

# DECENTRALISATION AND LOCAL PUBLIC ADMINISTRATION REFORM IN GEORGIA

## STATUS REPORT

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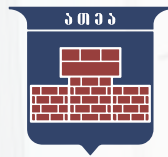
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# EXECUTIVE SUMMARY

In December 2019, the Government of Georgia adopted the Decentralisation Strategy 2020-2025. The aim of this Strategy is to promote the devolution of state competences to municipalities and contribute to the realisation of provisions of the new constitution of Georgia on subsidiarity of powers and balanced territorial development. The strategy has three main objectives:

- Increase local self-governments' role in managing a substantial share of public affairs;
- Ensure adequate materials and financial resources for local self-governments; and
- Develop reliable, accountable, transparent and results oriented local self-governments.

The successful implementation of this strategy is an important benchmark for Georgia's approximation towards the European standard for good governance and procedural democracy. As this document strives to strengthen local authorities by provision of more competences, more resources, more capacities for transparency and participation to Georgian cities and municipalities, its aim is to transform Georgian local governments into capable actors of local economic development and therefore it greatly corresponds with the realisation of the multilevel territorial governance and integrated model of regional development.

The first step was financial decentralisation that started in 2019 with the reformation of central local financial relations as a reaction to recommendations from domestic and international partners towards the improvement of financial equalisation system. This reform introduces the instrument of shared taxes instead of fixed transfers from the central budget. In

particular, the parliament of Georgia made a decision and the Value Added Tax (VAT) became a shared source of revenue for local and central budget by assigning 19% of VAT collected at national level to local budgets. The introduction of the shared tax increased local budgets by 15%. However, the COVID-19 crisis in 2020 minimised positive impacts of this reform.

The newly adopted Decentralisation Strategy has a two-stage approach to transfer powers to municipalities. In the first stage, local authorities will be delegated sectorial competences and line ministries will maintain an oversight function. In the second stage of the decentralisation process these sectorial competences will be transferred to local authorities. The first stage of the sectorial decentralisation should take place in 2020-2023 and at the end of the implementation period, in 2025, all these delegated tasks shall become competences of local authorities.

Georgian municipalities use citizens' advisory commissions to the mayors, and general meetings of citizens organised in each rural and urban settlements, to discuss spending priorities of the municipal budgets and identify what investment projects should be implemented at local level. Up to 27 municipalities in Georgia use the citizen budgeting model for managing local public finances and more than 50 municipalities are parts of the Open Governance Partnership. The new Decentralisation Strategy envisages the establishment of more solid citizens' participation mechanisms at local level.

At the end of implementation of the Decentralisation Strategy Georgian municipalities shall be equipped with relevant powers, financial resources and administrative capacities to play a leading role in economic development of Georgian cities and communities. Mid-term evaluation

of the strategy will take part in the beginning of 2023 and relevant modifications will be made to the document. The Decentralisation Strategy 2020-2025 gained positive feedback from all development partners and international organisations.

The decentralisation reform will be pushed forward in 2021-2022 years when major activities of the new Decentralisation Strategy 2020-2025 will be fully implemented. The

National Association of Local Authorities of Georgia (NALAG), plays a key role in this process, together with the Ministry for Regional Development and Infrastructure of Georgia (MRDI). NALAG will continue to advocate for the continuous improvement of the financing of local governments in Georgia which will be key to improving the quality of local government services and effectively promoting inclusive territorial development in Georgia.

# 1 INTRODUCTION

Georgia is an EU associated country located in the Caucasus region, bounded in the West by the Black Sea, in the North by Russia, in the South by Turkey and Armenia and in the Southeast by Azerbaijan. It covers a territory of 69.7 thousand km<sup>2</sup> and has a population of over 3.7 million inhabitants. Georgia is a unitary parliamentary republic, governed by a unicameral parliament to which the government is accountable to. According to the World Bank classification, Georgia is a low middle-income country with a GDP of USD 17.83 billion (4,285 USD per capita)<sup>1</sup>.

Georgia is divided into 9 administrative regions and in three autonomous territories out of which Abkhazia and South Ossetia are recognised by laws of Georgia as territories occupied by the Russian Federation. The Autonomous Region of Adjara is governed by the Autonomous Government nominated by the supreme council. Adjara A.R. has autonomous competences in such areas as finance and economy, healthcare, agriculture and education. Administrative regions are managed by State Trustees appointed by the Prime Minister of Georgia. Administrative regions are the deconcentrated level of central government and, *mutatis mutandis*, their mandate is to coordinate activities of central government agencies, and to elaborate strategies for socio-economic development of the region. There is a special collegial body – The Regional Consultative Council (RCC) – to the regional administration for consultation on regional development strategy with mayors and heads of local councils from the municipalities located on the territory of administrative regions.

As a member state of the Council of Europe, Georgia signed the European Charter of Local Self-Government in 2004 and therefore the notion of local autonomy is enshrined

in the Constitution of Georgia. Powers and competences of local self-government units are stipulated in the organic law of Georgia “The Code on Local Self-governance”. There are 5 self-governing cities and 59 municipalities in Georgia. Self-government cities are big urban settlements while municipalities are agglomerations of small rural and urban settlements. All local self-government units have equal powers and are responsible for: local taxation and budgeting; local natural resources; socio-economic development and spatial planning; local roads and transportation; water supply, sewage and sanitation; solid waste management; public spaces, parks, cemeteries and green areas; shelter and child care, protection of victims of family violence; preschool and additional education. The municipalities have various tasks delegated by laws and normative acts. Tbilisi has two additionally delegated tasks: ambulance service and fire brigades. Financial guarantees of local self-governance are provided by the constitution of Georgia. Municipalities collect the immovable property tax and get a share from the Value Added Tax revenues collected nationally.

Municipal government is represented by the local council (*sakrebulo*) elected via a mixed (proportional and majoritarian) electoral system and a directly elected mayor. Local councils adopt municipal budget, rules of procedures for units of the executive branch and oversight work of the mayor. Mayors are supreme officials of a municipality and head the executive branch. The capital city of Tbilisi has the same status as the other self-governance cities but due to its size, Tbilisi has a municipal government that is nominated by the mayor and approved by the Tbilisi city assembly. Power and competences of Tbilisi are the same as in other municipalities however, Tbilisi has more delegated tasks from the government of Georgia.

