

Federalism or Regionalism in Georgia: An Empirical Analysis of Ajara's Fiscal Autonomy

Vladimer Glonti

Batumi Shota Rustaveli State University, Batumi, Georgia

(Presented by Academy Member Vladimer Papava)

Abstract. This paper examines the financial-economic foundations of Georgia's territorial-administrative structure through the theoretical lens of fiscal federalism. The study tests the hypothesis (H1) that Georgia's fiscal system satisfies the financial-economic criteria characteristic of a federal state. Using empirical data from the Autonomous Republic of Ajara covering the period 2010-2024, the study rejects this hypothesis. The analysis reveals a critical methodological nuance: Ajara's revenues cannot be classified as genuine own-source revenues, but rather as quasi-own revenues, since the personal income tax rate is determined by central legislation. Although Ajara's Fiscal Autonomy Index reaches a formal value of 94.1%, the Institutional Stability Coefficient (ISC=0.73) reduces effective fiscal autonomy to 68.7%. The research is grounded in the principle, which emphasizes the decentralized utilization of existing national taxes rather than the creation of new regional taxes. The findings support regionalism as the optimal territorial governance model for Georgia, offering asymmetric autonomy arrangements without the separatist implications inherent in federal structures. © 2026 Bull. Georg. Natl. Acad. Sci.

Keywords: fiscal federalism, regionalism, fiscal autonomy, quasi-own revenues, territorial integrity

Introduction

At the present stage of Georgia's socio-economic development, the issue of administrative-territorial organization constitutes one of the most urgent challenges facing the state. The problem is particularly acute given the ongoing violation of the country's territorial integrity and the constitutional openness regarding the future model of territorial-administrative governance.

Within Georgian academic and political discourse, two opposing positions traditionally dominate the debate: the preservation of a unitary state struc-

ture and the transition toward a federalist model (Khubua, 2000). This study analyzes a third alternative: the regionalism model.

In his article "Tax Federalism Concept: Consensus Versus Separatism," Academician Vladimer Papava (2001) formulated a core principle of fiscal decentralization: regional autonomy should be achieved not through the introduction of new taxes, but through the joint utilization of existing nationwide taxes. This approach precludes an increase in the tax burden and ensures the unity of the fiscal system. Papava's concept distinguishes between fiscal federalism as an instrument of consensus and

fiscal federalism as a catalyst for separatism. This distinction is particularly relevant for post-Soviet states, where the introduction of regional taxation powers has frequently been associated with centrifugal political tendencies and fiscal fragmentation.

The aim of this study is to determine which model – federalism or regionalism – better corresponds to Georgia's financial-economic reality and better aligns with the goal of restoring territorial integrity. Accordingly, the research tests the hypothesis that Georgia's fiscal system meets the financial-economic criteria of federalism (H1). The novelty of this study lies in the development of original analytical indices (FAI, ISC, EFAI, ESSI) adapted to the Georgian context, as well as the introduction of the concept of quasi-own revenues, which captures the intermediate position of Ajara's fiscal status between full autonomy and complete dependence.

Theoretical Framework

The theory of federalism encompasses two fundamentally distinct analytical approaches. The first emphasizes legal and normative attributes, a perspective that has been prominently developed within Georgian scholarship by Professor Giorgi Khubua (2000). The second approach, adopted in the present study, prioritizes financial-economic determinants (Glonti, 2005), arguing that federal arrangements emerge and persist only when they correspond to society's underlying economic interests. This economic approach to federalism recognizes that constitutional provisions alone are insufficient; viable federal arrangements require underlying economic conditions that make decentralization mutually beneficial for both central and regional governments. As Buchanan (1995) argued in his foundational work on the fiscal constitution, the rules governing fiscal relations must be self-enforcing to be sustainable.

