

**TASK FORCE
FOR REGIONAL DEVELOPMENT
IN GEORGIA**



**REGIONAL DEVELOPMENT
IN GEORGIA**

DIAGNOSTIC REPORT

TBILISI

2009



Contents

| | |
|--|-----------|
| INTRODUCTION..... | 6 |
| I. Regional Development Financing..... | 11 |
| 1.1. CONCLUSIONS | 11 |
| 1.2. Main Findings | 13 |
| 1.2.1. Definition of region and related economic categories | 13 |
| 1.2.2. Categories of "regional budget," "regional financing," "regional development" and "regional development financing" related to the definition of a "region." | 13 |
| 1.2.3. General structure of management of the Georgian economy is determined by the Constitution of Georgia..... | 14 |
| 1.2.4. Borrowing, Procurements and Equalisation | 15 |
| 1.2.5. Assessment of Fiscal Decentralisation | 17 |
| 1.2.6. Transfers | 18 |
| 1.2.7. Direct scheduled investments, foreign aid, "low-interest credit" and commercial loans | 19 |
| 1.2.8. Budgetary process..... | 21 |
| 1.2.9. Budgetary system | 21 |
| 1.2.10. Dependence of revenues of regions from central budget transfers | 23 |
| 1.2.11. Expenses of regional budgets..... | 27 |
| 1.3. Foreign Experience | 29 |
| II. Regional Management, Institutional Set-up and Human Resources Management | 30 |
| 2.1. Conclusions..... | 31 |
| 2.2. Regional Management and Institutional Set-up..... | 32 |
| 2.2.1. Findings | 32 |
| 2.2.2. Existing Practice..... | 33 |
| 2.2.3. International Practice..... | 36 |
| 2.3. Human Resources Management in Public Service | 38 |

| | |
|---|-----------|
| 2.3.1. Findings | 38 |
| 2.3.2. Existing Practice..... | 43 |
| 2.3.3. International Practice..... | 49 |
| III. Poverty Reduction and Employment | 51 |
| 3.1. Conclusions..... | 52 |
| 3.2. Main Findings | 54 |
| 3.2.1. Income and Expenses of Households | 54 |
| 3.2.2. Poverty in Georgia..... | 56 |
| 3.2.3. Labour Market and Poverty..... | 60 |
| 3.2.4. Poverty Reduction Measures | 64 |
| 3.2.5. New Poverty and Employment Challenges | 67 |
| IV. Municipal Development and Infrastructure | 69 |
| 4.1. Conclusions..... | 69 |
| 4.2. Main Findings | 72 |
| 4.2.1. Human Resources Management | 72 |
| 4.2.2. Public Awareness and Civil Sector Involvement in the Local Management and Development Process..... | 73 |
| 4.2.3. Informational Communications Systems and E-Governance..... | 74 |
| 4.2.4. Spatial Planning | 76 |
| 4.2.5. Municipal Development Plans..... | 77 |
| 4.2.6. General Review of Infrastructure Sector Status | 78 |
| 4.2.7. Water Supply and Sewerage System | 79 |
| 4.2.8. Waste Management..... | 80 |
| 4.2.9. Roads and Transport Sector..... | 84 |
| 4.2.10. Telecommunications | 85 |
| V. Innovations, New Technologies and Entrepreneurship | 86 |
| 5.1. Conclusions..... | 87 |
| 5.2. Main Conclusion..... | 92 |
| 5.3. Review of the Existing Situation and Challenges in the Field of Innovations – Justification of the Problem..... | 93 |
| 5.4. Structural Analysis of the Innovative and Entrepreneurial Environment in Georgia..... | 95 |

| | |
|--|------------|
| 5.4.1. Base review of institutional components and needs of the innovation system..... | 95 |
| 5.4.2. Evaluation of Georgia’s innovation potential by international organisations | 101 |
| 5.4.3. Small and Medium Business in Georgia | 102 |
| 5.4.4. Research and development infrastructure, scientific-technical potential and trends..... | 104 |
| 5.5.Regional Innovation System - Theoretical and Practical Implications | 105 |
| 5.5.1. Conceptual base and key elements of the system..... | 105 |
| 5.5.2. Transfer of new technologies and their introduction | 106 |
| 5.5.3. The role of foreign direct investments..... | 107 |
| 5.5.4. The role of the state in research and development | 107 |
| 5.5.5. Specifics of innovation development in transition economies..... | 108 |
| 5.6. Modern methodologies for evaluation of innovation systems | 108 |
| 5.7. Best International Practices..... | 110 |
| VI. Environment and International Co-operation of Regions..... | 112 |
| 6.1. Main Conclusions | 112 |
| 6.2. Main Findings | 114 |
| 6.2.1. Environment..... | 114 |
| 6.2.2. International Co-operation of Regions..... | 122 |
| VII. Legal Solutions for Effective Regional Development | 135 |
| 7.1. Conclusions..... | 135 |
| 7.2. Main Findings | 136 |
| 7.2.1. Concept of a region and a region as a subject of the law according to Georgian legislation | 136 |
| 7.2.2. Aspects of the state territorial arrangement of Georgia | 138 |
| 7.2.3. Legal Aspects of Deconcentrated Government according to Georgian legislation..... | 139 |
| 7.2.4. Regional development policy and the challenges of interagency co-ordination..... | 140 |
| 7.2.5. Legal aspects of co-operation between local self-governments and trans-border co-operation capabilities | 143 |

| | |
|--|-----|
| 7.2.6. Involvement of local self-governments and society into the regional development process | 144 |
| 7.2.7. Problems related to the distribution of authority | 146 |
| 7.3. Legal and Institutional Aspects of Regional Development in Eastern European Countries | 148 |

INTRODUCTION

Today a nation-wide regional development policy must be treated as an inseparable component of development policy in the broad sense. This means that the aims of regional development policy should be compatible with the strategic development aims formulated in the policy documents of public authorities. Regional policy should lend support to the accomplishment of those aims, taking advantage of what is its essential feature and asset: knowledge of the structural specificity of particular regions, conditions for their transformation and the regional differentiation of resources and capacities for development. The efficient utilisation of the differentiation and specific features of particular regions is not only in the interest of regional communities but is also in the interest of the nation as a whole and, therefore, becomes the foremost goal of regional development policy pursued at the national level.

It is only through the enhanced competitiveness of Georgian goods and services, as well as of the territory of Georgia as a locus of investment, can lay foundations for a lasting improvement in the living conditions and standards of society. A regional development policy oriented towards increasing the competitiveness of regions is, therefore, beneficial for society as a whole in the long run. It offers a chance to satisfy people's aspirations not through an "equitable sharing of poverty" but through efficient economic development. This regional development policy is an alternative to traditional equalisation policy which basically comprises transferring funds from more efficient regions to less developed ones wherein the traditional economic base is eroding or the natural conditions are less conducive to development.

Over the past years, the design and implementation of structural reforms has enjoyed a growing importance in Georgia. In 2003, the Government started daring reforms aimed at market liberalisation and the fostering of entrepreneurial activities which included the removal of an excessive regulatory burden on the economy and the introduction of a liberal flat rate taxation as well as a simplification of tax and custom procedures and created a business-friendly environment which resulted in high GDP growth rate.

This Diagnostic Report identifies several main features of the current model of promoting regional development:

- Absence of a prognostic and programmatic basis for a consistent long-term regional development policy as a result of which the aims formulated in the Government's short-term programmes amount to mere declarations dictated by current needs;
- The meagre resources (financial and legal) impede regional development. Less attention has been paid to the alleviation of regional socio-economic

disparities. An attempt aimed at regional development through the increase of the competitiveness of the regions has been fragmental and characterised by a sectoral approach;

- Complexity of the regional development conditions involvement of wide spectrum of stakeholders. Thus, the system which would ensure sustainable development across the regions and satisfy politicians, administrators, entrepreneurs and, more widely, society, therefore, is still under construction with a need for significant changes and improvements.

Important steps have been taken in Georgia which has fixed the foundations for the current discussions and undertakings in the sphere of regional development. Amongst the reforms implemented in the country, notably significant outreach in the context of regional development had the decentralisation reform, which was initiated by the Government in 2004. This reform was aimed at increasing the efficiency of local governments in the delivery of public services and conditioning their active involvement in resource allocation. One of its specific purposes that of the self-sufficiency of local governments, was envisaged to be achieved through the merging of LSG units. As a result, the new Organic Law of Georgia on Local Self-Government, introduced in 2005¹ reduced the number of self-governance units from approximately 1,000 to 69 (5 self-governing cities and 64 municipalities) and provided for the clarification of competences amongst the layers of governments as well as a general framework for the institutional set-up of the LSG units.

The Law established the representative body (local councils or *sakrebulo*) and an executive body (city hall or *gamgeoba*) for each self-governance unit. In principle, the Organic Law complies with the requirements of the European Charter of Local Self-Government and distinguishes the delegated, voluntary and exclusive competences of these bodies. The latter has encompassed the responsibility for the general management and the regulation of the delivery of local public services and the designing of local socio-economic development. LSGs also are provided with full discretion in spending on exclusive competences and restricted² fiscal autonomy. Decentralisation contributed meaningfully to the development of various undertakings at the local level although the lack of coordination of the reforms in different sectors and line ministries has slowed down the process of the capacity-building of sub-national authorities as well as policy exercise at the central level for regional development. This primarily regards the transfer of property to LSG units as well as policy instruments for development purposes.

The important drawbacks, however, which have been identified in this Diagnostic Report, have hitherto limited the scope and affected the efficiency of any direct and indirect measures aimed at the central-level promotion of regional development,

Clearly, the shortfall of understanding of the concept of regional development has also been observed in the policy documents which have hitherto been

¹ In force since local elections in 2006

² Tax codes set the base and margins for local taxation.

presented. No clear distinction between regional development policy and socio-economic development policy, for example, was made. Another problem is the lack of a clear concept of a "region" in Georgia to include its definition, functions and its roles in the set-up of the Georgian state.

Obviously, whenever a central policy approaches all of the different regions mechanically in the same way, no regional policy is in place. The major development funding which is available from the central government is distributed to the local authorities in the form of grants for specified projects and tasks which often are in line with the Government's sectoral policies. Major areas of concern for the Government are unemployment, agriculture, underdevelopment of rural areas and an improvement of infrastructure, while more support is needed for entrepreneurial activities in Georgia even though this is something which should normally be one of the important concerns of a properly formulated regional development policy.

Apart of the above mentioned, there have been problems related to Georgia's territorial integrity which, to a great extent, has impeded the policy formation and its exercise for regional development. Increasing tensions in relation to its two breakaway territories of Abkhazia and South Ossetia, which are not controlled by Georgian authorities, led to the August war between Georgia and Russia. Because of the past experience, the central authorities are taking a very careful approach as concerns the accumulation of decision-making power or financial resources at the sub-national level, even for developmental purposes. This has, however, been compensated to a certain degree by development projects planned and financed from the centre. Development projects have often been supported by foreign aid or special purpose loans and grants from international financial institutions.

In 2006, the National Security Council (NSC) of Georgia, in co-operation with the EC, launched a project, entitled "Policy Advice for Regional Development," which was oriented towards the preparation of a regional development concept for Georgia. The concept was prepared by a team of local and international experts and reviewed by all major stakeholders; that is, the Government of Georgia, the Parliamentary Committee of Regional Policy, local authorities and the EC mission in Tbilisi. The concept was sent to different international organisations (Council of Europe, World Bank, etc.). A draft law on regional development was subsequently drafted based upon this concept. The process, however, did not develop further because of an institutional inconsistency of the project with the NSC. Furthermore, there was no patron ministry for regional development whilst the constituents of the domain were dispersed across the line ministries.

The institutionalisation of regional development was given a second breath in spring 2008 when the Government of Georgia was restructured and the post of the State Ministry for Regional Issues, along with its office, re-launched the Georgian Regional Development Policy. From January 2009, the office was transformed into a full ministry; that is, the Ministry for Regional Development

and Infrastructure, which became a major stakeholder of regional development in Georgia and a partner of the EU and other donors acting in the field.

Task Force for Regional Development in Georgia

The Delegation of the European Commission, in co-operation with the Governments of Poland (Polish Aid) and Germany (GTZ), proposed an initiative in the form of a "Task Force for Regional Development in Georgia" to the Government of Georgia whose goal had the following primary objective: "to elaborate a draft of the Strategy for Regional Development in Georgia, to achieve a consensus amongst major stakeholders and to set out recommendations for the Government of Georgia whose realisation, using the experience of European and other countries, would lead to the higher competitiveness of the regions across Georgia and would lessen the disparities in the level of development amongst the regions thereby bringing Georgia closer to the European Union"³.

The initiative was welcomed and accepted by the Government of Georgia with the willingness for the creation of the Task Force underpinned by the conviction that regional development represents one of the key issues for progress within the process of Georgia's market-oriented democratic transformation and is a precondition for achieving a sustainable welfare of the country. At the same time, it was confirmed that the formulation and implementation of a strategy of regional development would play a significant role for the success of Georgia's relations with the European Union. This point of view was reinforced after the events of August 2008 with the prospect of funding for regional development from the side of Brussels and the EU Member States having become much larger.

On 18th of December 2008, the Task Force was officially established on inaugural session chaired by the first Vice Prime Minister David Tkeshelashvili. It operated under the official patronage of the President of Georgia and is comprised of a wide variety of stakeholders of regional development including representatives of local and regional authorities and line ministries as well as local and international NGOs and financial institutions.

The Task Force was chaired by the Minister for Regional Development and Infrastructure.

Financing of all of the operations of the Task Force had been secured by the Government of Georgia, the European Commission and with the assistance of Polish and German development assistance.⁴

The Task Force Secretariat was established in order to facilitate the strategy elaboration for regional development. The secretariat was placed at the premises of LEPL "Centre for Effective Governance System and Territorial Arrangement

³ Terms of Reference of the Task Force for Regional Development

⁴ Polish Aid and the German Agency for Technical Co-operation (GTZ).

Reform” (CEGSTAR). By ordinance of the Minister of Regional Development and Infrastructure the CEGSTAR was responsible for organizational and technical support of the secretariat. The seven thematic Working Groups comprising hired and seconded experts as well as public servants from different line ministries were created for strategy elaboration. The Task Force Secretariat was responsible for the successful and effective co-ordination of the Working Groups which were tasked with producing the majority of inputs for the Diagnostic and the Final Reports on Regional Development in Georgia. The following thematic Working Groups were established:

- Financing of Regional Development;
- Regional Management, Institutional Set-Up and Human Resources Management;
- Poverty Reduction and Employment;
- Municipal Development and Infrastructure;
- Innovations, New Technologies and Entrepreneurship;
- Environmental and International Co-operation of the Regions;
- Legal Solutions for Regional Development.

The Working Groups were responsible for producing reports based upon two major lines of activities: (a) research performed by hired and seconded experts and (b) qualified and documented discussions between Working Group members during the regular group meetings as well as during ad-hoc seminars.

This Diagnostic Report represents the findings and conclusions of the analyses performed by the Working Groups as concerns seven important thematic fields of regional development in Georgia. Conclusions were drawn based upon results derived from their comprehensive research which included work with primary sources, statistical data, semi-structured interviews, legislation and policy documents related to the sphere of regional development. According to the particular needs of the Working Groups, different methods and methodologies, such as multifactor, statistical, logical and benchmarking analysis, were applied throughout the working process.

The following chapters present important conclusions and give precise insights into the Regional development process in Georgia and highlights related challenges to be addressed in the Regional Development Strategy of Georgia.

The Diagnostic report had been approved by the Task Force on the working session of May 6, 2009. It had been further updated according to the state of affairs by January 1, 2010.

I. Regional Development Financing

The goal of Diagnostic Research prepared by the working group is the review and analysis of applicable practice of financing of the regional development and highlighting of those problems which exist in the sphere of financing of regional development. During the research was applied the statistical, logical and comparative analysis.

The research is based on the analysis of regulatory legislative foundation of budgets of self-government units and budgetary process implementation practice - local self-government budgets (hereinafter the local budgets) in terms of the new model of local self-government within the last three years, direct state investments which to a certain extent determine the issues of financing of the regional development.

The foreign practice of financing of regional development was studied and analysed too.

1.1. CONCLUSIONS

1. No official document effective in Georgia provides the definition of term "region". However, in current reality a "region" in Georgia is represented as integrity of areas of self-government units within the terms of office of a governor.
2. Subject to the definition of "region" we shall comprehend the categories which are related to it – the definitions of "the regional budget", "regional financing", regional development' and "regional development financing".
3. To date the legislative and normative base regarding the self-government finances has been formed in Georgia. In general it complies with the international norms (including the European Charter of Local Self-Government, 1985). However, the process of formation of legislation of self-government is still in progress and needs solution of problems of legislative vacuum, collision between the laws, law harmonization.
4. The legislation and real practice of economic and financial decentralization in Georgia often contradict each other. The effect of law implementation, introduction of mechanisms given in them is low.

5. In Georgia there has not yet been formed such relations between the levels of authority where the functions of the given level of authority conform to the financial sources and revenues of the same level.
6. The leading role in the financing of regional development is attributed to the subsidies allocated from the state budget. In last years the amount of financial subsidies for regions has been growing because of channeling of the part of income tax revenues (which 2008 should be transferred to local budgets) to the state budget. As a result the own revenues of local budgets have decreased.
7. In formation of regional finances is gradually increasing the amount of program-based subsidies from the central budget. The direct state investments are supplied to regions from the ministries, departments, reserve funds of the President of Georgia and Georgian Government, from the fund for implementation of projects in regions as well as the sources of financing received from abroad (loans, grants), including the municipal development fund, Millennium Challenge for Georgia Program. For promotion of business in regions to private sectors from the state budget will be allocated "low-interest loans" which are distributed among the regions unequally. In addition, the significant effect on regional development is made by commercial bank loans supplied to the regions which are also characterised by unequal utilization among the regions.
8. The Ministry of Finance of Georgia provides the uniformity of the budgetary process at all levels of the budgetary system. The analysis of budgetary process at the local self-government level shows that the executive and representative authorities of local self-government do not ensure the transparency and publicity of budgeting process imposed by the law. The audit and control of local budgets is inefficient. To improve the situation the new Law on the Chamber of the Control was adopted on December 26, 2008, which enlarged the functions of the Chamber of Control in the field of local budget auditing.

The Budget code of Georgia (in force from January 1, 2010) stipulated independence of the local budgets (the same provision was enshrined in the preceding Law on the Budget of Local Self-Government Unit). The Local budget independence is also underpinned by the Organic Law on Local Self-Government which states that local budgets are independent from the state budget, and the budgets of Adjara and Abkhazeti Autonomous republics of Georgia. However, the dependence of local budgets on the central budget has increased because of the channeling of total income tax revenues to the central budget. The local budgets are formed mainly with the transfers received from the central authorities. The share of the only local tax – the

property tax and local charges in the revenues of local budgets is very small.

9. The budgetary revenues and expenses per capita are characterized with inequality according to regions. The state authorities fail to meet the requirement of subparagraph "d" of paragraph 4 of Article 4 of the Law of Georgia on Local Self-Government which binds the state authority with establishment and provision of the minimal state social standards. Until now no social standard has been developed. The absence of standards provokes intensification of inequality between the regions.

1.2. Main Findings

1.2.1. Definition of region and related economic categories

Within the process of research of any region-related issue, at first we shall define the etymological meaning of a "region" and other related economic categories. In fact, in different cases a region implies an administrative-territorial unit of Georgia.

At the self-government level a "region" implies municipalities and townships (total 69 self-governing units where 64 are municipalities and 5 – townships).

At the government level a "region" is considered as a territorial area within the terms of office of a State plenipotentiary - governor.

1.2.2. Categories of "regional budget," "regional financing," "regional development" and "regional development financing" related to the definition of a "region."

- **Regional budget** is the integrity of public financial flows on the territory within the terms of office of the state confidant. Its main components are: the budgets of self-government units on the territory and budgetary funds for the state programs of regional development in those units;
- **Regional finances** are the finances of legal entities and households on the territory subordinated to the state confidant;

- **Regional development** means such socio-economic changes in the region which provides realization of new untapped potential of development, stability and acceleration of the national economic development, growth of competitive ability of a region, equalization of development levels between regions;
- **Regional development financing** implies all those financial flows which are channeled for the regional development. Financing sources of regional development are: the state budget, budgets of self-government units, funds of international financial and donor organization, private sector finances, grants, donations and other financial sources not prohibited by the law.

1.2.3. General structure of management of the Georgian economy is determined by the Constitution of Georgia

Georgia acceded to the European Charter of Local Self-Government in 2004. The country began to undertake international obligations on real self-government and introduce the charter principles in the Georgian legislation. The process of formation and perfection of the self-government legislation has carried out since that period until now.

Were adopted the Law of Georgia on Property of Local Self-Government Unit (2005) and Law of Georgia on Budget of Local Self-Government Unit (2006), which later was replaced by the Budget Code of Georgia (in force from January 1, 2010) The most important was adoption of the Organic Law of Georgia on Local Self-Government (2005) which superseded the Organic Law on Local Self-Government and Administration which had been in effect since 1997.

In accordance with the latter in many legislative acts and in practice was formed the symbiosis of administration and self-government. After establishment of new norms, namely, after abolishment of local administration the laws have preserved the norms which determined the rights and obligations of local administration though the respective institute exists no more; is not overcome the collision between the requirements of new Organic Law and branch laws in matters regarding separation of exclusive and delegated functions. For example: the Law of Georgia on Privatization of State-Owned Farming Land (2005) imposes obligations on the managing bodies of the self-government (Article 8, Article 14.1a) but does not provide that this may be only a delegated function. Only the Organic Law determines the exclusive functions of a self-government unit. The Water Law of Georgia (1997) provides that water on the territory of Georgia is the state ownership (Article 6.1.) whiles under the Organic Law of

Georgia on Local Self-Government (Article 47.d) the water for local purpose is the ownership of local self-government unit. Under the same Article The Organic Law of Georgia on Local Self-Government provides that the forest for local purpose is the ownership of self-government unit while under the Forest Code of Georgia (Article 9.1) "the owner of forest in Georgia may be the state, the Georgian patriarchate, an individual or a legal entity under the private law". The dozens laws contain the simultaneous, not separated competences of the self-government and administration.

1.2.4. Borrowing, Procurements and Equalisation

The problem of administration of law in practice is very acute in connection with the borrowing, procurements and equalization transfers:

- The European Charter of Local Self-Government (Article 9, item 8) provides that the national law shall regulate the rule of activity of local self-government authorities in the capital market for the purpose of borrowing for capital investments. The Georgian legislation provides this norm and does not contradict it. However, the right of borrowing is vested in the local authorities in such a way that cannot be exercised in practice. The special law does not specify the mechanisms of its realization. The area of borrowing is limited. The local authorities cannot issue the capital market instruments because the law does not provide how and where they shall borrow. The Law on Budgetary System of Georgia (abolished by the end of December 2009) provided that "the authorities of autonomous republics and local territorial units have the right to borrow only from the executive authorities of Georgia represented by the Ministry of Finance of Georgia or under the permit of the Ministry of Finance as per the procedure established by the law" (Article 39.2). Due to the fact that such procedure has not been elaborated, at present in Georgia there is no case of issue of any securities by a self-government unit. According to the Article 21 of the "Budget code of Georgia", which stipulates budgetary affairs from January 1, 2010, The Autonomous Republics and Local Self-Government Authorities can borrow from the Government and/or from other resources **upon permission by the** Government of Georgia. The Chapter IX (borrowing from the State Budget) of the Budget Code of Georgia stipulates the conditions of the issuing of loans from the state budget, although, according to the paragraph 2 of article 59 of the same law, the provisions do not apply to the loans issued to the budgets of Autonomous republics and Local self-governments.

- Since 2007, the equalization transfer has been used to support financing the local budgets. The amount has been defined by the special formulas. The formula used in 2007 and aimed, in accordance with the Law of Georgia on the Budget of Low Self-Government Unit (Article 18, paragraph 4 – deleted 28.12.2007), at equalization of self-government units with low budgetary receipts per capita to the analogue average indicator of the country, was not applied in practice. Since 2008 this formula was changed with the new one. At the same time, in the Law of Georgia on the Budget of Local Self-Government Unit was deleted the above specified provision (Article 18, paragraph 4) on the purpose of use of the equalization formula. The law preserved the general provision on the purpose of the equalization transfer as the equalization of financial resources for implementation of the exclusive powers between various local self-governments (Article 18.2). Hence there was no official response what equalization is made for. By this formula the amounts of financial allowances are distributed among the self-government in such a way which serves no concrete goal of solution of inequality. No concrete problem of equalization of levels of socio-economic development was put neither solved through the equalization transfers in 2008, the same takes place in 2009 as well. There was not also established the rule how the amount of the necessary fund for the equalization transfer would be determined, and who shall be determine the **so called** “support coefficient” amount. Actually, as it was determined in the Instructions on Calculation of Equalization Transfer approved under Order N936 of the Ministry of Finance of Georgia of December 22, 2008, which stated that the equalization formula is the mean “by which is calculated the equalization transfer to be transferred from the state budget to the budgets of local self-government units” (Article 2, “a”). This formula was based on the straight principle of equalization of difference (deficit) between revenues and expenses in the local self-government units. However, actually by this formula the financial subsidies were distributed among self-government without the concrete purposes of equalization. The absence of national standards of local service enable to equalize neither the spending needs, nor difference of revenues and the deficit. In 2009, parliament adopted the Budget code of Georgia, which from January 1, 2010 superseded The Law on Budget System of Georgia and The Law on the Budgets of local self-Government Unit. The code enshrined a new equalization formula. The law establishes the procedure of calculation of the transfer amount defined relative to the increase in budget expenditures and non-financial assets of local governments set by ordinance of the Minister of finance, which shall not be less than 4% of the nominal GDP of the targeted fiscal year. Hence, the law stipulated the bottom line of the sub national expenditures. On the other hand, the new instruction for the transfer calculation, stipulated in the ordinance #904 of December 30, 2009, by Minister of Finance does not allow per capita or expenditure need based equalization.

- Up today no self-government body (city corporate, municipality) has yet developed the Rule on provision of public service, in compliance with paragraph 2 of Article 48 of The Organic Law of Georgia on Local Self-Government.

1.2.5. Assessment of Fiscal Decentralisation

During the research for assessment of fiscal decentralization we used OECD (Organization for Economic Cooperation and Development) methodology⁵, which provides assessment of the fiscal decentralization by the criterion of autonomy and independence of a local authority, municipalities, when making taxation and budgetary decisions. For assessment of fiscal decentralization OECD has developed the systems of criteria of budgetary autonomy according to three large groups. Those are: (1) budgetary revenues, (2) budgetary expenses, (3) liabilities. According to separate groups, the situation of existing practice is represented as follows:

From the aspect of budgetary revenues:

- All taxes and charges are established by the law only and the powers of local representative authorities in the part of establishment of taxes and charges are allowed in the framework determined by the law. The kind, amount of a tax, its introduction, tax exemptions are established by the law (The Constitution of Georgia, Article 94). Under the Tax Code of Georgia self-governments have the right only to "introduce" the local charges established by the Tax Code (The Tax Code of Georgia, Article 8.4). At present such is the property tax only;
- For creation of stable source of financial revenues of local authorities, the property tax and charges which are channeled to the budget of local authority are not sufficient;
- Because of some provisions of the applicable Tax Code the revenues in the budgets of local authorities according to own taxes cannot be raised to the full extent. Subject to the Tax Code, the family income not exceeding annual 40000 GEL as well as the farming land up to 5 hectares owned by individuals before March 1, 2004 are exempted from property tax (The Tax

⁵ Organization for Economic Cooperation and Development. Fiscal Design across Levels of Government Framework and Survey Findings. – OECD Tax Policy Service, 2001, #6

Code of Georgia, Article 276, paragraph 4, subparagraph "a", subparagraph "y") that rather decreases the own tax revenues of local budgets;

- The central authority determines not only the rate of taxes and charges but the tax base as well;
- In local budget revenues the main share falls on the transfers;
- Because of absence of the minimal standards for exclusive powers of local authorities the optimal amount of equalization transfer required for security of the financial stability of self-governments is not yet established and its effectiveness is non-measurable;
- Because of delay of the process of transfer of property to local authorities such resources as land, water, natural wealth have not become actually the ownership of municipalities and the source of its real income.

From the aspect of budgetary expenses:

- The minimal state social standards subject to the Organic Law of Georgia On Local Self-Government (Article 4, item 4"d") have not been established yet.

From the aspect of liabilities:

- Is not developed the rule on issue of securities and capital market entry by local authorities.

1.2.6. Transfers

More than a half of inflows in the regional budgets come in kind of subventions from the central budget. In accordance with the "Budget Code of Georgia" , the central budget allocates to the budgets of local self-government units three kind of transfers: the equalization transfer - for performance of exclusive powers, purposeful transfer - for performance of delegated powers and special transfer financial resources other than equalization and purposeful transfers, directed from one budget to another.

The purposeful and special transfers may be also provided from the republican budget of an autonomous republic in kind of subvention. After the channeling of total profit and income tax revenues to the state budget under the changes made in the law, the amount of subventions has increased.

1.2.7. Direct scheduled investments, foreign aid, “low-interest credit” and commercial loans

In the system of regional financing are gradually growing the amounts of scheduled state financial aid from the central budget.

Direct scheduled investments

The direct investments are allocated from the central budget to regions mainly for rehabilitation and development of regional infrastructure (roads, energy, water, land reclamation, irrigation), as well as for compensation of damages after disasters. The system of direct investments requires further improvement. The assignments in the central budget are not identified according to regions and in the context of events, for this reason the local authority does not know preliminarily the amount of transfers from the state budget. This assignment was distributed to the regions under the decision of the Government of Georgia and not on the preliminary basis but during the budgetary year that creates some problems in effective implementation of regional projects.

Foreign aid

- The amount of investment projects to be implemented by sources of financing and grants received from abroad are increasing year after year. In 2009 it increased three times as compared with previous year and totaled 334.5 million GEL. The foreign aid has financed the rehabilitation of Tbilisi roads, Batumi communal infrastructure institutions, Khelvachauri municipality communal infrastructure. The major part of the foreign financial aid entering the country is channeled to Ajara autonomous republic;
- The amount of assignments to regions from the Fund of Municipal Development Projects has been increasing year after year and by 2009 it attained to 166 million GEL. The funds are allocated for such projects of regional development as: Kobuleti water supply rehabilitation, development of renewable energy, rehabilitation of water supply system in Kutaisi and Borjomi, building of houses for refugees and development of infrastructure of other regions;
- The amount of financing of projects for development of regional infrastructure within the framework of the program “Millennium Challenge for Georgia” is characterized with growth in latest years and by 2009 totaled 74.2 million GEL. In framework of this program takes place

rehabilitation of Samtskhe-Javakheti roads, rehabilitation of energy infrastructure of regions, development of agribusiness. Within this program takes place the long-term investing to small and medium enterprises of regions, agribusiness, tourism and enterprises of other sectors.

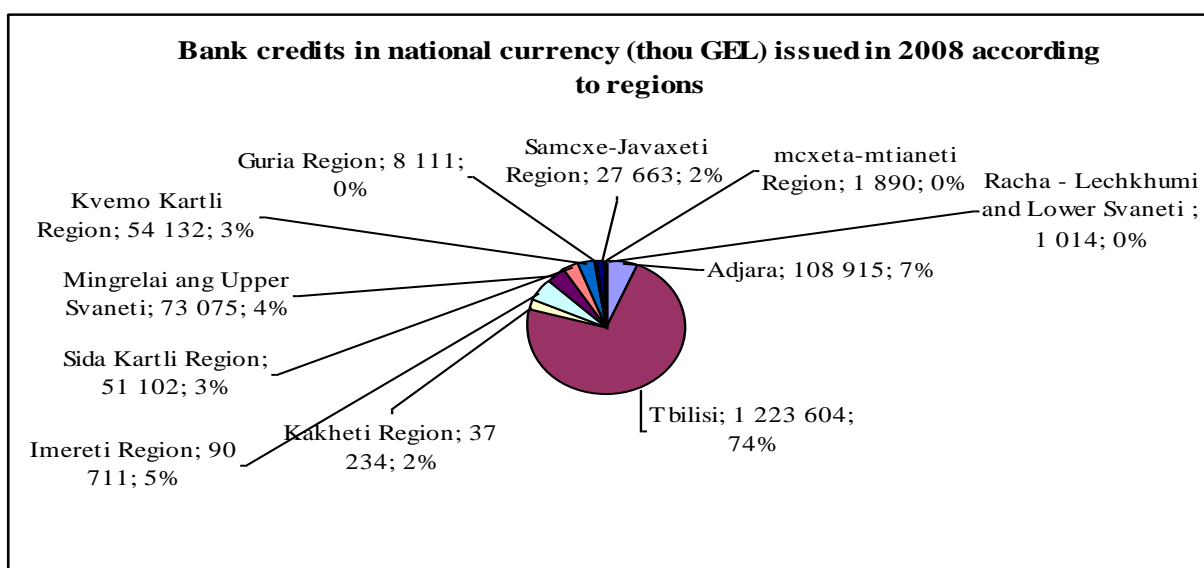
Low-interest credit

In the latest years the system of budgetary benefits has been widely introduced. Namely, for economic entities accommodated in regions is allocated the "low-interest credit" which is mainly oriented to promotion of agriculture, tourism, export and handicraft industry. According to the state budget law of 2008 within the program of "low-interest credit" were financed 116 projects in amount of 43.5 million GEL which was distributed unequally in the regional context. 70% of this amount was issued to four regions (where 36% of the total sum was issued to Kakheti).

Commercial loans

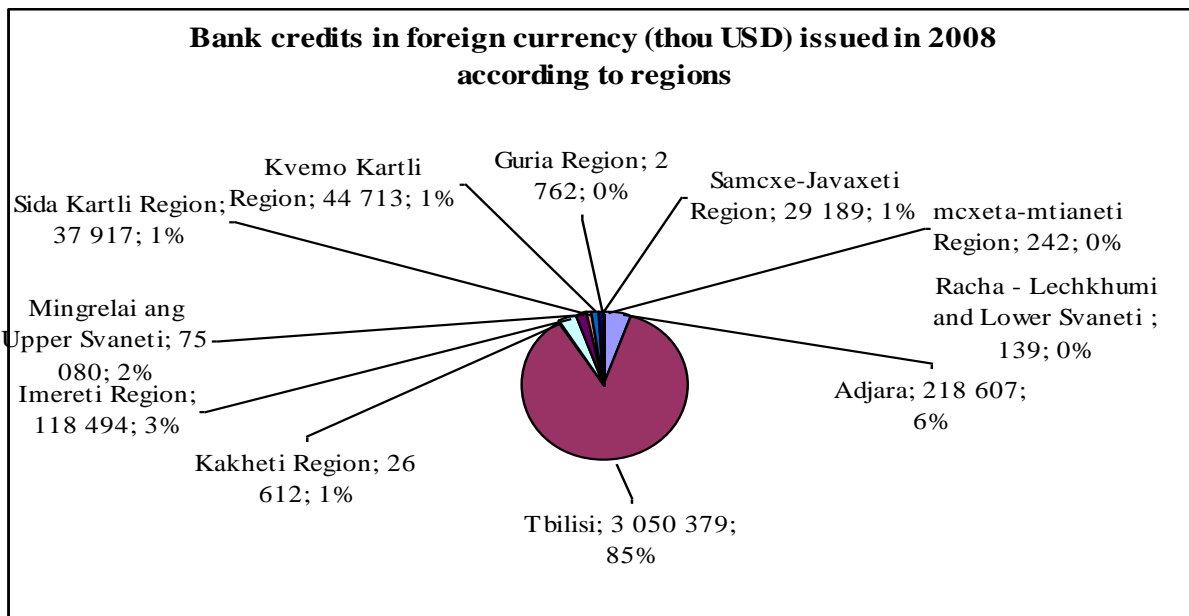
The considerable effect on the regional development is made by commercial bank loans issued in regions which are also unequally distributed among the regions. The major share of the bank loans falls on Tbilisi – 74% in the national currency (Chart 1) and 85% in the foreign currency (Chart 2).

Chart 1. Bank credits in national currency (thou GEL) issued in 2008 according to regions



Source: National Bank of Georgia

Chart 2. Bank credits in foreign currency (thou USD) issued in 2008 according to regions



Source: National Bank of Georgia

1.2.8. Budgetary process

Sometimes within formation of local budgets the provisions of the Law On Budget of Local Self-Government Unit are not complied with.

- The local authorities are lacking the preliminarily transparent information from various funds, ministries and departments. The data of regional projects in the annual state budget law are given in the aggregate kind and is not differentiated by regions;
- The public review of local draft budgets is of formal nature. Participation of local residents in their drawing and review is insignificant. Local executive bodies fail to make annual plans on goods and services in time purchases.

1.2.9. Budgetary system

The share of local budgets in the consolidated budget of Georgia is the main indicator of decentralization. In 2009 this indicator in Georgia marked to 16%

(1 128.0 mln GEL), which exceeds the amounts of preceding year both in percentage and absolute terms. (Table 1).

Table 1. Share of budgets of various levels in the consolidated budget

| Year | 2007 | | 2008 | | 2009 | |
|---------------------|----------|------|----------|------|----------|------|
| | mln. GEL | % | mln. GEL | % | mln. GEL | % |
| Consolidated budget | 6,421 | 100% | 6,846 | 100% | 7,502 | 100% |
| State budget | 5,237 | 82% | 5,463 | 80% | 6,274 | 84% |
| Local budgets | 1,184 | 18% | 1,383 | 20% | 1,228 | 16% |

Source: Ministry of Finance of Georgia

The ratio of local budgets to the gross domestic product (GDP) stated 7% respectively in 2007 and 2008. The same tendency took place in the expenses of the budgets. In spite of that the ratio of the consolidate budget to the gross domestic product fell by 2%, the ratio of the local budget to the gross domestic products was kept on 2007 year level. 2008 World Financial Crisis heavily affected 2009 GDP, causing its downturn. Despite this, 2009 GDP to local expenditure ration was maintained at the level of preceding year (Table 2).

Table 2. Budgets ratio in GDP

| | 2007 | | 2008 | | 2009 | |
|---------------------------------|--------|-----|--------|-----|--------------------|-----|
| GDP (in current prices mln,GEL) | 16,999 | | 16,999 | | 17949 ⁶ | |
| Consolidated budget (mln,GEL) | 6,421 | 38% | 6,846 | 36% | 7,502 | 41% |
| State budget (mln,GEL) | 5,237 | 31% | 5,463 | 29% | 6,274 | 34% |
| Local budgets (mln,GEL) | 1,184 | 7% | 1,383 | 7% | 1,228 | 7% |

Source: Ministry of Finance of Georgia (www.mof.ge) and Department of Statistics (www.statistics.ge)

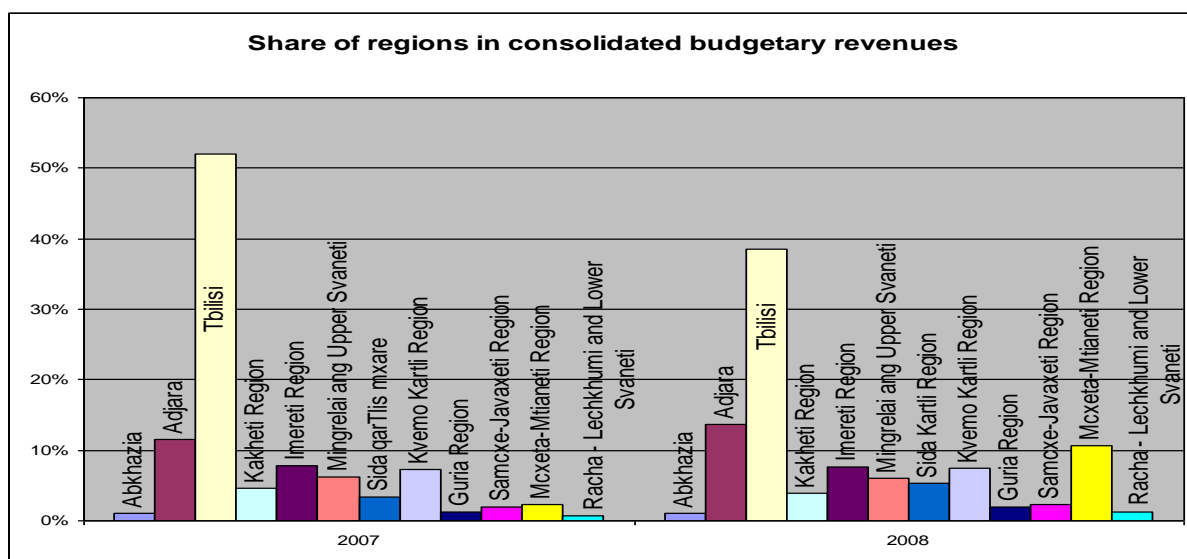
⁶ According to the National Statistical Service, the finite volume of 2009 GDP will be announced in November 2010

1.2.10. Dependence of revenues of regions from central budget transfers

In accordance with The Law on Distribution of Revenues among the Budgets⁷, the income tax which made up the considerable source of revenues of local budgets, since 2008 has been channeled in total to the state budget thus significantly decreasing the quality of budgetary independence of local authorities. In 2007 the income tax of local budgets totaled 526.2 million GEL and in 2008 the amount of equalization transfers totaled 326.7 million GEL that is by 200 million GEL less as compared with the income tax of 2007. In 2008 the vertical imbalance gets more evidence. The share of transfers in local receipts increased from 6% in 2007 to 36 % in 2008. In 2009, the transfers in local budgets revenues amounted to GEL 843.0 mln. (68.7% in total revenue), the increase highlights the high dependence of local budgets on the intergovernmental grants.

