

## Decentralization Strategy 2020-2025

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## **1. Introduction**

Creation of a free, democratic state based on the rule of law requires the development of a political system, built on the principles of self-governance and safeguarding fundamental rights of citizens, while creating the environment whereby shared national and local matters of importance are resolved through the exercise of free will by the citizens. Historical experience corroborates that ensuring public welfare, free and unhampered development of individuals and groups, provision of full social services cannot be attained only under centralized governance. In order for a governance system to adequately respond to needs of the population and ensure effective participation of citizens in decision making, it is pivotal that powers and respective resources be distributed among central authorities and local self-governments.

Decentralization of governance which is directly linked to the enjoyment of fundamental rights by citizens at a level of local self-government envisions the development of self-governance, one of the paramount democratic institutions for state-building. Establishing a fully functional system of local self-governance is one of the key objectives of the governance system reform. The strategy is linked to a vision set forth in the national policy document “Freedom, Rapid development, Prosperity”. At the same time, it is designed to contribute to achieving sustainable development goals at a local level.

## **2. General overview of the context and existing challenges**

Since the creation of local self-government bodies in 1998 till now, structure and functions of the latter have gone through multiple changes.

In 1997, Georgia adopted the law on Local Self-government and governance followed by local self-government elections in 1998. However, until 2006, the self-government only covered village, community, town and city level and local matters would mostly fall within competence of a Gamgebeli, head of local self-government appointed by the President.

In 2004, the Parliament of Georgia ratified European Charter on Local Self-Government which took effect on April 1, 2005. The ratification of the European Charter laid the groundwork for further development of the decentralization reform. In 2005, a new organic law on self-government was adopted pursuant to which local government was replaced by local self-government through election in 2006. The same period had seen the passage of the Law on Property of Local Self-government Unit and the Law on State Supervision of Local Self-government. In 2010 the Parliament passed a series of amendments to the Constitution concerning constitutional guarantees of local self-government. A new chapter entitled Local Self-government added to the Constitution of Georgia recognized main principles of local self-government. At the same time, self-government bodies were given the right to lodge a constitutional complaint and challenge those legislative acts, which violated the rights of self-government units enshrined in the Constitution.

A new organic law – the Self-government Code adopted in 2014 consolidated separate laws, which existed previously including Law on Capital of Georgia – Tbilisi, Law on Property of Local Municipality and Law on State Supervision over Local Self-government Bodies and upgraded them to the organic law. One of the important novelties of the Self-government Code was that it allowed for representative as well as executive bodies - Gamgebeli/Mayor to be elected through direct election and introduced additional mechanisms ensuring participation of the public in self-government. In 2013, declared commitment of the Georgian authorities to implement an effective reform in the area of decentralization was praised as rather positive and ambitious endeavor by the Council of Europe. In 2017 the decentralization reform came to face new

challenges which raised the need for taking stock of outcomes of the implemented reforms to date. This was followed by a series of revised decisions with regard to some components of the reform. At the same time, the analysis revealed the dire need for a mid-term planning resulting in the adoption of the Government's three-point plan and a launch of work on a decentralization strategy.

In 2017 the Parliament of Georgia passed a series of amendments to the Constitution (which, in fact, had created a new version of the document) thus introducing new, additional constitutional guarantees for pertaining to the implementation of local self-governance. More specifically, the Constitution recognized that the division of powers between State and local self-government is based on the principle of subsidiarity and that the State pledges to ensure the adequacy of financial resources with powers of local self-governments laid forth in the organic law. Also, the Constitution recognized the powers of self-government unit to be both exclusive and full. Those additional guarantees granted by the Constitution of Georgia provide key legal foundation for further strengthening of the decentralization process and creation of strong self-government in line with European standards.

According to the Constitution of Georgia, the citizens of Georgia decide issues of local importance through representative and executive bodies of local self-government. Powers of State government and local self-governments are separated. Self-government unit (municipality) has its own powers, which it exercises independently, under its own responsibility and discretion within the limits of the law.

In addition to the responsibilities already retained by municipalities, they can be prescribed other functions by state authorities or leadership of the autonomous republic with the rationale that these functions may best function at a local level. According to the Constitution of Georgia, powers can be delegated from State authorities to the local municipality through a legislative act or a contract together with the transfer of relevant material and financial resources.

The Constitution of Georgia and the country's legal framework also attribute to local self-governments the power to decide, at their discretion, on matters which do not belong to exclusive competence of state authorities or those of autonomous republic, and which is not excluded by law from the jurisdiction of self-governing unit.

Approaches embedded in the Constitution and the entire legal framework are fully compliant with the requirements of European Charter on Self-government. A question remains however, as to what extent self governing bodies are capable to execute tasks and responsibilities prescribed to them by law and what a share of such issues among all public matters is. When it comes to exercising delegated powers by municipalities, discretionary decision-making, the power rarely executed by local authorities, deserves close attention. Decentralization process is based on the concept of local autonomy, defined by several factors, including legal protection of local self-government and system of national supervision, also the discretion of local authorities how local services should be managed and to what extent they should be regulated by the norms and standards adopted by the state.

