GEORGIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: GEORGIAN LARI (GEL)

POPULATION AND GEOGRAPHY

Area:69 700 km^2
Population: 3.717 million inhabitants (2017), a decrease of 1.4% per year (2010-2015)
Density: 53 inhabitants / km^2
Urban population: 58.2% of national population (2017)
Urban population growth: 0.6% (2017 vs 2016)
Capital city: Tbilisi (29.0 % of national population)

ECONOMIC DATA

GDP: 39.7 billion (current PPP international dollars), i.e. 10 683 dollars per inhabitant (2017)
Real GDP growth: 4.8% (2017 vs 2016)
Unemployment rate: 11.6% (2017)
Foreign direct investment, net inflows (FDI): 1 830 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 29.7% of GDP (2017)
HDI: 0.780 (High), rank 70

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Constitution of 1995 established the Republic of Georgia as a unitary republic. Since the constitution was last amended in 2017, Georgia has been transitioning from a semi-presidential system to a parliamentary system. Effective as of 2018, the constitutional amendments substituted Georgia's unicameral Parliament with two chambers: the Council of Republic and the Senate. The Council of Republic is composed of members elected by a proportional system, and the Senate of elected members from the Autonomous Republic of Abkhazia, the Autonomous Republic of Adjara, other territorial units of Georgia, in addition to five members appointed by the President of Georgia. According to a new constitution, the President will be elected indirectly, by special electoral boards composed of 150 members of the Parliament, members of the Supreme Council of the Autonomous Republics and voters nominated by the parties according to the results of local elections. In the meantime, the last direct presidential election was held in 2018, electing the president for 6-year term. The Prime Minister, appointed by the Parliament following a recommendation made by the President, is the head of the Government.

Georgia has only one subnational government, i.e. municipalities, which are subdivided into two categories: communities and cities. The country also encompasses the Autonomous Republic of Abkhazia and the Autonomous Republic of Adjara. In 2013, a new chapter on local self-government was added to the constitution (Chapter 7-1), recognising local autonomy and local government powers, own assets and resources, along with a comprehensive territorial and administrative reform process. In 2014, a new Code of Local Self-Government was adopted, further amended in 2017, which reformed the regional state administration and abolished former laws, such as the Organic Law on Local Self-Government, the Law on State Supervision, the Law on the Capital Tbilisi and the Law on Municipal Property. Local self-government is enshrined in Article 2 of the new Code.

The 2014 Local Self-Government Code introduced essential changes in the multilevel governance framework of Georgia. It reinforced local participation (through Citizen Advisory Councils) and the elections mechanism. In fact, for a number of cities it called for mayors to be elected directly. This is unlike previous legislation that limited direct mayoral elections to the capital city, Tbilisi. The municipal assembly (*sakrebulo*) is the deliberative organ of local authorities. It is composed of members directly elected for a four-year term, and is headed by a president elected by the assembly members for the same period. Executive power is vested in the mayor (*meri* in cities and *gamgebeli* in communities), who is elected by direct suffrage with an electoral threshold of 50%.

In March 2018, the Parliament and the Government of Georgia announced a new wave of local self-government reforms, to be followed by an action plan to be adopted by the Parliament of Georgia. A wide range of competencies and resources are expected to be transferred to local authorities by 2025, with 7-8% of GDP to be allocated to the municipal budget. Different groups of stakeholders are also in talks regarding new municipal fragmentation and changes in the local voting methods.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	5 self-governing cities *(qalaqi)* 67 communities *(temi)*		2 autonomous republics of Adjara and Abkhazia *(avtomnoy respubliki)*	
	Average municipal size: 55 740 inhabitants			
	72		2	74

OVERALL DESCRIPTION. The territorial organisation of Georgia has undergone several changes in recent years. In 1997, the Georgian Parliament adopted the law on Local Self-Government creating two levels of self-government (districts/*raioni* and municipalities). In 2006, the two-tier system of self-government was replaced a single tier of municipalities (*munits'ipaliteti*), which are subdivided into two categories: five cities (several based on former districts) and 71 communities. In 2014, a territorial reform subdivided several municipalities into smaller units and provided the city status to some communities (12 in all). However, new amendments in 2017 to the Code reduced the number of cities from 12 to 5 (Tbilisi, Kutaisi, Rustavi, Poti and Batumi) and the 14 municipalities that were formed were merged into the previous seven municipalities. Currently, Georgia has a one-tier-system of decentralisation composed of 72 municipalities, including five cities (*qalaqi*) and 67 communities (*temi*) as well the two autonomous republics of Adjara and Abkhazia at the regional level.