<sup>1</sup> World economic outlook database, October 2019

Georgia started a new decentralisation reform in 2018 in order to make Georgian municipalities capable actors of inclusive economic growth. The Government formulated three key objectives for the prospective reform: a) to assign more power, b) to transfer more financial resources and c) to provide better means of inclusive governance to Georgian local self-government units.

The decentralisation reform will be pushed forward in 2021 and 2022 when major activities of the new Decentralisation Strategy are fully implemented. In this process, two institutions have key functions: the Ministry for Regional Development and Infrastructure of Georgia (MRDI) and the National Association of Local Authorities of Georgia (NALAG). MRDI is a line ministry responsible for regional development, local government reform, development of highland areas and rehabilitation of physical infrastructure. The minister of MRDI has rank of Vice Prime-Minister who gives mandate to the ministry to coordinate activities of other line ministries and state agencies in the field of regional development, economy and the social sector. The ministry is recognised as one of the powerful agencies of the central government and ranks second in absorption of public funds in Georgia.

NALAG is an organisation established under the provision of the Code of Local Governance of Georgia and unites all local authorities of Georgia. The highest decision-making body of NALAG is the national congress of local authorities that elects the president of NALAG and the 23 members of the executive board. The president of NALAG, as well as members of the executive board, must be locally elected officials. The association actively cooperates with the parliament of Georgia and MRDI for protection of interests of local authorities. It also communicates with various line ministries on matters that have effect on local governments. NALAG and MRDI cooperate on the basis of a specific memorandum that defined rights and responsibilities of both parties in the process of policy formulation at local level. The President of NALAG is a member of the state commission on decentralisation and local government reform representing interests of all municipalities of Georgia. Alongside with MRDI, the association shares ownership over the Decentralisation Strategy 2020-2025 and its action plan assigns specific activities to NALAG for implementation. NALAG is an internationally recognised actor in the field of decentralisation, it serves as the national secretariat for the Georgian Delegation to the Congress of Local and Regional Authorities of the Council of Europe (CoE). NALAG is a member of the Council of European Municipalities and Regions (CEMR), CORLEAP and PLATFORMA.

**BOX 1: Government administrative system:  
levels of government and key actors and roles**

<b>National</b>	Parliament of Georgia												
	Government of Georgia												
	Ministry for Regional Development and Infrastructure of Georgia (MRDI)					Other line ministries							
<b>Regional</b>	9 Administrative Regions										3 Autonomous Territories		
	Guria	Imereti	Kakheti	Mtskheta-Mtianeti	Racha-Lechkhumi	Samegrelo-Zemo Svaneti	Samtskhe-Javakheti	Kvemo Kartli	Shida Kartli	Adjara A.R	Abkhazia	South Ossetia	
	Managed by the State Trustees										not under state control, occupied by the Russian Federation		
<b>Intergovernmental</b>	<b>National Association of Local Authorities of Georgia (NALAG)</b> <ul style="list-style-type: none"> <li>- channel for communication with Georgian Municipalities</li> <li>- international cooperation</li> <li>- institutionalized cooperation; e.g. part of PLATFORMA</li> <li>- organization of national forums and regional meetings</li> <li>- consultation of the new decentralisation strategy</li> <li>- cooperation for a new monitoring system for municipal services</li> </ul>										<b>International partner</b> <ul style="list-style-type: none"> <li>- Congress of CoE</li> <li>- CEMR</li> <li>- CORLEAP</li> <li>- PLATFORMA</li> </ul>		
	<b>The Regional Consultative Council (RCC)</b> (mayors and heads of local councils)												
<b>Local</b> self-governing cities	<i>5 self-governing cities</i>					<i>59 municipalities</i>					4 Municipalities of communities in exile		
	Tbilisi	Kutaisi	Poti	Rustavi	Batumi	(comprised of urban and rural communities)					Azhara, Tighva, Tamarasheni and Kurta		
<b>Sub-local</b>	about 1,000 cities and rural communities												





# 2 STATUS AND DEVELOPMENT OF LOCAL PUBLIC ADMINISTRATION REFORM

Georgia started the process of decentralisation in the late 1990s of the last century, soon after the end of the civil war and inception of democratic institutions at national level. Since then, Georgia implemented four stages of decentralisation. The first decentralisation reform took place in 1997-1998 when the parliament of Georgia adopted the law on "Local governance and self-government", this was followed by the first democratic local elections in 1998 with elected local officials initiating their mandate in 1999. The second stage of decentralisation was completed in 2001-2002 when mayors in cities and communities were elected directly (except Tbilisi and Poti) and became accountable to the local councils and not to the president of the state. Additionally, the notion of local taxes was introduced in the legal acts of Georgia.

During 2004-2010 were made very important steps towards decentralisation. Georgia ratified the European Charter on Local Self-Government; adopted a new organic law on "local self-governance" that clearly distinguished the mandate of local self-government units from central government; adopted a new law on local budgets establishing the notion of local taxation and local budgets; and finally, the system of nomination of mayors by the president of Georgia was replaced by a new system where mayors were nominated by local representative bodies. Lastly, the notion of self-governance was enshrined in the constitution in 2010.

Tremendous progress was made between 2014-2017. The Parliament of Georgia codified all legal acts connected with local self-governance and adopted a new organic law the "Code of Local Self-Government". Georgia also introduced the direct election of mayors in all municipalities and expanded the mandate of local authorities by assigning new exclusive competences. For a full list of local government responsibilities in Georgia, please refer to Box no 3. Moreover, in 2014

the parliament of Georgia introduced a new legal provision to start the process of transfer of state property to municipalities.

The Government of Georgia started to work on the elaboration of the strategy for the new decentralisation reform in November 2017. The Ministry for Regional Development and Infrastructure of Georgia (MRDI) had been identified as the responsible state agency for coordination of the process of elaboration of the new Decentralisation Strategy. The MRDI established a group of experts for the elaboration of the strategy. This group had been divided into three subgroups: a) on financial decentralisation; b) on devolution of state power and c) on enhancement of citizen participation. The mandate of these subgroups was to provide advice and recommendations to the MRDI on priorities of the new Decentralisation Strategy.

The MRDI started cooperation with the National Association of Local Authorities of Georgia (NALAG) in order to involve Georgian municipalities in the elaboration of the new strategy of decentralisation. The mandate of NALAG was to consult the draft versions of the strategy with municipalities and send feedback to the MRDI. Experts of NALAG were actively involved in the development of the draft versions of the strategy document. The association was also responsible to cooperate with its international partners and involve them in sharing experience and knowledge on decentralisation processes in the EU member states.