The analysis of the stages of the local self-government reform and the introduction of high standards of self-government by Constitutional reform, has revealed new challenges affecting the consistent implementation of

the decentralization process. As a result of complex analysis of the drawbacks and problems of the development of local self-government, following main challenges have been identified:

- 1) Past stages of the reform reveal that they were primarily connected to the political changes in State government. The implemented reform, which was mainly manifested by legal amendments prior to the elections, envisioned further development of the process in a mid-term perspective to a varying degree. It did not envisage the further development of the process in the medium-term perspective. Therefore, the decentralization strategy should be based on a med-term vision, foresee main directions for the improvement, while the strategic action plan should define all activities to be implemented annually, in order to ensure the sustainability, consistency and goal-oriented nature of the decentralization process, key preconditions for the successful implementation.
- 2) A question as to what role local authorities can play in deciding on public matters and what their place might be in organization of the state power begs for answers. Pursuant to the European Charter, local self-government should be in charge of regulating and managing “a substantial share of public affairs”. Rather limited powers of local self-governing units have prevented local authorities from playing an important role in public life. The principle of separation of power between the state and local self-governments based on the principle of subsidiarity enshrined in the Constitution of Georgia lays the legal groundwork for the ultimate transformation of centralized governance inherited from the Soviet Union and progressive devolution of power from the center to the local level, that shall allow for more effective and timely responses to local issues and due consideration of local context. Ensuring access to public welfare, free development of individual citizens or groups, provision of adequate public services greatly depend on the place of the local self-government in the system of public management and its capacity to adequately respond to local needs and challenges. Full exercise of powers prescribed to local self-governments, widening and expanding the scope of such powers to cover a substantial part of public affairs is likely to bolster the effectiveness and efficiency of measures for responding to local needs and, at the same time allows local communities to have a stronger say in the process of resolving local concerns, and coverage of major part of public welfare issues increases the flexibility and effectiveness of problem solving and enables the due consideration of interests of the population in solving these matters.

The following factors have hampered the full execution of powers by local self-governments:

- a) Absence of a long-term vision for the development of municipalities as a result of which solutions are not focused on long-term outcomes and fail to yield desirable results;
- b) Strict regulations and frameworks restrict freedom of action and discretion for decision-making hampering the attainment of set goals in a locally appropriate manner and tailored to local context;
- c) A low level of involvement of the general public, including businesses in the exercise of power at local level results in a mismatch between decisions and local needs and interests. In addition, there are no effective mechanisms for public and private partnership while the potential of the business sector in diversifying municipal services and protecting public interests remains underutilized;
- d) Lack of human, material and financial resources necessary for the exercise of power prevents local self-governments to fully and effectively execute their mandate prescribed by the organic law of Georgia;

- e) Underdeveloped cooperation between municipalities results in low quality of municipal services and failure to maintain cost-effectiveness and consolidate available resources;
- f) Discrepancies within the legal framework creates collisions between provisions of sectoral legal acts and the organic law on local self-governments resulting in inability of local authorities to fully execute their powers.
- g) Prolonged process of transferring of property to municipalities as well as complicated and controversial procedures of primary registration of property transferred to the ownership of local self-governments.

Among the objectives towards reaching this goal is the creation of enabling conditions conducive to the adequate fulfilment of responsibilities conferred by law to self-government bodies and incremental increase of the powers of the self-government bodies based on the principle of subsidiarity

- 3) Exercise of authority prescribed by the law the self-governing unit requires the transfer of respective financial and material resources to municipal authorities. Limited financial and material resources available to self-governments is among critical factors which hamper effective implementation of self-governance. In many cases, some powers of local self-government cannot be implemented due to the lack of adequate resources. Thus, ensuring that municipalities have access to resources adequate to their existing and increasing powers is perceived one of the key priorities of the decentralization reform. The constitutional obligation of the State to ensure the compliance of financial resources with the powers of self-government granted by law is exactly the very same constitutional guarantee and foundation, on the basis to which financial-economic foundation of self-government units must be strengthened.
- 4) Necessary preconditions for self-governments to effectively execute their responsibilities include an autonomous nature of the decision-making, compliance of the adopted decision with the interests of the local population, transparent operation of the self-government organs, participation of a wider public, introduction of effective and viable mechanisms for public supervision, evaluation and accountability, expertise of local civil servants, measures for continuous improvement of management systems and administrative structures of self-government units, implementation of effective and innovative systems of public services, and introduction of mid-term, consistent and goal oriented strategic planning system for the development and operation of self-governments. At this stage, a series of gaps and weaknesses have been identified with respect to the preconditions outlined above to be addressed under one of the directions of the decentralization reform.

It has been recognized that the level of women's participation in deliberations around matters of local importance remains low. Measures to support equal participation of men and women will be stipulated by the decentralization reform.

This is a set of measures which should ensure the development of reliable, transparent, accountable, goal-oriented self-government committed to serve the interests of local communities.

### **3. Principles of the implementation of the strategy**

The decentralization strategy rests upon the following principles:

- 1) Complexity and systemic approach – Holistic and systemic perception of mutually reinforcing and

interrelated organizational, economic, financial, material, social and other factors contributing to the decentralization processes and the development of local self-governments.

- 2) Subsidiarity – Execution of public tasks, unless there is evidence indicating that executions of such tasks at a higher level yields greater effectiveness and cost-efficiency, by authorities standing closest to population considering the nature and complexity of such tasks as well as requirements of cost-efficiency and effectiveness.
- 3) Step by step approach, consistency and synchronization - decentralization is based on step by step development, which is exercised in different areas consistently in a synchronized manner.
- 4) Autonomy of local government – rights and opportunities of local self-governments attributed the by Constitution of Georgia to independently decide on local matters at their discretion and with consideration of the best interests of local communities within the limits of the law, enjoy broad discretion with regard to planning and decision making processes; Enjoyment of full discretion in decision-making and planning, liberty to implement their initiatives regarding matters that either fall under or are not excluded from their competences, or are not attributed to any other body.
- 5) Fairness – Ensuring equal conditions and opportunities for all self-government units to exercise their responsibilities.
- 6) Full and exclusive powers – powers entitled by law to the local self-government bodies shall be full and exclusive. Under no circumstances shall decisions made by local self-governments within the scope of their competences be restricted or appealed against by other bodies of authorities, except for cases stipulated by the organic law.
- 7) Compliance and commensurability – Financial and material resources allocated to the self-government bodies should be adequate to the responsibilities prescribed by the organic law.
- 8) Equal development and financial solidarity – The state provides assistance to self-government units with insufficient financial resources through a mechanism for fair distribution of financial resources.
- 9) Participatory democracy – Stimulation of different forms of citizen self-organization, fostering different forms of direct exercise of self-government and participatory democracy.
- 10) Institutional dialogue –state authorities shall ensure that local self-government bodies are informed through accessible methods and in due time, and consulted during the planning and decision-making as stipulated by the organic law on every matter concerning self-governing unit or related to the decentralization process.
- 11) Transparency and publicity – ensuring access to information about planning, implementation, monitoring and evaluation of the decentralization process for all stakeholders including businesses, international organizations, civil society, and media and guaranteeing wider participation in these processes.
- 12) Gender equality – ensuring equal participation of men and women in the process of decentralization and execution of self-governance