REGIONAL LEVEL. The Autonomous Republic of Adjara has special status defined by the 2004 constitutional law on the status of the Autonomous Republic of Adjara. It has its own legislative body. Indeed, the Supreme Council is constituted of 21 members elected by universal suffrage by the consituents of their jurisdictions. The executive branch consists of a Chairperson who is nominated by the President of Georgia with the approval of the Supreme Council, and four Ministers in the areas of economy, healthcare and social security, agriculture and education, culture and sports. The government of the Autonomous Republic of Adjara is accountable to the President of Georgia, and its local-self government system consists of 5 municipalities and the city of Batumi, the administrative centre of Adjara and the third largest city in Georgia. The other autonomous republic, Abkhazia, is a disputed region that is currently not under the control of the Georgian government.

MUNICIPALITIES AND INTER-MUNICIPAL CO-OPERATION. Cities and communities have the same status. The difference between them lies in the internal territorial organisation. Cities are unitary urban settlements while communities are formed by a number of rural and urban communities, usually an agglomeration structured around an urban settlement (town) and adjacent rural settlements (villages). Each of these entities is divided into sub-municipal administrative units. In 2017, the average size of municipalities was big (calculation based on 64 municipalities), especially compared to the EU28 average (5 900 inhabitants) but the median size is smaller (31 000 inhabitants). Around 23% of municipalities have fewer than 20 000 inhabitants and only two have fewer than 5 000 inhabitants. The capital city of Tbilisi is by far the most populated (over 1 million), accounting for 30% of the national population. It is followed by Rustavi, Kutaisi and Batuni (between 126 000 and 155 000 inhabitants).

The Constitution and the Code of Local Self-Government (Section III – Chapter VII) grant the capital city of Tbilisi special status. It is subdivided into 10 administrative districts, which reflect the delimitations of the city's historical neighbourhoods. Each district has an executive department, headed by an executive director appointed by the mayor of Tbilisi. As the functional area of Tbilisi is larger than its administrative boundaries, Tbilisi started a metropolitan governance project in 2009 covering the capital city of Tbilisi, the city of Rustavi and the municipalities of Mtskheta and Gardabani, with co-operation taking place regarding water supply, sewerage system and solid waste management. Beyond Tbilisi, intermunicipal co-operation is gradually emerging in Georgia, despite the lack of a formal legal framework. The 2014 Local Self-Government Code (articles 20-21) empowered municipalities to establish joint enterprises, and local authorities have started to come forward with such initiatives in the provision of public goods and services.