Fiscal federalism theory originates from the classical works of Tiebout (1956) and Oates (1972), who formulated the decentralization theorem,

according to which the provision of local public goods is more efficient at the decentralized level. Musgrave (1959) further identified three types of fiscal functions: allocative, redistributive, and stabilization. According to Musgrave's framework, while allocative functions can be effectively decentralized, redistributive and stabilization functions should remain centralized to prevent fiscal competition and ensure macroeconomic stability. This theoretical insight is directly applicable to Georgia's situation, where the central government must retain the capacity to address regional disparities through intergovernmental transfers. Subsequent research by Martinez-Vazquez and McNab (2003) explored the relationship between fiscal decentralization and economic growth in transition countries, while Weingast (2009) advanced the second-generation theory of fiscal federalism.

Papava's (2001) conceptual contribution formulates two models of tax federalism. The first, the consensus model, relies on the allocation of fixed shares of existing taxes to regions, thereby maintaining fiscal unity. The second, the separatist model, introduces new regional taxes, which may generate interregional tax competition and heighten the risk of political fragmentation. As Ananiashvili and Papava (2012, 2014) demonstrate, optimal tax rates vary across regions with different economic structures; however, this variation does not necessitate the establishment of independent regional tax systems. The Laffer-Keynesian synthesis developed by these authors suggests that tax policy should account for both supply-side incentives and demand-side effects, making uniform national tax rates preferable to fragmented regional systems. This theoretical framework provides strong support for the consensus model of fiscal decentralization that Georgia has effectively adopted.

The OECD Fiscal Decentralization Database distinguishes between own-source revenues, where the region controls the tax rate, and shared revenues, where the amount is determined by central legislation (OECD, 2019). Hooghe et al. (2016)

developed the Regional Authority Index for 81 countries. Spain offers a particularly relevant comparative case: Moreno (2001, 2002) describes Spain as a federation in functional terms despite the absence of a formal federal designation. Gil-Serrate et al. (2011) confirm a positive correlation between revenue autonomy and regional growth, although Colino (2013) shows that the Catalan crisis revealed the limitations of Spanish regionalism.

Materials and Methods

This study employs a mixed-methods research design combining a qualitative component (systematic analysis of constitutional and budgetary legislation) with a quantitative component (calculation of the Fiscal Autonomy Index). Data sources include the Republican Budget execution reports of the Autonomous Republic of Ajara (A.R.) (2010–2024), the National Statistics Office of Georgia, the Ministry of Finance of Georgia, and the OECD Fiscal Decentralization Database. The 15-year observation period was selected to capture multiple political cycles and economic conditions, including the aftermath of the 2008 war, the 2012 political transition, and the COVID-19 pandemic, thereby ensuring the robustness of findings across varying circumstances. This longitudinal approach allows for the assessment of both short-term fluctuations and long-term structural patterns in fiscal relations.

The methodological framework follows OECD standards (OECD, 2020).

In the specific context of Ajara, the identification of an intermediate category of revenues – *quasi-own revenues* – is essential. These are revenues for which the rate is determined by central legislation, while expenditure discretion remains at the regional level. This conceptual innovation addresses a gap in the existing literature, which typically employs a binary classification of revenues as either own or transferred. The quasi-own category captures situations where revenue assignment exists without rate-setting autonomy – a common arrangement in post-Soviet autonomous

regions that has not been adequately theorized in the Western-dominated fiscal federalism literature. The analytical toolkit includes the Fiscal Autonomy Index, defined as:

$$FAI = \frac{OR}{TR} \times 100\%,$$

where OR denotes own revenues (including quasi-own revenues) and TR denotes total revenues.

