



LOCAL SELF-GOVERNANCE FOR LOCAL ECONOMIC DEVELOPMENT

Needs assessment

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**Tbilisi
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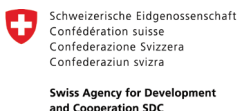
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1. INTRODUCTION

1.1. Purpose of the research

The purpose of the research “Local self-governance for local economic development” is to study needs of Georgian municipalities in the field of local social and economic development. This report includes recommendations for expanding the power of local self-government, enhancing efficiency of the state policy and further improvement of the legislation, which shall significantly support local economic development in the regions of Georgia.

1.2. Objectives

To achieve the purpose of this research, the following objectives were defined:

- Analysis of the legal basis of local self-governance;
- Analysis of the economical basis of local self-governance;
- Defining hindering barriers of the decentralisation process of local self-governance;
- Questionnaire survey of local officials;
- Generalisation of local officials’ vision, identification of major problems of socio-economic development in municipalities and development of recommendations for resolving them.

1.3. Research methods and geography

Based on the purpose and objectives of the research, its strategy was determined. In particular, desk research was conducted in the scope of this research, along with the survey of municipal public servants through a specially designed questionnaire, followed by focus groups for the validation of survey findings. The use of all three methods served as a basis for a comprehensive analysis. This is a particu-

larly significant factor, as in Georgia, statistical data on municipal level is insufficient, fragmented and poor. 1,063 respondents from 63 local self-governance units were surveyed through a specially designed questionnaire, including self-governing cities such as Batumi, Poti, Kutaisi and Rustavi. The research has covered all units of local self-governance except for Tbilisi (Chart 3). The argument for excluding the self-governance of the capital city is that Tbilisi is outstanding by its scale and its role in the economy of the country, and it doesn't quite fit into the general picture. Therefore, including data collected in Tbilisi would cause large discrepancy in the research when generalising research findings. It is beyond the doubt that Tbilisi needs to be studied separately and obtained findings shall be compared to data collected in the rest of the country rather than to other individual municipalities.

Questionnaire survey was conducted with the representatives of executive and legislative bodies of municipalities. Following persons have participated in it: 60 mayors, heads of the Sakrebulo (municipality council) (63), 941 members of the Sakrebulo (council) and administration employees (Chart 1). The persons who responded to the questions of questionnaire are those, who are knowledgeable in the local economic development issues within the scope of their job duties, thus, their responses accurately reflect the actual picture. It should also be noted that the gender balance of respondents was not preliminarily determined (Chart 2).

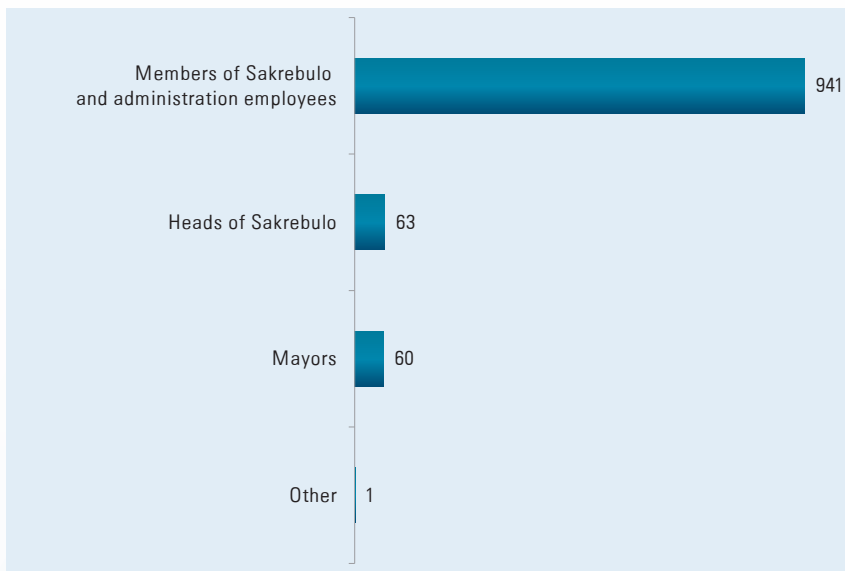
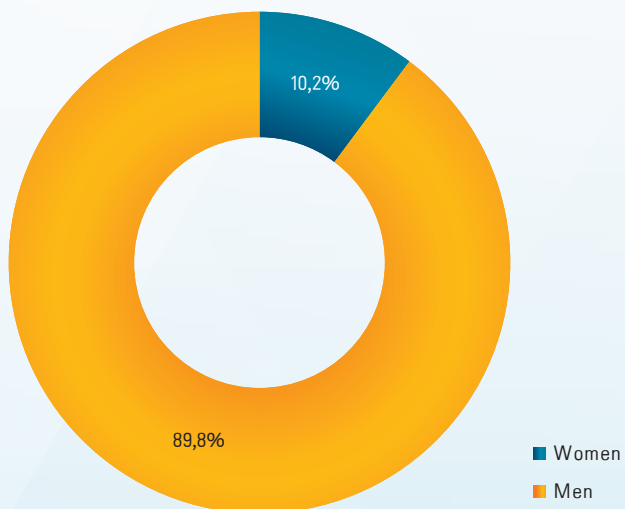
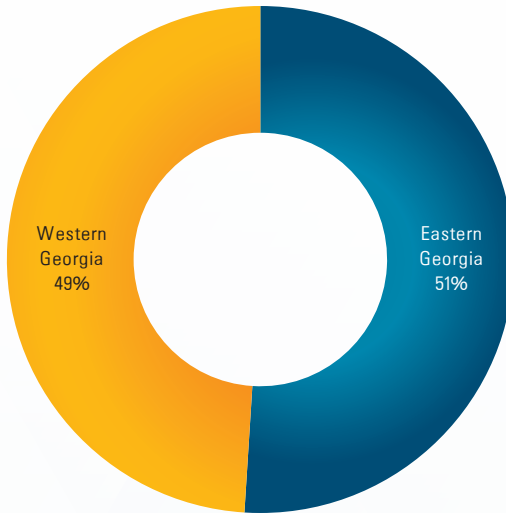
Chart 1. Distribution of respondents by the employment status**Chart 2. Distribution of respondents by gender**

Chart 3. Geographical distribution of respondents

For the purpose of verifying survey findings, National Association of Local Authorities of Georgia has conducted 9 focus groups in regions. Following topics were discussed at these meetings: the role of municipalities in economic development, findings of questionnaire survey and recommendations developed by experts. These meetings were facilitated by the Deputy Executive Director of the Association and they were attended by the expert Mr. Davit Zardiashvili. 66 public servants from local self-governments have participated in focus groups, including 5 high-ranking officials of local self-governments — the Mayor and the State Representatives — in Guria and Samegrelo-Zemo Svaneti regions. The views and recommendations expressed by the participants are fully reflected in this publication.

2. FINDINGS OF THE LOCAL SELF-GOVERNMENT OFFICIALS AND PUBLIC SERVANTS SURVEY

2.1. Social and economic situation in municipalities

At the preliminary stage, it was important for us to learn how respondents assessed social and economic situations in their municipalities. The findings of the survey were also discussed at focus group meetings and were fully confirmed.

Based on the findings obtained from respondents, the majority of the respondents (79,9%) have rated socio-economic situation in municipalities (Chart 4) as Normal/Stable, 13,2% have rated it as Favourable/Best, while 5,1% found it Alarming/Critical. Significant deviations from these average indicators were presented in the following regions: (Table 1) in 4 regions out of 9, above average result was observed in positive (Samtskhe-Javakheti — 18,7%, Adjara — 16,9%, Kvemo Kartli — 15,2%, Kakheti — 14,1%), as well as negative assessments (Mtskheta-Mtianeti — 17,9%, Guria — 16,7%, Kakheti — 9,4%, Imereti — 7,7%).

Table 1. Assessment of socio-economic situation by the respondents (regional context)

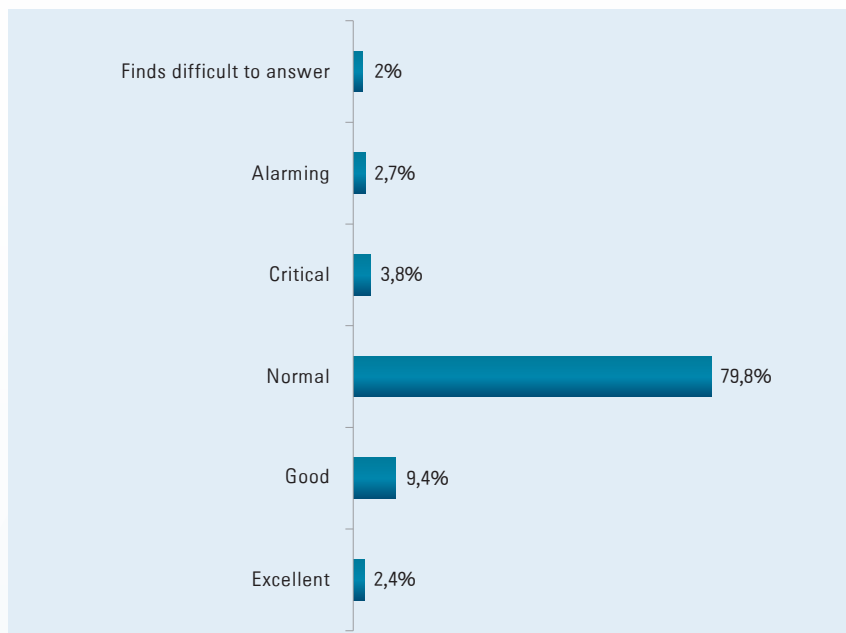
Region	Excellent	Good	Normal	Alarming	Critical	Finds difficult to answer
Autonomous Republic of Adjara	5,6%	11,3%	80,3%	0,0%	0,0%	2,8%
Guria	2,4%	7,1%	73,8%	0,0%	16,7%	0,0%
Imereti	1,0%	7,6%	82,7%	1,9%	5,8%	3,2%
Kakheti	4,4%	10,1%	74,2%	3,1%	6,3%	1,9%