The Government of Georgia set up three main priorities for the new Decentralisation Strategy: a) **transfer more financial recourses to municipalities** in order to guarantee that cumulative share of local budget revenues is no less than 7% of GDP; b) **assign more power to municipalities** to make local authorities capable actors of local development in Georgia and c) **to enhance legal mechanisms of citizen participation in local decision-making** in order to promote

inclusive policy making process at local level. The period for implementation of the new Decentralisation Strategy was planned for 2020-2025. The Government of Georgia established a governmental commission

on decentralisation composed by representatives of line ministries, members of the Georgian Parliament and the President of NALAG. The mandate of this commission is to oversight elaboration of the strategy and coordinate its implementation.

## BOX 2: Timeline of decentralisation process

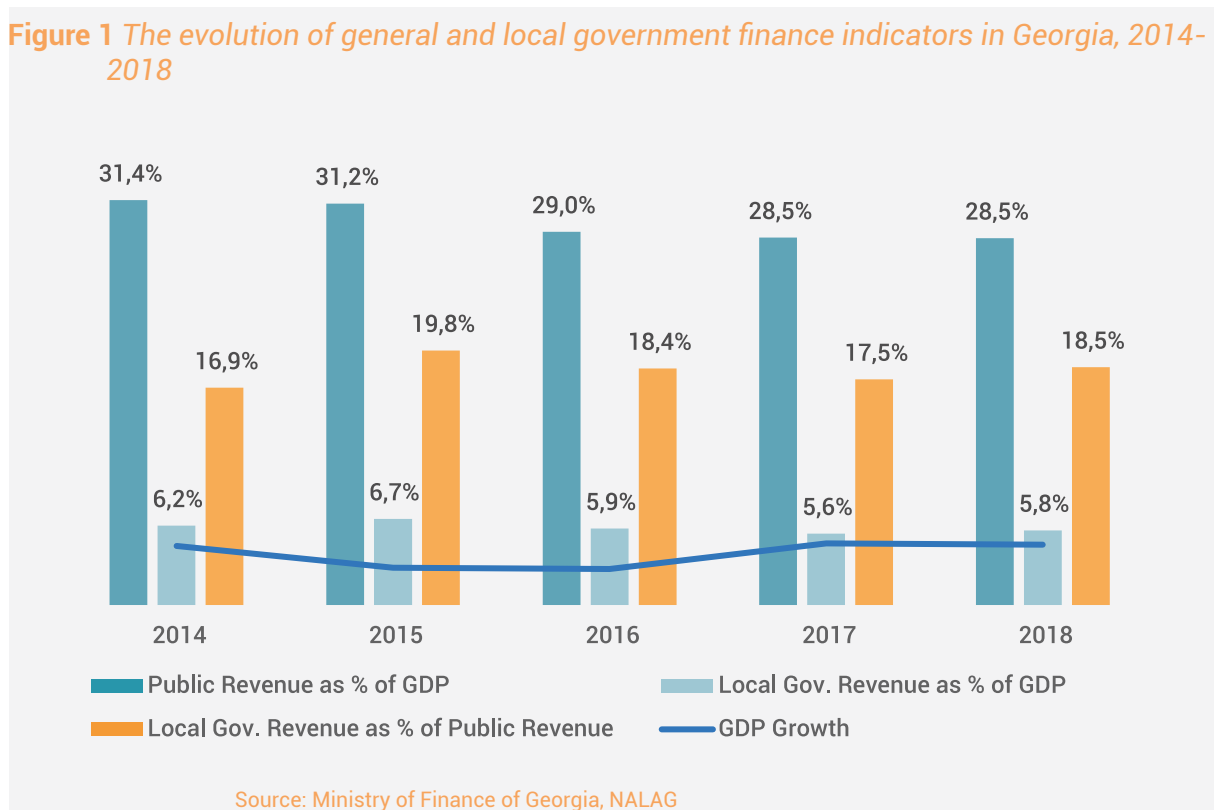
Main phases	Duration of phase	Measures / Activities	Year	Main changes for local governments
1. First decentralisation reform	1997 - 1998	Adoption of Law on "Local governance and self-government"	1997	
		First democratic local elections	1998	
2. Second stage of decentralisation	2001 - 2002	Consolidation of local self-government institutions		Mayors in cities and communities (except Tbilisi and Poti) are directly elected and are accountable to the local councils and not to the president of the state. Notion of local taxes included
3. Local Government reform	2004 - 2010	Ratification of the European Charter on Local Self-Government		Adoption of european principles of local self-government
		Adoption of new organic law on "Local Self-Governance"	2006	Clear mandate for local self-government units
		"Adoption of new law on local budgets; Introduction of financial equalisation system; "	2007	Local revenues: property tax, Personal income tax paid by individual entrepreneurs (added in 2014), equalization grant, service fees and levies
		Nomination of mayors and municipal councils reformed	2006	"The system of nomination of mayors by the President of Georgia was replaced by a new system where mayors were nominated by the local representative bodies. Municipal councils become more functional organizations and they received mandate to monitor and oversight local executive power"
		Principle self-governance enshrined in the Constitution	2010	Municipalities gained right to apply to the constitutional courts
4. Legal remake: decentralisation reform	2014 - 2017	New organic law "Code of Local Self-Government"	2014	All legal acts connected with local self-governance were codified
		Local government responsibilities		New exclusive competences decentralized to municipalities
		Transfer of state property to municipalities	2014	Start transfer of state property to municipalities
5. New decentralisation reform:	2018 - 2019	<b>Elaboration of new decentralisation strategy:</b>	2018	" - Guarantee that cumulative share of local budget revenues is not less than 7% of GDP - Strengthen the role of local authorities as actors (enablers) within local development processes - Enhance participation and inclusion of the citizens in local policy making"
		Introduction of shared tax instead of fixed transfers	2019	19% of VAT to local budgets
5. Next steps	2020 - 2025	<b>Implementation of new decentralisation strategy:</b>		
		Delegation of more state power to municipalities; Resuming process of transfer state property to municipalities; Preparation of an evaluation and monitoring system of services for all municipalities"	2021 - 2022	Delegation of more sectorial competences (first step means that the oversight function maintains in the hands of line ministries); further transfer of state property to municipalities;
		Delegation of tasks in the education sector	2020	
		New law "On child's rights"	2020	
		Transfer of the role of social agents to local authorities	ongoing	Maintainance of public schools (partial financial compensation of the state)
		Introduction of a new system for financial equalisation	2023 - 2024	Delegated tasks on protection of child from family violence and provision of services to the children with disabilities for their integration into society
		Mid-term evaluation	2023	Management of social agents service
		Implementation of a monitoring and evaluation system	2023	Assigned share of the Personal Income Tax (PIT) for municipalities
		Revision of "Code of Local Self-Government" (sectoral decentralisation)	2025	Establishment of an evaluation and monitoring system on the local level
				Expanded competences are fully under descretion of local authorities and codified (second step of sectorial decentralization)