The share of regions in the consolidated budgetary revenues is characterized by inequality. The larger share in the revenues of budgets belongs the city of Tbilisi and Ajara (Chart 3 and 4).

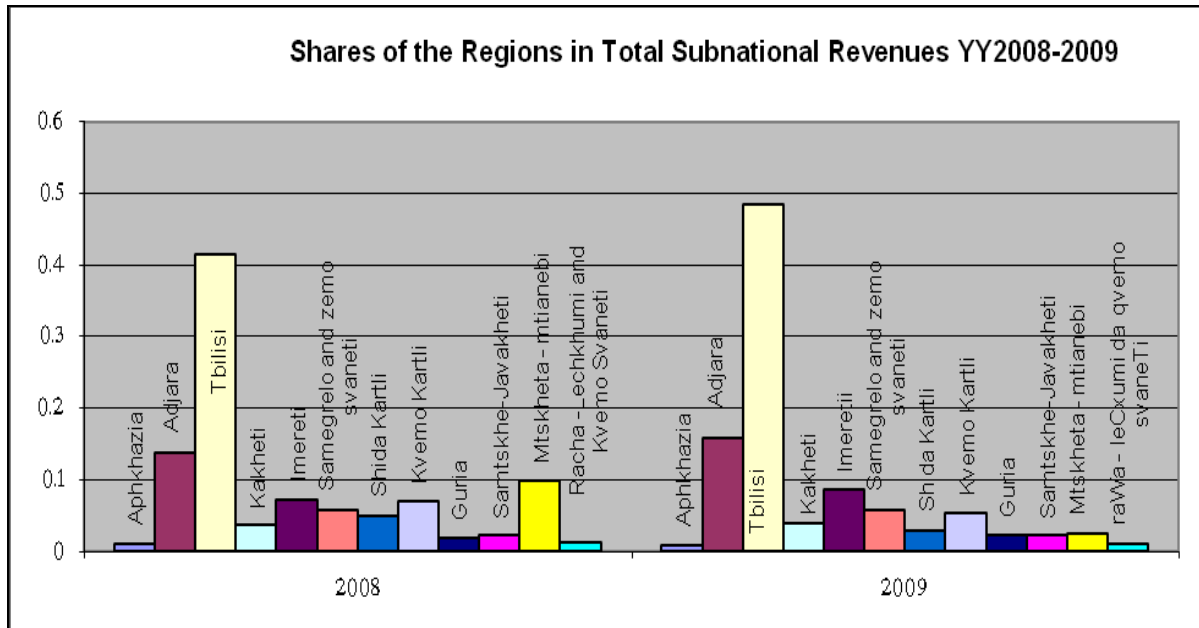
Chart 3. Share of regions in consolidated budgetary revenues in 2007-2008



Source: Ministry of Finance of Georgia

⁷ The law is superseded by the “Budget Code of Georgia”

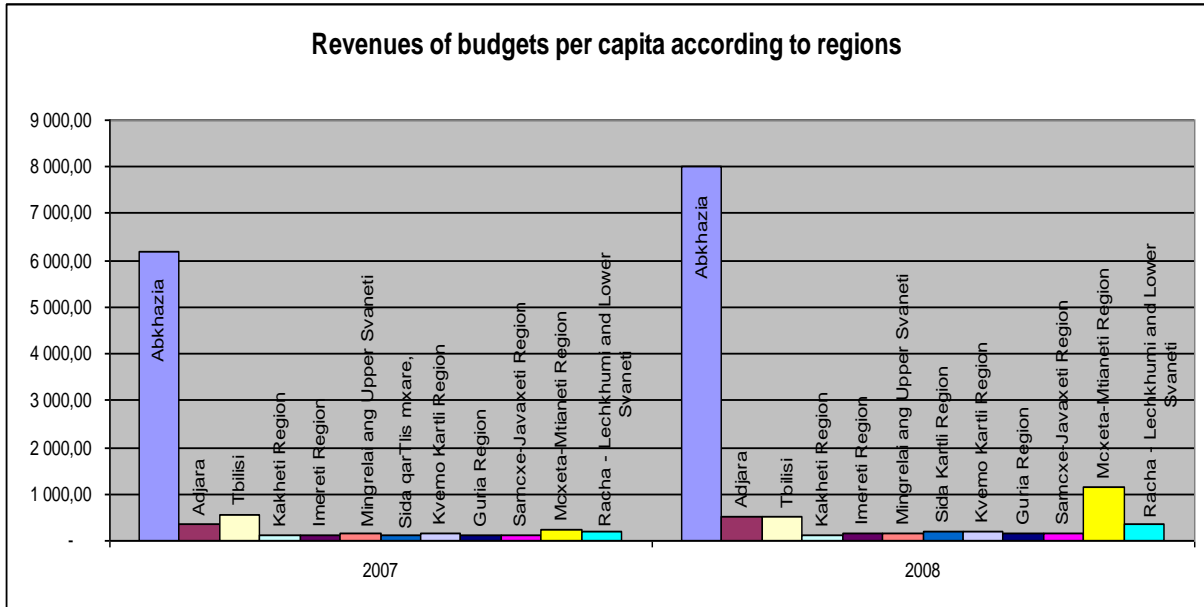
Chart 4. Share of regions in consolidated budgetary revenues in 2008-2009



Source: Ministry of Finance of Georgia

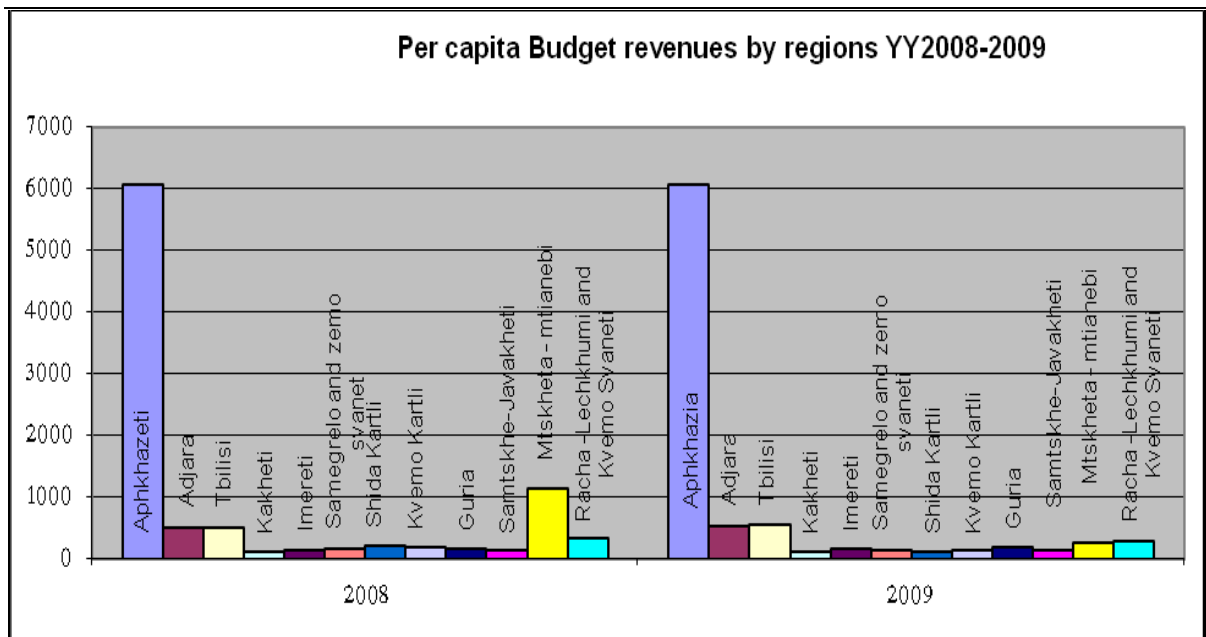
Here we see the horizontal misbalance. According to regions the revenues per capita are characterized by inequality. In 2008 in comparison with 2007 the revenues of local budgets according to regions per capita were equalized. However, in 2008 according to regions (excluding Abkhazia – Kodori Gorge) the maximum revenue exceeded the minimal 4 times, while the average revenue exceeded the minimum 2.5 times (Chart 5). The situation did not change in 2009. The highest incomes were recorded in Tbilisi and Adjara, where per capita budget revenue were nearly 4 times as much as per capita income in the Regions of Kakheti, Samtkhe-javakheti and Shida and Kvemo Kartli Regions (Chart 6).

Chart 5. Revenues of budgets per capita according to regions



Source: Ministry of Finance of Georgia

Chart 6. Revenues of budgets per capita according to regions



Source: Ministry of Finance of Georgia

Under the Tax Code of Georgia only the property tax is attributed to the local taxes. In 2008 the property tax in tax revenues amounted to 133 million GEL, or 9% of the total budgetary revenues. In 2009, the property amounted to GEL 159,6 mln. (9% of total revenues), Tbilisi and Adjara Autonomous republic respectively account 48% and 6% of total proceeds.

As to local charges, the revenues received from them in the regional budgets in 2008 amounted to 86.6 million GEL that is 6% of total revenues. The major share of the charges fall on Tbilisi – 50 million GEL (58%) and on Kvemo Kartli – 13.4 million GEL (15%). In 2009, the share of local charges in total revenues has decreased both in nominal and percentage terms, reaching GEL 61 mln, 5% of total revenues. Tbilisi accounts for the biggest share of the proceeds from charges - GEL 50 mln. (58%) and GEL 45 mln. (77%) in 2008 and 2009 respectively. Local budgets are not enough for performance of exclusive functions of local authorities. In practice, the process of formation of local budget is centralized and is mainly based on the transfers received from the center (Table 3).

The clear manifestation of non-conformity of the legislative base and applicable practice is the revenues received by the so called setoffs. The revenues of such category are not classified in accordance with the Law on Budget of Local Self-Government Unit. In 2007 those purposeful unclassified revenues amounted to 108.6 million GEL and in 2008 – 341 million GEL, that is 25% of the total revenues of local budgets in 2008.

Table 3. Structure of transfers

| Total transfers | 2007 | | 2008 | | 2008 | |
|------------------------|----------|------|----------|------|----------|------|
| | mln. GEL | % | mln. GEL | % | mln. GEL | % |
| | 68,586 | 100% | 501,385 | 100% | 843,0 | 100% |
| Equalization transfers | 21,068 | 31% | 326,749 | 65% | 281,5 | 33,4 |
| Delegated transfers | 1,694 | 2% | 10,785 | 2% | 14,5 | 1,7 |
| Special transfers | 45,824 | 67% | 163,851 | 33% | 547,0 | 64,9 |

Source: Ministry of Finance

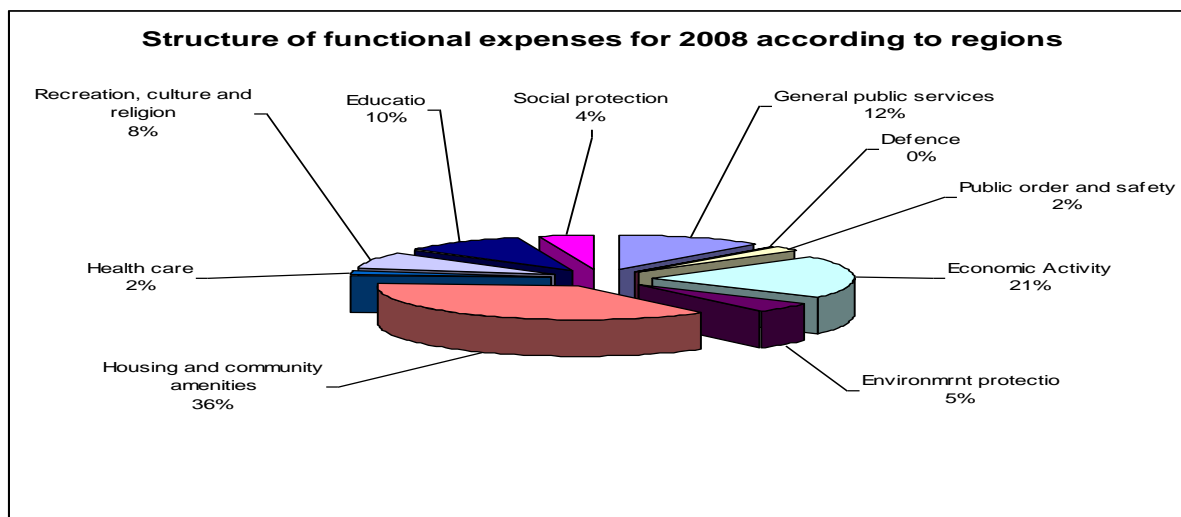
In 2008 as compared with 2007 the receipts from sale of fixed assets decreased by 40%. In 2009 non-financial assets further had decreased by GEL 51.5 mln (40% decrease in proceeds from this source). In future such type of receipts will be less significant because they are formed from the sale of fixed assets in past years. In future the growth of share of local taxes and charges will rather depend on those factors which do not fall in the sphere of regulation of local authorities, namely: the national economic growth and national general policy of distribution of taxes.

1.2.11. Expenses of regional budgets

The expenses (payments) are characterized with inequality among the regions like the revenues. This inequality is determined by functional and economic classifiers. One of main reasons of inequality among the regions is non-availability of minimal standards of public product and service, Article 4 (4) of the Organic Law of Georgia on Local Self-Government binds the state authorities with establishing and safeguarding of minimal state social standards. Today no social standard is developed. The lack of social standards and calculation of revenues according to the forecast of current year and tendency of actual indicators for the past 3 years cannot ensure provision of equal public product to regions.

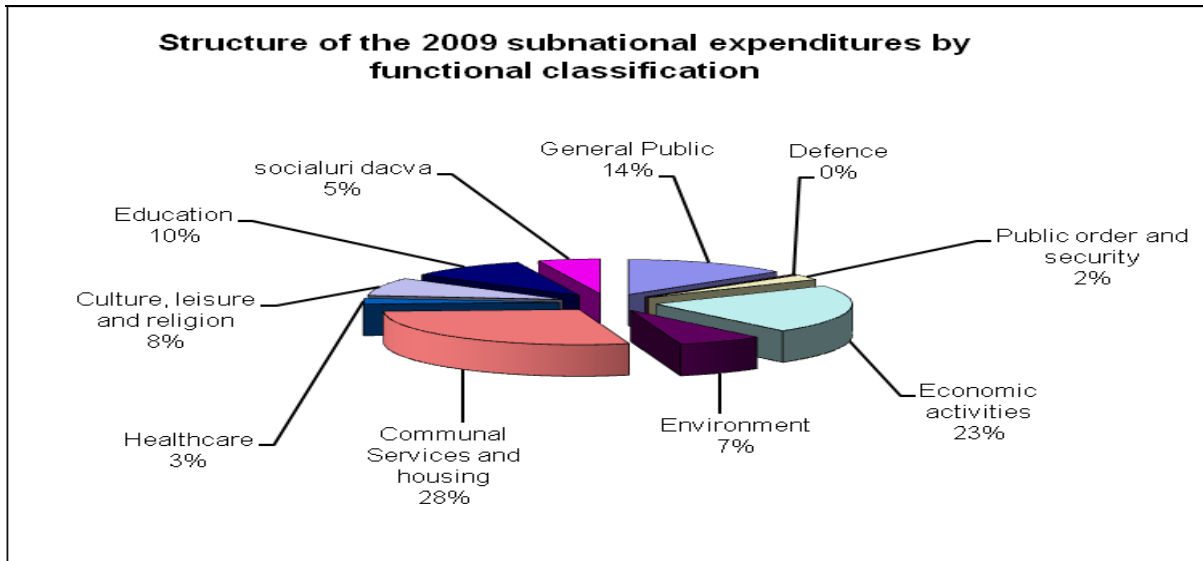
The largest share (36% in 2008 and 28% in 2009) in the structure of functional expenses of the regional budgets falls on the household communal service and economic activity (21% in 2008 and 23% in 2009) which, in turn, includes residential housing, development of communal service, water supply, including drinking water supply, outdoor lighting, urban development, research and development in housing service, other unclassified activity (Chart 7 and 8).

Chart 7. Structure of functional expenses for 2008 according to regions



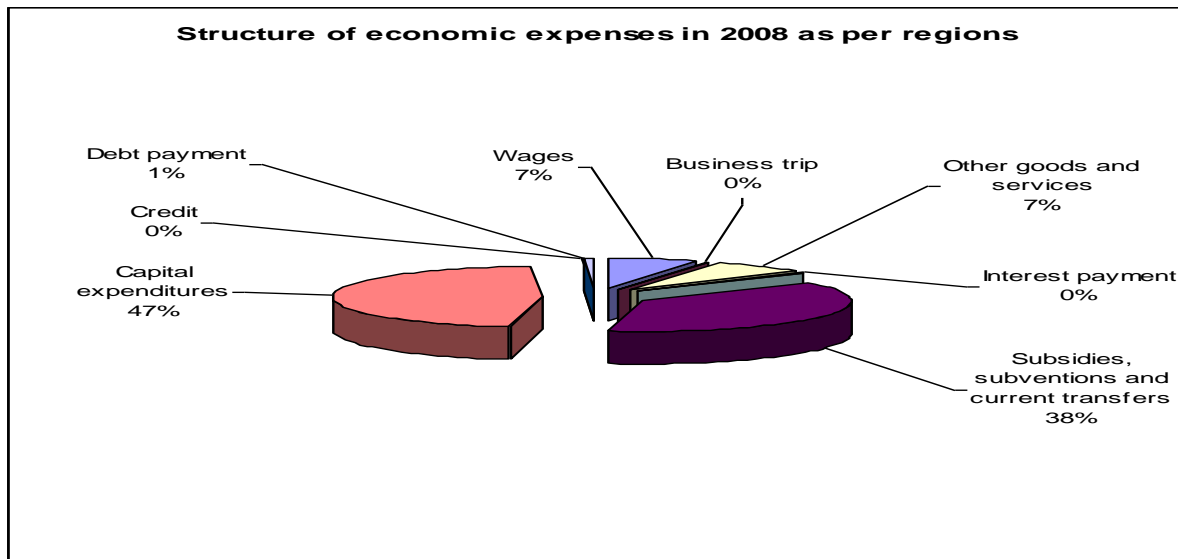
Source: Ministry of Finance of Georgia

Chart 8. Structure of functional expenses for 2009 according to regions



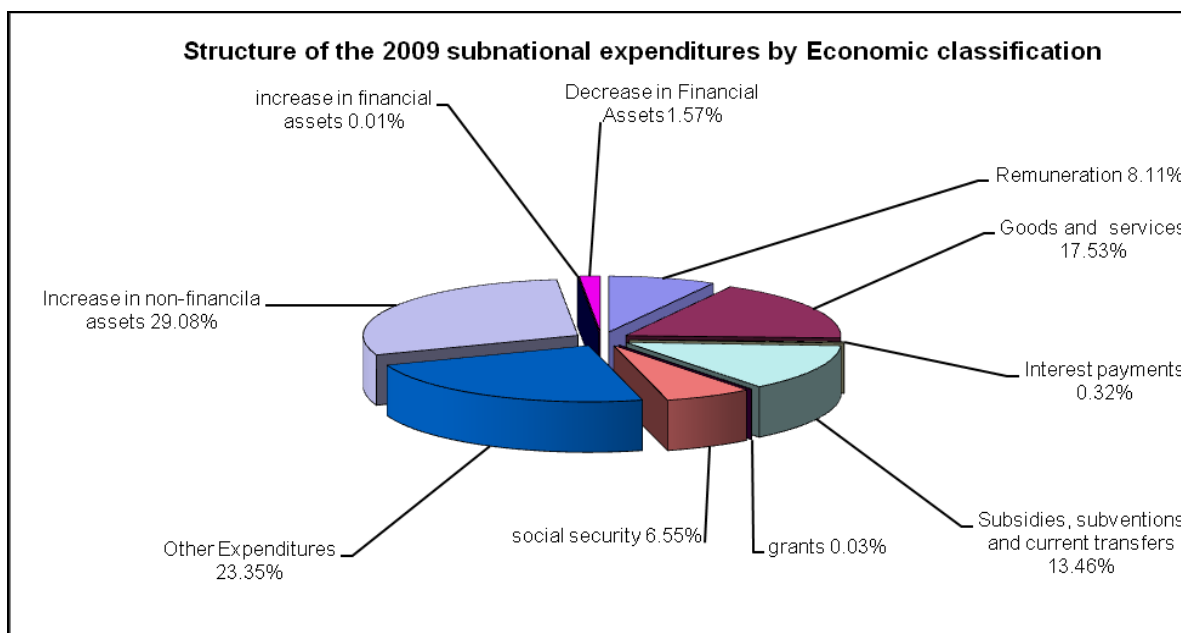
In 2008 the share of subsidies in comparison with the previous year increased by 9% and amounted to 506 million GEL. The subsidies make the significant part of the budgetary expenses of local authorities for the following reason: the communal expenses and transport are subsidized and the service tariff does not cover the operational costs. Collection of some household service tariff fails, or partly fails (Chart 9). In 2009, the share of subsidies fell from 37% to 13%, while the expenditure on other goods and services more than doubled versus 2008 and reached 17.5% of total expenditures (Chart 10).

Chart 9. Structure of economic expenses for 2008 according to regions



Source: Ministry of Finance of Georgia

Chart 10. Structure of economic expenses for 2009 according to regions



Source: Ministry of Finance of Georgia

1.3. Foreign Experience

Based on the analysis of foreign practice of regional development financing we see that almost all countries have some peculiarities in this line. In the countries of territorial structure of Anglo-Saxon model (the USA, UK, Canada, Sweden and others) the fiscal autonomy of regions is high; in the revenues of local budgets prevail the local taxes. In the countries with the structure of Continental model (Germany, France, Italy, Spain, Belgium and others) the fiscal autonomy of regions is comparatively limited and on the foreground is pushed the principle of financial equalization (issuing of subventions and subsidies). Among the post-Socialist countries the comparatively successful practice of regional financing is developed in Poland, Czech Republic and among the post-Soviet countries – in Latvia, Lithuania and Estonia. This experience was used for the analysis of the current state of regional development financing of Georgia.

II. Regional Management, Institutional Set-up and Human Resources Management

The institutional set-up of regional management is still in the process of formation in Georgia. The regional level is not yet strengthened at legislative level as well. The institutional formation of the regional level has begun in 2007 only with the introduction of the institution of a state trustee - governor and the provision of it with a respective legislation. But, this is only a first step forward. Regional bodies of governmental institutions and agencies/offices are formed in a totally unsystematic way (their boundaries of the powers do not concur with the boundaries of the powers of a state trustee - governor and regional bodies of other governmental institutions), and what is the most important, the process of deconcentration is not started in fact yet, decision making is principally strictly centralized, and the management bodies at a regional level do not have a right, legally as well as practically, to resolve the problems existing in their spheres at a regional level. Coordinating unit of state governance bodies is not formed at a regional level, due to which it becomes impossible to carry out regional governance/management institutionally. Additionally, it is noteworthy that the quality of system functioning depends not only on such factors such as a proper organization, inter-relation between the subsystems, the quality of the management of leadership and units of various levels, but also on the staff composition of the organization. In case of a weak composition of staff, even if all other factors are in place, effective activities of the structure cannot be possible; while a strong staff composition can neutralize the lack of other separate factors. Thus, regional governance is connected not only with a proper institutional arrangement, but also with the qualification and abilities of the persons employed in such institutions.

The aim of Working Group on Regional Management, Institutional Set-up and Human Resource Development was to analyze the problems existing in the sphere of regional management, institutional set-up and human resource development, elaborate ways of solving those problems and work out consequent recommendations. Based on this mission the diagnostic report had been prepared by the Working Group⁸. The following diagnostic report reviews

⁸ The process of preparation of the Diagnostic Report involved creation of the Working Group. The group consisted of stakeholders from central (Ministry of Regional Development and Infrastructure of Georgia; Civil Service Bureau; Parliamentary Committee on Regional Policy, Self-Governance and High Mountainous Regions of Georgia; Ministry of Justice), regional (Administration of State Trustee-Governor), International and non-governmental organizations (German Agency for Technical Cooperation (GTZ); UNDP; National Agency of Local Authorities (NALA); Association "C-I-M-S Consulting") and Teaching-Research Institutions (Ivane Javakhishvili Tbilisi State University; Georgian Institute of Public Affairs (GIPA); and Institute of Politology of Georgia). Up to

the current state of affairs of human resource management structure (of public service), existing problems and international practice needed for functioning of institutions like regional management and institutional set-up. The document reflects institutional set-up on regional-level, institutional structure, territorial boundaries of power and authority of state trustee - governor and territorial boundaries and powers of governmental institutions on regional level. The document also provides with information and analysis of personnel management (policy) and existing structure of public service.

The document also contains statistical data analysis on number of public servants, their composition, educational background, work experience and personnel fluctuation. The most vital problems and challenges are being analyzed and identified referring to functioning of the current model of public service.

2.1. Conclusions

1. Territorial boundaries of governing institutions operating on the regional level. The territorial boundaries of the powers of the ministries/agencies are not homogeneous and in many cases, do not concur with the territorial boundaries of the powers of state governor. Due to these problems, the entire coordination of management bodies, at regional level, becomes impossible.

2. Low level of deconcentration of powers. Institutions operating at the regional level (administration of state governor, territorial bodies of governmental institutions), under regulations, mainly have only the functions of information gathering, supervision and control. The functions are not really transferred from the central office to the regional level.

3. Problems in management process coordination at regional level. The institutional set-up of regional management is still in process of formation in Georgia. Coordinating unit of state governance bodies is not formed at regional levels, due to which it becomes impossible to carry out regional management institutionally.

4. Necessity of entire reformation of Public Service. Effectiveness of regional management depends not only on proper institutional set-up, but also on the qualification and skills of the staff employed in those institutions. The document of the Government of Georgia Basic Data and Directions for 2009-

Four Working Group meetings were held, where the structure of the Report was approved and some of the Chapters presented and analyzed.

2012 highlights the importance of the reformation of public service. It states that a result of the reform the public sector should be based on dignity-based system; thus becoming small sized, flexible, transparent and effective public service. Existing current quite controversial system was practically unable to overcome the recurrences of Soviet inheritance. The existing practice of personnel selection, forms of acceptance in the public service, carrier growth, forms of encouragement, usage of measures of disciplinary norms and personnel policy in general does not comply with the modern standards; at the same time it does not stands as a guarantee of formation stable and highly qualified public service.

2.2. Regional Management and Institutional Set-up

2.2.1. Main Findings

1. Introduction of the institution of State Trustee - Governor. From the standpoint of regional management it was important step to introduce the institution of state trustee - governor. This institution already represents a constitutional unit. Pursuant to the constitution of Georgia, state trustee - governor is a representative of the President and of Georgia in administrative-territorial units of Georgia. The governor with the powers determined by the law carries out state supervision over the local self-governing bodies. Envisaging the status of state trustee - governor as a representative of president of Georgia as well as Government of Georgia points out the high rank of this institution based on which it is possible to build up the institutional structures of regional management.

2. Despite the fact that the law acknowledges the institution of state trustee - governor, still, the status and the notion of the regions stay to be vague. The institution of state trustee - governor operates within the boundaries of administrative-territorial units and not in the regions: consequently, as a result it is important to regulate the issue of determining the notion of region and its legal status.

3. High level of centralization of decision making process in governing bodies. Institutions operating at the regional level (administration of state trustee - governor, territorial bodies of governmental institutions), under regulations, mainly have the only the functions of information gathering, supervision and control. No functions are transferred from the central office to the regional level. This kind of character of centralization of function and decision making hinders the process of deconsentration and decentralization. In

regard to the local authorities, in spite of the fact that the competences of self-government bodies are determined by the Organic Law of Georgia on local self-government, in many cases, the question of the exercise of delegated powers is stated/formulated vaguely.

4. No state strategy for decentralization, deconsentration and regional development. Despite the steps made towards the decentralization, still there does not exist any kind of state view or strategy in regard to the decentralization, deconsentration or regional development; this is why it stands as an obstacle for working out and implementing long-term strategy and its action plan.

5. No unified territorial boundaries of territorial bodies of the Ministries and Agencies/Offices. The territorial boundaries of the powers of the territorial bodies of the Ministries/Agencies are not homogeneous and in many cases, do not concur with the territorial boundaries of the powers of state governor. Therefore, in many cases, the entire coordination of management bodies, at regional level, becomes impossible.

6. Low development of the system of data and information collection, analysis and maintenance at regional level. Practically, data collection and analysis on a regional or municipal level is not carried out. There does not exist any systematized practice of data and information exchange at regional level. The communication and coordination system at regional level is low.

7. Non-existence of formalized instructions and guide-books. Administration of the state trustee - governor, territorial bodies of the Ministries in the regions as well as the Municipalities do not have any instructions and guide-books relating to the questions of spatial-territorial planning, elaboration of socio-economic development plans, regional and municipal planning, programming, monitoring.

8. Low institutional possibility of the introduction and implementation of initiatives and innovations. There does not exist any institution oriented towards the introduction and implementation of innovations at regional level. Proceeding from the fact that the state management bodies are authorized to exercise only the powers determined by the law, and the regional administration does not have such powers, the introduction and development of the initiatives and innovations of regional development is limited.

2.2.2. Existing Practice

Pursuant to the Constitution of Georgia (Article 2, paragraph 3), "the territorial state structure of Georgia shall be determined by the Constitutional Law on the basis of the principle of circumscription/separation of authorities after the complete restoration of the jurisdiction of Georgia over the whole territory of the country." Since 1993, in the regions of Georgia there existed the institution of an envoy (rcmunebuli) of the President of Georgia (head of the state), which carried out formal and informal coordination of regional representations of local and central governmental bodies.

The reorganization of this institution into a state trustee - governor's institution and its legal formation took place only on 8 July 2007, after the adoption of the law of Georgia on the State Supervision of the Activities of Local Self-government Bodies. At the same time, the amendments were made to the Law of Georgia on the Structure, Authority and the Rule of Activities of the Government of Georgia. The article 27¹ was added to the law, which regulates the boundaries of the powers of the governor. The amendments made to the legislation were reflected in the Constitution of Georgia later, in March of 2008.

Pursuant to article 84³ of the Constitution of Georgia, state trustee - governor is a representative of the President and Government of Georgia in administrative-territorial units of Georgia. He, along with other powers determined by the law, carries out state supervision over the local self-governing bodies. The state governor is appointed and dismissed by the President of Georgia, upon the consultations with the Prime Minister of Georgia.

State governor is represented in the following administrative-territorial units:

a) Municipalities of Akhmeta, Gurjaani, Dedoplistskaro, Telavi, Lagodekhi, Sagarejo, Signaghi and Kvareli; b) Municipalities of Bolnisi, Gardabani, Dmanisi, Tetrtskaro, Marneuli, Tsalka and the city Rustavi; c) Municipalities of Baghdati, Vani, Zestafoni, Terjola, Samtredia, Sachkhere, Tkibuli, Tskaltubo, Chiatara, Kharagauli, Khoni and the city Kutaisi; d) Municipalities of Lanchkhuti, Ozurgeti and Chokhatauri; e) Municipalities of Abasha, Zugdidi, Martvili, Mestia, Senaki, Chkhorotsku, Tsalenjikha, Khobi and the city Poti; f) Municipalities of Ambrolauri, Lentekhi, Oni and Tsageri; g) Municipalities of Gori, Kaspi, Kareli and Khashuri; h) Municipalities of Dusheti, Tianeti, Mtskheta and Kazbegi; i) Municipalities of Adigeni, Aspindza, Akhaltsikhe, Akhalkalaki, Borjomi and Ninotsminda.

The Governor:

a) coordinates and controls the execution of the laws of Georgia, normative acts of the President and Government of Georgia in the administrative-territorial units of Georgia;

- b) by order of the government, implements regional programs of socio-economic development in the administrative-territorial units;
- c) under the rule established by the law, carries out the state supervision over the activities of local self-governing bodies;
- d) in cases determined by paragraph 1 ("i") of article 73 of the Constitution of Georgia, presents proposals to the President of Georgia on the suspension or dismissal of the activity of Sakrebulo, if its activity endangers the sovereignty, territorial integrity of the country or the exercise of constitutional authority of state bodies;
- e) in cases defined by paragraph 1 of article 63 of the Organic Law of Georgia on Local Self-government, presents proposals to the President of Georgia in regard to the termination of the authority of Sakrebulo before the date of its expiration;
- f) if ordered by the government, coordinates the activities of the territorial bodies of the Ministries.

Besides the state trustee - governor of the President, territorial bodies of the Ministries and state agencies are represented in the regions of Georgia as well. It should be noted that since 1994, the structure of the executive government of Georgia (name, functions and subordination of the Ministries and Agencies/Offices) was frequently changing, as well as their territorial/regional representations. After 2004, one of the characteristic approaches of a new wave of the reforms was the minimization of the state apparatus/staff. Consequently, the functions and the staff of some of the ministries and agencies were reduced. Therefore, the territorial/regional representations were reduced, and in some cases abolished.

From existing 15 Ministries, only 6 ones have territorial bodies. These are as follows:

| № | Ministry | Number of territorial bodies |
|----------|---|-------------------------------------|
| 1. | Ministry of Education and Science of Georgia | 64 |
| 2. | Ministry of Environmental protection and Natural Resources of Georgia | 6 |
| 3. | Ministry of Refugees and Settlement of Georgia | 7 |
| 4. | Ministry of Internal Affairs of Georgia | 10 |
| 5. | Ministry of agriculture of Georgia | 10 |
| 6. | Ministry of Justice of Georgia | 10 |

The following subordinate institutions of the Ministries have territorial bodies:

| Ministry | Territorial bodies of Subordinate Institutions | Number of territorial bodies |
|---|---|-------------------------------------|
| Ministry of Environment Protection and Natural Resources of Georgia | A) Department of Protected Areas | 15 |
| | B) Inspectorate of Environmental Protection | 8 |
| | C) Department of Forestry | 9 |
| Ministry of Economic Development of Georgia | A) Department of State property enlisting and privatization | 7 |
| Ministry of Finance of Georgia | A) Revenue Service | 10 |
| | B) Treasury | 12 |
| Ministry of Health, Labor and Social Protection of Georgia | A) Department of Veterans | 10 |
| | B) Agency of Health and Social Programs | 11 |

2.2.3. International Practice

As shown from the analysis of the sphere of management and institutional set-up, the role of regional authority is important from the point of view of socio-economic development. Its institutional strengthening was especially evident after the affiliation into the European structures of Eastern European countries.

The regional authority, in most cases, is given exclusive powers. These powers are mainly related with the delivery of such services, which are more effective at regional level than at municipal or central level. It refers to the spheres of

vocational-technical education, healthcare, environmental protection, space planning, civil defense, maintenance and renovation of roads and technical infrastructure. The competence of the regional authority also includes the coordination and general governance of the municipal authority for ensuring steady and balanced regional development.

Despite the fact that the sources of financing of regional authorities are mainly the EU development funds, sometimes own incomes are also provided (taxes).

At the regional level, there is the governor; the appointment or election of which is different. At regional level there is also a representative body, the members of which are elected by the population of a region in a direct or indirect form.

| Country | Functions | Vocational Education | Space Planning | Civil Defense | Elaboration of Development Programs | Supervision over Municipality | Coordination of territorial bodies of municipalities | Social Sphere | Historic Heritage |
|------------------------------|-----------|----------------------|----------------|---------------|-------------------------------------|-------------------------------|--|---------------|-------------------|
| Czech Republic | | + | | | + | + | | | |
| Republic of Estonia | | | + | | + | | + | | |
| Republic of Hungary | | | | | + | | | | |
| Republic of Latvia | | + | | + | + | | | + | |
| Republic of Lithuania | | + | + | + | + | | | | |
| Slovak Republic | | + | | + | + | | | + | + |
| Republic of Slovenia | | | + | | + | | | + | + |
| Poland | | + | + | | + | | | + | + |

| | | | | | | | | |
|-----------------------------|--|---|---|---|---|---|---|---|
| Republic of Croatia | | + | | + | | | + | + |
| Romania | | | | + | + | + | | |
| Republic of Bulgaria | | | + | + | + | + | | |

Regional development councils are also widely spread, which play an essential role in the establishment of middle and long-term strategies; also, they represent a field for the participation of all stakeholders and civil society in the process of policy formation.

It should be also taken into account that the powers are delegated not at the local self-government level, but at the regional level. The central authority as well as the local self-governance delegate funds and authority on regional level for the improvement of the delivery of services.

2.3. Human Resources Management in Public Service

2.3.1. Main Findings

1. Public service reform to be one of the priority directions of Government of Georgia. Since 2004, the public service sphere has become one of the priority directions of the Government of Georgia. The basic directions of the reform in the field of personnel policy involved the following measures:

- Optimization of the number of public officers;
- Increase of motivation;
- Anticorruption measures.

The first steps taken by the government in the field of public service reform involved the abolishment of unnecessary agencies/offices and staff reduction. At the initial stage, proceeding from the goals of the reform, the following objective was set: to make consolidated institutions and consolidated decisions in order to increase the flexibility and effectiveness of the public sector. For this purpose, the reforms were related with issues of institutional restructuring of the central authority and in some cases, massive staff changes at all levels of the authorities.

In 2004-2005 within the framework of the public service reform, the staff number at the ministries was reduced by 35% (from 102 571 up to 66 615), as for the subordinate institutions, the staff number was reduced by 65% (from 23 769 up to 8 237)⁹.

According to Public Service Bureau data as of 2007, the total number of public officers equals 88 916. There are 70 408 public officers at the central authority bodies (ministries) and 6 734 (there were 8 340 public officers in 2006) people at the local self-government level. As for the regional level, there are 216 public servants (there were 237 public officers in 2006) working for the state trustee - governor's office.

The document of the Georgian Government Basic Data and Directions for 2009-2012 states that the public sector should be based on a dignity-based system and as a result, we will receive a small sized, flexible, transparent, effective public service. The following measures shall be undertaken to achieve this goal¹⁰:

- For increasing the effectiveness of the public sector, its management principles will more resemble the ones of the private sector. The elements of the contracting system, measurable mechanisms for the public institution activities and the clear criteria of monitoring will be introduced in the public service;
- Maintaining and activating the anticorruption reforms – improvement of the property and financial declaration system in the public service. Introduction of the norms of the code of ethics. Transparency of the hiring and promotion system. Increase of the mobility between the public and private sectors;
- Introduction of the electronic signature and unified governmental electronic network – launching of using the electronic signatures and documents in public as well as private sectors.

2. Elaboration of Draft “Code of Public Service” The draft code of public service aims to systemize the regulation norms of public service and to ensure the legal base for effective functioning of public service.