Region	Excellent	Good	Normal	Alarming	Critical	Finds difficult to answer
Mtskheta-Mtianeti	4.5%	1.5%	74.6%	16.4%	1.5%	1.5%
Racha-Lechkhumi and Kvemo Svaneti	0.0%	9.0%	86.6%	0.0%	3.0%	1.5%
Samegrelo-Zemo Svaneti	0.0%	8.4%	86.7%	2.1%	1.4%	1.4%
Samtskhe-Javakheti	7.7%	11.0%	76.9%	2.2%	2.2%	0.0%
Kvemo Kartli	0.0%	15.2%	72.5%	3.6%	3.6%	5.1%
Shida Kartli	1.1%	11.4%	87.5%	0.0%	0.0%	0.0%

None of the respondents have named the vacuum or the flaws in the normative and legal framework and legislation as a major socio-economic development problem in the municipality. The most important hindering factors named were: human capital problems (first — outflow of youth abroad; second — outflow of qualified personnel; fourth — decrease in functioning population and ageing of the population; sixth — staff shortage), followed by the deficiency of financial and material resources of the local self-government. Rural and agricultural stagnation, and loss of the competitiveness were on the fifth place (Chart 5). It should be noted that in the additional graph “Other” the lack of jobs (35%) was mentioned in the first place, while low competitiveness of the agricultural complex (15%) was in the second place.

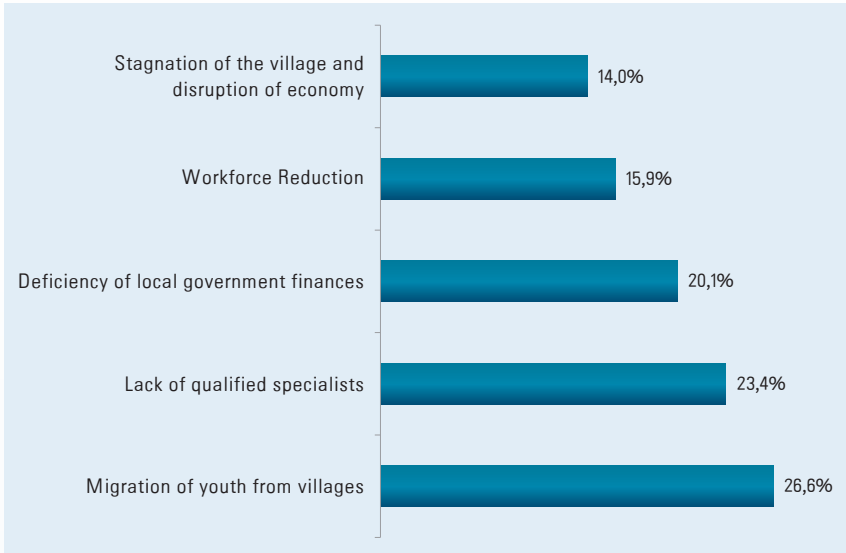
Third and fifth places (10% each) were occupied by the disruption of industrial potential, absence of drinking water and non-existence of actual self-governance.

Chart 4. Assessment of social and economic situation of municipalities by the respondents



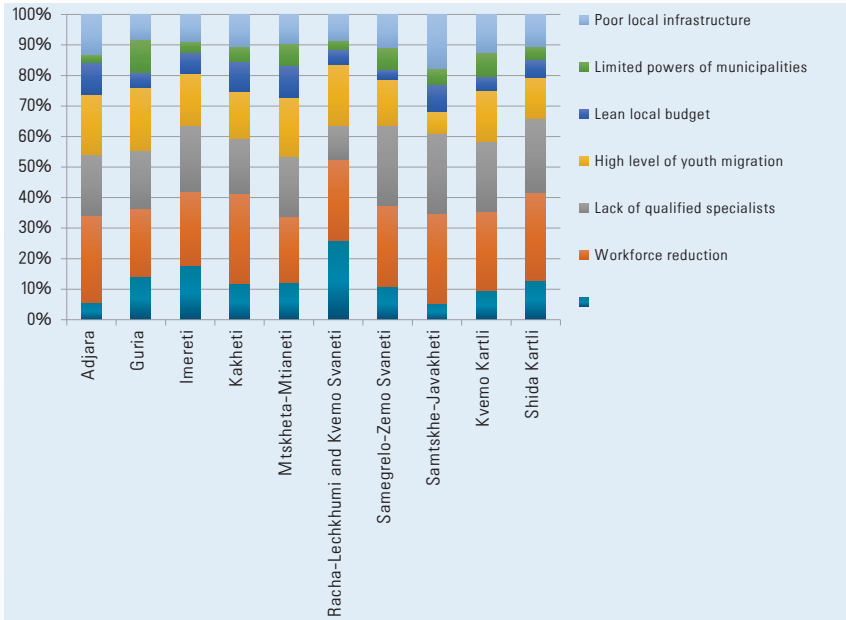
The outflow of workforce and shortage of qualified workforce was mentioned as the foremost problem among the absence of economic growth factors (land, capital, workforce and knowledge).

Chart 5. 5 main problems of social and economic development named by the respondents



Respondents listed shortage of human resources, weakness of the local self-governance and deficiency of financial and material resources as major reasons for the existing socio-economic situation. Obviously, the last two reasons reflect economic and financial situation of the self-governance, which, in turn, depends on further perspectives of fulfilling recognised self-governance principles in the country. It should be noted that 10-15 years ago, the major reason for population outflow from villages was ruined infrastructure — roads, gas, energy, water supply, whereas nowadays the reason for the outflow is lack of jobs, as well as personnel shortage. It is noteworthy that outflow of youth from agricultural settlements is equally intense in all regions, however, it is particularly significant in Racha-Lechkhumi and Kvemo Svaneti (Chart 6).

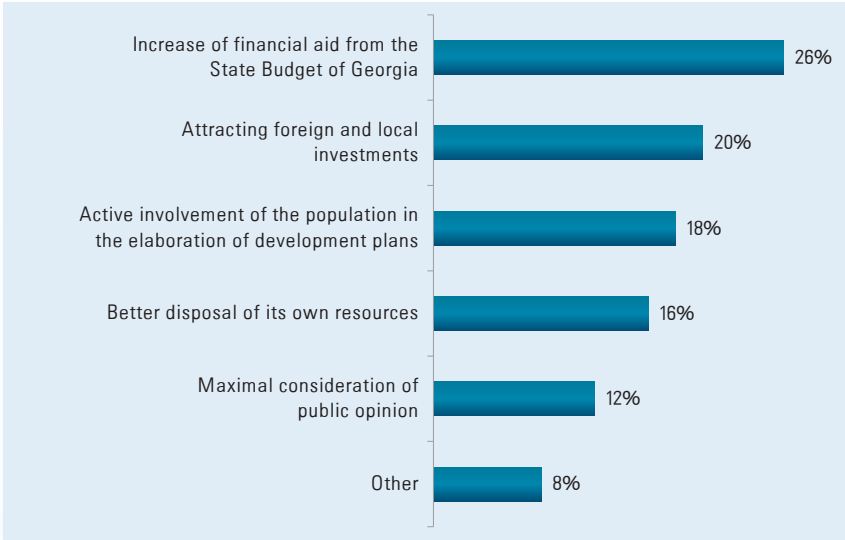
Chart 6. Main problems of social and economic development in the regional context



Attitude towards the legislation, as one of the factors affecting the socio-economic situation, was cross-checked in other questions. In particular, respondents had to list the opportunities for the improvement of local socio-economic conditions. “Perfecting of the legislation” was noted as one of the answers in the list, but it didn’t get in the list of the top 3 answers. The below-mentioned was listed as improvement opportunities: increase of financial aid from the State Budget of Georgia — 25.8%; better disposal of its own resources — 16%; attraction of local and foreign investments — 19.9%. The answers confirm that the need for the improvement of legal framework is not clear and the complaints were mostly expressed regarding the law enforcement. The actual picture is also reflected in the answers — dependence of the local self-government on the central budget. This issue moved to the first

place, while the focus should have been made on their own resources. Although percentages of the answers in the first and second places are very close to each other (Chart 7).