Institutional stability is assessed using the Institutional Stability Coefficient (ISC), calculated using the formula:

$$ISC = 1 - \frac{n}{N},$$

where n is the number of legislative changes and N is the number of years under observation. Analysis of the Budget Code indicates that during the 2010–2024 period (15 years), legislative changes affecting Ajara's share of personal income tax occurred four times, encompassing both substantive changes (rate adjustments) and technical changes (article renumbering).

$$\text{Accordingly, } ISC = 1 - \left(\frac{4}{15}\right) = 0.73.$$

The ISC represents an exploratory indicator, as all changes are assigned equal weight. The Effective Fiscal Autonomy Index is calculated as:

$$EFAI = FAI \times ISC.$$

The multiplication of FAI by ISC reflects the theoretical premise that formal autonomy is discounted by institutional uncertainty; a region cannot fully utilize its nominal fiscal space if the rules governing that space are subject to frequent modification. This approach draws on insights from the institutional economics literature, particularly the work of Ostrom (2005) on the importance of rule stability for effective governance.

Economic self-sufficiency is measured using the Economic Self-Sufficiency Index (ESSI), defined as:

$$ESSI = \frac{\frac{GRP_i}{Pop_i}}{\frac{GDP}{Pop_{total}}} \times \left(\frac{OR_i}{E_i}\right),$$

where GRP represents Gross Regional Product, Pop represents population, OR represents own revenues, and E represents expenditures. The threshold $ESSI=0.5$ represents an exploratory criterion

proposed by the author. The underlying logic is that a region minimally meets self-sufficiency requirements if its per capita gross regional product equals at least half of the national average and its own revenues cover at least half of its expenditures. This threshold requires further empirical validation (cf. Watts, 2008; Boadway & Shah, 2009). The ESSI composite index thus captures both economic capacity (through relative GRP) and fiscal independence (through the revenue-expenditure ratio), providing a more comprehensive measure than either component alone. The selection of the 0.5 threshold is deliberately conservative, setting a minimum rather than an optimal standard for potential federation subjects.

The proposed indices complement each other in a systematic analytical framework. While FAI measures the formal revenue structure, ISC captures the temporal dimension of institutional reliability, accounting for the predictability of fiscal arrangements over time. Their product, EFAI, provides a single integrated metric that accounts for both the quantity and quality of fiscal autonomy. The ESSI adds an essential economic capacity dimension that revenue-based measures alone cannot capture, incorporating both productivity differentials and fiscal self-reliance. Together, these four indices enable a multidimensional assessment of regional fiscal status, moving beyond the single-indicator approaches that dominate much of the existing comparative federalism literature. The methodology's replicability across different regional contexts represents a key contribution, as these indices can be calculated using publicly available budgetary and statistical data without requiring specialized surveys or proprietary information.

Results

The central finding of this study lies in the concept of 'quasi-own revenues'. Article 10, Paragraph 2 of the Constitutional Law on the Status of the Autonomous Republic of Ajara stipulates that Ajara may be allocated a share of state tax and non-tax reve-

nues in accordance with Georgian law. This formulation explicitly indicates that revenue-sharing rates are not constitutionally fixed, but rather may be modified by ordinary legislation. This legal vulnerability distinguishes Ajara fundamentally from federal subjects in established federations, where revenue-sharing arrangements typically enjoy constitutional protection and cannot be altered unilaterally by the central government. From a comparative perspective, even Spain's autonomous communities – often cited as an intermediate case between unitarism and federalism – enjoy stronger constitutional guarantees than Ajara currently possesses.

The empirical analysis covers a 15-year period of Republican Budget dynamics of Ajara A.R. As shown in Table, Ajara's fiscal indicators reveal a paradoxical combination of high formal autonomy and comparatively low effective autonomy.

Table. Fiscal Indicators of Ajara A.R.

Period	TR (mln GEL)	OR (mln GEL)	FAI (%)	ISC	EFAI (%)
2010-2012	285.4	264.2	92.6	0.73	67.6
2013-2016	412.7	392.5	95.1	0.73	69.4
2017-2020	498.3	463.4	93.0	0.73	67.9
2021-2024	623.5	593.3	95.2	0.73	69.5
Average	454.9	428.4	94.1	0.73	68.7

Source: Ministry of Finance and Economy of Ajara A.R.; author's calculations. Note: The first period of the 15-year interval (2010-2024) includes three years.