3. Approving the rules of holding attestation of public servants and rules of holding competitions for the public positions. According to the N 47 and N48 Decree of President of Georgia, 5 February 2009, the rules of holding attestation and competition have been approved. With these adopted rules now it is possible to hold attestation and competition.

4. Approving of target programs of vocational retraining and qualification rising of public servants. According to the N534 Decree of

⁹ http://psb.gov.ge/index.php?lang_id=GEO&sec_id=15&info_id=51

¹⁰ Government of Georgia “Basic Data and Directions for 2009-2012”; Tbilisi 2008, p. 9

President of Georgia 24 June 2005, the target programs of vocational retraining and qualification rising had been approved. The aim of this program is to conduct trainings and elaborate training programs for state and local self-government bodies' officials and also, to adapt their qualification and level of professionalism to the needs and requirements resulting from changes the country is undergoing. One of the essential elements of the program is to found the school of Public Administration aiming to raise the professional level of public servants as well as elaborating educational programs for vocational development and carrying out corresponding steps regarding state interests of Georgia. The aim of criterion of the school is also to conduct and carry out the activities such as rising level of awareness through information spreading, educational training programs supporting formation of civil society and development of democratic institutions.

5. Decree of president of Georgia N95 of 10 February 2009 on "Formation of Automatized System of Human Resource Management in Public Service". In order to create the system of Human Resource Management in Public Service, the Public Service Bureau started to work back in 2006. According to ruling of president of Georgia it was created the Informational Base of public servants who are employed in public service. The data for this base was provided from Human Resource departments, but unfortunately due to some obstacles, the base could not perform the functions properly. The formation of the new and more perfect system was needed. The Bureau had conducted structural analysis of public institutions as well as qualitative analysis of officials employed in these institutions. The specifics and needs of each institution were distinguished. According to the decree of the president of Georgia, the bureau had prepared suggestions about elaborating and setting up of unified automatized system. Furthermore, according to this decree the first stage of this system started to take place, that is creation of unified base of public servants employed in public service, renewing of which will be conducted per quarter.

6. Non-existence of a state conception of the reformation and development of personnel policy and public service in general. The amendments made to the Law on Public Service are of a fragmented character and are not constructed on a unified consecutive conception.

7. Nonsystematic nature of a legal base/support for public service functioning. The regulating norms of public service are scattered in various laws and by-laws. They are not systematized in an entire form and there are even some cases of discrepancies/inconsistence between various normative acts. Despite the fact that draft "code on Public Service" had been elaborated, which was supposed to solve this problem, the process of its adoption was suspended and decision on either to adopt or not is not made.

8. The principles and rules of the activities of state and local self-government public service are not synchronized. Separate articles of the Law of Georgia on Public Service refer only to public servants. The issue regarding corresponding sphere for public servants in local self-government bodies stays vague.

9. There are a lot of “blank spots” in the legislation that cannot be filled with legislative acts or by-laws in one (entire) form. For example, according to the article N 87 of the Law of Georgia on Public Service the way of operating of the attestation-competition/evaluation commission as well as amount and terms of reimbursement of council members is regulated by Georgian legislature. According to the N 47 and N48 Decree of President of Georgia are stated the rules of holding attestation of public servants and rules of holding competition for the public position. But the general working rule of attestation committee, conditions and amount of committee members’ payment aren’t yet defined. This issue may be regulated by ministers’ decree in proper ministry, because minister’s decree is included in the Georgian legislature. But as to the law on Normative Acts, normative act of local self-government isn’t appertained to the Georgian legislature. That’s why the rule of working of attestation/competition committee for local self-government the condition their payment and amount isn’t stated up today.

10. The notion of public institution, by law, is inconsistent and vague. The notion of public institution is so vaguely stated, that it is impossible to precisely define the institutions where employment is considered as public service.

11. The categories of public officers are not perfect. There is no unified system of the public servants’ categories determined by the law. Due to the overlapping of political high officials, state and local self-government servants, or falling out from general system, it becomes impossible to determine exactly their connection to the law.

12. The basic, special and additional requirements for hiring a servant in the public service are not perfect and sufficient. From the point of view of efficiency of public servants selection basic requirements given by the law aren’t sufficient, because the stated condition “relevant knowledge and experience” for the state officer isn’t clear. In the Georgian legislature acts there is nowhere concreted what is meant under the term “relevant knowledge and experience”. “Secondary education”, one of the basic requirements for the local self-government servant, isn’t enough for fulfilling efficiently his duties. There isn’t made a remark for state officer who stated for these kinds of persons an obligation for high education. Moreover the law cannot give comprehensive list of documentation for accepting in public service. K subparagraph of the first paragraph of 25 article considers that the person who wants to be hired in the

public service must present together with the abovementioned documents "other documents defined by the law", that makes the basis for the bureaucratic barrier.

13. Under the law, to employ a person in the public service on the basis of a competition is considered as one of the forms and not as the main form. Head of an organization can, but not obliged to, employ a person in the public institution on the basis of a competition.

14. The legislation does not provide any harmonious system of a servant's career path. Under the evaluation/attestation rule determined by the law, the result is mainly dependant on the head of an organization (chairman of evaluation-competition) and not on a person's preparation. The rules of encouragement/incentive as well as the rules of laying disciplinary liabilities are inconsistent. Both of them directly depend on the will of the head of an organization. In some cases incentives are nearly never granted to public servants, in some cases nearly all public servants are granted. For example in Mtkheta-Mtianeti region in 2006-2008 51% of public servants were granted incentives and 8% of them were charged with disciplinary liabilities. Most frequently encouragement has form of monetary reward¹¹. There do not exist any committees of appeal and service employment ethics.

15. Non functioning of the institution of the reserve of servants. The person in reserve does not have any guarantee that in case of a vacancy his/her candidacy will be considered in the first place. No unified data base of public servant's reserve. The institute of the reserve of servants is not working. Thus this problem doesn't enable effective management possibilities of staff resources.

16. There does not exist code of service ethics and respective committees that triggers public servants to neglect their duties and obligations and fulfill their work not properly, forms corporate interests and impedes the operation of legal mechanisms evenly.

17. Some inequality in the reimbursement of public servants. According to the N729 decree of president of Georgia 29 august 2005, the minimal and maximal salary amount was determined in Autonomous Republic of Ajara as well as in all Local Self-Government Bodies¹². It is also worthwhile to mention that the salary ranges are not regulated by the decree of president of Georgia N726 but rather by the Law of Georgia on State Budget where it is stated that the

¹¹ The data are provided by the Administration of State Trustee-Governor in Tianeti, Mtskheta, and Kazbegi Municipalities.

¹² The Decree of the President of Georgia #726 "on Formalizing the Way of Payment to Public Servants in Autonomous Republic of Ajara as well and in Local Self-Government Bodies". 25 August 2005. Tbilisi, Annex #5.

ministries can decide on the salary ranges on their own. This kind of situation causes inequality of payment in the system of reimbursement of public servants.

18. There does not exist any unified system of training, raising of qualification and re-training of the public servants, that in its turn results in a low level of training. There doesn't exist special educational programs for public servants, there aren't determined qualification recruitments necessary for public servants of different positions and ranks. Public servants education process isn't coordinated and has not a systematic character. Trainings aren't oriented on the real needs of public servants but on programs that are provided by the different funds. There is often duplication of activities. There doesn't exist common standards, which would provide the quality and adequacy of transferred knowledge.

19. Personnel fluctuation and instability are high. For example in Mtketa-Mtianeti region, during 2006-2008, average percentage of personnel fluctuation is 30%. 25% of from the overall amount had left the public service based on personal initiative, 4% out of 30% as a result of staff reduction, 18% because they moved to other positions and 37% due to other reasons.

2.3.2. Existing Practice

The Law of Georgia on Public Service adopted on 31 October 1997, defines the public service as the activity in a state or local self-government institution. **The public institution is defined by three basic signs in the public authorities:**

- These institutions are created through the state or local self-government budget resources;
- These institutions are funded from the state or local self-government budget;
- The basic goal of these institutions is to execute the public authority.

The law defines the concept of the public service involving the three basic conditions for the public servant:

- Public Servant must be the citizen of Georgia;
- Public Servant must execute activity in the state or local self-government public institution;
- The activity of the public servant should be paid.

The law defines the types of the public servants:

- State-political officials – represent the special category of public servants, which are elected (appointed) as defined by the Constitution and the requirements of the Law on Public Service basically do not refer to them;
- Officer – is a main figure of the public service. Based on which institution they are working for, the law distinguishes two categories of officers – state and local self-government officers;
- Assistant servant – represents to be a technical staff hired through labor contract for the position of the assistant servant. The assistant servant, unlike from the officer, serves directly the relevant body. His/her function is to provide logistical support for the activities of the relevant service and officers;
- Freelance servant – is a person who is appointed or hired through labor contract for a definite period of time to carry out nonpermanent objectives. Freelance servant may carry out the functions of an officer, as well as of an assistant servant.

According to the Law of Georgia on Public Service, under the notion of public servants all categories of servants were united. As a result of which, officers and high officials, appointment/dismissal of which cardinaly differs from that of public servants general rules, are united together. They are appointed as a result of a competition and their terms of employment depend on terms of employment of person who did the appointment. Thus they are not subjects to be addressed by one of the fundamental principles of public service – stability and independence from political conjuncture – non – partisanship.

The issue of members of representative bodies (Parliament of Georgia, Municipality and Autonomous Republic of Ajara) has to be addressed separately. The law of Georgia on public service has united them under the notion of public servant. But their status is so different of that of public servant's that only eight articles are from the Law on Public Service addressing; they can't address the most important issues determining their status or rights and responsibilities.

It is also noteworthy the fact that those category of persons which, according to the law, fully falls under the public servant's category are falling out in practice. According to the Law of Georgia on Legal Entity of Public Law, Legal Entity of Public Law is an organization that carries out following activities: political, state, social, educational, cultural, and etc.. Legal person is created by the government with government property and, as rule is financed from the state budget. Under the law above mentioned traits fully match the three signs if public institutions, but at the same time they are not mentioned in the list of public institutions adopted by the law. The problem is that the definition of the institution where the work is considered as public service isn't sufficient. By the law and under this definition such institutions may get which, by there essence, aren't public institutions. That's why it is of main importance to define correctly the "public institution" and the improvement of this shortcoming is not expedient only with the list of institutions.

Ranks according to the level of competences and authorities

The positions in public service are divided into the following ranks according to the level of competences and authorities:

- Chief public position;
- Leading public position;
- Senior public position;
- Junior public position.

According to the position occupied in public service, the officers may be given the following ranks/grades:

- Chief public position – real state adviser, first class state advisor, state advisor;
- Leading public position – first class, second class, or third class advisor;
- Senior public position – first class, second class, or third class advisor of the public service;
- Junior public position - first, second, or third class referent/assistant of the public service;

The classification rank is given or deprived on the basis of the attestation/evaluation results taken by the officer.

The classification rank is assigned to:

- State advisors – by the President of Georgia;
- First class, second class, third class advisors, public service advisors, public service referents/assistants – by the body (official) authorized to elect (appoint) to the respective position.

Rights and responsibilities of a public servant

The public servant is eligible for the following:

- Payment;
- Vacation and leave;
- Reimbursement of business trip expenses;
- Temporary facilitation of working conditions;
- Qualification raising;
- Aid in case of death, or disablement of the public servant.

The law establishes special restrictions for the public servants:

- Restriction on entrepreneurial activities;
- Restriction on political party activities;
- Restriction on service supervision.

The law also defines the service/employment incompatibility for the state servant:

- Restriction on implementing other paid activities;
- Restriction on acting as a member of the representative or legislative body;
- Restriction on making deals;
- Restriction on participating in mass activities.

Principles of acceptance of a person in the public service

The law establishes the basic, special and additional requirements in relation to acceptance of a person in the public service.

When defining the basic requirements, the law establishes different rules for state and local self-government public servants. The state officer should meet the following basic requirements to be accepted at work:

- Be capable to work;
- Be over 21 years old;
- Be able to speak state language;
- Have relevant education and experience.

The self-government officer should meet the following basic requirements:

- Be capable to work;
- Be over 18 years old;
- Be able to speak state language;
- Have secondary education.

To be accepted in the public service, the law establishes the basic requirements only for the officers; as for the special requirements, they are defined for all the public servants, officers, as well as the assistants and freelance servants. The special requirements are as follows:

- To submit the declaration reflecting the incomes and property status of his/her family members and of himself/herself annually as well as on first entering into service;
- To submit the medical-drug test results on entering into the service.

When entering the public service, the additional requirements are related with the specification of the activities to be undertaken by the person. Accordingly, "additional requirements are established by the law or on the basis of it" (Article 19). The head of the institution is authorized to establish only additional qualification requirements related to submitting the document certifying the person's relevant profession and qualification. At the same time, the head of the institution is allowed to introduce additional qualification requirements in case of

the reorganization of the institution that is accompanied with the reduction of staff/working places.

The forms of acceptance in public service are:

- Appointment (officer, freelance servant in some cases);
- Election (member of the representative body and elected official);
- On the basis of labor contract (assistant servant, freelance servant).

Competition and attestation/evaluation of the officers

The question of the competition and attestation/evaluation of the officers is defined by the law. The competition is the procedure to select the proper candidate for the open vacancy, in order to identify the compatibility of the presented candidates with the requirements of the vacancy and reveal the best among them. The opening for the vacancy of the state officer should be announced in the central official printing/press organ, and for the self-government officer – in the local printing/press service. The competition should be held not less than three weeks from the announcement of the vacancy. The competition is arranged by a special competition-attestation/evaluation commission. For hiring a state officer, the competition-attestation/evaluation commission's chairman is appointed by the state service bureau in agreement with the head of the relevant institution. As for hiring the local self-government officer, the chairman of the competition-attestation commission is appointed by the representative body of the local self-government. According to the law, the head of the same institution or his/her deputy act as the chairman of the commission. The chairman of the commission defines the number of the commission members and its composition. The rule for holding the competition is defined by the decree of the President of Georgia.

Officer attestation is the evaluation of the compatibility of professional skills, qualifications, capabilities and personal characteristics of the candidate with the requirements of the presented position. According to the law, the attestation should be held at least once in every 3 years. Attestation is held by the competition-attestation/evaluation commission. According to the paragraph 2 of article 81 of the law on Public Service the rule of the attestation/evaluation is defined by the decree of the President of Georgia. The rules of holding attestation and competition have been approved recently, particularly on 5 February 2009 according to the N46 and N47 Decree of President of Georgia. With these adopted rules now it is possible to hold attestation and competition.

The forms for encouraging and disciplinary measures of public servant

The forms for encouraging the public servant, defined by the legislation, can be divided into three groups: a) moral; financial; organizational (promotion).

The moral and financial encouragement involves:

- Express gratitude;
- Single monetary reward;
- Valuable Gift;
- Salary increase.

The law establishes the following measures in case of violation of the disciplinary norms from the side of the officer: a) Notification/Reprimand; b) Warning; c) Deduction of up to ten days' salary; d) Depriving from implementing the work responsibilities by not giving out the salary (not more of 10 working days); e) Decrease his/her salary for not more than one year time; f) Dismiss.

The following reasons can serve as the basis for dismissing a servant:

- Expiration of the work period;
- Personal initiative;
- Liquidation of the institution;
- Staff reduction;
- Incapability with the position held;
- Disciplinary violation;
- Long-term disability;
- Reaching the retirement age;
- Being summoned to serve at the military or alternative service;
- Court conviction (entered in force) against the servant;
- Violation of the requirements established when being hired at the job;
- Moving to another institution;
- Changing citizenship;
- Death.

Reserve of public servants

The aim of reserve of public servants is the following:

- Selection of the candidates for state and local self-government institutions
- In case of passing exams before attestation-competition/evaluation commission, to find the proper position in state and local self-government institutions;
- Finding new positions for public servants being dismissed.

Enlisting of public servants is conducted by corresponding attestation-competition/evaluation commission.

State policy and in sphere of public service

The parliament of Georgia defines the state policy in the field of the public service. The public service council is created at the office of the President of Georgia, which serves as the consultation body for the President of Georgia aiming to deal with the issues related to developing the comprehensive/entire state policy, coordinating activities related with the public service and other issues defined to be the part of the public service. The President of Georgia acts as the chairman of the public service council. The public service council consists of the chairman of the council, his deputy, the secretary of the council, 3 representatives from each body - legislative, executive, judiciary and local self-government bodies. The secretary of the council, as well as the other council members, is appointed by the President of Georgia.

The Public Service Bureau provides support in the development of the entire state policy in the field of public service and coordination of relevant activities, as well as it carries out organizational, technical, informational and expertise support for the activities of the public service council and council members. In practice there does not exist the unified system public service bureau which would have guaranteed the existence of unified information base of public servants where one could find the information such as: quantitative composition of public servants according to the ranks, fluctuation of public servants from the public service, qualification of public servants, work experience, etc.

2.3.3. International Practice

The laws on public service of different countries depict a unique way of the historic development of the country, political structure and various forms of legal system. Despite the variety of forms, two main models of public service can be distinguished: career and the so called positional (contract) models. Both of the models have positive and negative sides.

Specifically, the characteristic features of the career model are as follows:

- hiring a person on a competitive base only on the initial, lowest rank of position;
- to make consecutive, gradual career path, i.e. to gradually get through the hierarchy of public positions of one professional line;
- clearly regulated rules and procedures of job promotion;
- high level of professionalism
- permanent appointment (except political position)
- purposeful training of public servants and the raising of their qualification directly in the process of their activities at the place of work;

- conservatism and strict bureaucratic hierarchy;

The characteristic features of the positional model of public service are as follows:

- selection of public servants on a competitive base when hiring or promoting on any of the positions (except political position);
- hiring a person by contract (similar to private sector);
- high level of service in public sector;
- important mobility, ability of instant reaction on changes;
- some instability of the career of public servants;
- paying great attention to the study of human resources management.

The successful functioning of public service is determined by taking into consideration the way of the country's historic development and existing traditions. In this respect, the experience of former socialist countries is especially important, which were able to successfully overcome the soviet recurrences. Though, by the study of their experience it becomes evident that the selection of a concrete model cannot solve the problem. Rumania, for overcoming nomenclative bureaucracy and corruption, chose the career model, while Estonia moved to the contract system of public service. The tendency of the rapprochement of these two models is also noteworthy. In the countries using the traditional career model, the hiring of servants of specific categories by contracts is being actively introduced, while in the countries with the positional model have been implemented some changes of the nature of career model.

III. Poverty Reduction and Employment¹³

This chapter of the Diagnostic Report describes the existing poverty and employment situation in Georgia and its regions. In order to analyse poverty levels and their dynamics three alternative poverty thresholds are presented and the main determinants of poverty are identified. The labour force market as one of the most important factors affecting the poverty is investigated, employment distribution is reviewed according to forms of employment and sectors of the economy, unemployment is analysed, employment and unemployment statuses are researched in relation to poverty, budget expenditure of central and local authorities directed at poverty reduction and the encouragement of employment are reviewed and the role of international organisations and the non-governmental sector is evaluated in relation to poverty reduction and employment. Poverty and unemployment threats caused by the Russian-Georgian War and the world economic crisis are also evaluated.

The data presented in the report are mainly based upon the analysis of the Household Budget Survey database of the Department of Statistics of the Ministry of Economic Development of Georgia. The research is quarterly-based and has been conducted since 1996. The survey covers the non-institutional population and is based upon the 2002 general census.¹⁴ Owing to the fact that the data for only the first three quarters of 2008 were available during the preparation of this Diagnostic Report, for comparison this research, taking into consideration the seasonal changes, employs the data from the same first three quarters of 2005.¹⁵ According to the Department of Statistics, the data received as a result of this survey may be less reliable as far as the regions are concerned because fieldwork could not be appropriately carried out and duly controlled owing to the lack of funds. In the absence of alternative sources which would provide data on poverty and the labour market situation in the regions, this report mainly reflects the analysis of the aforementioned database. The presented conclusions are also based on the analysis of the Statistical Yearbooks and other thematic publications of the Department of Statistics, the strategic documents, normative acts, governmental plans, state and local budgets, reports of the international donor and civil society organisations on various sectors and spheres related to poverty and employment.

The main conclusion made by Working Group on Poverty Reduction and Employment is as follows: Decreased employment figures caused by structural reforms in the economy presumably increased poverty amongst people who were left unemployed both at national and regional levels. The social policies

¹³ The report preparation process envisaged the setting up of a Working Group which consisted of stakeholders from the central and local legislative and executive powers, local and international donor and non-governmental organisations, private business and trade unions. Four meetings of the Working Group were held at which the structure of the report was agreed and certain chapters were presented and discussed. The Working Group members provided the poverty and employment topics and the statistical data herein.

¹⁴ The sampling design was developed in view of securing the representativeness of the survey both at the level of the whole country and at the level of the regions.

¹⁵ Until April 2008, the sample size was 3,351 households. As of April 2008, the sample size was doubled and amounted to 6,750 households.

conducted by the state, however, which involved increased pensions, the introduction of target social assistance and medical insurance for the poor have probably decreased poverty, especially amongst the groups of the population with the lowest incomes. Owing to these opposing effects, the general level of poverty in Georgia in relation to official living wages remained practically the same in 2005-2008.

3.1. Conclusions

1. Despite the high economic growth indicators, there are no tendencies for the reduction of poverty in Georgia. In 2005-2007, the average rate of real GDP growth was 10.5 percent although the poverty level remained practically unchanged.

2. As a result of using various methodologies of poverty measurement, several conclusions are made in connection with the change in levels of poverty. From 2005 until 2008, the level, depth and severity of poverty in relation to official subsistence minimum remained practically unchanged at the national level. According to calculations done with the use of two alternative methods, however, the same poverty indicators decreased.

3. Number of family members and the level of education of the head of the family are important factors defining the risk level of being poor. The higher the number of family members there are, the higher the risk is for that family to become poor. Having a person who received higher education as the head of the family significantly decreases the risk of poverty.

4. Children have a higher risk of becoming poor in comparison to the general population. Poverty amongst children is higher by 4 percentage points than the level of poverty of the general population.

5. Poverty levels are different in various regions. Tbilisi, Imereti and Samtskhe-Javakheti show lower poverty figures in relation to all existing poverty lines. Kvemo Kartli, Ajara, Mtskheta-Mtianeti and Kakheti are relatively poorer regions.

6. According to all poverty lines and indices, poverty is an especially acute problem in rural areas wherein more than 55 percent of the country's poor population resides. All indices of poverty are higher in villages than in towns, besides, contrary to urban areas, rural poverty is intensifying.

7. Lack of economic resources for agricultural development is an important determinant of poverty. Limited land resources are connected with the risk of becoming poor in rural areas with 55.2 percent and 35.4 percent of the incomes of individuals in the poorest first and second quintiles comprised of social assistance.

8. The unemployed and economically inactive population has the highest risk of becoming poor. The risk is lowest amongst employers and hired employees. This interconnection shows that unemployment is one of the main reasons for poverty.

9. The differences between the levels of employment in various regions are caused by a combination of the decreased number of the working age population and structural reforms of the economy which has resulted in the number of employed people having decreased by 7.3 percent from 2005 until 2008.

10. Three-fifths of jobs were lost as a result of changes in the economic situation which has especially decreased the number of employed people in the agriculture and construction sectors in the Kakheti region and in the public administration and mining industry sectors in Tbilisi.

11. The lower level of poverty in urban areas is conditioned by high salaried jobs and non-agricultural self-employment activities which is particularly evident in Tbilisi and Imereti regions, though there is a tendency that such activities are gradually decreasing that in turn could increase the poverty levels in towns to that of rural areas.

12. The sector structure of the economy prevents most employed people from steadily receiving incomes which would be higher than the official subsistence minimum. The two sectors of the economy which provide the largest employment opportunities are agriculture (its incomes are twice less than that of the general economy) and construction which depends heavily upon external fluctuations. The sectors of the economy which have a tendency for creating new jobs represent only a very insignificant portion of the general employment.

13. Unemployment rates in certain regions are conditioned by the existence of self-employment opportunities in agriculture. Two-fifths of all unemployed people live in Tbilisi. The lowest level of unemployment is in the Samtskhe-Javakheti, Guria and Samegrelo regions.

14. Overcoming poverty and ensuring employment are named as priorities in various strategic documents of the Government of Georgia. The establishment of fiscal order enabled the government to increase social spending although there are hitherto no significant results.

15. The existing employment policy does not clearly regulate the functions and roles of stakeholders although it should be noted, however, that recently concrete state programmes have been implemented in that sphere.

16. Targeted social assistance can lead to poverty reduction but due to the small volume of the programme, its effect in comparison to pensions is significantly lower. In relation to its budget, however, targeted social assistance is more effective in poverty reduction than pension payments.

17. A medical assistance programme for the population living under the poverty line aims at decreasing the amounts of money spent by poor families on health services, but its impact on poverty, due to limited coverage, is not very high. An analysis of the common database of socially vulnerable families showed that most families included in the database spend a large part of their meagre incomes on health services.

18. School infrastructure has been significantly improved in the regions since 2004-2005, but it still remains a serious problem. At the same time, the introduction of a new per capita funding system at some extent leads to underfunding of that village schools with a small number of students.

19. State policy directed at the development of agriculture does not imply direct subsidies and the creation of hothouse conditions. At the same time, the government implements programmes which provide direct assistance to certain spheres of agriculture and/or farmers.

20. Social policies conducted at local levels have little impact upon poverty reduction or employment. Local social spending is gradually increasing although those funds allocated per capita are insignificant and non-systematic.

21. Co-ordination between the government and the donors as well co-ordination between the donors themselves is a significant guarantee of successful implementation of joint projects. A good example of such co-ordinated work is the planning and implementation of activities directed at decreasing the negative impact of the military aggression of the Russian Federation in Georgia in August 2008.

22. Decreased economic activities caused by Russian-Georgian war and the world economic crisis will lead to worsened unemployment and poverty figures. It will take a great deal of work over a considerable period of time before these problems can be overcome.

3.2. Main Findings

During the last years, Georgia achieved impressive results with regards to economic growth. The average real GDP growth rate was 10.5 percent during 2005-2007. Growth of income in a country represents very important leverage for poverty reduction in medium- and long-term periods although the mentioned trend has hitherto not been identified in Georgia. It should be noted that only the state governance and agriculture together contribute one fourth of total country production output and three fifths of overall employment, although these sectors can not ensure the economic growth. Economic growth is mainly concentrated in several sectors of the economy which do not account for a high share of employment, primarily in the cities.

The real inflation indicators may be of more importance for the poor than it is implied by general inflation level. Supposedly, first of all the poverty value is influenced by food price changes, as the food constitutes the major expenditure category for the population with lower revenues. In 2007, 12% growth of food prices were accompanied by 13.1% increase of prices in service sector, while non-food commodities inflation rate was approximately two times lower (7.2%). Despite no comprehensive statistical data regarding the inflation processes is available for specific regions, the various inflation trends evidenced in the major cities of five regions points to the different impact of price variations on the revenues of population.

3.2.1. Income and Expenses of Households

During the research period, the actual average monthly expenses increased by 10.8 percent and amounted to 179 GEL throughout the country. At the same time, a much higher rate of increase was observed in urban areas as compared to the rural areas and, consequently, the discrepancy between the average monthly expenses of the inhabitants in urban areas and in villages increased further (from 13 percent to 19 percent).

Amongst the regions, the lowest average monthly expenses were observed in Kvemo Kartli in both research periods. It is also noteworthy that the same indicator in this region increased by 38 percent as compared to the previous period. The highest growth rate amongst the regions was also observed in Kvemo Kartli.

Guria is the only region where the actual expenses have decreased as compared to the previous period (a 10 percent decrease). After Kvemo Kartli, the lowest average monthly expenses were observed in Guria. The region with the next lowest average monthly expenses rate is Kakheti.

Tbilisi, Imereti and Samtskhe-Javakheti are the regions with the highest average monthly expenses. Additionally, the growth rate of expenses in Samtskhe-Javakheti was quite high (31 percent). In 2005, the lowest average monthly expenses were observed in Kvemo Kartli, Ajara and Mtskheta-Mtianeti.

During the research period, cash income in real terms increased by 41.6 percent and amounted to 101 GEL. Similarly, as in the case of expenses, the growth rate of income was significantly higher in urban areas and amounted to 49.2 percent whilst it only amounted to 28.7 percent in rural areas. Consequently, the difference between the average monthly income of urban and that of the rural households increased from 64 percent to 91 percent.

Table 1. Real Average Monthly Expenditures per Adult Equivalent, with Consideration of the Scale of Co-Habitation Effect

| | 2005 | 2008 | Change, % |
|--------------------|--------|--------|-----------|
| Urban | 171.42 | 194.98 | 13.74 |
| Rural | 152.07 | 163.38 | 7.43 |
| Kakheti | 146.64 | 151.83 | 3.54 |
| Tbilisi | 199.04 | 212.94 | 6.99 |
| Shida Kartli | 151.20 | 160.58 | 6.20 |
| Kvemo Kartli | 102.57 | 141.83 | 38.28 |
| Samtskhe-Javakheti | 141.91 | 185.66 | 30.83 |
| Ajara | 134.89 | 161.06 | 19.40 |
| Guria | 165.55 | 149.14 | -9.91 |
| Samegrelo | 145.55 | 168.22 | 15.58 |
| Imereti | 185.97 | 191.14 | 2.78 |
| Mtskheta-Tianeti | 137.49 | 155.85 | 13.36 |
| Total | 161.52 | 178.92 | 10.77 |

Source: Assessments by Poverty Reduction and Employment Working Group upon the Basis of Analysis of Data of 2005 and 2008 Household Surveys

Share of pensions and social benefits in total income is increased. This is especially vivid with regards to the rural population. The share of pensions and

social benefits in the urban areas increased by 3 percent and comprised 11 percent in 2008. In rural areas, it increased by 8 percent and comprised 16 percent.

Guria has the lowest indicator for cash income increase in absolute terms as well as for the growth rate. It is followed by Samtskhe-Javakheti and Kvemo Kartli which is different from the results of expense distribution.

Tbilisi and Imereti are the regions with the highest average cash income as well as the highest expenses. The highest growth rate was observed in Samegrelo and Shida Kartli. In 2005, Samegrelo, Kvemo Kartli and Mtskheta-Mtianeti were the regions with the lowest income. By 2008, the cash income of the richest region (Tbilisi) exceeded that of the poorest region (Guria) by 2.5 times.

3.2.2. Poverty in Georgia

Methodology

This report discusses three poverty levels, specifically: the official minimum subsistence level, the World Bank's poverty threshold of 71.6 GEL per month, and the subsistence level of 94.2 GEL per month as assessed by the United Nations Children's Fund. Based upon the data from the three quarters of 2005, the average indicator for the official subsistence minimum made up 92.3 GEL and 127.3 GEL upon the basis of the data from the three quarters of 2008. The minimum subsistence, therefore, increased by 38 percent on average during the period. The other two subsistence levels are assessed for 2007 and, therefore, the expenditures are translated into 2007 prices. In accordance with the generally accepted methodology, the poverty assessment is made based upon the consumption expenditures of one equivalent adult with consideration of the co-habitation scale effect.¹⁶

Poverty Profile

The poverty level in comparison to the official poverty line has not changed throughout the country in comparison to 2005 even though the average real consumption of one equivalent adult increased by 10.8 percent. According to the data of the first three quarters of 2008, the consumer expenditures of 40 percent of the Georgian population were below the official poverty line. The average consumption of the poor was 14 percent lower than the poverty line.

During the period covered by the analysis, the decreasing trend of all three indicators of poverty (poverty level,¹⁷ poverty depth¹⁸ and poverty severity¹⁹) against the World Bank and UNICEF's poverty levels was

¹⁶ The co-habitation scale effect is 0.8.

¹⁷ The poverty level shows the share of the population below the poverty line.

¹⁸ Poverty depth shows average income per poor person expressed in relation to the poverty line which is necessary in order to reduce poverty.

¹⁹ Poverty severity is squared poverty depth and it considers inequality amongst the poor.

observed throughout the country. In this case, poverty reduction appeared mainly in urban areas. The poverty level in rural areas in the period was basically constant whilst the poverty depth and poverty severity was reduced in urban as well as in rural areas although the extent of poverty reduction in rural areas is still very small.

The factor that a head of a household is a female does not increase the poverty risk as compared to the families in which the head of the household is male. Specifically, the poverty level with regards to the official minimum subsistence level in such types of households made up 40.5 percent in 2008 and the same indicator for the households where the head of the family is male was 39.7 percent. The share of households with a female head is approximately 30 percent. A similar trend is observed with regards to the other two poverty lines as well.

Poverty risk increases when family size increases. The bigger the family is, the higher the poverty level is. The poverty level of families with five and more members exceeds the average poverty indicator for the country.

There is a lower risk of poverty for a household whose head is more educated. The level of education of the head of family is one of the significant determinant factors of poverty risk. The highest poverty level (52.2 percent) was identified in those families in which the head of the family has incomplete secondary education. The complete secondary education of the family head does not significantly reduce the poverty risk for the household. Households in which the head of the family has elementary or intermediary vocational education are characterised by a comparatively lower poverty level. The higher education of a family head significantly reduces the poverty risk for households overall (26 percent).

Poverty level amongst children is higher by four percentage points as compared to the poverty level of the total population.²⁰ Poverty indicators are a bit higher when the subject of the poverty analysis is a child instead of a household with a child. This, therefore, reflects a higher risk of poverty for large families. Having children in a household significantly increases the poverty risk. 28 percent of the households with children are poor whilst only 18 percent of families without children are poor. The existence of one employed person in a household drastically decreases a child's poverty risk by 19 percentage points.

Poverty in Regions

Poverty and the official minimum subsistence level

According to 2008 data, Kvemo Kartli (52.5 percent), Ajara (52.5 percent), Mtskheta-Mtianeti (52.2 percent) and Kakheti (50.2 percent) are the poorest regions with poverty levels higher than 50 percent. More than half of the population of these regions, therefore, cannot consume even at the minimum subsistence level. 40 percent of the poor population of Georgia lives in these regions. Severe natural conditions, climate, underdeveloped irrigation networks and physical isolation are reasons contributing to the overall severe living conditions therein.

²⁰ United Nations Children's Fund's (UNICEF) final report on children's poverty in Georgia, 2008.

Tbilisi (30.2 percent), Imereti (31.4 percent) and Samtskhe-Javakheti (32.6 percent) experience the comparatively lower poverty levels although, the highest share of the poor population (20 percent) resides in the capital of Georgia. Proximity to the main markets and transportation junctures are amongst the reasons which most likely contribute to the relatively lower poverty indicators.

Table 2. Distribution of Poverty Level and the Poor by Regions (with regards to the official existence minimum)

| | Poverty Level | | | Distribution of the Poor | | | Distribution of Population | | |
|--------------------|---------------|------|--------|--------------------------|-------|--------|----------------------------|-------|--------|
| | 2005 | 2008 | Change | 2005 | 2008 | Change | 2005 | 2008 | Change |
| Kakheti | 45.0 | 50.2 | 5.2 | 10.5 | 11.9 | 1.4 | 9.2 | 9.5 | 0.3 |
| Tbilisi | 29.8 | 30.2 | 0.4 | 18.8 | 20.1 | 1.4 | 24.9 | 26.7 | 1.8 |
| Shida Kartli | 40.6 | 47.2 | 6.5 | 7.4 | 7.6 | 0.3 | 7.1 | 6.5 | -0.7 |
| Kvemo Kartli | 66.0 | 52.5 | -13.5 | 18.4 | 13.1 | -5.3 | 11.0 | 9.9 | -1.0 |
| Samtskhe-Javakheti | 47.1 | 32.6 | -14.5 | 5.4 | 3.5 | -1.9 | 4.5 | 4.3 | -0.2 |
| Ajara | 48.1 | 52.5 | 4.4 | 11.2 | 11.9 | 0.7 | 9.2 | 9.1 | -0.1 |
| Guria | 34.7 | 47.8 | 13.1 | 2.8 | 4.0 | 1.1 | 3.2 | 3.3 | 0.1 |
| Samegrelo | 41.7 | 41.1 | -0.5 | 9.8 | 10.1 | 0.3 | 9.2 | 9.8 | 0.6 |
| Imereti | 26.1 | 31.4 | 5.3 | 12.5 | 14.7 | 2.2 | 18.8 | 18.6 | -0.2 |
| Mtskheta-Mtianeti | 46.9 | 52.2 | 5.3 | 3.3 | 3.0 | -0.3 | 2.8 | 2.3 | -0.5 |
| Total | 39.5 | 39.9 | 0.5 | 100.0 | 100.0 | 0.0 | 100.0 | 100.0 | 0.0 |

Source: Assessments by Poverty Reduction and Employment Working Group upon the Basis of Analysis of Data of 2005 and 2008 Household Surveys.

The highest poverty level reduction was observed in Samtskhe-Javakheti (14.5 percent) followed by Kvemo Kartli as the poorest region (13.5 percent). Samegrelo (41.1 percent), Shida Kartli (47.2 percent) and Guria (47.2 percent) are the regions with a medium poverty level indicator (41-47 percent).

Poverty and the UNICEF poverty line

Kakheti (37.2 percent), Ajara (36.9 percent), Kvemo Kartli (36.8 percent), Mtskheta-Mtianeti (36.6 percent) and Guria (36.2 percent) are the regions with the highest poverty level indicators. If a statistical error of poverty is considered in the assessment with regards to the UNICEF poverty line, however, we can say that equal poverty indicators were identified in the aforementioned regions.

Tbilisi (17.3 percent), Imereti (19.4 percent) and Samtskhe-Javakheti (20.2 percent) are the regions with the lowest poverty indicators. The situation in these regions is similar with regards to poverty indicators in relation to the official minimum subsistence level.

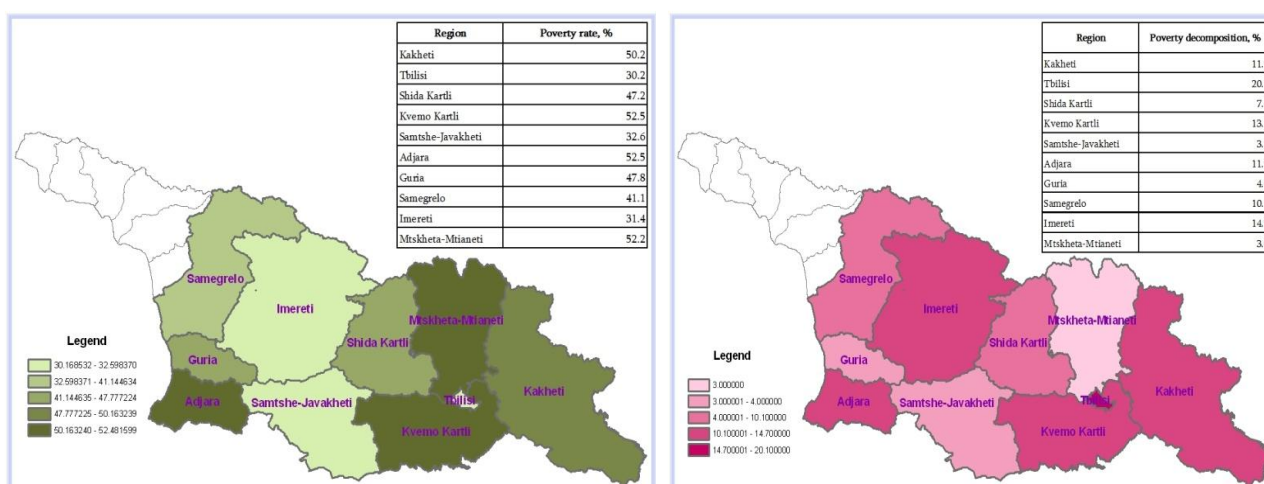
Poverty and the World Bank poverty line

Shida Kartli (24.9 percent), Kakheti (23.7 percent) and Mtskheta-Mtianeti (22.9 percent) are the poorest regions with regards to this poverty line. It should be noted that similar results were identified according to the World Bank assessment. The only reason for the difference might be that the poverty level indicators by regions are assessed using different methodologies.

Poverty distribution amongst the regions, therefore, varies depending upon the selection of poverty lines. This once again confirms the fact that poverty level indicators are inconsistent and relative indicators and their values significantly depend upon the methodology used for the assessment of the indicators.

