

LG Amalgamation in Georgia, Changes and Challenges

**Webinar on Direction of decentralization in Eastern Europe and
Central Asia**

Session 2 - National decentralization policies and territorial structure:
tension between amalgamation and fragmentation

by David Losaberidze, Ph.D, Chairman
Local Democracy Network

November 8, 2022

Territorial arrangement of Georgia

1991-2006

- Community level (LAU2) - 1004 municipalities (by 2000): approx. 100 cities and towns, 3.5 villages. Average population size - approx. 4 thousand inhabitants;
- Upper level of self-government (LAU1) - 64 districts. Average population size - approx. 65 thousand (the smallest unit - 3.5 thousand habitants, the largest - 1 million habitants).

The self-governments did not have enough resources to carry out their functions effectively:

- Less than a one thousand habitants lived in 1/4 of the municipalities;
- Administrative expenditures were a large part of the budgets;
- The quality of public service delivery was low.

2006 reform - the lower level (1000 municipalities) was abolished. Georgia has turned from one of the fragmented self-governments to one of the countries with the largest municipalities in Europe.

As a result:

- Self-governments separated from the population;
- The level of citizen participation was been decreased - CBOs have almost disappeared in villages and small towns;
- The amalgamation process was not accompanied by the transfer of competences and finances to municipalities.

In 2013-2014, a new reform of decentralization was launched, which aimed to:

- To split of very large municipalities into homogeneous areas with similar interests (options - 150-300 units);
- At the same time, to transfer of competences and finances to the self-government.

Reform process - contradiction between different political groups.

Compromise - new, pilot territorial organization: 7 municipalities were divided into urban and rural units (14 units was been created)

The process of transferring competences and finances to self-governments was started.

From 2017, the reform process slowed down and finally stopped:

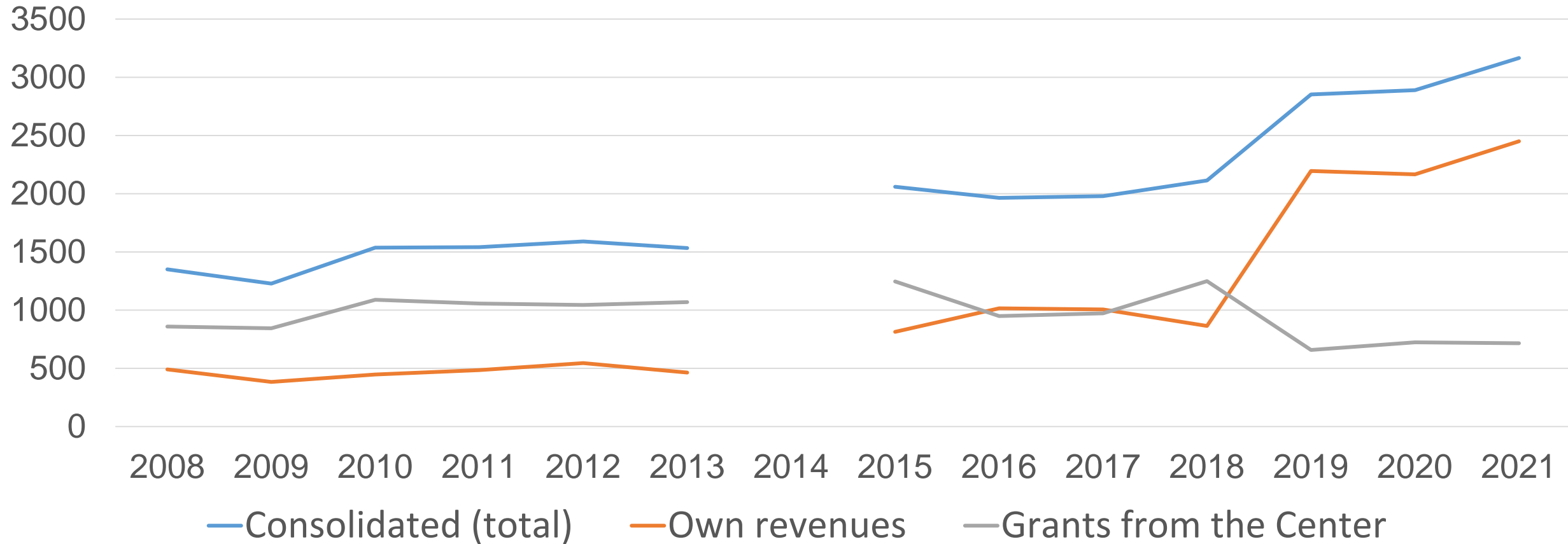
- In 2017, 2014 changes were canceled - 14 municipalities were re-united into 7 former units;
- The process of re-centralization of services has begun (strengthened during the Covid-19 period).

