Local Economic Development Options for Deepening Economic and Social Transformation of Georgia

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1. Introduction

Georgia is still deeply entrenched in economic and social transformation processes through which it tries to shake off soviet hierarchical and state led economic and societal structures and to become a pluralist democratic state with a modern market economy.

Advances in the past decade have been spectacular on certain fronts, notably improving the rule of law, combat corruption and liberalizing the economy, opening up to FDI and seeking to integrate in the world economy, while at the same time cushioning the impacts of large scale privatization and deregulation reforms on the predominantly rural poor.

Privatization, structural adjustment and market liberalisation have huge institutional impacts. Central government ceased to be the main organising actor. The business environment changed from being heavily regulated by central government and run by public institutions to one in which there is little regulation and where market supporting institutions are still insufficiently developed. One of the sad lessons of structural adjustment in developing countries has been that the private sector investment response, about which the Bretton Woods agencies had high expectations, has not been forthcoming in many countries. Getting the prices right is not enough. One also needs to get the right institutional environment. Economic institutions help to reduce the cost of doing business. If these costs or associated risks become very high, few people will be interested in starting or expanding a business. The rule of law and of property rights is fundamental to the functioning of a market economy but there are also important local institutions needed that shape markets and enable these to function for all enterprises. These refer to practices and norms and standards that are specific to particular products, industries or occupations. These institutions regulate, spread information and technological know how, reduce risks and in general contribute to lower transaction costs. Markets do not emerge spontaneously. Investment opportunities do not reveal themselves so easily. Information is hard to come by and risks may be very high. Investment by one economic actor is dependent on simultaneous and parallel investments by other actors. Market supporting institutions play a key role in this and are crafted over time.

This problem is compounded by the fact that trade liberalization exposes the country to intense global competition. Georgia still needs to (re-)build the competitiveness of its agriculture and industrial sectors and create both high value and low value economic activities in order to consolidate the early transformation gains.

Furthermore, the transformation process in the past decade was primarily driven from the centre by a new elite under charismatic political leadership of Saakashvili. Various observers signal that there is a vacuum outside the political centre and that political and state institutions need to be rebuilt from below in order to create a vibrant civil society and political culture, to institutionalize checks and balances and to contain autocratic centralist tendencies.

Local development institutions can play an important role in deepening the economic transformation process by building the competitive bases of established and new economic activities. Furthermore, decentralization of state can contribute to deepening the socio-political transformation of the country.

This paper serves as a 'thought piece' as it identifies local development options to deal with the mayor economic and socio-political challenges in the transformation of Georgia. Section 2 gives a summary overview of the principal challenges facing Georgia. This is followed by a section 3, which seeks to answer the question 'Is local economic development a suitable approach to tackle these challenges?' Section 4 gives an overview of different types of local economic development initiatives, notably entrepreneurship and enterprise development; community economic development and last but not least regional and territorial development. The paper ends in section 5 with some concluding observations.

2. Key local developmental challenges of Georgia

The country is a unique case of radical reform of a Russian style economy following the 'Rose Revolution' when the new Saakashvili government realised a series of radical reforms, which set the economy on a path of market deregulation and strong liberal reforms, notably in business regulatory, tax and customs frameworks. The improvements in the World Bank 'Doing Business' Survey rankings of Georgia are frequently cited as illustrative evidence. In effect, the country climbed from being placed 100th in 2006 to the 9th position in the 2013 report. The country was categorised as a top reformer in the period 2005-2012 (WB, 2013a).

The reforms had effect in setting the economy on a growth path thanks to large inflows of foreign direct investment (FDI). But the dual shocks arising from the armed conflict with Russia in 2008 and the financial crisis starting later in that same year and its ensuing economic crisis caused a severe economic downturn. Large increases in unemployment and of internally displaced persons (IDPs) swelled the ranks of poor.

The Russian import embargo forced Georgia to look for new export markets and trade liberalization triggered large inflows of competing imports and when FDI inflows declined from their initial peak, the structural weaknesses of the Georgian economy became clear.

Most analysts (e.g. UNDP (nd), World Bank, (2013), Van Waal (2011) or Papava (1996, 2011) or the Government's own first development policy statement (GoG, 2012) take a macro national perspective. However, it is the central contention of this paper that the main national challenges of Georgia are grounded in local development. This comes out most strongly in three key issues, namely the territorial dimension of competitiveness, poverty and its geographical distribution and democratic decentralization of bringing the state closer to people in Georgia. Below we elaborate on Georgia's challenges in these three areas.

Competitiveness and its territorial dimension

The neo-liberal reforms, even if far reaching, may be a necessary but are *not* in themselves a sufficient condition to turn the economy on a growth path. International trade may serve as an example. As part of its trade reforms, Georgia has reduced trade tariffs on agricultural and industrial products far more than neighbouring countries (World Bank, 2013: 4). However, at the same time the country lost market share for most of its export products (World Bank, ibid: 8). This undermines the future growth perspective. A relatively secure way of sustaining economic growth is to upgrade the quality of the export products, but it is precisely here where competitiveness in Georgia is at its weakest (World Bank, 2013). The country needs to become *competitive* in order to survive in and seize the gains of global markets. This is a mayor concern for the future of Georgia.

In relation to the competitiveness of the country, the Global Competitiveness Report gives some important clues (WEF, 2012). See Table Annex 2. The overall index score of 4.1 gives the country a rank of 77 (out of 144 countries), which stands in sharp contract with the ranking in the Doing Business Survey (9th place out of 185 countries). If we compare the values of the main components of the Global Competitive Index (GCI) of 2008/9 (WEF, 2008) with those of the GCI of 2012/3 (see Annex 3) then we can observe that the overall score improved by 5%, while also the first two components improved (basic requirements + 14% and efficiency enhancers + 3%). However innovation and business sophistication factors declined with 2% explaining the drop in rank in the area from 109th to 120th place.

However, the problems of competitiveness go deeper than the GCI analysis suggests if we realise two things. First of all, in the pre-reform era agriculture contributed around 50% of GDP (1990). This had already dropped to 29% in 1997 and declined steadily to less than 10% to GDP (8.9%) in 2012 (World Bank, 2009). At the same time however (self)-employment in agriculture has been rising steadily from 24% in 1990 to 31% in 1995 to 52% in 2000 and 55% in 2008 according to David Land, in UNDP (nd). As a result productivity in agriculture has dropped dramatically. This is also confirmed by other studies that claim that more than 70% of agriculture (73%) consists of subsistence activities, which largely remain outside the formal market economy (World Bank, 2009, 2013).

Secondly, after the dismantling of state and collective enterprises, Georgia is also a country of small enterprises. According to the statistics of 2007 80% of all registered enterprises are small even if formal and 77% of these are active in trading and only 6% are engaged in manufacturing (GoG, Dept of Statistics, Entrepreneurship survey, 2008).

The initial post-reform growth was largely driven by the inflow of FDI and donor funds and the realization of large investment projects (e.g. in energy). It would be naïve for Georgia to depend entirely on FDI to catapult the country into the world economy and repair the main structural economic weaknesses. It must engage in a drive to stimulate local entrepreneurship, to strengthen the competitive capabilities of domestic small enterprises and to increase the participation of small enterprises in the market economy. It is in these areas where a sound local economic development policy can make a considerable contribution.

Poverty

A second major challenge is *poverty*. The break down of the soviet style economy and the ensuing contraction of the economy was more severe in Georgia than in other ECA and CIS countries (World Bank, 2009). As a matter of fact the Georgian economy stood in 2007 at less than 70% of GDP of 1990, just before the collapse of the Soviet Union, while the other countries had fully recovered by then (World Bank, ibid). The breaking up of institutions, especially collective and state farms, ethnic conflicts and corruption contributed to further deterioration of the economy. The tremendous uncertainties and risks of investments paralyzed the economy. Only after the Rose revolution of 2003 poverty started to decline somewhat but job losses have outstripped employment creation.

Land privatization started in 1992 when private households were allocated small plots of land. This continued over the years and this helps to explain why poverty is heavily rural and still deeply entrenched.

Table Annex 4 gives an overview. Poverty is lowest in the capital city Tbilisi (13%) and highest in the rural regions of Shida Kartli (59%), Kakheti (46%) and Mtskheta-Mtianeti (41%). The World Bank Poverty Assessment of 2009 found that poverty has begun to decline in the period 2003 – 2007 but that there is no solid trend towards declining poverty. This is partly due to the fact that public transfers, notably improvements in the payments and level of pensions and in the so-called targeted social transfer program, have made the greatest contribution to reducing poverty. The loss of formal employment in agriculture and in the public sector has by far not been compensated by gains in employment generated by the regulatory reforms, FDI and official donor funded infrastructure projects. Sustainable improvements have yet to take place.

The World Bank poverty assessment report concluded with six key messages: (1) The living standards in Georgia have improved in many dimensions since 2003; (2) Poverty in Georgia continues to be deeply entrenched in rural areas, accounting for 60 percent o f the poor; (3) The performance o f the labor markets has so far not contributed much to poverty reduction; (4) Social assistance became an increasingly important lifeline for Georgia's poor - the Targeted Social Assistance (TSA) program introduced at the end of 2006 appears to be an important source of income for the poor; (5) The double shocks of the August 2008 conflict and the global financial crisis risk undermining the poverty reduction effort; (6) The poverty reduction strategy of the Government of Georgia should focus on extending the coverage of the TSA to reach more of the poor and promoting investments in infrastructure and creating opportunities for off-farm employment in rural areas (World Bank, 2009)

The report recommends integrating the rural poor into the growth process, which according to the report can be achieved through: (a) expanding opportunities for off-farm employment in rural areas, including support for small and medium enterprise development; (b) increasing farm productivity and agricultural production in regions with high agricultural potential; and (c) exploring new markets for agricultural products; this is especially important given the lack of access to some traditional (for example, Russia) markets. (World Bank, 2009). The report does not provide concrete measures as to how this may be achieved. We will argue below that the best way in which this could be done is by means of a combination of different local economic development policies.