The poverty reduction assessed with regards to the two alternative poverty lines was mainly caused by a reduction of poverty in the regions. The migration of the population amongst the regions has an insignificant impact upon the change in the poverty level.

Chart 1. Poverty Level and Distribution of the Poor Amongst the Regions (against official subsistence minimum)



Source: Assessments by Poverty Re-Education and Employment Working Group upon the Basis of Analysis of Data of 2005 and 2008 Household Surveys

Inequality in the Regions

Expenditure inequality increased in the urban as well as rural areas from 2005 to 2008. The GINI coefficient increased from 36.39 to 37.67 in urban areas and from 33.78 to 36.23 in rural areas. The enhancement of inequality is more apparent in rural than in urban areas. The highest inequality was identified mainly in the poorest regions.

A regional analysis of inequality shows that the enhancement of inequality within the regions contributed the most to the overall growth of inequality. Inequality amongst the regions has not increased significantly. The regions with the highest inequality are mainly the poor ones.

Poverty in Rural Areas

All poverty indicators are higher in rural areas than in urban areas. Additionally, poverty is on the rise in rural areas unlike in urban areas.

The poverty level in urban areas decreased by 1.6 percent during 2005-2008 and comprised 36.3 percent. The poverty level in rural areas increased by 2.5 percent during this same period and comprised 43.4 percent. More than 55 percent of the poor population resides in the rural areas although the population is almost equally distributed between rural and urban areas. The share of the poor population in rural areas exceeds that of the urban areas by 7 percent.

Applying the uniform poverty line for the urban and rural population most likely causes an exaggerated assessment of poverty indicators in rural areas. The poverty assessment does not take the price differences between urban and rural areas into consideration or those between the regions which may lead to a distortion of the real picture given the fact that prices in rural areas are lower than those in urban areas. According to the assessment of persons who consider themselves to be poor or extremely poor, the minimum subsistence level in the villages is 30–40 percent lower than in the cities.

Approximately 15 percent of GDP is produced in rural areas whereas more than half of the employed population live in rural areas. The agricultural sector has become stagnant over the last years and with the real agricultural GDP having decreased by one percent during 2003-2007. The abovementioned trend is mainly caused by the substitution of local produce with that of imported agricultural products, severe droughts in 2004 and 2006 and also by the closing of Russian markets for Georgian agricultural products.

Poverty in rural areas is mainly caused by a deficit of resources. Limited land resources on the part of rural households is closely related to the risk of becoming poor in the rural areas. 36 percent of the poor population in rural areas is unable to cultivate agricultural land and 52 percent of them do not have livestock which endangers the diversification of their income. Within these circumstances, social transfers, mainly in the form of pensions, represent the main source of income for the poor population residing in the rural areas. This source of income accounts for 55.2 percent and 35.4 percent of the income for the lowest income population in the first and the second quintiles.

3.2.3. Labour Market and Poverty

Poverty by Employment and Unemployment Status

The status of employed and unemployed persons is closely related to the poverty indicator. In 2008, the poverty level amongst unemployed and those who were otherwise not active on the labour market was 46.9 percent and 41.1 percent whereas the poverty scale amongst employed persons was far lower. This linkage indicates that the unemployment of the population is one of the major reasons for poverty.

The risk of falling under the poverty threshold is lowest amongst employers (11.8 percent) and hired employees (29.2 percent). The poverty level in non-agricultural and agricultural self-employment is lower than

the population average although this difference in agricultural self-employment is insignificant.

The risk of falling under the category of 'poor' by employment status is the highest amongst the unemployed. In spite of the fact that unemployed persons account for 12.0 percent of the working age active population, they account for 15.2 percent of the total number of poor in the country, whilst those persons who are not economically active²¹ on the labour market account for approximately two-fifths of the total number of the poor population.

Analysis of Employment

In 2005-2008, drastic changes were observed in the employment level countrywide and at the regional level. Such changes are mainly explained by the combination of the change of the number of the working age population and the economically active population as well as by structural changes taking place in the economy.

Approximately two-fifths (41.2 percent) of the decrease in the number of employed is due to the decrease in the number of the working-age population.²² The reduction of the working-age population overall is mainly caused by a decrease in the number of working-age population in Imereti, Kvemo Kartli and Shida Kartli by 112.7 thousand persons whilst the most drastic decrease in percentage terms was observed in the regions of Mtskheta-Mtianeti (-17.3 percent), Shida Kartli (-15.1 percent) and Kvemo Kartli (-11.3%).

Approximately three-fifths (58.8 percent) of the employment loss can be explained directly due to economic reasons. The economic transformation caused a loss of 74.4 thousand jobs in Georgia. The structural changes had a more significant impact upon the reduction of employment (-4.4 percent) in urban areas than in rural areas (-3.8 percent). The number of jobs was drastically reduced owing to economic reasons in Kakheti (-8.5 percent), Tbilisi (-5.1 percent) and Guria (-5.0 percent). The economic factors had a positive impact upon an employment increase in Ajara (4 percent) and Samegrelo (0.6 percent). Only a small share of those persons who became unemployed stayed active on the labour market with the total number of the economically active population having decreased from a two million threshold in 2008.²³

Distribution of Employed Persons by Types of Employment and Sectors of Economy

Nine-out-of-ten employed in the country are hired employees, non-paid workers and self-employed persons in agriculture. Different trends are

²¹ The working age population in the country is considered to be those 15 years of age and older. The economically active population includes those 15 years of age and older who carry out economic activities. This group includes unemployed persons as well.

²² It was assumed that the reduction of the working-age population would have the same impact upon the employed as well as the unemployed population in relative terms. Employment reduction, therefore, was re-calculated in percentage terms by exclusion of the rate of reduction of the number of working-age population.

²³ The number of the economically active population has never been less than two million since 1997 (*Georgia's Statistical Yearbook, 2003, 2008*).

observed in rural and urban areas. The main types of employment in urban areas are hired employment (69.7 percent) and self-employment in agriculture (19.4 percent) whilst the main types of employment in rural areas are non-paid employment (43.1 percent) and self-employment in agriculture (36.0 percent). The distribution of work places in all regions, except for Tbilisi and Ajara wherein the share of hired employees is high and self-employment in agriculture is low, is homogenous.

Table 3. Distribution of Employed Population by Types of Employment in 2008, percentage of total employment

| | Hired employment, percentage | Employers, percentage | Non-agricultural self-employment percentage | Self-employment in agriculture percentage | Non-paid employment percentage | Support staff and others percentage |
|--------------------|------------------------------|-----------------------|---|---|--------------------------------|-------------------------------------|
| Urban | 69.7 | 2.1 | 19.4 | 4.6 | 4.0 | 0.1 |
| Rural | 15.2 | 0.3 | 5.0 | 36.0 | 43.1 | 0.3 |
| Kakheti | 23.5 | 0.4 | 7.7 | 31.5 | 36.2 | 0.8 |
| Tbilisi | 76.8 | 1.7 | 18.5 | 1.7 | 1.2 | 0.2 |
| Shida Kartli | 21.5 | 1.0 | 9.0 | 31.6 | 36.3 | 0.5 |
| Kvemo Kartli | 30.1 | 0.3 | 7.1 | 29.6 | 32.6 | 0.2 |
| Samtskhe-Javakheti | 18.2 | 0.4 | 3.4 | 30.5 | 47.4 | 0.1 |
| Ajara | 35.7 | 1.5 | 12.3 | 3.3 | 47.0 | 0.1 |
| Guria | 13.7 | 0.2 | 6.3 | 40.1 | 39.8 | 0.0 |
| Samegrelo | 21.6 | 1.0 | 8.5 | 36.3 | 32.3 | 0.2 |
| Imereti | 25.1 | 1.0 | 9.4 | 32.5 | 32.0 | 0.0 |
| Mtskheta-Mtianeti | 41.5 | 0.7 | 6.6 | 38.7 | 12.1 | 0.4 |
| Total | 34.9 | 1.0 | 10.2 | 24.7 | 29.0 | 0.2 |

Source: Assessments by Poverty Reduction and Employment Working Group upon the Basis of Analysis of Data of 2005 and 2008 Household Surveys

Decrease of the number of jobs in productive types of employment exacerbates the issue of poverty reduction. Hired employment and employers made up 577.7 thousand persons in 2008 which is 6.4 percent lower than the 2005 level. Tbilisi and Imereti are regions which are especially distinguished by the reduction of the number of hired employees with Tbilisi and Imereti regions accounting for 85.2 percent of the total hired employment in the country. The number of non-agricultural self-employed persons was reduced by one-fifth during 2005-2008 as well. Agricultural employment and non-paid employment remain the most important types of employment in the regions. Their share in total employment accounts for almost 80 percent in Guria and Mtskheta-Tianeti.

The existing inefficient employment structure significantly complicates poverty reduction. Agriculture,²⁴ which provides low income, and construction, which depends upon the fluctuation of global financial markets, represent the two biggest employer sectors in the economy. In spite of the significant decrease of the number of employed and self-employed persons in agriculture (-53.1 thousand persons), the share of the agricultural sector in total employment

²⁴ According to the Department of Statistics, this sector includes agriculture, hunting and forestry and, respectively, the persons employed in these sub-sectors. The highest share of output, however, as well as the number of persons employed therein is in the agricultural sector.

increased during the last period from 54.1 percent to 55.1 percent as jobs were lost at a higher rate in other sectors of the economy.

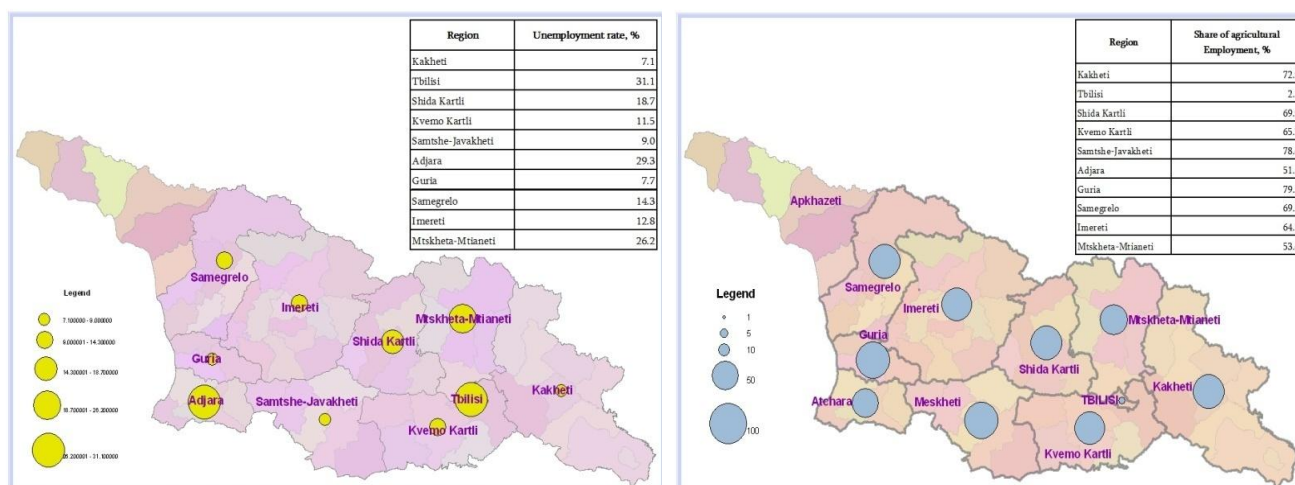
Sectors which are characterised with high incomes and new jobs creation together account for insignificant share in total employment. An increase in employment was observed in the healthcare and social assistance (1.2 percent) and communal, social and personal service (17.9 percent) sectors. The creation of new jobs in the transportation and communication (30.1 percent) and hotel and restaurant (10.4 percent) sectors can be explained by the development of municipal transportation in the public sector and by the development of the telecommunications and tourism industry in the private sectors.

All regions, except for Tbilisi, Ajara and Mtskheta-Mtianeti, are characterised by a more or less similar sectoral distribution of employment structure in which agriculture accounts for 65 percent of total employment followed by the construction and public administration sectors as the second and third largest employers. The mining industry, electricity generation and transmission, air and water production and distribution, and the hotel and restaurant sectors account for approximately similar shares. It should be noted that of the 150 regional sectors in the ten regions of the country and fifteen sectors of the economy, employment reduction was observed in 89, employment was increased in 57 and no change was observed in 4 sectors.

Unemployment

In 2008, the number of unemployed amounted to 297.6 thousand persons. Unemployment in urban areas accounts for 75.3 percent of the country's total unemployment. Samegrelo, Kakheti and Samtskhe-Javakheti are especially distinguished by their unemployment growth rates. 40.8% of the total unemployment is in Tbilisi and is followed by the Ajara (14.2 percent) and Imereti Regions (12.8 percent). A reduction in the number of unemployed persons in 2005-2008 was observed only in Kvemo Kartli and Guria.

Chart 2. Unemployment Rate and Share of Agriculture in Employment by Regions, Percentage



Source: Assessments by Poverty Reduction

The increase of the unemployment rate was caused by the increase of the number of unemployed persons as well as by the change of the number of the active population. Had there been no reduction in the number of the active population, the unemployment rate would have been the same. The unemployment rate is especially high in Tbilisi (28.3 percent) and Ajara (26.1 percent). At the same time, Georgia's capital is the only region where a reduction in unemployment, although at an insignificant rate, was observed by both strict and softer criteria of the ILO.

The geographic factor represents a significant determinant of unemployment. Unemployment is five times higher in urban areas than in rural areas at 27.8 percent and 6.7 percent, respectively. The low risk of unemployment in rural areas is due to the intensive inclusion of the population in agricultural self-employment and non-paid employment. The lowest level of unemployment is observed in Samtskhe-Javakheti, Guria and Samegrelo. The high discrepancy amongst the unemployment rates of the regions can be an indicator of the relatively small mobility of the labour force.

3.2.4. Poverty Reduction Measures

Budgetary expenditures of the central authorities on poverty reduction and employment

Searching for ways to overcome and reduce poverty has been reflected in many strategic documents and action plans drawn up during the last several years. The Government's action programme for 2008-2012, entitled Georgia without Poverty, implies spending one-third of the budget on social programmes. Basic Data and Directions for 2009-2012 is based upon the aforementioned governmental programme. The strategy directed at protection from the world economic crisis also implies the necessity of strengthening the social protection measures under this new reality.

Establishment of fiscal order over the last several years has enabled authorities to increase social, healthcare and education spending. In comparison to 2006, the budget expenses in these particular spheres have increased by 84 percent, 43 percent and 28 percent, respectively.

Social assistance

57.7 percent of the country's population is covered by social assistance. According to 2007 state budget parameters, 4.1 percent of the GDP was directed at social transfers which comprised 13.2 percent of the total costs of the budget. In comparison to those countries with transitional economies and, especially

European countries, the costs incurred by Georgia in that sphere are not very significant.²⁵

The formation of a common database of socially vulnerable families began in 2005 which enabled authorities to provide these families with targeted assistance. Currently, families which are registered in the common database of socially vulnerable families and whose rating score does not exceed 57,001 receive monetary social assistance in the form of subsistence payments. In the regions, the number of families eligible for receiving subsistence payments basically depends upon the total number of inhabitants in the regions. At the same time, the number of inhabitants covered by such payments does not correspond to the levels of poverty in different regions.

Targeted social assistance can lead to poverty reduction. Due to the volume of the programme, however (0.4 percent of GDP), its effect in comparison to pensions is significantly lower. In relation to its budget, however, targeted social assistance is more effective in poverty reduction.

Pensions decrease the level of children's utter poverty (47.1 GEL per month) by 6 percentage points and the general poverty level (71.6 GEL per month) by 5 percentage points. According to the UNICEF report, almost half of all children (47 percent) live in families where at least one member of the family receives pensions. The average amount of pensions in such families is 63 GEL per month. Correspondingly, as a result of calculations, it was established that pensions play quite a significant role in reducing poverty amongst children.

Budgetary allocation on employment opportunities in urban and rural areas

The main principle of the current Labour Code is a maximum minimisation of the state regulation of labour relations. Due to the liberal position upheld by the Government, there is no strictly defined employment policy in the country which would regulate the functions and roles of stakeholders. It should be noted that several employment state programmes have recently been implemented.

Since 2006, the state has implemented several employment programmes. Some programmes were directed at raising the professional qualification of workers in their workplaces with aim to decrease structural unemployment. Additionally, small and medium businesses were provided (and are still being provided) with cheap financial credits in order to support employment with a particular emphasis made upon the regions.

State policy directed at the development of agriculture does not imply direct subsidies and the creation of hothouse conditions. The main priority in agriculture, as well as in other spheres of the economy, is the creation of a favourable environment for business and investments. The government implements some programmes which provide direct assistance to certain spheres of agriculture and/or farmers. The state programme, entitled Cheap Credit, was launched in 2008 and continues to be implemented. Further, there are other state programmes such as Mechanisation of Agriculture and One

²⁵ In the regional context, the costs incurred by Georgia in that sphere can be compared to those incurred by Armenia which used 4.8 percent of its GDP on social assistance programmes in 2007.

Hundred New Agro-Enterprises in addition to a special programme directed at assisting viticulture and wine production, amongst others.

Budgetary allocation on healthcare and education

Since 2006, healthcare spending in relation to GDP (1.8 percent) has significantly increased and reached its peak. Subsequently, these costs amounted to 1.6-1.8 percent of GDP. Additionally, a healthcare reform strategy was elaborated in 2006 which was directed at the introduction of the insurance principle in the healthcare system and the privatisation of hospitals. The reform also aims at improving the quality and accessibility of healthcare services.

The reforms were directed at the introduction of a market system in the operation and management of the healthcare sector. One of the most important directions of the reform is the development of an infrastructure. One of the most important directions of the healthcare reform has been the introduction of the family doctor system.

The medical assistance programme for the population living under the poverty line was launched on 1 July 2006. The programme aims at decreasing the amounts of money spent by poor families on health services. An analysis of the common database of socially vulnerable families showed that most of the families included in the database spend a large part of their meagre incomes on health services. Although, due to its limited coverage, programme's impact on poverty is not very high.

It should also be mentioned the so called State Cheap Insurance Program which presumably will positively affect poverty rates. The program allows each over 3 and below 60 years old citizen (except ones already insured using the state funds) to register prior to 30 June 2009 and acquire the annual cheap insurance package for GEL 19.80.

There has been significant growth in education spending since 2003. In 2007, the consolidated education budget was almost three times larger than the similar budget of 2003 although the figures have not changed much in relation to GDP.

Reforms implemented in general secondary and higher education spheres were focused on structural, management, financial and quality aspects. According to the law, educational establishments were to be transformed into legal entities of common law. Such important programmes as the building and rehabilitation of schools, the full computerisation of schools and their provision with internet access have been launched and continue to be implemented. The creation of an objective system of enrolment in higher educational institutions and the introduction of an accreditation system at all three levels of higher education are also important issues. The reform of the professional education system was named as one of the priorities.

School infrastructure has been improved from 2005 to 2008 especially, but it still remains a serious problem in regions. At the same time, the introduction of a new per capita funding system at some extent leads to underfunding of that village schools with a small number of students. A programme directed at the rehabilitation of educational institutions is being implemented in order to overcome this problem.

Local authorities' budgetary allocations on poverty reduction

Municipalities operating in the regions of the country implement social, healthcare and education programmes.

Social spending, on the whole and according to its separate components, significantly varies from region to region. The Tbilisi and Mtskheta-Mtianeti Regions undertake in equal social spending per capita (24.3 GEL in the Tbilisi and 24.4 GEL in the Mtskheta-Mtianeti Region) with the lowest social spending registered in the Racha-Lechkhumi (7.9 GEL per capita), Kakheti (4.6 GEL per capita) and Samegrelo-Upper Svaneti (3.8 GEL per capita) Regions. The funds are especially unequally distributed amongst the programmes on sick, handicapped and elderly people.

Increasing of healthcare and education spending in regions is non-systematic. In 2008, the funds allocated for the healthcare system in the Imereti Region nominally increased by 198.3 percent, whilst this figure increased by only 2.9 in the Guria Region. Educational costs (pre-school education) were increased by four-fifths in 2008 in comparison to the previous year. At the same time, as a result of inconsistent growth in spending, the funds allocated per capita on education exceeded the national average of 30.2 GEL only in the Tbilisi, Ajara and Mtskheta-Mtianeti Regions.

Engagement of other stakeholders (donors, non-governmental organisations) on poverty reduction and employment

International organisations play a significant role in overcoming poverty and in the development of the socio-economic sphere in Georgia. Support to reforms and programmes concerning all spheres of the economy as well as interventions directed at the development of certain regions are noteworthy. In the regional context, the support given to local authorities by international organisations in the preparation of regional development plans or those for separate municipalities must be underlined.

Projects implemented in co-ordination with local authorities and other partners are some of the main factors leading to maximally positive results and equal distribution of assistance. There have been, however, cases of overlapping and a failure of some concrete projects owing to the lack of co-ordination and exchanging of information with other stakeholders.

The contribution made by the non-governmental sector in the development of the regions is also very important. It should be noted, however, that the third sector is underdeveloped in the regions. Notwithstanding the setbacks, this process is still continuing and it significantly encourages the formation of civil society in Georgia. The implementation of projects directed at the activation of the local population, the improvement of their skills and increase in their involvement in the decision-making process is particularly noteworthy.

3.2.5. New Poverty and Employment Challenges

The new significant poverty and employment challenges in Georgian regions are: overcoming the post-war socio-economic results and neutralising the dangers of the global economic crisis.

It is very difficult to fully evaluate the results of the August war and the world economic crisis although it is highly probable that overcoming the socio-economic results of the crisis will require a significant amount of efforts over a considerable period of time. The number of individuals living under the poverty line as well as the number unemployed people will increase amongst those who lost their property, commercial assets and sources of income or who became internally displaced as a result of the war.

The problem of poverty will become even more acute due to decreased economic activities and, correspondingly, by the loss of jobs and sources of income. The impact of the crisis will be felt less in rural areas in comparison to urban areas because villages are less dependent upon such sources of incomes as salaries, non-agricultural self-employment and international remittances. Increasing problems and unemployment should be expected in the urban construction sector which is the largest source of employment in the country after the agricultural sphere.

IV. Municipal Development and Infrastructure

The purpose of this report is to study the present status of municipal development²⁶ and infrastructure²⁷ in the context of the development of the regions of Georgia by applying analytical research, and identifying the existing challenges to serve as a basis upon which to elaborate efficient and optimal ways and means for their solution within the format of a respective strategy document. The diagnostic report reviews those separate sectors of the infrastructure that provide for the delivery of public services to the population of our country's regions.

This report has been prepared by using **statistical and comparative analysis methods** of research. For this purpose, our work relied heavily upon various materials obtained, the viewpoints shared and the conclusions drawn during meetings and consultations with representatives of various institutions as well as during the WG meetings.

The report also presents the results of a sociological survey of the regional population as concerns the topic of infrastructure quality of delivered services and rehabilitation needs.²⁸

4.1. Conclusions

²⁶ The **definition of municipal development** envisages increasing the efficiency of public services and administrative functions at the local level upon the basis of ensuring the integrity of local and nation-wide interests, the realisation of the right of citizens to exercising self-governance and the self-organisation of local communities.

²⁷ **Infrastructure generally** encompasses a unity of auxiliary structures and engineering projects created by the state on behalf of a community. These are the physical and organisational structures needed for the functioning of community or an enterprise. The definition of infrastructure considers those technical structures that support a community by providing services. These include roads, water supply, a sewerage network, power stations and telecommunications, etc. Functionally, infrastructure facilitates the production of goods and services. **Urban or municipal infrastructure** is considered in foreign scientific literature as a combination of those auxiliary structures supporting a region or municipality's aspiration towards sustainable development and high standards of living. This Diagnostic Report reviews those sectors of the infrastructure which provide public services to the population of Georgia's regions.

²⁸ These sociological survey results are widely covered in this Diagnostic Report.

1. Low level of professional development of human resources and deficiency in personnel management. The main factor causing a major part of the problems existing in regions are shortcomings within the field of human resources given the reality that highly qualified human resources and an optimal organisational aspect of management provide a strong base for efficient governance.

2. Inadequate institutional arrangement of the management process. The functions of municipal departments and the job descriptions for personnel (TORs) are not clearly defined. No formalised system for recruitment, promotion and performance assessment currently exist. Decision-making and management are not performed following any pre-developed criteria.

3. Lack of a unified mechanism for gaining, storing, processing and applying systematised statistical information.²⁹ With few exceptions, the self-governing entities have no formally developed, unified system of obtaining, processing, storing and using statistical data (although the Kvemo Kartli Region, for example, is applying geographical information systems (GIS) for an already established database which generates information on locally existing various resources and potential). Therefore, in reality, there is no precise knowledge of local situations in specific sectors in municipalities.

4. The lack of relevant statistics and inventory is one of the main drawbacks for development. The lack of such a database precludes the formation of a clear and larger picture of the situation, the problems and opportunities existing within any given region and municipality in various fields. For its part, this is a major factor hindering the elaboration of efficient sectoral development programmes based upon reliable data.

5. Lack of a long-term development strategy and respective municipal development plans; the low efficiency of the elaboration and implementation of such plans.

An overall outlook for the sustainable development of a municipality has hitherto not been formed in the self-governing entities. Respectively, there are no long-term regional or municipal development programmes based upon reliable statistical data and local needs. In most cases, the lack of such plans are related to the low qualification and lack of adequate skills and motivation of local employees to elaborate and implement such plans as well as to the lack of a clear awareness of the effects which these plans might bring forth.

Although such development plans have been worked out in some municipalities, the process is often rather spontaneous in its character.

²⁹ Minutes of meeting No. 4 of the WG for Municipal Development and Infrastructure
http://www.cegstar.ge/index.php?lang_id=GEO&sec_id=523

6. Low level of civil awareness.³⁰ The low level of civil awareness is directly related to the very weak interest and involvement of local communities in current management and development processes. In local society generally, each of its members has no proper understanding of his obligation to participate in the decision-making and management processes and in solving existing problems in the place where he lives.

7. Informational communications systems and e-governance.

The lack of an overall long-term outlook and respective programmes hinders the introduction and further development of informational systems and technologies in the governance process. The rate of the development of informational and communications technologies in Georgia's regions is at an unsatisfactory level as is that of electronic readiness (the active use of informational technologies in governance) in self-governing entities.

8. Urban planning. The failure to solve the problem in the urban planning sphere facilitates a spontaneous development of urban settlements. A large number of unplanned construction work can lead to degrading an urban environment which has a unique value.

9. Water supply system. The lack of a well-formulated sectoral policy has a negative impact upon water supply and sewerage services in Georgia.

10. Waste management. A waste management strategy and a legislative framework for the management of this sphere have hitherto not been developed in Georgia. The disposal of rubbish is mostly carried out without adherence to the generally accepted methods for its safe dislocation and disinfection. Typically, dangerous fractions are not separated from household and industrial waste and their treatment and isolation from surface and ground waters are inadequate overall. Waste is one of the important sources of environmental pollution in the sense that both official and illegal rubbish dumps create an equal threat to the environment as well as to public health.

11. Road and transportation infrastructure. Road infrastructure is in bad state of repair in the majority of municipalities with neither short- nor long-term plans for road rehabilitation having been elaborated. Self-governing entities lack the relevant financial resources for maintaining the roads which are under their management. Public transport is not equally accessible to all villages with the transport movement in the settlements of self-governing entities often being irregular. In many cases, transport facilities are amortised, with a large portion of them in technically bad repair. The low availability of high-quality roads and

³⁰ Civil Participation Project carried out in the Terjola Municipality with the assistance of GTZ (German Technical Co-operation Society).

public transport are a major factor hindering the improvement of prospects for gaining income for the part of the population employed in agriculture.

12. Communications infrastructure. Georgia's regions and especially its villages are faced with a low availability of public (cable) telephones within an overall unsatisfactory telecommunications infrastructure. This also significantly reduces the availability of using a high-speed internet for public.

4.2. Main Findings

4.2.1. Human Resources Management

Personnel management and the institutional arrangement of management are equally crucial to generating of both the causes and the solutions of the existing problems within the municipal development and infrastructure sectors.

As a result of studying and analysing the municipal management and infrastructure sector as a whole and its separate components specifically, the following conclusion can be drawn: **one of the main reasons for the challenges existing today is a low level of professional development of human resources in the country and the deficiency in personnel management.**

The lack of qualified personnel is a significant problem.

A large part of the employees of local self-governing entities has no working experience in the relevant field and they are not familiar with the respective legislation.

Today, numerous and varied training seminars are conducted throughout the whole of the country although many of them are chaotic in nature. These trainings are implemented outside of any framework of a co-ordinated policy. **There is no unified standard and respective system for training, qualification upgrade or retraining of public servants;** this then causes a low level of a personnel member's professional relevance to the position he holds. The efficiency of such training, therefore, is often doubtful, especially if we consider the large amount of time and financial resources applied in this direction.

The public service is characterised by **staff instability, personnel outflow and a lack of heredity** as a result of various factors including frequent staff and

institutional changes undertaken in the last years followed by a systematic change of local personnel.

The existing system of public service is not able to ensure the training of qualified personnel, their stay at the job positions they are holding, and an optimal performance.

Mostly, it is rather difficult to make a proper assessment of the efficiency of using the knowledge and skills acquired at training sessions into daily work. Subsequently, the opportunity of identifying the ultimate effect of the trainings often turns out to be nearly zero.

Despite the almost ten-year practice of local self-governance, the internal organisational culture of the local self-governing entities remains low without any distinctly defined internal organisational procedures, fixed functions for municipal departments or job descriptions for employees. Even under the low qualifications of local employees, this would facilitate to achieve some more institutional efficiency.

4.2.2. Public Awareness and Civil Sector Involvement in the Local Management and Development Process

At the current stage, citizens' participation in local governance and the regional development processes in our country is only in its initial phase and, as such, is far from the rate of civil sector involvement which takes place in leading Western countries. Public involvement in local management and development is very low and, accordingly, decision making and management transparency remain unsatisfactory.

Access to public information for the wider population is very limited.

Some separate attempts have been made in order to increase the involvement of the population in the form of specific projects implemented by NGOs and donor organisations. A weak civil community engagement in the regions is one of the significant reasons for the delay in the due exercise of local self-governance.

The awareness rate of the public as related to the competencies and functions of self-government, citizens' own rights and obligations in participating in local management and their possible positive influence is also very low overall.

The lack of the active interest by a wider public prevents from its cooperation with local authorities. Citizens do not use their rights which have been granted by law such as, for example, the right to participate in budget discussions.

Meetings with so-called initiative groups are often formal. The situation is further worsened by the fact that an informational deficiency has caused society to have no interest in understanding self-government problems in that it considers municipalities to have rather limited rights in reality and the people are unable to deal with the problems.³¹

It can be said this problem is mutual and is related to a lack of confidence, a lack of interest and a lack of relevant experience. The inertness of society can be easily explained, especially in light of the lack of a respective tradition.

Significant changes has been made to the Organic Law on Local Self-Governments^s of Georgia. On december 28, 2009, Parliament apprvred ammantments to the law, stipulating regulations ensuring legislative basis for exercise of public participation in local government. In particular:

- The responsibilities of officials of local governments and local services for ensuring organizational logistical and technical capacity for public participation in local government (receiving of local citizens, attending the sessions and control on decision making and exercise);
- Mechanism of petition for initiating the draft of resolution of Local councils;
- Public participation in the sessions of the local councils in accordance with the council regulation;
- Unlimited right of local residents to attend public hearings of the reports of local officials and councilors;
- The obligation of local officials and councilors, at least once in year to hold public meetings with electorate in order to account for the implemented activities and hold questions and answers session.

4.2.3. Informational Communications Systems and E-Governance

A developed informational communicational technology infrastructure is a good base for a country's advancement. E-governance envisages shifting management process onto informational technologies through the use of modern informational communication systems. Besides the fact that it is an effective mechanism for ensuring the freedom of information, it also significantly facilitates citizens' involvement and co-participation in the public decision-making process, strengthens the civil control system and simplifies service delivery to citizens.³²

³¹ *Annual Report on Local Democracy Development in Georgia*, Open Society-Georgia Foundation, Law Supremacy and Public Administration project, 2007.

³² Temur Kancheli, *Electronic Governance in Georgia*, Tbilisi, 2007.

No overall long-term outlook in the country has been developed as concerns the introduction and development of informational systems and technologies in the governance sphere at either the central or regional levels. However, in compliance with the Resolution N280 of the Government of Georgia of December 17, 2007, there has been functioning a Governmental Commission for the Support of E-governance Development. One of its tasks is to draft proposals for elaborating an unified policy of the Government of Georgia in the sphere of information and communication technologies.

The Parliament of Georgia adopted the Law of Georgia on Electronic Signature in 2008, although it remains hitherto unexecuted.

In 2009, Parliament adapted the law on "legal entity of Public Law – Agency of data exchange". According to the law, the competence of the agency is promotion of information technology (systems) and coordinate relevant standards and implementation of the uniform state policy in the field.

The agency is supposed to create e-governance system for exercise of state governance based on the principles of uniformity, elaborate policy on information technologies (systems) and information security and promote the policy implementation. The aims of the agency are to introduce new services with the use of information technologies (systems), to establish standards for storage and supply of data, to create e-documents exchange system and increase government's efficiency by the means of information technologies.

According to the law, formation of the policy on the information technologies had been designated as a competence of the agency. The important is the agency's competence related to ensure information security, including implementation of educational activities in public and civil sectors. The latter gains in particular importance for one of the impeding factors introducing of ICT is lack of respective knowledge and skills amongst representative of public and civil sectors.

Today, a low level of informatisation is significantly caused by the failure of central and local authorities to be aware of the necessity and significance of establishing information technologies and electronic governance in the governance process in a due way.

The level of the e-readiness (according to the international index of e-readiness) of self-governing entities is presently rather low with their computer systems also having developed at an exceedingly unequal rate. In some cases, such disparities are caused by objective factors (such as limited local budgetary resources, geographical location, etc.) whilst others are sometimes the result of subjective factors (such as local high officials are often not well aware of the importance of information systems and the development of technologies for

ensuring the effective functioning of local departments). Additionally, self-governing entities possess rather limited computer equipment.

Overall, the absolute majority of self-governing entities in Georgia are currently not ready for establishing modern information systems in governance.³³

4.2.4. Spatial Planning

The elaboration of a detailed strategy for spatial planning/urbanisation management is gradually gaining importance for Georgia. Although the strongly centralised and hierarchal chain system of planning and management of the Soviet period collapsed, it has not been replaced by any other system, strategy or, at least, approach of any kind.

Spatial planning in Georgia is based upon the Law of Georgia on Spatial Arrangement and Urban Development. According to Articles 9.1. (b) of Chapter Two of this Law, local governments are identified as the responsible bodies for local level planning. Article 10 of the same Law governs the implementation of spatial arrangement planning in Georgia: the spatial arrangement of the country's territory, the territories of Abkhazia and the Autonomous Republic of Ajara and municipal spatial arrangement.

In compliance with the Law of Georgia on Spatial Arrangement and Development, a Decree was issued under Order No. 1-/1254 of 2008 of the Minister of Economic Development of Georgia, entitled General Provisions for the Application and Development of Urban Territories, which represents part of the urban development regulation and provides legal guidance for the urban development of territories. This Decree also regulates a so-called "zoning" problem which has been unresolved.

Pursuant to Article 26.3 of the Law of Georgia on Spatial Arrangement and Urban Development, local governments shall elaborate Regulation Rules for the Application and Development of Urban Territories. Unfortunately, however, none of the municipalities have elaborated such so-called Development Regulation Rules. In the case that such rules are not available, municipalities are required to apply the General Provisions for the Application and Development of Urban Territories. The irresolution of the abovementioned problems encourages the spontaneous development of urban areas with massive unplanned construction work able to cause the degradation of unique and valuable urban environments.

³³ A detailed review of applying informational technologies in governance systems as concerns specific regions can be found in the WG Diagnostic Report.

Today, no spatial arrangement plans exist at the country or municipal level in that currently none of the independent self-governing cities and municipal (urban) centers have approved urban development plans with the exception of Tbilisi and Batumi. Georgian municipalities which do not have so-called "regulation rules for development of urban territories" will operate under the Regulation Rules for the Application and Development of Urban Territories.

In the last years there has been an increasing interest on the part of local and foreign investors in the development potential of our country's tourist and construction businesses. This fact has further outlined the importance of urban development plans.

4.2.5. Municipal Development Plans

No overall vision for sustainable development of self-governing entities has hitherto been formed in municipalities and, accordingly, the majority of municipalities have no short-, medium- or long-term socio-economic development plans. In fact, municipalities work out these plans when specific needs arise which renders this process often spontaneous in nature. The development of such plans has no long-term strategy whilst not relying upon local needs and precise statistical data.

In many cases, the lack of long-term development plans is associated with the lack of the sufficient qualification and skills of local employees together with the failure to understand the possible positive outcomes of such programmes in the future. Even if such plans are developed, which reflect the local needs to some extent, however they are ultimately not implemented efficiently, that again leads back to the existing problems in human resources field.

The availability of socio-economic development plans of self-governing entities is essential for attracting local and foreign investors.

A positive trend in this sphere, however, is that the municipalities are becoming more aware of the significance of socio-economic development plans. The lack of such plans is considered to occupy a high position amongst the problems which municipalities are facing. Nowadays, over 30 percent of municipalities have elaborated socio-economic development plans alongside a noticeably increased activity of donors in this direction.

4.2.6. General Review of Infrastructure Sector Status³⁴

The rehabilitation and development of the infrastructure sector is of the priority policy directions of the government of our country. The funds allocated for financing the expenses in this sector amounted to 587,380,685 Lari, whilst this year of 2009 the above indicator has increased twice as much and amounted to 1,072,031,715 that is a good trend indeed.

Despite the above said, local infrastructure objects are in bad repair and in some self-governing entities they cannot be applied for providing quality services.

It must be noted that significant resources are needed for the rehabilitation of the electricity, road and natural gas sectors with this mobilisation of funds impossible at the local level.

The inadequacy of the infrastructure in the regions is one of the most significant factors increasing the level of poverty of the population in the villages. As a result of less efficient institutional arrangement and a lack of co-ordination amongst donors, the technical condition of various parts of the infrastructure in the majority of Georgian municipalities is poor and cannot operate properly. Overcoming poverty and improving the living standards of the population means that decisive importance should be attached to the rehabilitation of amortised networks. Despite the solid finances obtained from donors, positive results of previously implemented projects have not been substantial.

The disrepair of village infrastructure poses economic and social problems for their populations. 55 percent of village roads, for example, have no concrete surface whilst approximately 50 percent of asphalted roads are in bad or very bad repair which results in an increase of expenses for the people using these roads.

Based upon a sociological survey, the majority of regional communities considers electricity provision, water supply and roads/transportation to be priority issues. It is noteworthy to mention that the population generally expresses its willingness to contribute some finances towards the improvement of the infrastructure which they regard to be of the highest importance.

A lack of sustainable systems for infrastructure maintenance is very important amongst the problems within this sphere in that it causes the existing infrastructure to frequently operate in an inefficient manner and becomes amortised in a short period of time. Moreover, the selection of

³⁴ A detailed review of applying informational technologies in governance systems as concerns specific regions can be found in the WG Diagnostic Report.

rehabilitation objects is not done following institutionally developed criteria with a subjective attitude often playing a decisive role herein.

The improvement of regional infrastructure is one of the key elements for overcoming poverty in the villages as it provides for a more equal development. Research has revealed that infrastructure has a positive impact upon improving the rural economy in that it attracts private investments in the sector, enlarges markets, facilitates the increase of the productivity of the traditional sector (farmers' activities) and shifts it from the basic level to a high productivity economy and supports the growth of the versatility of village economy.

4.2.7. Water Supply and Sewerage System

Three main problems have been identified in the water supply and wastewater collection sector from a service coverage point of view. These are: a) the service coverage does not reach all consumers, b) the service provided is not efficient in the sense that it does not meet the consumers' demand and c) the service rendered is not sustainable.

Service coverage in the water sector in urban areas amounts to 85 percent for water and 70 percent for waste water collection. Service is often intermittent which creates serious risks for contamination from infiltrating polluted water. The inadequate treatment of wastewater damages the environment and creates a threat to the health of the population.