STATE TERRITORIAL ADMINISTRATION. Georgia is subdivided into nine regions (*mkharebi*) based on Georgia's historical and geographical regions. They are deconcentrated state administrations, headed by State governors who are appointed by the government. Regional governors used to supervise municipal governments but their role was diminished by the 2014 code, and they were replaced by the office of prime minister and the ministry of justice. As part of the "regionalisation process", the 2014 code established Regional Advisory Councils as consultative bodies representing the authorities that operate at the municipal level and are chaired by the State governors. Amid stark and worsening regional disparities, their role is to report the challenges and specificities of each region and incorporate them into regional development plans.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The law on local self-government and Article 101-2 of the Constitution provide the framework that defines the competences of municipalities in Georgia. Georgian municipalities have both exclusive and delegated competences. Municipalities may proactively solve, within the limits set by the law, any issue within their respective jurisdictions if the relevant activity (e.g. related to employment, tourism, agriculture, innovative development, etc.) is not a specified part of the remit of any other public authority. Delegated tasks are determined by legal mandates or agreements between ministries and municipalities, and may encompass military registries, healthcare or social assistance. The capital city of Tbilisi has additional functions in transport and communication, healthcare, social protection and local development. In some sectors, it is unclear who is in charge of what. This is the case, for instance, in management of the water supply. The lack of clear boundaries is attributed to slow progress in the alignment of sectoral legislation with decentralisation policies. According to the local code, municipalities have the right to establish both non-profit and commercial enterprises for the provision of municipal and social services. The number of non-commercial enterprises established by the municipalities has doubled in recent years.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Municipal administration; Management of municipal properties; building permits; Military recruitment (delegated)
2. Public order and safety	Fire safety and rescue assistance
3. Economic affairs/transports	Local motorways; Traffic regulation on local roads; Local public transport; Outdoor advertising and street trading; Exhibitions, markets and fairs; Management of local natural resources
4. Environmental protection	Municipal waste management; Street cleaning; Public parks and public areas
5. Housing and community amenities	Spatial planning; Local water supply; Cemeteries
6. Health	Hygiene and sanitary inspections; Public healthcare (delegated); Prevention of epidemics; Ambulances (Tbilisi)
7. Recreation, culture & religion	Libraries; Cinemas; Museums; Theatres; Sport facilities; Preservation and development of local heritage; Local cultural monuments; Creative activities
8. Education	Pre-school education
9. Social protection	Registration and provision of shelter for the homeless; Infrastructure for disabled persons; Housing assistance for bus drivers (Tbilisi); Care of internally-displaced persons (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and the two autonomous regions.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GEORGIA

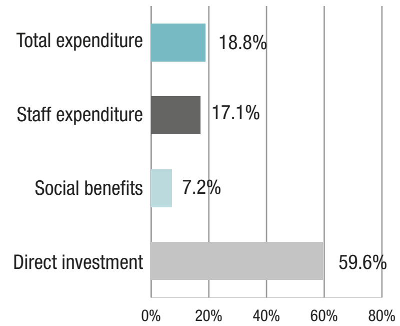
UNITARY COUNTRY

GENERAL INTRODUCTION. IIn addition to the Georgian Constitution, the local self-government fiscal framework in Georgia is specified in the Organic Law on local self-government, the Budget Code and the Tax Code of Georgia. Each local government has its own independent budget. The autonomous Republic of Adjara, under the jurisdiction of the Georgian government, also has financial autonomy within the scope established by Georgian legislation. It receives part of the Georgian state tax and non-tax revenues and special funding from the national state budget for the exercise of its functions. Ongoing reforms tend towards deepening decentralisation, including the implementation of new rules for financial equalisation, the strengthening of the financial capacity of local government through additional tax revenues, the modernisation of the auditing system and territorial civil service, and the recruitment of specialised auditing staff.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**560**	**5.6%**	**100%**
Inc. current expenditure	359	3.6%	64.2%
Staff expenditure	88	0.9%	15.8%
Intermediate consumption	81	0.8%	14.5%
Social expenditure	72	0.7%	12.8%
Subsidies and current transfers	116	1.2%	20.7%
Financial charges	3	0.0%	0.5%
Others	0	0.0%	0.0%
Incl. capital expenditure	200	2.0%	35.8%
Capital transfers	20	0.2%	3.6%
Direct investment (or GFCF)	180	1.8%	32.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

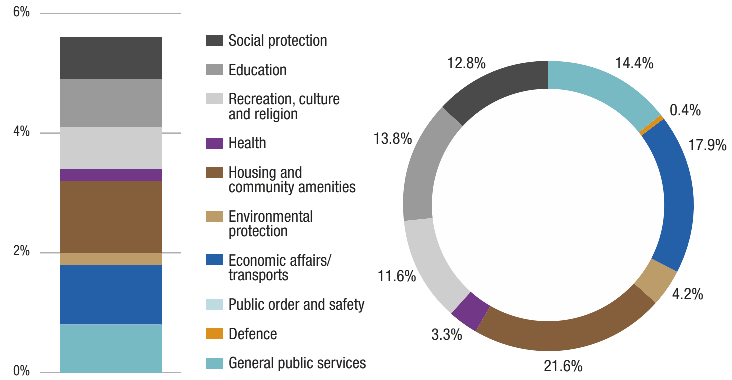


EXPENDITURE. In 2016, local government expenditure amounted to 5.6% of GDP and 18.8% of public expenditure, below the average for EU countries (15.5% of GDP and 33.4% public expenditure). Whereas local governments in Georgia represent a small share of public employment and staff expenditure, they are very involved in the investment process. In fact, they are responsible for more than half of total public investment. Per capita spending varies greatly across regions; subnational expenditure tends to be concentrated in the Autonomous Republic of Adjara and the city of Tbilisi.