The official reason for stopping the reform was the ineffectiveness of the changes.

Actually, the reason is the desire of the center to maintain absolute control over the seats.

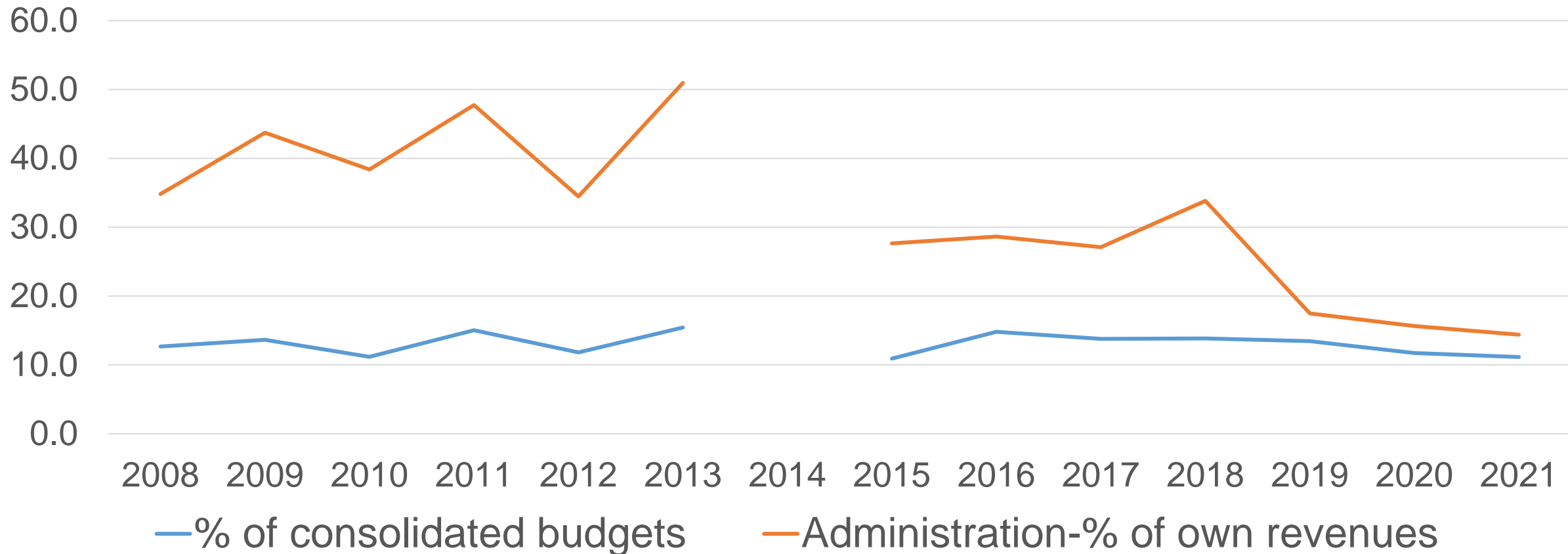
A few data generally describe the current situation:

Budgets of LSGs of Georgia (total, million GEL)



