

## Challenges in Economic Development of Self-Governing Cities of Georgia

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The presented paper is one of the first attempts to investigate the main challenges in economic development of a specific economic unit, such as self-governing cities of Georgia (Tbilisi, Kutaisi, Batumi, Poti, and Rustavi). Difficult period of market relations formation is inseparable from the processes of transformation of cities, which is accompanied by the formation of a specific urban environment. The economic, financial and demographic development potential of the society is heavily concentrated in the cities. The necessity of economic development of cities in market conditions has brought to the fore the issue of transformation of their functional structure. The organic nature of the transformation means that the city is gradually freed from self-contained, unnatural enterprises and becomes multi-functional and socially diverse. It changes not only the production profile, but the environment as well. The paper justifies that the self-governing cities of Georgia play a crucial role in national and regional development. In these cities, the positives and negatives of the socio-economic reforms carried out in the regions, and, in general, the vector of national and regional development are especially felt in these cities. The paper examines the relationship between the growth rates of value added output in self-governing cities and the growth rates of budget expenditures. In addition, it is suggested to use a new indicator: Municipality Size. It was calculated according to self-governing cities of Georgia. This indicator would have both theoretical value (analysis, conclusions) and practical – in the development and management of economic policy at the local level. © 2023 Bull. Georg. Natl. Acad. Sci.

Municipality Size, self-governing city, economic development, region

The territorial system is the main component of the entire socio-economic system, forming a kind of base of the sectoral system. It is influenced by industrial, sectoral, social and political factors. On the other hand, the territory is characterized by resource potential and resource capacity. Thirdly,

the territory is significant in terms of attracting people and encouraging them to settle there, and also in terms of social attractiveness.

More than half the world's population (55%) lives in cities, and by 2050 this figure could grow to 68%. In modern conditions, cities are always in

the center of global challenges. Although they occupy only 3% of the world's land, they are the engines of economic growth – they account for 80% of global GDP growth [1]. Most of the innovations are also created in cities, although 75% of global greenhouse gas emissions are generated in them. Therefore, cities can be considered both a cause and a victim of climate change [2].

territory. It serves as the local economic and cultural center [4].

Self-governing cities of Georgia (Tbilisi, Kutaisi, Batumi, Poti, Rustavi) play a crucial role in national and regional development. In these cities, the positives and negatives of the socio-economic reforms carried out in the regions, and, in general, the vector of national and regional

**Table 1. Indicators of the population size and value added (VA) of self-governing cities of Georgia (2021)**

City	Population (thousands)	VA (million GEL)	VA per capita (GEL)	Deviations from the average
Kutaisi	134.4	573.3	4265.6	-3202.0
Batumi	172.1	2033.6	11816.4	4348.8
Rustavi	130.1	877.3	6743.3	-724.3
Poti	41.5	589.6	14207.2	6739.6
Tbilisi	1202.7	18244.1	15169.3	7701.7
Georgia/Average	3728.6	27843.7	7467.6	0.0

Calculated according to: [www.geostat.ge](http://www.geostat.ge)

It is noteworthy that the decrease in the share of industry in the post-Soviet economy was not due to the increase in high-quality innovative services, but to severe reduction in industrial output. After the collapse of the Soviet Union, there was a large-scale deindustrialization of the economy, as a result of which many sectors and industrial enterprises disappeared. This is due to a phenomenon called "necroeconomics" that unites the so-called dead enterprises and results from the denial of competition in the command economy [3].

Unfortunately, these negative events essentially affected larger cities and created a depressive background there. In this regard, Georgian cities are no exception.

The main criterion for urban-type settlement is the size of the population, which varies from country to country. Under the legislation of Georgia, the city is populated area with recorded population of more than 5,000, and industrial enterprises and a network of tourist, medical and socio-cultural institutions are located in its

development are especially felt. Therefore, economic development and strategic management of these cities are of particular importance. 45.4% of the country's population lives in these cities, 80.2% of the total added value created in the country and 86.4% of the turnover of the business sector are produced there.

