

Challenges in Improving Investment Potential in the Municipalities of Georgia

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In recent years, global developments have shown that the biggest determinant of sustainable development is the growth of the real sector, which, in turn, is impossible without the activation of investment processes. International experience shows that the active participation of the population in the investment process contributes to the economy growth of the city (municipality). Therefore, it is necessary to form and use the effective tools that will help to increase the involvement of the population in the development of the economy of the municipality by attracting the population's savings. The paper presents the results of the regression analysis of the added value produced and the investments in fixed assets according to the municipalities of Georgia (64 municipalities in total). The analysis was undertaken according to several scenarios: with all municipalities, without the capital city of Tbilisi and Batumi. The regression analysis confirmed a high correlation between the added value and investments in the municipalities of Georgia. The obtained result indicates that each unit of investment increase in a given year can increase the added value produced in the municipality by 4 unit. © 2025 Bull. Georg. Natl. Acad. Sci.

investment, municipality, correlation, value added

The development of local self-governments is a principal vector on the way to Georgia's European perspective, which, among other things, is impossible without real decentralization and an increase in their investment activity [1].

Regulation of investment activities in municipalities is performed by direct and indirect methods, which combine administrative, economic, institutional, and informational tools.

The investment potential of territorial units is to be understood as a set of resources (social, financial-economic, institutional, and natural resources) and opportunities to solve territorial development problems. Given the existing conditions of the formation of budget revenues and budgetary relations in post-socialist countries, the possibilities of using funds from the local budget for investment purposes are significantly limited. This situation dictates the need for local authorities to intensify their management

efforts. In this regard, it is necessary to include internalized investment reserves in this process, as well as to create favorable conditions for attracting foreign investments, to address the problems of social and economic development of the self-government [2].

The development and implementation of the investment policy of the municipality is usually carried out on the basis of the concept of socio-economic development of the municipality.

Foreign experience shows that investment policy at the municipal level gained a lot of attention. In this respect, great activity is shown by local governments, and besides, regulatory and stimulating instruments are being created at the state level, for example, the regulation of municipal investments in South Africa, the investment policy guide of local governments in Australia, and so on. The accepted method is also the ranking method (for example, in Russia), which is based on determining the periodic ratings of municipalities [3-6].

Despite the homogeneity of the main trends for investment processes in the country, fundamental differences can be observed in the regional/municipal aspect. This is due to the territorial specificity of economic conditions and the individual nature of the factors determining the investment climate, which can be shown by analyzing some indicators of a specific region/municipality [7].

As of today, the direct involvement of local self-government bodies in the investment activities is carried out by them through the development, approval, and financing of infrastructure projects. Allocation of funds from the municipal budget to finance investment projects is carried out in accordance with the law, however, the infrastructure projects in municipalities are mostly implemented through co-financing of the fund of projects to be implemented in the regions, which is the main, and in some cases, the only source of funding for capital investments. It is this fund that accounts for 72-74% of the increase in non-financial assets of large municipalities, which leads to the centralization of decisions related to public investments [8,9].

The study of the problem showed us that there is no clear approach to the management of investment policy in the municipalities of Georgia, no thorough analysis is conducted, no independent strategies or concepts are formed, no initiatives are identified and targeted activities are conducted, or they are chaotic. It can be noted that the activity of municipalities in this regard is minimal.

The improvement of the socio-economic situation in the municipalities of Georgia largely depends on the growing dynamics of the added value created in the municipalities and investment implementation [10].

From this perspective, our goal was to conduct a regression analysis according to the added value produced and fixed asset investments (we took the indicators of the added value according to the data declared by the enterprises). At the first stage, we undertook an analysis with two options: the first – taking Tbilisi into account and the second – without Tbilisi, as 66.3% of the entire added value and 61% of investments accounted for Tbilisi.

This substantially led to the fact that the distribution of added value would not be normal, as was proved: in both cases (with and without Tbilisi) the value of the Kolmogorov-Smirnov and Shapiro-Wilk tests was $.000 < 0.05$, which in turn means that we have a regression model and there is a relationship between these two variables.

For the regression analysis, we also determined other key indicators (multicollinearity and Durbin Watson (DW) test), which were acceptable for the study (see Table 1).

Table 1. Key indicators of regression analysis

Indicator	1st stage of research		2nd stage of research without Tbilisi and Batumi
	including Tbilisi	without Tbilisi	
Durbin-Watson	2.134	1.938	1.922
VIF	1.0	1.0	1.000
Kolmogorov-Smirnov	.000	.000	.000
Shapiro-Wilk	.000	.000	.000

In both cases, a strong positive correlation was observed between value-added and investment. However, the beta coefficient was quite high in both cases (0.997 and 0.911), which confirms the great influence of the predictor (investments).

At the second stage of the analysis, we excluded Tbilisi and Batumi municipalities (see Table 1). Their total share is 74% of all added value and 70% of investments. Besides, Tbilisi and Batumi municipalities are affected by other development mechanisms, while other municipalities are homogeneous.

The study revealed that in this case the value of the Kolmogorov-Smirnov and Shapiro-Wilk tests was $.000 < 0.05$, which in turn means that we have a regression model and there is a relationship between these two variables. In the second stage of the analysis, we obtained the indicators of the regression model (see Table 2).

