Akhaltsikhe (19 households), Karkucha (18 households) and Juta (12 households). The villages of Artkhmo and Koseli do not have permanent population anymore.

³The data is compiled by the Georgian National Tourism Agency (GNTA). The most recent available data on incoming transport dynamics is from 2012 and can be available at GNTA Stats Portal <http://stats.georgia.travel/Default.aspx>

Juta is an important tourist destination in summer. It takes around 30 minutes to reach it from the main road, although the distance is only about 15 kilometers. This is because of the bad conditions of the road after the village of Sno. Sno is famous for being a birthplace of the Patriarch Ilia II and hosting a large residence complex of the patriarchate.

Goristsikhe Sakrebulo, in general, is remote from the highway and Stepantsminda. The largest village is Goristsikhe (65 households), followed by Pkhelshe (40 households), Tkarsheti (30 households), Kanobi (25 households) and Khurtisi (19 households).

Kobi Sakrebulo is the most population-drained area of Kazbegi. Of 18 villages, only 2 have small permanent population: Kobi (3 households) and Almasiani (8 households). The major ethnic group that used to live in these areas were ethnic Ossetians.

Demographics and statistical profile of the Kazbegi population

Seasonal migration from the region is an important feature. Some discussions seem to suggest that as much as 40% of the population may seasonally migrate. However, the direct result of our survey suggested a far lower number. Follow-up questioning is needed to clarify the true level. Migration seems to be increasingly prominent for parents with school age children, as they want their children to have access to higher quality of education.

Seasonal migration in Kazbegi is in some ways, a positive trend. Many of those who now come to Stepantsminda for the summer had previously left permanently, but after a tourism boom that started 5 or 6 years ago, many people returned to Stepantsminda to run their homes as home-stay guest houses in the summer. Often, several family members relocate to Kazbegi in summer, during the tourist high season, but go back to Tbilisi before winter.

The number of people who claim to stay in Stepantsminda in the winter may also be inflated. As will be discussed below, the government passed a law in 2015 that gives specific financial support to people who are permanently resident in high mountainous regions. To be considered a High Mountain Area Resident, you need to spend 9 months or more in the region. As a result, many claim that they spend 9 months in Kazbegi. However, on discussion, it is clear that out of this group many spend significant amounts of time on visits to Tbilisi, particularly in the autumn and winter.

There is also an important town/village difference in Kazbegi. Of approximately 1,500 permanently resident households in Kazbegi municipality, almost half of them live in Stepantsminda (500-550 households) and Gergeti (120 households).

In terms of household size, the range is big. We have come across many one-member households but also one household with 11 members. The average size was 3.5 members per household.⁴ But usually young members of a household live in Tbilisi. Based on our survey, almost half of the people who do not live in Kazbegi permanently are in the 19-25 age group. Usually, they are in Tbilisi for studies.

⁴This is a preliminary figure from the database. The final figure will be available after the data processing will be completed.

According to the Social Services Agency, there are about 900 age pension-recipients in Kazbegi, which is almost ¼ of the entire permanent population of the municipality. The number of TSA recipients is slightly higher, just over 1,000 (450 households). This is almost 30% of the total households, which is significantly higher than the national average of 12%, and one of the highest in the country. This certainly reflects the high level of poor people in the country, but also highlights the fact that equations for classifying suitability for TSA puts significant weight on people located in high mountainous regions.