The efficiency of the services is low which in its turn causes an increase of costs for consumers, tariffs and the demand for subsidies. The absence of metering for residential consumers removes any incentives to reduce wasting water. The leakage level in the networks and inside buildings is unknown owing to the fact that water production and consumption are not metered. The low efficiency of the water supply is connected to the high and escalating energy costs in urban areas. Operating water supply and sewerage networks in these areas require higher costs because of the large amount of electricity consumed by the pumping systems used in this sector.

The sustainability of services is absent owing to the fact that the majority of utilities (with the exception of Tbilisi and a few other cities) have negative cash flows. The lack of an operating surplus does not allow the utilities to perform preventive maintenance. As a result, the already poor infrastructure continues to further and rapidly deteriorate. With the exception of the Gardabani Treatment Facility, which provides mechanical treatment of Tbilisi-Mtskheta-Rustavi

discharged waste water, the fact that none of the other waste water treatment plants are operative illustrates serious consequences.

In recent years, there have been increased activities of donor organisations in terms of the rehabilitation of the water supply and sewerage sectors in Georgia. The development of water and sewerage systems is one of the main high priorities of the authorities of all levels in the country. Overall, there has been allocated 197,381,640 Lari for the rehabilitation and development needs of potable water systems in 2009 and 54,857,032 Lari- for sewerage network.

4.2.8. Waste Management

Waste management is one of the least regulated sectors in Georgia with a **waste management strategy and a corresponding legislative framework for the management of this sphere hitherto undeveloped**. Rubbish disposal is carried out in the main without utilising the generally accepted methods for its safe dislocation and disinfection. Dangerous fractions are typically not separated from household and industrial waste and their treatment and isolation from surface and ground waters is inadequate. Waste is one of the most important sources of environmental pollution in the sense that both official and illegal rubbish dumps create an equal threat to the environment as well as to the health of the population. The lack of relative legislation creates a multitude of problems. Whilst local governments are granted with the sole authority of municipal waste management, for example, the management of industrial, hazardous and medical waste remains unregulated. Moreover, data as to the amount of accumulated waste and its disposal in these spheres does not exist.

The activities of municipalities in Georgia in the waste management sector are confined to the collection of waste which ends with the dumping of the collected waste in uncontrolled rubbish dumps. Hazardous or medical waste separation and disposal are not carried out by any of the municipal services. Municipalities lack complete information regarding the accumulation of waste within the boundaries of their territories with the existing data on the municipal waste disposal status not being regularly updated. Municipalities are most often focused upon household rubbish. Currently, however, it is disposed of in such a way that creates pollution of the environment and endangers the health of the population.

Municipalities do not adequately undertake municipal waste management. The calculation of costs and the definition of fees, for example, are not adequately carried out. Most of the municipalities' waste disposal costs are only partially covered from collected fees (approximately 10 to 20 percent).

Any relationships with private companies are not regulated since they pay their fees according to agreements rather than according to the amount of accumulated rubbish. Only a few municipalities have introduced penalties to be imposed for polluting territories within their boundaries. Some, however, have no fees at all for their waste disposal services.

Apart from some self-governing cities, however, it should be noted that there are no municipalities in Georgia in which organised waste disposal is carried out throughout the entire territory of the municipality. Waste management is implemented only in administrative centers, cities and settlements of the municipalities but not in villages. In the case of the introduction of a service fee, it would then cover the entire territory of the municipality including those areas in which rubbish disposal services are currently not provided.

In order to organise waste management in a new manner, municipalities first need to elaborate a concept or a plan to also include the collection and transportation of waste. The lack of an essential basis for utility waste management, such as the calculation of costs, however, continues to be a problem. The absence of technical regulations (standards) creates difficulties in calculating the amounts required for the deposition of waste as the increased demand for quality service results in higher waste liquidation costs. Apart from this, the costs will become additionally increased if legislation demands a sorting or separation of the waste.

There is a further lack of surveillance as regards hazardous waste.

Respectively, there are special facilities for depositing such waste. Medical waste is isolated and collected separately but transported together with household waste to the rubbish dumps. Municipalities allocate a number of locations in the suburbs for dumping construction waste although it is not clear whether or not these locations are appropriate for such purposes. Often, construction waste is dumped at street corners or empty sites creating obstacle for free public movement and the parking of vehicles or causing different negative processes.

Most of the waste transportation companies have been created based upon earlier existing respective public services with many of the municipalities still using the technical equipment dating to those times with the exception of a few municipalities and local government cities which managed to procure the necessary vehicles (some received from donor organisations). Unless the vehicle fleet is renovated, there is a threat that even the existing status in the sector will not be able to be maintained in the future. Roads leading to rubbish dumps are in very poor condition which causes a frequent break down of vehicles. Obsolete and technically unreliable special waste disposing vehicles and their small capacity and the long distance to rubbish dumps renders the services rather costly overall.

Waste is mostly dumped in uncontrolled rubbish dumps in municipalities and local government cities. The operation of rubbish dumps is not carried out anywhere in Georgia except for Tbilisi.

Lack of legislative base for solid waste management. The issue of legislative regulation in waste management is completely unsettled. Currently, this field is regulated by normative acts issues by several ministries and agencies.

Lack of solid waste management strategy. There is no strategy for solid waste management in the country. Municipalities have no action plan for improving services or even for collecting and transporting waste.

Efficient supervision over hazardous waste is not undertaken. There are no special premises for dumping such waste (except for a landfill close to Tbilisi but which no longer functions). Medical waste is not separated from household waste but they are transported to rubbish dumps together.

Problem of rubbish dumps. The problem of the rubbish dumps needs to be solved. It is a problem which becomes especially acute during the summer. The multitude of rodents and vermin therein pose threats to public health. The majority of towns do not have a rubbish allocation system. The existing dumps are amortised and are not enclosed by sanitarian fences. Animals can easily enter the dump sites which is a violation of sanitarian norms. Rain water drainage and cleaning are not undertaken at rubbish dumps. This pollutes rivers and then the Black Sea.

Municipal waste is not properly managed in municipalities. In Georgia, except for the self-governing towns, there is no municipality which carries out an organised transportation of rubbish on its territory in its entirety. As a rule, this is done only in the administrative centers of municipalities and in towns and cities but not in villages.

Technical base. The frequent collapse of amortised equipment owned by cleaning departments hinders the service delivery to some areas. The lack of rubbish bins causes emerging spontaneous dumping areas in the streets.

Problem of consumers' accounting. The problem of consumers' accounting (population, private sector and budgetary organisations) creates some difficulties in the process of imposing and collecting relevant fees for service delivery.

Informational provision of the population. Because of the lack of an educational campaign, the knowledge and awareness of this sector on the part of some of the population is very low which results in polluting urban districts with household rubbish.

Despite the great number of problems, however, positive trends have been observed in this sector. In order to fill the legislative vacuum, the Ministry of Environmental Protection and Natural Resources has started working on a waste management law. Work on elaborating a national and regional strategy for waste management is underway with the support of the Dutch government. Some municipalities, such as Batumi, Kobuleti and Kutaisi, have drafted action plans for improving their waste management with the assistance of some donor organisations. In the municipalities of Poti, Gurjaani, Borjomi, Gori, Ozurgeti, Zestafoni, Kvareli, Lagodekhi, Akhaltsikhe municipalities there had been worked out action plans for improving service delivery

There can be observed some trends of sorting out and processing waste. Various containers have been installed in the city of Kutaisi which enable the separation of plastics and paper from other kinds of rubbish which can then be used as raw material. A mini factory has been built in Batumi for the processing of waste and has started functioning.

In the last few years by the initiative of both central government and the government of the City of Tbilisi there have been held negotiations with donor organizations and various private companies many times. The purpose of these negotiations was the discussion of the issues related to the introduction of a modern system of a mechanical-biological processing of garbage. But due to the high expenses, this initiative failed to be accomplished.

Almost all self-governing cities (Batumi, Tbilisi, Kutaisi) and some other municipalities (Sighnaghi, Gori, Telavi, Kobuleti) have carried out investment work for improving household waste transportation. Equipment has been upgraded and a container system was introduced. The investments brought fourth positive outcomes by improving garbage transportation from the dwelling places.

The City Hall of Tbilisi, with the support of donors, **conducted an analysis of the waste management sector in Tbilisi and has worked out relevant recommendations.**

A few self-governing cities in Georgia have introduced a new system of imposing and collecting fees; namely, a notification on paying a fee of cleaning together with electricity and water fee bills delivered to the population. Such a system has significantly increased the level of fee collection. The introduction of a penalty system has also contributed to this positive improvement.

4.2.9. Roads and Transport Sector³⁵

The development of roads rehabilitation has been one of the high priorities for central government during last few years. The state budget of 2009 envisages the allocation of 521,350,900 Lari for roads infrastructure, out of which: 33 per cent will be used for constructing roads, 60 per cent- for roads rehabilitation, 5 per cent- maintenance of roads, 1 per cent- eradication of the damage caused by natural calamities. As a result, some 700 km of main roads and 40 bridges will be rehabilitated overall.

Despite the rehabilitation work for local highways carried out by the central government, the condition of roads in self-governing entities, especially in villages, is rather poor. This has been caused by the fact that the funds allocated for the maintenance of roads had been rather scanty for years. Although there could be observed a significant improvement of the quality of roads in self-governing towns as well in a big majority of municipalities, in comparison with the previous years. Road rehabilitation projects were implemented in some municipalities (Akhalkalaki, Akhaltsikhe, Marneuli, Martvili, Chokhatauri etc) where there condition of a concrete cover of roads had been badly damaged. The situation in this sphere is also far better in the resort towns of Borjomi and Kobuleti. Although, there remain the problems related to rehabilitating and maintaining the roads interconnecting villages in the municipalities, unsolved yet.

The absolute majority of existing roads on the territory of municipalities have no sidewalks or, if they exist at all, are in bad repair.

In many cases, road condition is a decisive factor in abolishing public transport services as transport operators are providing their services less and less on the roads which have a high probability of damaging their vehicles.

Elaboration of projects for roads is not always done in self-governing entities in compliance with their development plans.

Another unsolved problem concerns the geometrical standards and technical specifications which are currently used for roads in Georgia. The standards and specifications which are applied are the remains of the Soviet period and do not envisage economic assessment and efficiency principles. As a result, roads were sometimes built according to such standards that are beyond maintenance capacities.

³⁵ Statistical data given in this report are taken from the World Bank study *Rural Infrastructure in Georgia: Service Improvement*.

The maintenance of local roads is an exclusive function of local authorities. The difficulty herein is the fact that self-governments have the power but no financing as local entities are without sufficient resources and capacities for performing their obligations.

Not all villages are served by public transport. Some ten percent of the village population has to walk to the nearest village or even farther.

Public transport movement is irregular in many regions and villages. When such transport is accessible, it is available only a few times per day with 7 percent of the village population served by public transport only once per week. The actual transport movement does not correspond to the pre-defined time-schedule. According to a large part of the surveyed population, the availability of a quality road infrastructure leading to their municipal centre would significantly improve their prospects for raising their own income. The unavailability of well maintained roads prevent them from selling the agricultural products grown by them, at a good price.

4.2.10. Telecommunications

A public survey in the regions has revealed that a cable telephone network is functional in only 26 percent of local communities with only 20 percent of families having telephones at their homes in the communities with a cable telephone network. The situation with the mobile telephone network is different in that it is available in almost all local communities (up to 94 percent). **The accessibility of public (conventional) telephones is low** with only 42 percent of local communities having such telephones.

The condition of the telecommunications infrastructure in Georgian regions cannot be assessed as positive overall. Only 3 percent of communities have a telephone infrastructure in good repair whilst that in 24 percent of communities needs repair and in 73 percent is in an urgent need of rehabilitation.

The status of the telecommunications infrastructure throughout the entire country is generally unsatisfactory. Despite having or not having a mobile telephone, the majority of families are willing to own a cable telephone as the availability of such system would provide, except ensuring telephone communication, an opportunity of using an easy-to-access, quality internet.

V. Innovations, New Technologies and Entrepreneurship

Under the conditions of the comprehensive globalisation process, rising competitiveness and technological progress, it is becoming more evident that the so-called “open spaces,” which do not encompass innovation and technological progress, will be unavoidably transformed into functionless and dependent spaces both in economic and political sense. The elaboration of an economic strategy based upon knowledge economy, innovations and new technologies, therefore, becomes crucial for ensuring Georgia’s sustainable economic development and security which would enable the country to develop its priority sectors, use its comparative advantages and improve its competitiveness.

The improvement of the competitiveness of the country’s regions is a key factor since it represents the precondition for economic growth, business climate improvement, rising living standards and ensuring national-economic security. This implies the ability of the regions to attract capital and foreign direct investments and qualified labour in order to achieve growth and employment by “playing out” their advantages and minimising their weak sides. Since innovations and new technologies can significantly lower the transaction costs and add value to products and services offered, they are viewed today as very important tools for achieving national success.

For the purpose of the dynamic development of transition economies like Georgia, it is of the vital importance that the state encourages innovation-based economic initiatives and effectively uses the country’s competitive advantages alongside traditional factors of production. This requires relevant policy of the central as well as regional and local authorities based upon the principles of subsidiarity within the co-ordinated and consistent implementation of a well-documented and clearly formulated strategy. Towards this end, the development of a **regional innovation system** and its components are considered as the instruments for achieving the aforesaid objectives.

The goal of this study undertaken by a special working group³⁶ created in December 2008 was to assess and identify the preconditions and components

³⁶ The process of preparing this study (Diagnostic Report) implied the creation of a special working group which consisted of representatives of various public institutions, ministries, agencies, experts, academic circles and NGOs including the regional development agency. Five working meetings were held at which the report structure was agreed and the experts and working group members prepared and presented respective chapters and other materials related to the issues of innovation, new technologies and entrepreneurship. Along with analyses of the existing situation (institutional, legislative, economic basis of innovation environment), special attention was paid to a review of the best international practices and the tools and institutional systems employed by successful industrialised countries. The methods of comparative and qualitative analysis were used during the study for the purposes of analysing the research subject in a broader interdisciplinary context. The set of recommendations to be delivered during the next stage should be based upon the results of this

necessary for the creation of a regional innovation system and also to look at the potential of the respective institutional actors and factors needed for the successful operation of the system whilst, correspondingly, identifying the existing problems, shortcomings and challenges in the field.

5.1. Conclusions

The results of this report make possible to present the key positive and negative factors affecting regional competitiveness indicators, the development of entrepreneurship and the cultivation of new technologies and innovations.

In line with the present regional development policy and analysis of the existing realities, we can clearly observe the problems, challenges and draw-backs faced at this stage of development. The following problems should be pointed out:

- Institutional weakness of regional governance;
- Vague vision of regional policies (strategies), goals, instruments and tasks;
- Lack of national and regional development strategies and inconsistency of respective initiatives;
- Absence of innovation-oriented formalised initiatives and policies, including strategic planning of an innovation system;
- Lack of projects/initiatives supporting the improvement of local business climate and incentive-based programmes;
- Desolated regional and national research and development infrastructure and the failure to allocate relevant funds;
- Minimal level of knowledge commercialisation;
- Insignificant participation of regional (local) administrations in attracting foreign investments as well as in promoting linkages between local businesses (suppliers) and foreign investors.

The following problems were identified at the initial stages of undertaking the research:

- In most of the cases, a poor level of awareness of the target groups, a deficit of knowledge of and interest in regional management, strategic planning, competitiveness, innovations and knowledge management;
- Lack of communication/interaction between the Government, business sector and universities³⁷;

study and provide the basis for implementing the policy oriented towards the improvement of the economic competitiveness of Georgian regions.

³⁷ A high level of interaction between these sectors is viewed as a key precondition for generating and commercialising innovation knowledge.

- Lack of data and poor or partial availability of information stood out as a separate problem.

The implemented survey and summary of its final results enable us to identify other main findings and draw the respective conclusions:

1. Ignorance of a regional innovation system as a new model of regional development. The issue of regional innovation systems has only recently become pressing in Georgia; so far it has been deliberated at the level of few nongovernmental organizations and the innovation component was not taken into consideration in the course of developing and implementing regional policy.

2. Absence of co-ordinating institution implementing the innovation policy and a lack of a respective systemic vision. Presently, there is no entity which would ensure the development of a unified innovation policy and the co-ordination necessary for the execution of the policy. Subsequently, the country does not have a well-documented, consistent and unified innovation policy which, based upon strategy, would be formalised and implemented by a relevant public body in co-ordination with different institutions.

3. Absence of regional innovation policy benchmarking³⁸ and statistics. Currently, there is no special benchmarking of regional innovation policy being conducted in Georgia. At the same time, The central Government does not sufficiently possess and, respectively, cannot use processed information about innovation activities and initiatives in the regions. Presently, there is no precise statistical data about foreign investments in the regions of Georgia, including such an important component for assessing innovation development as the expenditures envisaged for research and development activities in entrepreneurial entities in the country as well as per regions.

4. The restrictive effects of the redundant vertical governance. The existing model of regional development does not duly include the possibility of bottom-up development (social capital, human capital, innovation, networks, infrastructure, and finances). The lack of decentralisation and the existing style of vertical governance do not contribute to a strengthening of the economic activities in the regions or the stimulating of resources, including investments.

5. Lack of cluster-based³⁹ development formal initiatives. At this stage, the possibility of cluster development as the instrument for the successful introduction of an innovation system and the use of competitive advantages of the regions is only being considered at the level of a few private organisations. Towards this end, some relevant initiatives of the City of Tbilisi Mayor's Office represent positive exceptions which have been prepared in the form of a vision,

³⁸ Benchmarking is the process of learning and adapting best practices existing in other countries or organizations.

³⁹ Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, trade associations) in a particular field that compete but also cooperate in particular business areas in a complex partnership manner.

however, and hitherto have not been transformed into the form of a concrete action plan.⁴⁰

6. Weak preconditions for introducing a regional innovation system. The low level of entrepreneurial entities, research institutes, markets, self-government bodies, training centres and the development of social partners and interrelation puts the opportunity for the creation of a regional innovation system under suspicion.

7. Minimal level of state support for research-development infrastructure. The funds allocated by the state for research and development⁴¹ do not even account to one percent of GDP.⁴² The Table of World Innovation Data⁴³ places Georgia 149th in the respective ranking; according to per capita cost it lags behind Finland, the country of the same size, by 500 times; 140 times behind Slovenia, which is five times smaller than Georgia; 40 times behind Cyprus, which is ten times smaller than Georgia, and it stands in the second ten from the bottom together with Nepal and the Seychelles Islands.

8. Dynamics of decreasing scientific potential. The number of scientific institutions decreased by 17 percent from 2003 whilst the number of scientists was reduced by 43 percent. Overall, the number of implemented research and development projects decreased by 14.5 percent.⁴⁴ These indicators do not help increasing the knowledge generating capacity of the country. Although the quantity of the research is not in direct relation to its quality, it is less presumable that the existing dynamics will help to increase the level of national and regional innovation, productivity and competitiveness.

9. Inconsistency of innovative activity supporting norms (policies) and week incentives. The legislation and policies supporting innovative activities appear inconsistent and controversial to a significant extent. The amendments to the Law on Science and Technology and their Development,⁴⁵ for example (2005) reflect the state support to the development of scientific and innovation activities and to the development of scientific and educational processes to the government-accredited universities despite their legal status. At the same time, however, the "Regulation of the Georgian National Scientific Fund" (2004) does not let accredited private higher educational institutions participate in any type of grant project competitions. Special attention needs to be paid to the fact that

⁴⁰ For detailed analysis refer to the full version of the working group's Diagnostic Report.

⁴¹ Research and development (R&D) expenditures are viewed as the most important indicator of innovation policy in recent years.

⁴² In 2005, only GEL 23.2 mln was allocated for scientific research and analysis, accounting to 0.2 percent of the total national revenues.

⁴³ "Global Innovation Index" (2006) compares the innovation activities of 25 countries of the European Union with other main countries involved in research and development.

⁴⁴ INNO-Policy TrendChart – Policy Trends and Appraisal Report, Georgia 2007.

⁴⁵ For a detailed analysis of the amendments refer to the full version of the Diagnostic Report prepared by the working group.

the legal entity of public law, the National Innovation Agency, which was created in 2002 by a Presidential decree, was abolished in 2004 with the rationale for such a decision appearing to be rather vague. In addition to the above, significant problems are created by legislative and administrative obstacles in implementing the local promotion policies for research-development and incentive-based investments. For instance, until lately, private higher educational institutions have not been granted waivers or reductions on customs charges even in the cases of imports of modern technologies and equipment for techno parks, scientific parks and techno polices.⁴⁶ The same applies to the absence of tax concessions for the organisations and private persons who invest in innovative activities.

10. Poor record of FDI stimulated technology transfer. In Georgia, like in most developing countries, the transfer of technologies through licenses has a modest record and potential and so the role of the proactive government's (central as well as regional and local) policies for attracting and encouraging foreign direct investments becomes increasingly decisive.

11. Insignificant participation of local and regional administrations in attracting foreign investments. The zero activity and role of local and regional authorities in developing investment projects and attracting foreign investments makes the appropriate promotion of economic processes in the regions almost impossible. Presently, neither regional nor local authorities possess the resources or a well-formulated non-ambiguous legal mandate for the implementation of the abovementioned activities. Towards this end, the case of the Autonomous Republic of Ajara represents an exception and which is the subject of separate consideration.

12. Limited role of State Trustee (Governor) and its dubious legal mandate in the elaboration of regional socio-economic development plans. The present legislative basis makes the development and implementation of the plans defining the priorities and trends of the socio-economic development of the region rather vague. Based upon Article 271 of the Law of Georgia on the Structure, Authority and Rule of Activities of the Government of Georgia, one of the authorities of the Governor is "the implementation of socio-economic development programmes at the order of the Government." Based upon the explanation of the above legal norm, however, it may be resumed that the legislator, in this case, does not imply the prerogative of the governor to develop and implement independently a concrete, systemic long-term or short-term plan and defining the priorities and trends of the socio-economic development of the region in accordance with the plainly prescribed legal mechanism and set schedule.

13. Deficient legislative basis and poor implementation. Despite separate laws and by-laws, Georgian legislation lacks the instruments for implementing a unified innovation policy which would meet the demands and standards of the

⁴⁶ INNO-Policy TrendChart – Policy Trends and Appraisal Report, Georgia 2007.

world's global competitiveness.⁴⁷ In addition, the active legislative basis is characterised by poor implementation practices according to the evaluation of experts.

14. High dependence upon imports (increasing trade deficit). The Georgian economy is heavily dependant upon imports which demonstrates the non-competitiveness of the national economy and the limitation of local production which is conditioned by a number of factors including the absence of legislative support and encouragement of innovation and export-oriented local production.

15. Weak role of financial institutions in supporting small businesses and innovative activities. One of the major obstacles to innovations development appears to be the gap between the growing demand for new technologies and innovations from entrepreneurs and the lack of financing of this demand. For the time being, the Georgian banking sector does not seem ready to significantly contribute to the development of innovation oriented entrepreneurship and small business in the country. Presently, under the tough conditions of the global financial crisis, the key goal of the Georgian banking system is achieving short-term effects. It should also be noted that even when the banking system in Georgia was in much better conditions before the August war with Russia, the activities of this sector and other business organisations (special economic zones, business incubators, etc.) were mostly directed towards general assistance of the businesses and were not, even at a minimum extent, oriented towards innovation promotion.⁴⁸

16. Weak knowledge-generating capacity. The complex analysis carried out under the aegis of the INTAS project⁴⁹ makes it possible to conclude that although Georgia possesses a good knowledge-absorption potential, it has a poor knowledge-generating capacity.

17. Finally, based upon the World Bank **KAM** index,⁵⁰ Georgia, in terms of economic incentive and institutional mode, innovation and development of information and communication technologies, lags behind not only EU member countries but its close neighbours as well.

In addition to the abovementioned, a number of **institutional problems** requiring special attention have been identified:

- Until recently, one part of the public institutions responsible for the implementation of innovation policy (Ministry of Economic Development, Ministry of Education and Science, Ministry of Agriculture) only partially

⁴⁷ For a detailed analysis of the existing innovation legislation in Georgia refer to the full version of the Diagnostic Report prepared by the working group.

⁴⁸ INNO-Policy TrendChart – Policy Trends and Appraisal Report, Georgia 2007.

⁴⁹ *Ibid.*

⁵⁰ KAM Index by the World Bank, 2006.

used the authorities assigned to them by legislation for the implementation of relevant policy. The other part does not own sufficient resources and levers to solve the same problems (National Investment Agency)⁵¹;

- Non-public actors of the innovation system are similarly more or less inefficient in dealing with the improvement and better operation of the system. Quite often, separate components of the innovation system (many of the research institutes) lack a good management system and, despite their legal status and novelties, are practically still short of the relevant reforms;
- The potential of Georgian universities and higher educational institutions is not fully used in the process of the formation of techno-policies. Although the first positive signs and initiatives (Caucasian School of Business, Tbilisi State University, Georgian Technical University) are observable, the work in this direction has hitherto not produced desirable results overall owing to a scarcity of resources and funds;
- The level of development of small and medium business incubators in Georgia is far from desirable which is making its first steps, in the best scenario, and standing at the level of an idea, in the worst scenario.

5.2. Main Conclusion

The aforementioned problems and challenges—separately and as a whole—create barriers to the development of economic growth stimulated by innovation systems and regional competitive advantages as well as to the improvement of the business climate, the generation of higher return and stable and long-term results in the local economy.

Today, as never before, it is very important to realise that a regional innovation system might become a new instrument for the country's rapid and balanced economic development. For the purpose of the dynamic development of Georgia's economy, it is vitally important that the state encourages innovation-based economic initiatives and optimally uses the competitive advantages of the country alongside traditional production factors.

The above said implies the implementation of relevant policies of the central and local governments based upon a subsidiarity principle and the consistent and coordinated implementation of a well-documented and clearly formulated strategy.

A review of the **best international practices** and the lessons learned from the experience of different successful economies (Finland, Germany, South-East Asia, the UK) have also allowed for drawing the following conclusions:

⁵¹ For detailed analysis refer to Chapter 6.

- The supplementary role of the government in implementing organisational activities and funding research and development turned out to be crucial in the promotion and strengthening of innovation efforts;
- The government assumed the responsibility for developing and implementing the mechanisms of holding the enterprises and public bodies, involved in the innovation process, accountable;
- Very often, direct foreign investment could not improve technological knowledge unless the local businesses achieved the minimal level of development under favourable conditions created by the government;
- Special institutions—supporting the development of relevant innovation strategies and their implementation—were created in order to make regions attractive for businesses, large companies and firms;
- In line with the recent tendencies, regions are considered as natural economic zones, especially if they have already developed clusters and a respective administrative setting to support innovation projects;
- Research and development in the business sector gained rather solid support from the state through incentive measures and tax reductions.

5.3. Review of the Existing Situation and Challenges in the Field of Innovations – Justification of the Problem

The dynamics of the Georgian economy in 2004-2008 revealed both strengths and weaknesses of its development pattern.

On the one hand, **the achieving of a stable macro-economic and liberal investment environment, an accelerated and full-scaled privatisation process, the opening up of protected market segments to foreign investors, the Government's initiative at creating the Poti free economic zone, the adoption of a liberal tax code and the removal of the sophisticated licensing procedures for various businesses** are factors which have collectively created favourable conditions for economic growth and development.

On the other hand, **the process has lacked complexity and depth to a significant degree and there has been an absence of very important components and dimensions such as fully-pledged decentralisation, subsidiarity, inclusion, well-established roles of regional and local administrations in socio-economic development, a co-ordination of efforts, technological upgrades and various incentive-based innovative**

approaches which have hindered producing wider, more rewarding, sustainable and long-term effects to local economy⁵².

The whole process has been clearly characterised by a centralised vertical system of governance which lacks the elements of independent and horizontal governance co-ordinated with a national strategy and which play a significant role in the development of regional innovation systems and the improvement of competitiveness. All the abovementioned has resulted in the economic development of the Georgian regions being characterised by a low level of productivity and revenues, weak entrepreneurial activities and low indicators of local and foreign investments.

Looking back from a broader perspective, it is clear that the demands and new trends of the global economy make it absolutely essential that regions emerge as key players for determining national success owing to the fact that externalities and increasing returns, as key drivers of growth and economic development, arise at the regional and local levels.⁵³ Towards this end, promoting and cultivating regional innovation systems, industrial and other types of regional clusters, technological know-how, non-traditional new industries and innovative knowledge-based assets and strong entrepreneurial performance is absolutely key in catching up with the existing standards of developed countries and overcoming the relative economic stagnation in Georgian regions.

The modern patterns and rationale of economic development make it obvious that it is not only the natural resources and or the capital itself which are the decisive factors in fostering the economic development of the regions but the ability to create and absorb innovative solutions in order to make effective use of competitive advantages and promote development in a sustainable way is also important. This is the greatest challenge for Georgian society and economy at the beginning of the new century. Failing to achieve this purpose would make Georgia remain a peripheral country in the modern world of high technologies and innovation-based economies.

The concept of regional innovation systems, therefore, obtains tremendous importance as the effects of innovation for economic growth has been widely tested. Key components of regional innovation systems imply spatial concentrations of firms and R&D institutions (cluster development based upon regional competitive advantages), cultivating knowledge networks and supporting knowledge organisations (e.g., universities, training institutions), regional R&D infrastructure (e.g., research institutes) as well as the existence

⁵² Rezo Kakulia, *For Enhancing Local and Regional Democracy and Economic Potential – Analytical Survey*, Aradani Ltd., Tbilisi, 2008.

⁵³ Michael L. Porter, "The Competitive Advantages of Nations," *The Free Press*, New York, 1990.

and support of the organisations which bridge the gap between supply and demand (e.g., technology brokers, venture capital firms). In addition, respective government agencies, institutions and regulatory agencies, along with other (potential) actors of the innovation system,⁵⁴ also play a key role.

These constituent parts of the regional innovation system interact through particular networking processes whilst taking advantage of collaborative efforts and geographical proximity to generate and utilize knowledge and produce new and competitive products and services which thereby foster the process of economic growth.

5.4. Structural Analysis of the Innovative and Entrepreneurial Environment in Georgia

5.4.1. Base review of institutional components and needs of the innovation system

Since the introduction of national and regional innovation systems are closely connected and imply a high level of interrelation and communication, the present chapter analyses their needs and institutional components and identifies the challenges and problems hindering the operation of the innovation system at this stage and at both levels.

Leading actors of the innovation system and their present functions

Public institutions (central, regional and local), enterprises, universities, research and development institutes, special funds, business incubators, foreign investors and other structures encouraging innovation policy are considered as key components of national and regional innovation systems.

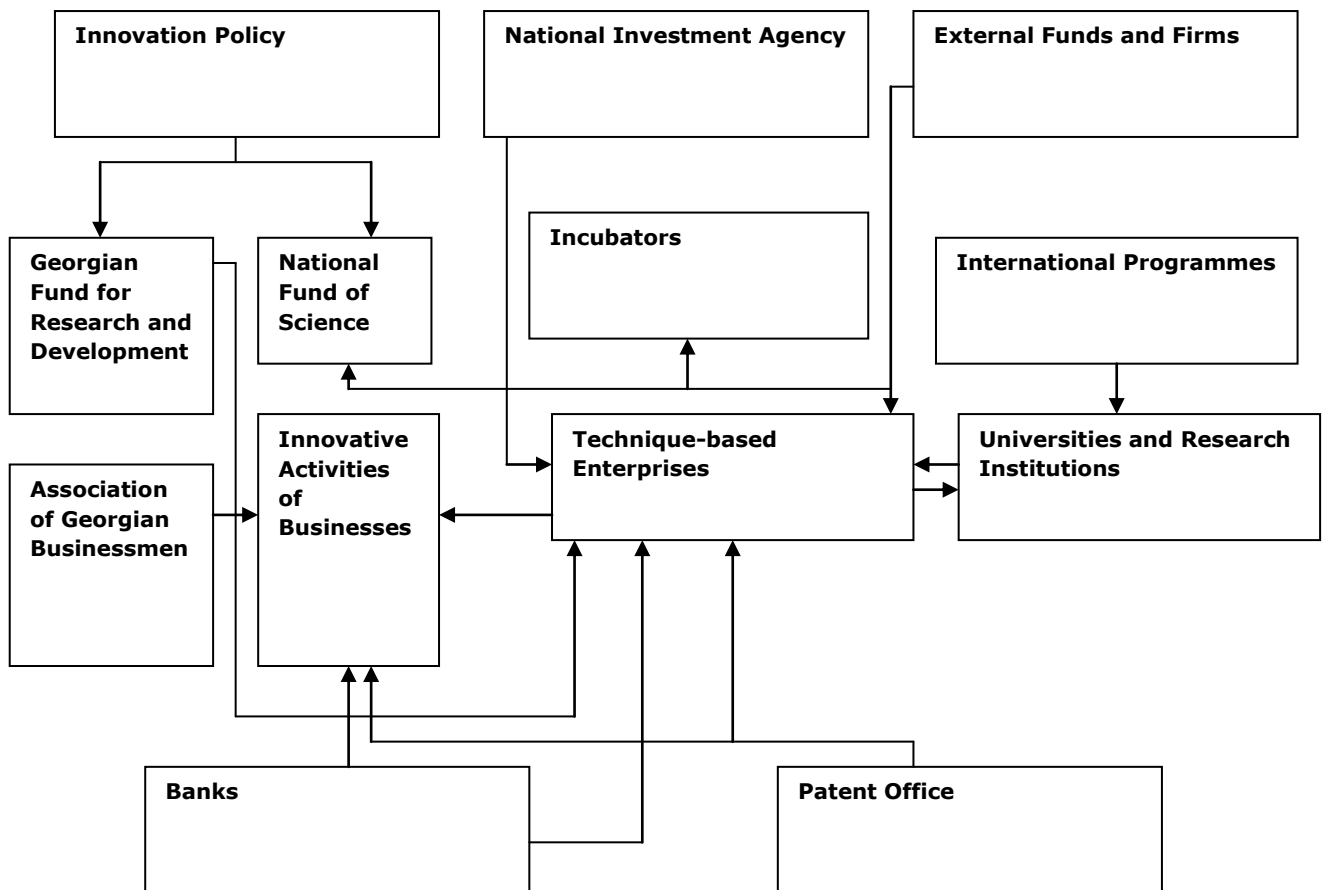
Generally, the Parliament of Georgia considers and defines the innovation and research and development policy during the budget review process. The Parliament adopts the appropriations for the support of research and

⁵⁴ Amongst these: regional administrations, self-government (municipal) bodies, regional development agencies, consulting centres and firms, professional associations, financial institutions, producers and service providers with respective research and development (R&D) entities, etc. The listed actors create a structure which functions as a network and which connects all the agents working in the sphere of innovations and technological transfer thereby creating a regional innovation system.

development activities, defines the state policy in terms of the above field and controls its execution. Relevant proposals and projects are submitted to the Parliament by the President of Georgia who, on his part, relies upon the recommendations prepared by the Academy of Science of Georgia.

The Government of Georgia also plays a very significant role in the implementation of the state policy on the development of science and technologies. The following bodies and ministries have key roles in this direction:

- 1. Ministry of Economic Development** – being involved in the innovation process (one of the key factors of economic development), the Ministry is responsible for the activities encouraging the transfer of knowledge and innovations. The Department of Economic Policy of the Ministry is the most relevant structure in the process of the implementation of innovation policy.
- 2. Ministry of Education and Science** – is responsible for the regulation of the research and development system and different activities in the sphere of innovation and complex education. The Ministry implements innovation-based policy through different programmes, grants and credits. The process is administrated through specially created funds.
- 3. National Investment Agency** – is responsible for the implementation, co-ordination and monitoring of the activities needed for the funding of business and investment programmes. The Ministry is also responsible for a systematic study and analysis of the present conditions in the field as well as for the development of recommendations for the President to make relevant decisions.
- 4. Patent Office of Georgia** – is responsible for the system protecting intellectual property, including different elements needed for the above system to function.
- 5. Academy of Science of Georgia** – is responsible for the development of recommendations needed for innovation activities and initiatives as well as for the review and assessment of innovation projects.
- 6.** For the purposes of the subsequent analysis, it should be mentioned that the formal purpose of the function of the abovementioned institutions differs from the actual and efficient execution of the functions. For the purpose of the evaluation of innovation system's capability, it is also very important that we define the interrelation of the above institutions and their co-ordinated activities with other institutions.



Critical analysis of the institutional components of the innovation system

The report, prepared in the framework of the European Union funded INTAS programme, is very interesting within the context of an analysis of the innovation system and its components. The report was completed in 2007 and represents an assessment research of Georgia, Armenia and Azerbaijan.⁵⁵ The *Policy Tendencies and Assessment Report* describes the interrelation and management scheme of the actors of the national innovation system of Georgia.

We can easily see from the above scheme, which depicts the situation in reality, that a non-co-ordinated and, therefore, inefficient network—under the conditions of an absence of a result-oriented system—resembles a chaotic, cited out of context, inefficient and non-manageable rudiment.

It becomes obvious from the very first assessment that there is no co-ordination body which would ensure the co-ordination of the activities needed for the development and implementation of a unified innovation policy (such as the

⁵⁵ INNO-Policy TrendChart – Policy Trends and Appraisal Report, Georgia 2007.

Innovation Councils or National Innovation Agencies found in different countries). Accordingly, Georgia does not have any well-documented, consistent, detailed or unified innovation policy which could be legalised and implemented by relevant public bodies based upon a defined strategy and the co-ordinated activities of different institutions.

Since the institutions in the scheme represent a part of the potential actors of an innovation system, a critical analysis of at least their present status and activities is necessary. At the same time, we should take into consideration that an analysis of a number of public and other institutions which are not included in the scheme but which actually should play central role in the introduction of an innovation system, as well as in the co-ordinated development, is also needed.

Based upon an analysis of the present conditions, provisions and activities performed by relevant ministries, we are able to state the following:

1. Ministry of Economic Development – Until recently, there has been no documented vision of the issues such as innovation policy, growth and competitiveness conditioned by innovations or a science and technologies development policy. Further, there is no unified complex vision of small and medium business development which would define the role of innovation in the process nor has there been a carefully thought out approach on the strategic importance of the relationship amongst the business, state and academic sectors. Finally, no fundamental work focused upon the elaboration of a strategic development plan based on the competitive advantages of the country and its regions has ever been performed. The Department of Economic Policy, like the Ministry as a whole, was in the process of transformation whilst the Diagnostic Report was being developed. This may substantially change the situation in the future given that the first positive signs of this (export and small business promotion initiatives) are already observable.

National Investment Agency – The Agency, as a part of the national innovation system, is subordinated to the Ministry of Economy. Despite its qualified personnel, the present regulations of the Agency, as well as its small number of employees, do not allow it to play a significant role in the implementation of an innovation policy or, what is more, to solve other specific issues related to its primary obligations which is attracting foreign investments. The Agency does not have enough functions, sphere of activities, necessary resources or employees which would enable it to deal with the abovementioned issues at both national and regional levels. The Agency does not develop innovation-oriented or competitive investment projects whose importance is impossible to under evaluate. The Agency is limited to mediatory functions between the Government and foreign investors. The fact that there is no statistical data in the Agency about the investments which have entered the regions of Georgia—amongst them such important components as the expenses for research and development (if they exist) in the respective businesses country-wide and per the regions—could, in part, serve as an example of its inefficiency.

It should also be mentioned that there are hitherto no co-ordination and co-operation efforts with regional and local authorities. Respectively, the regions' competitive advantages have not been surveyed and used which does not help the solution of such problems as the low production capacity in the regions, outdated technologies and unused human capital.

2. Ministry of Education and Science – The Ministry is one of the most important institutions for the successful implementation of a national and regional innovation policy. Despite the fact that numerous positive changes have been implemented in the education system in recent years, the time for drastic changes to take full effect has been limited. Certain negative sides and shortcomings of the reorganization, therefore, have been translated into problems such as: the outflow of qualified cadres from the education and R&D systems and the formation of a negative public opinion with respect to the importance of research work. Until recently, the Ministry—despite the fact that the legislative basis allowed it to carry out activities for the implementation of an innovation analysis and develop a strategic vision in this direction—limited itself to a partial implementation of the rights assigned to it by legislation and the development of projects funded by the limited resources of the recently created Research and Development Fund of Georgia and the National Scientific Fund of Georgia. The efficiency and expediency of the projects financed by these funds represent a subject of a separate survey. It is important to mention, however, that the National Scientific Fund has been conducting a thematic competition for scientific work on ensuring the financing for the research-design-production process for two years. Additionally, it is certainly noteworthy that seminars on the mechanisms and systems for the commercialisation of knowledge and innovations were funded by the Research and Development Fund of Georgia in 2008.