## 2.1 Financial decentralisation reform

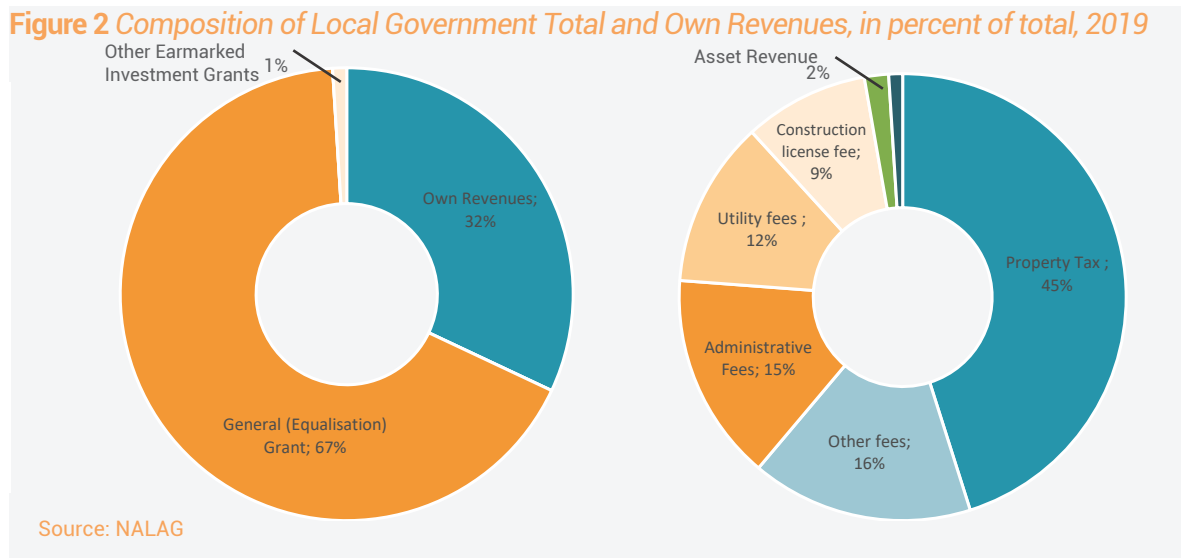
Georgia has a relatively small public sector, with national budget revenues at 28.5% of the GDP in 2018 as shown in Figure 1. Local government budget revenues constituted 5.8% of the GDP and 18.5% of the consolidated public budget revenues. The Georgian economy has grown steadily over the past few years at an average rate close to 4.7% during 2017 and 2018.

The rise in economic activity has also been reflected in an increase in public revenues. In fact, national budget revenues have increased by 39% between 2014-2018, in absolute terms, while local government revenues have increased by 44% during the same period. Due to the GDP growth, the increase in national and local government budget revenues are not visible in the indicators of

**Figure 1** The evolution of general and local government finance indicators in Georgia, 2014-2018



**Figure 2** Composition of Local Government Total and Own Revenues, in percent of total, 2019



public revenues and local revenues per GDP. Local government own source revenues also have increased significantly by up to 81% between 2014-2018.

Despite this significant increase, due to a centralised fiscal public finance system, municipal budgets in Georgia are heavily dependent on financial transfers from the central budget. Figure 2 shows that local government own revenues constitute 32% of total local government revenues in 2019. Intergovernmental transfers make up to 68% of total local government revenues.

The main revenue sources for Georgian municipalities are: a) own resources – property tax, personal income tax paid by individual entrepreneurs (added in 2014), equalisation grant, service fees and levies; b) earmarked transfers from central budget –for implementation of delegated tasks, special transfers and capital grant (added in 2014); and c) other revenues – income from privatisation, operation of property, interest rate, grants and donations.

The property tax makes up to 45% of own revenues while service fees altogether make up 52% of total own revenues.

The biggest share (up to 67%) in the revenues of the local budgets belongs to the equalisation grant. The share of equalisation grant for municipalities in highland areas and economically disadvantaged zones was as high as 90% of total local budget revenues. The financial equalisation system introduced in 2007 was based on providing municipalities with the minimal financial assistance to cover the costs of implementation of own competences.

The amount of equalisation grant for each municipality was calculated by a specific formula  $T_i = (E-R)*K$ , where:

- “ $T_i$ ” is the amount of equalisation grant to be allocated to a particular municipality
- “ $E$ ” is the sum of expenditure and increase of nonfinancial assets of a particular municipality
- “ $R$ ” is the sum of revenues of the local budget (except transfers from central budgets)
- “ $K$ ” is the factor for additional support (preference) to a particular municipality from the central government, value of

which was set by the government of Georgia for each municipality individually.

The following factors were used for calculation of expenditure for each municipality: a) population (age groups 0-6 and 6-18), b) territory of the municipality and c) length of municipal roads. Even overall analyses of this formula make it clear that Georgia had no real financial equalisation system but rather a method for covering deficits of local budgets. Moreover, expenditure for the budget year was calculated very roughly as general indicators had been used for its definition.

