

# **Economic Policy of Local Self-Government – “Challenges and Opportunities” (Case of Samegrelo and Upper Svaneti Region, Georgia)**

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## **Abstract**

My research topic is about a very important issue in Georgia, which can provoke the development of irreversible economic processes. Geographically, a village is the smallest administrative and municipal unit and logically, if the smallest territory is affluent, the state is correspondingly wealthy.

Economic advancement in Georgia largely depends on the development of local democracy and self-government. The essence and the aim of the local self-government is to create possibilities for local citizens to resolve local problems independently. It will not be possible, if the rights, responsibilities and duties of the territorial and administrative units are not clearly distributed.

The main flaw of the reforms carried out so far in Georgia in the process of local democracy formation is that the local authorities are largely depended on the central government and they are not focused on realizing the interests of the local community, which is theoretically the basis of their existence.

The mentioned flaws are also caused by the fact that these reforms are planned and put into the normative framework, without careful study and scientific perception. Unfortunately, we can hardly find scientific works and researches done about local self-governance and moreover, municipal legislation is just taking shape.

The research is mainly aimed at defining the essence of self-governance and its place in the general state government system. The objectives also include: the study of internal traits of this institution, substantiation self-organization as one of the main terms for self-governance, analyzing the supporting factors and forms of self-organization of the local citizens in the process of forming and developing self-governance, which must be in accordance with open market economic development process.

**Keywords:** local Self Government, Municipality, Region, Economic Policy.

**JEL Codes :** H1, H10, H11

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## 1. Actuality

The theme of the research project is about a very important issue for Georgia, which largely depends on the irreversible economic development. This topic issue concerns the development of local self-governments. Geographically, a village is the smallest administrative and municipal unit and logically, if the smallest territory is affluent, the state is correspondingly wealthy. The prerequisite of this process is to research the theme and the effectiveness of the research depends on the formation of economic policies that facilitate development.

The essence and the aim of the local self-government is to create possibilities for local citizens to resolve local problems independently, to secure and share common good and feel the responsibility and accountability towards other members of the community. It will not be possible, if the rights, responsibilities and duties of the territorial and administrative units are not clearly distributed.

Civil participation in exercising local democracy guarantees the level of independence of self-government. It is one of the most important criteria of assessing local governance. The more citizens are involved in efficient exercise of the local governance, the higher the quality of self-government is.

The main flaw of the reforms carried out so far in Georgia in the process of local democracy formation is that the main aspect – the interests of the local population – is not taken into consideration. Therefore, the local authorities are largely dependent on the central government and they are not focused on realizing the interests of the local community, which is theoretically the basis of their existence.

The mentioned flaws and disadvantages are also caused by the fact that these reforms are planned and put into the normative framework, without careful study and scientific perception. Unfortunately, we can hardly find scientific works and researches done about local self-governance and moreover, municipal legislation is just taking shape.

To solve this problem, we do not have to try to find any easy, though inefficient way out by just copying local government systems from developed European states. In European states, local self-governments were formed naturally by forming local citizens' self-organization institutionally. The situation in Georgia is drastically distinctive. Self-government here is formed and reformed from the "centre", by imposing and amending legislative enactments.

Analogical situation is typical to all former soviet states that had to endure monolithically centralized governance and totalitarian regime for 70 years. Thus, studying extant problems in local self-governments and setting the goals to solve them is an actual issue.

The research is mainly aimed at defining the essence of self-governance and its place in the general state government system. The objectives also include: the study of internal traits of this institution, substantiation self-organization as one of the main terms for self-governance, analyzing the supporting factors and forms of self-organization of the local citizens in the

process of forming and developing self-governance, which must be in accordance with open market economic development process.

Furthermore, as each region is characterized individually, the research must be done taking the distinction into account. Specification will solve to main problems: First – meeting economic interests and preventing the conflict of interests.

### **The Research Aims:**

- Revealing, studying and analyzing the possibilities of diversification of local revenues, by the example of Samegrelo-Upper Svaneti Region.
- Study of potential revenues for the expansion of income.
- Survey of population dependence with participation in local self-government funding.

The main goal of the research is to study the economic policy of local self-governments in Georgia and work out new means and recommendations for its improvement and modernization; to characterize and analyze the functions, goals, means and results of the regional self-governments.