Chart 7. Opportunities for improving social and economic conditions



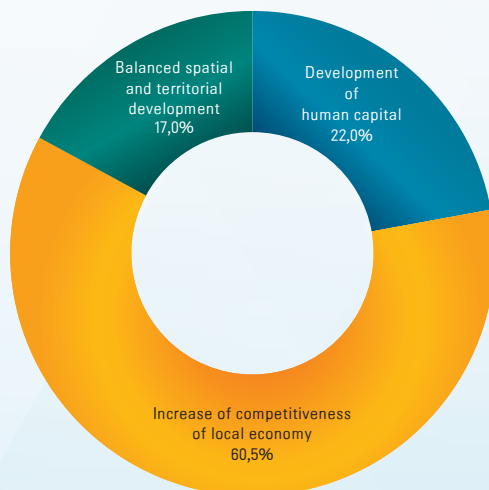
At the time of determining priorities, the improvement of legislation was not the first choice of respondents. The top 4 answers to the question “In your opinion, what are the priority directions for the development of municipality?” were the following: development of agro-industrial complex — 20,6%; development of tourism and recreation — 20,3%; increasing financial independence and tax revenue increase in the local budget — 18,2%; establishment of real municipal and/or community ownership on land, water and resources of local importance — 12.1 %. “Improvement of legislation” didn’t make it to first place — specifically, the adoption of the Land Code and Spatial-Territorial Planning (6,6%), while the answer with a practically similar content

— establishment of real municipal and/or community ownership on the land, water and resources of local importance was determined with 12,1% indicator. The explanation here is simple: usually people see problems better than their causes. In addition to that (in most cases), local public servants do not have the sufficient knowledge in order to analyse the underlying causes of the existing problems.

2.2. Priorities and opportunities of social and economic development of municipalities

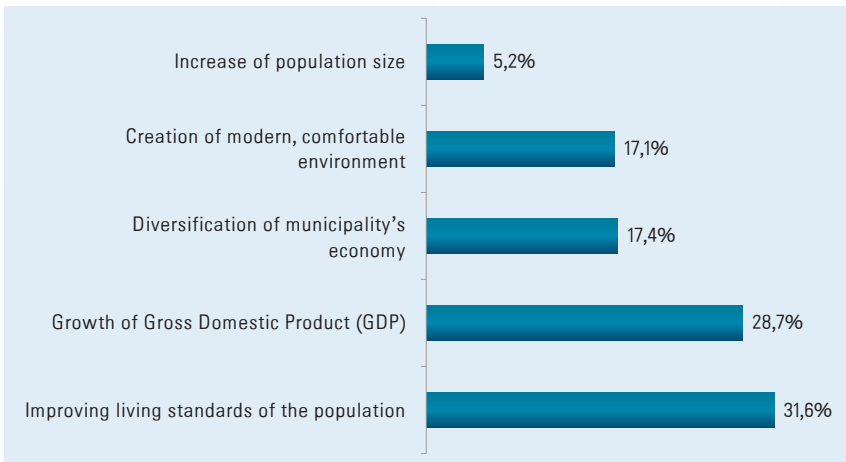
As noted in the process of the survey, the problems of human capital were mentioned among the main problems of social-economic development, including demographic challenges (outflow of youth, ageing population, and workforce decrease). Top 3 places in determining objectives of socio-economic development strategy were distributed as follows: raising competitiveness of the local economy, development of human capital, balanced spatial and territorial development (see Chart 8).

Chart 8. Respondents' answer to possible goals of socio-economic development strategy



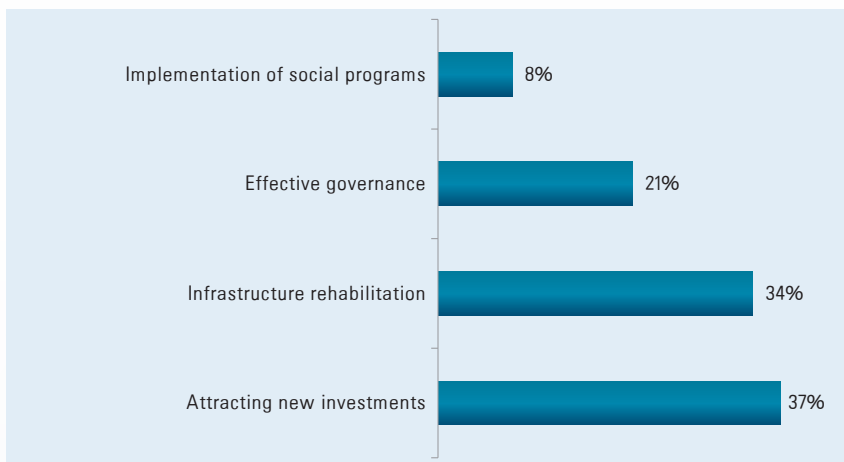
However, when the question “What results should be achieved with socio-economic development?” was asked, the answers were distributed as follows: 1. Increase of population size; 2 Growth of Gross Domestic Product (GDP); 3. Diversification of municipality’s economy; 4. Creation of comfortable environment.

Chart 9. Desired results of socio-economic development



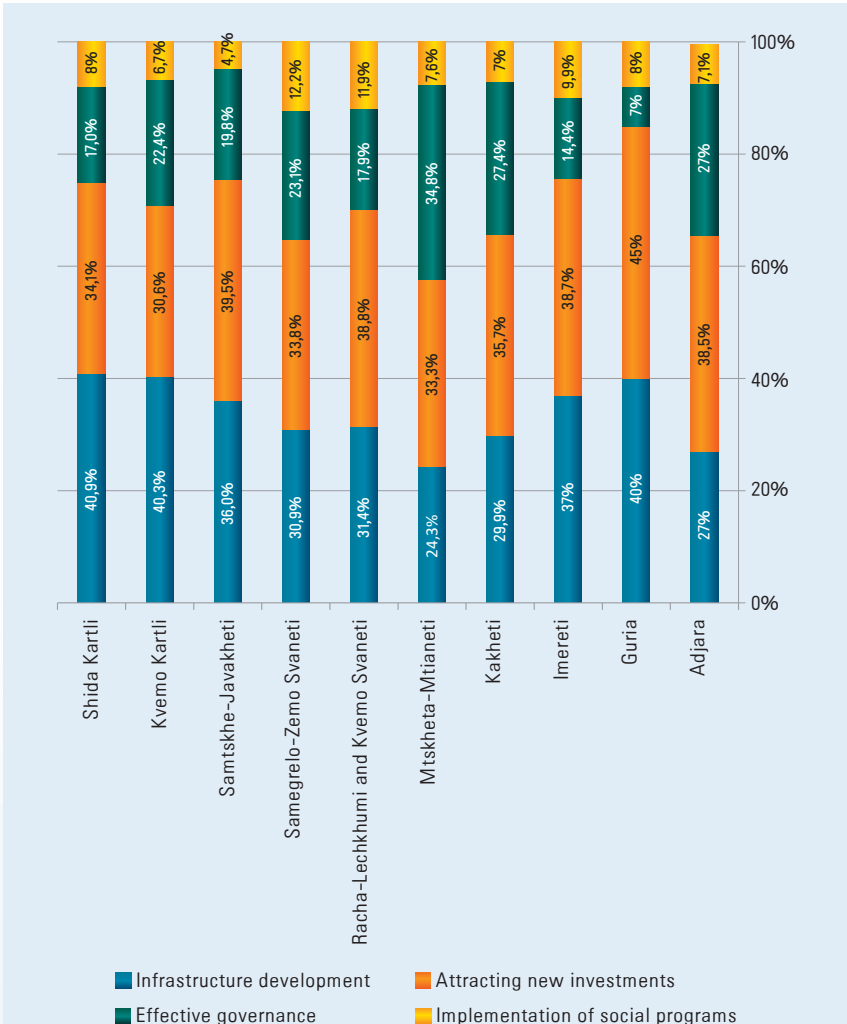
It is important that the respondents view social problems as the results of a weak economy and believe that the most important for the development of municipalities is not social protection, but investment, proper infrastructure and governance efficiency. Only then, they indicate the necessity of additional social protection measures.

Chart 10. The most important issues of municipality development



The same picture is seen when arranging survey data according to the regions — attracting investments here is considered as the main precondition for local development.

Chart 11. The most important issues of municipality development by regions



Taking into consideration all of the above-mentioned, it is important to develop a policy for local economic development. Nowadays, when speaking about the development of regions, the emphasis is

made on social protection of the population, however, in fact, it is necessary to correct the state policy of economic development and give it a clear territorial dimension. This is primarily achieved through the state program of effective regional development. Responsibility for social assistance system should be delegated to local authorities that will allow to make it more targeted and adjusted to the needs of vulnerable groups.