The development potential of self-governing cities depends significantly on the level and potential of urban infrastructure development. The readiness of the entire urban infrastructure to "receive" new types of business, "new cargo" and new people is of high importance, along with how quickly and efficiently the urban infrastructure can adapt to new conditions. Along with other factors, such economic development of Tbilisi and Batumi is conditioned largely by this factor.

The geopolitical depression caused by Russia's war against Ukraine, as well as the economic sanctions imposed against the Russian Federation, had negative impact on the global economy problems. The situation was also complicated by

**Table 2. The share of value added created in the municipality in the region (in 2014-2021, %)**

Year	2014	2015	2016	2017	2018	2019	2020	2021
City	in Imereti region							
Kutaisi	49.2	42.8	47.5	43.4	37.9	45.6	43.6	33.2
	In Autonomous Republic of Adjara							
Batumi	88.3	85.0	86.2	89.6	88.9	85.8	84.5	87.3
	in Kvemo Kartli region							
Rustavi	46.1	45.6	34.7	43.3	39.8	37.4	34.3	45.2
	in Samegrelo-Zemo Svaneti region							
Poti	51.0	59.1	58.4	68.8	58.7	58.8	55.0	61.1

Calculated according to: [www.geostat.ge](http://www.geostat.ge)

the negative processes inherited from the COVID-19 pandemic [5, 6].

It must be borne in mind that as a result of the Russian-Ukrainian war, the burden of mass immigration falls particularly on self-governing cities of Georgia. These cities are at different stages of development and different processes are going on in them. Therefore, it is necessary to focus on capacities of aggregate supply in the context of growing aggregate demand, as well as to use different approaches to managing economic development processes.

The analysis in the share of value added created in self-governing cities in the regional context has revealed that the highest level is recorded in Batumi and it varies within the range of 84 to 90%, which is associated with the expansion of the city in the last decade, large-scale projects and investments taking place here, and a significant increase in the population. In other cities (Kutaisi, Rustavi, Poti), it is relatively low (Table 2). The low share of Kutaisi in the Imereti region (33.2%) is explained

by high value added created in Zestafoni municipality (36% of the region). In the Samegrelo-Zemo Svaneti region, the relatively low share of value added created in Poti (61.1%) is due to the factor of other municipalities (for example, the share of Zugdidi in the region is 16.4%).

As is known, there are at least three important transformations in the state that affect the management of local and regional development. The shift of focus from government to governance at various territorial levels and functional areas is of paramount importance [7].

From this perspective, let us pay attention to the issue of evaluating the effectiveness of public administration, for which proven indicator is used at the macro level such as Government Size, as a share of public expenditures (%) in the gross domestic product (GDP) [8].

In relation to self-governing cities, let us introduce and calculate a new indicator – "Municipality Size" as a share of municipal expenses (%) in value added created in the municipality (Table 3).

**Table 3. Dynamics of Municipality Size in self-governing cities of Georgia in 2014-2021 (%)**

City	2014	2015	2016	2017	2018	2019	2020	2021
Kutaisi	18.7	13.3	14.8	11.7	12.4	9.7	11.5	10.5
Batumi	12.2	11.4	12.0	10.9	9.7	7.7	11.5	7.4
Rustavi	10.1	9.3	12.4	6.6	7.2	8.7	11.8	5.8
Poti	5.9	4.6	4.7	2.5	3.8	2.9	3.4	3.5
Tbilisi	8.6	7.8	6.9	6.3	6.1	6.0	6.9	5.8

**Table 4. Value added (VA) created in self-governing cities and budget expenditures (BE) in 2014-2021 (Million GEL)**

City	2014		2015		2016		2017	
	VA	BE	VA	BE	VA	BE	VA	BE
Kutaisi	233.5	43.7	358.3	47.6	342.2	50.6	440.4	51.6
Batumi	820.5	99.7	995.3	113.6	1179.4	141.5	1352.3	147.7
Rustavi	339.6	34.3	364.5	33.8	310.1	38.4	518.8	34.1
Poti	247.7	14.6	324.1	15	359.2	16.9	632.3	15.6
Tbilisi	9133.5	785	10238.6	803.7	11865.4	815.9	12731.2	801.3