Decentralization and local government

The third issue concerns *decentralization and local government*. Historically there was the institutional figure of Self-government in Georgia. However this lowest tier did not possess any political, administrative or fiscal autonomy and was incapable to implement the legally assigned functions. This was primarily due to the existence of the district governments as the local extension of the central government. These entities hindered the development of local self-government within their jurisdictions and restricted their independence (Murgulia et al, 2011). According to these authors the majority of the Self-governing units were too small and could not mobilize resources.

The first steps towards modern local government began when the Georgian parliament signed the European Charter on Local Self Government in 2004.

In 2005/6 a number of institutional reforms were declared which laid the foundations for the financial-economic, administrative, territorial and institutional development of local self-government. These included the Organic Law on Local Self Government of 2005 and the Law on Municipal Budget of 2006. The Organic Law abolished the pre-1991 district government bodies and re-grouped the pre-existing self-government units within the administrative boundaries of the former district, thus forming one single new self-government council, called the Sakrebulo. In this way, the 1105 former self-government units became consolidated into 65 (very large) new self-government units (municipalities). These new Sakrebulos started operating as of 2007. The size of the Sakrebulo varies with population size of its jurisdiction. Each Sakrebulo has an executive board, called the Gamgeoba. The LSGU were further classified into three categories: the autonomous republics (name them), self-governing cities and municipalities and (rural) LSGUs.

The Organic Law identified exclusive local functions as well as delegated functions. For the latter dedicated central government transfers were identified. The LSGU were defined as legal bodies with a purpose, a budget and property. Land and natural resources of local importance were defined as local property; Lastly the law introduced equalization transfers from central government to financially support LSGUs with their local functions.

Initially tax revenues of LSGU included property tax as well as income tax, which it shared with the regional authorities (<15 and <5% of the tax rate <20%). In subsequent reforms in 2008 income tax became exclusive revenue of the central government. LSGUs were partly compensated for this reform by increased central government transfers and autonomous republics received the income tax paid in their territory.

As regards LSGUs, Murgulia et al, (2011), demonstrate that LSGUs give most attention to housing and communities amenities (32% in 2008-2010 budgets); followed by economic affairs (mostly infrastructure) and general administration (11%). Other meaningful categories are social protection (8%) and (pre-school) education (8%), environmental protection i.e. fire and recue services (7%) and recreation culture & religion (7%). The regulatory function of LSGUs, land use planning, physical development plans, etc., is as yet insufficiently crystalized. Basic ingredients such as detailed local maps (1:10,000) are missing (World Bank, 2013).

Annex 5 provides an overview of the main indicators of decentralization in Georgia for the period 2008-2011 (Murgulia, 2011). We can observe a worsening of the situation. Local government spending as share of total government spending has been declining (from 18 to 16%) and their revenues share did so even more (and now stands at < 5%). The fiscal gap as a result rose from 67% to 73%. The LSGUs heavily depend on central government transfers. In all, the economic significance of LSGUs has been declining when looked at as a share of GDP and so have the transfers they received.

Although there are a number of political parties in Georgia, little is known about local political participation and culture. Latin American experiences with political decentralization suggest that local political development following decentralization can be quite progressive, contributing to the entry of new waves of political leaders, either as independent candidates or through local/regional parties. Moreover, over time also the political participation of women increases. Decentralization reform can, under the right conditions, achieve greater pluriformity of local government, which is also more responsive to local needs (Faguet, 2004; Falleti, 2005).

The new government of Ivanishvili following the 2012 elections has announced a reform of the local government system in February 2013 by which town mayors will be directly elected (Source: Civil Georgia, 2013). The number of municipalities is set to increase from 69 to more than 200, reducing their size. Furthermore, village level direct democracy will be created, below the municipality. These village assemblies will not have a budget but have the right to monitor infrastructure projects in their area and can acquire legal status so that they can receive grants. The reform will result in a reduction of the political distance between councils and the electorate and bring local government closer to the people. The regions will be headed by councils which will be composed of representatives of the Sakrebulos of the constituent municipalities and its chief executive, the governor, will continue to be appointed by Central Government but now based on three candidates selected by the regional council concerned. The second tier will thus be built up from below from the third tier. This may be indicative of the fact that the new government is not continuing the line of a minimalist state with a deregulated economy but seeks to give state institutions stronger local roots. It is however to early to assess these new reform proposals.

3. Why is local economic development a suitable approach for Georgia?

In the past two decades local economic development (LED) has been gaining ground as an approach to economic development. It is an integrative approach in which public, private and civic actors define and manage resources to create and maintain place prosperity in a well-defined territory. This section will begin with defining the field and will elaborate its principal drivers, notably, globalization, decentralization, changing conceptions about competitiveness and socio-political concerns about regional inequalities and social exclusion.

Defining local economic development

In 2003 I defined LED as “a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined territory. It emphasises local control, using the potentials of human, institutional and physical resources. Local economic development initiatives mobilise actors, organisations and resources, develop new institutions and local systems through dialogue and strategic actions” (Helmsing, 2003).

The World Bank defined LED in similar but more general terms as: "a process by which public, business and non-governmental partners work collectively to create better conditions for economic growth and employment generation" (World Bank, 2003:1). Much in line with its tripartite configuration, the ILO defined LED as a participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity (ILO, 2008).

While these definitions put most emphasis on the complementarities between public, private and collective actors with regard to strategic development interventions, more recent definitions restrict themselves to market driven development or key aspects of it. For example, Rueker and Trah writing for GTZ define LED as: "an ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local business and strengthen the competitiveness of local firms (Rueker and Trah, 2007:15). Rodriguez-Pose (2008) stresses innovation when he defined the goal of LED "to mobilize the local economic potential by bringing innovation to all its growth dimensions which range from infrastructure, to local SMEs and their skills, to attracting FDI, fostering territorial competitiveness, strengthening local institutions, better management of the development process and internalising local resources" (Rodriguez-Pose, 2008:23).

Drivers of LED policies

Nowadays the principal drivers of LED policies can be found in four main forces: i) economic restructuring associated with globalization; ii) decentralization of the State, iii) changing perceptions about the territorial dimensions of competitiveness; and, iv) socio-political concerns for regional inequalities, social cohesion and inclusion. Below I will elaborate on these (Helmsing, 2010).

It is important to recognize that the wave of *globalization* which increased in the nineteen nineties was preceded by a decade of structural adjustment which in many developing countries greatly altered the fundamentals of economic development policy. Central governments lost control over the direction of economic change by liberalising trade and financial market regimes.

Globalisation exemplifies the growing mobility of firms, capital and people. There is ample evidence (e.g. from UNCTAD) that the flow of foreign direct investment has grown substantially over the last decades. Although the largest share consisted of FDI in and between OECD countries, the share of developing countries has been rising. This demonstrates that firms are increasingly comparing current and alternative places in their investment plans whereby alternatives may arise anywhere on the globe. At the same time I should add that two-thirds of FDI flow to developing countries is concentrated in not more than 10 countries (of which the BRIC countries were the most important ones). In other words, local conditions in these countries constitute an important attraction. It is important to mention that, according to UNCTAD, the composition of FDI has been changing as well. Natural resource exploitation constitutes nowadays a relatively small share, while manufacturing is still substantial and has shifted internally to more complex and advanced industries. Services have become the largest source of FDI, especially in finance and trade related services, business services and telecommunications. A large proportion of FDI and of international trade is in the hand of western dominated TNCs, which are operating in both the exporting and the importing country. However, there is also a considerable globalization by so-called 'Emerging' multinationals. In The Netherlands, one of Europe's most efficient steel plants was taken over by the Tata Group from India and the Dutch government is keen to attract new multinationals from China, India or Korea to establish their European headquarters in Amsterdam. Last but not least, there is considerable globalization by SMEs mostly in specialised markets, which seek to consolidate their position by penetrating new markets or by setting up production facilities in lower costs countries.

According to UNIDO, globalization is associated with an increasing specialization in industrial production. On the one hand there are cross-border production networks, which have emerged as production disintegrated or fragmented leading to separate stages of production where some production platforms are located in low-income countries. The key to success of these platforms is their efficiency and low cost. On the other hand there are global value chains with increased international coordination and cooperation among firms in different stages in the value chain, which shape the trade integration (UNIDO, 2009). The prime consequence for industrial policy is that it cannot concentrate on particular final products but must focus on particular stages of production *and* their connections with other production links outside the country, either coordinated in global value chains or by cross-border production networks. This is evidenced by the growing share of intermediate inputs as percentage of manufactured imports of industrialized countries such as Canada, UK and USA.

Even though people are the least mobile of the three factors mentioned, international migration has been rising, especially temporary labour and illegal migration. Migration flows have focused more on rich countries but remain for the greater part within their respective continental regions. At the same time administrative and legal barriers mitigate migration flows (UNDP, 2009). Notwithstanding for some countries remittances have become more important that official development assistance or FDI inflows. According to the Migration Policy Institute, the officially recorded remittances flows totalled in 2009 over US$414 billion worldwide, with more than three-quarters (US$316 billion) sent to developing countries. In 22 countries, remittances were equal to more than 10 percent of Gross Domestic Product (GDP) in 2009; in 11 countries they were equal to more than 20 percent of GDP (MPI, 2009).