#### 4. Strategic directions and the vision for 2025

Vision of the Georgian government with regard to the decentralization process implies the formation and development of a system of local government, which shall ensure effective and quick solution of the matters of local importance in due consideration of the interests and active participation of the local population, independently and with its own responsibility, full realization of opportunities of local municipality, sustainable local economic development, solution of household problems of the population and permanent raising of quality of life. The following measures are believed to ensure progress towards this vision:

1. Create respective legal framework for ensure diversity and sustainability of the revenues of self-government units, which shall create a prerequisite for med-term vision for development
2. Execution of municipal powers should be based on the continuous and consistent planning of development of self-government units. The legislation should define the types of planning documents, their terms, procedures for drafting and adoption, methodology, hierarchy of planning documents, status and their relationship with the local budget.
3. A principle enshrined in the Constitution of Georgia and the European Charter of Local Self-Governance allowing wider discretion and greater freedom of action by municipalities in decision-making should be effectively introduced in the operation of local self-government bodies, so that municipal authorities execute local self-governance in a manner that is tailored to local context and needs insofar as possible.
4. Introduction and implementation of good governance principles as part of the work carried out by local self-governments, ensuring wider public participation in the execution of local self-governance, establishment of sustainable mechanisms for Public Private Partnership, creating an environment conducive to partnership between self-governing units and business sector on the implementation of joint projects and delivery of services, also allowing municipalities to fund public-private initiatives and invest in joint projects.
5. With regard to the powers attributed to self-government, minimal standard of implementation should be set and should be observed through provision of adequate resources
6. Intermunicipal cooperation, creation and development of municipality associations and intermunicipal cooperation institutions should be fostered, joint activities of municipalities should be encouraged.
7. A complex review of the legislation should be conducted and a package of legislative amendments should be prepared for the harmonization of legislation with the organic law on self-government.

Local self-government represents one of the foundations of the democratic State. Indeed, local self-government bodies, with strong commitment can ensure effective governance which is close to the citizens. Thus, the mission of the Georgian government is to ensure the establishment of democratic governance founded upon European values through further development of self-government, which shall be oriented towards harmonization of national and local interests, sustainable development and welfare of the population.

The fulfillment of these tasks requires harmonization of national, regional and municipal policies with respective coordination mechanisms and holistic, progressive and consistent implementation of the reform.

Based on the analysis of the international experience and the past reform as well as the identification of challenges existing in municipal administration the following priorities for municipal policy planning and decentralization have been determined:

Main directions of the decentralization strategy for 2020-2025 are as follows:

1. Increase of powers of local self-government
2. Build material and financial capacity of local self-government
3. Develop reliable, accountable, transparent and results oriented self-government.

By 2025, the self-governments in Georgia enjoy a high level of trust among the public while solving matters of local importance and ensuring local development.

Local self-government effectively responds to a substantial range of local needs, which on the one hand ensures accessibility and high quality of the services and on the other hand actively promotes economic and social development of municipalities. To this end central authorities shall devolve those powers to local self-governments which can be exercised more effectively at a local level, and transfer property and increased financial resources. At the same time, share of the overall revenues of local self-governments shall be at least 7 percent of the GDP.

Local self-government bodies work effectively and transparently, by resorting to modern management systems and principles. They ensure the involvement of citizens in decision-making and implementation process based on principles of good governance and participatory democracy.

## 5. Strategic goals and objectives

The decentralization strategy aims to implement principles enshrined in the Constitution of Georgia, facilitate consistent development of local self-governance, transform decentralization into a continuous and results oriented process, enhance the role and importance of self-government units in deciding on public matters, ensure public participation in the execution of local self-governance and establish transparent, accountable self-governance based on good governance principles.

### 5.1. Strategic goal 1 - Increase the role of self-governments in managing a substantial share of public affairs

*This implies power and ability of local authorities to manage a substantial share of public affairs under their own responsibility and in the interests of the local population.*

#### Objective 1.1: Ensure full implementation of powers granted to local self-governments by the law

Self-governments shall have both rights and opportunities to exercise fully and exclusively the powers granted by law in compliance with the needs of the local population.

In order to support local authorities in exercising their competences, measures will be taken to create legal conditions under the organic law to ensure full and exclusive execution of powers entitled to local self-governing units by the code of local self-government. To this end, factors hampering full exercise of existing competences shall be identified and measures taken in order to eliminate such factors.

*Activity 1.1.1. Identify factors hampering full implementation of competences by self-government units.*

Factors hampering full implementation of existing competences shall be identified through consultations with municipalities and based on relevant research. To this end respective laws and by-laws shall also be revised.

*Activity 1.1.2. Support of the implementation of competences granted by law upon self-government units.*

In order to eliminate factors hampering full exercise of municipal powers, legislative changes shall be prepared following the revision of respective laws and by-laws. Additionally, for the purpose of supporting the exercise of powers, manuals, instructions and other guidelines shall be prepared, training components planned, and implementation supported.

**Objective 1.2: Increase competences of local self-governments based on the principle of subsidiarity**

Based on the principle of subsidiarity, local self-government bodies should possess all the powers which are necessary for the improvement of social and living conditions of local communities and supporting local economic development. Simultaneously, the constitutional principle of the separation of powers between central and local government requires the full transfer of adequate responsibilities to the local self-government bodies.

Together with the transfer of responsibilities, municipalities should enjoy wider discretion and freedom of action, in order to be able to execute self-governance within the limits of the law and in a manner that is responsive to local needs and tailored to the local context.