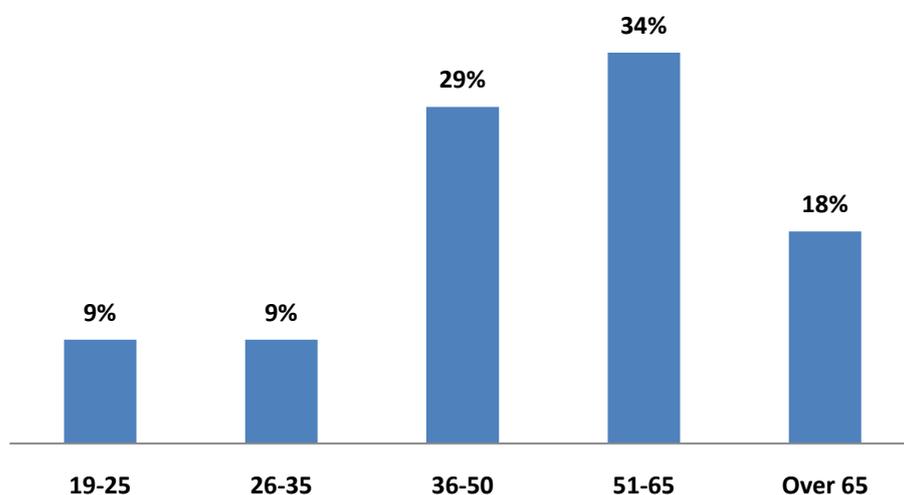
Kazbegi also officially has 86 persons with disabilities, according to the Social Services Agency. But as in many other places in Georgia, facilities to accommodate them in Kazbegi are poor or non-existent.

Figure 1: Educational profile of adult population in Kazbegi

Higher or currently enrolled	45%
Vocational	29%
Secondary	26%

In terms of education, it is interesting that three quarters of the population have tertiary education, though more than 1/3 of that group has vocational education rather than university degrees. Although there are not many people who are currently enrolled in vocational educational institutions from Kazbegi, it seems that in soviet times many people from Kazbegi had opportunities to master different vocational specialties.

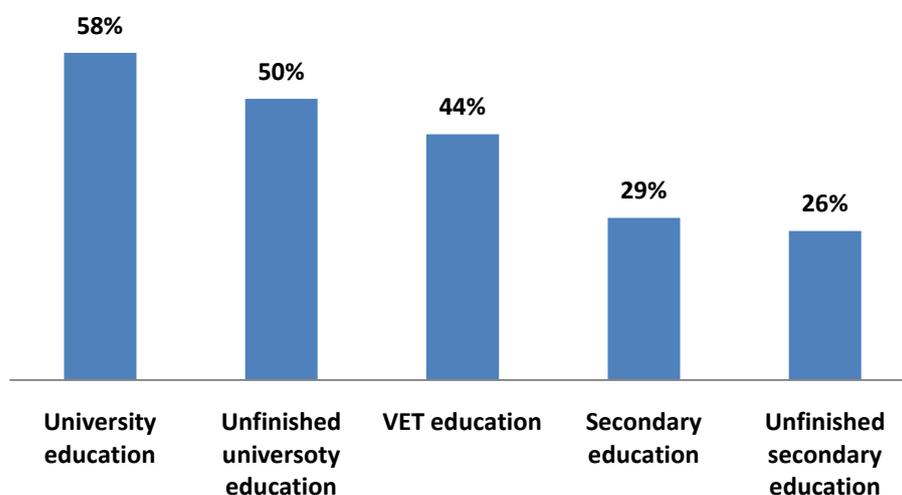
Figure 2: Break-down of age-groups of respondents with VET education



If we look at age break-down of people who have received VET education, more than 80% are 36 or older. There is no state or private vocational education institution not only in Kazbegi municipality, but in the whole Mtskheta-Mtianeti region. The most popular VET professions of Kazbegi population are accounting, medicine (including nurses) construction-related specialties, car mechanics, and animal husbandry.

As expected, people with a higher education level are better off with employment situation. Below is a detailed break-down and explanation.

Figure 3: Employment level by the level of education



The data shows that, 58% of people with university education are employed. Even unfinished university education fares better than VET education or secondary education. On the one hand, it is natural that employers prefer employees with higher education, but also the largest employers in the region (schools and banks, for example.) require specific university education. Large employers for people with VET education include a gas station, hotel (Rooms), emergency services and the border police.