This system of financial equalisation had been heavily criticised by Georgian municipalities, especially big cities, CSOs and international organisations as they found it very superficial and not irrelevant to the real needs of Georgian municipalities. This criticism can be systematised into three bullets:

- **The system served as a de-motivator for Georgian municipalities** – this so-called financial “equalisation” system worked against those municipalities that managed to collect more local taxes and generate more own income. Such municipalities had low budget deficit and therefore they were getting less financial support from the central government. On the other hand, those municipalities who had fewer own revenues, had no incentives to improve public finance management as the deficit of their budgets was covered anyway by the central government.
- **Not relevant calculation of local revenues** – the calculation on current expenditure was based on the number of residents, area and length of local roads and not on real costs of own competences at the minimal acceptable standard. Such oversimplified approach to expenditure of local authorities resulted in a large share of so called “unfunded mandate” of local authorities and therefore, large part of Georgian municipalities were not able to provide adequate service to citizens.
- **Huge room for arbitrary decisions by the central government** – many experts recognised this system as a threat to the financial autonomy of local authorities in Georgia as the central government had an

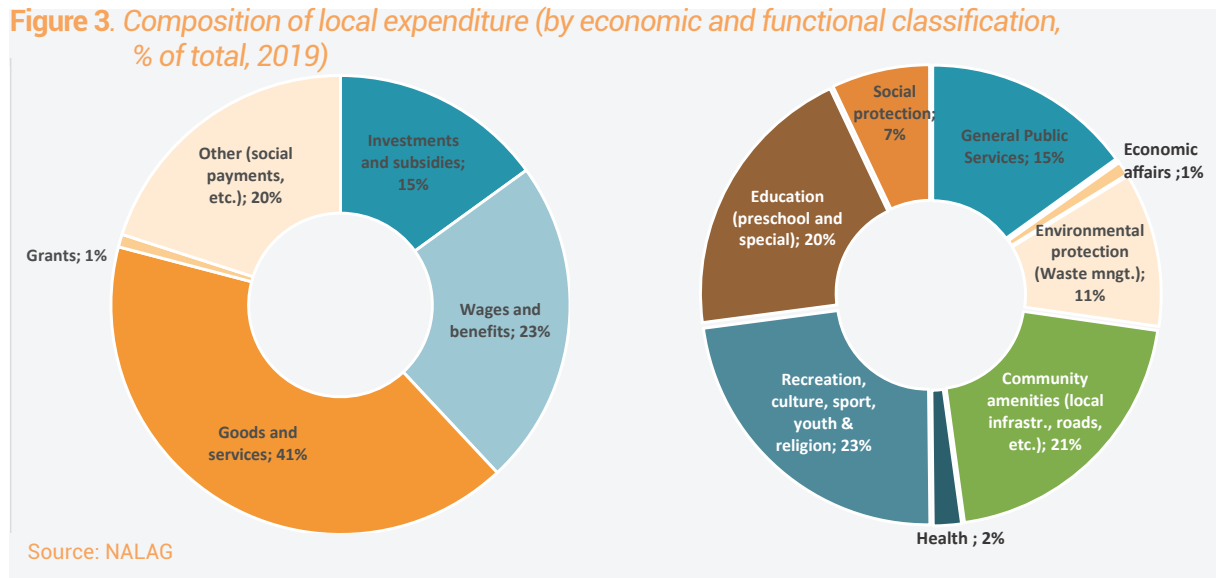
effective instrument – support coefficient “K” – to give preference to the politically loyal mayors and discriminate those, who did not manage to convince central government to provide additional money for implementation of more activities and provision of better municipal services. Thus the “K” coefficient worked against the purpose of the equalisation system by increasing financial inequality among Georgian municipalities.

The Georgian government decided to start financial decentralisation with reforming central-local financial relations as a reaction to criticism from domestic and international partners described above. This reform started by introducing shared taxes. The parliament of Georgia ruled that the Value Added Tax (VAT) becomes a shared source of revenue for local and central budget by assigning 19% of VAT collected at national level to local budgets. The main arguments for this reform were the following: a) This reform serves as motivator for municipalities to generate more income locally as now, if they manage to collect more local taxes, they will get extra money via shared revenues from VAT; b) VAT perfectly reflects the economic growth, hence municipalities will get more and more money from the shared tax as the economy grows, c) it makes local budget revenues more predictable as it is based on projection of economic growth and each municipality can calculate what will be its revenue from the shared tax next year; d) it increases financial autonomy of local authorities as the central

government has no control on the allocation of funds to municipalities and d) this reform substantially increases revenues of local budgets.

Figure 3 shows the composition of local government expenditures in Georgia, by the economic and functional classification. As it can be noted, spending for goods and services constitutes the single most important spending category for Georgian municipalities (41%). This is key to ensuring the regular operation of municipal services and public infrastructure. Spending for wages and benefits of local government employees constitutes 23% while spending for administrative services (General public services in the right-hand side of Figure 3) makes up only 15% of total local government spending. Spending for Investments constitutes only 15% of local government spending in Georgia, while social welfare payments also constitute a significant portion. In terms of functional allocation of expenditures, spending for environmental protection (including waste management) and community amenities (including basic local services, public infrastructure and roads) constitute about a third of the spending of Georgian municipalities. Georgian local governments also spend about a third of their budget in the social sector: education, health and social protection, while another 23% is dedicated to recreation, culture, sports, youth and religion.

**Figure 3. Composition of local expenditure (by economic and functional classification, % of total, 2019)**





## 2.2 Sectorial decentralisation and devolution of state powers

Decentralisation and the transfer of more power to municipalities is a key priority of the new Decentralisation Strategy adopted in 2019. The stated policy objective is to equip municipalities not only with communal responsibilities but make them responsible for managing a substantial share of sectorial responsibilities such as: education, social protection, economic development, environment protection, energy and agriculture. Sectorial responsibilities are very complex and they require not only relevant financial resources and powers but also adequate administrative capacities and human resources.

The Government of Georgia made a decision to implement sectorial decentralisation in two stages. At the first stage, by delegating sectorial competences to municipalities while maintaining oversight function in the hands of line ministries and, at the second stage of the decentralisation process, by transferring these sectorial competences to the discretion of local authorities. The first stage of the sectorial decentralisation should take place in 2020-2023 and at the end of the implementation period, in 2025, all these delegated competences shall become own competences of local authorities.