### **The Research Objectives: Following objectives of the research were selected as the tasks to study the issue:**

- 1) Employees both in the public sector and in the private sector will be interviewed on special basis of questionnaire.
- 2) Revealing sources of revenue of local self-government of Samegrelo-Upper Svaneti Region with the purpose of their expansion;
- 3) Study potential revenues in the local self-governments.
- 4) Based on the analysis of the materials obtained from the survey, elaboration of materials with specific recommendation for local self-governments existing in Samegrelo-Upper Svaneti Region.
- 5) Study and analyse functions of local self-governments.
- 6) Identification of sources of local self-financing system formation.
- 7) Local people's attitude towards local self-governments functions.
- 8) Research economic interests of the population.

### **Expected results of the research: The main results of the research and scientific innovation will be:**

- Studying, analysing and evaluating the economic policy of the local self-governing bodies in Samegrelo-Upper Svaneti Region: Presenting an analytical report.
- Study will be conducted in all nine municipalities and benchmarking methods will be used to identify successful and problematic projects from each municipality. The information received from the population who filled the questionnaire about the projects implemented by the municipalities will be compared and based on this comparison analysis we will identify the level of demands of the population.

- Establishment of recommendations for the effective functioning of self-governments in Samegrelo-Upper Svaneti region (based on analysing the obtained materials), which correspond to market economy principles.

**The object of the research is - Samegrelo-Upper Svaneti municipalities.**

**Theoretical-methodological basics of research:**

Research was carried out in Samegrelo-Upper Svaneti Region villages and municipalities, where 400 local inhabitants were interviewed. For the representative selection, the representatives of all municipalities were equally presented in the research (9 municipalities and 30 villages) . Qualitative data were analyzed with a content-analysis method.

The following methods were used during the research: Quantitative (questionnaire survey), where the questionnaire was based on the objectives of the research; Qualitative (focus groups).

**Practical importance of research:**

Results and recommendations received by the survey may be used:

- To improve the legislative base of local self-government;
- To improve the specific functions of local self-government;
- To work out effective economic policy of the local self-government activities in Samegrelo-Upper Svaneti Region.

**Historical review:**

There is some interruption in the process of historical development in Georgia regarding to existence and functioning of local self-government. Until 1917, there was another type of self-government, that was elected by the local inhabitants. The Revolution and the Communist State established different kind of self-governance, which the Communist government meant based on the principles of one-party governance, which neglected the pluralism and was not oriented towards the interests of population. This eventually led to conflict of interests, which was repressed by force.

From 1917 to 1921, Georgia gained independence, but during this period, the self-government was not able to assemble. In 1921, when Georgia lost independence, the hegemonic regime of the communist party was formed (one-party rule regime until 1991).

In 1991, the Soviet Union collapsed which was followed by the restoration of independence and soon provoked internal disorder, which emerged when the Georgian territories of Abkhazia and Samachablo were occupied by the Russian Federation.

In 1991, local self-governments were destroyed and in the beginning of the transition period, local self-governance was not functioning until 2000 year.