Kazbegi strategic documents and legislation

The Parliament of Georgia passed the Law on Development of High-mountain Areas in July 2015. The law covers the settlements 1,500 meters above the sea level, thus includes the entire Kazbegi municipality. The law replaced the law on “Socio-Economic and Cultural Development of High Mountainous Areas” that had been in force since 1999. The new law provides more benefits to high-mountain areas which will be implemented in three phases:

From January 1, 2016:

- 100 GEL monthly financial for each family living in the mountain regions for two years following the birth of every newborn child. Amount of money will raise to 200 GEL in case of third, fourth and subsequent child.
- People will be no longer obliged to pay income taxes if their annual salary is GEL 6000 or lower.
- Mountain residents will be exempted from profit tax for 10 years.
- Residents who permanently live in a high mountain region will be exempted from property tax for land they own (Permanent residency will be offered to people who spend at least 9 months of the year in the mountains).
- Schools and other educational institutions in mountain regions will get increased vouchers.

The second benefits scheme will get into effect on September 1, 2016:

- Doctors will be able to receive an extra salary twice as high as the state pension, while nurses will also receive an extra salary that matches the state pension.
- Teachers will get an extra salary as high as at least 35 percent of their salary.
- Residents in mountain regions will receive 20 percent higher pensions and social assistance.
- Heating costs for the mountain population during wintertime will be partly covered by the Government.
- Teachers participated in programs initiated by the country's Education Ministry will receive increased salary by 50 percent.
- The final benefits scheme which is going to actuate on January 1, 2017 is related to electricity expenses. From January 1, 2017 residents of mountain regions will get 50 percent of their electricity expenses covered by the Government.

The new law also supports business development in mountain regions as under the new law entrepreneurs who establish business in mountain regions, use local resources, and employ local residents, will be exempt from taxes for three years.

These are good and timely initiatives and might act as a catalyst in developing mountains. However, it will be good to include civil society in monitoring of the implementation of these activities. And the government needs to launch an active campaign on informing local population about the changes that will take the place. One area that might cause confusion, for example, is how the government will monitor who stay in Kazbegi for 9 months or longer and how the relevant certificates will be issues.

In addition, with the help of UNDP and GIZ, the Government of Georgia has adopted Regional Strategies for each of the regions of Georgia. The Mtskheta-Mtianeti 2015-2021 has been recently uploaded on the website of the Ministry of Regional Development and Infrastructure (MRDI) and it highlights the key challenges and directions for the region. The government sees promotion of export-oriented small and medium business and important factor for the region's economic development. Particular attention is given to agriculture and developing extension services that would facilitate better agricultural practices. One of the most specific directions is helping setting up milk collection centers that already work quite successfully in other regions and the demand is still growing. The strategy also acknowledges the potential of tourism and the need for developing adequate accommodation services and offering new tourism products, such as ski-lifts for training young guides in Kazbegi, for example. The strategy also summarized long-standing challenges of the region, including waste-management, transportation between the villages and communal management.

As a pilot project, UNDP is also helping 22 municipalities in 6 regions (Dusheti and Tianeti from Mtskheta-Mtianeti, but not Kazbegi) to develop Municipal Development Plans based on the regulation N244 of the Minister of Finance "On the Methodology of Program Budget Drafting." This will include raising public awareness and civil society involvement. The project is expected to finish in January, 2016, and then expand to other municipalities. This is important for Kazbegi LAG as this may provide a formal structure for long-term inclusion of local private sector and civil society to be included in municipal development decision making and the budgeting that follows from it. It is hoped that, as a result of this project, many of the Kazbegi LAG members will have an opportunity to be included in institutionalized municipal decision-making.

Economic activities in Kazbegi

Stepantsminda is a major tourist destination in Georgia and during high season it has active business life. Most businesses are in the tourism sector. The Rooms hotel is the major player since its opening in 2011. With 156 rooms (312 beds) it is the largest hotel in the region (including Gudauri) and with prices starting at USD 140, it is focusing on relatively high income clients. There are also 2 medium-sized hotels and almost 60 guesthouses just in Stepantsminda and Gergeti, in addition to 3 hotels and a dozen of guesthouses of Juta.