The first steps made by Georgian universities and research organisations directed towards the introduction of the system of the commercialisation of knowledge are optimistic although still far from established modern standards.

3. Ministry of Agriculture – The Ministry is another key potential actor in the process of innovation introduction. Unfortunately, the Strategic Plan developed by the Ministry in 2008 does not include the components needed for the implementation of the innovation policy. Agriculture, as the most competitive sector of the Georgian economy, is currently in need of a modern cluster development instrument and the use of levers of innovation economy in the process of strategic planning.

4. Ministry of Regional Development and Infrastructure - The Ministry became operational only in February 2009 and, respectively, it does not allow us to make any substantial analysis at this stage. At the same time, the initiative launched by the Ministry on facilitating the process on the preparation of the Regional Development Strategy is of utmost importance. The process of preparation of the given Diagnostic Report is part of this initiative as well.

5. Federation of Georgian Businessmen – The Federation has been a formal entity for years but stands far from discussing such problems as innovation in business, relationship between business and academic system, etc.

6. Patent Office – The legislative basis enables the Patent Office to be fully functional. Unfortunately, however, the fact that a patent acquired in Georgia is

not internationally recognised hinders the support and encouragement of innovation policy and actual innovation recommendations thereby diminishing the importance of patent activities.

7. State Research Institutions – The entities of research and development infrastructure (supervised by different ministries) have minimum state support and work with foreign clients and Ukrainian industrial enterprises based on limited contracts in the main (INTAS 2007). In many cases, the above components of the innovation system lack a good management system and remain short of relevant reforms despite their legal status and novelties.

8. Georgian Universities – The potential of Georgian universities has not been fully used in the process of the formation of techno-policies. The Caucasian School of Business (CSB) represents an exception towards this end as it is effectively involved in a project focused upon the creation of business incubators for the purpose of encouraging small and medium businesses. Tbilisi State University and the Technical University of Georgia are also involved in the preparatory work aimed at the creation of techno-policies. Owing to scarce resources, however, the work in this direction has hitherto not produced desirable results.

9. Based upon the aforementioned, the level of development of small and medium **business incubators** in Georgia stands far from a desirable stance. It makes its first steps, in the best scenario, and stands at the level of an idea, in the worst scenario.

Critical analysis of the regional component of the innovation system

Unlike a national innovation system, the definition of the capabilities of a regional innovation system requires the review of additional institutional components which are related to the evaluation of the role of regional and local administrations and the present opportunities in the process of improving the business climate and innovation incentives.

It is true that no innovation systems have been created in the regions of Georgia as of February 2009 even though the current legislation allows regional administrations to have some limited innovation-related competences enabling them to:

- Develop regional innovation programmes and fund such programmes within the framework of the budget at their disposal;
- Create and fund regional financial organisations issuing credits for the innovation programmes;
- Control and evaluate innovation programmes funded by the regional budget.

At the same time, whilst analysing the current legislation and realities in the regions more closely, the following became obvious:

Presently, the institution of the State Trustee (Governor) functions in the historical-geographical regions of Georgia. The Governors implement de-concentrated governance in the regions and have rather limited competences and spheres to carry out more efficient and proactive activities. The above factor does not contribute to the goals of regional governance and development and appears to hinder the co-ordinated and pro-active activities of the authorities.

The present legislative basis makes the development and implementation of the plans defining the priorities and trends of the socio-economic development of the regions rather vague. Based upon Article 271 of the Law of Georgia on The Structure, Authority and Rule of Activities of the Government of Georgia, one of the authorities of the Governor is "the implementation of socio-economic development programmes at the order of the Government." Based upon the explanation of the above legal norm, however, we can conclude that the legislator, in this case, does not mean the prerogative of the Governor to develop and implement a concrete long- or short-term plan, defining the priorities and trends of socio-economic development of the particular region in accordance with the set schedule.

In addition, whilst no one will argue that increasing direct foreign investments into the economy of the country represents one of the most important factors for the its economic growth and development alongside with local investments, the priorities of the regions and self-governments should meet the tasks of the above goal and include a methodology for the identification and application of relevant incentive mechanisms. The insignificant activity and role of local and regional authorities in developing investment projects and attracting foreign investments substantially hinders the promotion and stimulation of economic processes in the regions of Georgia. Presently, these sub-national administrations possess neither the necessary resources nor a well-formulated non-ambiguous legal mandate for the implementation of the abovementioned activities.

Finally, no special benchmarks for regional innovation policy have been developed so far in Georgia. In addition, the central government does not sufficiently possess and, respectively, cannot use well-processed statistical data and information on the initiatives and innovation activities in the regions, which is substantial for the development of an innovation policy.

5.4.2. Evaluation of Georgia's innovation potential by international organisations

The problem of global competitiveness is a part of the world globalisation process and which is a subject of discussions at annual forum in Davos wherein

the competitiveness and innovativeness of a country is measured. The parameters of Georgia's innovativeness and competitiveness, together with those for 131 countries, have been discussed there for three years now. It is noteworthy that Georgia was ranked as 83rd in 2006-2007 based upon the above index whilst it was 90th in 2007-2008. Georgia is ranked as 110th based upon a separate innovation index.

In this regard, the KAM index of knowledge parameters of the WB includes rather interesting data upon which Georgia's position is rather unattractive:

Table 1. Comparative Analysis of KAM Indicators

| Country | Index of economics of knowledge | | Economic incentives and institutional mode | | Innovation | | Education | | Information and communications technologies | |
|----------------|---------------------------------|------------|--|-------------|-------------|-------------|------------|-------------|---|-------------|
| | New | 1995 | New | 1995 | New | 1995 | New | 1995 | New | 1995 |
| Germany | 8.54 | 8.75 | 8.38 | 8.41 | 8.93 | 9.08 | 8.08 | 8.74 | 8.79 | 8.75 |
| Estonia | 8.07 | 7.76 | 8.07 | 8.2 | 7.42 | 6.59 | 8.29 | 8.07 | 8.49 | 8.18 |
| Armenia | 5.36 | 4.61 | 5.71 | 2.25 | 6.06 | 5.63 | 6.03 | 5.98 | 3.64 | 4.58 |
| Georgia | 4.4 | 4.5 | 2.46 | 1.25 | 5.27 | 5.38 | 6.4 | 7.17 | 3.45 | 4.19 |
| Azerbaijan | 3.56 | 3.46 | 3.03 | 0.89 | 2.65 | 4.84 | 5.04 | 5.75 | 3.53 | 2.36 |

Source: KAM Index by the World Bank, 2006

As per the economics of knowledge, economic incentive and institutional mode, innovativeness and development of information and communications technologies, Georgia lags behind not only the member countries of the European Union but its neighbouring countries as well. It is also noteworthy that the long-term cluster and innovation strategy of development of the country's competitive advantages, based upon the economics of knowledge, has already been developed and is functioning in neighbouring countries such as Armenia, Russia and Kazakhstan and, from 2009, Ukraine.

5.4.3. Small and Medium Business in Georgia

Based upon Georgian legislation,⁵⁶ enterprises which have a turnover of less than GEL 500,000 and employee up to 20 people are considered to be small enterprises. In 2008, the Statistics Department registered 21,358 such enterprises. The list did not include sole proprietors. 58.8 percent of the listed enterprises were owned by individuals, 36.8 percent comprised Ltds and 2.3 percent were under state ownership. The majority of small and medium enterprises are involved in trade at 50.5 percent whilst 12.5 percent are in the processing industry, 5.5 percent in hotels and restaurants, 12.8 percent in real estate and 6.1 percent in transport and telecommunications.⁵⁷ It is to be noted that in 2004, 3,500 active companies were registered with the scale of the shadow economy at approximately 26-35 percent whilst in the subsequent years this scale has been decreased to the minimum level that was attributable to the adoption of the new, liberal Tax Code.

At present, there is a list of problems to be solved in this segment of the Georgian economy. Namely, micro-enterprises are marginalised, there is no real medium segment; and whilst small businesses can grow to a medium level, micro-enterprises have a very small chance for development. Despite significant improvements in the business climate, companies bear losses due to an unhealthy competitive environment. Many experts agree that inadequate approaches are often seen in regulatory, state procurement and privatisation processes. Additionally, businesses bear losses due to actions occasionally performed by separate state institutions. In some cases, intervention is performed in the form of the wilful actions of the tax agencies or questionable court hearings with respect to disputable issues. The economy finds it difficult to react to domestic needs and depends mostly upon import. Increasing the trade deficit demonstrates the non-competitiveness of the national economy and the limitation of local production which is conditioned by a number of factors including the absence of legislative support and the encouragement of innovation and export-oriented local production.

At this stage, it appears that the Georgian banking sector is not ready to work on small business development in the country.⁵⁸ Presently, under the tough conditions of the global financial crisis, the key goal of the Georgian banking system is short-term effects rather than achieving social results. The issue of how and to what extent the state should assume the role of mediator between the banking sector and business is the subject of separate considerations.

⁵⁶ In 2006, the Law On Supporting Small- and Medium-Size Businesses, providing for the definition of small- and medium-size businesses, was revoked. Subsequently, these definitions have been incorporated into the Law On the National Investment Agency under an apparently vague rationale. According to the assessment of experts, it would be logical for the definitions to be envisaged by the Tax Code of Georgia or reflected in a separate law on small- and medium-size businesses.

⁵⁷ Statistics Department of Georgia

⁵⁸ The detailed analysis is given in the full version of the working group's respective Diagnostic Report.

It should also be noted that even when the banking system in Georgia was in much better conditions before the August war with Russia, the activities of this sector and other business organisations (special economic zones, business incubators, etc.) were mostly directed towards the general assistance of the businesses and not, even at minimum extent, oriented towards innovation promotion. Financial institutions were actively involved in other types of commercial activities which were more profitable under the existing economic conditions⁵⁹ (trade transactions, construction and developing business) owing to the absence of incentives for supporting innovation initiatives.

5.4.4. Research and development infrastructure, scientific-technical potential and trends

Presently, Georgia does not have an official plan or strategy for national research and development activities or any formalised national innovation policy.

The scientific potential of the country has greatly changed over the last years with the number of scientific organisations and scientists having decreased. The number of scientific institutions dropped by 17 percent from 2003 whilst the number of scientists was reduced by 43 percent. At the same time, the number of personnel having scientific degrees increased from 46.4 percent to 64.1 percent (INTAS, 2007). The following shows the changes related to scientific work in Georgia:

- The volume of scientific-technical work has decreased by 14.2 percent and the volume of scientific research work has decreased by 16.2 percent;
- The number of technological projects and work has decreased by 58.7 percent whilst the volume of some activities has increased, particularly the volume of fundamental research has increased by 52.8 percent;
- The testing of produced goods has increased by 91.5 percent;
- The scientific-technical and innovation service has increased by 76.2 percent.

As a whole, the number of implemented research and development projects has decreased by 14.5 for which the reluctance of the Government to finance the sector, referring to the desire to attract more funds from the private sector, can be identified as one of the reasons. No statistical survey exists regarding the way in which the private sector has acted in this direction which renders it impossible to quote any figures.

⁵⁹ INNO-Policy TrendChart – Policy Trends and Appraisal Report, Georgia, 2007.

In 2005, only GEL 23.2 mln was allocated for scientific research and analysis which accounted for 0.2 percent of the total national revenues. In 2007, only ten of the 26 parameters of the European methodology for measuring innovations were measurable in Georgia. This is a very poor indicator which makes the computation of an innovation index for Georgia unfeasible at this stage.

A complex analysis carried out under the aegis of the INTAS project in 2007⁶⁰ makes it possible to conclude that whilst Georgia possesses a good knowledge-absorption potential, it has a poor knowledge-generating capacity

5.5. Regional Innovation System - Theoretical and Practical Implications

5.5.1. Conceptual base and key elements of the system

The regional innovation system represents a new model of regional development which might become a new instrument for balanced and rapid economic development. There are differences amongst national, regional and global innovation systems.

Essentially, the regional innovation system represents a model of concentration ("crowding in") and co-operation of entrepreneurial entities and other institutions— based upon the competitive advantages of region—whose main goal is the efficient use and development of the existing physical and social infrastructure, knowledge capital and natural and other resources in order to stimulate innovations and entrepreneurship and, ultimately, to facilitate the growth of a region's economic potential and competitiveness.

The more important the innovations⁶¹ in the regions and, generally, in the country become during the process of the development of competitive production, the more significance such advantages as research and development infrastructure, a qualified labour force and the development of an innovation

⁶⁰ *Ibid.*

⁶¹ "**Innovation**" in special literature is used with a dual connotation; that is, as a product and a process. The first refers to all kinds of goods, services and ideas as perceived by the receptionists of the novel (F. Kotler, *Marketing: Analysis, Planning, Implementation and Control*, Warsaw: Gebethner & S-ka, 1994). The second implies not only the final result of the implementation of a particular technological solution but also the activities preceding the creation of an innovation. Respectively, innovation may be viewed as a process comprising the formation of an idea (invention), research and development, planning and design work, production, marketing and dissemination.

culture acquire as opposed to such factors (previously considered as those leading) as rich natural resources.

At the end of the 1980s, Michael Porter,⁶² a theorist of strategic management and professor at Harvard University, demonstrated that the leadership of the United States depends upon cluster-based regional and local innovation systems using the example of a new sector of economy such as biotechnologies and information communication technologies. Porter developed the theory of national competitiveness strategy based upon regional clusters in which the national government, private business, opportunities, demand and competitiveness create an integrated structure which operates in conformity with the state interests. He determined that there are groups of competitive industries in different countries which, despite small territorial coverage, represent leaders in the world market. The clusters may be created in different countries despite the fact of whether or not they are developed or developing countries.

There are national, regional, city and sector development cluster strategies. The rendering of concrete services (bank service, tourism, etc.) and the process of production (microprocessors, other specific products) become priorities for specific countries and regions (computer technologies, Skype in Estonia, the production of dental prostheses in Liechtenstein, the banking sector and luxurious watches in Switzerland, etc.). The above enables countries to create such product which can be competitive against the goods and services produced in other countries.

5.5.2. Transfer of new technologies and their introduction

New technologies are considered as a substantial component of an innovation system, knowledge economy and stable industrial development. The transfer of technologies; that is, the provision of technologies to the market represents a specific form of communication which is very often of interactive character and involves different forms of feedback connecting suppliers and recipients. In fact, it comprises all forms of innovation diffusion and technical education. In most cases, it is a market process whereby technologies are either purchased or sold, which means that it is introduced and mastered together with the respective know-how into economic practice. Such transfers, as a rule, are performed between scientific and research sectors, on the one hand, and within the business sector, on the other. The transfer of technologies could be performed in different ways such as, for example: international (export/import), inter-regional, inter-companies (exchange of personnel and information and the

⁶² Michael L. Porter, "The Competitive Advantages of Nations," *The Free Press*, New York, 1990.

sharing of specific knowledge with suppliers and customers), between head-office and branches and within a company.

Traditionally, the transfer of technologies and knowledge is performed through different channels amongst which the following are of enormous practical importance: i) the transfer of technologies through licenses and ii) foreign direct investments.

Due to the fact that the transfer of technologies through licenses has only modest potential in most of the developing countries, the flexible role of the government (central as well as regional and local) policy focused upon attracting and encouraging foreign direct investments is increasingly growing.

5.5.3. The role of foreign direct investments

Foreign direct investments (FDI) have an enormous positive effect upon the innovation systems and productivity of a country and its regions. In many cases, however, its effect is stronger and more tangible upon developed rather than developing countries. Extra-financial benefits and spill-over effects, characteristic for such investments, such as technological diffusions and backward linkages between local and foreign companies, create positive preconditions for the advancement of innovation efforts in the country.⁶³

At the same time, the presence of FDI alone cannot change the status of technological knowledge and related profit unless the developed countries learn, adapt to, operate and improve the technologies.

5.5.4. The role of the state in research and development

Research and development costs made in the past years represent a very significant innovation indicator. The countries differ in terms of research and development costs in the private sector but research and development in the private sector in most countries has acquired large support from the state through implementing incentive measures and tax reductions. In many cases, state interference patterns has been seriously transformed—direct participation has transformed into indirect participation⁶⁴—which means there is support for

⁶³ R. Kakulia, *The Role of FDI in Transitional and Developing Countries and the Benefit-Maximizing Government Policies*, Aradani Ltd., 2008.

⁶⁴ G. Ivaniashvili-Orbeliani, K. Kikabidze and D. Losaberidze, *The Concept of the Georgia's National Innovation System*, Tbilisi, 2008.

business-oriented research through the participation of public and private sectors and subsidies as well as tax incentives.

5.5.5. Specifics of innovation development in transition economies

The most significant aspect of the development process is the policy based upon which an adherent can copy and imitate the foreign technologies through which a country can promote the process of industrialisation. Technological imitation means much more than just following the path of the development pursued by the countries with transitional economies. More precisely, it includes the decisive stage in the process of industrialisation development and so it should be reviewed. The leading experts of the sector believe that an easy and inexpensive way for purchasing foreign technologies and adapting them to the local conditions is a key element of a technological strategy for developing countries or countries with a transitional economy.⁶⁵ The import of foreign technologies is considered as a supplementing and not substituting factor. Technological capacity, political measures, organisational activities, the nature of technological systems, market structure and international trade rules affect the level of technological imitation.

The term “technological capacity” includes the knowledge and skills for purchasing, assimilating, using, tailoring and creating of technologies. The more of the above capacity a country owns, the more successful the planned progress might be. Private business is the place of concentration of technological capacity. Respectively, they are viewed as decisive components of a nation’s competitive advantage.

5.6. Modern methodologies for evaluation of innovation systems

The *Global Innovation Scoreboard* report (GIS) compares the innovation performance of the EU25 to that of the other major R&D performing countries in the world

⁶⁵ *Ibid.*

Table 2. Global R&D Spending, 2002 R&D expenditures (thousand USD)

| | | | | | |
|-------------|----------|--------|----------------|------------|--------------|
| USA | 26655154 | 36.69 | Ukraine | 41536 | 0.06% |
| Europe25 | 16595544 | 22.85% | Luxembourg | 33527 | 0.05% |
| Japan | 14829645 | 20.41% | Thailand | 32167 | 0.04% |
| Germany | 4777706 | 6.58% | Slovenia | 31001 | 0.04% |
| France | 3056595 | 4.21% | Iceland | 26618 | 0.04% |
| UK | 2802347 | 3.86% | Croatia | 22647 | 0.03% |
| China | 1540417 | 2.12% | Egypt | 19216 | 0.03% |
| South Korea | 1439710 | 1.98% | Pakistan | 17138 | 0.02% |
| Canada | 1433170 | 1.97% | Romania | 15456 | 0.02% |
| Italy | 1218205 | 1.68% | Tunisia | 13056 | 0.02% |
| Sweden | 1032620 | 1.42% | Slovakia | 12654 | 0.02% |
| Hong Kong | 102365 | 0.14% | GEORGIA | 969 | 0.00% |

Source: Global Innovation Index, 2006

A developing country had to spend at least 0.1 percent of its GDP on innovations in order to be enrolled in the above list. Georgia takes 149th place on the list and according to per capita cost it lags behind Finland, a country of the same size, by 500 times; 140 times behind Slovenia, which is five times smaller than Georgia; 40 times behind Cyprus, which is ten times smaller than Georgia, and it stands in the second ten from the bottom, together with Nepal and the Seychelles Islands.

The key attention of the innovation policy is focused upon innovation skills and such factors of production as investments in research and development, scientific institutions, individual resources and social capital. Such factors often become fundamental for innovation and are interrelated with such intermediate results as GDP per capita.⁶⁶

⁶⁶ *Ibid.*

Innovation indicators

The respective European indicators for assessing the innovation system are extended to the following five categories⁶⁷ which include key dimensions of different innovation activities:

- **Innovation driving forces** (the amount of scientists and engineers, highly educated population, knowledge level, etc.) measure the structural conditions needed for innovation potential;
- **Knowledge acquisition** measures investments in research and development activities;
- **Innovation and entrepreneurship** measure the efforts made for innovation at the corporate level;
- **Knowledge application** measures the activities in labour and business and their added value in innovation sectors;
- **Intellectual property** measures the achieved results in successful know-how.

5.7. Best International Practices

A review of the best international experiences of the last decades and, especially, of last years has revealed that almost all of the countries with leading economies supported the development of a national competitiveness-based policy for the creation of an innovation system and clusters. One of the examples of such an approach was observed in Germany in 1996 when the German Government announced an interregional competition⁶⁸ aimed at generating applications from regional bodies for rendering financial support to the regions in the construction of innovation, regional biotechnological clusters which would help the country to improve its rather weak position in the sphere of the commercialisation of biotechnology. The regions of Bavaria, Köln and Düsseldorf in north Rain-Westphalia and Heidelberg in Baden-Wurttemberg emerged as the winners.

In the United Kingdom, the business policy of the British Government has been purposefully developing a knowledge-based economy since 1998, strengthening the specific institutions of regional development, increasing co-financing of innovation growth and supporting the policy of regional clusters.⁶⁹

⁶⁷ *European Innovation Scoreboard Indicators*, Statistics Office of the European Commission (Eurostat), CIS, OECD, OHM.

⁶⁸ "Quick Scan: Public Policies to Support 'Hot Spots' in Europe," 2005.

http://www.technopolis-group.com/resources/downloads/reports/544_Volume_II_Hotspots.pdf

⁶⁹ *Ibid.*

The countries of the Eastern Asia have also been transforming and growing since 1970. The newly industrialised countries in the region's south-west have moved to a higher position as a result of their efforts and have played a significant role in the development of new technologies. Technological progress and the liberalisation of international trade were the two key factors in the sphere of structural transformation. The share of science-based high-tech export in the total export of the countries of Eastern Asia and the Pacific Ocean basin amounted to 30 percent in 2000. The success achieved by Taiwan and Korea became possible by starting from imitation transforming into innovative production.⁷⁰ This path of development and the abovementioned examples might be interesting for the countries wishing to learn from these experiences.

The main lessons and conclusions drawn from those international experiences⁷¹ are summed up in Chapter 2 of this Diagnostic Report.

⁷⁰ G. Ivaniashvili-Orbeliani, K. Kikabidze and D. Losaberidze, *The Concept of the Georgia's National Innovation System*, Tbilisi, 2008.

⁷¹ For a more detailed review of the best international practices refer to the full version of the Diagnostic Report prepared by the respective working group.

VI. Environment and International Co-operation of Regions⁷²

This chapter represents an interim report of a Working Group on environment and international co-operation of regions in Georgia under the Secretariat of the Task Force for Regional Development and provides its main conclusions with respect to the country's environmental protection and international co-operation. The conclusions have been drawn up as a result of comprehensive research conducted by the experts of Working Group VI. Specifically, the Group's experts examined and analysed the existing practices of environmental protection and international co-operation in Georgia's regions through questionnaires, semi-structured interviews and a number of activities (seminars, working meetings). Information was gathered from all Georgian regions (with the exception of the Autonomous Republic of Abkhazia) as well as international and non-governmental organisations and public entities. The conclusions presented in this chapter also take the views of other working groups of the Secretariat into consideration as well as those of invited experts.

6.1. Main Conclusions

1. Environmental legislation has undergone changes in recent years although environmental regulation and management remain largely centralised. As the responsibility was both consolidated and centralised, many regional authorities have lost their competences for managing natural resources in their regions
2. There is practically no local environmental planning at the regional or municipal level although separate attempts at developing local environmental plans are being initiated by NGOs or international programmes.

⁷² The term "international co-operation of regions" refers to the co-operation between regions (administrative units) of different countries. By using this term, we seek to differentiate between co-operation at the national level (regional co-operation of the countries of the South Caucasus, for example) and co-operation at the sub-national level (co-operation of Georgian regions with regions of foreign, neighbouring or other countries, for example). We will also use the term "cross border co-operation" (transfrontier co-operation) which is one of the forms of the international co-operation of regions exercised bilaterally or trilaterally amongst local communities and authorities of neighbouring countries sharing a common border.

3. At the national level, Georgia does take part in international processes although the implementation of these responsibilities has not taken place or has been rather slow.
4. The Government of Georgia, donors and NGOs are supporting environmental programmes, including capacity-building programmes for local environmental managers and public participation.
5. Regional administrations do not have clearly defined environmental functions with the capacity of the regional and municipal environmental authorities for dealing with new challenges being rather low.
6. Local participation in environmental decision-making is respectively constrained.
7. Despite the difficulties and shortcomings described above, the potential for the improvement of environmental policy at the regional and municipal level in Georgia is significant.
8. International co-operation of the regions and, particularly, cross border co-operation is considered to be a driving force for regional development. International co-operation in the Georgian regions, however, has been limited in the main to information sharing activities whilst more advanced forms of co-operation, such as implementing joint projects or the establishment of joint committees, are very rare or totally absent.
9. Individual activities organised by the Georgian regions and the regions of other countries are mostly in the fields of education and culture.
10. The majority of implemented activities of the Georgian regions and those of foreign states are funded by foreign partners or international donors although Georgian regional administrations and local municipalities also appear as co-funders in certain cases.
11. The main factors impeding the development of international co-operation of Georgian regions are the absence of an adequate legislative basis enabling regions to become further engaged, the scarcity of qualified local staff and the deficit of effective co-ordination mechanisms between regional, local and the national governments.
12. The existing practice of international co-operation of the Georgian regions demonstrates that it is still in its initial stage of development.
13. There is a low importance attached to the international co-operation of the regions by the Government of Georgia.
14. Cross border co-operation can be made a priority for most of the Georgian regions which are able to support each other in the development of international co-operation.
15. The Georgian Ministry of Foreign Affairs has great potential for assisting the international co-operation of Georgian regions.
16. Most Georgian regions can utilise the advantages of their location in order to support the development of international co-operation of Georgian regions.
17. Strengthening of stability and peace can be achieved through the development of international co-operation programmes particularly in the areas of economic development, good governance and environmental protection with the support of national and international donors and the active participation of all key stakeholders, especially the local private sector.

6.2. Main Findings

6.2.1. Environment

Environmental legislation has undergone changes in recent years. The first attempt at developing modern environmental governance in Georgia was made in the early 1990s. The Law on Environmental Protection, adopted in 1996, established a comprehensive legal framework for environmental protection and the use of natural resources. The general responsibility for this function was held by the Ministry of Environmental Protection and Natural Resources (MEPNR) although the Ministries of Agriculture and Health also controlled certain functions.

Georgia's basic environmental legislation was created between 1996 and 1999. In general, the legislation attempts to follow advanced international practices and provides for the application of widespread legal mechanisms and standards including environmental impact assessment, economic instruments, inspection, monitoring and permitting. The further harmonisation of Georgian legislation with that of the EU is envisaged within the Georgian-European Union Action Plan, "New Perspectives for Partnership," which was signed on 14 November 2006 and which provides the framework for Georgia to approximate to the norms and standards of the European Union including the ratification of the United Nations Economic Commission for Europe (UNECE) conventions.

The laws regulating environmental protection and natural resource use were influenced by the reform wave after 2003 and the economic liberalisation since 2004 which have significantly changed the nature of the regulating instruments defined by the legislation. Under the new Taxation Code, the number of taxes was reduced from 21 to 6, limits on hazardous substances emissions were changed, the tax on hazardous substances emissions (air and water) was abolished and the tax for the natural resources use was replaced by a fee system. The Law of Georgia on Licences and Permits drastically changed the rules for issuing licenses for natural resources use. The activities which were subject to licensing procedures and for which an Environmental Impact Assessment was necessary, were divided into categories. The Environmental Permit was replaced with the Environmental Impact Assessment and the term of administration procedures was reduced to 20 days.

Environmental regulation and management remains largely centralised. Since 2003, changes in governance have resulted in the institutional reform of

the Ministry of Environment Protection and Natural Resources (MENPR) which was carried out in the first half of 2004. A range of state agencies, such as the State Departments of Forestry, Protected Territories, Preserves and Hunting; Geology, Geodesy and Cartography and Hydrometeorology, were abolished and became small units under the subordination of the MEPNR. In 2005, an Environmental Inspectorate under the Ministry was created in order to provide enforcement mechanisms for environmental laws and regulations. Since 2006, regional divisions are no longer able to perform controlling functions. Further, under the Law of Georgia on Licenses and Permits of 2005, the ability of territorial bodies and subordinate establishments to issue certain types of licenses for the use of natural resources has been eliminated. Territorial and local governance bodies, however, still retain competences for issuing firewood (for personal utilisation). As a result, the responsibility remained both consolidated and centralised as many regional authorities lost the responsibility for managing natural resources in their region.

There is practically no local environmental planning at the regional or municipal level although separate attempts at developing local environmental plans are being initiated by NGOs or international programmes. The **State of the Environment Report**, which was published in 1998, could be considered as one of the first attempts of planning environmental actions on a national level. Georgia adopted its **National Environmental Action Plan** in 2000. It outlines a number of short- to medium-term objectives for environmental management and the sustainable use of natural resources with chapters on water supply and surface water pollution, air pollution, resource use, chemicals and waste management, land use, protection of the Black Sea, forests and international co-operation. A second national programme of environmental protection to cover a period of five years is under preparation. Although all of the South Caucasian states, including Georgia, adopted Agenda 21 in Rio de Janeiro, the implementation of Chapter 28, Local Authorities Initiative in Support of Agenda 21, began only in 2004 within the framework of the Regional Environmental Centre (REC) Caucasus and the Russian REC project, **"Sustainable Development of Mountain Regions of the Caucasus."** funded by the Ministries of the Environment of Germany and the Principality of Liechtenstein. In Georgia, Local Agendas 21 were developed for Shatili, in the Dusheti District, the Mtskheta-Mtianeti Region, Chiora, in the Oni District and the Racha-Lechkhum-Kvemo Svaneti Region.

Building upon international experience, particularly in Central and Eastern Europe, and the recommendations of the Environmental Action Programme (EAP), REC Caucasus initiated the development of the first **Local Environmental Action Plans (LEAPs)** in three municipalities of South Caucasus countries (for Georgia, this concerned the city of Kutaisi) in 2003.⁷³

⁷³ Currently, REC Caucasus is replicating the project in the city of Poti.

The project aimed at raising awareness about the best practices for local environmental decision-making, strengthening local environmental democracy and public participation, developing a general strategy and approaches for the implementation of LEAPs in the Caucasus region and developing co-operation throughout and amongst the South Caucasus. The LEAP project helped decision-makers in local and regional governments, industries and NGOs rank environmental protection needs, develop a plan of action to address priority problems and successfully fundraise for and implement effective actions which reduce pollution.

Georgia takes part in international processes at the national level.

Georgia is party to a number of Multilateral Environmental Agreements (MEAs) with its accession and ratification rates having been particularly high within the last few years. Implementation, however, has been slow, especially with regards to the MEAs which do not have financial mechanisms to support their implementation. Georgia has not signed the UNECE Convention on the Protection and Use of Transboundary Watercourses and International Lakes, the Convention on Transboundary Effects of Industrial Accidents and the Convention on Environmental Impact Assessment in a Transboundary Context. Co-operation through MEAs has been an important element of environmental co-operation in Georgia.

Georgia has concluded a number of bilateral agreements with neighbouring and nearby countries—amongst them Armenia, Azerbaijan, Greece, Kazakhstan, Turkey, Ukraine and Uzbekistan—on environmental co-operation focusing upon the management of trans-border natural resources and pollution prevention and including the management of water, waste, biodiversity and forests. These agreements typically contain provisions on monitoring, joint research and information exchange as well as development and harmonisation of legislation.

Georgia has also entered into sub-regional and bilateral agreements, in particular to protect enclosed seas and other common resources. Georgia participates in the International Commission on the Protection of the Black Sea against Pollution. Several trilateral water management projects for the Kura-Aras River Basin have been initiated with support of TACIS and USAID.

The Government of Georgia, donors and NGOs are supporting environmental programmes, including capacity-building programmes for local environmental managers and public participation.

The European Commission and Georgia have enhanced co-operation and information exchange, including that on climate change, water, sustainable development and protection of mountains, sustainable integrated land use of the Eurasian Steppes, obsolete pesticides and classification and labelling of chemicals, as well as on Black Sea environmental collaboration.

Another major player is the European Union which directs its involvement primarily through the European Neighbourhood and Partnership Instrument (ENPI) which replaced the former TACIS programme. The conflict in Georgia in August 2008 triggered a faster launch of the Eastern Partnership Initiative thereby representing a step change in the EU's relations with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. This will be translated into more intensive support for reform efforts through a new Comprehensive Institution Building programme and a new multilateral dimension which will bring partners together to address common challenges and into additional financial assistance. There will be a substantial increase in EU support from EUR 450 mln in 2008 to EUR 785 mln in 2013.

The main international actors involved in environmental co-operation in Georgia are United Nations agencies—in particular the United Nations Economic Commission for Europe (UNECE), the United Nations Environment Programme (UNEP) and the United Nations Development Programme (UNDP)—the World Bank and other international financing institutions such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), the International Monetary Fund (IMF), the Black Sea Trade and Development Bank and the Global Environment Facility (GEF).

GEF has provided financial support to a number of projects in Georgia to address biodiversity loss, climate change, degradation of international waters, ozone depletion, land degradation and POPs. Priorities for World Bank financing in Georgia include, amongst others, promoting regional environmental initiatives, strengthening institutional capacities and rehabilitating infrastructure. UNDP is actively supporting initiatives to improve the management and conservation of natural resources including energy conservation, renewable energy and trans-boundary waters.

Georgia has a number of bilateral technical co-operation arrangements with Denmark, Germany, Japan, Switzerland, the United States and the European Commission, providing technical and financial assistance for environmental protection.

Georgia is a co-founder (together with Armenia, Azerbaijan and the European Commission) as well as host country of the Caucasus Regional Environmental Centre (REC Caucasus).

Regional administrations do not have clearly defined environmental functions with the capacity of the regional and municipal environmental authorities for dealing with new challenges being rather low. As part of decentralisation, local governments were given mandates to formulate and implement their own environmental policy. The commitment of local self-governments towards environmental protection, however, remains weak. Local self-governments often perceive the regional divisions of MEPNR as the main

executors of environmental policy and so they take more responsibility for territorial planning, municipal infrastructure and communal services than issues concerning the environment. Environmental issues extending beyond a region or a city, covering water basins or air sheds, require intra-regional co-operation although there has hitherto not been a single case of such co-operation in Georgia as initiated by self-governments.

Local participation in environmental decision-making is respectively constrained. Some NGOs suggest that the MEPNR's current actions towards guaranteeing accountability to the public are confined in the main to announcements on their web-site which concern the hitherto executed and planned auctions of mining operations and the listing of violations uncovered by the Environmental Inspectorate. As of today, the dissemination of information (mandatory announcement in central and local newspapers about the public hearing of Environmental Impact Assessment (EIA)) and the arrangement of a public hearing is the responsibility of an investor seeking an environmental permit.⁷⁴

The issue of participation is generally considered to be even more essential in the field of environmental than in other areas since decisions may be taken centrally but knowledge of likely consequences may be held in local communities with the impact of the decision (in the form of negative environmental consequences) also being felt locally. In this way, the reduction in obligations to inform the public or to hold public consultations is a concern of non-governmental organisations.

Despite the difficulties and shortcomings described above, the potential for the improvement of environmental policy at the regional and local level in Georgia is significant.

In case more authority is given to regional and local governments in the field of environment the following can be achieved in the regions:

- Significant public budgetary resources are mobilised on local level;

⁷⁴ In order to arrange a public hearing for an EIA, the investor is first responsible for submitting an EIA report to the Ministry of Environmental Protection and Natural Resources within one week after the announcement of the hearing published in a newspaper. Within the following 45 days, he may receive remarks and opinions thereto from the public in written form, organise the public hearing in the administrative centre of the region in which the project will take place between 45-60 days after publishing the announcement; he should invite representatives of local authorities, the Ministry of Environmental Protection and Natural Resources and other stakeholders to attend and produce minutes of the public hearing within five days after the event which include all remarks and opinions voiced at the hearing.

- Accountability of public officials to citizens is increased;
- Local environmental managers have much closer relations to the polluters and the population;
- Public participation in environmental decision-making is much greater at the local and especially in the local self-government level;
- Local administrations play a significant role in the development of effective environmental governance, waste and water management, eco-tourism and biodiversity projects.

1. **The Forest (Biodiversity)**

Problems identified in the forestry Sector⁷⁵:

- **Controversial legislation** – there are collisions in the actual legislation that makes impossible to implement requirements set by the laws;
- **Weak bureaucratic apparatus** – despite the structural changes of forestry department implemented in 2007, which aimed at optimization of the apparatus, clear designation of responsibilities and increase of motivation, it is still necessary to develop logistical and intellectual capacity of the newly established system ;
- **Competences of the Local and Central Authorities are not clearly distinguished**
- The forest resources of local and state importance are not distinguished both in legal and practical terms. The boundaries of forests are not demarcated. There is no clarity in competences and responsibilities of stakeholders involved in forest management;
- **Weak involvement of private sector** – despite the recent important undertakings in the forestry sector aimed at promoting of the private sector involvement in the forestry, the activity of business lacks sustainability;
- **Natural anthropogenic processes** – degradation caused by the human activities – legal and illegal mis-use of forest, natural degradation, forest fires, losses caused by re-forestation or deforestation of the areas.

2. **Protected Areas (biodiversity)**

Problems identified in relation to the protected territories:

- Negative impact of Anthropogenic factors (climate change) on endemic species of flora and fauna;
- Restriction of the social rights and income of the population living in the surrounding areas;
- Absence of the alternative sources of income for local population;

⁷⁵ The first four problems are formulated in the Forestry Policy Project Document of Georgia; Y2007. <http://www.forestry.ge>.

- Low Consciousness and participation of local population⁷⁶.

3. Rivers (water resources)

Problems identified in relation to the rivers:

- Decrease in river flow;
- Pollution;
- Absence of permanent monitoring system on river flow;
- Absence of the monitoring on river pollution.

4. Ground Water

Problems identified in relation to ground water resources:

- Absence of the monitoring and control on volume and pollution of the Ground water resources;
- Decrease in the volume of spring water resources (steel and mineral) caused by improper management and anthropogenic impact and environment;
- Deterioration of the quality of spring water resources (steel and mineral);
- Diminishing yields (resulted in increased poverty and emigration);
- Inefficient use of Geothermal resources;
- Adverse effect on tourism and healthcare.

5. Glaciers

Problems identified in relation to Glaciers

- Sharp fluctuation of the river flow;
- Activation of Sedimentation in the rivers;
- Lakes originated in result of thawing of glaciers blocking the roads and villages.

6. Lakes

Problems identified in relation to the lakes

- Changes of the water temperature and other natural conditions (saltiness, changes in flora) in the lakes;
- Changes in the species of fishes;
- Pollution of lakes in result of improper exploitation.

7. Black sea coast

Problems identified in relation to Black sea coast

⁷⁶ Problems related to the protected territories in details are given in the document of the National Agency of Protected Areas "Strategy and Action Plan of the Development of the Protected Areas of Georgia"

- Water pollution (ports, settlements);
- Artificial changes in the Balance of the Ecosystem in the deltas of rivers;
- Increase in the sea level, increase in probability and intensity of waves, change in water temperature and chemical composition, intensified sedimentation in the deltas of the rivers;
- Erosion of the coast;
- Erosion, salting of the Agricultural land in the coastal surrounding areas
- Spreading the diseases and infections in result of flooding;
- Affected infrastructure;
- Affected protected territories (especially lake Paliastomi).

8. Renewable energy resources (hydro, wind, solar, biomass, geothermal resources)

Problems identified in relation to the Renewable energy resources

- Changes in renewable energy resources;
- Changes in biogas resources;
- Flooding;
- Winds;
- Erosions caused by winds and water.