In this case, higher than average positive correlation ($R = .717$) was observed between added value and investments. However, the beta coefficient is also high, which confirms the significant influence of the predictor (investments).

Thus, the regression analysis confirmed a high correlation between the added value and investments created in the municipalities of Georgia. The resulting equation ($Y = 39.54 + 4.05X$) indicates that each unit of investment increase in a given year can increase the added value produced in the municipality by 4 times. Thus, the main vector of

investment policy efforts should be aimed at attracting investments and improving investment attractiveness in municipalities.

Conclusions

It is necessary to disseminate information about the attractiveness of the municipality to investors, the best way of which is the formation of the Internet portal related to the specific goals of the investor, running in several languages and reflecting investment activities in the territory of the municipality. It becomes a means of effective communication between the investor and the local leadership. The portal can be independent or “built-in” on the official website.

At the initial stage, it is necessary to prepare and publish the “Investment Business Card” of the municipality, as well as the formation of the investment passport (guide) of the municipality, which describes in detail the competitive advantages, economic situation, business features, the presence of attractive investment facilities, and economic development prospects;

Municipalities should take care of the formation of bases of attractive investment facilities, investment and innovation projects, resources, real estate, land plots, and assets under construction;

It is necessary to establish and maintain relations with public organizations interested in this field, mass media;

Table 2. Regression model values

Model Summary

Model	R	R Square	Adjusted R square	Std. error of the estimate
1	.717 ^a	.514	.505	165.2480

a. Predictors: (Constant), Investment

Coefficients^a

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	39.543	25.107		1.575	.121
	Investment	4.050	.509	.717	7.958	.000

a. Dependent Variable: VA

We believe that there should be provided a periodical (annual) evaluation of the investment opportunities, investment climate, and attractiveness of the municipalities with a defined methodology. For this, the ranking method is most often adopted, which is based on the determination of ratings.

It is advisable to intensify participation in fairs, exhibitions, and presentations;

The possibilities of partnership with friendly cities and municipalities should be activated;

It is necessary to expand the possibilities of attracting external financial resources in various forms (grants, investments from the budget and private law entities, etc.) to finance the development of the municipality, which will contribute to their sustainable development.

ეკონომიკა

საინვესტიციო პოტენციალის გაუმჯობესების გამოწვევები საქართველოს მუნიციპალიტეტებში

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ბოლო წლებში გლობალური მასშტაბით განვითარებულმა მოვლენებმა გვიჩვენა, რომ მდგრადი განვითარების უმსხვილესი მდგენელი რეალური სექტორის განვითარებაა, რაც, თავის მხრივ, შეუძლებელია საინვესტიციო პროცესების გააქტიურების გარეშე. ხელსაყრელი საინვესტიციო კლიმატის ფორმირების უცხოური გამოცდილება და არსებული სამამულო პრაქტიკა გვიჩვენებს, რომ მასთან დაკავშირებული საკითხების მნიშვნელოვანი ნაწილი მუნიციპალურ დონეზე უნდა გადაწყდეს. ადგილობრივი თვითმმართველობების ძალისხმევას პოზიტიური წვლილის შეტანა შეუძლია ინვესტიციების მიერ გადაწყვეტილების მიღებაში, თუ სად მოახდინონ ინვესტიციების რეალიზაცია. საერთაშორისო გამოცდილება გვიჩვენებს, რომ ქალაქის (მუნიციპალიტეტის) ეკონომიკის განვითარებაში წვლილი შეაქვს მოსახლეობის აქტიურ მონაწილეობას საინვესტიციო პროცესში. ამიტომ, აუცილებელია იმ ეფექტური ინსტრუმენტების ფორმირება და გამოყენება, რომლებიც ხელს შეუწყობენ მოსახლეობის სახსრების მოზიდვის გზით მათი ჩართულობის გაზრდას მუნიციპალიტეტის ეკონომიკის განვი-

თარებაში. ნაშრომში მოცემულია საქართველოს მუნიციპალიტეტების მიხედვით (სულ 64 მუნიციპალიტეტი) წარმოებული დამატებული ღირებულებისა და ფიქსირებულ კაპიტალში განხორციელებული ინვესტიციების რეგრესიული ანალიზის შედეგები. ანალიზი ჩატარდა რამდენიმე სცენარის მიხედვით: ყველა მუნიციპალიტეტით, დედაქალაქის გარეშე და ბათუმის და თბილისის გარეშე. რეგრესიულმა ანალიზმა დაადასტურა მაღალი კორელაცია საქართველოს მუნიციპალიტეტებში შექმნილ დამატებულ ღირებულებასა და ინვესტიციებს შორის. მიღებული შედეგი მიუთითებს, რომ მოცემულ წელს ინვესტიციების ყოველი ერთეულით გაზრდა 4 ერთეულით გაზრდის მუნიციპალიტეტში წარმოებულ დამატებულ ღირებულებას. ეს კი ნიშნავს, რომ განსაკუთრებული ძალისხმევა უნდა იქნეს მიმართული მუნიციპალიტეტებში ინვესტიციების მოზიდვისა და საინვესტიციო მიმზიდველობის გაუმჯობესებისათვის.

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