Outside of Stepantsminda, Gergeti, Juta, and to a very limited extent, Arsha (that is often considered to be the best local Khinkali place in Kazbegi and has 2 guest-houses) however, tourism is hardly bringing benefits to local population in villages outside of Stepantsminda/Gergeti.⁵ In villages, people mostly live off pensions, social assistance money and subsistence agriculture. Although traditionally, due to the lack of arable lands and high altitude, there are very few crops except potatoes.

The church and people connected to it seem to be actively involved in agricultural activities. For example, the largest trout farm in Kazbegi is in the Sno village, owned by the monks who live at residence of the patriarchate. The largest sheep herd in the region is also owned by people connected to the church.

Villages usually have 1 or 2 small shops and a bread-making place (“Tone”). But on roadside villages there are also a few other businesses. For example, in the village of Achkoti there is a cereals storage facility. The operator of the storage imports cereals from Russia then distributes them in the different regions of Georgia.

There are also attempts to start new agricultural businesses in Kazbegi, such as producing kinds of strawberries and lettuce leaves. Such projects were primarily supported by USAID’s NEO project and some of the initiatives seem to still working. These ventures have some success, but as new businesses their markets are limited. It seems that even locally, a value-chain can be developed so that local producers sell their products in hotels and guesthouses of Kazbegi. But that needs to be accompanied with adequate marketing strategies.

Another development project that is being implemented is administered through the Kazbegi National Park. They provide small grants to people living in the Park’s adjacent communities. One issue that is not clear, however, is when the park will be finally formed and its boundaries established, some of the farmers might be restricted in access to farming and grazing lands. Currently, there is an active ongoing debate nationally on the ability of farmers to register their land holdings at NAPR. The process is not easy and might become more difficult.

Apart from businesses in settlements, there are also several important sites for local employment:

⁵For detailed information about accommodation places and other businesses directly related to tourism, please refer to the tourism survey

Figure 4: The largest employers in Kazbegi

1	Public schools and kindergartens
2	Emergency services
3	The Rooms hotel
4	Hydro-electric power station in Dariali
5	Border police
6	Energo-pro Georgia
7	Self-government body
8	Socar petrol station
9	Liberty bank
10	Other

According to our survey 57% of the total adult population is unemployed. The largest employer in Kazbegi is the state. From our survey, 26% of the population over 18 years old were employed by the state (mostly at schools), and 17% were employed by the private sector.⁶ In Stepantsminda about 50% of the population is employed, and the share of private sector employment is almost as big as state employment. Usually, in big businesses like the Rooms hotel, local staff holds low-level positions, such as the security service of the hotel.

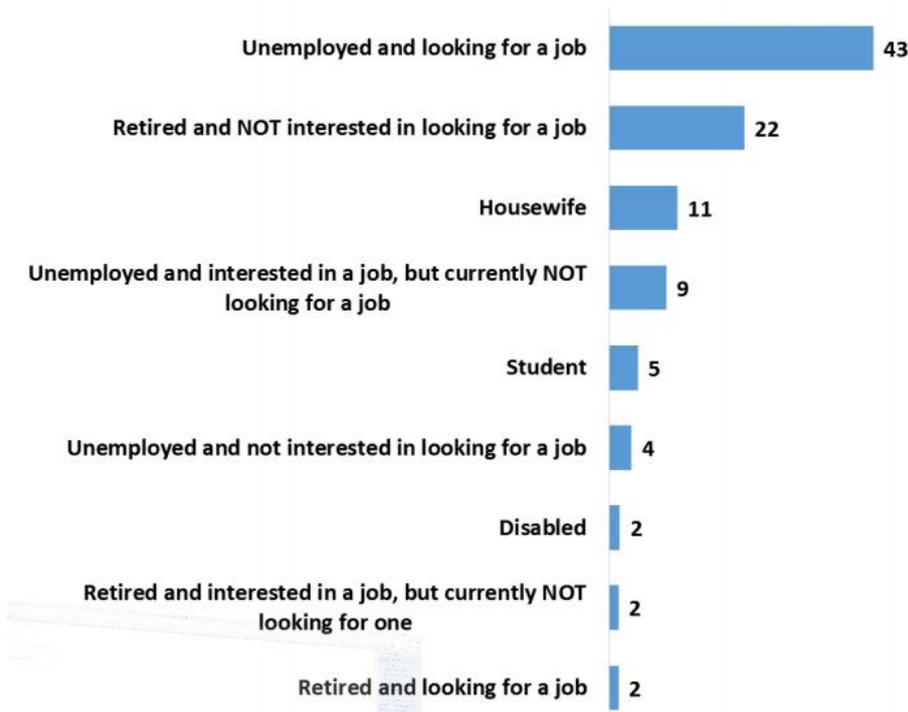
This is actually not as bad as it initially sounds when compared to how people answer this question nationally. Because of the low levels of formal employment there is often a major split between those who consider themselves employed and those that the state considers employed so that self-classification of unemployment is always a lot higher than that provided by the state.