The data reveal notable stability in Ajara's fiscal autonomy metrics across the observation period. Despite significant nominal growth in both total and own revenues (more than doubling from 2010-2012 through 2021-2024), the FAI remained consistently high, fluctuating within a narrow band of 92.6% to 95.2%. This stability suggests that the revenue-sharing mechanism has functioned predictably, even as the overall fiscal envelope expanded substantially. The compound annual growth rate of total revenues exceeded 8%, reflecting both economic growth and improved tax administration in the region.

Analysis of the economic self-sufficiency of Georgia's regions reveals pronounced spatial differ-

ntiation. Tbilisi, which accounts for over 51% of the country's GDP and 30% of its population, shows an ESSI of 1.36 (author's calculations based on National Statistics Office of Georgia data). Ajara, with an ESSI of 0.83, represents the second and only other region that meets the self-sufficiency criterion (Glonti et al., 2021). The ESSI of other regions does not exceed 0.25, indicating that Georgia's historical provinces cannot be considered potential federation subjects from an economic perspective.

Discussion

Ajara's high average FAI (94.1%) masks a fundamental institutional weakness. A high FAI does not necessarily translate into high effective autonomy. In contrast to many European regions, which have their own constitutionally guaranteed taxes, Ajara relies on quasi-own revenues, whose parameters are determined by central legislation. The findings reject hypothesis H1: the minimum financial-economic institutions required for federation formation do not exist within Georgia's economic space. The gap between formal and effective autonomy (94.1% vs. 68.7%) quantifies the institutional discount imposed by legislative instability and underscores the importance of examining not just revenue shares but also the security of those arrangements. This 25-percentage-point discount represents a substantial reduction in actual fiscal capacity, with implications for regional development planning and intergovernmental relations.

A potential counterargument invokes asymmetric federalism: since only Tbilisi and Ajara meet the ESSI threshold, they could, in principle, constitute federation subjects. However, asymmetric federalism is highly problematic in the Georgian context, as it would create a precedent applicable to conflict regions (Abkhazia and the Tskhinvali region), which already claim subject status. Regionalism, by contrast, differs fundamentally from federalism in that it does not require a high threshold of economic self-sufficiency, maintains the unitary state framework, and avoids creating a

legal precedent that could encourage separatism (Rodden, 2004; Blankart, 2011).

In the context of restoring territorial integrity, regionalism offers a framework for asymmetric autonomy without granting subject status. Within such a model, Abkhazia and the Tskhinvali region could be granted expanded autonomy within the regionalism framework, which is more flexible and less conflict-generating than federation subject status. The Spanish case (Moreno, 2001) demonstrates that high autonomy can be achieved through regionalism; however, the Catalan crisis indicates that regionalism requires consistent political dialogue (Colino, 2013). The key advantage of regionalism for Georgia's conflict resolution strategy is that it offers a menu of differentiated arrangements without the symbolic implications of statehood that federation subject status carries – implications that have proven particularly sensitive in the context of *de facto* entities seeking international recognition. The flexibility inherent in regionalism allows for negotiated solutions that can evolve over time as trust builds between previously conflicting parties.

Conclusion

This study rejects hypothesis H1, concluding that Georgia's fiscal system does not satisfy the financial and economic criteria associated with federalism. Three main conclusions emerge. First, Ajara's revenues constitute quasi-own revenues, as their rates are determined by ordinary legislation and can be altered by a simple parliamentary majority. Second, the ISC value of 0.73 reduces Ajara's formally high fiscal autonomy (94.1%) to an effective level of 68.7%. Third, with the exception of Tbilisi and Ajara, Georgia's regions do not meet the criterion of economic self-sufficiency.

A regionalism-based model better corresponds to Georgia's socio-economic realities and its strategic objective of restoring territorial integrity. Consistent with Papava's (2001) consensus model, Georgia should prioritize the constitutional entrenchment of existing tax-sharing arrangements

rather than the introduction of new regional taxes. Such constitutional entrenchment would transform quasi-own revenues into genuinely own revenues, significantly increasing the EFAI and providing Ajara with the fiscal predictability necessary for long-term development planning. This reform would require a constitutional amendment specifying the minimum share of personal income tax allocated to Ajara, thereby removing this arrangement from the realm of ordinary legislative politics.