City	2018		2019		2020		2021	
	VA	BE	VA	BE	VA	BE	VA	BE
Kutaisi	436.7	54.1	568.9	55	530.8	61.2	573.3	60.1
Batumi	1586.1	153.8	2044.6	156.8	1495.2	172.2	2033.6	151
Rustavi	497.6	36	489.6	42.7	486.3	57.6	877.3	50.6
Poti	410.2	15.7	550.9	15.9	542.5	18.6	589.6	20.8
Tbilisi	14075.7	861.6	15378.7	927.6	14826.5	1021.4	18244.1	1050.3

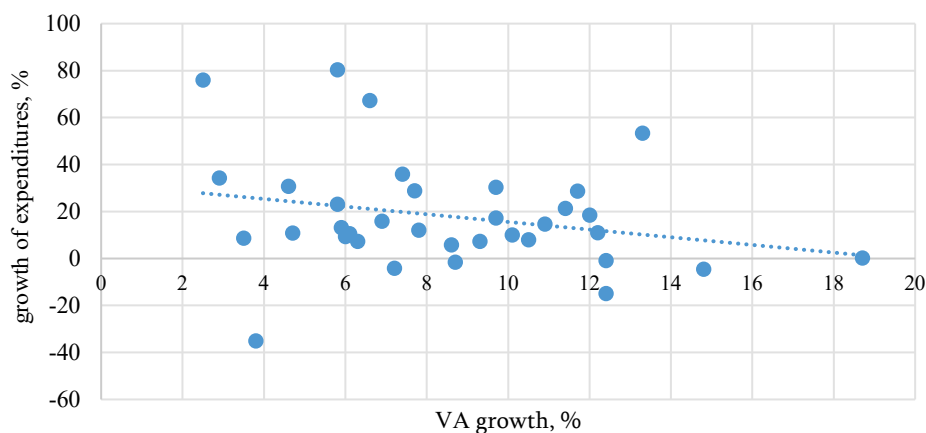
Source: [www.geostat.ge](http://www.geostat.ge) & [www.matsne.gov.ge](http://www.matsne.gov.ge)

In 2021, this indicator was the highest in Kutaisi (10.5%), and the lowest in Poti (3.5%). On the one hand, this is due to the difference between the growth rate of value added in Kutaisi and the growth rate of budget expenditures, and in Poti, on the contrary, due to the opposite processes.

In 2020, the municipality size in Kutaisi, Batumi and Rustavi was within 11-12%, which was caused by the reduction in value added created in these cities due to the pandemic. The analysis has

revealed that Kutaisi is characterized by the highest indicator of the municipality size for this period. The reason for this is increased fiscal spending and decreased value added (Table 4).

An interesting question is: at the local level of governance, whether there is a connection between the growth rates of value added created in self-governing cities and the growth rates of budget expenditures.



**Figure.** Dynamics of growth rates of produced value added and growth rates of budget expenditures in self-governing cities (2014-2021, %).

Regression analysis does not confirm the strong links between them (Fig.). Many factors influence the growth in value added created in self-governing cities, which could be studied in separate research.

We believe that the municipality size would have both theoretical value (analysis, conclusions) and practical in the development and management of economic policy at the local level.

## Conclusions

1. The joint efforts of the municipal formations with regard to the integration of labor, financial and natural resources, especially in the context of uneven development and disproportions in resource provision of territories will help to overcome the challenges in economic development;
2. It is necessary to scrutinize the factors that should be taken into account by economic entities and municipal government in order to enhance the eco-

nomical development and improve the competitiveness;

3. There must be rational use of national economic potential and align the functional structure of the city with economic policy of the state.

4. It is necessary to reduce the detrimental/duplicated state functions and services, as well as to save money on a number of processes and procedures by improving internal organizational activities. Alongside the spending cuts to public administration, it also helps to reduce of business for the state structures and develop competition;

5. In order to enhance the urban development and territorial growth opportunities, it is necessary to effectively use municipal property and land, develop urban infrastructure and improve production infrastructure.