When the National Democratic Institute conducts a political poll in Georgia, they ask the respondents (who represent a national sample of the population), 'are you employed'. In answering the question 67% say that they are not employed and only 33% say that they are.⁷ However, that is also not an entirely meaningful number, as the 67% 'no's include people who are not part of the employment market. If we look at the breakdown of the 67% unemployed, we find.

⁶This is a preliminary figure from the database. The final figure will be available after the data processing will be completed.

⁷National Democratic Institute (April 2015), Public Attitudes in Georgia, p16

Figure 5: Breakdown of 67% of the population that classified themselves as 'not employed' in April 2015 NDI Poll⁸



If we just take the initial number as the indicator of those who are looking for work (43% who are unemployed and looking for work), then this suggests 29% unemployment. Therefore, it is important that before we draw too strong a conclusion from the initially high sounding headline number for unemployment, we also need to think practically a little more about what it means.

In Stepantsminda, about 36% of the surveyed households said that they have a business. These were mostly a place for rent or a car service.

According to our survey, 46% of the population have taken loans, mostly from the banks and micro-finance organizations. In Stepantsminda these loans are mostly used to expand accommodation business by, for example, renovating a house or buying a 4x4 vehicle for servicing tourists. In the villages, the money is used to buy agricultural inputs.

Government and private services in Kazbegi

The local government spending and budget

While there are many problems in Kazbegi, it is worth looking at the budget in order to see what are their main responsibilities and priorities. The Kazbegi budget report is publicly available in the legislative database "Matsne" as well as through the facebook page of the Kazbegi municipality.

⁸National Democratic Institute (April 2015), Public Attitudes in Georgia, p17

Figure 6: Functional break-down of the budget (factual) for 2013-2016 years (in million lari).⁹

Item	2013	2014	2015	2016
Administrative costs	1.3	1.5	1.5	1.3
Communal management	0.3	2.2	0.5	0.1
Economic activities (transportation)	0.9	0.9	1.3	2
Education (mostly pre-school)	0.3	0.6	0.7	0.6
Environmental protection	0.6	0.3	1.3	1
Recreation, culture and religion	0.2	0.3	1.2	1.6
Security and public order (fire emergency)	0.1	0.1	0.2	0
Social protection	0.06	0.1	0.2	0.2
Defense	0.05	0.04	0.04	0.04
Health	0.04	0.04	0.04	0.04
Total	3.85	6.08	6.9	6.9

As the table shows, the greatest part of municipality expenses is on administrative costs. From other line items, environmental protection is relatively high. Most of this line item is usually spent on management of the underground waters. In 2014, the “communal management” line item was increased almost by 2 million lari, but the detailed list of the line items only classifies these costs as “other unclassified communal management.” We clarified with Kazbegi Gamgeoba about this budget line item. Apparently, it was a government transfer to build a hotel in the village of Sno. It would practically become an extension of the Patriarch’s residence. However, the construction works are still not completed.