In the frames of the decentralization reform, competencies of municipalities shall be enhanced, and they shall be granted the functions, which can be implemented more effectively at a local level. Those additional functions shall be delegated to municipalities once relevant human resources are prepared and adequate material and financial resources allocated.

Delegation of additional functions to municipalities shall take place progressively and consistently only on the basis of prior consultation with the interested stakeholders. In the first place the functions shall be delegated, and later they shall become part of municipalities own responsibility.

*Activity 1.2.1. Define powers to be transferred to municipalities in accordance with the principle of subsidiarity*

In the frames of decentralization reform, the powers of municipalities shall be increased in administrative, property management, service delivery, education, culture, local economic development, environment, natural resource management, agriculture, social security and other areas.

The functions which should be transferred shall be identified by using relevant tools, based on the analysis of the transferrable functions, setting time limits and determining forms of the transfer.

*Activity 1.2.2.* Ensure legal framework for the implementation of additional competences by self-government bodies

Once transferable functions are identified, acting legislation shall be reviewed and necessary legislative changes shall be prepared.

*Activity 1.2.3.* Ensure technical and financial support for municipalities for the execution of their additional competences

For the execution of own additional functions by municipalities, adequacy of necessary logistical and financial resources shall be analyzed and measures shall be planned and implemented to ensure adequate provision of such resources.

While transferring each of the functions, the funds designated for the exercise of this function shall be analyzed in nominal value as well as with regard to GDP as a result of which the amount of funds to be transferred together with the function shall be determined.

The legislation shall define the rule for calculating material and financial resources necessary for local authorities to execute specific functions.

#### Expected results

Implementation of the measures outlined above is expected to improve the quality of execution of powers prescribed by the law to local self-governments and lead to an increase in the competences of local authorities based on the principle of subsidiarity.

## 5.2. Strategic Goal 2 - Ensure adequate material and financial resources for local self-governments

*Local authorities have the right to have own financial resources within the national economic policy to dispose within the limit of their competences. Financial resources available to municipalities must be in line with competences of local self-governments as prescribed by the law.*

### Objective 2.1: Support consistent increase in local government's own revenues

Greater competence to mobilize revenues implies a full autonomy of local authorities to introduce, administer and define non-tax revenues (such as fees and permits) as well as to define a policy on rates. At the same time, the legislation shall define overall share of revenues of local self-government as at least 7% of the GDP. The legislation shall also define that the share of revenues of municipalities in relation to the GDP shall increase incrementally together with transfer of competence from central/autonomous republic government and in proportion with the funding of this competence from central/autonomous republic budget. At the same time, simplified legal procedures will allow municipalities to have access to loans and provide/accept grants considering existing financial and economic risks.

In addition, it is pivotal that measures be taken for incremental increase in non-financial assets of local self-governments.

*Activity 2.1.1. Set up legislative mechanisms to increase municipalities' share in revenues collected from disposition of state property in the territory of a self-governing unit*

Legal mechanisms will be set up to ensure the transfer of certain percentage of financial revenues received from the privatization of property by the state to local revenues/budgets taking into consideration the principle of territoriality.

Distribution (in percentage) of revenues collected through leasing and selling of state property shall be increased in favour of local self-governments.

*Activity 2.1.2. Revise local fees*

Taking into consideration international best practices and local challenges, types of local fees shall be further diversified with municipalities being able to diversify local revenues and determine the types of local fees applicable to their territories within the limits of the law. To this end, respective legislative changes will be drafted.

*Activity 2.1.3. Define competences of local self-governing units with regard to specific types of the license to use*

Local authorities shall have competences entitled by the law to establish specific types of licences of use while licensing fees will go to the local budget.

*Activity 2.1.4. Continue the process of sharing state taxes with local self-governments*

Changes to the budget code of Georgia shall aim to increase local revenues in order to allow local authorities execute their functions. A change to a shared portion/percentage of income tax will be considered and a respective legal framework developed to allow ensure administration of income tax based on the place of residence of a natural person.

*Activity 2.1.5. Revise the rule for calculating property tax, taxpayers and taxable objects*

Property tax constitutes one of the important sources of local revenues. Existing tax benefits and the rule applicable to property tax will be revised.

*Activity 2.1.6. Transfer of property*

List of state-owned property to be transferred to municipalities, as well as forms of transfer and timeframes will be revised.

Procedures for property transfer and registration will be simplified.

By the end of 2025 respective municipality shall become an owner of unregistered property in the territory of the municipality.

## Objective 2.2: Improve mechanisms for the allocation of state resources

Georgia ranks below European average with the share of local expenditures to the GDP. Even though the country is not an outlier in the ranking, the share of local revenues to the GDP still remains rather small while there has been financial inequality among municipalities. For the decentralization process, it is far more important to implement reasonable financial equalization mechanism, which shall provide citizens comparatively equal access to the local services regardless of the place of residence.

### *Activity 2.2.1.* Improve the principle for revenue distribution

Changes shall be prepared in the budget code concerning the principles and methodology for determining equalization policy and calculation. Principle for the distribution of revenues shall be defined by law. At the same time, from 2019 VAT shall be shared.

### *Activity 2.2.2.* Improve mechanisms for providing funds for the implementation of delegated competences by local self-governments.

Instruction for the delegation of competences to lay forth conditions and mechanisms for delegation shall be prepared. Procedure for calculating cost of delegated services shall also be defined.

## Expected results

Implementation of policies stipulated by the decentralization strategy is expected to lead to substantially increased local revenues and greater role of local self-governments in incentivizing local economy. This, in its turn, will result in considerable growth of municipal budget. In addition, local municipalities will assume bigger share in public finance management in line with international standards and practices.