ეკონომიკა

## საქართველოს თვითმმართველი ქალაქების ეკონომიკური განვითარების გამოწვევები

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§რუსეთის ხალხთა მეგობრობის უნივერსიტეტი, იურიდიული ინსტიტუტის მუნიციპალური სამართლის კათედრა, მოსკოვი, რუსეთი

(წარმოდგენილია აკადემიის წევრის ვ. პაპავას მიერ)

წარმოდგენილი ნაშრომი არის ერთ-ერთი პირველი მცდელობა გამოკვლევულ იქნეს სპეციფიკური ეკონომიკური აგრეგატის – საქართველოს თვითმმართველი ქალაქების (თბილისი, ქუთაისი, ბათუმი, ფოთი, რუსთავი) ეკონომიკური განვითარების უმთავრესი გამოწვევები. საქართველოში საბაზრო ურთიერთობების ფორმირებამ და მისი ეკონომიკის მსოფლიო მეურნეობაში ინტეგრაციამ მეტი აქტუალობა შესძინა ქვეყნის სამეურნეო სივრცის ერთეულის გამოყოფის და ინსტიტუციური ორგანიზაციის პრობლემის გადაჭრას. საბაზრო ურთიერთობების დამკვიდრების რთული პერიოდი განუყოფელია ქალაქების ტრანსფორმაციის პროცესებისაგან, რომელსაც თან ახლავს ქალაქის სპეციფიკური გარემოს ფორმირება. ქალაქებში მნიშვნელოვნად არის კონცენტრირებული საზოგადოების ეკონომიკური, ფინანსური და დემოგრაფიული განვითარების პოტენციალი. საბაზრო პირობებში ქალაქების ეკონომიკური განვითარების აუცილებლობამ წინა პლანზე წამოსწია მათი ფუნქციური სტრუქტურის ტრანსფორმაციის საკითხი. ტრანსფორმაციის ბუნებრიობა განაპირობებს იმას, რომ ქალაქი ეტაპობრივად თავისუფლდება თავსმოხვეული, არაბუნებრივი საწარმოებისაგან და ხდება მრავალფუნქციური და სოციალურად მრავალფეროვანი. იგი იცვლის არა მარტო საწარმო პროფილს, არამედ გარემოსაც. დამოუკიდებლობის მოპოვების შემდეგ, საბაზრო სისტემაზე გადასვლამ არსებითად შეცვალა ეკონომიკური და სოციალური მდგომარეობის მახასიათებლები როგორც რეგიონებისათვის, ისე მუნიციპალური წარმონაქმნებისათვის. ეს ცვლილებები მნიშვნელოვნად შეეხო ქალაქებს, სადაც საწყის ეტაპზე, სოციალურ-ეკონომიკური პროცესების მართვის უეცარმა/მყისიერმა დეცენტრალიზაციამ მძიმე შედეგები მოგვცა. პოსტინდუსტრიული ნეგატიური მოვლენები არსებითად შეეხო მსხვილ ქალაქებს და მათში დეპრესიული ფონი შექმნა. ნაშრომში დასაბუთებულია, რომ საქართველოს თვითმმართველი ქალაქები ქვეყნისა და რეგიონების განვითარებაში გადამწყვეტ როლს ასრულებენ. ამ ქალაქებში ყველაზე მწვავედ ვლინდება რეგიონებში განხორციელებული სოციალურ-ეკონომიკური რეფორმების პოზიტიური და ნეგატიური მხარეები, ზოგადად, რეგიონების და ქვეყნის განვითარების ვექტორი.

ამიტომ, ამ ქალაქების ეკონომიკური განვითარება და სტრატეგიული მართვა განსაკუთრებულ მნიშვნელობას იძენს. ნაშრომში გამოკვლეულია კავშირი მმართველობის თვითმმართველ ქალაქებში წარმოებული დამატებული ღირებულების ზრდის ტემპებსა და ბიუჯეტის ხარჯების ზრდის ტემპებს შორის. ამასთან, შემოთავაზებულია ახალი მაჩვენებლის – მუნიციპალიტეტის ზომის გამოყენება. იგი გამოთვლილია საქართველოს თვითმმართველი ქალაქების მიხედვით. ამ მაჩვენებელს ექნება როგორც თეორიული მნიშვნელობა (ანალიზი, დასკვნები), ისე პრაქტიკული გამოყენება ლოკალურ დონეზე ეკონომიკური პოლიტიკის შემუშავებისა და წარმართვის საქმეში.

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