Globalization has made markets more pervasive and they are affecting countries simultaneously across the world. Even the most remote corners have to react and restructure and adjust to the new economic conditions. Thus, while it can generate considerable opportunities, it also constitutes an important driver of economic restructuring as certain industries and occupations loose competitiveness and are forced to exit.

Mobility has increased and so has competition to attract firms, capital and skilled people, especially professionals. There are two reasons for this increased competition. One is that firms, capital and people have *more* alternative opportunities. They are better informed and can more easily switch to alternative places. Secondly, territories (countries and municipalities) increasingly compete with each other to attract these in order to create local employment and income. Territories intensify their efforts to attract foreign investment, capital and people. One reason is that getting a small share of a large volume of international mobile investment may make a big contribution to local employment and income. The other is that selective attraction of inward investment may assist in bridging the local-global gap. And may help to resolve crucial bottlenecks in the local production system and improve access to new external markets.

A second important driver of LED is *decentralization*. This in essence refers to a restructuring of the State. By the late nineteen nineties a World Bank study estimated that of 75 developing countries surveyed, some 63 were actively engaged in policies of decentralization (Helmsing, 2000) and this trend has continued till the present day. There are two fundamental dimensions of decentralization. One is the redefinition of the public sector between levels of government. Essentially this concerns the assignment of expenditure and revenue responsibilities and powers between different levels of government and how the fiscal gap between expenditures and revenues at each level is financed by means of intergovernmental transfers and/or assignment of lending powers. There are many different forms, which decentralization can take but it is beyond this paper to elaborate on these.

The second fundamental dimension is that the question 'which level of government is more appropriate?" became framed in a larger question of the relations between state and society. This concerns the growing scepticism and re-appraisal of the ability of public administrators and politicians to define, manage and target public services. Moreover, the Welfare State and the Developmental State often created new dependencies on government rather than encouraging self reliance and these programmes often supressed other initiatives by local governments, NGOS, private sector and communities. Decentralization then offers an avenue by which via the creation of elected and representative local governments, direct election of mayors, the direct participation of citizens and interest groups in decision making, planning and budgeting could improve the quality of government and the relevance of its activities. This then manifests itself in two ways: one concerns the 'take up' of collective goods and services: the identification of the tasks governments *should not be left to government alone to decide*, but should involve other social actors who are better informed. This is the demand side of local governance. The second concerns the supply side or the delivery of services. The principal insight from New Public Management was that 'public goals can also be achieved by non-public means'. Voluntary, non-profit, community as well as regulated market solutions are alternative options.

The rise of LED policies is seen by several authors as strongly related to the spread of decentralization (Helmsing, 2003, 2004, 2005; Rodriguez-Pose, 2008). Suffice to say here that there are several important consequences that matter for LED. The first is that as subnational government's role in basic service delivery increases and so does its role in economic coordination to ensure that these services actually serve economic development, employment and income generation. Secondly, services may be delivered by LG itself or by other non-public actors. This in itself can have important secondary effects on the local economy. Thirdly, as local government's role becomes more important relative to other levels of government, so does the need to raise local revenues. By implication local governments will become more interested in the economic development of their area for reasons of expanding their local tax base. Fourthly, as LGs become more significant in spending and in taxation, its role in economic coordination also increases. In our review of LED policies in different parts of the world, we will sketch how decentralization has played a role in LED policies.

The third driver of LED in the past two decades has been the changing perceptions about the territorial dimensions of *competitiveness*. Traditionally competitiveness is associated with the firm specific resources and with Schumpeterian entrepreneurship. It is the firm and the entrepreneur in particular who builds and renews competences, which enable it to compete in the market. This is the resource-based theory of the firm (Penrose), which later was further developed in the business management literature (Corradi, 2013). At the other extreme there are theories that argue that competitiveness is made by the (national) environment in which firms operate, as in the theory of comparative advantage or with regard to national innovation system's concern for science and technology. In between these two extremes, one finds a rich variety of theories that stress the interaction between firms and their environment. Michael Porter has built important bridges between the two sides.

In the competitive advantage of nations he stresses a series of factors, such as factor conditions, demand esp. in the home market, presence of related and supporting industries as well as rivalry between firms and the strategies adopted by firms themselves as sources of competitive advantage (Porter, 1980, 1990). In regional studies there is a rich variety of theoretical advances that stress the interaction between firms and the environment in which they operate. Theories about industrial district and about clusters have been at the forefront (Schmitz, 1999a, 1999b). These theories stress localized advantages arising from clusters and districts, such as agglomeration economies, labour market and technological knowledge spillovers. These advantages accrue to firms in the cluster and generate 'passive' collective efficiency. But cluster studies found that through collective action firms in the cluster can achieve 'active collective efficiency'. For example, as individual firms would underinvest in training due to labour mobility, firms could jointly organize (and finance) skills training at the level of the cluster. Case studies from 'Third Italy clusters' and elsewhere gave evidence of such activities being undertaken often in partnership with local public agencies. However, there were also clusters where such 'active collective efficiency' did not materialize. Nevertheless, the central insight from these theories is that firms, under certain conditions, can become active and effective in shaping their business environment.

The above line of thinking has generated a further conceptual development, known as 'territorial competitiveness', which is defined as the ability of an area to create, attract and maintain firms with stable or rising market shares in domestic and/or export markets while raising the standard of living of its inhabitants (Kitson et al, 2003). The author argues that six capitals enhance such ability. The first concerns the human capital of the area. That is to say the people, their health and education; the second is the physical infrastructure endowments, which support firms in their competitiveness; the third refers to the productive capital or the financial resources available to firms, the fourth is the knowledge or creative capital on which firms rely to innovate; the fifth constitutes the cultural capital of the area which underpins economic activity such as trust, risk taking and sharing; and, finally, the institutional capital which relates to the set of institutions of economic organization that underpin the economic. The central question which arise from such conceptualization is how are these capitals, which may have public and private origin, coordinated so that the overall effect is greater that the sum of the parts.

The basic underlying argument of territorial competitiveness is that coordination by markets can be complemented by deliberate or strategic non-market coordination between economic actors so as to speed up adjustment processes and not wait a much slower process of natural selection. It draws on the empirical fact that economic success is critically dependent on the simultaneous complementary investments by other public and private agents. The opportunities and constraints for a local producer are embedded in the opportunities and constraints of the *entire* industry in an area. Certainly at early stages of the development of an industry, market and market supporting institutions are insufficiently developed. These institutions need to be crafted and built up over time, and often from scratch. Local action to build such economic institutions is an important factor determining economic performance (Helmsing, 2003).

The success of the innovating small entrepreneur depends also on the presence, effectiveness and efficiency of 'related and supporting' services. For example, are extension services able to answer queries on technical aspects? The local organisation of support systems can remove barriers to innovation. SMEs in areas where these systems are in existence stand a better chance of economic survival and growth than SMEs in areas where these do not exist. The local business environment matters in so far as basic infrastructure is concerned. Without electricity, tools and equipment can't function. If transport services are erratic and cause considerable losses, the competitive advantage that a SME may have in a particular product, cannot be realised. It is important to remind ourselves that support services and infrastructure have the economic characteristics of (semi-)collective or public goods. Hence collective and public action for their programming and delivery constitute a core ingredient of local economic development.

Cluster theory did neither elaborate under which conditions such active shaping of the firm's environment takes place nor about the modalities, by which this would be achieved (Helmsing, 2001). Others have advanced on this point.

For example, Cook and Morgan (1998) posit that successful innovation depends on the associational capacities of firms. That is to say, its ability "for forging co-operation between managers and workers within the firm, for securing co-operation between firms in the supply chain and for crafting co-operative interfaces between firms and the wider institutional millieu, be it local, regional or national" (Cook & Morgan, 1998:9). Central in the 'associational repertoire' is the role of the State where the authors argue for two institutional innovations. Firstly, the decentralization of the State itself, enabling local and regional tiers of government to be more closely and directly concerned with economic development of their jurisdictions and develop initiatives to promote LED. Secondly, the delegation of tasks concerning enterprise development and support to business-led association or mixed or associative bodies as these have far greater credibility with and better knowledge about their members than state agencies. Thus, the state can achieve better results by doing less and enabling more. This conceptualization is further elaborated in the notion of 'learning region' in which decentralised state agencies and local firms (incl foreign owned ones) cooperate to innovate. The regional state agency adopts the role of 'animateur' to coordinate between public institutions in knowledge creation (S&T) and skills training and interested local firms (Morgan, 2007). The interaction between firms and institutions in learning and innovation is the basis for the notion of 'territorial competitiveness' (Malecki, 2003).

The institutional change processes associated with technological change and innovation may be more or less chaotic or random with an ex-post selection of sustainable institutional arrangements or may be purposefully constructed through multi-actor governance processes. For example, the government can purposefully prepare and design a new law in relation to the new technology while at the same time there may be a more chaotic process of private ordering of institutions in a more decentralized way and involving actors in that particular industry. This question of co-evolution of technology and institutions is an important item in the research agenda in relation to competitiveness and (local) economic development (Helmsing, 2013).

The fourth and last driver of regional policy originates in a socio-political concern for *regional inequalities and social exclusion*. What distinguished this driver from the previous ones is that it originates from socio-political ends and that the social economy in a later stage became the means to implement this policy. This driver of regional policy emerged in the 50s and 60s under a perspective of re-distribution of economic growth. It was a generally known and empirical fact that economic growth did not occur simultaneously throughout a territory but it is selective and uneven. Its cumulative character was take for granted by many and central theoretical debate concerned its structural permanence and the processes of its reproduction. There were considerable differences in interpretation as to whether this unevenness would increase or decrease over time. Centre-periphery theories argued that structural factors would reproduce and intensify inequalities. Others were more optimistic and predicted that regional inequalities would decline over time. Some even argued that regional policy could speed up the process of national economic integration and thereby increase the rate of economic growth. Regional industrial policies were mostly framed in the optimistic variant. The national government was the central actor in such policies. Through its regulatory powers and through financial incentives it could influence the location of firms. The provision of infrastructure was considered an important instrument to stimulate local demand and at the same time overcome regional disadvantage. Regional inequalities were a central issue in theories and policies of regional development. Can regional policies alter such structural patterns and reduce regional inequalities?