In terms of income, the largest source is the state grants, usually ranging between 50-60% of total income of the municipal budget. The most important local source of income is taxes from the gambling business. It was GEL 0.8 million and GEL 1.2 in 2014. This all comes from Rooms Hotel and constitutes a significant increase in local income. Property taxes, locally administered, are also important, ranging between GEL 0.6-0.8 million. Income from land rent is negligible, roughly GEL 1-2 thousand per year.

Land registration issues

Land registration is one of the remaining obstacles for the country. It is often quoted that only about 20-25% of agricultural lands is registered.¹⁰ In 2014, the National Agency for Public Registry (NAPR) and the World Bank started a large-scale project to register up to 48 thousand hectares of agricultural lands in 11 villages over the course of 30 months. But even if the project is successful, it will only increase the total number of registered land plots by less than 2%. The land registration issues is a problem not only because now the government has not identified what agricultural lands plots are available for use but it also might be a potential source of conflict between small farmers and potential investors as they have been using their lands, though unregistered, for many years.

⁹Please note that 2015 and 2016 data are not yet final

¹⁰See, for example, Transparency International article, based on the data from NAPR and the Ministry of Agriculture <http://www.transparency.ge/blog/akhali-kanonproekti-khelisupleba-utkhoeli-investorebistvis-mitsis-nakvetebis-registratsias-kvl?page=3> or a quote from USAID’s Tamar Buadze in an online article http://commersant.ge/?m=5&news_id=21015&cat_id=5,22

The problem of agricultural land registration remains unsolved. Agricultural land reform started way back in 1992. Since then despite many agricultural reforms we have not seen any rapid progress in the development of an agricultural land market. The problem is complicated as most unregistered agricultural land plots have owners, who had received some kind of titles in previous periods. Those titles received by land owners are not registered in The National Agency of Public Registry. Titles are incomplete as they do not include information about land parameters and exact location. As a result, one concrete agricultural or nonagricultural land plot could have several “legal” owners who may have different and competing claims.

But during last five years there is a signs of positive changes in regulation of agricultural land registration. In 2011, the Government prohibited lease agreements on public land but the holders of lease lands were given a possibility to take advantage of the right of first refusal and buy out lands that they have used for long periods of time. If a user did not want to do that the land was taken aback by state and sold at an auction (Economic Policy Research Center).

However, it is clear that continuing uncertainties over land use and land ownership create considerable tensions in local communities. In one of our field visits a villager from Vardisubani put it rather harshly that “somebody might get killed if our access to lands are restricted.” People outside of Stepantsminda heavily rely on land, using it for small agricultural produce and also grazing. There is a dangerous source of conflict if one day local inhabitants find out that they can’t use lands anymore. This issue, therefore, deserves considerable attention by LAGs, as facilitating discussion on this issue could help improve economic growth and reduce risks of problems between government and private citizens.

Available services and major problems

In Stepantsminda, most of the government and other services are available, including a local government, police, hospital, fire-fighters unit, and several schools and kindergartens. Recently, the Ministry of Justice also completed the construction of the Justice Hall, making over 200 government services available for local population all in one place, so that people no longer need travel to Tbilisi. Transportation is problematic, but there is a bus that once a day travels from Stepantsminda to neighboring villages. Until 2005, Kazbegi municipality was even receiving free gas because the North-South pipeline that connects to Russia goes through the region and there is a major gas pump station near the border. Because of this free gas, it used to be popular to have green-houses in Kazbegi, but in 2005 the new government decided to stop the free gas delivery and green-houses stoppedoperating. Now one can see many obsolete places that once used to be large green-houses.

Stepantsminda has a Socar petrol station and a branch of Liberty Bank. There are no large supermarkets or food chain restaurants in Stepantsminda, but there is Smart in Gudauri. There is DSL internet available in Stepantsminda, with manageable speed.

The situation in villages is very different from Stepantsminda. In, Juta, 2,200-2,400 meters above the sea level, not only there is no internet, but even no connection for some of the mobile companies.