Chart 12. Assessment of the efficiency of social assistance system

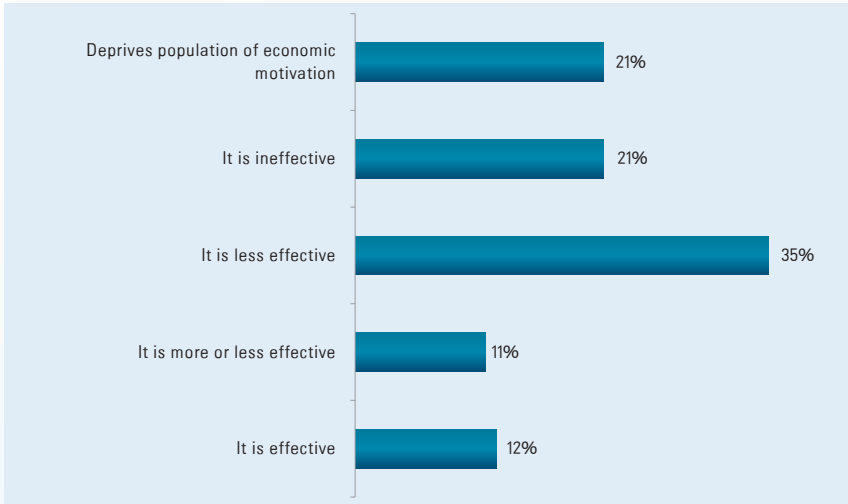
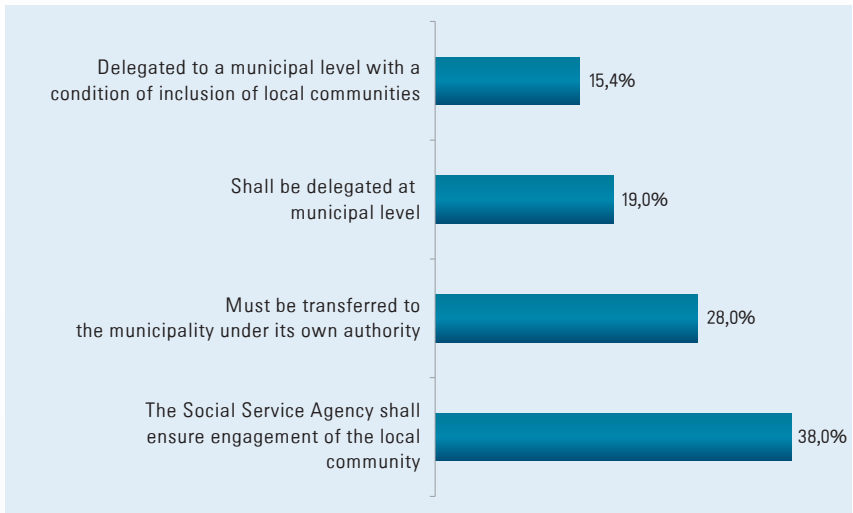
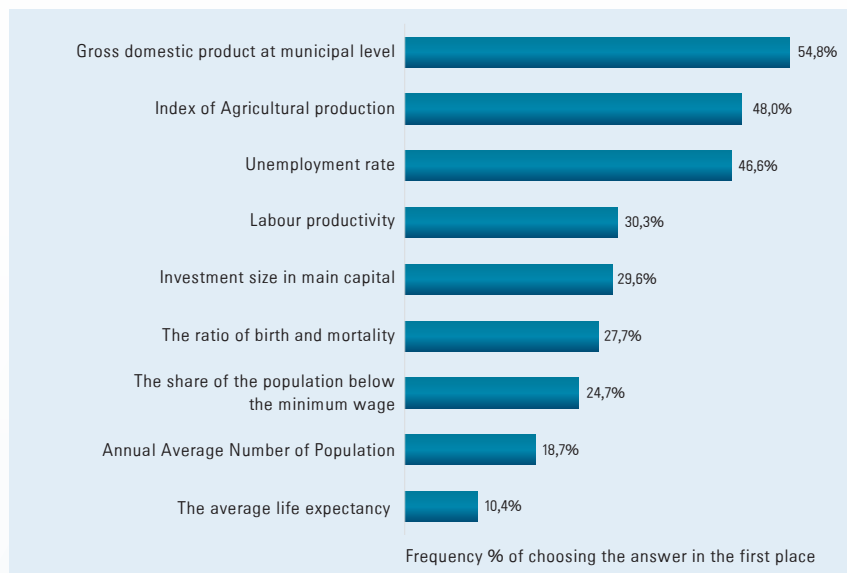


Chart 13 illustrates the vision of elected mayors and other local self-government officials of the advancement of social assistance system.

Chart 13. Ways of advancing social assistance system

In regard to the objective of local social and economic development, the role of local self-governance unit should be assessed according to the standard and generalised economic categories. Useful minerals, natural-climatic conditions and geographical location should be used as an additional factor when analysing general economic indicators. Based on their experience, the respondents determined the indicators, the use of which shall be the most effective at this stage.

Chart 14. Assessment of Socio-Economic Development Indicators



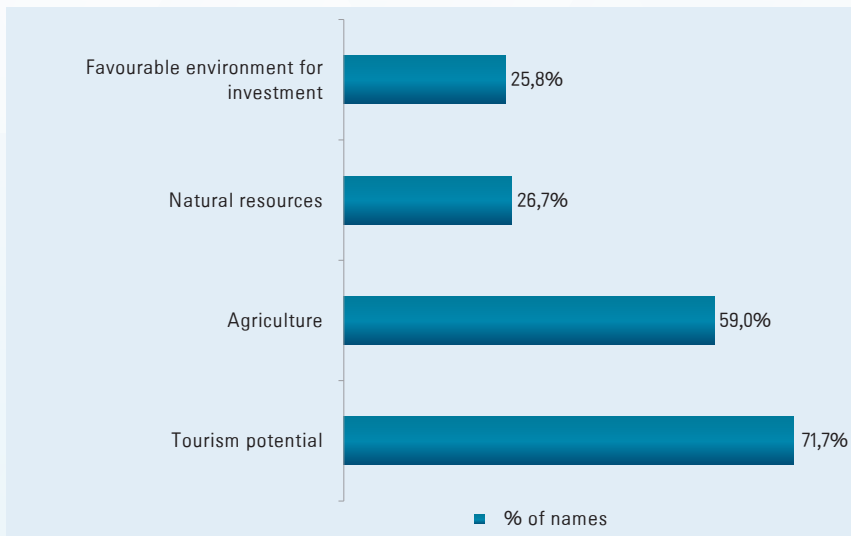
Respondents believe that on one hand, the development of the budget system should be completed and on another hand, improvement of existing system of transfers from the state budget to local self-governance are needed. Normative acts adopted in Georgia are in line with the objectives of decentralisation of the economy and decentralisation of the government. Principles defined in them are harmonised with international norms, although there is no proper enforcement of these acts, one of the reasons for which is low social demand for actual independent local government.

For social and economic development, the state uses various forms of incentives for economic activity. In recent years, implementation systems of economic programs have been developed and their institutionalisation took place. These are: LEPL “Produce in Georgia” (former “Entrepreneurship Development Agency”); LEPL “Georgian Innovations and Technologies Agency”; a program of preferential agro-credit

of the NAPR Agricultural Projects Management Agency; Cooperative Development Program, High Mountain Regions Development Program, etc. Each of them is considered as quite a progressive phenomenon, but characterised by one common trait — none of its beneficiaries is the municipality (as a legal entity) or an enterprise established by the municipality. Moreover, the participation of municipalities in the management of these programs is extremely weak.

The findings of the survey demonstrate that respondents are less innovative in identifying required potential for local development and mainly refer to tourism and agriculture. This proves that local officials have not fully acknowledged particular advantages that distinguishes their municipality from others and make it attractive. Lesser attention was paid to such decisive factors, such as proximity to the capital or strategic location along the main highways. Very few respondents mention such important facts even in those municipalities, which have such advantages.

Chart 15. Four of the most important resources that can be used to develop local economies



Two key problems must be solved in regard to local economy issue: (1) at this stage, the law in Georgia does not specify the need, frequency and development procedures for the adoption of socio-economic development strategy for the country and municipality; (2) the strategies and policy documents adopted by various state agencies are less harmonised with each other. Moreover, it is necessary to develop a consultative mechanism between the local and central governments on development policy, and to use the resource of regional advisory boards at a full extent in this matter. It is noteworthy that the Government of Georgia is actively cooperating with international partners within the framework of public administration reform.

3. CASE ANALYSIS. LEGAL AND ECONOMIC ASPECTS OF MUNICIPAL DEVELOPMENT

3.1. Legal and economic context

The local self-governance system in the current form was established on the basis of the Organic Law on Local Self-Governance Code adopted on 5 February 2014.¹ The direct election of the mayors under this Law was a significant step towards the development of democracy, however, only in terms of increasing financial independence and powers of self-governance. Georgia is now preparing to make this important step, which was announced in March 2018 at the joint meeting of Prime Minister of Georgia and Chairman of the Parliament of Georgia with international partners.