DIRECT INVESTMENT. Local governments' direct investment accounted for respectively 32.2% of SNG expenditure and 59.6% of public investment in 2016, above the EU average (respectively 8.7% and 50.9% in 2016). Since 2013, this has increased markedly (+0.6 percentage points in terms of share of GDP, +28 pp for the share of public investment). Nevertheless, capital investment projects are mostly financed and managed by the central government through the municipal development fund, although local authorities are sometimes involved in the planning process.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

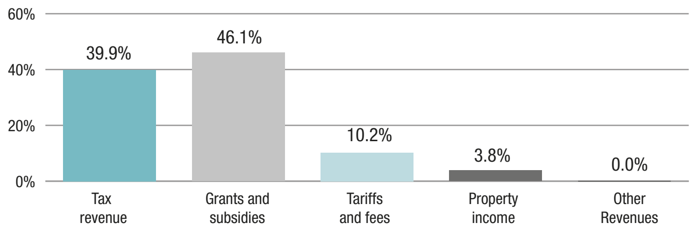
Housing and community amenities is the primary spending area of SNG, accounting for 21.6% of SNG expenditure and 88.9% of the total public expenditure in this category, followed by economic affairs, general public services and education. Environment protection stands for a small share of the local budget, and yet environmental spending is mostly carried out by local governments (56.2% of public environmental expenditure). The financial needs of local governments are much higher than their revenues. The resulting vertical imbalance means that SNGs rely heavily on transfers from the central government.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**589**	**5.9%**	**20.7%**
Tax revenue	235	2.3%	9.1%
Grants and subsidies	271	2.7%	
Tariffs and fees	60	0.6%	
Property income	22	0.2%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Local government revenue comprises own revenues (local taxes, charges and fees), shared tax revenues, and other revenues in the form of grants, subsidies and loans. In 2016, grants and subsidies constituted the bulk of total SNG revenue (46.1%), before tax revenues (39.9%). Yet, the ratios of SNG tax revenues in SNG revenues and public tax revenues have increased significantly between 2013 and 2016: from 5.6% of public tax revenue in 2013 to 9.1% in 2016, and from 22.3% of SNG revenue in 2013 to 39.9% in 2016 (the ratio as a share of GDP remains unchanged). The new reform announced in 2018 plans to increase further local budgets to reach 7% of GDP.

TAX REVENUE. Local governments rely on two primary sources of tax revenue: a shared tax, the personal income tax (PIT) and an own-source tax, the recurrent property tax. The organic law on local self-government (art. 24) enables local government to introduce or abolish local taxes and fees, in accordance with Georgian legislation; however, this prerogative is not used. Local governments receive a portion of the PIT collected within its jurisdiction, accounting for 18% of the PIT at the national level. PIT revenue represented 54.5% of local tax revenue, 21.8% of local total revenue and 1.3% of GDP. The budget code (annex 1) mentions that the PIT is shared between the State and SNGs, yet distribution criteria remain unclear. Since 2016, the PIT tax base, which previously comprised only taxes paid by individual entrepreneurs, has been enlarged to include the proceeds from the sale of material assets, rented, bestowed and inherited properties.

Moreover, the property tax is a local tax levied on buildings and land. It is paid by individual and legal persons. Municipalities can set the tax rates within limits set by the Georgian Tax Code, in consultation with the Ministry of Finance. The tax rate cannot exceed 1% of the value of the property for legal persons, whereas the limit for individual owners is based on income: between 0.05% and 0.2% for households earning less than USD 45 000 per year, and between 0.8% and 1% for other households. There are many challenges associated with property tax collection, due to the large number of exemptions granted to specific categories (e.g. farmers). An additional challenge is the fact that property assessments are not based on market price. Instead, the individual taxpayer assesses his own property. Nevertheless, the property tax accounted for 45.5% of SNG tax revenues, 18.1% of total SNG revenues and 1.1% of GDP in 2016.