Regional policy in the European Union historically has been framed in the context of such redistribution with growth considerations. This started with the establishment in 1958 of the European Community. The process of economic integration of member states would cause regional restructuring and the regional policy was to ensure that such regions not be excluded from the benefits of economic growth and to address the development problem of historically lagging regions. There are quite a number of countries where large regional inequalities became object of government policy, not in the last place because regionalist movements claimed it (Brasil, Italy, Ethiopia and to an extent Bolivia).

In the late seventies and early nineteen eighties when large scale economic restructuring in Europe and USA dislocated complete industries (such as Textiles

& Clothing, Footwear, Shipbuilding) which pushed entire regional economies to the brink of economic collapse as their economic base disappeared. Traditional centralised macro and social policies were only able to address but the symptoms of these structural regional unemployment crises. In reaction to this, new locally based employment initiatives were organized through the social economy. As economic growth rates declined and unemployment rose, the traditional welfare state model was unable to distribute welfare enough. Social exclusion and inequalities increased and equal access to social services was curtailed, particularly for those with non-standard needs. Against that background, groups of citizens have embraced a number of remedial actions within civil society. They have created a number of social enterprises as a reaction to the insufficiency of social and community services and of enough jobs to ensure full employment in the economy. A new generation of 'social enterprises' emerged at the end of the 1970s and 1980s (Defourny and Nyssens 2008).

In 1982 the OECD launched its Local Economic and Employment Development program (LEED). This program can be considered a landmark in relation to this driver of regional policies. It experimented with new forms of labour market interventions, based on social economy and social innovations, notably partnerships between local government, business and third sector organizations to promote the re-entry of structurally unemployed and the employability of excluded people by means of innovative forms of training, enterprise development and ways by which these were delivered.

It is clear that globalization and competitiveness are key drivers that are also relevant to Georgia today, as do decentralization and regional inequalities and social exclusion. The positioning of Georgia in the world economy has undergone drastic changes: i) the break up of Georgia as a peripheral resource region orbiting within the Soviet Union; ii) the recent Russian embargo on imports from Georgia; iii) the closer interaction with the EU and the challenges of the European Neighborhood Policy (ENP); and, finally, iv) the closer economic ties with neighboring countries (esp Turkey). Globalisation is both an opportunity and a threat to the future economic positioning of the country.

We have already signaled the important challenges in relation to competitiveness. Georgia has to rebuild its competitiveness as de-regulation alone will not do put the country on a long terms growth path.

Regional inequalities and social exclusion are important simmering issues in Georgia. Economic wealth is concentrated in the cities, esp Tbilisi, while poverty is rural but also geographically concentrated in three regions. The exclusion of the greater part of the rural population (60%) from the market economy is a serious concern that needs urgent attention.

Finally, decentralization can become an important bridge connecting the Georgian economy and society, creating pluralist roots of state and civic institutions and build a capacity to convene economic actors to improve competitiveness, generate growth broadening the base of SMEs and find ways and means to greater social inclusion of the excluded.

In conclusion, conditions for local economic development have changed dramatically. There are several aspects. First of all, many countries have experienced serious economic downturns, often associated with structural adjustment and political instability. Few have been able to restore long-term economic growth.

Secondly, central governments have lost their central economic coordinating role; while other actors, to make the market economy work, are weak. Investments and improvements plans of local producers critically depend on complementary investments by other producers and other economic agents (traders, banks) as well as government. This interdependence has produced, quite frequently, a deadlock or ‘catch 22’ situation. Particular in situations where potential markets are small and information networks poorly developed such ‘catch 22’ may be enduring and ‘lock’ an area into economic isolation and underdevelopment.

Thirdly, the globalization and competitiveness context creates winners and losers. Some localities are able to export goods and services to larger domestic and to international markets and to attract external firms, capital and expertise to enable them to grow further, others are unable to benefit from the opportunities offered by new geo-economy and are loosing their own local resources (capital, firms and educated people) that look for ‘greener pastures’ elsewhere.

Fourthly, after privatization and liberalization, central governments paid even less attention to (equalisation of) economic conditions across regions and localities. Socio-economic gaps between localities and regions are likely to have been rising and so have been social tensions. Simplifying, one can distinguish three types of situations: 1) cities and regions which are integrating in the global economy; 2) localities and regions which have the resources and potential to integrate and 3) localities and regions which are or have been unable to link up. The latter category would include, amongst others, regions with a predominantly informal or subsistence economy.

Fifthly, localities are increasingly thrown onto themselves to create 'place prosperity', to create the right conditions for the economic advancement of its population: i.e. that entrepreneurs can seize business opportunities, that households can improve their livelihood and that workers can find jobs that match their capacities.

Local government have an important role to play to create place prosperity. However, local governments must realise that they are not in the driving seat. Much depends on local producers and their associations, CBOs, and support agencies (incl. NGOs). Lastly, local economic development is about new roles for the public sector. This applies not only to central government but also to local governments. Local government is to provide the right mix of local public goods and secondly to facilitate or *enable* these other actors, communities, enterprises, workers and NGOs, to make their most productive contribution.

The above leads us to define the principal characteristics of a new generation of local economic development promotion, as follows: a) It is multi-actor. Its success depends on its ability to mobilise public, private and non-profit actors; b) It is multi-sector. It refers to public, private and community sectors of the economy; c) It is multi-level. Globalisation, both as a competitive threat and as an opportunity, forces local initiatives to be framed by an analysis of national and global changes. What is the repertoire of initiatives that are most relevant to Georgia? To this we turn in the following section.

4. Local economic development options of Georgia

Thomas de Waal (2011) of the Carnegie Endowment for International peace recently summed up the debate in Georgia about its future policy direction by identifying three competing models (see also Papava, 2011). The first refers to an economic model patterned on the "Old Georgia" which refers to a restoration of traditional values. "It represents the country's traditional value system and old way of conducting relationships and doing business. The philosophical approach behind this idea is that Georgia is an ancient civilization that should not be corrupted by foreign influences"…… "In business terms, "Old Georgia" is shorthand for closed family networks and economic stasis. Politically speaking, this approach has associations with Georgia's feudal past or, more recently, the disastrous nationalist presidency of Zviad Gamsakhurdia in 1990–1991, when Georgia's minority communities faced ethnic discrimination" (de Waal, 2011:28). He concludes "With all due respect to what is indeed an old and rich civilization in Georgia, this philosophy offers the country little when it comes to plotting its economic or political future" (ibid).

The second model, which often was espoused by Saakashvili is that of Singapore, as a market driven economy with market friendly regulation and a minimal government. In effect the trajectory initiated after the Rose revolution has a lot of similarities with these features. But Georgia does not have the same structural economic characteristics as Singapore nor would it aspire Singapore's political model. Henceforth the proposed model for Georgia was amended to be a combination of Singapore with democratic elements of Switzerland. Whether the latter also refers to Swiss decentralization and considerable autonomy of the Swiss local self-governing units, the Cantons, is not clear. It is also relevant to stress that Singapore alongside it market friendly business environment has always had a pro-active industrial policy by which it has sought to strengthen the capabilities of the domestic firms and increased the competitiveness of its manufacturing sector.

The third model, identified by De Waal (2011) is that of closer integration with the European Union. An important ingredient in this model is the EU 'good neighborhood' policy and the projected Deep and Comprehensive Free Trade

Area, which would give Georgia access to the vast EU internal market. This DCFTA replaces the need to enter on a path of negotiating EU membership. The establishment of the DCFTA would be gradual where Georgia would gain further access in exchange for institutional and regulatory reforms. These reforms refer to market regulation (including an anti-monopoly policy and protection of intellectual property rights) and the extension of health and safety standards to products and processes, especially in agriculture, and to more democratic accountability of the state and the public sector. Moreover, there is evidence that Georgians do not necessarily share European values (e.g. on human rights) and that the EU with its fiscal and economic crisis does not project itself as an attractive alternative to follow.

Each model has its own advocates and opponents and it is not clear what choice the post-2012 election government will take. De Waal is however right in pointing out that the EU possibly offers more development potential than any of the other choices and that other neighboring ECA countries and Turkey are seeking closer trade integration with the EU, negotiating and advancing on the path of reform. Georgia can ill afford to stay behind and see other countries continue to expand their export market shares at the expense of Georgia. Whatever the model or combinations of models Georgia will select, local economic and socio-political development will be part of that agenda.

For the purpose of this 'thought paper' I define local economic development (LED) as a process in which partnerships between local governments, community and civic groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined area. It emphasises local control, using the potentials of human, institutional and physical and area natural resources. Local economic development initiatives mobilise actors, organisations and resources, develop new institutions and local systems through dialogue and strategic actions. In addition, a distinction is made between three main categories of local economic development initiatives (Helmsing, 2003, 2005). The first category refers to entrepreneurship and enterprise development. This broad category consists of initiatives that directly target and involve (cluster(s) of) enterprises in particular product specific settings (chains). The second set refers to actions that may be broadly described as community economic development. Community economic development may be applied to both rural and urban settings, though a number of characteristics would necessarily be different. The essence is to facilitate household diversification of economic activity as the principal way to improve livelihood and reduce poverty and vulnerability. In contrast to community economic development, enterprise development is premised on specialisation and overcoming obstacles towards specialisation in a market context. A number of the principles of enterprise development policies apply differentially to small, medium and larger enterprises. Survival based micro enterprise activity is examined under the community economic development. The third category refers to locality development, which relates to overall planning and management of economic and physical development management of an area.