Upon Georgia's affiliation with "European Charter on Local Self-Government" on 26 October 2004, and its ratification by the Parliament of Georgia², all governments were working on implementing the local self-governance reform. In turn, international organisations have strongly supported Georgian government in decentralisation process. This approach was confirmed in the Association Agreement with the European Union (July 2014) and preserved in the governmental program "Freedom, Fast Development, Prosperity 2018-2020" adopted on 14 July 2018. Political support for decentralisation process has been strengthened by the relevant amendments to the Constitution of Geor-

-
- 1 Adoption of the Code of Local Self-Governance has abolished the Organic Law of Georgia "On Local Self-Governance" adopted on 9 January 2006 and other laws related to self-governance;
 - 2 This affiliation had stipulations: (1) Georgia has not recognised the article on "Protection of Administrative Borders of Local Self-Governance Bodies" of the Charter; (2) Georgia has indicated that "until full restoration of the jurisdiction over Autonomous Republic of Abkhazia and Tskhinvali, Georgia removes the liability for the fulfilment of obligations on these territories under the above-mentioned points of "European Charter of Local self-governance".

gia: In 2010, a special chapter on local self-governance was added, and in 2018 — the norm, according to which “the citizens of Georgia regulate matters of local importance through the local self-governance.” “The delimitation of the powers of state authority and local self-governance units shall be based on the principle of subsidiarity”. “The State shall ensure compliance of the financial funds of the self-governing unit with the powers of the self-governing unit defined by the Organic Law” (Article 7, paragraph 4).³ With this entry, Georgia has joined the small number of countries (Germany, France, Italy), where the principle of subsidiarity has been raised at the highest constitutional level, but protection of rights of self-government in this regard are not within the competence of the Constitutional Court.

There is still a lot to be done to establish a full-fledged local self-governance. It is of utmost importance not only to recognise the principle of subsidiarity in the constitution, but also to introduce it in governance practice. Nowadays, work on a new decentralisation strategy is under way. Therefore, it is important that this strategy responds to real demands of the local government and, most importantly, possesses the powers and capabilities, through which significant public benefits will be delivered to the local population.

The major public good, which is currently expected in the cities and villages of Georgia, is the local social and economic development, which will certainly be reflected in the increase of the level of employment, income and welfare of the population. Analysis of the existing legal framework shows that all governmental functions related to local socio-economic development are granted to the local government in the so-called voluntary powers, which are determined by their own initiative. In relation to the same powers, there is a stipulation that local self-governance bodies perform this function only if it is not implemented by any other government authority. We have powerful sectoral ministries in Georgia, which directly manage sectors (including

3 <https://matsne.gov.ge/ka/document/view/30346?publication=35>

economy sectors); furthermore, a number of municipal services are managed by the subordinate economic entities under those ministries (e.g. (provision of drinking water, solid waste removal and recycling). Consequently, it is clear that local authorities play a modest role in the local socio-economic development voluntarily and with its own resources. It is noteworthy that according to the Self-Governance Code, local authorities can develop municipal strategies and programs and if regional consultative councils are properly activated as a consultative mechanism between central and local government, municipalities will be able to play a more important role in the development of the local economy.

We certainly encounter many socio-economic development strategies developed by municipalities at different times, but many such documents do not have legal status and usually are not financed.

It is noteworthy that the most municipalities do not own state property located on their own territory. Property of economic profile is operated by the Ministry of Economy and Sustainable Development of Georgia, and the property belonging to social infrastructure (educational institutions, theatres, museums, etc.) is divided among the relevant sectoral ministries. However, when it comes to local economic development, the Ministry of Economy and Sustainable Development of Georgia is the main public institution that manages the state property. In addition, it is necessary to have minimum standards of service in the country, the provision of which is mandatory on the entire territory of the country. All self-governing units shall be able to meet the minimum standard of such services and create and manage relevant infrastructure.

3.2. Municipal property

The Local Self-Government Code determines, which property is owned by a self-governing unit on the territory of municipality (Article 107)⁴ and outside its territorial boundaries (Article 110, paragraph 2). The property of the self-governing unit includes the property, on which it has rights of ownership, use and management. It is less important here, how the property right was originated. The most important thing is that its origin shall be within the legal framework. The separation of state and self-governing property, which started in 2005 with the adoption of laws on “Local Self-Governance” and “Property of Local Self-Governing units”, is under way at a slow pace. Breakthrough is necessary in this direction.

The most important issues of land, water and forest ownership should also be resolved. Land and natural resources are the major territorial resources of local self-governance, based on which the most solid economic foundation of local self-governance is formed. Of course, different municipalities (self-governing cities) have different possibilities in terms of land and natural resources. Accordingly, economic benefits received from them are also different and in order to solve such inequality, the mechanism of equalising the level of social and economic development is applied, where municipalities with scarce economic capabilities are granted monetary compensation from the Central Government Territorial / Regional Development Fund (or similar institution). It is unfortunate that such mechanism has not been activated in Georgia yet.

4 <https://matsne.gov.ge/ka/document/view/2244429?publication=37>

3.2.1. Land

Both agricultural and non-agricultural lands may be in the ownership of a self-governing unit. There is no unified land code in Georgia. These issues are regulated in accordance with individual fragmented problems.

We do not have exact statistics of land resources distribution under the state and municipal ownership. However, according to various data, only insignificant part of the land reserves is registered under municipal ownership and the state still remains as the largest landowner (including agriculture land). Under current legislation, the municipal ownership on the land is recognised by the Self-Governance Code, although the land demarcation as state and municipal property is still a problematic issue (Article 107 of the same Code); as for its transitional provisions, in particular, Article 162 has not been implemented, according to which: The Ministry of Justice of Georgia, the Ministry of Regional Development and Infrastructure of Georgia, the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Finance of Georgia shall develop and submit for approval to the Government of Georgia respective schedule of the time frames and procedure for the transfer of agricultural land to municipalities before 1 January 2017.

The most important legislative problem is that sectoral legislation does not recognise municipal ownership on land and other natural resources, namely:

- The municipal ownership is not at all mentioned in the Law on Agricultural Land Ownership, and according to Article 4, paragraph 3 of this Law, land maybe “in private, community and state ownership” only in high mountainous regions.
- The Forest Code also does not mention municipal ownership, according to part 1 of Article 9, “the owner of the forest resource lands of Georgia may be the state, the Georgian Patriarchate, as

well as the physical or legal person of private law”. Consequently, municipal ownership on forests is forbidden by this Code. Also, Article 13 of the Forest Code is odd, which defines “competence of local self-governance and governance bodies in the management field of local forest resource lands”; this article contradicts the Organic Law, since this kind of competence does not belong to any of its own or delegated authorities and local governing bodies no longer exist in Georgia after local elections of 5 December 2006;

- “The Law on Water” recognises only state ownership on water. According to the Article 6, paragraph 1 of this Law: “Water on the territory of Georgia is state property and will be supplied only for use. It is prohibited to take any action, which directly or indirectly violates the state ownership right on water”. This categorical prohibition is obviously directly violated by the organic law, which allows municipal ownership on water.
- Same applies in the case of law “on Subsoil”. It only recognises state ownership on the subsoil. According to the Article 2, paragraph 1 of this Law: “Georgian subsoil is the property of the state. Any action or deal, which directly or indirectly violates the state ownership right on subsoil, is void. “The law does not recognise not only the municipal ownership, but also the notion of “the subsoil of local importance”.

Thus, municipal ownership on the land is still not distinguished; community ownership is only recognised in the highlands, and only formally (practically it is not fulfilled, because legislation does not recognise community as a legal entity). Municipalities do not have ownership rights on forests, water and subsoil of local importance (e.g. sand quarries). Under such circumstances, it is very difficult for the municipality to play an essential role in economic development. The land issue is not even solved in the cities. Because there is no comprehensive land legislation — the Land Code, the criteria for agricultural and non-agricultural land are not precisely defined. In such a case, it

is unknown how to levy taxes on land in the cities, which are used for agriculture purposes. It can be assumed that in case of cancellation of the exemption on property taxes⁵ this issue will become acute.

3.2.2. Forest and natural resources

After restoration of the independence, Georgia has inherited the division of forests into forests under the ownership of state, collective-farms and soviet agriculture complex. This issue could not be resolved by the acting code. The issue of transferring forests to municipalities is still open: The Code does not apply to the land and natural resources, “the use, possession and management of which is regulated by the legislation of Georgia” (Article 104, paragraph 1). Collective farm and soviet agriculture complex forests received as inheritance, due to their location and historical features (usually located in rural or urban area or in their vicinity), shall be transferred into the ownership of self-governing units, while a balanced policy shall be carried out in relation to the state forests, which will be differentiated according to forest categories.

For this purpose, it is necessary to establish an implementation mechanism applied in practice, through which “forest and water resources of local importance” will be allocated to the property of the self-governing unit (Article 107, paragraph “d” of the Local Self-Government Code). First of all, it is necessary to explain the definition of what is meant under the “local importance”. The article mentions land and natural resources under the property, only water and forest in particular, although apart from the land, water and forest, natural resources include soil, minerals, flora, fauna, etc.;

Secondly, a special law should be developed or regulation norms of various forests types (state, municipal, private) should be included in the Forest Code;

5 If the annual income of a natural person is less than 40 thousand GEL, the property under his/her name (including land) is not subject to property tax.

Third, after the demarcation of forests of the state, municipalities and patriarchy, the Law on Nationalisation of Georgian Forests shall be enacted in accordance with the Forest Code of Georgia (Article 9, paragraph 2). The Forest Code distinguishes the competences of local self-governance and governing bodies in the field of local forest area management (Article 13). Due to the implementation of municipal reform, when self-governance and governance are distinguished from each other, it is also necessary to separate their competences in relation to the local forest resource lands and specify the definition of “local forest resource lands”. This concept is defined as following in the Forest Code: “Local Forest Resource Lands — part of the state agricultural forest resource lands, legal relations of which are regulated by local self-governance and governance bodies” (Article 5, paragraph “f”) in accordance with this Code and Georgian legislation. For more than 10 years, this explanation contradicts the self-governing organic laws, including the position of the current Code in regard to forests of local importance being the property of self-governance (Article 107, paragraph “d”).