### The practical part of the research:

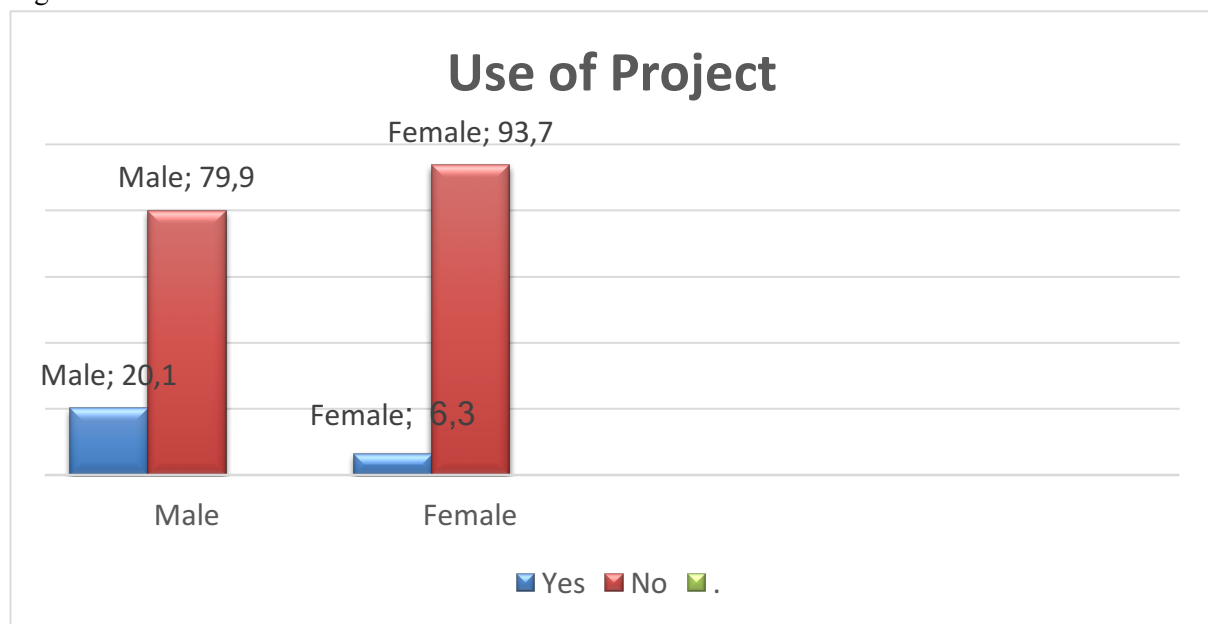
Practical works were carried out to achieve the objectives of the research. The duration of the survey was two months, from July until August 2017. Quantitative results were processed with the SPSS program. Qualitative data was analysed with a content-analysis method. The research was conducted within the framework of the Student Scientific Projects of Tbilisi State University.

The survey equally involved residents from all municipalities and more than 400 subjects were interviewed. Among them, 180 were male and 220 were female. The survey was conducted in nine municipalities and in 30 villages.

Research has shown that the economic situation of families is quite low. 53.1% of the population was included in the low-income group (0-700 GEL), while 42.4% was in the middle-income group (700-1500).

75.9% of the respondents are interested in local self-government activities and have information on important decisions or projects. Statistically significant differences are distributed by the local self-governmental data on gender-based projects.  $\chi^2 (1, N=375) = 16.1; p = .00$ . Particularly, men are more likely to benefit from local self-government projects than women.

Figure N-1



The level of education of the respondents is related to the readiness to pay a small amount of money for the research self-government.  $\chi^2 (4, N=401) = 34.4; p=.00$ . The majority of those who have higher education - 76.3% agree to pay money. From those with incomplete secondary education and full secondary education, the positive response rate is much smaller.

Figure N-2

Readiness to pay money	Level of Education		
	Incomplete secondary	Full secondary	High
Yes	55.6%	51.6%	76.3%
No	16.7%	22.4%	18.8%
Not Sure	27.8%	26.0%	5.0%
all	100.0%	100.0%	100.0%

Employment status connection with the readiness to pay a small amount of money to solve local problems  $X^2(8, N=384) = 38.02; p=.00$ .

Figure N-3

Readiness to pay money	Employment Status				
	unemployed	Self-employed	Hired	Pensioner (unemployed)	Student (unemployed)
Yes	40.9%	62.1%	69.4%	57.1%	33.3%
No	31.8%	13.8%	23.6%	0.0%	44.4%
Not Sure	27.3%	24.1%	7.0%	42.9%	22.3%
All	100.0%	100.0%	100.0%	100.0%	100.0%

69.4% of employers agree to pay for local problems. According to all other restrictions on employment, the positive rate of withdrawal is less. The lowest rate of acceptance of the amount is expressed in the unemployed and it is quite logical.

It is logical, that statistically significant link has been shown to be willing to pay taxes and readiness to pay a small amount for local self-government  $X^2(4, N=401) = 280.9; p=.00$ .

Figure N-4

Readiness to pay money	Readiness to pay local taxes		
	Yes	No	Not Sure
Yes	83.1%	11.7%	15.2%
No	4.3%	77.9%	23.9%
Not Sure	12.6%	10.4%	60.9%
All	100.0%	100.0%	100.0%

Statistically significant link is between trust to the local self-government and the willingness to pay a small amount of money to local self-government  $X^2(8, N=398) = 98.2; p=.00$ .