Entrepreneurship and enterprise development Initiatives

The debate about Georgia's choices is one of macro models, which neglects a central issue, namely that of building a market economy and modern society from below, taking into account that such process takes place in a rapidly changing global context.

Entrepreneurship is central to the creation of a dynamic market economy. Entrepreneurship is associated with innovation and processes of creative destruction by which new old activities are replaced by new ones. However, entrepreneurship is not necessarily productive, but depending on the political economic context can be destructive or unproductive (Baumol, 1990). That context determines to what extent entrepreneurial behaviour gets sanctioned socially and institutionally. This may be what Papava (1996) had in mind when he wrote about different types of economic behaviour when he commented on the Georgian economy: "at the present stage of transition to a market economy, there is a type of man in whom the qualities of *Homo oeconomicus* are steadily developing but who has not yet liberated himself from the qualities characteristic of the "*Homo sovieticus*". This type we could perhaps call *Homo transformaticus*. Many contemporary entrepreneurs can be considered striking examples of Homo transformaticus. They make their enterprises function at a minimum capacity necessary to satisfy personal and family needs, and needs of the small number of workers employed in the enterprise. This type of entrepreneur has no interest to expand his enterprise, because the *Homo oeconomicus* has not been fully awoken in him" (Papava, 1996:261). Uncertain business environment, criminality and corruption and market failures (in land, finance and product markets) make productive investments too risky. Such entrepreneurs would prefer to spread their investments and keep a large part of these investments in the shadow or informal economy.

Papava's argument for productive entrepreneurs is primarily political: the entrepreneurs who are key to the market economy bring along social stratification. This "middle stratum" needs to be supported politically with democratic institutions while at the same time "a strong stratum of entrepreneurs is a guarantor itself for the existence of a democratic society" (Papava, ibid: 261). Georgia needs this new stratum of entrepreneurs obviously also for economic reasons, so as to expand the country's income and wealth and in this way enable the state to raise revenues to be able to provide social assistance for the poor. One could complement this second argument of Papava with that of Chang, who claimed that as economic wealth increases, entrepreneurs and their interest groups will demand better institutions and more transparency of government (Chang, 2010). Papava argued that it might take a long time before productive entrepreneurs would appear in a process of natural selection and that therefore the State should actively engage in entrepreneurship formation through a policy of 'social promotion' of economic reform. But how could this take shape? Here local economic development comes in.

One of the central guiding ideas of LED is its concern for the development of the *local economic base* of an area. The local economic base refers to the activities that involve exporting their products and services to outside the area concerned. The destination of these exports is for all practical purposes anywhere, in other parts of the same country or abroad. The economic base of a district may consist of one or several agricultural products, or of manufacturing or service activities (e.g. trading or tourism). Other local economic activity mainly supplies the local market and hence depends for its demand ultimately on the growth of the local economic base. The economic base normally consists of one or more geographical concentrations (clusters) of local producers. Firms and clusters may grow and specialise in their activity. This *specialisation* itself is an important growth mechanism. Thanks to specialisation local producers may achieve internal economies of scale, which in their turn may generate increasing returns. That is to say as volume of production increases the unit costs decline. This results in enhancing the competitive position of these producers.

Clustering and specialisation may contribute to the emergence of *agglomeration economies*. These are advantages that accrue to local producers, which arise from the geographical concentration, such as specialised labour and inputs and knowledge spill-overs. Once a cluster has come into existence a new phase may of local economic development set in, namely that of ‘active collective efficiency’ (Schmitz, 1999a). There are three components here. One is that local producers, especially when there are of a medium or small size, may find it advantageous to specialise amongst themselves. A second component is joint action among local producers to create institutions that support their activity. The creation of a local producer association is often indicative of a potential for ‘private governance’. The third component refers to local collective action of local producers towards government and external actors to lobby for public support institutions and infrastructure, e.g. in the area of vocational training, technology development or a local transport terminal. An area that has developed these three types of ‘active local efficiency’ endows its economic base with cumulative capabilities.

By being part of an agglomeration local producers can greatly expand their capacity to learn. Learning takes place via supply chain linkages (i.e. supplier and customer relations), via mobility of skilled labour, and, last but not least, via spin-off activity (creation of new start-ups). It also may involve i) imitation and reverse engineering. ii) informal knowledge exchange, and, iii) specialist services. In short, an agglomeration can facilitate group based and collective learning (Helmsing, 2001).

One of the key challenges in local economic development is the ‘catch 22’ situation elaborated in the initial section: local producers do not invest or innovate because the outcomes are too much dependent on complementary investment in other parts, upstream or downstream in the same commodity chain. This may either be a problem of economic information that can be addressed by improving the scope for (collective) learning or it may require the selective attraction of external investment, of outside enterprises, which operate in the relevant part of the chain or of specialist expertise. An increasing number of countries and municipalities are making efforts to attract foreign direct investment. However, few have made *smart* and *targeted* efforts.

How would such entrepreneurship and enterprise development promotion look like in concrete terms? Basically there are kinds of measures: i) regulatory and fiscal incentives; ii) business development services; and iii) special programs, notably incubators, cluster and value chain development programs

As regards regulatory measures and fiscal incentives, Georgia has already made great advances in regulatory measures. The improvements in the Doing Business Survey of The World Bank are illustrative of the relaxation of the regulatory constraints on enterprise development in Georgia (World Bank, 2013). As regards fiscal incentives, the country is performing less well. Several reports mention frequent complaints about the tax department's handling firm level tax claims and 'voluntary contributions' (Papava, 2011, De Waal, 2011).

In relation to business development services, the country can make important advances, thanks to a well developed banking system and a relatively well-educated population. The banking sector, business schools and technical training institutes would need to give greater attention to business advisory services and sector specific knowledge. International networking and peer-to-peer networks can assist in making up for country level deficiencies. Below we elaborate on LED special programs.

Components of enterprise development special programs

The core of a local economic development programme would be the expansion, re-structuring or creation of the economic base of the area. The economic base may consist of one single or various concentrations or clusters of local producers in particular industries. Initiatives to be developed by local producers can develop in three directions: a) the creation of an ambitious enterprise incubation program; *Incubators* have started to play and important role in enterprise development, as they provide operational services that temporarily reduce transaction costs for start ups and provide strategic services that assist start ups to cope with the complexities of current and new markets and corresponding institutions. There is a great variety of different types of incubators (hi-tech, biotech, traditional, local) and forms by which they are configured (e.g triple helix) and agents managing the incubator (for profit; non-profit). Important to note that incubators do not only provide visible services but also indispensable invisible services in the area of networking and learning (Corradi, 2013);

A particular case for incubators could be made in relation to the entry of modern well-educated entrepreneurs in agro-enterprises on the state lands that are yet to be privatized. As signalled also by the World Bank (2009), this new phase in privatization of state land should be able to generated modern medium to large-scale enterprises capable to operate in national and international value chains. Several countries have experimented with turnpike projects creating the agro-infrastructure and the organizational environment to set up agro-enterprises for participation in new global value chains. The Netherlands is an example in releasing reclaimed land of polders to highly qualified agro-entrepreneurs. Ethiopia, Korea and Peru are other and more recent examples of setting up agro-incubators or so-called 'Greenparks' for new agro-enterprises in high value export crops; b) Strengthening the *cluster formation* process along the lines depicted above. The may give rise to the creation of enterprises and employment in related services; c) Advancing the participation in the corresponding *value chains*, either by new investment of existing local producers, or by selective attraction of external enterprises, or a combination of both.

For local producers to gain access to more remunerative external markets, they generally require specialist *business development services* (BDS) to enable them to acquire knowledge about these markets. They also need these services in order to prepare their own operations financially, technologically and organizationally for internationally competitive production. Small and medium enterprises, however, often have to gain access to external resources and rely on specialist business service providers to obtain market and product information, tools and technologies, skills etc. There is some evidence about the relative importance of the different modalities of BDS in different circumstances.

Research on export marketing, technological support services and financial support systems concluded that local producers prefer private sources (buyer-trader, similar firms, subcontracting principals and own business associations) to collective public sources. Public and collective support mechanisms are important in *early* stages of export growth and function particularly if decentralised to and supporting private support channels (incl. business associations).

There is a great range of types of *special programmes*. The first type of programmes basically seeks to generate 'passive' agglomeration economies'. A *growth point* or growth centre would be a good example. Many governments have initiated these but few have sustained efforts. Government concentrates public infrastructure investment in particular places, possibly in combination with other incentives to attract new firms into an area. Geographical concentration may generate specialisation. A second type of programme goes further and seeks to promote the *formation of clusters* of enterprises, there where geographical concentrations of local producers already exist. Through joint action a new range of competitive advantages can be created. Business support services and inter-firm cooperation are principal avenues of action. A third type of program is structured around the local part of a national or international value chain. *Value chain development* programs have taken a meteoric rise in the past ten years or so, as they are centred on an extended notion of competitiveness which can be improved through strategic coordination between firms active in different parts of the chain and between chain actors and non-chain actors such as central and local governments, research institutions etc. FDI plays often a key role in linking a local area up with global value chains (Helmsing & Vellema, 2012). Value chain programs realize that operating in a market economy demands much more than simply more marketing. In writing about agricultural development and rural development in Georgia, the World Bank signals that these issues include: "the absence of well established marketing organizations, weak contractual arrangements between farmers; poor quality, packaging and grading; inconsistency in supply; poor post harvest handling chains resulting in damage and waste; and inability to meet buyers' requirements in terms of delivery schedules, contracts, timely delivery, and flexible payment terms. Improvements are needed in handling of most of the agricultural commodities" (World Bank, 2009).