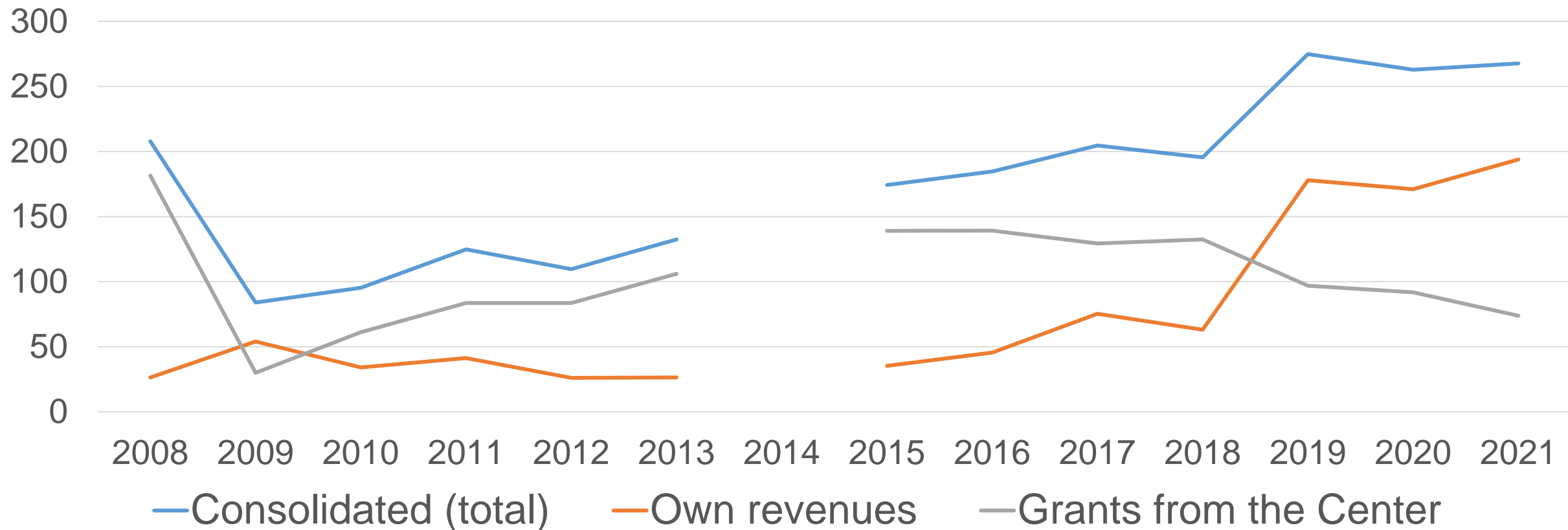
Local budgets are growing in the country, due not to the growth of the income base, but to the change in the methodology of the transfer policy - the guaranteed part of the transfers (19% of VAT) was considered as local income (Orange Line).

Share of administrative expenditure in budgets (%)



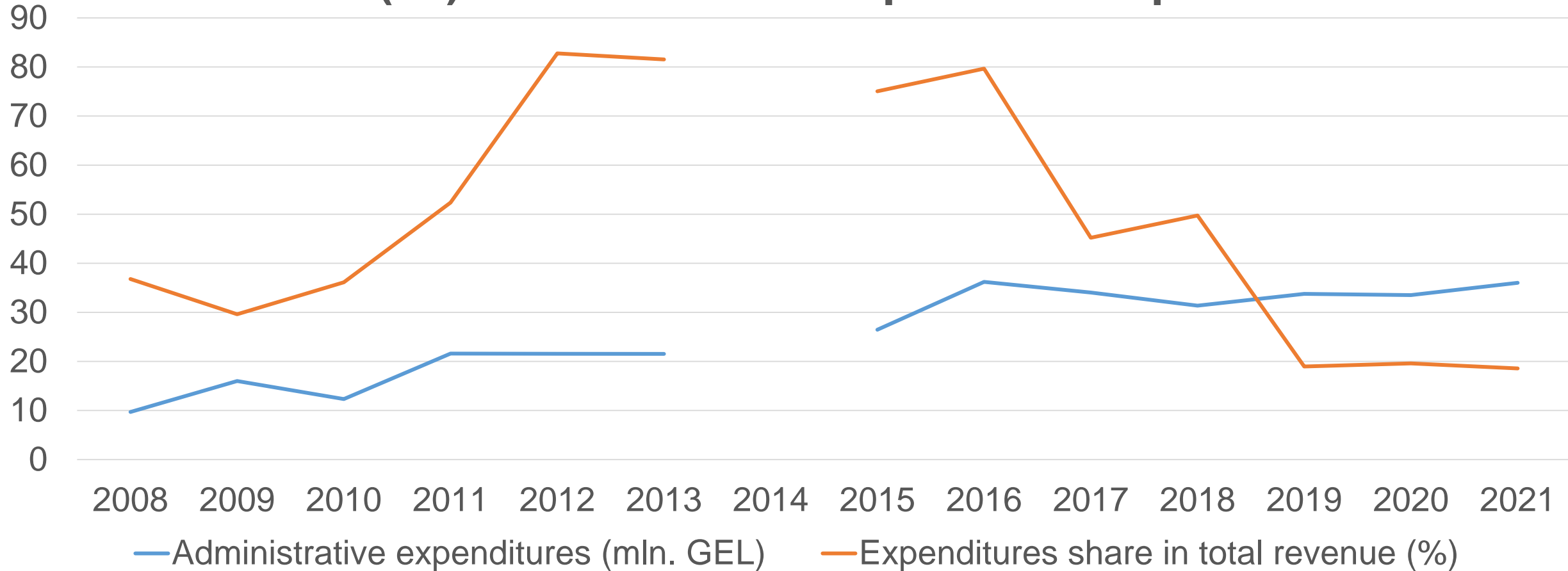
The decrease in the share of administrative expenses in Georgian LSGs budgets is the result of the increasing both own revenues and relative regulation (for example, the maximum number of municipal servants is determined by law).