The above mentioned is also confirmed by questionnaire findings. Respondents mention specific activities (agro-industrial complex, tourism ...), but note the importance of establishing the community ownership.

Table 2. Priority directions of municipality development

	Answer	
	Number	Percent
Financial independence and increase of tax revenue in the local budget	564	18,2%
Improvement of legislation -Adoption of the Land Code, Spatial-Territorial Arrangement Laws	203	6,6%

	Answer	
	Number	Percent
Establish real municipal and / or community ownership on land, water and resource of local importance	373	12,1%
Development of agro-industrial complex	637	20,6%
Development of forest complex	77	2,5%
Development of tourism and recreation	628	20,3%
IT- technology	31	1,0%
Development of road system	204	6,6%
Development of educational system	362	11,7%
Other	13	0,4%
Total	3 092	100,0%

It is necessary to accelerate the process of the transfer of land, water and natural resources into the ownership of the local self-governing unit, since the local self-governance has the steadiest income from the sources related to municipal property, predominantly land, water and natural resources. Georgian situation is also characterised by fact that the process of privatisation in the country outpaced time-wise the process of establishment of real self-governance, as well as the process of transferring property to it (including land, water and natural resources).

3.3. Entrepreneurial activity, public and private partnership

Municipalities have the right for entrepreneurship, implementation of which is difficult, due to the above-mentioned unsolved fundamental issues. Municipality may become a founder/partner/shareholder/member of a joint-stock company, a limited liability company, a non-profit (non-commercial) legal entity. Unlike previous legislation, current

Code does not specify the relation of private legal entities established by municipalities with other private entrepreneurial entities occupied with similar activities, as well as the purpose of creating such enterprises. In this case, it remains unclear who implements the tasks of ensuring competition in the municipality. Generally, based on the experience of many countries, it would have been optimal for the municipalities to have the right to establish the so-called social enterprises, along with establishing ordinary entrepreneurial entities, where there is low competitive environment and private entrepreneurship does not strive to compete, but its public importance is high.

Public-private partnership is an important mechanism for the quality improvement of public products and municipal services provided by local self-government, as well as enhancement of their cost-effectiveness. The experience of developed countries proves that such a partnership is a new key to economy growth, infrastructure development and delivery of quality services. A good example of such approach is France, where the law for public-private partnership was adopted in 2008 and within 10 years period a practice was established under the name “Build-Operate-Transfer”. This envisages implementation of the primary investment and launch of the delivery system by the public partner and its transfer to a private partner for further management. As of today, the percentage of public-private partnership projects implemented in European Union are as follows: 33% in construction sector, 25% — utility service and 15% — power supply.

In Georgia, the attention to public-private partnership was paid in 2013 year, when a conference dedicated to this topic was held under the auspices of the World Bank. Since 2015, the Ministry of Economy and Sustainable Development of Georgia, with the assistance of the European Bank for Reconstruction and Development, has worked on the introduction of this mechanism in Georgia that resulted in the adoption of the Law of Georgia on Public-private Partnership (04.05.2018). This law is extremely close to its French analogue (apart from the fact that

in Georgian version, investment burden is transferred onto the private partner). The law defines the objectives and principles of public-private partnership, institutional framework of the partnership, procedures and guarantees for the participant parties of the partnership. An authorised public body may enter into such partnership and municipality is indicated in their list (Article 2, Paragraph z5). “Public-Private Partnership Agency” is established for the implementation of such partnership process. The law also separates the concept of “small project” (Article 14) and it envisages such projects, the budget of which is less than the budget determined by this Law. There is no other stipulation in the law that would differentiate a small project (e.g. with 4,900,000 GEL budget) from other (higher budget) private partnership projects.

It shall be noted that adoption of this Law is an important step forward and if municipalities apply it wisely, they can develop local economy through partnership with local private sector. However, few norms of this Law are disputable, which may complicate the proper application of this Law by the municipalities and reduce its benefits. Such dubious norms are:

- A) Paragraph 2 of Article 6 of the Law of Georgia on Public-Private Partnership establishes: “The Government of Georgia may determine the priority sectors for carrying out public-private partnerships”. Such wording significantly limits the discretion of local self-governance bodies in regard to its own power, e.g. organising public-private partnership in the field of preschool education. Accordingly, the wording of this article will be much more accurate if formulated as follows: “The Government of Georgia or the local governmental body may determine the priority sectors for carrying out public-private partnerships within their competence”.
- B) Paragraph 2(b) of Article 9 of the same Law establishes that Public-Private Partnership Agency may assess the concept of a project submitted by an authorised body. In our opinion, this also represents a significant restriction of discretion of the local self-govern-

ment unit. The Agency shall assess not the concept of the project, but the compliance of the project with the criteria of public-private partnership (Article 4), since the achievement of these criteria is quite possible through various concepts. Here the freedom of choice is granted to the local self-government (especially, if they fall under their own competence).

- C) Article 13 of the same Law establishes procedures for the elaboration of public-private partnership project. This article does not mention the local representative body — Sakrebulo (Council). Considering the fact that such type of partnership usually implies disposal of property and public finances, the primary approval of the project is inalienable right of the local representative body. The fact that such procedure applies towards international projects and the so-called “regional fund”⁶, can be used as an argument. Therefore, it is important to include additional paragraph to the Article 13, where Sakrebulo (City Council) will be granted with the right to approve the concept of the project of public-private partnership in the case when the authorised body is municipality.
- D) According to the paragraph 7 of the same Article, the product of the public-private partnership project implementation process (document prepared for the initiation) shall be submitted for review to the Ministry of Finance of Georgia, which prepares a relevant conclusion and attaches it to the above-mentioned document for the approval to Georgian government. It is not clear why it is not possible to implement this task by the Public-Private Partnership Agency, which is actively engaged in the preparation, discussion and monitoring of this product (Article 9 of the same Law). The Agency may consult the Ministry of Finance in the process of document preparation and then submit it itself to the government. Such distribution of tasks between the Agency and the Ministry of

6 Fund of the State Budget of Georgia for the implementation of projects in regions of Georgia.

Finance will complicate the work of municipalities, since they will have to deal with two administrative bodies on the same issue.

- E) Article 4 of the same law sets the criteria for the value of public and private partnership, which is equal to or more than 5 million GEL. It is undoubtedly that this is a very high threshold for municipalities. Determining such a high-value margin means exclusion of local (even regional) business from this partnership, which fundamentally contradicts the spirit of this Law. In our opinion, it is appropriate to make a stipulation in the 4th Article, for the projects, where municipality is the authorised body and the value criteria is reduced to 500 000 GEL.

It can be said with confidence that upon rectifying above-mentioned shortcomings, this Law can play an important role in increasing the quality of public products and services produced by municipalities, as well as in local social and economic development.

3.4. Procurements

Many areas of economic activity of self-governing units require extra attention and improvement. One such issue is local procurement. To date, the practical problem is that local procurement is carried out according to the law “on State Procurement”. In most cases, namely this is the reason for non-completion of small budget projects at local level. The type of practice to be established between the public and private law legal entities under the Law of Public and Private Partnership is also noteworthy. It is not clear how municipalities will benefit from this Law and what partnership will be established with their legal entities of private law.

This approach increases the rights of self-governing units in economic issues and creates the possibility of forming its solid economic basis. The whole idea of self-governance is to solve the problems of local importance as much as possible, taking into consideration the individual

requirements of each person and achieving the most effective social outcome — the best quality of life in the given conditions of development. For the sustainability and further improvement of economic grounds of local self-governance, municipalities shall have the power to increase their own economic potential, living standards of the population residing on their territory and actual financial-economic capabilities.

3.5. Municipal budget

The municipal budget is the main source of local finances and it creates the main financial foundation of local self-governance. It is regulated by the Law of Georgia on “Budget Code of Georgia”, adopted on 18 December 2009.⁷

The budget of the self-governing unit is an opportunity to maximise the satisfaction of needs of the population residing on its territory. Through the budget, self-governing units acquire real independence. “Budget Code of Georgia” requires the establishment of budget federalism in the country, which implies the independence of all budgets. This independence is certainly not absolute and takes into consideration the implementation of decisions taken on the same level with the budget of the corresponding level. In order to implement this principle, legal basis for decentralisation and deconcentration should be established in the country.

The principles of economic decentralisation in EU countries coincide with real practice of its implementation. This is provided by the Council of Europe’s Charter of 15 October 1985 on “Local Self-Government”. Self-government budget system in Georgia is based on the same principles, but there is a big difference between the principles and the practice of their implementation. The main part of decentralisation is fiscal decentralisation, for the assessment of which the OECD has developed 3 large groups of criteria systems of budget independ-

7 <https://matsne.gov.ge/ka/document/view/91006?publication=35>

ence in accordance with: 1) budget revenue, (2) budget expenses and (3) debts policy.