## 5.3. Strategic goal 3 - Develop reliable, accountable, transparent and results oriented self-government

*Development of local self-government system and introduction of results oriented management, monitoring and evaluation systems to support the development of effective, transparent and accountable local self-government.*

### Objective: 3.1 Introduce effective and innovative management and quality service delivery systems at a local level

Successful implementation of the decentralization reform and the establishment of effective government system at a local level requires institutional empowerment of self-government bodies and improvement of the management system. In this respect, it is planned to introduce modern system of organizational management, including human resource management, automated system of monitoring and evaluation of organizational management and improvement of the system of public finance management in municipalities. A consistent

and transparent system of planning shall be created at local level, which shall be tightly linked to the budget and financial management system.

It should be noted that the aim of devolution of powers, resources and functions is to improve the quality and effectiveness of services, fiscal management, support the development of the private sector including Public-Private Partnership, encourage participation of local communities, including young people, in decision-making. Local authorities stand closest to the population and therefore, are able to swiftly respond to problems of every local citizen. The agenda of the reform welcomes participation of women both as elected officials as well as consumers of local services. Greater accountability and effective delivery of local services will lead to improved conditions for women. Institutional innovations designed to contribute to wider public participation in local processes, offer women more incentives and opportunities for participation in public deliberations around matters of local importance. Increased women's participation in local planning and management activities will be important.

Minimum national standards as well as framework policies and procedures will be developed considering the diversity of municipal services. This will create enabling environment for routine monitoring of the quality of service delivery and consumers' satisfaction level. Developed Intermunicipal Cooperation will lead to greater effectiveness and cost-efficiency of municipal services. In order to implement the abovementioned, the strategy will take into account and will be substantially guided by the policy paper on the creation, delivery, costing and quality assurance of public services.

#### *Activity 3.1.1.* Further improve management systems and administrative structure of local self-governments

Improvement of internal structure of local self-government is one of the main preconditions for its effectiveness. In this respect, following changes shall be implemented under the decentralization strategy:

- a. Procedure of establishment of legal entity under private law by local self-government bodies shall be revised to allow local self-governments to establish such entities only for the delivery of services falling under their own competences. In addition, municipalities will be able to establish only single (consolidated) entity per service delivered in the territory of municipality. (E.g. association of libraries, kindergartens, etc.)
- b. In order to implement good governance principles and empower local authorities to become more effective, a unified electronic system for managing information flows and a system of monitoring, evaluation and self-assessment shall be introduced at a local level. This will allow for electronic service delivery for the benefit of local communities.

#### *Activity 3.1.2.* Improve the system of public finance management at a local level.

Mechanisms to incentivize improved management of public funds in consideration of the results of public Expenditure and Financial Accountability Assessment at sub-national level (PEFA) will be introduced in local self-governments.

#### *Activity 3.1.3.* Build capacity of staff working for local self-governments

Taking into account the broadening of the scope of competencies of the local self-government, it is pivotal to further improve organizational management systems operating in local self-government units and take measures for institutional empowerment of local authorities.

In line with the requirements of the law on public service, the structural unit in charge of the human resource management shall operate in every self-government unit. Such units will be tasked to elaborate organizational policy and procedures of HR management in public institutions as well as HR management and administration of the organization. Creation of the effective system of HR management requires full support from the leadership of self-governing unit. Therefore, the implementation of the strategy will lead to progressive and consistent improvement of professional knowledge and skills of municipal servants so that self-governments are able to achieve increased objectives and functions.

*Activity 3.1.4. Adopt unified (minimal) standards for the delivery of municipal services and support to effective delivery of municipal services*

Against the backdrop of wider competences and more diverse municipal services, it is important that a set of minimum standards for municipal services be defined and mandatory national standards introduced to apply to all services provided by local self-governments to local communities. While defining minimal national standards for municipal services, the interests of the customers should be adequately taken into account, so that the customer does not face problems related to the quality of service and needs of vulnerable groups are met and accessible social service/programs are adapted to their needs.

Taking into account public service design, delivery, cost estimation and quality assurance policies, the introduction of the national standard of municipal services shall also encourage local self-governments to offer their communities services that meet or exceed established standards.

Along with the adoption of the service standards, a policy and procedures to assess the quality of services and monitor a level of consumers' satisfaction, shall also be in place.

*Activity 3.1.5. Develop Intermunicipal Cooperation*

Development of Georgia's rural and urban areas requires consolidated efforts while successful execution of most competencies devolved as a result of decentralization rests upon effective cooperation between neighboring municipalities. The decentralization strategy puts a strong emphasis on cooperation between municipalities (financial and/or technical and/or etc) in the areas such as potable water supply, smooth functioning of the sewage system, municipal waste management, local economic development and implementation of programs fostering employment etc.

*Activity 3.1.6. Develop a mechanism for the collection of reliable statistical data pertaining to each of municipalities for informed decision-making*

One of the main challenges for municipal authorities to make informed and justified decisions is the lack of reliable information and data. Therefore, measures need to be taken by the National Statistics Office of Georgia as the country's lead agency for collecting and processing information on the one hand and by local municipalities on the other to improve data collection pertaining to goals and objectives of their work as well as their duties and responsibilities.

In order for local self-governments to independently collect and analyze significant information and data for their operation and decision-making, it is important to enhance capacities for statistical data processing and equip municipalities with relevant human resources, information systems and tools. Particular attention should be paid to matters related to the automation of data collection, processing and analysis as well as data quality assurance.

### Objective 3.2: Introduce high standards of transparency and accountability

The involvement of Georgian municipalities in Open Government Partnership (OGP) has encouraged sectoral cooperation at a local level and implementation of innovative ideas and projects in coordination with private and NGO sector, which ensures a high standard of transparency and accountability at a local level. In their turn, in order to ensure the transparency of decision-making process and minimize risks of corruption, the Government of Georgia, in cooperation with international and local organizations, is committed to set up an effective system for the prevention of corruption risks. Such a system will allow local authorities to have access to technical assistance and expertise as they will embark on creating effective anti-corruption systems.

#### *Activity 3.2.1.* Support Open Governance Program in all municipalities

Support shall be provided to all municipalities for their inclusion in Open Governance Program and for identifying responsibilities to be reflected in OGP's action plan.