The first delegated task assigned to municipalities was capital maintenance of public schools; this task was delegated from the Ministry of Education and Science of Georgia. The special agreement on

### Box 3 - Competences of Local Authorities

	Area of responsibility
Own competences	<ul style="list-style-type: none"> <li>Local taxation and budgeting;</li> <li>Establishment and management of administrative units, municipal enterprises and non-commercial (social) entities</li> <li>Territorial organisation of the municipality and naming of streets and Geographical objects</li> <li>Local natural resources</li> <li>Socio-economic development and spatial planning</li> <li>Local roads and transportation</li> <li>Water supply, sewage and sanitation</li> <li>Solid waste management</li> <li>Public spaces, parks, cemeteries and green areas</li> <li>Shelter and childcare, protection of victims of family violence, shelter for homeless</li> <li>Protection of victims of family violence and protection of child's rights and social status</li> <li>Preschool and additional education</li> <li>Organisation of Public-Private-Partnerships</li> <li>Regulation for pets in urban areas</li> </ul>
Delegated competences	<ul style="list-style-type: none"> <li>Collection of property tax</li> <li>Maintenance of public-school infrastructure</li> <li>Management of social agents' service</li> <li>Monitor conditions of natural gas supply to households</li> <li>Regulate and control noise in urban settlements</li> <li>Provision of services to the children with disabilities for their integration into society</li> <li>Protection of child rights</li> </ul>
Tasks implemented voluntarily	<ul style="list-style-type: none"> <li>Support to agricultural cooperatives</li> <li>Promotion of local tourism</li> <li>Organisation of youth programs</li> <li>Support for SME's</li> </ul>

delegation of this task was signed between the ministry and each municipality that agreed to implement this delegated task. The ministry allocated 20 million GEL to compensate for the expenses of the implementation of this task by municipalities. However, not all municipalities agreed to take this task as they argued that the size of the compensation was not adequate for the massive task, given that public schools need heavy renovation, especially in the rural areas. Despite of disagreements on the size of the compensation, the majority of Georgian municipalities signed the agreement with the ministry on the delegation of tasks in the education sector at the beginning of 2020.

The next sectorial delegation that happened concerned the social sector. Georgia has a

of social agents to local authorities. It was decided, that at the beginning, municipalities will manage this service as a delegated task under the supervision of the relevant line ministry and, if this delegation proves its efficiency, then from 2025 onwards the social security and protection of vulnerable population will become own competences of Georgian municipalities. The Parliament of Georgia adopted a new law "On rights of child" in May 2020. This law delegates to Georgian municipalities tasks to protect children from family violence and provision of services to children with disabilities for their integration into society. Thus, the next task delegated to municipalities in the social sector is the protection of child's rights, rehabilitation programs and residential services for persons with disabilities.

**Figure 3: Results of the Regional Decentralisation Observatory Index assessment in Georgia**



Source: Regional Decentralisation Observatory Index in Georgia, NALAS 2020

quite complex system for social protection for vulnerable population based on a special assessment method that gives scores to each vulnerable household and financial assistance is allocated according to this score assigned by the social agent. This service was provided by the territorial divisions within the Ministry for Labor, Healthcare, Social Protection and Displaced Persons. The government of Georgia declared in 2019 that it plans to start decentralisation of the social security system by transferring the institute

Under the sectorial law of Georgia on Energy and Natural Gas Supply, Georgian municipalities received the task to monitor conditions of natural gas supply to households. Local authorities have the competence to approve engineering documentation for natural gas connections, issue safety certificates and oversight its enforcement. Administrative fines from violations of the regulation on natural gas supply and noise nomenclature go to the local budgets. Georgian municipalities have

also been delegated the task to regulate and control noise in urban settlements. Traditionally, Georgian municipalities have also a delegated responsibility to organise military recruitment, ceremonial services and social protection for veterans.

Paragraph 4 of article 16 of the “Code of local self-governance” stipulates that municipalities are entitled to implement any competence that does not belong to other levels of governance and does not contradict Georgian legislation. Based on this provision, local authorities implement the following additional tasks: support to agricultural cooperatives – this includes the provision of supporting infrastructure (roads, water supply connections etc.) and organisation of open markets and fairs, and organisation of phyto Sanitation works for the elimination of the Brown Marmorated Sting Bug (*Halyomorpha halys*). All these tasks are implemented in close coordination with the relevant line ministries.

As a summary, we can say that Georgian municipalities have three types of competences: Own competences, delegated competences and competences implemented voluntarily. Starting from 2014, Georgian municipalities have been implementing more and more state competences and their activities cover many aspects of public affairs. The Decentralisation Strategy 2020-2025 clearly states that this process will continue and, by 2025, Georgian municipalities will have a wide range of sectorial competences.

## 2.3. Assessment of progress of decentralisation and local government reform

The decentralisation reform that started in 2014 and continues until today is the subject of wide public discourse in Georgia. The overall evaluation is positive indeed. However, some CSO representatives and experts express a number of concerns about the scope of decentralisation, its completeness of powers assigned to municipalities and the adequacy of resources given to local authorities for their competences. Nevertheless, all interested parties agree that currently Georgian municipalities have more power and resources than they had before.

In February 2020, with the support of PLATFORMA, and the cooperation of the Network of Associations of Local Authorities of South-East Europe (NALAS), NALAG organised a National Stakeholder Dialogue Conference “Reinforcing dialogue on local government reform in Georgia: Achievements, Challenges and Opportunities”. The conference was attended by mayors, municipal councillors, representatives of municipalities, MRDI, experts of NALAG, NALAG’s partner organisations, representatives of civil society organisations and donors active in Georgia, PLATFORMA and NALAS.

During the conference, an assessment of the decentralisation process in Georgia was conducted on the basis of the methodology of the Regional Decentralisation Observatory Index (RDOI) developed by NALAS. The methodology is based on experts’ opinions and empirical evidence for 100 indicators, which are aggregated into four main dimensions. The results for each indicator are shown in a scale from 1 to 10, where 1 is the least score and 10 is the highest possible score, delineating a very positive performance and progress. The aggregated results and conclusions of the implementation of the index are as follows: given the ongoing process of decentralisation reforms in Georgia, participants gave high scores to the Georgian models of local self-governance, which is very close to the East and South European models.

### **Local Autonomy**

According to the results, local government autonomy in Georgia is assessed with a score 6.5 out of 10. Competences of local authorities are clearly and fully distinguished from the mandate of central government. Municipalities have their own budgets, property and taxes, they are entitled to define their administrative structures freely and under their own responsibility. However, there are a number of issues that require further effort. Most importantly, additional efforts are needed to reduce influence of line ministries over the decisions taken by local authorities and guarantee strong financial autonomy of Georgian municipalities.