The reality of Georgia can be generally assessed as follows: in case of local self-governance and governance, budgetary autonomy and economic decentralisation are still far from the completion. According to those groups, the assessment is as follows:

1. Budget revenues

All taxes and fees are determined by the law;

- Implementation of the powers of local representative bodies in regard to determining taxes and fees is only possible within the framework prescribed by the law;
- Central government defines not only the types of taxes and fees, but also the tax base;
- Only targeted transfers are implemented from upper-level to the lower level budgets ;
- With political expediency, the central government has exempted agricultural lands with less than 5 hectares from taxation, when this tax represents the source of local budget.
- Part of income tax, which was given to local self-government, is segregated.

2. Budget expenses

- Minimum social standards are not determined in the local budget for the equalisation transfer from the central budget;
- Full cost for the enforcement of property rights is not established;
- Entrepreneurial authority is not defined.

3. Debt policy

- The issue of deficit of local budgets is unregulated;
- The powers of local government are not specified in regard to issuing loans or municipal securities and taking bank loans, such action is only possible with the permission of the Government of Georgia.

In Georgia, local budgets are characterised by the lack of income, which is directly reflected on the share of expenses incurred in the public sector. In 2017, from each 100 GEL spent by the public sector in the country, 84 GEL was disposed by the central budget of Georgia, 2 GEL — by the budget of the Autonomous Republic of Adjara and 7 GEL — by the budget of the capital, all the other municipal budgets received only 7 GEL in total.⁸

It is obvious that the role of municipalities in the socio-economic development will be very limited with such distribution of funds between the budgets, since their scarce financial resources will not have a substantial impact on economic, particularly, inclusive economic growth. If funds are not distributed evenly, central government of Georgia will continue to have the major influence of the public sector on economic growth, and municipalities will only play a secondary and supportive role as supplements to the central government (which is clearly visible in the case of budgets).

Such uneven distribution of funds from the legislative point of view is mainly determined by the following factors:

1. The only local tax is the property tax, the relative share of which is negligible in total taxes. The income tax, which, remained in local budgets in its entirety back in the day, still flows into the central budget except for a small share.
2. An equalisation transfer is still the most important source of income for local budgets, which, despite the title, does not actually serve the equalisation policy. This is verified by the fact that Tbilisi, which is far ahead in the development of other municipalities, receives the largest share from those transfers based on its absolute volume and population per capita.
3. Income tax was defined as the source of income of local self-government, in particular, the following types of income tax: A) in-

8 National Statistics Office of Georgia, see www.geostat.ge Legislative Herald of Georgia, see www.matsne.gov.ge.

come tax generated from income received by the physical entrepreneur's activity; B) income tax of non-resident persons (income received from property realisation); C) income tax from the surplus received by the natural person through the sale of material assets, as well as: D) income tax from gifting a property to physical person; e) income tax from the receipt of the property via inheritance by a physical person, and f) income tax from the income received from the lease of the property⁹, (i.e., the types of smallest income are selected). In addition, this is a discriminatory and inaccurate approach, as the share of local self-government should be included in all types of income taxes.

Recently, the central government put forward the initiative to change existing equalisation system, which is included in the package of legislative amendments along with the draft of state budget of Georgia for the year of 2019. Thus, the issue of its adoption will be resolved by the end of 2018 — what will change and what we should expect with these changes.

The amount to be distributed in accordance with the currently active equalisation transfer formula (which should not be less than 4% of the nominal gross domestic product of the planned budgetary year (Article 73, paragraph 2¹⁰), is divided among the municipalities. The criteria for calculating equalisation transfers are: number of population; number of children up to 6 years; number of adolescents from 6 to 18 years; “number of people whose socio-economic condition indicator (rating score) is less than the threshold limit set by the Government of Georgia”; the area of local self-governing unit and length of roads of vicinal roads. Tbilisi data is not calculated in the equalisation transfers, which, naturally, causes a large margin of error. If data of capital is

9 The Budget Code of Georgia, see <https://matsne.gov.ge/ka/document/view/91006?publication=35>

10 <https://matsne.gov.ge/ka/document/view/91006?publication=35#!>

included in the calculation, all average indicators will increase. Consequently, the size of transfers that should be transferred to other municipalities, will increase. It is a reality and real policy should be based on it. In addition, “equalisation transfer” is an incorrect name — its essence does not correspond to the title (“equalisation”) and to the purpose set by the law.

Article 71 of the Budgetary Code of Georgia defines the goal of equalisation transfer in two directions: “Equalisation of socio-economic development of local self-governing units shall be ensured by the Government through equalisation transfer allocated from the state budget” (Paragraph 1); and “Equalisation transfer aims to equalise financial resources for the exercise of their own powers of various local self-governance units”¹¹ (Paragraph 3).

The first objective expresses the requirement of the Constitution of Georgia: “The State shall guarantee equal socio-economic development for all regions of the country. To ensure socio-economic progress of high mountainous regions, the law establishes benefits “(Article 31).¹² Socio-economic development, first of all, envisages the improvement of living standards of population, increase of GDP per capita, raising competitiveness, development of education, science and human capital, etc. Therefore, this formula must be changed, especially if the new edition of the Constitution speaks about provision with the minimum wage (Article 5, paragraph 4).¹³ It is obvious that based on its own calculation criteria, the equalisation transfer will not achieve the constitutional goal, such as equalising of socio-economic development.

The second objective — equalising financial resources — envisages access to a unified standard of service across the country. In order to

11 <https://matsne.gov.ge/ka/document/view/91006?publication=35>

12 The edition of this article from the receipt of the oath of elected President on 28 October 2018:

“The State shall ensure equal social, economic and demographic development on the entire territory of the country. Special conditions shall be established by the law to ensure the development of high mountain regions.”

13 <https://matsne.gov.ge/ka/document/view/30346?publication=35>

achieve this, it is necessary to have a common denominator according to which equalisation will be done. The function of such denominator shall be carried out by national standards, which are established as a mandatory minimum of service and are mandatory for the implementation, starting from public and administrative service minimums and ending with social and sanitary-hygienic standards. In such a case, the idea of equalising the implementation cost of this standard is clear in all municipalities, because if self-governance will not have its own sufficient funds to ensure these standards, it will be filled with the money received from the central government (transfer). Such transfer is the source of filling in the shortfall in funding the minimum costs.

Nowadays, equalisation transfer does not serve neither of these purposes. It does not serve the purpose determined by Georgian legislation in regard to equalising socio-economic development, neither does it implement the principle of the subsidiarity; it only implements the equalisation function of the predetermined amount. Considering the above-mentioned, the current equalisation transfer shall be changed, which is clearly provided in recommendations of the Congress of Local and Regional Authorities of the Council of Europe.

In October 2018, the Ministry of Finance of Georgia announced the initiative for reforming the finance system of local budgets from the state budget. In particular, the equalisation transfer is cancelled, as well as amounts received from various types of income taxes and are replaced with 19% VAT from earned revenues (out of which Tbilisi will get 50,01% of allocated funds for local budgets¹⁴). According to the amendments to the Budget Code, the equalisation transfer system is replaced with the “distribution tax” system. The main argument of the government is that when calculating equalisation transfer, its volume was affected by the personal revenues of the municipalities, which served as a demotivator for municipalities in terms of working on generating their own revenues. Yet according to the new system,

14 <http://parliament.ge/ge/ajax/downloadFile/103557>

accounts receivable will not take into consideration personal revenues of the municipalities, which creates additional motivation for municipalities to work in this direction. Compared to the equalisation transfer formula, forecasting of distribution of VAT will be simpler for each municipality and will facilitate the improvement of mid-term and annual action plans development. These changes include the transition phase of 2019-2023 for the final formation of the system.

Value added tax is distributed to the municipality according to the number of registered population, number of children up to 6 years, number of adolescents from 6 to 18 years, area of the municipality and the number of persons with the status of residents of high mountainous settlements. The following criteria were not included in the list: “the number of persons, the socio-economic status indicator (rating score) of which is less than the threshold limit determined by the Georgian government” and “the length of vicinal roads (the number of persons with the status of residents of high mountainous settlements is added). Criteria weight is as follows: 60% is distributed based on the population of the municipality; 15% — based on the number of children up to 6 years registered in the municipality; 10% — based on the number of adolescents from 6 to 18 years registered in the municipality; 5% — based on the area of the municipality, and 10% — based on the number of persons with the status of residents of high mountainous settlements.

Such a “model of distributed tax” will not ensure the implementation of the principle of subsidiarity and will not fulfil the requirement of Georgian constitution on “socio-economic equalisation”, since its calculation criteria takes into consideration not the equalisation of the socio-economic level, but financing current expenses of the municipalities. At this stage, the position of the International Monetary Fund is also unknown. The value-added tax, by its nature, is not local or shared. Typological mixture of the taxes is not characterised with the best practices and time will show how this innovation will work out in Georgia.

4. CONCLUSION — MAIN CHALLENGES OF THE MUNICIPAL DEVELOPMENT

Since 2014, significant steps have been taken, the financial and economic situation of the municipalities has been improved, but not sufficiently. Their property and budget are still so scarce that they cannot be directed towards stimulation of socio-economic development. The municipal services established by the law cannot be fully and properly implemented with such scarce funds. Local self-government bodies are “passive conductors” of development-oriented governmental policies and play a support role in this process. As for the local policy of socio-economic development, it still has not gone beyond the preliminary state.