GRANTS AND SUBSIDIES. Grants are the primary source of subnational revenue, yet their share in local revenue has decreased significantly in recent years due to the increase in local tax collection and tax revenues (-18 percentage points compared to 2013). Overall, capital grants accounted for almost 30% of total grants (vs 70% for current grants), a large proportion by international comparison.

Equalisation transfers make up the bulk of transfers. According to Georgia's equalisation system, which is set forth in the Budget Code (Article 71-74), the central government transfers funds on an annual basis, according to a formula including the population size, the area, the number of children from 0-6 and of young people from 6-18, the status of the capital and roads of local importance. The equalisation formula has raised eyebrows among experts: 61% of transfers are channelled to large self-governing cities that concentrate 42% of the country's total population, while only 39% of the transfers reach municipalities that are home to 58% of the total population. Making matters worse, it does not incentivise small municipalities to increase their revenue bases, since that would imply a reduction in the size of their grant. The Ministry of Finance is currently working on reviewing the equalisation mechanism in order to lessen regional and inter-municipal disparities. The final amount allocated for the equalisation transfer is determined by the central government and approved by the parliament.

According to the Law on local self-government (art. 94), municipalities are also entitled to targeted transfers earmarked for the exercise of local delegated powers, whose calculation is determined during consultations between the Ministry of Finance of Georgia and local financial administrations, based on 1) the cost of implementation of delegated tasks; 2) special transfers in the case of unforeseen events such as natural disasters ; and 3) capital transfers for the implementation of capital projects.

OTHER REVENUES. Tariffs and fees represent a significant source of revenue for local governments, and in particular self-governing cities (Tbilisi, Batumi), through the collection of fees on construction permits, garbage collection, urban development and gambling, and administrative fines. Fees levied on the use of natural resources (oil and gas, minerals and metals, mineral water, hunting, fishing) only benefits certain municipalities (70% of the budget of Bolnisi municipalities).

The share of property-related income in SNG revenues is large by international standards: 3.8% vs 2.0% in the OECD and 1.2% in the EU28 in 2016. According to the National Agency of State Property, the central government transferred a significant number of its immovable properties into the ownership of municipalities in 2016 and 2017. Central authorities have however been slow in fully decentralising land, water, forest and natural assets to municipalities. Only large municipalities are able to receive significant revenue from property assets, be they physical or financial (interest earned on current accounts in commercial banks).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The budget balance rule applied to Georgian local governments stipulates that the ratio of the consolidated budget deficit (central and local government) to GDP should not exceed 3%. Recent changes to the Local Government Law shall improve fiscal co-ordination across levels of government, as the parliament will be setting targets for sectors overall (such as requiring a 10% across-the-board reduction in administrative costs), as well as aggregate targets consistent with the general government fiscal rules.

DEBT. Municipal debt management is regulated by the fiscal rules laid down in the Organic Law of Georgia on Economic Freedom. Municipalities may borrow to finance capital investments with the permission of the Government of Georgia. The total amount of the loan borrowed by a municipality shall not exceed 10% of the municipality's average annual own revenues for the three previous budget years. Municipalities may borrow (from a public authority or a related legal entity) up to a maximum of 10% of their annual budgets. For the city of Tbilisi, annual loan servicing shall not exceed 5% of its annual budget. The capital market is still fledgling in Georgia and according to reports from the Council of Europe, local debt is low.

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Geostat Georgia (Statistical yearbook).
Fiscal data: IMF Government Finance Statistics // OECD (2018) Subnational Governments in OECD countries: key data // UNECE: National Accounts of Georgia.
Other sources of information: Council of Europe (2018) Local and Regional Democracy in Georgia - Congress of Local and Regional Authorities // IMF (2017) Georgia: Fiscal Transparency Evaluation // Subgroup on Local Government and Public Administration reform of the Working Group 1 of the CSF EAP (2016) Update on Public Administration and Local Governments Reforms in Eastern Partnership Countries // Irakli Khmaladze (2015) Local Finance Benchmarking in Georgia, In Local Finance Benchmarking: a shared tool for improved financial management // David Losaberidze (2015) Mapping the obstacles to inter-municipal cooperation in Georgia.