### **Quality of Local Services**

According to the results, local government autonomy in Georgia is assessed with a score 6.2 out of 10. The local government code assigns a wide range of municipal services to local authorities starting from the preschool education and ending with the solid waste collection. In addition, Georgian municipalities are given delegated tasks by law and via special agreements. Year by year municipalities are covering larger spatial extensions with municipal services such as water supply, solid waste collection and local transportation provided for more people on bigger territories. However, additional improvements are needed to increase the performance of municipalities and improve access to and quality of local public services. Besides financial resources, a major challenge that municipalities face in service provision today is the lack of efficient system for monitoring and evaluation of the quality of municipal services. The National Association of Local Authorities of Georgia (NALAG), in cooperation with the Ministry of Regional Development and Infrastructure, and with the help from the international partners, works on the development of a system for the evaluation of quality for municipal services. According to the action plan of the new Decentralisation Strategy, such system will be incepted in all municipalities of Georgia by 2023. Until this date, municipalities will be using opinion polls and feedback from local CSOs to get public perception about the quality of municipal services. The introduction of this system will help improve municipal performance in service delivery through improved transparency, accountability and

bottom-up pressure.

### **Citizen Participation and Local Government Responsiveness**

In terms of citizen participation in public affairs and municipal responsiveness to citizens' needs, priorities and concerns, Georgian municipalities score 6.4 out of 10. The organic law of Georgia on the Code of Local Governance envisages specific institutionalised mechanisms for citizen engagement in local decision making. Using these new provisions Georgian municipalities established citizens' advisory commissions to the mayors. In addition to citizen's commissions, local authorities use 'meetings with citizens' organised in all rural and urban settlements to discuss spending priorities of the municipal budgets and identify what investments projects should be implemented at local level. Up to 27 municipalities in Georgia use citizen budgeting models for managing local public finances and more than 50 municipalities are part of the Open Governance Partnership. The key challenge in this area is the limited number of persons who actually take part in dialogues with local governments and therefore, the new Decentralisation Strategy envisages to establish more permanent and more solid procedures for the involvement of citizens in planning and development policy formulation at local level, especially in rural communities.

### **Intergovernmental dialogue**

In terms of intergovernmental dialogue, the assessment of the experts and the empirical evidence concluded a high score of 7.1 out of 10. This is not surprising given the very open and inclusive dialogue and consultation processes adopted in the country. Intergovernmental dialogue is organised in a format of national forums and regional meetings that are organised by NALAG, MRDI and the parliament of Georgia. The consultative forums and meetings are for discussion on new legal initiatives and draft decisions of the Government of Georgia that have direct impact on Georgian municipalities. In parallel, there is direct dialogue between municipalities and line ministries on various aspects of delegated tasks and responsibilities. NALAG maintains institutionalised cooperation with MRDI and the parliament of Georgia and serves as a channel for communication with Georgian municipalities.

# 3 MAIN ACHIEVEMENTS, CHALLENGES AND OPPORTUNITIES

The actual implementation of the Decentralisation Strategy started in January 2020 and a majority of its actions will take place in coming years, however, preliminary activities already took place in Georgia and therefore we can present some results.

## 3.1 Financial decentralisation

Georgia introduced the shared tax system in January 2019. Relevant changes have been made to the tax code of Georgia and 19% of Value Added Tax (VAT) had been assigned to local budgets. As a result, local cumulated revenue of local budgets from shared tax and earmarked grants increased by 189.2 million GEL. This reform was very favourable for big cities in particular as they received more income. The impact of this reform on small municipalities was quite limited as Georgia does not have an effective financial equalisation system for municipalities. The projected increase of local budgets for 2020 was 70 million GEL, however, the COVID-19 crisis had a negative impact on VAT collection and, in the first months of 2020, Georgian municipalities had to cut down expenditures by 10%. The government of Georgia provided financial assistance to the Georgian municipalities to prevent any further decrease of municipal budgets, as the situation worsened due to termination of international tourism activities. As the COVID 19 pandemic continues, its real effect on the municipal budgets will be evident by the end of the year 2020. Nevertheless, we can conclude that the introduction of the shared VAT system:

- a) has increased financial resources of local authorities;
- b) has strengthened financial autonomy as

municipalities receive funds directly as a share of VAT rather than as a decision of the government;

- c) aligns municipal finances with the growth of the domestic economy – GDP growth automatically translates into growth of municipal revenues. However, the recent COVID-19 crisis showed that the shared tax system may work in the opposite direction.

## 3.2 Transfer of power to municipalities

The government of Georgia delegated a number of tasks to Georgian Municipalities in various sectors of the economy and social affairs. The most important delegated task is the maintenance and capital works of the infrastructure of public schools (primary and secondary level of education). Georgian municipalities received GEL 20 million for the implementation of this delegated task. The delegation of tasks is done by legal acts or by bilateral agreements between a municipality and the line ministry responsible for the relevant sector. In 2014, Georgian municipalities had 3 delegated tasks (military procurement, phyto-sanitation and ambulances). Currently, municipalities have 7 delegated tasks (the additional tasks are: capital investment works for the education sector, evaluation of eligibility for social protection transfers, monitoring of natural gas connection and regulation of noise). The Government of Georgia is willing to continue to delegate more responsibilities to municipalities in coming years.

Own competences of Georgian municipalities have also been expanded. Georgian municipalities received competences in



spatial planning, shelter for homeless, regulation of pets in urban areas, organisation of public-private partnerships, protection of child's rights and social status. The Ministry for Regional Development and Infrastructure initiated a number of studies to identify what additional competences are needed for municipalities to become capable actors of local development. Based on the findings of these studies, the government of Georgia will initiate amendments to the organic law of Georgia to expand own competences of Georgian municipalities.

An additional paragraph was added to article 16 of the Code of Local Self-Governance that introduced the so called "voluntary competences", meaning that Georgian municipalities have the right to implement any competences that do not belong to any other state agency and does not contradict to the laws of Georgia. Using this provision of the Code of Local Self-Governance, local authorities implement activities to support agricultural cooperatives, to promote local tourism and SMEs, to organise programs for youth etc.