According to our survey, the top three problems for local population are agricultural equipment, pharmacy stores, and rural roads. While these issues are pressing in all of the

municipalities, including Stepantsminda (although there is one small pharmacy store in the center), smaller villages have the most severe problems. The villages also have the problem of limited access to schooling. In all of the municipality, there are only 7 schools for 25 villages.

Figure 7: Schools in Kazbegi municipality¹¹

School	Number of children	Number of teachers
Stepantsminda St. Ilia Gymnasium	136	20
Stepantsminda Public School	97	25
Arsha Public School	81	21
Goristsikhe Public School	39	15
Sioni Public School	102	19
Sno Public School	39	18
Kanobi Public School	1	5

Some of the schools, for example the school in Kanobi do not offer education for higher classes as well. Transportation of children is expensive, and the quality of education is low, except in Stepantsminda. In both schools of Stepantsminda, although one (St. Ilia Gymnasium) is more well-furnished and equipped than the other public schools.,Both schools have at least basic computer equipment, sport facilities, and heating system. In the rest of the schools, except in Arsha and Sioni, people use the wood stoves for heating and other facilities are simply non-existent. Pre-schools institutions, which are the responsibility of local government, are also in the same locations as schools. 7 kindergartens have 172 children in total.

¹¹ Ministry of Education data, available online at http://catalog.edu.ge/index.php?module=school_info&page=main&search=search®ion=11&district=104&school_type=3&school_name=&button.x=59&button.y=21&button=%E1%83%AB%E1%83%94%E1%83%91%E1%83%9C%E1%83%90 accesses on November 20, 2015

Annex 1: Questionnaire of the socio-economic survey of the Kazbegi municipality

Settlement	
Sakrebulo	
Interviewer	
Interview number	
Respondent's number	
Date	Day: Month: Year:
Time of the start of the interview	hh__mm__
Time of the end of the interviews	

Hi, I am _____. We are doing a survey for the EU ENPARD project, implemented by PiN, to improve socio-economic conditions of the population in Kazbegi district. This survey is confidential and neither your name, nor data about your family will be available for public. We will only use the survey data to better understand socio-economic conditions of people who live in Kazbegi. This will allow the project to effectively help the development of the region. The survey will take up only 15 minutes of your time and your help will be much appreciated.

1. We will start the questionnaire with by filling out a table about your household – people who currently live in the house. We do not need names of your household members, but need demographic information about them. Please list all of the members of the household, starting from the oldest one. Please provide information about gender, age, employment and education.

#	Gender	Age	Staying for winter	Employment sector (hired employment)	Place and position of employment	Highest education level and specialty (<i>For schoolchildren, please indicate where do they study</i>)
1	M/F		a. Yes b. No	a. State b. Private c. Not employed		
2	M/F		a. Yes b. No	a. State b. Private c. Not employed		
3	M/F		a. Yes b. No	a. State b. Private c. Not employed		
4	M/F		a. Yes b. No	a. State b. Private c. Not employed		
5	M/F		a. Yes b. No	a. State b. Private c. Not employed		
6	M/F		a. Yes b. No	a. State b. Private c. Not employed		
7	M/F		a. Yes b. No	a. State b. Private c. Not employed		
8	M/F		a. Yes b. No	a. State b. Private c. Not employed		

2. Has your household received money in the past 6 months from a relative who lives outside of Kazbegi?

1	Yes
2	No
-1	Don't know
-2	Refuse to answer

3. Does any member of your household have a business such as transportation services for tourists, accommodation, or a small shop?

1	Yes (please specify what kind of business):
2	No
-1	Don't know
-2	Refuse to answer

4. Is your household a recipient of a Targeted Social Assistance ("poverty assistance")?

1	Yes
2	No
-1	Don't know
-2	Refuse to answer

5. Do you own an agricultural land plot?

1	Yes	Skip to Q7
2	No	
-1	Don't know	
-2	Refuse to answer	

6. Is your land officially registered on your name?

1	Yes
2	No
-1	Don't know
-2	Refuse to answer

7. Can you please tell us for each category how much approximately do you spend per month (using the last September as an example)?