9. Waste (solid waste, Sewer water)

Problems identified in relation to waste:

- Ineffective management of the sewer water and waste (absence of the recycling and cleaning capacities);
- Adverse effect on healthcare system;
- Adverse effect on the ecosystem (water, soil, local atmosphere);
- Greenhouse gases (methane- CH_4) uncontrolled generation and emission).

10. Land Resources

Problems identified in relation to Land Resources

- Decrease in amount of agricultural land;
- Diminishing Non-agricultural land areas (landslides, softened areas in result of sea flooding);
- Migration (eco migration);
- Affected tourism industry because of erosion
Destroyed Balance of Ecosystem (forest, mountains, rivers and coastlines).

11. Atmosphere (local and global)

Problems identified in relation to atmosphere

- Pollution of Atmosphere and its adverse effect on the health, agriculture and ecosystems;
- Global pollution of the atmosphere (greenhouse gases).

12. Climate zones and landscapes

Problems identified in relation to Climate zones and landscapes

- Changes in climate zones and/or landscapes (caused by changes in temperature and rainfall);
- Microclimate changes
- Changes in landscape (caused by anthropogenic influence);
- Anticipated changes in agricultural production, as well as degradation of resort areas and living environment;
- Changes in ecosystem (water, soil, local atmosphere).

6.2.2. International Co-operation of Regions

International co-operation of regions and, particularly, cross border co-operation is considered to be a driving force for regional development. It is generally assumed that cross border or trans-frontier co-operation is a necessary component for regional development in that it contributes positively to the socio-economic development of the regions and solves specific problems related to border regions. In addition, it serves as an effective tool for conflict prevention and plays an important role in establishing stability and democracy at the regional level.⁷⁷ Indeed, the importance of international co-operation of regions is illustrated by the growing attention paid thereto by the two main European institutions: the Council of Europe and the European Commission.

The origins of international co-operation of regions date back to the period immediately after World War II when the first cross border co-operation schemes appeared in the form of twinings between municipalities and communities of various European countries. The first "Euroregion" was set up in 1958 along the German-Dutch border (the EUREGIO around Gronau) and the first Council of Europe recommendation on transfrontier co-operation, which later gave rise to the Madrid Outline Convention, was produced in 1966. Since then, a number of euroregions, as well as international organisations aiming to promote cross border co-operation, have been created.

A steady increase in the number of transfrontier co-operation schemes appeared after the establishment of the European Union since the EU paid more attention to the support of cross border co-operation development within its internal and external borders as well as the cross border regions of the partner states. In

⁷⁷

<http://www.ewi.info/ourwork/index.cfm?title=Regional%20and%20Transfrontier%20Cooperation&activityID=11>

1990, the EU launched INTERREG I, the first community initiative for the promotion of cross border co-operation, which was later followed by INTERREG II, III and IV. In addition to this, the **Cross Border Co-operation Programme (CBC)** has become a key priority of the European Neighbourhood and Partnership Instrument (ENPI) which aims at reinforcing co-operation between EU member states and partner countries along the external border of the European Union. Fifteen programmes have been established under the ENPI CBC programme for the period 2007-2013 including land-border programmes, sea-crossing programmes and sea-basin programmes.

The Parliamentary Assembly of the Council of Europe (PACE) has recently adopted a recommendation stressing the particular importance of cross border co-operation and its importance for promoting democratic stability and mutual understanding between the states and their communities including ethnic minorities living in the border regions.⁷⁸ In this regard, the international co-operation of regions and, specifically, cross border co-operation acquires particular importance in the Georgian context as a tool for conflict prevention and peace-building as well as an important component for socio-economic development. Cross border co-operation is particularly important for encouraging Georgia's integration into the European and Euro-Atlantic alliances.

Significant majority of Georgian regions (regional authorities) , have established some forms of co-operation with the regions of foreign countries. The international co-operation of Georgian regions is mostly demonstrated by twinings between major cities and municipalities and by conducting information sharing activities in various fields. Tbilisi and major cities from nine Georgian regions (Ajara, Kvemo Kartli, Kakheti, Imereti, Mtskheta-Mtianeti, Samegrelo-Zemo Svaneti, Guria, Samtskhe-Javakheti, Racha-Lechkhumi-Kvemo Svaneti) have been twinned or signed a memorandum of co-operation with foreign cities. Five Georgian regions (Ajara, Guria, Imereti, Kakheti and Shida Kartli) are members of the Assembly of European Regions which is the largest independent network of regions in Europe established in 1985 and bringing together over 270 regions from 33 countries and 16 inter-regional organisations.⁷⁹ Tbilisi has also been seeking membership in the AER although it is currently impossible in that Tbilisi is hitherto not legally defined as a region.

⁷⁸http://www.coe.int/t/dg4/majorhazards/ressources/APCAT/2008/apcat2008_12_REC18_29_EN.pdf

⁷⁹ The largest independent network of regions in Europe established in 1985 and bringing together over 270 regions from 33 countries and [16 inter-regional organisations](http://www.aer.eu/).
<http://www.aer.eu/>

International co-operation of Georgian regions has been mostly limited to information sharing activities whilst more advanced forms of co-operation, such as implementing joint projects or the establishment of joint committees, are very rare or totally absent. Most of the international co-operation practices between Georgian and foreign regions have taken place in the form of individual meetings or study visits aimed at information and experience sharing between representatives of various regions. There have been some attempts at establishing more advanced co-operation schemes such as implementing joint projects although those attempts have hitherto not been realised owing to some external and internal factors. In 2007, for example, an infrastructure development project was jointly initiated by Kvemo Kartli and Armenia's Tavush regional authorities with the support of the Delegation of the European Commission to Georgia and the Government of Poland (Polish Aid). The project aimed at supporting infrastructure development and the establishment of joint enterprises in both regions although it was ultimately suspended after its initial meetings and workshops.

Currently, there are some plans to establish joint bodies which are assumed to be the most advanced forms of international co-operation at the regional level. Tbilisi and Atlanta, for example, are planning to establish a joint committee aimed at promoting close co-operation in the fields of economic development, cultural, legal and other issues.

Most information sharing activities are exercised in the fields of education and culture. Joint activities are mainly demonstrated by educational and cultural exchange programmes such as exchanges for students and pupils. These have included student and teacher exchange programmes between the Universities of Lviv and Kutaisi, training programmes for public servants (representatives of the Tbilisi Committee on Environmental Protection and Natural Resources attended educational programmes in Bristol in 2000 and 2001 and representatives from Kakheti municipalities attended a training programme in Alba Iulia in 2008 funded by the Embassy of Romania), conferences, seminars and cultural exchange programmes (a cultural presentation called Tbilisi Days was held in Kiev in 2005). A number of activities have been implemented which aim towards strengthening economic and business relations between regions although this is still mainly conducted through information and experience sharing. They would better be defined as educational rather than economic programmes owing to their nature (representatives from Tbilisi and Atlanta participated in a business forum which was held in Atlanta on 12 December 2008, for example).

Currently, there is a low importance attached to the international co-operation of regions by the Government of Georgia. International co-operation of regions and cross border co-operation has not been mentioned in any major state documents produced by the Government of Georgia. Neither the

Basic Data and Directions (BDD) document nor the Law on the State Budget for 2009 mention international co-operation of regions. International co-operation of regions is also not mentioned in the Passports on the regions of Georgia, the only official reports on Georgian regions produced by the Government of Georgia in 2007-2008.

The majority of jointly implemented activities of Georgian regions and the regions of foreign states are funded by foreign partners or international donors although Georgian regional administrations and local municipalities also appear as co-founders in some cases. The bulk of the funding for joint activities comes from international donors and local authorities of twinned cities and municipalities whilst Georgian regions cover only small portions of expenses. Unfortunately, the exact percentage of fund sharing is not available owing to the scarcity of information. Major donors identified in this regard are the EU Delegation Office in Tbilisi, Polish Aid and USAID. Certain activities have been funded by foreign embassies represented in Georgia.

The absence of an adequate legislative basis appears as one of the major inhibiting factor for the development of effective and efficient international co-operation of Georgian regions. Only Tbilisi and Ajara appear to have a respective legal and institutional capacity for international co-operation. In addition, the lack of a respective national law facilitating the implementation of the Madrid Outline Convention⁸⁰ creates certain difficulties for regional and local authorities to benefit from existing co-operation initiatives. Legislative and institutional constraints have been frequently mentioned by the regional or local representatives as the main reason for the underdeveloped international co-operation of the regions.⁸¹

International cooperation of regions and Local self-governments may be exercised on the basis of interstate bilateral or multilateral agreements, which are not concluded with any other state but Republic of Poland. However, interstate agreements, which are based on European convention on "cross border cooperation of administrative-territorial units or bodies of authorities" ratified by the Parliament on April 28, 2006 by the resolution 2961-I and on the Article 2 of the same resolution, entitles the local authorities the right to enter into trans-border cooperation which shall comply with the legislation.

Absence of the institutional basis at local level for international cooperation, which would mobilize the stakeholders (private sector, municipalities, etc.) and allow for effective implementation of the international cooperation is one of the impeding factors in development. Creation of such a basis would be

⁸⁰ Madrid Outline Convention on Trans-frontier Co-operation between Territorial Communities or Authorities. Ratified by the Parliament of Georgia in 1996.

⁸¹ Minutes of the Roundtable Meeting of the Task Force Secretariat (and Working Group 6) with representatives of regional administrations, Tbilisi, 4 February 2009.

advantageous for it allows revealing the needs of stakeholders and effective planning and implementation of the exercise.

Scarcity of a respectively qualified local staff in the regional administrations appears as one of the inhibiting factors for the development of the international co-operation of regions. Regional and local authorities lack advanced knowledge in the planning and development of international co-operation projects. Regional authorities frequently underline the lack of qualified staff as a key barrier of their working capacity required for the development of strong project proposals and attracting the necessary funding for their international co-operation projects from respective sources.⁸²

The lack of effective co-ordination mechanisms between regional and local authorities and the national government for developing relations with foreign regions is also hampering the international co-operation of regions.

Since the closure of the Russian market for Georgian products, the regions have suffered from losing the largest part of traditional foreign markets for their agricultural goods. Owing to the absence of proper co-ordination mechanisms, respective international co-operation initiatives for the effective reorientation of those goods to other international markets has not taken place.⁸³ At the same time, it seems that there has been no co-ordination on respective issues such as the import of low-cost agricultural products from Turkey as a result of which local agricultural products are being driven out from the market.⁸⁴

Georgian regions are able to support each other in the development of international co-operation. Current trends for inter-regional cooperation amongst Georgian regions are hitherto not intensive but carry great potential for building more effective partnerships with their foreign counterparts. More developed regions are assisting others in establishing international co-operation with the respective regions of other countries. Tbilisi, for example, has assisted the Mtskheta-Mtianeti Region in developing relations with the Wielkopolska Region of Poland.⁸⁵ As a result of its enhanced capacity, Tbilisi's administration has already expressed its readiness to assist other regions in establishing respective co-operation ties with foreign regions by assuming a co-ordinating role. The Guria regional administration has also approached the Ajara government for similar assistance as they themselves lack the capacity as well as the resources for establishing such co-operation. It should also be mentioned

⁸² *Ibid.*

⁸³ *Ibid.*

⁸⁴ *Ibid.*

⁸⁵ *Ibid.*

that the cases in which regions of foreign states are interested in initiatives interlinking several Georgian regions are becoming more frequent. Strong incentives, therefore, may exist for interlinking two or more Georgian regions in order to develop better partnerships with their foreign counterparts.

Cross-border co-operation can be made a priority for most Georgian regions. Connecting Georgian regions with distant non-bordering regions of other countries can require substantial financial resources and be limited in the number of persons involved. There is a greater potential, therefore, for boosting cross border co-operation with neighbouring countries which can be thoroughly studied and fully utilised in the future. Georgian regions have a great potential for forming euroregions in partnership with the regions of bordering states. Ajara has the advantage over other regions due to its more or less developed regional governmental structure and a certain level of discretion in administering its budget and the development of international co-operation.

The Ministry of Foreign Affairs of Georgia has a great potential to assist the international co-operation of Georgian regions. The Ministry is able to provide respective advice concerning the necessary legal arrangements in order to enter into relations with the regions of other countries as well as to provide support in establishing and developing respective international contacts. Such support will boost the communication of Georgian regions with their foreign counterparts and enhance the efficiency for establishing and developing the required co-operation schemes⁸⁶.

Most Georgian regions can utilise the advantages of their location to support the development of international co-operation of Georgian regions.

Due to absence of practice of international cooperation of the regions, priorities of cooperation are not identified on the basis of comparative advantages of the regions. The practice⁸⁷ of city bridging revealed that the established cooperation is limited to study visits with participation of representatives of local public and private sectors with the purpose of cultural exchange. It does not aim at identification of potential for economic cooperation, the use of common resources and implementation of joint projects⁸⁸.

⁸⁶ The term co-operation schemes means both formal or informal structures and bodies for the regular international co-operation of regions.

⁸⁷ Protocol of the working group meeting at the Ministry of Finance.

⁸⁸ According to the information provided by the Truism Department, the region branding project is being implemented for the Regions of Kakheti and Imereti, which is focused on development of truism industry.

Language as an asset. For most of the Georgian regions, the Russian language still has a significant importance as concerns cross border as well as inter-ethnic relations. In the Autonomous Republic of Ajara, many speak Turkish with Georgian also being used in Turkey's bordering regions, especially in business relations. In addition, the Azerbaijani and Armenian minorities of the Georgian regions of Kvemo Kartli and Samtskhe-Javakheti speak the Azerbaijani and Armenian languages. The knowledge of the relevant languages in cross border communities is a great asset and enhances the international co-operation potential of those regions.

Foreign investors, trade partners and international donors. The regions of major export countries for Georgian products as well as major foreign investors have a high potential, motivation and needed resources for building region-to-region partnerships. Such connections can greatly contribute to the exchange of knowledge and experience, the harmonisation of business standards and practices, the further enhancement of local businesses and the improvement of the business and investment climate. The international role of Georgia as a transit country for hydrocarbons and other goods has attracted multinational enterprises such as British Petroleum as well as investments from the world's leading economies in the regions of Kvemo Kartli and Samtskhe-Javakheti.⁸⁹ In addition, infrastructure development projects have been supported by various international donors. Private investors also intend to contribute towards the enhancement of internet and communication infrastructure development through free industrial zone projects.⁹⁰ Such circumstances create new prospects for the regional authorities to initiate, plan and implement activities together with their foreign counterparts in a very different way from the old Soviet-model. The new model offers wide grassroots involvement which has crucial importance for preserving the environment and the socio-economic development in Georgia's regions.

Potential of non-state actors. Several key actors have been identified which significantly contribute or have the great potential to contribute to regional development through respective international co-operation programmes. Regional development agencies, sector-specific national and international NGOs and local community-based organisations are considered to be major contributors in this regard.

⁸⁹ The construction of the Baku-Tbilisi-Ceyhan pipeline was accompanied by social and economic development projects supported by British Petroleum, at <http://www.bpgeorgia.ge/go/doc/1339/245697/>

⁹⁰ The *iCity Tbilisi* free industrial zone project is envisaged as an e-commerce, internet services free zone being jointly developed by Dutch investor NetValue and Bagebey City Group through the customs terminal LILO 1, at http://www.finchannel.com/index.php?option=com_content&task=view&id=23391&Itemid=18 also press release at <http://www.liloerty.ge/en/pdf/offer/advertising.pdf>

Currently, there are only two regional development agencies established in Georgia; namely, in Kakheti and Samtskhe-Javakheti. These two agencies are able to play an important role in the development of much needed international co-operation projects in partnership with the respective local and international NGOs. Further, the initiative implemented by the Eurasia Partnership Foundation for linking the honey producers of Georgian, Armenian and Azerbaijani regions represents a good example of such co-operation.⁹¹

The Bio-farmers Association *Elkana* is particularly effective in assisting the development of local-to-local co-operation between organic farmers from Georgian regions and EU member states.⁹² Environmental NGOs, such as CENN and NACRES, also implement cross border projects in the field of the environment interlinking NGOs and government representatives from the three countries of the South Caucasus on the issues of biodiversity. The Green Movement of Georgia is yet another Georgian NGO implementing cross border co-operation projects on important environmental issues such as toxic wastes, agricultural wastes and genetically modified organisms involving the key stakeholders of the South Caucasian states.⁹³

The role of international NGOs is of particular significance. Organisations such as CARE International, CHF and the Eurasia Partnership Foundation are actively contributing towards establishing and further developing cross border co-operation amongst the regions of the South Caucasian countries through their programmes. Community-based organisations (CBOs) have their important role in bringing the issues of major concern of the local communities to the higher level of local self-governments and regional administrations. Whether or not CBOs have developed such a capacity, however, remains to be seen as their current role is still focused upon the implementation of local projects within the major donor-led programmes co-ordinated by international NGOs predominantly in the area of socio-economic development.⁹⁴

Protection of the environment. Cross border co-operation in this area appears to be the most developed although the degree of the involvement of local authorities is minimal with the regional administrations frequently having no role in these projects. Key areas for cross border environmental co-operation

⁹¹ Information paper and questionnaire submitted by the Eurasia Partnership Foundation to the Task Force Secretariat.

⁹² *Elkana* website <http://www.elkana.org.ge/news.php>

⁹³ Information submitted by the Green Movement of Georgia in accordance with the questionnaire of Working Group 6 and the Minutes of the Working Group 6 Meeting of 25 December 2008.

⁹⁴ Strategy for Strengthening CBOs for Participation in the Economic Development and Poverty Reduction Programme at <http://www.psigeorgia.org/undpsa/files/CBO%20Strategy%20-%20Eng.pdf>

are: the cross border protected areas as well as other initiatives aimed at biodiversity protection remain significant for the protection and preservation of the Caucasus as one of the world's unique biodiversity regions. Waste management is another important issue for international co-operation within the field of environmental issues although only a few cases have been identified in this area. The Telavi municipality of the Kakheti Region, for example, co-operates with the Swedish city of Saffle on waste management issues, for example, as reported by the Kakheti RDA.⁹⁵ Trans-boundary pollution of water is a further underdeveloped area for co-operation although no joint projects have hitherto been developed in this area despite several initial attempts.⁹⁶

Strengthening of stability and peace can be achieved through the development of international co-operation programmes particularly in the areas of economic development, good governance and environmental protection with the support of national and international donors and the active participation of all key stakeholders, especially the local private sector. The following sectors show promise for successful engagement:

Tourism. Prospective projects in this area have significant potential owing to the large opportunities for the development of tourism in Georgia's regions.⁹⁷ This area is also important for the attraction of foreign investments particularly for eco-tourism, the development of hotel and supporting agricultural infrastructure and for national parks and other natural reserve areas. The planned cross border biosphere reserve shared with Armenia and Turkey also carries a great potential for the attraction of funding from multiple sources including national governments, international organisations and the private sector.⁹⁸

Agriculture. Regional administrations have a direct link with the central government and, therefore, are able to stimulate respective initiatives wherein joint co-operation schemes are required on issues such as, for example, the market access of certain products for predominantly agricultural regions

⁹⁵ Minutes of the Roundtable Meeting of the Task Force Secretariat (and Working Group 6) with representatives of regional administrations, Tbilisi, 4 February 2009.

⁹⁶ The Imereti Region had an unsuccessful project with French Lion about a joint water supply system. See the report by Niko Kachkachishvili, Representative of the Imereti Regional Administration and Minutes of the Roundtable Meeting of the Task Force Secretariat (and Working Group 6) with representatives of regional administrations, Tbilisi, 4 February 2009.

⁹⁷ *Lost Potential in the South Caucasus: Aspects of Interstate Trade*, Friedrich Ebert Stiftung, 2003, pp. 80-81.

⁹⁸ Information submitted by the WWF in accordance to the questionnaire of Working Group 6.

suffering from the low costs of imported agricultural products from Turkey which drive local products out of the market. This particular issue has the great potential for establishing so-called 'bottom up' schemes of co-operation involving the regional and local governments from each side. Both Georgia and Turkey are members of the World Trade Organisation (WTO) and carry obligations under their respective WTO Agreements.

Training and capacity-building. There is a great need for acquiring respective experience from the new member states of the EU in the issues of regional and local self-governance. The support of international organisations for the capacity-building of local council members and local administration staff is highly desired and so their assistance is needed in the development of respective joint capacity-building programmes together with the regions of other countries. Such programmes will permit the effective, smooth and timely transfer of extensive knowledge from their international counterparts. Regional authorities can express their strong interests in this regard as well. Moreover, co-operation in this area enables regional authorities to develop a more intensive and sophisticated international co-operation such as joint schemes for regular partnership.

Existing practice of international co-operation of Georgian regions demonstrates that it is in its initial stage of development. This far, the international co-operation of Georgia's regions with those across their borders or beyond them is difficult to consider as being effective enough for the further enhancement of local capacities to stimulate regional development from this perspective. Existing co-operation schemes in the field of environmental, social and economic issues have been established as pilot schemes although the consistency and substitution of donor-led programmes with their bottom-up approach grassroots initiatives have not taken place as a follow up. Whilst there is a general tendency to propose pilot schemes from donor governments and institutions as well as the Government of Georgia, they are very rarely if ever followed by new local initiatives further engaging the regions of other countries in a continuation or enhancement of already established partnership projects. As a result, the existing top-down schemes, which frequently lack the engagement of key local stakeholders in the initiation process as well as strong co-ordination amongst the different levels of governance in order to stimulate local participation which is crucial for the initiation and further strengthening of bottom-up approaches, are left unchanged. The lack of an effective co-ordination mechanism between regional and local authorities and the national government slows down the development of international co-operation activities.

Table 1. Key Areas of International Co-operation of Georgian Regions, their goals and the level of regional and local participation

| Areas of Co-operation | Goals | Degree of Regional and Local Participation |
|--|---|--|
| Environment and sustainable development | Cross border protected areas projects are aimed at establishing joint mechanisms for the preservation of unique ecosystems and biodiversity (donor-led and with international co-ordination and active involvement of national governments) | Hitherto vague role of the regional and local governments |
| | Black Sea environmental projects such as Integrated Coastal Zone Management (ICZM) programmes covering overlapping / cross-cutting issues of waste management, fishing infrastructure development (also with limited participation of local and regional administrations) | Limited participation of local and regional governments |
| | Water management projects in partnership with the EU member states, regions and cities (Poland, Sweden) | Co-ordinating role and implementing capacities of Georgia's local self-governments |
| | Waste management projects aim for the establishment of improved waste disposal facilities | Clearer role of local self-governments but hitherto insufficient involvement of regional governments |
| Economic development (agriculture) | Exchanges of wine industry experts aimed at the development and promotion of the wine industry in respective Georgian regions | Active participation of regional government |
| | Horticulture cross border project aimed at establishing networks of | Limited role of local and regional |

| | | |
|---------------------------------------|---|--|
| | Georgian beekeepers with their Azerbaijani and Armenian counterparts (with limited role of local and regional authorities) | governments |
| | Production of bio-products overlapping with cross-cutting issues of environmental and sustainable development are aimed at improving the performance of the bio-farming businesses | Hitherto limited role but great interest of local and regional governments to be actively involved in the respective processes |
| Economic Development (tourism) | Tourism projects are aimed at the provision of support for the tourism industry development by joint efforts of local and regional authorities across the national borders. Joint meetings on tourism issues usually include the exchange of experience in tourism planning, management and promotion | Hitherto limited role but great interest of local and regional governments to be actively involved in the respective processes |
| Economic Development (other) | Other economic development programmes are aimed at attracting foreign investments through tax-optimisation mechanisms such as free industrial zones, stimulating of enhancement of cross border trade and support of respective SME schemes | Limited or hitherto unclear role of local and regional governments |
| Healthcare | Healthcare programmes are aimed at providing training for local medical staff (an Austrian region hosted training for Kakheti Region doctors aimed at improving the skills of local doctors) or exchange of experience in joint use of border healthcare facilities (cross border co-operation development study visits and | In both cases, Georgian regional governments were the recipients of the technical assistance |

| | | |
|--------------------------------------|---|---|
| | training programmes in the joint use of healthcare facilities of border regions implemented within the framework of the ENPI | |
| Governance and Administration | The goal of such programmes is the exchange of experience on governance and administration issues. An example is the co-operation with the bordering Turkish region of Artvin for the exchange of experience in the administration of regional structures; overlapping with cross-cutting issues in agriculture and environment (forest management) | Active role of regional government |
| Education | These programmes are aimed at the provision of knowledge to students from co-operating regions. Scholarships are available for youth of several Georgian regions in their twinned regions and cities (Poland, France) | Active role of local and regional governments |
| Arts and Culture | These initiatives are mostly aimed at the promotion of regions. Concerts by various folk groups are organised jointly by the Georgian regional authorities and their foreign counterparts | Active role of local and regional governments |

VII. Legal Solutions for Effective Regional Development

The purpose of this Diagnostic Report, as prepared by the Working Group, is to present an analysis of Georgian legal acts regulating regional development and to highlight the problems which hamper regional development in Georgia. For the purpose of this Report, the Group applied methods of statistical, historical, logical and comparative analysis.

The Working Group has analysed up to 900 normative acts from a legal point of view and covered in-country legislation as well as the international treaties and conventions on regional development to which Georgia is a party. Approximately eighty nine statutory acts were used for the development of this Diagnostic Report.

It should be noted that detailed sectoral legal analysis is presented in reports prepared by relevant working groups. Report prepared by the Legal Group covers general and conceptual issues, as well problem analysis of issues not covered by other groups

In addition, the Working Group studied the legal aspects of the regional development process in foreign countries and tried to research the key defining legal acts and the fundamentals serving as the basis for the regional development policy of these countries.

7.1. Conclusions

- 1. Georgia has to elaborate legal acts defining the concept of a 'region.'**
- 2. Georgia has no regional development strategic paper which would be a legally binding and guiding document for all state agencies and provide the key directions, principles, objectives and tasks for state regional development policy.**
- 3. The current edition of the Organic Law on Local Self-Government entitles only neighbouring self-government bodies to create joint services, which in its turn, limits the co-operation abilities of non-bordering local self-government bodies. Similarly, Georgian legislation has no adopt provisions on allowing neighbouring municipalities to enact joint statutory acts.**

- 4. Generally, strong centralisation and poor deconcentration of power is characteristic of Georgian legislation and practice.**
- 5. Quite often, the competences of the central government and the local self-governments are not clearly separated.**
- 6. Except for the high mountainous regions, Georgian legislation has no criteria for defining those regions which are in need of special state support; that is, a depressed area (such as those areas bordering the conflict zones or territories affected by natural disaster).**
- 7. As a rule, Georgian legislation has no provisions for decision-making procedures and institutional mechanisms which would ensure the active involvement of local self-governments and communities in responding to regional development problems.**
- 8. An effective institutional mechanism for regional development which would ensure interagency co-operation in the regional development area also should be defined.**

7.2. Main Findings

7.2.1. Concept of a region and a region as a subject of the law according to Georgian legislation

At present, Georgia has no legal act providing the definition of a 'region.' Legal acts concerning regions use this term with its different meanings to mark a geographic location, historical sites and territories under state a trustee – governor's responsibility.

Currently, Georgia has only two state-territorial units which were originally developed upon the basis of a region; namely, the Autonomous Republic of Ajara and the Autonomous Republic of Abkhazia. Further, a temporary administrative and territorial unit was created on the territory of the former Autonomous District of South Ossetia. As for the remaining parts of Georgia, district (regional) administration is not applied. The term 'region,' however, is intensively used in various legal acts within different contextual meanings.

In international treaties and agreements signed by Georgia, the 'region' is used in the following context: Borjomi and Kharagauli National Park Region,⁹⁹ Supsa Region and border region. In some cases, the term is used to name the historical parts of Georgia such as: Kakheti region, Shida Kartli region and Imereti region,¹⁰⁰ for example, and it is also applied in reference to villages, communities,¹⁰¹ high mountainous areas (mountainous regions),¹⁰² and the Ajara and Abkhazia autonomous republics.

A similar situation is observed in the internal legislation of the country wherein the term 'region' is frequently applied in relation to the historical-geographic regions of Georgia such as, for example: in the forms of regional programmes on education,¹⁰³ employment, environmental protection, etc. On certain occasions, 'region' is applied in reference to territories outside of the capital city. Pursuant to the Georgian Law on the Budgetary System, for example, "The Law on Budget System" superseded by the "Budget Code of Georgia" stipulated the creation of "the fund for projects to be implemented in the regions". According to the "Budget Code of Georgia", assignments of state importance are the assignments from the annual budget classified in the first category organizational code, which includes the fund for the projects to be implemented in the regions as a separate organizational code.

the Regional Project Implementation Fund will be envisaged by the budget. Further, there are certain resolutions on the improvement of the social and economic potential of the regions such as, for example: Tianeti, Imereti, Samegrelo and Zemo Svaneti. The term 'region' is intensively applied in relation to the territorial agencies of various ministries such as the Ministry of Finance which runs its Regional Treasuries.¹⁰⁴

⁹⁹ Agreement between the Government of Georgia and the Government of the German Federation on Technical Co-operation ratified by the Parliament of Georgia on 10 October 2006 by Resolution No. 3559 - II.

¹⁰⁰ Funding Agreement between Georgia and the International Development Association (Third Poverty Reduction Support Operation) ratified by the Parliament of Georgia on 22 June 22 2007 by Resolution No. 5053 - II. IDA is part of World Bank

¹⁰¹ Project (Rural Development Project) Funding Agreement between Georgia and International Foundation for Agriculture Development ratified by the Parliament of Georgia on October 13, 2005 by the resolution # 1963 – II.

¹⁰² Georgian Law on Social, Economic and Cultural Development of Mountaneous Regions.

¹⁰³ Georgian Law On General Education, No. 1330 of 8 April 2005.

¹⁰⁴ Article 12.3 of Resolution No. 39 of the Government of Georgia dated 21 May 2004 concerning the approval of the regulations on the Ministry of Finance of Georgia.

Georgian legislation is also familiar with the notion of 'planned regions'¹⁰⁵ which stands for the territories of regions which are grouped under similar historical, cultural and or economic characteristics and or for solving special spatial and territorial tasks.

7.2.2. Aspects of the state territorial arrangement of Georgia

The state territorial arrangement of Georgia is stipulated by Article 2.3 of the Constitution of Georgia subject to which "the territorial state structure of Georgia shall be determined by a Constitutional Law upon the basis of the principle of circumscription of authorisation after the complete restoration of the jurisdiction of Georgia over the whole territory of the country¹⁰⁶."

By declaring the above said, the Constitution of Georgia put a temporary restriction on the issue of the state territorial arrangement of the country. Accordingly, until the restoration of Georgia's territorial integrity, any legal acts defining the country's state territorial arrangements contradict the Constitution of Georgia. The aforementioned article of the Constitution represents one of the major issues affecting the clearly defined territorial arrangement of the country.

Currently, Georgia consists of two autonomous republics, one temporary administrative and territorial unit and 69 local self-governments.

Border delimitation for the current territorial units also remains problematic. Georgian districts, cities, towns, communities and villages were created upon the basis of administrative acts of Soviet Georgia's agencies.

The abovementioned administrative acts served as the foundation for the administrative units created by the Georgian Law on Local Self-Government and Government (1997) and subsequently for the administrative units defined by the Organic Law on Local Self-Government (2006). Pursuant to Article 66.2 of this Law, the administrative borders of the self-governments shall be defined according to the administrative border existing until the enactment date of this law.

In accordance with Article 66.4 of the Organic Law on Local Self-Government, schematic maps showing the administrative borders of the individual self-governments should have been prepared and registered before 30 December 2007. This requirement of the law, however, was met only in a few of the

¹⁰⁵ Article 2.h of Georgian Law On Area Arrangement and Urban Development.

¹⁰⁶ Article 2.3 of the Constitution of Georgia

entities. The inaccurate definition of the borders may become major topic of the dispute between the self-government agencies which, in its turn, negatively affects both co-operation and development.

7.2.3. Legal Aspects of Deconcentrated Government according to Georgian legislation

Subject to the order of the Head of the State of Georgia, effective from 1993, Georgian (historical) regions were governed by the State Representative of the Head of the State of Georgia who was responsible for co-ordinating (officially and unofficially) the regional offices of local and central governments.

At present, nine historical and geographic regions of Georgia are governed by state trustee – governor's. The governor is a representative of the President of Georgia and the Government of Georgia in certain administrative and territorial units as defined by legislation. The state trustee - governor is appointed and dismissed by the President of Georgia in consultation with the Prime Minister.¹⁰⁷

The institute of the state trustee - governor can be considered as a first step towards a deconcentrated regional government in Georgia. According to the Georgian Law on Responsibilities of the Governmental Structure of Georgia and its Rules of Operation, the state trustee - governor is to co-ordinate and oversee the execution of Georgian laws as well as statutory acts issued by the President or the Government over certain administrative and territorial units of Georgia. The governor, when tasked by the Government, implements regional programmes on social and economic development. According to the stipulated law, he also provides state supervision over the activities of the local self-government. When tasked by the Government, he also co-ordinates the activities of the territorial agencies of various Georgian ministries and executes other authorities as defined by this Law and Georgian legislation.¹⁰⁸

The competences of the state trustee - governor are defined in Presidential Order No. 406 (dated 27 June 2007) concerning the approval of the Regulations for the State trustee - Governor (which also defines his other additional responsibilities).¹⁰⁹ Sometimes, however, these functions overlap with the

¹⁰⁷ Article 27¹.1 of the Georgian Law On the Responsibilities of the Georgian Governmental Structure and its Rules of Operation.

¹⁰⁸ Article 27¹.2 of the Georgian Law On the Responsibilities of the Georgian Governmental Structure and its Rules of Operation.

¹⁰⁹ Article 5 of the regulation approved by Presidential Order No. 406 (dated 27 June 2007) on the Approval of Regulations for the State Representative-Governor.

responsibilities of the territorial units of certain ministries (upholding public rule is the responsibility of the Ministry of Internal Affairs whilst environment-related issues fall under the competence of the Ministry of Environment Protection and Natural Resources, for example). According to the legislation, the governor is entitled to co-ordinate the activities of the territorial units of various ministries only in the cases when he is tasked to do so by the Government. This may serve as a delay for the effective implementation of functions under his competences.

State government is very poorly represented in the regions. Only six of the 15 acting ministries have territorial offices but they are not capable of fully covering all the regions and sometimes do not correspond with the borders of a governor's operation zone which also affects their opportunity for unified co-ordination. The same can be said in relation to sub-agencies and legal entities of public laws. The above noted deconcentrated state agencies have limited resources and competences. It should be underlined that they are entirely accountable to their superior state agencies.¹¹⁰

7.2.4. Regional development policy and the challenges of interagency co-ordination

There is no strategic document which would define the priority directions for Georgia's regional development or its goals, priorities and principles.

Decree No. 975-RS of the Parliament of Georgia of 6 February 2009 on the Composition of the Government of Georgia and on Expressing Confidence in Government's Programme is a programme document which approves the Government's programme entitled United Georgia Without Poverty. The programme determines the Government's general priorities as well as specific projects in different fields in support of regional development.

The website of the Georgian Ministry of Finance is hosting the document entitled The Key Directions and Priorities of the Government of Georgia in 2010-2013¹¹¹ which illustrates the key directions and priorities. Further development of this document is obligatory, subject to the "Budget Code of Georgia". Although it has not been approved by a legal act, it nonetheless plays an important role in determining the country's mid-term development direction and priorities.

110 See Chapter II 'Regional Management, Institutional Set-up and Human Resources Management' of the Diagnostic Report.

111 http://www.mof.ge/common/get_doc.aspx?doc_id=4358

The Governmental Commission on the Sustainable Development of Georgia was established by Resolution No. 77 of the Government of Georgia on 22 April 2005. Pursuant to the Committee's regulations, it was given the responsibility of overseeing and co-ordinate the elaboration of Georgia's sustainable development strategy. This Committee, however, has not functioned since 2007.

In 1997 and 2000, the President of Georgia issued decrees on Georgia's Municipal Development Programme and the Second Phase of the State Programme on Georgia's Municipal Development and approved the medium-term municipal development state programmes. One of the key directions of the state programme was the development of regional programmes for municipal development although no real actions were ever taken.

According to the sub-paragraph r) of the paragraph 2 of the article 16 of the "Organic Law of Georgia on Local Self-government" (the provisions before amendments of December 28, 2009 is enforced), "adoption of the socio-economic development plans of the municipalities" was classified in exclusive competences of Local Self-government units". Organic law did not stipulate the competence of preparation of the LSG Development Strategy. However, the provision did not deprive the local authorities from this right. According to the amendments to the Organic Law of Georgia on Local Self-Government, introduced on December 18, 2009 (in force from January 1, 2010), a preparation of the municipal programs and plans is the competence of local self-governments (the law does not any more envisage an approval of the priorities of the socio-economic development).

Subject to Georgian legislation, the Regional Development Department,¹¹² under the Ministry of Regional Development and Infrastructure, is responsible for developing the social and economic development strategy for the country's regions by taking the characteristics of the depressed, mountainous areas into consideration.

Georgian legislation does not provide any criteria for determining those regions which require the introduction of a special, supporting regime owing to unfavourable conditions (problematic or depressed regions). These are regions which call for the creation of special conditions and a favourable regime. The only exceptions are the high mountainous regions which are determined by the Georgian Law on Social, Economic and Cultural Development of High Mountainous Regions. The criteria for other 'depressed' territories that are in need of special state assistance are not stipulated by law (the territories

¹¹² Article 9.e. of the Government of Georgia's Regulations (approved by Resolution No. 10 on 30 January 2008) on the Approval of the Regulations for the Ministry of Regional Development and Infrastructure.

neighbouring the conflict zones, for example, or areas affected by natural disaster).

The current legislation does not define the mechanisms which are required for the co-ordination of regional development-related activities executed by the central government and local self-government at both the central and local levels. According to Georgian legislation, issues of regional development policy are distributed amongst various ministries and local administration bodies. Challenges of implementing a unified state policy, therefore, as well as co-ordinated action amongst the state and local institutions are frequently encountered.

The President of Georgia issued his Decree No. 817, Activities for Improving the Efficiency of Reforms in Public Administration Systems, on 16 December 1996 as a means of solving the abovementioned problem. The document aimed at promoting the institutional development of the regional administration system, the formation of a regional budget and empowering its management skills, the development of self-governmental economic pillars and setting up the tools for applying regional assistance provided within the framework of the country's uniform strategy and its involvement in a unified system of state administration. This Decree, however, was not followed by any real measures.

Pursuant to the Georgian Law on the Authority, Structure and Activities of the Government of Georgia, the Prime Minister¹¹³ is to be responsible for the co-ordination and implementation of the regional policy and its relationship between the state and the local self-government bodies. In accordance with Articles 6.b and 6.i of Presidential Decree No. 406 of 27 June 2007 concerning the approval of the resolution on the state trustee - governor, the governor, when tasked by the Government of Georgia, is to implement regional programmes for social and economic development on his administrative and territorial units. Further, the state trustee - governor, only when authorised by the Government, is to co-ordinate the activities of the territorial units of the Georgian ministries; that is, unless otherwise tasked by the Government, the co-ordinating authority of the state trustee - governor is limited in the relevant administrative and territorial unit.

Since 24 January 2008, the new position of the State Minister for Regional Management has been introduced in Georgia. The key responsibilities of the Minister includes: drafting of proposals on social and economical developments of the regions, co-ordinating the implementation of regional development programmes and ensuring the governmental resolution of drafts for social and economic development of the country's post-war regions and their rehabilitation.

¹¹³ Article 8.2.f of the Georgian Law On the Authorities, Structure and Activities of the Government of Georgia.

The State Ministry for Regional Development and Infrastructure was founded in Georgia in 2009. The Ministry has the responsibility of co-ordinating the activities implemented by the state trustee - governors and conducting monitoring within its competences,¹¹⁴ overseeing the development of the main directions of state policy, concepts and state programmes on the improvement of those areas and overseeing work in other fields which are under the Ministry's management. It should be noted, that the Ministry, lacks effective, legal and institutional tools for co-ordinating the governors' activities. The state trustee - governor is the Government and the President of Georgia's representative in the administrative and territorial units and reports only to them.