### 3.3. Current challenges to decentralisation reforms in Georgia

Whereas results of the implemented reform activities are impressive more is to be done in the future to guarantee autonomy, efficiency and transparency of local self-government institutions in Georgia. The recent challenges of decentralisation are as following:

- a) Underdeveloped local economy does not support fiscal decentralisation, as the tax base is rather small in rural areas and peripheral towns not generating enough income to balance local budgets.
- b) There is no efficient method to support of financially weaker municipalities and to maintain territorial cohesion in the country and therefore the current system of VAT sharing makes rich municipalities richer and poor municipalities poorer.
- c) While municipalities have a wide range of responsibilities, exclusivity and completeness of municipal competences are subject of discussion in Georgia.
- d) Georgian Municipalities do not have a solid methodology for evaluation and monitoring of quality of municipal services.
- e) Existing methods of citizen participation do not guarantee engagement of a wide spectrum of local society in decision-making, this is specifically true for remote rural areas.

The new Decentralisation Strategy 2020-2025 addresses the challenges listed above and sets up specific measures for addressing them in the most efficient manner. As it is stated in the declarative part of this document, all above listed issues shall be solved by 2025 and the local government system in Georgia shall have full coherence with its European analogies.

# 4 FRAMEWORK FOR INTERNATIONAL COOPERATION

The organic law of Georgia “Code of Local Self-Governance” gives municipalities the right to enter into an international partnership, twinning or cooperation as provided by legal acts of Georgia. Article 100 paragraph 3 further specifies the procedures for reception of grants from international organisations by Georgian municipalities. Georgia is not a signatory to the European Outline Convention for Trans-frontier cooperation between Territorial Communities or Authorities, however, municipalities in Georgia are entitled to enter into cooperation with their counterparts across the state border with prior agreement from the Ministry of Foreign Affairs of Georgia.

Georgian municipalities are involved in three types of international cooperation, these are: multilateral programs, bilateral programs and twinning activities. Some municipalities in Georgia have special departments for international relations, but in the majority of municipalities, there is at least one official who is responsible for communication with donors and international organisations. There is a specific line in municipal budgets that can be used for the funding of activities under the international cooperation and for co-funding projects from various donors.

## *Participation in multilateral programs*

### *The Covenant of Mayors*

This is an initiative of actions for mitigation of climate change effects at the local level financed by the EU. 40 municipalities are members of the club and 7 of them already prepared Sustainable Energy Action Plans. The National Secretariat of the Covenant provides grants for funding projects in municipalities. Georgian municipalities participated in the

competition “the EU Sustainable Energy Award” and the municipality of Telavi won the 3<sup>rd</sup> prize.

### *Mayors for Economic Growth (M4EG)*

The EU-funded initiative aims at the promotion of inclusive economic growth at local level. 45 municipalities are members of the club of mayors and 37 municipalities developed municipal strategies for social and economic development. The strategies from 3 Georgian municipalities were marked as excellent by the World Bank. 3 municipalities were awarded grants (350 thousand EUR each) for implementation of specific projects on local economic development.

### *Open Governance Partnership*

50 municipalities are engaged in the implementation of this initiative supported by UNDP and other donors. 10 municipalities developed action plans for enforcement of OGP principles and 3 municipalities developed strategies for the fight against corruption at local level.

### *Fostering Local and Regional Development in Georgia*

This program is implemented by UNDP and funded by the Swiss Development Cooperation (SDC) and the Austrian Development Agency (ADA). 27 municipalities participate in this program receiving financial assistance for implementing of projects for support of local SMEs, tourism development and good governance.

## *Participation in bilateral programs*

### *The EU through CSOs and LAs development programs*

Georgian municipalities participate in calls for proposals announced by the EU

Delegation to Georgia. 5 municipalities are beneficiaries of the program with an average budget of EUR 450 thousand per municipality. The cooperation themes are, tourism development, promotion of local economy, energy efficiency, revitalisation of industrial cities and good governance.

**USAID Georgia Good Governance Initiative**  
– This project works with 5 municipalities providing assistance in organisation of intermunicipal cooperation entities.

**Polish Aid**  
provides assistance to 6 municipalities for the implementation of the Citizen Budgeting Initiative and also provides funding to the Citizen Participation Academy established by Polish and Georgian partners.

#### **DFID/UK**

Works in 4 municipalities populated by ethnic and religious minorities supporting citizen integration and good governance activities.

#### ***Twinning programs***

Georgian Municipalities are actively taking part in twinning projects, mostly twinning happens with municipalities from Baltic states, as of today Georgian municipalities have twinning agreements with 35 Lithuanian municipalities, with 17 Latvian municipalities and 9 with Estonian counterparts. There are 3 twinning projects between Ukrainian and Georgian municipalities. Big cities (Tbilisi, Kutaisi, Batumi, Rustavi) have more twinning cooperation with cities from Europe and the US. In its vast majority of cases, twinning activities are financed by the ministries of foreign affairs of EU members states and Georgian municipalities provide co-financing.

# 5 NEXT STEPS FOR REFORM

New next steps for the decentralisation reform are mainly connected with the implementation of the Decentralisation Strategy 2020-2025. The implementation scheme of this strategy is the following:

- **2020** – Provision of analyses and researches results to identify what additional competences need to be transferred to municipalities and what additional financial resources can be assigned to municipal budgets.
- **2021-2022** – Delegation of more state power to municipalities, resuming the process of transfer of state property to municipalities. The inception of a system for the evaluation and monitoring of communal services in all municipalities of Georgia; this will allow Georgian local authorities to measure the efficiency of communal services and identify ways of further improvements. The National Association of Local Authorities of Georgia will actively cooperate with domestic and international stakeholders for the inclusion of Georgian municipalities into the process of decentralisation. NALAG will work with its member municipalities to

elaborate recommendations to the central government of Georgia for successful completion of the decentralisation process in Georgia.

- **2023-2024** – Introduction of a system for financial equalisation based on social and economic indicators to assign a share from the personal income tax (PIT) to municipal budgets. Furthermore, the conversion of part of delegated powers into own competences of local authorities.
- **2025** Revision of the Code on Local Self-Governance on the subject of expansion of own competences of municipalities in order to complete the process of sectorial decentralisation.

At the end of implementation of the Decentralisation Strategy Georgian municipalities shall be equipped with the relevant powers, financial resources and administrative capacities to play a leading role in economic development of Georgian cities and communities. Mid-term evaluation of the strategy will take part in the beginning of 2023 and relevant modifications will be made to the document.

The aim of this Status Report, carried out by NALAG, is to provide an overview of the status and development of decentralisation and local public administration reform in Georgia and support informing an open and inclusive intergovernmental dialogue and next steps for the decentralisation and local government reform in Georgia.



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