

Funding Local Infrastructure to Support Local Development in Municipalities of Georgia

Uglava Kristine

PhD Candidate in Economics at Tbilisi State University

Abstract: *Infrastructure development can play larger role in local growth and improving quality of life at local level through making territory more attractive for living, business activities and also for tourism. If the infrastructure is not developed in all areas of the country in a balanced way, it strengthen disparities between territories which is one of the most important problem for sustainable socio-economic development of the country. Government of Georgia implements policies, programs and projects to support municipalities for local infrastructure development which for there is no suitable amount of finances in municipality budgets. This paper provides a general analysis of local infrastructure funding policy to support local development in municipalities of Georgia and also a brief overview of relevant current programs, problems and challenges in Georgia.*

Keywords: local development, infrastructure funding, local infrastructure

1. Introduction

Development experts no longer argue that infrastructure development significantly and positively determines economic performance but it should be mentioned that „Infrastructure investments cannot create economic potential, only help develop it” (Christine Kessides, 1993). Infrastructure development at local level can play larger role in local growth and improving quality of life for local people, through making territory more attractive for living, business activities and tourism. Territories become more attractive for living where public-type infrastructure such as streets, roads, squares, buildings, dispensaries/primary care clinics, water supply and sewage systems, sports and cultural infrastructure, etc. are in a good condition. It should be mentioned that the improvement of water supply systems, kindergartens and school infrastructure in the villages have great benefit in improving the quality of life of rural women. Such infrastructure projects allow them to free up time and focus their efforts on producing their own product, or the opportunity to be employed. Also for entrepreneurs to create a product in cost-efficient way it is important to have appropriate environment where there are developed physical infrastructure such as good roads-for easier transportation, good water supply and sewage systems, etc. Therefore improved infrastructure can play a positive role in attracting entrepreneurs for economic activities. In addition good infrastructure can lead maintaining and attraction workforce, which is also important for entrepreneurs and investors. Improved infrastructure and skilled workforce are the important reasons why big cities are always attractive for entrepreneurship and living. Urbanization happens everywhere but if the infrastructure is not developed on all territories of the country in a balanced way, it will increase migration processes from undeveloped rural settlements to the cities where appropriate infrastructure for living are better provided and this processes strengthens disparities between territories, which is the one of the most important problem for sustainable socio-economic development of the country.

Georgia is developing country. Under jurisdiction of Georgia there are 64 municipalities and one from them is the capital – Tbilisi city. Municipalities are distributed within 11 regions, one of which is the capital and the second is Adjara Autonomous Republic. Population of Georgia is about 3, 7 mln and GDP Per Capita is (\$) 4255.7. Socio-economic inequalities between regions of Georgia are clear, which leads to internal and external migration of the population and further problems. It is noteworthy that 32% of the population lives in the capital (according to unofficial statistic this rate is much more). Accordingly, the task of the central government is to ensure policies to help the municipalities in improving their attractiveness, for which the development of infrastructural conditions at the local level is one of the most important issue.

It should be noted that fiscal decentralization in Georgia is not at the proper level. The government of Georgia are implementing decentralization strategy 2020-2025 and tries to improve situation in this direction, for example tax revenues in municipal budgets increased in 2019 after the budget reform (value added tax became a shared tax and 19 % of revenues from value added tax are distributed among municipal budgets according to the law criteria), but municipalities are heavily dependent on state budget assistance because they still cannot afford to finance large-scale local infrastructure projects and need financial assistance from state budget. In addition, municipalities have poor property and local budgets own revenues and as a result they don't have important role in local social and economic development. Also the big shares of local infrastructure projects are financed by state budget.

Policies and Challenges in Funding of Local Infrastructure

Georgian government implements policies for the development of infrastructure, also for the local importance public infrastructure in municipalities. The biggest share of state budget expenditures after social spending is used for capital expenses. For instance in 2020

Capital expenses of GEL 3.1 billion¹ included GEL 489 million of capital transfers to local government institutions.