#### *Activity 3.2.2.* Revise the legal framework for the purpose of introducing high standards of transparency and accountability

Internationally recognized standards and principles concerning accountability and transparency of local self-government, as well as international best practices, shall be taken into account in the process of elaboration and implementation of the decentralization reform. While planning measures for ensuring transparency of local decision-making, due consideration will be given to baseline data as well as to assessment of existing situation, including legal framework, and identification of opportunities for farther improvement of transparency and accountability.

Response and feedback mechanism shall be defined vis-à-vis needs of local communities and measures will be taken for ensuring further improvement of such mechanisms.

### Objective 3.3: Facilitate effective participation in decision making and implementation at a local level

The review of existing legal framework in force and creation of possibility of participation at local self-governing level is planned for the achievement of set goal, which shall ensure the institutional participation of citizens in the decision making process at a local level. In order to achieve this objective, the strategy envisions to review existing legal framework and set up participation mechanisms at a local level to ensure institutional participation of wider public in local decision-making. In addition, the study of the experience of other countries with regard to participation of interested parties in decision-making and implementation process, including the civic budgeting (participatory budgeting) will also contribute to sharing and/or introducing some of these mechanisms. In order to ensure the support of wider public for the successful implementation of reforms stipulated by the strategy, a specific communication strategy will be developed and consistently implemented.

Not only will the strategy ensure awareness raising among the public on planned and implemented reforms, but also it will be used to collect feedback and opinion from various interested parties.

*Activity 3.3.1.* Improve legal framework and mechanisms for ensuring effective participation of stakeholders in decision-making and implementation

Participation of interested stakeholders in decision-making and implementation shall become important part of the budget process.

Existing forms of participation will be revised from the perspective of both legal as well as material and technical perspectives. In addition, proposals to reflect additional mechanisms based on best practices shall also be developed.

*Activity 3.3.2.* Ensure public participation in the implementation of decentralization strategy

Successful implementation of important reforms determined by this strategy requires the use of effective mechanisms for informing the public and communicating with them. It is important that reciprocal communication channels be introduced and maintained to ensure not only access of wider public to information but also for routinely receiving feedback from stakeholders about planned reforms, but also effectiveness of the implementation process and obstacles observed in this process.

Information received through such feedback channel will be important to address discrepancy and make adequate decisions.

Stages of communication and key activities, as well as implementation timeframes pertaining to the decentralization process will be reflected in the action plan of the strategy.

*Objective 3.4.* Set up local development planning and coordination system

Full and effective execution of local self-governance depends on the presence of a consistent and sustainable system for planning and coordination of local development. Without a long-term municipal development strategy, authorities will not be able to respond to pressing social and economic problems, effectively manage municipal finances and material resources, utilise local potential insofar as possible, find best ways for incentivizing local economic development, improve social conditions and living standards of local communities.

In order to set up and maintain planning and coordination system for local development, it is pivotal that:

- 1) standards and methodological guidelines be introduced to ensure high standards in municipalities;
- 2) A list of respective statistical data and indicators be defined and databases necessary for planning by municipalities improved;
- 3) Municipal budgets be in line with strategic and programmatic planning documents;
- 4) National, regional and local development strategies and programs be harmonized, and the synergy ensured
- 5) A unified electronic automated system of policy planning be introduced

*Activity 3.4.1.* Legal arrangements for development planning

Legal acts to define types and hierarchy of territorial (national, regional, municipal) development documents as well as procedures for their development and adoption, institutions, systems of implementation, monitoring and evaluation, and their consistency with respective budget, will be developed based on international practice.

*Activity 3.4.2. Create a methodological framework and standards for development planning*

Guidelines for development planning shall be developed and a database collecting statistical data, indicators and other data necessary for planning, set up and maintained.

*Activity 3.4.3. Introduce an effective system for monitoring, evaluation, and self-assessment of local self-governments*

Main purpose of monitoring, evaluation and self-assessment system is to enhance the organizational performance and facilitate greater integration of activities conducted by different units, and improved quality of services. The system should enable local self-government bodies to assess their work, also to monitor whether they have achieved the results responding to the needs of local communities, private sector, other beneficiaries of services and stakeholders interested in their activities. In this respect, the empowerment of internal audit mechanism shall be supported in line with the EU practice.

In light of Georgian context, the system of monitoring, evaluation and self-assessment with integrated key performance indicators should be linked to the own and delegated competences of the local self-government units as well as to municipal services and strategic goals defined by the social-economic development plans and results envisaged in the programmatic budget. At the same time, the indicators must define the baseline and the benchmarks, helping decision-makers on local as well as national level to periodically evaluate, compare and analyze performance of self-government units and adopt decisions related to the strategic, operational and program priorities as well as relevant public policy.

*Expected results*

These measures aim to implement good governance principles, enhance competitiveness of human resources, improve access to quality municipal services, develop planning and monitoring systems in the country's municipalities and facilitate results oriented governance.