More advanced forms of enterprise development combine value chain with cluster type programs, whereby the value chain component works on strengthening the position of local subcontractors vertically, while the cluster development programs seeks to improve the horizontal linkages between local firms. Examples where such programs could be applied in Georgia would be in tourism and viticulture but also in relation to other agricultural products there is considerable scope in national urban and international markets.

A fourth type of program has a focus on *group learning* to acquire new competencies. The introduction of new agro-exports (e.g. fresh fruits and vegetables and flowers) may be based on group based learning of the norms and quality standards for the products and of associated production practices and techniques. Often an actor, playing a key role in the governance of the chain, contributes to the spread of new knowledge to the local producers. This may be foreign buyers, a local business association or a local enterprise agency (Helmsing, 2005). The most advanced form of such program seeks to generate collective learning. This is called a *local innovative system* and refers to the interaction between enterprises, research and training institutes, other business development services organisations and local authorities. Local producers have to develop associational capacities at the level of inter-firm cooperation and the value chain and at the level of enterprise support systems. The main challenge is to get the interaction right between these three elements. The locality or region can perform strategic enterprise support functions that cannot easily be done centrally. Local networks must be forged which facilitate coordination and convergence across these three elements.

Community economic development

We have seen above that a large part of the poor in Georgia live in rural areas but also in urban areas there is a sizeable group of households surviving on a mix of livelihood activities. The average land area is 1.5 ha per farm holding, but 40% of the farmers have less than 0.5 ha, 53% have between 0.5 and 2.0 ha and only a further 6% have between 2.0 and 10 has (World Bank, 2009).

These rural poor survive on a mix agricultural, non-agricultural and non-farm activities, including limited (temporary and especially male) rural-urban migration. Diversification of rural economies has of course always existed but was not always recognised by policy makers. After all, it is grounded in the seasonality and the risky nature of agricultural activities; it is also a way to cope with other causes of vulnerability and crises. Population pressure on the land may also push people out of agriculture and into other activities. In all, diversification is seen as a livelihood coping strategy of the rural poor (Ellis, 1998).

The reduced role of state led agriculture, has given households more options for livelihood diversification. In effect, in many countries urban-based entrepreneurs and traders have filled the vacuum and control often the most profitable activities in rural-urban value chains. At the same time the 'catch 22' situation, signalled earlier, also pushes rural households to maintain a diversified portfolio of activities, something which in itself complicates local economic development. Heightened insecurity and vulnerability and poverty of resources will prevent households to specialise in their most rewarding activities *unless* measures can be devised to address the root causes of diversification. In stead many households diversify and develop multi-local sources of livelihood.

Urban poverty is much smaller in Georgia. It constitutes 18.3% while 29.7% of the population in rural areas is poor (World Bank, 2009). But the share of urban population in the total is likely to start growing rapidly in the near future in Georgia and also in these urban areas diversification constitutes a key towards livelihood. The research on urban small and micro enterprise across the world has shown the rapid increase in their numbers. The great majority are part time enterprise and many local entrepreneurs run several enterprises at the same time and/or rotate frequently in and out specific activities. The rise of urban poverty has also witnessed the growth of urban agriculture, which has become another major source of livelihood for the urban poor.

Communities in many poor rural areas and urban slum settlements have in the past decades experienced: i) feminisation of poverty; ii) poor settlement conditions which in urban areas generally imply overcrowded settlement; iii) housing conditions that are deficient and in urban areas often not very suitable for income generating activities; iv) lack of access to basic services; and v) insecurity of income and work as well as serious physical insecurity.

Women face a triple burden, along side their reproductive roles and care for children and for other dependents, their responsibility as head of household places the burden of income generation on them. In addition, women often uphold the social status of the household in the locality, take care of social and neighbourhood networking and assume community management tasks. Furthermore, there are often considerable constraints on women's mobility: spatial mobility (limits on travel or travel time); social limits to interaction (e.g. with men, outsiders) and functional or sectoral mobility limits (e.g. certain types of positions and activities). These are serious constraints on economic opportunities for women. Women have difficulty undertaking full-time activities, and have to schedule income generation activities in a manner that is consistent with their other tasks. The scope for specialisation and expansion within one branch of activities and for operating in geographically larger markets is limited. Due to these circumstances, women often are forced to maintain a diversified portfolio of businesses (Downing, 1991).

Poor settlement and housing conditions have also negative economic consequences (UNCHS/ILO, 1996). These often create additional costs and introduce greater risks. Physical insecurity and health risks (inundation of settlement, disease, theft and violence) reduce productivity. Economic activities have to be interrupted frequently and assets and stocks may be lost or damaged. The lack of access to basic services (water, sanitation and energy) and recourse to informal sector solutions to these problems raises costs. Overall, production and transaction costs increase.

There are immense obstacles. One is institutional insecurity, not only in respect to land and natural resources but also in economic transactions and in relation to economic and environmental legislation. A second constraint is lack of appropriate planning. Planners have often ignored the economic function of settlements as if only residential use mattered. New approaches are needed that recognise that self-employment and household-based economic activity is the predominant form of livelihood rather than wage employment.

Community economic development has a number of broad aims: i) to stimulate a sense of community; ii) to promote self-help and empowerment; iii) to contribute to the generation of (self-)employment; iv) to improve living and working conditions in settlements; and v) to create public and community services.

Components of community economic programmes

It is almost impossible to generalise about development policy prescriptions and to formulate universally applicable ones. What follows below is not more that a general repertoire of practices and experiences that have demonstrated to have relevance in terms of community economic development.

a) *Creating local safety nets*. One of the key features of poverty is the inability to withstand economic shocks of any kind. Creating local safety nets and reducing insecurity is fundamental for creating better conditions for local economic development. Day care centres run by women groups can be the basis of local mutual support networks at neighbourhood level. Financial safety nets can be created through the formation of savings and credit groups to meet income emergencies. Physical security is often a very serious economic problem although this has been effectively tackled in Georgia..

b) *Housing improvement and settlement upgrading*: Settlement upgrading usually involves a package of activities. One is improving the design of the settlement by creating space for basic services, such as water, sanitation, roads, community facilities for health and education as well as to improve homesteads and housing quality. It has been increasingly realised that settlement upgrading should allow for home based economic activities and incorporate provisions of small enterprise plots.

c) *Basic service delivery*: A pragmatic approach would be needed in the restructuring of basic services delivery. Unbundling can help to determine which components in the service delivery process can be privatised (either commercially or on a non-profit basis), which can be brought into the realm of community enterprise and which continue to require public sector direct responsibility (Awortwi, 2003).

d) *Stimulating community economy*: Households act in the local economy in three ways: as consumers, as micro-entrepreneurs and as workers. They act individually and as organised (functional) groups that have a community of interest, for example as a consumer cooperative, user associations of basic services, workers unions and producer associations. Due to their vulnerability, poor people are weak market parties. Their very limited and insecure resource base (e.g. because of a poor capital asset base or because of limited technical/functional skills) causes low productivity. This, often in combination with intense competition yields very low incomes and makes poor people vulnerable to unequal market exchanges. Policies that aim to increase the reliance on markets to allocate resources and to provide goods and services therefore may put poor people at more and greater risks. Market regulatory policies should therefore also 'level the playing field' for the poor and their enterprises, i.e. reduce barriers arising from informality. *Micro-enterprise programmes* would constitute the core of community economic development. Such programmes could consist of three or more components, i.e. credit, training and technical assistance and marketing. A special category of training concerns training of MSE's as contractors of basic public services. As local governments also increasingly move towards out contracting of public services, there is also scope for out contracting to MSE's and community enterprises. In the *labour market* some measure of success can be achieved in improving the employability, for example via training and skills programmes associated for example with construction in settlement upgrading and with the delivery of basic services (e.g. health and other community services). One of the key sectors for community based economic development is the *construction and maintenance industry*. The industry is labour intensive. Furthermore, construction materials usually have a high local content. Local employment and income multipliers can therefore be quite considerable. In addition skill training contributes to employability of the poor. The *community construction contract* system (CCC) that was initially developed in Sri Lankan settlement upgrading is designed to have such multi-pronged impacts (CityNet, 1997). The UNCDF local development fund projects in Africa and Asia are examples that seek to combine basic service delivery with stimulation of the community economy (UNCDF, 2000).

Locality development

When a local economy develops a certain export base, this gets reflected in its built up of the infrastructures geared to serve it. For example when an area is specialised in particular agricultural production or manufacturing, industry specific physical and socio-economic infrastructure and overhead capital will be built to serve it. For example, a technical training centre to form skills in related trades and occupations. Warehousing facilities and freight infrastructure develop over time in response to demand. Part of this infrastructure is public sector and timely planning and development of these infrastructures will stimulate complementary private infrastructure services. Together they enable a locality to improve the basic conditions for the economic activities to stay competitive and expand. Locality development is about the planning and realisation of these infrastructures and of relevant economic and social overhead capital.

Locality development corresponds to the management of the entire local territory. That is to say, built up physical infrastructure and economic and social overhead capital of the locality in such a manner that it generates the balanced development of all land uses, resolving land use conflicts, minimising negative (congestion, pollution) and maximising positive externalities (agglomeration economies). Localities that succeed in better managing their territories contribute to enhance the local 'quality of life' and the competitiveness of local economic activities.