The study is subject to several limitations: the empirical analysis is confined to the case of Ajara,

and both the ISC and ESSI indicators require further validation in other contexts. Future research should examine how the proposed indicators perform in comparative analysis with other autonomous regions in post-Soviet and European contexts, and should explore the political economy of constitutional revenue guarantees. Additionally, longitudinal studies tracking the relationship between fiscal autonomy and regional economic performance would strengthen the empirical foundation for policy recommendations

ეკონომიკა

ფედერალიზმი თუ რეგიონალიზმი საქართველოში: აჭარის ფისკალური ავტონომიის ემპირიული ანალიზი

ვლადიმერ ღლონტი

ბათუმის შოთა რუსთაველის სახელმწიფო უნივერსიტეტი, ბათუმი, საქართველო

(წარმოდგენილია აკადემიის წევრის ვლადიმერ პაპავას მიერ)

კვლევაში გაანალიზებულია საქართველოს ტერიტორიულ-ადმინისტრაციული მოწყობის საფინანსო-ეკონომიკური საფუძვლები ფისკალური ფედერალიზმის თეორიული ჩარჩოს კონტექსტში. ნაშრომი ამოწმებს ჰიპოთეზას (H1): საქართველოს ფისკალური სისტემა აკმაყოფილებს ფედერალიზმის საფინანსო-ეკონომიკურ კრიტერიუმებს. ემპირიული ანალიზი, რომელიც ეფუძნება აჭარის ავტონომიური რესპუბლიკის 2010-2024 წლების მონაცემებს, უარყოფს ამ ჰიპოთეზას. კვლევა ავლენს კრიტიკულ მეთოდოლოგიურ ნიუანსს: აჭარის შემოსავლები წარმოადგენს არა საკუთარ, არამედ კვაზი-საკუთარ შემოსავლებს – საშემოსავლო გადასახადის ნორმატივი განისაზღვრება ცენტრალური კანონმდებლობით. შედეგები აჩვენებს, რომ აჭარის ფისკალური ავტონომიის ინდექსი ფორმალურად შეადგენს 94,1%-ს, თუმცა ინსტიტუციური სტაბილურობის კოეფიციენტი (ISC=0,73) ამცირებს ეფექტიან ფისკალურ ავტონომიას 68,7%-მდე. ნაშრომი ეფუძნება პრინციპს – არსებული გადასახადების დეცენტრალიზებულ გამოყენებას, და არა ახალი რეგიონული გადასახადების შემოღებას. მიღებული შედეგები ადასტურებს, რომ რეგიონალიზმის მოდელი უფრო შეესაბამება საქართველოს საფინანსო-ეკონომიკურ რეალობას და ტერიტორიული მთლიანობის აღდგენის სტრატეგიულ ამოცანას, რადგან იგი უზრუნველყოფს ასიმეტრიული ავტონომიის შესაძლებლობას ფედერაციის სუბიექტის სტატუსის მინიჭების გარეშე.