Georgian legislation mainly refers to the responsibilities of various agencies involved in regional development and lacks the legal and institutional tools for regional development and interagency co-ordination.

7.2.5. Legal aspects of co-operation between local self-governments and trans-border co-operation capabilities

Subject to Article 5 of the Georgian Law on International Agreements, the competence of the Autonomous Republic of Ajara and the Autonomous Republic of Abkhazia and other structural territorial units of Georgia in reference to international treaties and agreements will be determined after the establishment of the state territorial arrangement of Georgia. Pursuant to Article 2.3 of the Georgian Constitution, "the state territorial structure of Georgia shall be determined by a Constitutional Law upon the basis of the principle of circumscription of authority after the complete restoration of the jurisdiction of Georgia over the whole territory of the country¹¹⁵." This edition of the law limits the trans-border co-operation between Georgian territorial units. On 28 April 2006, however, the Parliament of Georgia ratified the European Convention on Trans-Border Co-operation between Administrative Territorial Units or State Bodies which represents a legal act with supreme legal power and facilitates the trans-border capabilities of Georgian territorial units. Accordingly, the relevant amendment will be made in the Georgian Law on International Agreements.

Legal problems are encountered in the field of co-operation amongst the Georgian regions. According to Article 6 of the Organic Law on Local Self-Government, based on the agreement and in compliance with the rule specified

¹¹⁴ The Government of Georgia's Regulations (approved by Resolution No. 10 on 30 January 2008) on the Approval of the Regulations for the Ministry of Regional Development and Infrastructure.

¹¹⁵ Article 2.3 of the Georgian Constitution

by the Georgian legislation adjoining local self-government executive bodies upon the consent from Sakrebulo in order to efficiently perform their authorities defined by the law shall have the right to establish joint services to provide public services based on the agreement. The local self-government bodies shall delegate some of the similar functions under their authority to such bodies, as well as appropriate material and financial resources for the performance of these functions. Government¹¹⁶.” The abovementioned edition of the Law does not stipulate non-neighbouring local administration rights on setting up joint services which at a certain point hampers the trans-border co-operation possibilities of local self-government agencies.

Further, Georgian legislation has no provisions regarding the adoption of joint normative acts by municipalities. Pursuant to Article 6 of the Organic Law on Local Self-Government, neighbouring self-governments are only entitled to establish joint services for ensuring public services to which they are to transfer certain functions under their responsibilities as well the material and financial resources required for the implementation of these functions. Municipalities, for example, are not allowed to adopt a normative act to regulate work of joint service or approve a joint strategy of development.

7.2.6. Involvement of local self-governments and society into the regional development process

At present, the legal and institutional mechanism for the involvement of local society in the decision-making process as concerns local and regional development issues is poorly developed in Georgia. Partly, the main reasons for this is diminished public interest and activity.

Frequently, the legislation does not stipulate the mechanisms and involvement of local agencies into the elaboration processes of regional development strategies and programmes.

The Organic Law on Local Self-Government obliged the state to adopt a law by 1 September 2006 which would define the forms of direct public participation in the realisation of local self-government but this law has hitherto not been adopted.¹¹⁷

The Organic Law on Local Self-Government entitles citizens of Georgia to obtain public information from local self-government bodies and public officials, become

¹¹⁶ See Organic Law On Local Self-Government, Article 6.

¹¹⁷ See Organic Law On Local Self-Government, Article 67.1.c.

acquainted with the draft decisions of local self-government bodies and participate in discussions, request publication and public discussion of draft decisions and communicate with local self-Government bodies and officials.¹¹⁸

According to the Organic Law on Local Self-Government, communication with the local population is ensured by the state trustee - governor but there is no legal requirement for establishing consultative bodies which would encourage public participation in the decision-making process.

The Law envisages surveying public opinion on important local issues¹¹⁹ such as, for example, the decision to change municipal borders. The forms and mechanisms for making this procedure effective, and its objectives have not yet been spelled out in the law.

Subject to the regulation by the Ministry of Regional Development and Infrastructure, the Ministry's Regional Development Department ensures the development of the social and economic development strategy of the regions whilst taking into account the peculiarities of the depressed high mountainous regions.

In accordance with Article 27¹.2.b of the Georgian Law on the Authorities, Structure and Rules of Activities of the Government of Georgia, the state trustee - governor, by order of the Government, implements regional programmes for social and economic development within the state administrative and territorial units. Pursuant to Article 6.b of the Presidential Decree No. 406 on the Approval of the Regulations for the State trustee - Governor, dated 27 June 2007, the elaboration and implementation of the social and economic development programmes for the administrative and territorial units of the states, as well as defining the sources of investments, are under the responsibilities of the state trustee - governor.

According to the amendments¹²⁰, to "the Organic Law on Local Self-Government" introduced on December 28, 2009, competences of local authorities are classified into 1) own competences and 2) delegated competences (Organic law does not provide for the terms of exclusive and voluntary competences). The Law also stipulates the rights of local self-governments to decide on the issue, which do not fall into own competences but is not assigned to the competences of any other body of government and is not prohibited by the legislation.

Georgian legislation, therefore, refers to the development of local and regional development documents and shall provide the mechanism which would ensure

¹¹⁸ See Organic Law On Local Self-Government, Article 2.

¹¹⁹ See Organic Law On Local Self-Government, Article 12.1.

¹²⁰ in force after the official announcement on the results local elections 2010

the involvement of local communities in the development of the abovementioned strategy and programmes.

Regional development priorities were and still are defined by the ministries and state plenipotentiaries - governors based upon the information provided to the Government of Georgia. There is no effective legal mechanism, however, which would ensure the involvement and participation of the local self-governments in the elaboration of regional development programmes.

7.2.7. Problems related to the distribution of authority

From 1997-2006, until the enactment of the Organic Law on Local Self-Government, self-government issues were stipulated by the Organic Law on Local Self-Government and Government. Upon the adoption of new law, however, a non-compliance between the organic law and the acting legislation has been observed.

The Organic Law on Local Self-Government abolished local government as a result of which issues that formerly fell under the competences of local government were left without a specific regulating subject which would accept the abovementioned state competences. If the issues which fall under the competences of local government are envisaged under the exclusive authority of local self-governments, then we are dealing with an error in editing which will be eliminated by replacing term "government" with "self-government."¹²¹

The situation differs dramatically if the issue is stipulated by special legislation pursuant to which it falls under the competences of local self-government and the new law does not consider it as part of the exclusive authority of local self-government. In this case, the requirement of Article 16.1 of the Organic Law on Local Self-Government will be taken into consideration subject to which the exclusive authority of the self-government will be defined only by organic law; that is, if the special law provides the additional competence for self-government which is not stipulated by organic law, it will only be a delegated right.¹²²

The Organic Law on Local Self-Government and the Constitutional Law on the Status of the Autonomous Republic of Ajara contradict each other on the issues related to the local self-government. In particular, subject to Article 3.4 of the Organic Law on Local Self-Government, "in consideration of the provisions set forth by this law, the competences of local self-governments in the Autonomous Republic of Ajara shall be defined in accordance with the legislation of the

¹²¹ Article 2. f. of the Georgian Law On Free Trade and Competition.

¹²² Articles 13.1.e and 18.e of the Georgian Law On Professional Education stipulate the competence of local self-government in the field of professional education in case the organic law does not have the noted issue within the list of the sole rights of local self-Government.

Autonomous Republic of Ajara. Article 7 of the Constitutional Law on the Status of the Autonomous Republic of Ajara, which provides the comprehensive definition of the issues under the Autonomous Republic of Ajara's governance, does not provide any competences of the Autonomous Republic over the legal regulation of local self-government.

Article 16.2. of the Organic Law on Local Self-Government stipulates exclusive authority of self-government bodies. Certain norms of this paragraph (2) contradict the constitutional law. In particular, Article 7.1. of the Constitutional Law states certain competences under the special administration of the Autonomous Republic of Ajara whilst the Organic Law lists these competences under the exclusive authority of local self-governments.¹²³

According to Article 2.4 of the Constitution of Georgia, "citizens of Georgia regulate issues of local importance through local self-governments without violating the state sovereignty;" that is, the Constitution links the issues of local importance (including local cultural monuments, libraries, museums, motorways, etc.) and considers them under the competence of the local self-government. At the same time, the Constitutional Law applies the term "of local importance" in reference to the special administration of the Autonomous Republic of Ajara. Evidently, we are dealing with the non-compatibility of constitutional norms since the notion "of local importance" becomes unclear.

According to Article 1.j. of the Organic Law on Local Self-Government, the voluntary authority of local self-government is defined as the competence of the local self-government to make decisions upon all of the issues which do not fall under a self-government's exclusive authority or the competence of a state administration body and is not prohibited for a self-government body.

Subject to Article 18 of the Organic Law on Local Self-Government, the local self-government is entitled to make decisions upon its independent initiative within the framework of Georgian legislation regarding the creation of social, cultural and education infrastructure and development solutions for such issues which, pursuant to the law, do not represent the exclusive authority of a self-Government body and are not prohibited for the self-government unit. This Article is in conflict with the principles stipulated in Article 4.2 of the European Charter of Local Self-Government subject to which local bodies of the government are fully empowered by the law to fulfil their initiatives in any fields that fall under their competences and do not represent the responsibility of any other governmental agency.

Taking into consideration the prevailing legal power of the international agreement, however, we can consider that the voluntary authority of the self-government unit in Georgia is not only limited to the building of a social, cultural and educational infrastructure and decision-making on development issues.

¹²³ Paragraphs E, H, N and R of Article 7.1. of the Constitutional Law on the Status of the Autonomous Republic of Ajara and Paragraphs N, M, O and S of Article 16.2 of the Organic Law on Local Self-Governments.

According to the sub-paragraph 3 of the Article 1 of the amendments to “the Organic Law on Local Self-Government” introduced on December 28, 2009, (in force after the official announcement on the results local elections 2010), competences of local authorities are classified into 1) own competences and 2) delegated competences (Organic law does not provide for the terms of exclusive and voluntary competences).

7.3. Legal and Institutional Aspects of Regional Development in Eastern European Countries

Conceptual understanding of a region varies across Eastern European States. From the perspective of administrative and territorial arrangement, majority of the states have developed three-level system, which together with central and local levels include district or regional level (with the bodies formed by self-government or central government).

In some countries regions were created in accordance with the historical and traditional characteristics. In some countries it is understood as statistical planning regions that do not represent any administrative and territorial units.

Reform of the state’s administrative and territorial structure represented the associated process of regional development in Eastern European countries. The country's decentralization was the necessary tool for the development of both democratic and public administration system. After the collapse of Communist regimes, initially local self-government bodies emerged at the level of municipalities. As regards to the regionalization it was not equally implemented in all states.

This process is very obvious from the Constitutions of these states, in which regional self-government level is not clearly defined; it is present only at some state’s constitutions. Hungarian Constitution defines the following self-government units: capital city, town, district, county (in district) and villages.¹²⁴ Lithuanian Constitution only says that the government shall have the authority to form the high level administrative units of the country, however it does not make any reference to regional self-government.¹²⁵ Similar provision is found at the Constitution of Slovakian Republic; however, here the high level administrative unit is referred as self-government body.¹²⁶ In accordance with

¹²⁴ See Articles 41-42 of Hungarian Constitution

¹²⁵ See Article 123.1 of Lituianian Constitution

¹²⁶ See Article 64 of the Constitution of Slovakian Republic.

the Constitution of Estonia, local self-government is executed in urban municipalities and cities; as for the establishment of other body of self-government it shall be done only in accordance with the procedures provided by the Estonian legislation.¹²⁷ Regional level self-government units are not mentioned neither in Moldavian, nor in Rumanian or Latvian Constitutions. Medium or regional level of local self-government is directly defined in the Constitutions of Czech Republic and Poland.¹²⁸ Also regions are discussed in the Constitution of Ukraine; however, the status of region here is rather ambiguous: at one hand regions represent a part of local self-government system but are not 'self-government units'; on the other hand, executive power in regions is executed by the representatives of central government, except in the Autonomous Republic of Crimea. The same formulation is observed in the Constitution of Bulgaria, however regional level here does not represent the part of local self-government system¹²⁹.

Rules on legal status of regional administrative units are basically provided by current legislative acts. Regional administrative units in Lithuania were established in 1995. They are ruled by a governor appointed by the central government. Furthermore separate ministries have their representatives who do not report to the governor and conduct their activities on regional level. Regional Development Councils (with total number of 10) were established at the regional level. They represent consultative agencies and unify heads of local self-government bodies. The main functions of these councils are; review/approval of regional development policy and planning documents and definition of basic budgetary directions. In 2000 Regional Development Act has been approved which dramatically increased the roles and the status of regional development councils. Subject to this Act, regional development councils represent the key institutions of regional development that ensure the development and implementation of local regional development plan. The councils are actively involved in the development of National Development Plan.

Regionalisation in Hungary is based on already existing system of local self-government as well as other institutions in the noted fields. Since 1990 regional development fell under the authority of Prefects appointed by the central government. This institution was abolished in 1994. In 1996 according the Regional Development Act, the Counties were assigned with new roles in the field of regional development. In particular, they were commissioned to create counties' Development Councils. Also the law entitled multiple Counties to establish joint regional development councils. In 1999 Regional Development Act

¹²⁷ See Article 155 of the Estonian Constitution

¹²⁸ See Article 99 of the Constitution of Czech Republic and Article 174 of the Constitution of Poland

¹²⁹ See Article 99 of the Constitution of Czech Republic and Article 174 of the Constitution of Poland

was amended, pursuant to which in every statistical region the representatives of municipality, self-government town and respective ministry shall establish councils in compliance with the Nomenclature of Europe's Statistical Territories (NUTS II).

In accordance with the latest legislative changes, Poland, Czech and Slovakian republics followed the way of regional decentralization. Regionalization became important topic of the agenda during self governance reforms (1990) in Poland. Finally a decision was made to divide the country into 16 regions (this division followed with the borders of regions existing until 1975). Slovakia is divided into 8 regions; as for Czech Republic it has 14 self-government regions since 1997. However, regionalization was accompanied by major problems in Czech Republic. These problems were mainly caused by the border-lines of the regions. Historically Czech Republic represented a region of another country and except two provinces the country did not have any other regions. Therefore, this division into regions was done artificially and this issue still represents topic of discussions. The first regional self-government bodies in Czech Republic were elected in 2000, as for Slovakia and Poland in 2001.

The situation in Ukraine is totally different. Here the administrative and territorial arrangement of the country mainly coincides with the borders existing until 1990. However, the status of regional bodies is different. At one hand, state administrations exercises executive power at regional level, heads of which are appointed by the President of Ukraine and they are directly responsible to the President. On the other hand, regional councils are directly elected by region's municipalities and therefore, they serve their interests. Councils are established under the status of legal person and since legislative changes in 2001, they enjoy great authorities in budgeting field. However, currently the government of Ukraine is reviewing the transfer of certain authority from the head of public administration to the chairman of regional council; it would serve as one step forward to the strengthening of regionalization and decentralization of the country.

Latvia does not have regional level of local self-government. There are 26 district self-government units in the country. According to the Law on Regional Development, that was adopted in 2002, the country has five planning regions. Planning regions operate regional development agencies that are responsible to the development of local documents on regional development and on coordination of activities by local self-government bodies. Like Latvia, Estonia does not have regional self-government units. Self-government is executed only in 49 urban and 2009 municipal units. Responsibility of regional development at local level lies on 15 counties' administrations, the heads of which are appointed on five year term by the Prime Minister after consultations with the representatives of local municipality.

In East European states Ministry/Ministries represent a body which is responsible on country's regional policy at central level. However, up to the recent period, special agencies had the responsibility to develop the concept of regional development and specific recommendations in Poland and Slovakia. Until 1996 central office of planning was operating in Poland. Later it was replaced by the State Centre of Strategic Researches. The centre, in cooperation with the Ministry of Economy and Labour, was responsible for the development of regional policy. The Ministry of Regional Development of Poland was established in 2006.

From 1991 till 1995 regional policy development in Slovakia fell under the competence of the Centre of Strategic researches¹³⁰, however, since 1995 it was transferred to the Office of Strategic Development of Slovakian Society, Science and Technologies. This Office was abolished in 1998 as an inactive product of post-Communist system. Currently regional development represents one of the key priorities for Slovakian government and the country continues to work on the institutionalization of regional development, in particular, within the scope of authority of the Ministry Reconstruction and Public Affairs.

As we mentioned above, regional policy management functions are mainly transferred to branch ministries. However, it does not mean that East Europe decided to choose the way of strict institutionalization and clear distribution of coordination and authority. Czech republic was the only state that totally delegated regional development responsibilities to one ministry, which is the Ministry of Regional Development (1996). This Ministry also received responsibilities on spatial planning. Previously the above issues fell under the competence of the Ministry of Economy.

Moldova established the Ministry of Local Society Management. However, unlike to Czech republic regional development issues are divided between the following four institutions: National Council on Coordination of Regional Development, Regional Development Fund, Regional Development Councils and Regional Development Agencies.

Special approach was established in Estonia, where working on a regional development is the responsibility of a special department in the ministry of internal affairs, but the regional policy coordination responsibility lies on state minister who receives informational and expert support from the relevant ministries¹³¹. State minister is responsible for the coordination between the ministries and he/she chairs Regional Policy Council of Estonia, which consists of

¹³⁰ Center for Strategic Researches was created in order to coordinate activities of Regional Development Department of the District. However, the effectiveness of the Agency was limited since the Ministry of Internal Affairs did not delegated relevant technical and budgetary authorities

¹³¹ The Ministry of Environment Protection is responsible on spatial planning.

the representatives of ministries as well as local and county (district) government.

In Hungary and Bulgaria the branch ministries are the agencies that bear responsibilities over regional policy. In Hungary the responsible ministry in this field was the Ministry of Environment, however, later (in 1998) its responsibilities were transferred to the Ministry of Agriculture and Rural Development. In 2006 the new Ministry of Local Government and Territorial Development was established. In Hungary and Slovakia State Minister, who is also the Deputy Prime Minister is in charge of the coordination of activities implemented by the Ministries in the field of regional policy.

In order to coordinate the implementation of regional policy in East European states, advisory (partially, decision-making) councils were established at governmental level. Governmental Advisory Councils in Hungary are rather representational compared to other countries and they include representative of bank, scientific, business and other non-governmental sectors.

However, despite the established institutes, interagency coordination in these countries is still problematic. This issue are frequently highlighted in reports prepared by the European Commission.

In order to fund regional development projects, Regional Development Foundations were established (except Poland and Slovakia). Decision on priority funding directions for the Foundation is usually made by the government; the Parliament approves allocation of the fund from the budget. Hungary represents exception from this common rule. Here the principles, rules and criteria for money allocation are defined by the Parliament. In Hungary and at certain point, in Estonia too local agencies are capable to decide on which project shall be funded from the Foundation.

In 1993-1995 regional development agencies were established in Poland and Estonia. Polish Agency's responsibilities were limited to the support of business and infrastructure development in problematic regions. However, Estonian Agency represents one of the leading bodies in defining the regional policy. It encompasses representatives from ministries, local and regional administrations and business associations. The agency manages Estonian Regional Development Fund, that was founded in 1995. The Fund has its local production support centres in each county (district) that offer relevant assistance to local industries.

In Czech, Slovakian and Hungarian republics the government has founded Development Banks that are equipped with the agency-wise management and advisory responsibilities.

The common characteristics of East European states are: poorly developed local (regional) institutes that facilitate the regional development. The main reason for this is the unfinished process of administrative and territorial arrangement of

these countries. Local regional development institutes have the authority to support local business and link local, regional and state interests with the policy on labour market.

Regional Agencies of Regional Development are operating in Czech, Hungarian and Slovakian republics (13, 12 and 5). These agencies operate as limited liability societies and foundations. As for Estonia and Bulgaria, no agencies were established at regional levels.

Estonia operates local business support centres that fall under the regional development national agencies. In Slovakia regional social and economic councils were established for the purpose of coordination of regional development. The Regional Development Council of a county includes large representation of civil societies. County Councils distribute over 70 per cent of funds allocated for regional development.

Until 1996 regional agencies were established in Poland. These agencies are mainly funded by regional and local sources.

Upon reviewing the evolution of regional policies of the above states, one pattern shall be underlined: regional policy and development foundation are initiated after the adoption of certain basic documents (law, concept, resolution, etc.).

Also "the existence of law indeed does not serve as a reliable proof of acting and effective regional policy. However, it definitely indicates on the high level of conceptual development of regional policy, since the state responsibility aroused from the law is much higher than compared to that based on acts with lower legal power. The second indicator of considering regional policy at conceptual level is the declaration of key principles and goals for regional policy by the government and experts. Publicly accessible definitions and explanations on the essence of regional policy and its key goals decrease chances of wrong interpretation and understanding".¹³²

¹³² Institution building for regional development: A comparison of Bulgaria, the Czech Republic, Estonia, Hungary, Poland and Slovakia Brusis, Martin (ed.) (1999): Central and Eastern Europe on the Way to the European Union: Regional Policy-Making in Bulgaria, the Czech Republic, Estonia, Hungary, Poland and Slovakia, Munich: CAP Working Paper, 7.

Members of the Task Force for Regional Development on Georgia

- 1. Mr. David Tkeshelashvili**, First Vice Premier, Minister for Regional Development and Infrastructure, Chairman of the Task Force
- 2. Mr. David Chichinadze**, Ministry for Regional Development and Infrastructure, Head of Department for Legal Provision and Reforms
- 3. Ms. Nino Baratashvili**, Director, National Investment Agency
- 4. Mr. Lasha Gotsiridze**, Executive Director, Municipal Development Fund
- 5. Mr. Zaza Shinia**, Director, Center for Effective Governance and Territorial Arrangement Reform
- 6. Mr. Mamuka Abuladze**, President, National Association of Local Authorities of Georgia
- 7. Mr. Vladimer Vardzelashvili**, State Trustee (Governor) of Shida-Kartli Region
- 8. Mr. Eike Ulrich Vater**, Project Director, German Agency for Technical Cooperation (GTZ)
- 9. Mr. Jonathan Puddifoot**, Director, Care International in the Caucasus
- 10. Mrs. Chrissie Hirst**, Project Director, SLAR in Samtskhe-Javakheti
- 11. Mr. Irakli Kasrashvili**, Country Representative, The Mercy Corps
- 12. Mrs. Nana Janashia**, Executive Director, Caucasus Environmental NGO Network CENN
- 13. Mr. Giorgi Sanadiradze**, Director, World Wildlife Fund (WWF) Program Office in the Caucasus,
- 14. Mr. Zurab Gvasalia**, President, Association of Banks of Georgia
- 15. Mrs. Tamar Lebanize**, Head, Association of Georgian Microfinance Institutions (AGMO)
- 16. Mr. Jemal Inaishvili**, President , Georgian Chamber of Commerce and Industry
- 17. Mr. Valeri Gremelashvili**, Executive Director, Kakheti Regional Development Agency
- 18. Tamar Zaalishvili**, Secretary of the Task Force

The Participation in the Task Force Work Was Asked to:

- 1. Mr. Vano Khukhunaishvili**, Chairman of the Committee, Parliamentary Committee on Regional Policy, Self - Governance and Mountainous Regions
- 2. Mrs. Maria Iarrera**, Attaché, EC Delegation to Georgia
- 3. H.E. Ambassador Mrs. Ursula Doroszewska** -Embassy of the Republic of Poland to Georgia
- 4. Mr. Hanspeter Nintzel**, Counselor, The Embassy of the Federal Republic of Germany to Georgia
- 5. Mr. Robert Wilson**, Mission Director, USAID/Caucasus
- 6. Mr. Robert Watkins**, Resident Representative, UNDP Georgia

7. **Mr. Van Roy Southworth** Resident Representative, World Bank to Georgia
8. **Mr. Boryz Wodz**, Special Representative , Council of Europe in Georgia,
9. **Mr. Jim McNicholas**, Deputy Resident Country Director, Georgia, Millennium Challenge Corporation
10. **Mr. Derek Mueller**, Regional Director for the South Caucasus, Swiss Agency for Development and Cooperation
11. **Mr. Franco Impala**, The First Secretary, Embassy of the Republic of Italy to Georgia
12. **H.E. Ambassador Mr. Mechis Laurinkus** - Embassy of the Republic of Lithuania to Georgia
13. **H.E. Ambassador Mr. Ertan Tezgor** - Embassy of the Republic of Turkey
14. **Ms. Giovanna Barberis**, Country Representative, UNICEF
15. **Mr. Papuna Petriashvili**, Deputy Minister - Ministry of Finance
16. **Mr. Archil Gagnidze**, The First Deputy Minister, Ministry of Education and Science
17. **Mr. Sul Khan Sisauri**, Deputy Minister; Ministry of Economic Development
18. **Mr. Dimitri Dzagnidze**, Deputy Minister , Ministry of Justice
19. **Mr. David Jalagania**, Deputy Minister, Ministry of Foreign Affairs
20. **Mr. David Kiria**, Deputy Minister, Ministry of Culture, Monument Protection and Sports
21. **Mr. Aleksandre Tsintsadze**, Deputy Minister, Ministry of Agriculture
22. **Mr. Nikoloz Pruidze**, Deputy Minister, Ministry of Labor, Health and Social Affairs
23. **Mr. Vladimer Gegelashvili**, Deputy Minister, Ministry of Environment Protection and Natural Resources
24. **Mrs. Mariam Valishvili**, First Deputy Minister, Ministry of Energy
25. **Mr. Ilia Maghalashvili**, Deputy State Minister, Office of the State Minister for European and Euro-Atlantic Integration

Members of the Task Force Secretariat

Support Experts

1. **Ms. Nino Danibegashvili** - Head of the Task Force Secretariat
2. **Mrs. Veronika Schneider** - Deputy Head of the Secretariat
3. **Mrs. Tamar Zaalishvili** - Expert Responsible for Editing and Technical Production of the Task Force Reports
4. **Ms. Tamar Gelashvili** - Expert on Information Promotion and Systematization
5. **Mr. Witold Sartorius** - EU Expert for Support of the Head of the Secretariat
6. **Mr. Teimuraz Khomeriki** - Expert for Support of the Deputy Head of the Secretariat

Secretaries of the Working Groups/Experts

1. **Mr. Davit Basiashvili** - Financing of Regional Development

2. **Mr. Aleksandre Svanishvili** - Regional Management, Institutional Set-up, and Human Resource Development
3. **Mr. Alexi Gugushvili** - Poverty Reduction and Employment
4. **Mr. Giorgi Dididze** - Municipal Development and Infrastructure
5. **Mr. Rezo Kakulia** - Innovation, New Technologies and Entrepreneurship
6. **Ms. Tamar Pataridze** - Environment and International Cooperation of Regions
7. **Mr. David Magradze** - Legal Solutions for Effective Regional Development

Members of the working groups

N 1 - Financing of Regional Development

Members of the Working Group

1. **Gigi Tabatadze** - Ministry of Finance, Head of the Local Budget Department, Chairman of the Working Group
2. **Davit Basiashvili** - Task Force Secretariat, Secretary of the Working Group/Expert
3. **Iasha Meskhia** - Task Force Secretariat, Expert of the Working Group
4. **Mikheil Jibuti** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **Zurab Gvasalia** - Association of Banks of Georgia, President
2. **Lasha Gotsiridze** - Municipal Development Fund, Executive Director
3. **Tamar Zaalishvili** - Task Force Secretariat, Expert on Editing and Technical Production of the Reports
4. **Natalia Kasradze** - National Investment Agency, Director
5. **Marika Khutsishvili** - Ministry of Finance, Leading Specialist of the Local Budget Department
6. **Maia Neparidze** - Administration of State Plenipotentiary - Governor of Kvemo Kartli Region, Head of the Department of Regional Development
7. **Davit Jikia** - Administration of State Plenipotentiary - Governor of Kvemo Kartli Region, Senior Specialist of the Department of Regional Development
8. **Giorgi Sibashvili** - Deputy State Plenipotentiary - Governor of Kakheti Region
9. **Rostom Tskhvediani** - Deputy State Plenipotentiary - Governor of Racha-Lechkhumi Region

N 2 - Regional Management, Institutional Set-up and Human Recourse Development

Members of the Working Group

1. **Vladimer Siradze** - Office of the State Minister of Georgia on Regional Development, Adviser on Legal Issues, **Chairman of the Working Group**

2. **Alexander Svanishvili** - Task Force Secretariat, **Secretary of the Working Group/Expert**
3. **Mariam Dzagnidze** - Task Force Secretariat, Expert of the Working Group
4. **Irakli Khmaladze** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **Mamuka Abuladze** - Georgian National Association for Local Self-Governances, President
2. **Irakli Brachuli** - Georgian Institute of Political Science, Head of Local Self-Governance Department
3. **Kakha Gurgenidze** - Georgian National Association of local Self-governances, Expert on Legal Issues
4. **Ketevan Vardiashvili** – GTZ
5. **Gocha Vacharadze** - Ministry of Justice, Head of the Department for Systematization of Normative Acts and Relations with Local Agencies
6. **Marina Zurabishvili** - Administration of State Plenipotentiary – Governor, Head of the State Supervision Department (Dusheti, Tianeti, Mtskheta and Kazbegi Municipalities)
7. **Lasha Mgeladze** - Public Service, Head of Bureau
8. **Valerian Ramishvili** - Tbilisi State University, Professor
9. **Sophia Svanidze** - UNDP Project "Strengthening Local and Regional Governance in Kvemo Kartli"
10. **Liza Sopromadze** – GIPA
11. **Kakha Demetrashvili** – Association CIMS Consulting;
12. **Vazha Gurgenidze** - Association CIMS Consulting;
13. **Marine Feradze** - Administration of State Plenipotentiary – Governor (Dusheti, Tianeti, Mtskheta and. Kazbegi Municipalities), Department of Regional Development;
14. **Natia Chelidze** - The Parliament of Georgia - Regional Policy, Self-Government and High Mountainous Regions Committee;

N 3 - Poverty Reduction and Employment

Members of the Working group

1. **Sulkhan Sisauri** - Ministry of Economic Development, **Deputy Minister, Chairman of the Working Group**
2. **Alexi Gugushvili** - Task Force Secretariat, **Secretary of the Working Group/Expert**
3. **Veronica Schneider** – Task Force for Regional Development in Georgia, **Deputy Head of Secretariat/Expert**
4. **Victor Baramia** - Task Force Secretariat, Expert of the Working Group
5. **Nino Shalibashvili** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **Amiran Dateshidze** - Ministry of Labour, Health and Social Affairs of Georgia, Chief Specialist

2. **Dazmir Jojua** - Committee of Health Protection and Social Issues of Parliament of Georgia, Leading Specialist
3. **Dimitri Gugushvili** - UNICEF/ Program of Social and Economic Policy, Manager
4. **George Khechinashvili** – USAID, Manager of the Health Program, Specialist
5. **George Nanobashvili** - Ministry of Economic Development, Head of Economic Policy Department
6. **George Sadunishvili** - Mercy Corps, Program Officer
7. **George Tsimintia** - Association of Young Economists of Georgia, Development Section Manager
8. **George Glonti** – Care, Program Management Director
9. **Giovanna Barberis** – UNICEF, Country Representative
10. **Guladi Lominashvili** - Georgian Trade-Union, Chief Specialist
11. **Irakli Lekvinadze** - Georgian Business Consulting, Chief Editor
12. **Irakli Merebashvili** - Committee of Sectorial Economics and Economic Policy of Parliament of Georgia, Head of the Apparatus
13. **Johnatan Puddifoot**- CARE International, Director
14. **Keti Patsatsia** - Association of Young Economists of Georgia, Head of Education Department
15. **Nino Gugenishvili** - Ministry of Finance, Chief Specialist
16. **Nino Kizikurashvili** - UNDP, Global Compact Project, Project Analyst
17. **Nino Moroshkina** - World Bank, Health Specialist
18. **Nutsa Abramishvili** - Tbilisi City Mayors Office, Head of Strategic Planning and Social-Economic Programs Department
19. **Paata Shavishvili** - Department of Statistics, Head of Social and Demographic Statistics Department
20. **Tatia Gvaramadze** - Ministry of Labour, Health and Social Affairs of Georgia, Head of the Pensions’ Division
21. **Tea Jamaspishvili** – OXFAM, Project Manager
22. **Tea Sibrashvili** - Ministry of Education and Science, Program Coordinator
23. **Teimuraz Kochiashvili** – Head of Terjola Municipality Council
24. **Irakli Kasrashvili** – Mercy Corps, Director of the Mission
25. **Natia Berdzenishvili** – CHF International Georgia, Program Coordinator
26. **Keti Getiashvili** – Oxfam, Director
27. **Shota Murgulia** – CSRDG, Head of Economic Group
28. **Shorena Dzotsenidze** – Centre “Women and Development”, Director
29. **Heidi Etetovich** - UNDP, Global Compact Initiative, Program Manager

N 4 - Municipal Development and Infrastructure

Members of the Working group

1. **Lasha Gotsiridze** - Municipal Development Fund, Executive Director, **Chairman of the Working Group**
2. **George Dididze** - Task Force Secretariat, **Secretary of the Working Group/Expert**
3. **Levan Tabatadze** - Task Force Secretariat, Expert of the Working Group
4. **Koba Janiashvili** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **Akaki Rukhadze** - GTZ
2. **Bakur Mgeladze** - Municipality of Dmanisi, Governor
3. **Biskash Radjan Dash** - UNDP, Kvemo Kartli Project, Adviser on Institutional Issues
4. **George Abuladze** - Office of the State Minister of Georgia on Regional Development
5. **Gigi Tabatatadze** - Ministry of Finance, Head of the Local Budget Department
6. **George Toklikishvili** – CSRDG
7. **Kakha Gurgeniidze** – Rustavi Council, Chairman
8. **Mamuka Abuladze** - National Association of Self-Governance (NALA)
9. **Nana Zurabishvili** - Regional Development Agency (Samtskhe- Javakheti)
10. **Natia Chelidze** - Office of Regional Politics, Self-Governance and Mountainous Regions Committee
11. **Sophio Svanidze** - UNDP/ Kvemo Kartli Project, Project Manager
12. **Valeri Gremelashvili** - Kakheti Regional Development Agency, Executive Director

N 5 - Innovation, New Technologies and Entrepreneurship

Members of the Working group

1. **Zviad Archuadze** - Tbilisi City Mayors Office, Head of Economic Policy Department, **Chairman of the Working Group**
2. **Rezo Kakulia** - Task Force Secretariat, **Secretary of the Working Group/Expert**
3. **George Ivanishvili** - Task Force Secretariat, Expert of the Working Group
4. **Koba Kikabidze** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **Irina Gogorishvili** - Tbilisi State University, Professor
2. **David Darsavelidze** - Tbilisi City Mayors Office, Office of Economic Politics
3. **Tamar Zaalishvili** - Task Force Secretariat, Expert on Editing and Technical Production of the Reports
4. **Natalia Kastardze** - National Investment Agency, Director
5. **David Losaberidze** - Caucasian Institute for Peace, Democracy and Development
6. **Shalva Machavariani** - Caucasus University, Professor
7. **George Nanobashvili** - Ministry of Economic Development, Head of Economic Policy and Analyses Department
8. **Leri Katamadze** - Regional Development Agency, Chairman of the Board
9. **Veronika Schneider** - Task Force Secretariat, Deputy Head of the Secretariat
10. **Tamar Zaalishvili** - Task Force Secretariat, Expert
11. **Teimuraz Khomeriki** - Task Force Secretariat, Expert
12. **Tamuna Chincharauli** - University of Georgia, Lecturer

N 6 - Environment and International Cooperation of Regions

Members of the Working Group

1. **Lado Gegelashvili** - Ministry of Environment and Natural Resources, Deputy Minister, **Chairman of the Working Group**
2. **Nino Kakubava** (from December, 2008 through March, 2009); **Tamar Pataridze** (from April, 2009 till present)-Task Force Secretariat, **Secretary of the Working Group/Expert**
3. **George Dartsimelia** - Task Force Secretariat, Expert of the Working Group
4. **Nato Kirvalidze** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **David Chipashvili** - Green Alternative
2. **Dimitri Lortkipanidze**, Member of the Parliament of Georgia
3. **Gela Svirava**, Administration of State Trustee - Governor of Samegrelo-Zemo Svaneti
4. **George Nanobashvili**, Ministry of Economic Development, Head of Economic Politics Department
5. **Giorgi Paresishvili**, Green Movement of Georgia
6. **Ioseb Kartsivadze**, MEPNR
7. **Irakli Chachia**, CENN
8. **Irakli Giviashvili**, Ministry of Foreign Affairs of Georgia
9. **Ivane Chkhikvadze**, Eurasia Partnership Fund
10. **Kakha Bakhtadze**, CENN
11. **Ketevan Samadashvili**, Program Manager, REC Caucasus,
12. **Keti Chubabria**, MEPNR
13. **Lasha Moistraphishvili**, Agency o Protected Areas; MEPNR
14. **Levan Tabatadze** – Task Force Secretariat, Expert
15. **Lia Todua**, CSRDG
16. **Lika Glonti**, Administration of State Trustee - Governor of Guria
17. **Malkhaz Dzeladze**, Policy Officer, WWF Caucasus
18. **Marina Gachechiladze**, Regional Development Agency, Samtskhe-Javakheti region
19. **Medea Mzhavanadze**, Administration of State Trustee - Governor in Guria region
20. **Mikheil Kukava**, State Ministry of Georgia on European and Euro-Atlantic Integration
21. **Nana Zubashvili**, Samtskhe-Javakheti Regional Development Agency
22. **Nika Chakhnagia**, MEPNR
23. **Niko Kachkachishvili**, Administration of State Trustee - Governor of Imereti
24. **Nino Makharashvili**, Administration of State Trustee - Governor of Samtskhe-Javakheti
25. **Nino Sharashidze**, MEPNR
26. **Nino Tkhilava**, MEPNR
27. **Tea Barbakadze**, Agency o Protected Areas; MEPNR
28. **Vazha Bolkvadze**, Minister of the Finance and Economy of the Autonomous Republic of Adjara

29. **Vakhtang Makhniashvili**, Administration of Shida Kartli region
30. **Valeri Gremelashvili**, Executive Director of Kakheti Regional Development Agency
31. **Valerian Katamadze**, Chairman of the Board, Regional Development Agency
32. **Giorgi Sibashvili** – Deputy State Plenipotentiary - Governor of Kakheti Region
33. **Rostom Tskhvediani** - Deputy State Plenipotentiary - Governor of Racha-Lechkhumi Region

Working Group N6 Contributors

1. **Nino Chkhobadze** – Environmental Protection League
2. **Irakli Kobakhidze** – Project Manager, UNDP
3. **Tamunia Chincharauli** –University of Georgia
4. **Dimitri Glonti** – MEPNR
5. **Zviad Archuadze** –Head of Economic Service, Office of the Mayor of Tbilisi

N 7 - Legal Solutions for Effective Regional Development

Members of the working group

1. **Gocha Vacharadze** - Ministry of Justice, Head of the Department for Systematization of Normative Acts and Relations with Local Agencies,- **Chairman of the Working Group**
2. **David Magradze** - Task Force Secretariat, **Secretary of the Working Group/Expert**
3. **Irakli Kakhidze** - Task Force Secretariat, Expert of the Working Group
4. **Sergo Pareishvili** - Task Force Secretariat, Expert of the Working Group

Invited Members of the Working Group

1. **Alexandre Kalandadze** – NGO “Civitas Georgika”, Consultant on Local Self-government Issues
2. **Davit Churadze** – Parliament of Georgia, Leading Specialist at the Budget and Finance Committee
3. **Kakha Gurgenidze** – National Association of Local Authorities of Georgia, Expert on Legal Issues, Head of the Rustavi Council
4. **Marina Zurabishvili** – Administration of State Plenipotentiary – Governor, Head of the State Supervision Department (Dusheti, Tianeti, Mtskheta and Kazbegi Municipalities)
5. **Tea Gvaramia** – Ministry of Economic Development of Georgia, Legal Department, Head of the Division of Legal Support
6. **Vladimer Siradze** – Office of the State Minister of Georgia on Regional Development, Legal Advisor
7. **Zaur Abashvili** - Ministry of Justice of Georgia, the Department for Systematization of Normative Acts and Relations with Local Agencies