The initial local government reform which erased the top down central structures and replaced these with 65 local self governing units, in effect created very large units which served large areas (certainly by European standards) and where by implication the socio-political distance between local government and the governed was rather large. This was consistent with Sakaashvili policy of deregulation and minimal government. However the is much to be gained by a reduced socio-political and organizational distance, which balances political community with economic efficiency. The reform announced by the new government may be a step in this direction but it would be too early to judge this such depending on the detailed reform proposals.

Components of locality development

The 'management of the territory' would involve several components. *Participatory local economic development planning:* LED is a multi-actor affair. There are important investment complementarities within the private and community sectors and between the public and private agents, which when properly managed, can result in important economic gains and external benefits that otherwise would not be forthcoming. Local government can make an important contribution by properly coordinating its own public sector investment programme with needs and investment priorities of communities and the private firms. Local convergence among actors is central to local economic development initiatives. This needs exchange of information and broad based procedures for decision-making. The participatory formulation of a local development strategy plays an integrating role. It identifies the overall local development priorities; defines a set strategic issues and related action programmes, both for public and private sectors and in doing so, provides a basis for coordination of complementary investment programmes.

Physical planning and development controls: Urban land market is rife with all sorts of distortions and requires government regulation. Zoning and other land and building regulations can be an important tool if it is carried out with flexibility and with a developmental attitude. Regulations should be simplified, understood and agreed by all parties. Subsequently local authorities should make these regulations stick. The lack of transparency often makes this a lucrative area for rent seeking and corruption.

Urban planning and design: Economic performance can be improved if commercial centres are upgraded through improvement of commercial streets and premises, often involving selective conversion of land uses and higher densities. 'Town-scaping' includes actions geared towards the improvement of the town or city central areas and make them more attractive for local communities and prospective investors (Blakely, 1994). Barcelona is often seen as the archetype town-scaping effort where the efforts are strongly linked to the rise of global tourism.

Infrastructure and basic services: Land is more attractive to potential users if it has already been developed or it can be done at lower costs. Available infrastructure shortens the time between acquisition and operations. The basic services to be provided are water and sewer, electricity and street lightning, access roads and sidewalks. The supply of improved sites should take into account the diversified demand for such sites. I.e. take into account the demand by micro and small enterprises. For the rural areas of Georgia the improvement in infrastructures is crucial. Even though 98% of the population had access to electricity, the availability was on average less than 2 hours a day, according to a World Bank report on Rural Infrastructure (World Bank, 2006). Other key areas are water, roads, irrigation and drainage. Local needs vary considerably by region and therefore a stronger role of local government in its planning is critical to better take into account local needs. Moreover the mentioned study showed that willingness to pay for services is high for priority services (World Bank, 2006). Last but not least there are nowadays a range of institutional modalities to delivery infrastructure and basic services, ranging from pure public and purely private to public – private partnerships, community based enterprises and all kinds of hybrid forms thus increasing the capacity of local governments to provide infrastructure.

Socio-economic overhead capital: one of the important challenges of locality development is the creation and expansion of economic and social overhead capital. This refers to public, non-profit and private institutions in the areas of education and training, research and technology, information and communication and social capital serving the locality as a whole as well as institutions dedicated to its specialised industries. One of the roles of local government, together with other private sector and civil actors, is to contribute to create and/or to attract to the locality (branches of) specialist providers of such overhead capital.

Local actors

Localities and regions have been thrown onto themselves to take responsibility for their own development. Mostly by default and occasionally by design, local actors have themselves developed a range of processes to do so. Developing competence for local development policy is a slow and difficult social learning process. Latin American experiences suggest that such social learning and building of LED policy competence is a pre-requisite for launching successful LED initiatives (Helmsing, 2004)

The range of actors has increased, including governments, communities and their organisations, non-governmental organisations and now also private enterprises. As regards *community organisations*, it is important to make a distinction between grassroots territorial community based organisations (CBO's) and 'self selected' grassroots groups. The former type is all encompassing and broadly representative and multi-purpose organisations. Often, territorial CBO's are framed by local tradition and custom and increasingly also by local or national government legislation. A women's savings club is an example of a 'self selected' grassroots group. Such groups are mostly single purpose oriented, more homogeneous and are less hierarchical. Every member participates by virtue of its accepted membership. In the context of markets self-selected community groups are important.

In many countries there is a rich variety of such organisation but in Georgia this may not be the case. The elimination of soviet style organizations has left a vacuum that does not fill itself so easily. For example, David Land stresses that the micro size of small farmer holdings, make it very difficult for these farmers to operate effectively in inputs and output markets. Scale is a seriously debilitating factor, raising transaction costs. The formation of cooperatives would be one solution but "farmers feel cooperatives are somehow a return to collective or state farms of Soviet times" (Land in UNDP, nd: 70). He claims that farmers organization, on industry or product lines would be vital to implement any measures to invigorate agriculture.

In order to strengthen the position of such groups the formation of second and third level organisation is important. The establishment of associations and federations has several important advantages. Firstly, numbers raise voice. Apex organisations can yield a more than proportional influence. Secondly, associations can facilitate sharing of information and experiences and can contribute to learning. Thirdly, thanks to their larger size and scale of operation, associations can undertake functions, which are not feasible at grassroots level. Lastly, second and third tier organization can strengthen autonomy vis a vis the state as well as the market.

Local producers and their association: Clearly local producers themselves are key actors in enterprise development. Inter-firm cooperation and joint action plays a central role. However, local producers find it difficult to combine competition with cooperation. Several commentators have indicated that joint action and inter-firm co-operation, of the kind enumerated above, does not come easily and requires a kind of external catalyst or brokerage role (Schmitz, 1999). The multiple roles of producer associations in economic development are increasingly recognized (Levitzky, 1993). Producer associations can reduce the influence of particularistic interests of individual members, form collective opinion and participate in strategic coordination with other actors to overcome market and institutional failures.

Local government: Much in contrast to past practices at national level, local governments generally realise that they are but one of many players involved in local economic development. Most local authorities spend a minor fraction of their budgets on direct economic development support. More important, however, are the manner in which they discharge their main functions and realize their economic significance as a) a source of economic opportunity and b) a service enhancing or inhibiting enterprise development and competitiveness.

It is important to stress here that LED does not refer only to local institutions but also to decentralized sector and national agencies. The participation of key stakeholders may generate new forms of multi-level local economic governance. Last but not least donor agencies can play a facilitating but rarely decisive role

5. Summing up the argument and steps to move ahead

In this policy paper we have been looking at the key challenges facing Georgia. The country has made great strides in dismantling state and collective enterprises and de-regulating the economy. However, de-regulating the economy may be a necessary but not a sufficient condition to put the country on a new growth path. Experiences from many countries have demonstrated that the private investment response has not been realized following restructuring reforms. Enterprise development can be discouraged as risks are very high and information is hard to come by. If markets are complemented with supporting institutions and organizations, restructuring and recovery can be realized faster and more effectively. Pro-active competitiveness policies coordinated between private and public sector enable firms to become competitive so as to withstand competing imports and gain entry and market share in new product markets domestically and abroad. A second challenges facing the county is (rural) poverty. The land privatization to households and subsequent targeted social transfers has cushioned the economic shocks of large scale restructuring of agriculture and liberalization of the economy but also has imprisoned large numbers of households in small, scale subsistence agriculture and informal economic activity. They are largely excluded from economic development. The third challenge is the rebuilding of state institutions from the grass roots up. Most reforms have been guided by the central government and a new elite based in Tbilisi. For the country to become a pluralist democratic state with a vibrant market economy, it needs to re-build local institutions of governance. Decentralization and local government reform is one of the key challenges in this context.

We have argued that these three challenges are interconnected and find their focus in local development. We have defined the concept at given a brief overview of the main drivers of local development worldwide. The first is globalization resulting from increased mobility of capital, goods, firms and information and to a lesser extent people. This has caused economic re-structuring on a global scale. A second driver concerns changing conceptions about competitiveness. These imply that competitiveness not only depends on the capabilities of firms themselves but also on the environment in which firms operate. This environment is constituted by public and private institutions and other private and public assets or capitals, such as natural and infrastructural assets, human capital, knowledge etc. Better strategic coordination between public and private sectors on how to invest in these capitals in order to make this local environment stronger, can greatly enhance the success of entrepreneurs in making their firms more competitive in domestic and export markets. The Global Competitiveness Index with its 11 pillars or dimensions illustrates how complex this environment has become and what weight it carries in achieving economic prosperity. Decentralization is the third driver towards a greater concern for local development. Decentralization is a worldwide phenomenon. Central governments and the public sector have become less dominant in management of the economy and increased demands for transparency and accountability have induced governments to reduce the distance between state and society by strengthening its local institutions. The fourth driver is the growing concern about widening social and spatial inequalities and about the exclusion of large number of people from the fast lane of economic growth. More efforts need to be made for address social exclusion and inequality. We argued that in the case of Georgia all four drivers are interconnected and strengthen the case for a local development approach. Following this we have defined local economic development and elaborated three categories of local economic development interventions, namely i) entrepreneurship and enterprise development; ii) community economic development, and iii) territorial or locality development. For each category we have elaborated the conceptual bases and given an overview of main intervention measures.

A remaining question would be: ‘how to make a start?’ It is beyond the scope of this paper to prepare a detailed strategy and related program, but some observations can be made in this direction.