Figure N-5

Readiness to pay money	Trust in self government				
	Do not trust at all	Do not trust	Hard to answer it	Trust	Completely trust
Yes	48.3%	38.9%	54.5%	75.2%	93.3%
No	44.8%	50.0%	11.4%	12.0%	0.0%
Not Sure	6.9%	11.1%	34.1%	12.8%	6.7%
All	100.0%	100.0%	100.0%	100.0%	100.0%

As shown from the table, the positive response to a small amount will increase with the quality of confidence expressed towards the self-government.

Residents of different towns express different readiness to pay money. The connection between the city type and the willingness to pay is statistically important.  $X^2(16, N=317)=56.7; p=.00$ .

Figure N- 6

Readiness to pay money	Cities								
	Zugdidi	Khobi	Foti	Abasha	Chkhorowyu	Walenjixa	Martvili	Senaki	Mestia
Yes	53.8%	66.7%	73.0%	51.5%	75.6%	70.5%	60.0%	52.4%	50.0%
No	41.0%	9.5%	16.2%	45.5%	2.2%	13.6%	40.0%	11.9%	26.1%
Not Sure	5.2%	23.8%	10.8%	3.0%	22.2%	15.9%	0.0%	35.7%	23.9%
All	100	100	100	100	100	100	100	100	100

The highest rate 75.6% to pay small amount of money is observed in Chkhorowyu and the lowest rate is in Mestia.

Statistically significant link has been revealed between the respondent's readiness to pay local taxes and their level of education  $X^2(10, N= 401) = 30.7; p=.001$ . The highest rate of payment for local fees (46.4%) is also revealed in higher education.

Statistically significant link has been revealed between that the respondents willing to pay local taxes and their employment status  $X^2(8, N=384) = 22.5; p=.004$ .

Figure N- 7

Readiness to pay local taxes	Employment status				
	Unemployed	Self-employed	Hired	Pensioner (unemployed)	Student (unemployed)
Yes	51,5%	73,8%	71,4%	85,7%	55,6%
No	27,3%	13,1%	22,9%	0,0%	22,2%
Not Sure	21,2%	13,1%	5,7%	14,3%	22,2%
All	100	100	100	100	100

Statistically significant link was revealed by the respondents who are willing to pay local taxes and satisfaction with the assistance provided by the self-government  $X^2(4, N=123) = 14.9; p=.005$ . Particularly, the highest rate of willingness to pay local taxes was revealed among them who are satisfied with the assistance they have been provided from the self-government.

Figure N-8

Readiness to pay local taxes	Quality of satisfaction with self-help		
	Dissatisfied	Medium	Satisfied
Yes	59,5%	48,0%	69,6%
No	19,0%	48,0%	26,8%
Not sure	21,5%	4,0%	3,6%
All	100	100	100

Residents of different towns express different willingness to pay local taxes. The connection is statistically significant between city and local payments  $X^2(16, N=317) = 60.5; p=.00$ . As shown in the table, if the local tax payment is paid, the highest level of willingness is revealed in the Chkhorowyu, and the lowest rate of positive response in in Martvili.