## 6. SWOT Analysis

<b>Increase the role of self-governments in managing a substantial share of public affairs</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Principle of subsidiarity is enshrined in the new constitution</li> <li>• There is a clear line drawn by the organic law between powers of local and central authorities with respect to public affairs</li> <li>• The idea that the presence of strong local authorities is an indicator of a strong state has been gaining momentum among wider public</li> <li>• Decentralization and regional development are among important subjects of the Association Agreement between Georgia and the EU</li> </ul>	<ul style="list-style-type: none"> <li>• Sector legislations are not yet harmonized with the organic law of Georgia on self-Government law</li> <li>• State supervision mechanism over the work of local self-governments remains underdeveloped</li> <li>• Inadequate expertise of staff at local self-governing bodies to successfully execute their tasks</li> <li>• There has been no cost benefit analysis as to what costs the execution of delegated powers entail</li> <li>• Insufficient funding for the execution of delegated powers</li> <li>• Competences of local authorities and those of ministries pertaining to specific sectors (including competence of legal entities under the ministries, e.g. United Water Company) need to be clearly delimited in order to prevent direct administrative interference of the central authorities in executing exclusive powers by local authorities.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• A new version of the Georgian Constitution which upholds two major principles of local self-governance a) subsidiarity and b) proportionality between resources and competences</li> <li>• Declared commitment of the Georgian authorities to increase local budgets through fiscal decentralization</li> <li>• Strong support from international community (including international investment institutions)</li> <li>• Strong support from local civil society and active citizens to political and fiscal decentralization</li> <li>• 20 years of continuous (uninterrupted) cooperation with international organizations around local self-government aspired by the European Charter of Local Self-Government and decentralization</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate expertise of servants in local self-governments may hamper effective execution of duties and responsibilities of local authorities</li> <li>• Underdevelopment of places and limited local tax base fail to safeguard financial independence of local authorities against the backdrop of increased competences</li> </ul>

### Ensure adequate material and financial resources for local self-governments

Strength	Weaknesses
<ul style="list-style-type: none"> <li>• More or less refined legal framework especially in the area of public finance management</li> <li>• Electronic systems of property registration</li> <li>• Functioning systems of accounted income, expenditures, reporting and control</li> </ul>	<ul style="list-style-type: none"> <li>• Poor revenue base at a local level</li> <li>• Limited competences, motivation and poor practice in introducing and administering taxes and other revenues</li> <li>• Incomplete inventory of property owned by self-governments</li> <li>• Underdeveloped property management systems</li> <li>• Lack of knowledge and instruments for financial planning and management</li> <li>• Scarce resources for implementing comprehensive reforms</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Political will of state authorities for greater fiscal decentralization</li> <li>• The presence of revenues (through tourism, parking etc) in certain regions or self-governing units</li> <li>• Programs and measures targeting inequalities among regions and municipalities</li> <li>• Interest expressed by Georgia's partners in supporting measures towards fiscal decentralization</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and political challenges which may delay or compromise implementation of changes</li> </ul>

### Develop reliable, accountable, transparent and results oriented self-governments

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• More or less defined legal safeguards for ensuing high quality of transparency and accountability of local authorities</li> <li>• Wealth of experience of partnership and interaction with civil society in most municipalities and to varying degree</li> </ul>	<ul style="list-style-type: none"> <li>• Low interest of civil society organizations and citizens in participating in local decision-making processes (which may as well be a result of limited competences of local authorities)</li> <li>• Underdeveloped mechanisms of consultation with civil society and the private sector in the process of decision-making</li> <li>• Inconsistency in reporting on results achieved by</li> </ul>

	<p>local authorities</p> <ul style="list-style-type: none"> <li>• The absence of a respective system of policy planning, monitoring, reporting and evaluation</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Institutionalization of a mechanism of stakeholders participation in the planning of the work of local self-governments and local budgets through further improvement of respective legal framework</li> <li>• Study and extrapolation of the best international practices of public participation in decision-making at a local level</li> <li>• Commitment of international organizations and local civil sector to contribute to introducing higher standards of transparency and accountability of local authorities</li> <li>• Involvement of local self-governments in Open Governance Initiatives and other programs</li> <li>• Improved policy planning and coordination at a local level</li> </ul>	<ul style="list-style-type: none"> <li>• Excessive politicization of public deliberation efforts for decision-making at a local level which may dwindle motivation of local self-governments and civil sector to enter into a dialogue with various stakeholders</li> </ul>

## 7. Results indicators

Results to be achieved under the Strategy 2025 will be measured vis-à-vis defined target indicators

Strategic objectives	Target indicators for 2025	Baseline indicators
<b>Strategic goal 1. Increase the role of self-governments in managing a substantial share of public affairs</b>		
1.1 Ensure full implementation of powers granted by the law to self-governments	<p>Research on the full implementation of power in municipalities.</p> <p>Target: 1. Research is carried out in all municipalities (64)</p>	Not identified

	<p>Legislation supporting full implementation of municipal powers is fulfilled.</p> <p>Target: 1. Legal framework is harmonized</p>	<p>Baseline indicator for 2019: Legal acts requiring harmonization with the local self-government code are identified</p>
<p>1.2 Increase competences of local self-governments based on the principle of subsidiarity</p>	<p>Number of competences delegated to municipalities by central authorities Target: 1. Five competences are delegated to municipalities</p>	<p>Not identified</p>
<b>Strategic goal 2 – Ensure adequate material and financial resources for local self-governments</b>		
<p>Objective: 2.1 Support consistent increase of local government's own revenues</p>	<p>Increased local revenues Target: 1. Share of local revenues in GDP is at least 7%</p>	<p>Baseline indicator for 2019: 1. Share of local revenues in GDP up to 4.7%</p>
	<p>2. Property transferred to municipalities is increased by at least 2000 units</p>	<p>Baseline indicator for 2019: 2. 914 units of property transferred in 2018</p>
<p>Objective: 2.2. Improve mechanisms for the allocation of state resources</p>	<p>Developed financing policy of local self-governments; target: 1. Calculation principles and methodology are developed and implemented</p>	<p>Baseline indicators for 2019: 1. The implemented reform allows for including 19% of VAT in municipal revenues to be redistributed among municipalities based on pre-defined criteria</p>
<b>Strategic goal 3 – Develop reliable, accountable, transparent and results oriented self-government</b>		
<p>Objective: 3.1 Introduce effective and innovative management and quality service delivery systems at a local level</p>	<p>A unified electronic management system is implemented in municipalities Target: 1. In all municipalities (64) There is a unified electronic system for the management of information flows in place</p>	<p>Target indicator for 2017: 1. Not identified</p>