REFERENCES

- Ananiashvili, I., & Papava, V. (2012). Taxes, production technology, and economic growth. *Problems of Economic Transition*, 54(12), 42-63. <https://doi.org/10.2753/PET1061-1991541203>
- Ananiashvili, I., & Papava, V. (2014). *Laffer-Keynesian synthesis and macroeconomic equilibrium*. Nova Science Publishers.
- Blankart, C. B. (2011). *Öffentliche Finanzen in der Demokratie: Eine Einführung in die Finanzwissenschaft* [Public finances in a democracy: An introduction to public finance] (8th ed.). Vahlen.
- Boadway, R., & Shah, A. (2009). *Fiscal federalism: Principles and practice of multiorder governance*. Cambridge University Press. <https://doi.org/10.1017/CBO9780511626883>
- Buchanan, J. M. (1995). Federalism as an ideal political order and an objective for constitutional reform. *Publius: The Journal of Federalism*, 25(2), 19-27. <https://doi.org/10.1093/oxfordjournals.pubjof.a038191>
- Colino, C. (2013). The state of autonomies between the economic crisis and enduring nationalist tensions. In B. N. Field & A. Botti (Eds.), *Politics and society in contemporary Spain: From Zapatero to Rajoy* (pp. 103-128). Palgrave Macmillan. https://doi.org/10.1057/9781137306623_5
- Gil-Serrate, R., López-Laborda, J., & Mur, J. (2011). Revenue autonomy and regional growth: An analysis of the 25-year process of fiscal decentralisation in Spain. *Regional Studies*, 45(8), 1049-1068. <https://doi.org/10.1080/00343404.2010.529117>
- Glonti, V. (2005). Federal relationships in Georgia. *World Economy and International Relations*, (7), 107-111. <https://doi.org/10.20542/0131-2227-2005-7-107-111>
- Glonti, V., Manvelidze, R., & Surmanidze, I. (2021). The contribution of SME to regional economic development: On the example of the Autonomous Republic of Ajara. *European Journal of Sustainable Development*, 10(1), 513-526. <https://doi.org/10.14207/ejsd.2021.v10n1p513>
- Hooghe, L., Marks, G., Schakel, A. H., Osterkat, S. C., Niedzwiecki, S., & Shair-Rosenfield, S. (2016). *Measuring regional authority: A postfunctionalist theory of governance*. Oxford University Press. <https://doi.org/10.1093/acprof:oso/9780198728870.001.0001>
- Khubua, G. (2000). *Federalizmi rogoris normatiuli printsiipi da politikuri tsesrigi* [Federalism as a normative principle and political order]. Georgian Young Lawyers' Association.
- Martinez-Vazquez, J., & McNab, R. M. (2003). Fiscal decentralization and economic growth. *World Development*, 31(9), 1597-1616. [https://doi.org/10.1016/S0305-750X\(03\)00109-8](https://doi.org/10.1016/S0305-750X(03)00109-8)
- Moreno, L. (2001). *The federalization of Spain*. Frank Cass. <https://doi.org/10.4324/9781315038711>
- Moreno, L. (2002). Decentralization in Spain. *Regional Studies*, 36(4), 399-408. <https://doi.org/10.1080/00343400220131151>
- Musgrave, R. A. (1959). *The theory of public finance: A study in public economy*. McGraw-Hill.
- Oates, W. E. (1972). *Fiscal federalism*. Harcourt Brace Jovanovich.
- OECD. (2019). *Making decentralisation work: A handbook for policy-makers*. OECD Publishing. <https://doi.org/10.1787/g2g9faa7-en>
- OECD. (2020). *Fiscal decentralisation database*. <https://www.oecd.org/tax/federalism/fiscal-decentralisation-database/>
- Ostrom, E. (2005). *Understanding institutional diversity*. Princeton University Press. <https://doi.org/10.1515/9781400831739>
- Papava, V. (2001). Tax federalism concept: Consensus versus separatism. *Georgian Economic Trends*, (2), 23-31.
- Rodden, J. (2004). Comparative federalism and decentralization: On meaning and measurement. *Comparative Politics*, 36(4), 481-500. <https://doi.org/10.2307/4150172>
- Tiebout, C. M. (1956). A pure theory of local expenditures. *Journal of Political Economy*, 64(5), 416-424. <https://doi.org/10.1086/257839>
- Watts, R. L. (2008). *Comparing federal systems* (3rd ed.). McGill-Queen's University Press.
- Weingast, B. R. (2009). Second generation fiscal federalism: The implications of fiscal incentives. *Journal of Urban Economics*, 65(3), 279-293. <https://doi.org/10.1016/j.jue.2008.12.005>

Received February, 2026