At first, it should be mentioned that in the direction of local infrastructure development, Georgian municipalities implement projects within their own and delegated powers. Municipalities exercise their own powers independently and under their own responsibility, but municipality's delegated powers are the powers of the state authorities or of the authorities of the autonomous republic that have been delegated to the municipality in accordance with the law or an agreement concluded under the legislation of Georgia, together with appropriate material and financial resources. Through municipality's own powers City Halls (executive bodies) of municipalities with their budget revenues implement projects to develop the following types of **local infrastructure**: local roads; water supply (including technical water supply) and sewerage systems; streets, parks, public gardens and other public areas in the territory of the municipality; external lighting; local melioration systems; pre-schools and educational institutions controlled by the municipality; parking lots for vehicles; infrastructure for local waste management; municipal transport infrastructure; cemeteries; local cultural monuments; libraries, club-type institutions, cinemas, museums, theatres, exhibition halls; sports and recreation facilities; appropriate infrastructure in local facilities for disabled persons, children and the elderly; shelters for homeless people. In addition, since 2019 within delegated powers municipalities implement projects to develop school infrastructure which are financed by targeted transfers from state budget and project implementation processes is monitored by the Ministry of Regional Development and Infrastructure of Georgia.

Besides local budgets, projects for local infrastructure development also are financed by state budget with capital and special transfers and with other grants. Capital transfer aims to finance only capital expenditures for the implementation of infrastructure projects in municipalities and also it aims to increase non-financial assets of municipalities. Special transfers generally are used to eliminate the damage from natural disasters and in other extreme situations.

The most important programs which aim the development of local importance infrastructure in the municipalities (except the capital city-Tbilisi municipality) are the following:

- **Fund for Projects to be Implemented in the Regions** – has been implemented since 2012. Tenders are announced by the City Halls of municipalities. Project implementation processes are monitored by the Ministry of Regional Development and Infrastructure. Projects are initiated and selected by municipalities. The final decisions about project financing issues are made by the

Governmental Commission for Regional Development. Every year the average annual budget of the fund is about GEL 200. The biggest budget was in 2020 with GEL 360 mln.

- **Village Support Program**-has been implemented since 2013 (except 2017 and 2018); Tenders are announced by the City Halls of municipalities. Project implementation processes are monitored by the Ministry of Regional Development and Infrastructure. Projects are selected by the village local citizens by a majority vote at the general assembly of the village. The final decisions about project financing issues are made by Municipality City Halls. In the last years the budget of the program was GEL 40 mln annually, approximately 10 000-16 000 GEL for each village.
- **The High Mountainous Settlements Development Fund**-Has been implemented since 2016. Fund is managed by the National Council for Mountain Development. It finances projects for infrastructure development and for other goals. Tenders for infrastructure development are announced by the City Halls of municipalities and project implementation processes are monitored by the Ministry of Regional Development and Infrastructure. Infrastructure projects are initiated and selected by municipalities and the final decision on the financing issues of those projects is made by the Governmental Commission for Regional Development. The average annual cost of the local infrastructure projects from this fund is about GEL 7-10 mln.
- **Pilot Integrated Regional Development Program 2020-2022**-has been implemented in four region since 2020 March. This is a grant program and projects are selected on a competitive basis. Project are initiated and selected by municipalities. The final decision is made by the Government Commission for the Development of Pilot Regions of Georgia. Tenders for infrastructure projects are announced by the City Halls of municipalities and project implementation processes are monitored by the Ministry of Regional Development and Infrastructure. The average cost of the projects at first year in 2020 was GEL 5 mln, in 2021 was GEL 30 mln and in 2022 it will increase till about GEL 186 mln.
- **“Renovated Regions” State Program**-has been implemented since 2021 April. Tenders are announced and projects are implemented by Municipal Development Fund LEPL (Legal Entity under Public Law) under the umbrella of the Ministry of Regional Development and Infrastructure. This program aims to develop as state as local importance infrastructure. The budget of this program is about GEL 500 mln.

In addition, other large scale/big-budget projects for the development of local infrastructure (within the finances of capital transfer) are implemented by the Roads Department of Georgia and Municipal Development Fund of Georgia under the umbrella of the Ministry of Regional Development and Infrastructure of Georgia.