7(14) budgets of pilot municipalities (mln. GEL)



In the target units, as well as in the whole country, the amount of budgets depends on the center's transfer policy (increased in 2018-2021) (blue line). The exception is 2015-2017, increasing the own revenues in divided municipalities was a result of the improvement of internal management (increased from 35 to 75 million GEL). (Orange Line)

7(14) Administration of pilot municipalities



Declared reduction of administrative expenses - despite the unification, this figure did not decrease after 2018 (annually 25-30 million GEL). (blue line)
Decrease of the percentage share in the budgets (since 2016) is the result of the increasing of the consolidated (total) budgets. (Orange Line)

Conclusions:

- The increasing in administration expenses of the budgets of self-governments does not depend on the size of the municipalities, but on the general financial policy. This trend is not observed even in a number of countries of consolidated democracy (Blom-Hansen and Houlberg - in Denmark, Färre kommuner report - in Sweden, Moisiu and Uusitalo - in Finland);
- In Georgia (as well as in other hybrid regime countries) the increase of these costs is observed during election periods, when the supporters of the ruling party are "rewarded" with appointments to jobs in municipalities.
- After amalgamation, the quality of local democracy and degree of citizen participation decreased. Mechanisms of engagement are defined by Georgian legislation, but their effectiveness in practice is low (according to all studies, including Thematic inquiry of the Parliament of Georgia)

In a number of countries, the first-level self-governments are expanded not to the district (*Rayon*) level.

Territorial arrangement in Estonia and Latvia

	Soviet arrangement	Current situation
Estonia	<ul style="list-style-type: none">▪ 16 districts (LAU1);▪ 255 communities (LAU2)	79 municipalities
Latvia	<ul style="list-style-type: none">▪ 26 districts (LAU1);▪ 573 communities (LAU2)	119 municipalities

Reforms are taking place in a similar direction in other countries with high fragmentation (Ukraine - reduction of 10,572 communities to approx. 1,500, Armenia - from 930 to 482).

1990-2020, along with amalgamation, new self-governments are being created, based on real needs: Croatia - from 172 to 556; Czech Republic - from 4100 to 6258; Macedonia - from 34 to 81; Slovenia - from 62 to 212.

(Source: Self-rule index for local authorities in the EU, Council of Europe and OECD countries, 1990-2020)

Perspectives and recommendations:

Administrative-territorial reform will again be on the political agenda of Georgia.

The reform process should take into account:

- Interests of homogeneous areas in a changing environment (perspectives of existing and new centers of attraction);
- Cohesion - possibilities and tools for equal development of different zones of the country (in accordance with the Article 372 of the Georgia-EU Association Agreement, directly indicates multi-level governance);
- Problem of depopulation of rural areas (50% reduction after 1989), as urban areas cannot provide appropriate conditions, the external migration increased (population 1991 - 5.5 million, 2004 - 4.4 million, 2020 - 3.5 million).

Perspectives and recommendations:

- The possibility of establish a two-level system of self-government:
 - for protection of local interests - the first level of self-government;
 - for implementation of large programs - regional level (NUTS3)

It is hoped that the discussion regarding the mentioned topics will continue.

Thank you very much for your attention !