The findings of the survey indicate that municipal statistics are not produced, and data on municipal assets, including land and natural resources, human resources, enterprises and infrastructure is very scarce. For the purposes of development, the planning of systematic accounting, evaluation and rational use of local resources is not used widely.

Municipal budget is a rational and effective municipal policy tool that is less oriented on results, since the logical sequence of “Policy-Program-Budget” is violated in planning, as well as in the process of self-government activity. The main focus of municipal programs is not on the development objectives, but on maintaining the minimum level of municipal services (mostly, the maintenance of kindergartens, disposal of waste, single-time social allowances). Consequently, the municipal budget is a “consumer” budget and is less channelled towards economic growth, increase in local income and investment in socio-economic development of the infrastructure, which is under municipality’s governance (e.g. local roads, water supply system, etc.). Investment is mainly implemented by the state.

The fundamental meaning of “the priority document” as a document of municipal policy, is not clear. There is an impression that the structure of budget expenditure has become a “traditional pattern”. In fact, there is no such practice where the “Priority Document” or any other policy document (e.g. socio-economic development strategy and programs) mentioned in the Self-Government Code define the objectives and tasks of municipal policies oriented on the development and municipal programs needed to achieve it.

Social programs implemented by municipalities are mainly focused on providing one-time less effective assistance to the poor and destitute layers of society. Apart from a rare exception, projects aimed towards the improvement of depressed social backgrounds (when the majority of population is economically inactive and becomes fully dependent on social assistance) is not planned or implemented.

The private sector participates less in the development and implementation of municipal policy. The “investment activity” of self-government is extremely low. Local resources, competitive advantages of the municipality and hindering risks for the development of local economy are not identified or evaluated. Therefore, they are not used in the planning practice of the policy, programs and budget. Relevant economic programs, which can be offered to the private sector, are not processed. In turn, the latter is less likely to take initiatives towards municipal policy.

Practically, there are no institutional mechanisms in administrative units, particularly in peripheral rural areas, oriented on socio-economic needs of the local community and development-oriented policies, apart from the administrative centre of the municipality, where municipal bodies of self-government are gathered. In fact, territorial bodies of the administrative unit have been abolished, while Mayor’s Representatives in administrative units implement administrative functions in a highly restrictive manner and socio-economic development of the settlements is not properly planned.

The demarcation process of state and municipal ownership on land and natural resources (water, forest, and subsoil) is not completed. The management of land use, land and other natural resources is unregulated.

Institutional weakness of the economic (development) service of municipalities should also be noted. These offices should be able to develop and implement effective policies for local social and economic development, yet in reality, they only function as supervisors of local infrastructure projects. The findings of the survey show that the absolute majority of local public servants have little vision on how to develop their municipality and mention such “routine tasks” such as: infrastructure, tourism and agriculture.

Local officials are less oriented on the development factors such as: innovation and competitiveness. The findings of the survey (Table 2) are dominated by the priorities, such as: “Development of agro-complex”, “Tourism and Recreation” and receiving more money from the central budget. It is certainly impossible to make any breakthrough with such priorities, since the first priority mentioned above has exhausted itself in the 90s of the last century and the second has just completed its useful activity. As for the third priority, it cannot be used as a tool for the development of local economy, due to our budgetary arrangement.

5. RECOMMENDATIONS — OPPORTUNITIES, MECHANISMS AND PROSPECTS OF MUNICIPALITIES' DEVELOPMENT

Based on the analysis of the survey findings we concluded that nowadays, local self-governance bodies only play ancillary role in socio-economic development of cities and villages. Consequently, it is necessary to implement a proper policy in order to turn local government bodies into a driving force of local development. Necessary actions can be divided into two parts: measures that shall be implemented in a short period of time and measures, implementation of which belongs to long-term objectives. Short-term objectives should be focused on the creation of institutional capacity for local economic development through mobilisation of relevant human resources, administrative capabilities and resources in municipalities. While long-term objectives should be focused on the creation of such a political, legal and administrative environment that will promote the increase of municipalities' role in the management of local social and economic development.

Short-term objectives are:

- 1) Strengthening the Economic Division of the Mayor's Office in municipalities and granting them the authority to create and implement local social and economic development policies;
- 2) Systematisation of the process of creating social and economic development policies and plans and creating coordination mechanisms between government levels that ensures harmonisation of development documents created at different levels;
- 3) Training of public servants of Economic Office of municipalities, creation of special training courses and manuals, improvement of methodology of social and economic development planning;

- 4) Inventory and assessment of assets owned by local self-governance bodies;
- 5) Establishment of internal municipal borders, creation of map of settlement territories and inventory of spatial resources;
- 6) Establishment of public councils at the settlement level for the consideration of local interests in the process of selecting local priorities;
- 7) Allocation of state funding for rural settlements for the purpose of bringing local social and economic infrastructure into order¹⁵;
- 8) Making amendments to the Law of Georgia on “Public-Private Partnership” and setting up the criteria for the value of public and private partnership for municipalities as 500,000 GEL;
- 9) Local representative body shall be given the powers to approve the document to be submitted to the Government of Georgia for public-private partnership project according to the Law of Georgia on Public-Private Partnership.

Long-term objectives are:

Adoption of long-term strategies for decentralisation and deconcentration of governance in Georgia, as well as elaboration of relevant governmental program and action plan, within which a number of legislative and structural changes should be implemented, namely:

I. Legislative amendments

It is necessary to further improve the existing legal framework, in particular:

- It is necessary to adopt a legislative act that regulates issues of land ownership and management;
- It is necessary to establish the normative framework required for the implementation of the Spatial Planning and Construction Code;

15 By 2019, the Government of Georgia restored “Agricultural Settlement Aid Programs”, the volume of which was determined at 20 million GEL, which will undoubtedly help rural development.

- Establishment of a proper normative framework for planning social and economic development.

It is necessary to prepare changes and additions to the following laws:

1. Making amendments to the organic Law on “Local Self-Governance Code”, including:
 - Determining the status of a legal entity for the municipality’s territorial unit (rural and urban settlement, union village settlements — community); creating legal framework and conditions for the implementation of local self-governance through direct democracy and citizens’ participation in the settlement (or their union) level;
 - Enhancing the powers of municipalities in the field of management of municipal services, property and local economy (including regulation of tax rates).
2. Harmonisation of the legal framework of local self-governance;
3. The concepts of “equalisation of socio-economic development of local self-governing units” and “equalisation of local budget revenues” shall be differentiated from each other in the Budget Code of Georgia;
4. Creation of universal system of minimum standard of service, which will be based on the standards approved by the law;
5. Transfer of tax revenue is the key for budget independence of self-governance, including turning income tax into a distributable tax, just like VAT.
6. Settlements in municipality shall be considered as a structural unit of the municipality administration and shall be subject to municipal budget system;
7. Municipalities shall be allowed to enter the securities market for emission and floatation of municipal loan securities;
8. Create the system of procurement that differs from state procurement and is tailored to local self-governance, in order to implement the procurement by the municipalities,

9. Make changes and additions to the Law of Georgia on “Public-Private Partnership” and entitle municipalities to approve the priority fields and concepts of public and private partnership on their own, within their own competence. In addition, determine the local representative body — Sakrebulo (council) as the body authorised to approve public and private partnership projects within the scope of its competence.

II. Institutional strengthening of local self-governments

1. *Increase the powers of local self-governance units, namely:*
 - 1.1. It is necessary to reform and decentralise the water supply and sewerage systems, as well as solid waste disposal and processing systems. Delivery of this service may be implemented by using an inter-municipal cooperation instrument;
 - 1.2. State services focused on the specific area of resettlement (secondary education, social care for the vulnerable, primary health care program), as well as the implementation of low-budget state programs will be handed over to the local self-governance;
 - 1.3. The process of transfer of property to local self-governance should be completed;
 - 1.4. The movable and immovable property of former collective-farms that is not registered as the property of another person, shall be automatically declared as municipal property; elaboration and implementation of a special program to transfer this property to the municipality, which was listed under legal entities created under the basis of the collective-farm;
 - 1.5. The municipalities must be authorised to produce local statistics.
2. *Increase the administrative capacity of local governmental bodies.*
 - 2.1. Optimisation of entrepreneurial and non-profit legal entities founded by the municipality; increase their effectiveness to reduce administrative expenses;

- 2.2. Proper and adequate system of remuneration and social guarantees for officials shall be created in the municipal sector of Georgia.
- 2.3. The requirements of the Law of Georgia on Public Service shall be fully enacted at the local level.

III. Strengthening local democracy

1. *Ensuring citizens' engagement in the management:*
 - 1.1. Ratification of additional protocol of the European Charter of Local Self-Government;
 - 1.2. Strengthening of institutional mechanisms of citizens' participation at settlement level;
 - 1.3. Promotion of enactment of the Law of Georgia on Private and Public Partnership in municipalities.
 - 1.4. Introduction of open governance program in all municipalities of Georgia.
2. *Advancement of training and professional development systems for local self-government officials:*
 - 2.1. The state should support the development of local economy, which includes the following directions:
 - 2.2. Establishment of professional staff training centres in municipalities to satisfy the demand of local economy; decentralisation of vocational education system;
 - 2.3. Development of a special training program for local officials in the field of development, implementation and monitoring of public and private partnership projects.