Due to the problem of access to accurate statistical information, it is difficult to calculate the exact amount of funds spent from the state budget for the development of local infrastructure, although we can say that it should be

¹USD/GEL exchange rate is 3.12 according to The National Bank of Georgia (for 30 Nov 2021)

about 500-600 million GEL in 2020. And these are the funds that should normally be allocated from the budgets of the municipalities for the development of the infrastructure within their competence. But due to the lack of adequate funding in the municipal budgets, these funds are allocated from the state budget. It is noteworthy that the total revenues of the municipalities are about 2.5 billion GEL, 5.1% of the country's GDP. In 2020, the largest expenditures from the municipal budgets were for the transport sector (GEL 692 mln), pre-school education (GEL 307 mln), housing (GEL 147 mln), water supply (GEL 92 mln), outdoor lighting (GEL 61 mln), and other utility development. It is difficult to identify how much municipalities spend on local infrastructure projects, although it can be said that the state budget plays a more important role in financing main local infrastructure projects than local budgets. It can be said that local budgets spend only few co-finances in local infrastructure development programs funded by the state budget and after the completion of those projects, the municipalities pay for the operation and maintenance of this infrastructure.

Besides low level of fiscal decentralization, also the problem is that municipalities do not effectively involve local stakeholders in infrastructure project planning processes (except low-budget Village Support Program), and LED approach are not effectively used, which means that local actors' cooperation and partnership platforms are weak. Therefore local actors do not integrate their resources for local infrastructure development. There are very few PPP projects in Georgia and they almost don't exist in municipalities except the capital. It is noteworthy that the Law of Georgia on Public-Private Partnership (PPP) was adopted just in 2018 to encourage the cooperation of Development Actors but this law needs to be refined to become easily applicable for municipalities.

2. Conclusion

It should be mentioned that good infrastructure can create important preconditions for economic development by attracting investments and resources, and also at the same time effective economic development processes can lead the further development of the existing infrastructure.

It can be said that state budget plays a more important role in financing main local infrastructure projects for local development support than local budgets in Georgia. Approximately 20 percent of the state budget capital expenditures are spent on local infrastructure development. The reasons why municipalities are unable to fully fund local infrastructure needs should be sought in fiscal and administrative decentralization problems.

The steps taken by central government for municipal infrastructure development are appreciated, but for better results it is important: to improve decentralization processes, to strengthen and support the institutional capacity of local governments; to improve socio-economic equalization mechanisms; to encourage effective participation of local stakeholders in decision making process about local infrastructure projects, to promote

cooperation, partnership and involvement of local actors in relevant platforms and encourage PPP projects for increasing cost-efficiency of state and local budget finances on local infrastructure.

References

- Janet M Rivers and Michael T. Heaney (1995). Infrastructure and Local Economic Development; Regional Science perspectives-Vol.25 N1, 10-68.
- Christine Kessides (1993). The Contributions of Infrastructure to Economic Development, A Review of Experience and policy Implications World Bank Discussion Papers, The World Bank, Washington, D. C, 58-73.
- Parliamentary Budget Office of Georgia, Budget Analysis Division (2021). "Overview of the Execution of the 2020 Republican Budgets of the Autonomous Republics and the Execution of the 2020 Budgets of the Municipalities of Georgia", 23-38
- "Organic Law of Georgia-Local Self-Government Code" (last version, 2021)
- "Law of Georgia-Budget Code of Georgia" (last version, 2021)
- "Tax Code of Georgia" (last version, 2021)
- Resolution №23 of Government of Georgia, February 7, 2013 (last version, 2021)
- Resolution №654 of Government of Georgia, December 28, 2018 (last version, 2021)
- Resolution №200 of Government of Georgia, March 27, 2020 (last version, 2021)
- Resolution №185 of Government of Georgia, April 26, 2021 (last version, 2021)

Other Sources of Information:

- The Ministry of Finance of Georgia <https://www.mof.ge> (Last seen 30 Nov, 2021)
- The Ministry of Regional Development and Infrastructure of Georgia <https://mrdi.gov.ge> (Last seen 30 Nov, 2021)
- National Statistics Office of Georgia <https://www.geostat.ge> (Last seen 30 Nov, 2021)
- The Parliamentary Budget Office of Georgia <http://pbo.parliament.ge> (Last seen 30 Nov, 2021)

Author Profile



She was born on June 9, 1988. Graduated the Georgian Institute of Public Affairs (GIPA) with a Master Degree in Public Administration. Has 10 years of experience working in the field of regional development policy as a public servant. Has participated in more than 20 training courses, programs and conferences abroad and in Georgia. Her research areas are: Local Economic Development (LED), regional economic development, territorial development, local self-government development, economic growth and economic policy.