#	Category	Expenditure per month
1	Utilities	
2	Food	
3	Medicine/healthcare	
4	Education	
5	Transportation	
6	Everything else	

8. As of now, do you have a debt?

1	Yes	Skip to Q10
2	No	
-1	Don't know	
-2	Refuse to answer	

9. Who do you have debt from?

1	Bank or micro-finance organization
2	An acquaintance (friend, relative)
3	An individual whom I don't know
4	State (for example, cheap loan program)
5	International organization/NGO
6	Other (please specify):
-1	Don't know
-2	Refuse to answer

10. In terms of infrastructural issues in your village, please rank which of the listed issues are most pressing. **TO INTERVIEWER! MATCH ANSWERS. ONLY UP TO 3 ISSUES.**

Drinking water	
Irrigation	
Trash management	
Entertainment places, such as parks, clubs or movies	
Roads	
Transportation between villages	
Shops and markets	
Pharmacy stores	
School	
Agricultural equipment	
Agricultural input, such as seeds, pesticides and fertilizers	
Other (please specify):	
Other (please specify):	
Other (please specify):	

Thank you for your help!

Annex 2: The number of individuals and households based on different sources

Sakrebulo	Community	2002 survey (# of individuals)	Elkana 2014 survey (# of households)	GeoWel 2015 survey (# of households)
Kazbegi	Stepantsminda	1498	650	550
Kazbegi	Gergeti	300	220	120
Kazbegi	Gveleti	1	3	1
Kazbegi	Tsdo	28	5	5
Goritsikhe	Goristsikhe	283	50	65
Goritsikhe	Tkarsheti	218	30	30
Goritsikhe	Pkhelshe	184	45	40
Goritsikhe	Kanobi	182	25	25
Goritsikhe	Khurtisi	76	15	19
Sioni	Sioni	384	150	120
Sioni	Arsha	565	90	90
Sioni	Gaiboteni	17	0	0
Sioni	Garbani	342	100	110
Sioni	Vardisubani	97	10	12
Sioni	Toti	0	0	0
Sioni	Pansheti	58	17	15
Sno	Sno	418	80	80
Sno	Artkhmo	0	0	0
Sno	Achkoti	251	70	50
Sno	Akhaltzikhe	129	15	19
Sno	Karkucha	82	14	18
Sno	Koseli	0	1	0
Sno	Juta	62	18	12
Kobi	Kobi	25	3	No survey conducted
Kobi	Abano	0	0	No survey conducted
Kobi	Almasiani	13	8	No survey conducted
Kobi	Burmasigi	0	0	No survey conducted
Kobi	Gimara	0	0	No survey conducted
Kobi	Desi	0	0	No survey conducted

Kobi	Zemo Okrokana	0	0	No survey conducted
Kobi	Kartsopeli	0	0	No survey conducted
Kobi	Ketrisi	0	0	No survey conducted
Kobi	Mna	0	0	No survey conducted
Kobi	Nagkau	0	0	No survey conducted
Kobi	Resi	0	0	No survey conducted
Kobi	Suatsi	0	0	No survey conducted
Kobi	Tefi	0	0	No survey conducted
Kobi	Ukhati	9	0	No survey conducted
Kobi	Kvemo Okrokana	0	0	No survey conducted
Kobi	Shevardeni	0	0	No survey conducted
Kobi	Tsotsolta	0	0	No survey conducted
Gudauri	Gudauri	8	0	No survey conducted
Gudauri	Ganisi	4	0	No survey conducted
Gudauri	Osi	50	0	No survey conducted
Gudauri	Ereto	0	0	No survey conducted
Gudauri	Sakuriani	4	0	No survey conducted
Gudauri	Falagkau	0	0	No survey conducted
Gudauri	Kumlistsikhe	38	12	No survey conducted
Total		5326	1631	1381