Recently The World Bank elaborated four priority short term recommendations, entitled: Georgia: a Roadmap to Competitiveness (WB, 2013b) in which it recommended Georgia to create a (national) Competitiveness Council to be supported by a dedicated Competitiveness Secretariat. This council would develop a first draft of Georgia’s national Competitiveness Strategy and launch several taskforces that would be responsible to elaborate sector and cross cutting theme specific policies. Experiences form other countries have shown that there is no contradiction between improving the business regulatory environment and at the same time develop pro-active policies to improve competitiveness of firms in agriculture, industry and services (tourism). The national council would operationalize international trade agreement issues and proposed national measures to promote private sector growth and export promotion (Partnership Funds, Agriculture Fund, Georgia Development Agency, Export Promotion Agency etc).

It is however important to realize that Georgia is a country of micro-, small enterprises and that the level of organization of these enterprises in product sector specific associations is weak. Entrepreneurship and enterprise development experiences from other countries has shown that it is important to decentralize the Competitiveness Council with regional, cluster or chain specific sub-councils so as to involve local enterprises in strategic policy and to reach out with pro-active measures to improve their competitiveness. Such sub-councils can become hubs of public-private deliberation, information exchange and for organizing sector or product specific business development services for incubators, growth clusters and (inter-)national value chains. The national Competitiveness Council can develop strategic choices concerning which products and sectors Georgia can focus on, but the choices of products and sectors ultimately depends on the innovative capacities of local entrepreneurs. Their knowledge and energy can be mobilized through the sub-councils.

We elaborated above that Community Economic Development would be the principal approach to alleviate rural poverty and link small and micro enterprise with the local economy. Here measures would have to be organized through dense and widespread networks of local actors each taking care of particular instruments facilitating household level economic and social inclusion. Given the scarcity of resources, a more selective geographical focus would be desirable, concentrating on the regions with the highest levels of rural poverty. Donor funded programs are likely to play an important role here. The new Local Self Governing units can play an important coordinating and monitoring role.

Last but not least territorial or locality development very much depends on the local government reforms, which were announced recently. In theory these reforms will bring local institutions closer to people, as the number of LG units increases considerable and their population size therefore declines. To what extent this leads to locally well-embedded self-governing units with the capacity to coordinate territorially the economic and social development of their jurisdiction is as yet an important challenge.

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Annex 1
Georgia Doing Business Survey ranking 2013

GEORGIA		Eastern Europe & Central Asia		GNI per capita (US$)	2,860
Ease of doing business (rank)	9	Lower middle income		Population (m)	4.5
Starting a business (rank)	7	**Registering property** (rank)	1	✔ **Trading across borders** (rank)	38
Procedures (number)	2	Procedures (number)	1	Documents to export (number)	4
Time (days)	2	Time (days)	2	Time to export (days)	9
Cost (% of income per capita)	3.8	Cost (% of property value)	0.1	Cost to export (US$ per container)	1,355
Minimum capital (% of income per capita)	0.0			Documents to import (number)	4
		✔ **Getting credit** (rank)	4	Time to import (days)	10
Dealing with construction permits (rank)	3	Strength of legal rights index (0-10)	9	Cost to import (US$ per container)	1,595
Procedures (number)	9	Depth of credit information index (0-6)	6		
Time (days)	74	Public registry coverage (% of adults)	0.0	✔ **Enforcing contracts** (rank)	30
Cost (% of income per capita)	17.7	Private bureau coverage (% of adults)	35.5	Procedures (number)	33
				Time (days)	285
✔ **Getting electricity** (rank)	50	**Protecting investors** (rank)	19	Cost (% of claim)	29.9
Procedures (number)	4	Extent of disclosure index (0-10)	9		
Time (days)	71	Extent of director liability index (0-10)	6	✔ **Resolving insolvency** (rank)	81
Cost (% of income per capita)	561.8	Ease of shareholder suits index (0-10)	6	Time (years)	2.0
		Strength of investor protection index (0-10)	7.0	Cost (% of estate)	4
				Recovery rate (cents on the dollar)	35.7
		✔ **Paying taxes** (rank)	33		
		Payments (number per year)	5		
		Time (hours per year)	280		
		Total tax rate (% of profit)	16.5		

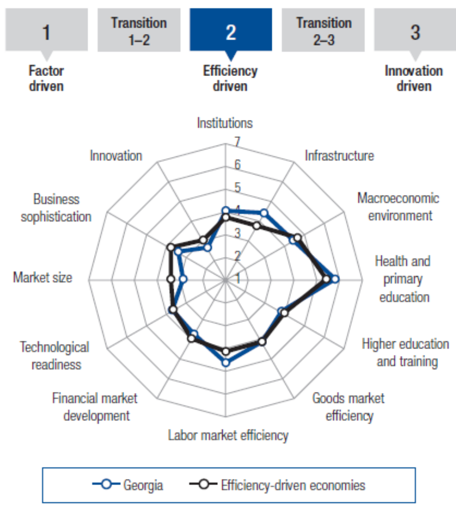
Source: Doing Business 2013

Annex 2
Global Competitiveness Index and composite elements: Ranking Georgia, 2013

The Global Competitiveness Index

	Rank (out of 144)	Score (1–7)
GCI 2012–2013	**77**	**4.1**
GCI 2011–2012 (out of 142)	88	4.0
GCI 2010–2011 (out of 139)	93	3.9
Basic requirements (40.0%)	**64**	**4.6**
Institutions	61	4.0
Infrastructure	53	4.3
Macroeconomic environment	88	4.4
Health and primary education	61	5.8
Efficiency enhancers (50.0%)	**87**	**3.8**
Higher education and training	93	3.8
Goods market efficiency	82	4.2
Labor market efficiency	35	4.7
Financial market development	93	3.8
Technological readiness	76	3.7
Market size	99	2.9
Innovation and sophistication factors (10.0%)	**120**	**3.0**
Business sophistication	113	3.4
Innovation	126	2.6

Stage of development



Annex 3

Global Competitiveness Index	2008/9	rank	2012/3	rank	% change
Overall score and rank of Georgia	*3.86*	*90*	*4.07*	*77*	*+ 5.4*
Basic requirements	**4.07**	**91**	**4.63**	**64**	**+ 13.7**
1. Institutions	*3.89*	*69*	*4.00*	*61*	*+2.8*
2. Infrastructures	*3.23*	*77*	*4.35*	*53*	*+34.7*
3. Macro economic stability	*4.02*	*118*	*4.40*	*88*	*+9.4*
4. Health & Primary education	*5.14*	*91*	*5.79*	*61*	*+12.6*
Efficiency enhancers	**3.72**	**87**	**3.84**	**87**	**+3.2**
5. Higher education & training	*3.72*	*84*	*3.82*	*93*	*+2.6*
6. Goods markets efficiency	*4.17*	*71*	*4.18*	*82*	*+0.2*
7. Labour Market efficiency	*4.83*	*22*	*4.67*	*35*	*-3.3*
8. Financial Market Sophistication	*4.06*	*79*	*3.79*	*93*	*-6.6*
9. Technological readiness	*2.80*	*97*	*3.71*	*76*	*+32.5*
10 Market size	*2.72*	*102*	*2.87*	*99*	*+5.5*
Innovation & Sophistication	**3.07**	**109**	**3.00**	**120**	**-.23**
11. Business sophistication	*3.39*	*112*	*3.40*	*113*	*+0.3*
12. Innovation	*2.74*	*107*	*2.60*	*126*	*-3.7*

Annex 4

Distribution of Poverty in Georgia, 2007

Region	Poverty Rate (2007)
Urban	18.3
Rural	29.7
Tbilisi	12.9
Kakheti	46.3
Shida Kartli	59.4
Kvemo Karti	17.3
Samtskhe- Javakheti	18.1
Ajara	27.4
Guria	33.2
Samegrelo	14.4
Imereti	19.1
Mtskheta-Mtianeti	40.6
Total	23.6

Source: Source: Poverty Assessment 2008, World Bank

Table 24 Changes in Regional Sources of Monetary Rural Incomes 2003-2007

Change in GEL / Household per Month (2007 prices)					
	Public Transfers	Salary	Self-Employment	Remittances	Private Transfers
Emeriti	40.9	27	13.1	-3.8	-7.1
Samegrelo	43.7	29.1	20.4	-13	-18
Samtskhe-Javakheti	35	-0.6	48.1	-12.2	-5.8
Kvemo Kartli	34.8	32.1	-30.3	-2.2	-0.7
Ajara	27.6	53.9	28	5.9	-6.3
Guria	40.4	33.1	-0.3	2.8	-23.3
Mtshketa-Mtianeti	35	-56.2	-13	-2.5	-19.7
Kakheti	42	-11.9	-16.6	-2.1	-15
Shida Kartli	35.3	-3.1	-14.1	-1.5	-13.7

Source: Poverty Assessment 2008, World Bank

Annex 5

Chart: 2.24 - - **Main indicators of fiscal decentralization in Georgia (2008-2011)**

Indicators[29]	Local self-government units				Including							
					Self-governing cities				Municipalities			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Expenses and growth of non-financial assets	18.0	17.7	21.8	16.4	10.4	12.1	15.5	12.5	7.6	5.6	6.2	3.9
Receipts (except grants)	5.8	6.2	6.7	4.8	3.9	4.2	4.6	3.4	1.9	2.0	2.1	1.4
Vertical disbalance	67.0	68.1	63.4	73.0	61.6	70.0	65.1	75.3	74.4	64.2	59.6	74.5
Expenses and growth of non-financial assets (percent share of gross domestic product)	6.5	6.5	7.4	4.9	3.8	4.5	5.3	3.7	2.7	2.0	2.1	1.2
Grant receipts (percent share of gross domestic product)	2.1	2.2	2.3	1.5	1.4	1.5	1.6	1.0	0.7	0.7	0.7	0.5

Source: National and local budgets, budgets of autonomous republics in 2008-2010; Key data and major directions document for 2011-2014.