Figure N- 9

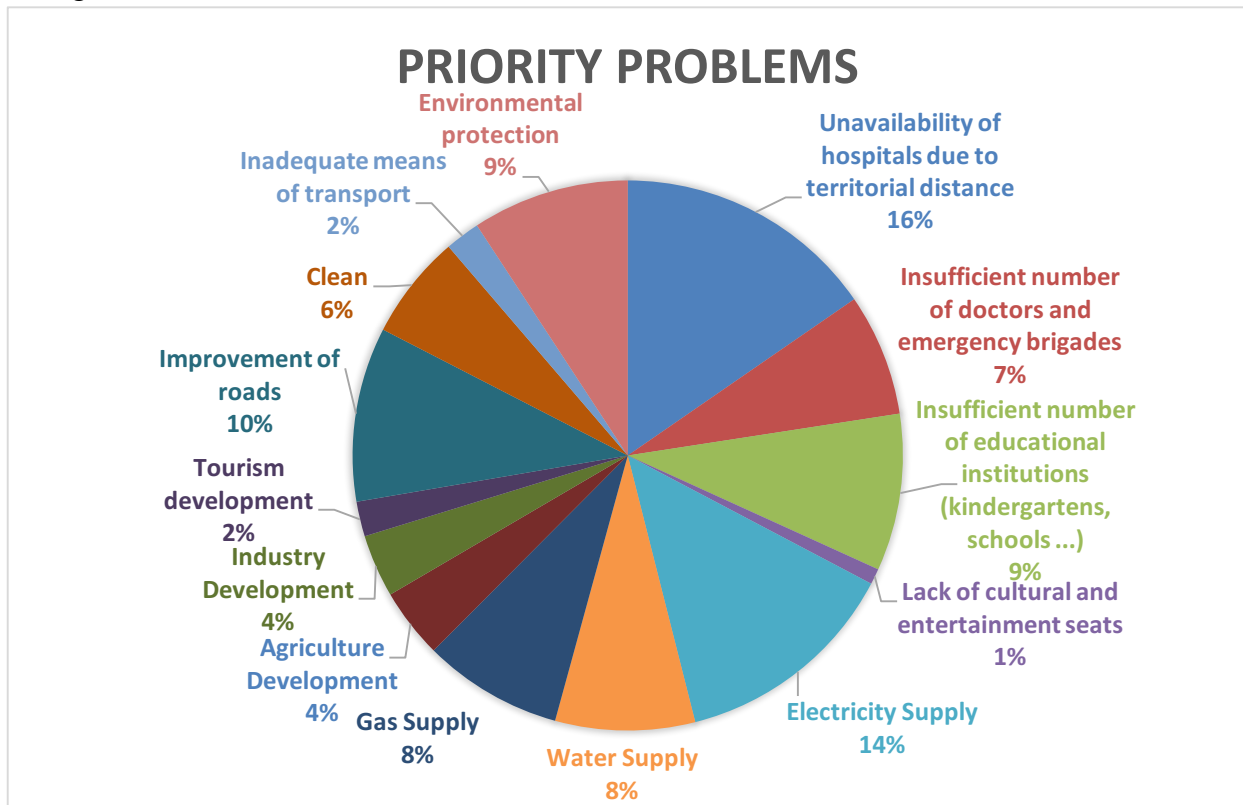
Readiness to pay local taxes	Cities								
	Zugdidi	Khobi	Poti	Abasha	Chkhorowyu	Tsalenjikha	Martvili	Senaki	Mestia
Yes	48,7%	66,7 %	89,2 %	42,4%	93,3%	72,7%	40,0%	73,8%	60,9%
No	33,4%	23,8 %	8,4 %	51,5%	2,3%	11,4%	30,0%	9,5%	23,9%
Not sure	17,9%	9,5%	2,7	6,1%	4,4%	15,9%	30,0%	16,7%	15,2%



			%						
All	100	100	100	100	100	100	100	100	100

The survey revealed the priorities of the problems in the population:

Figure N – 10



## 2. Conclusion

The results of the survey have once again showed the role of local self-governments in solving the social-economic problems of the population. The main findings of the research are:

Firstly, the existence of local self-governments in the opinion, of the majority of the population is necessary to solve the social-economic problems of their region, but the involvement of the population is still low and most of them do not know about the projects implemented by the local self-government. It is therefore necessary to carry out local policies in increasing the involvement of the population, which implies the introduction of modern models of engagement. The main challenge of local self-governments will be solving problems related to the involvement of the population.

Second, high correlation was revealed between the level of education of the population and their dependence on local self-government. Consequently, the improvement of the level of education will make it more effective as a mechanism for solving local problems, as well as positively affect the level of social-economic development of the country.

Third, the readiness of the population is high in terms of expressing financial support. In order, to implement this practice, it is necessary to create a scheme of participation, which will fit into the level of income of each family.

Fourth, the trust of local population is low towards the local self-government institutions, resulting in poor participation of the population. There is also a low level of readiness to pay local taxes, which would be a financial support for their problems in their city or village. In order, to avoid these problems, local self-government needs to gain confidence from the population and it will not be possible if the population's demands are not met. It is therefore necessary to create a system of involvement in the population, where most people will have the opportunity to express their opinion. In addition, the role of the population should be increased - budget preparation and planning of the projects. In parallel with this process, monitoring and reporting must be done to the population, after which the population satisfaction index will increase, which will increase also confidence. The involvement of the population in the budget planning process is necessary to ensure the real possibilities of the existing budget and become the part of the scheme to co-finance the population to solve common problems.

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