	2. Level of satisfaction and trust in local authorities is increased at least by 3%	Target indicator for 2017: 2. 68% report satisfaction with local authorities and 70% say they trust in Las <sup>1</sup> .
	3. At least 4 proven cases of Intermunicipal Cooperation	Target indicator for 2017: 3. One case of Intermunicipal Cooperation
Objective: 3.2. Implement high standards for transparency and accountability	Public financial management is improved at local level. Target: 1. Public expenditure and financial accountability of municipalities analyzed in at least 35 municipalities; 2. IPSAS introduced in municipalities (100%) 3. Public Expenditure and Financial Accountability (PEFA PI-26) developed; 4. By 2025 Average Local Self-Government Index (transparency and accountability) is estimated 55%	Baseline indicator for 2019 1-3. International Public Sector Accounting Standards (IPSAS) for local self-governments approved by Order N495 of 29 December 2017; 4. Average Local Self-Government Index (transparency and accountability) is estimated 28% according to National Assessment of Georgian municipalities for 2019. <sup>2</sup>
Objective: 3.3. Facilitate effective participation in decision-making and implementation at a municipal level	Civic engagement at a level of local self-governance is increased Target: 1. Mechanisms are upgraded with consideration of international practices	Baseline indicator for 2017: 1. Not identified

<sup>1</sup> Source: Study on Citizen's Satisfaction with Public Services in Georgia. P. 109. Figure 93. Available at: [https://www.ge.undp.org/content/georgia/ka/home/library/democratic\\_governance/citizen-satisfaction-with-public-services-in-georgia--2017.html](https://www.ge.undp.org/content/georgia/ka/home/library/democratic_governance/citizen-satisfaction-with-public-services-in-georgia--2017.html)

<sup>2</sup> Source: Assessment of transparency and accountability of municipalities, 2019. Available at: [https://idfi.ge/en/ldg\\_index\\_2019\\_results](https://idfi.ge/en/ldg_index_2019_results)

	2. Civic engagement in the execution of local self-governance is increased by 10%	Baseline indicator for 2017: 2. Civic engagement in the execution of local self-governance – 10% <sup>3</sup>
	3. Women’s participation in civic activism is increased at least by 10%	Target indicator 3. 92% of women do not participate in civic activism <sup>4</sup>
Objective: 3.4. Set up a system for local planning and coordination	A document for local level strategic planning is developed and harmonized Target: 1. Municipal strategic planning document (64) developed	Not identified

## 8. Implementation and management mechanism

State Committee for Local Self-government Reform and Decentralization shall coordinate activities of the ministries involved in the process of designing and implementing the strategy. Strategic documents and action plans prepared by the ministries and other agencies subordinated to the Georgian government must be in line with the policy priorities defined by this strategy.

A tentative budget for the implementation of a two-year action plan is estimated 7.5 million GEL.

The state budget is the main source of funding for the implementation of the decentralization strategy. In addition, agencies and foundations implementing projects under various agencies will also contribute to the funding. Also shall be involved other agencies and foundations implementing the projects supervised by different agencies. All possible funding sources envisaged by Georgian legislation shall be applied and international partners and donor organizations shall participate in effective implementation of the strategy and action plan. Together with the State authorities, municipalities, private sector, civil society and international organizations shall be involved in the implementation of the strategy. There will be a three-level management system set up to ensure effective coordination of these efforts:

1. Decision-making level: The government of Georgia is responsible for taking significant and comprehensive decisions

<sup>3</sup> Source: *Study on Citizen’s Satisfaction with Public Services in Georgia*. P. 108. Figure 90. Available at: [https://www.ge.undp.org/content/georgia/ka/home/library/democratic\\_governance/citizen-satisfaction-with-public-services-in-georgia--2017.html](https://www.ge.undp.org/content/georgia/ka/home/library/democratic_governance/citizen-satisfaction-with-public-services-in-georgia--2017.html).

<sup>4</sup> Source: *Study on Citizen’s Satisfaction with Public Services in Georgia*. P. 111. Figure 97. Available at: [https://www.ge.undp.org/content/georgia/ka/home/library/democratic\\_governance/citizen-satisfaction-with-public-services-in-georgia--2017.html](https://www.ge.undp.org/content/georgia/ka/home/library/democratic_governance/citizen-satisfaction-with-public-services-in-georgia--2017.html).

2. Consultative level: State Commission for Local Self-government Reform and Decentralization is responsible for the implementation of decisions made by the Government of Georgia, deliberates on addressing various matters, carries out monitoring and evaluation through the Ministry of Regional Development and Infrastructure. The latter shall prepare a report on the progress of the implementation of the strategy and submit to the Commission's review.
3. Executive level: responsibility for the implementation of the strategy and action plan shall be assumed by the Ministries, municipal bodies, different state agencies and organizations, while the responsibility to coordinate the implementation of the strategy and action plan shall be assumed by Ministry of regional development and infrastructure.

## 9. Reporting, monitoring and evaluation

Progress in the implementation of the strategy will be tracked in periodic reports while day to day implementation of activities under projects will be monitored on a regular basis. Progress vis-à-vis strategic goals and objectives will be evaluated, and the respective changes made where necessary. Information about the process and achievements in the implementation of the action plan for the period of one year will be collected in a monitoring report. Evaluation reports will be prepared twice: a mid-term report will be produced two years after the approval of the strategy while a final report will be published a year after the end of the strategic period. Strategic objectives may be renewed if they have been achieved or if there is need to come up with new objectives for a new vision. The vision of the strategy shall be updated if there is an alternative vision identified through consultations with all relevant stakeholders. Consultations with regard to the vision may be held in four years after the approval of the strategy. Ministry of Regional Development Infrastructure will be in charge of developing respective reports for monitoring and evaluation based on reports submitted by agencies. Reports developed by the Ministry shall be submitted to the State Commission for Local Self-Government Reform and Decentralization and the regional policy and self-government committee of the Parliament of Georgia. Information about the implementation of the strategy and the action plan shall be made available to the general public through face-to-face meetings with representatives of the Council and the Ministry, also the ministry's website, as well as various media outlets and social networks. Monitoring and evaluation will be primarily based on official data and qualified assessments.