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THE ROLE OF THE MUNICIPALITY IN INVESTMENT ACTIVITIES

Abstract

Against the background of modern global challenges, investment activities have gained relevance, especially in developing countries. Accordingly, for the economic growth and development of the country, it is important for the state to take measures that contribute to the optimization and modernization of investment relations. Therefore, the country's leadership should pay great attention to attracting foreign investment, which will be aimed at social protection of workers, introducing technological innovations, and not at using cheap labor. From the point of view of sustainable and stable development of the country, investments should be aimed at overcoming and mitigating the difficult economic situation in the long term, and not remain a market for cheap labor for investors. At the present stage, the main problem of the municipalities of the regions of Georgia is the economic situation, which is manifested in low GDP per capita, high unemployment and a high proportion of socially vulnerable population.

One of the subjects of active discussion in political and public circles of any country is economic development, social situation, devaluation of the national currency and inflation. The best way to avoid this situation is investment. The role of foreign investment is especially important for developing countries, since domestic investment is currently in deficit, to which is added an unstable financial situation – a factor that hinders the country's economic growth and the standard of living of the population. Accordingly, the inflow of foreign investment into the country is hindered by high interest rates on bank loans, conflict regions, underdevelopment of the stock market and a number of other factors. However, foreign investment is associated with high technological innovation, complex tasks and significant requirements. Accordingly, Georgia naturally leaves the niche of attracting foreign investment.

Based on the above, when investing in local governments, the government should plan and develop the concept of a large infrastructure project, since before making investments, the investor takes into account the ratio of two types of factors: institutional and personal at the municipal level: the influence of the government on the process of choosing a place for investment, the country's development potential by various indicators and its international image.

Keywords: municipality, investor, investment, correlation, indicator, image

Introduction

Attracting investment plays an important role in the development of local municipalities in the country, as it contributes to economic development and increased efficiency. In particular, they create new enterprises and additional jobs, improve modern technologies and update initial capital. They also contribute to the intensification of production and the entry into the market of new goods and services, which is beneficial to both consumers and suppliers, as well as investors and government agencies. According to the Law of Georgia "On Encouragement and Guarantees of Investment Activities," "Investments are all types of property and intellectual property or rights that are invested and used for the purpose of making possible profit. Their involvement depends on many external factors and requires a lot

of effort. In particular, creating an attractive business environment, low taxes, creating a stable and legal environment, setting new priorities.

To attract investments and effectively manage them, self-government bodies must create a municipal investment policy, namely: involving the population, defining strategic goals and objectives, planning investment priorities and their analysis, etc. According to Article 16, paragraph 4 of the Organic Law of Georgia “Code on Local Self-Government,” units of local self-government of Georgia (municipalities) are authorized to implement investment policy on the territory of the municipality.

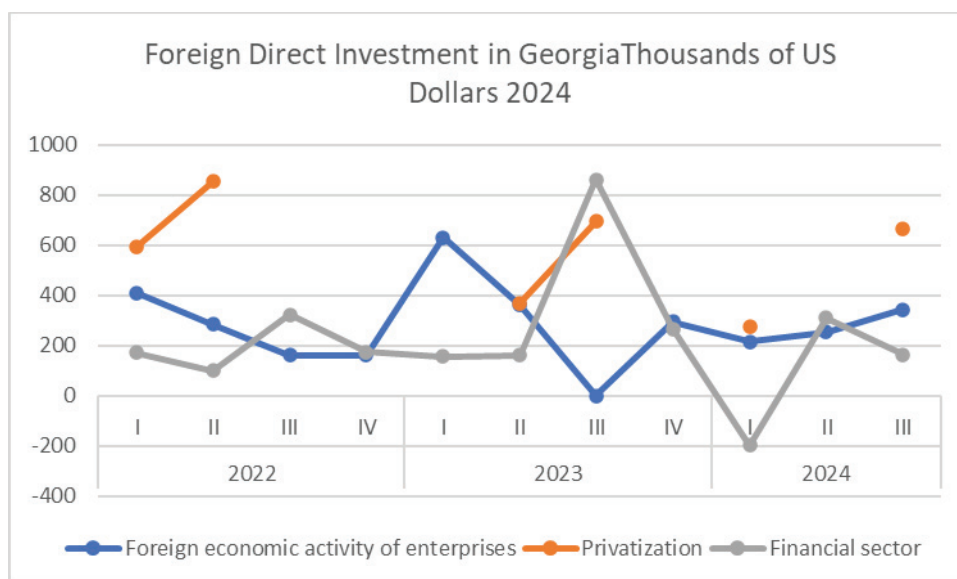
One of the subjects of active discussion in the political and public circles of any country is economic development, social situation, depreciation of the national currency and inflation. The best way to avoid this situation is investment. The role of foreign investment is especially important for developing countries, since domestic investment is currently in short supply, which is supplemented by an unstable financial situation that impedes the country’s economic growth and living standards. An integral part of the modern economy is investment – long-term investment aimed at achieving economic activity and socio-innovative effect, which is manifested in the form of cash, deposits, intellectual property, shares and securities.

Foreign Direct Investment

An important factor in the country’s economic growth is foreign direct investment. The financial side is important for each investor so that he does not lose a cent and receives high profits, however, he must also be able to assess all the expected risks. Accordingly, before making a decision, the investor studies the economic investment environment of the country, since it is profit-oriented, while the economic situation of the country receiving the investment is changing. It is extremely important for the state to control investment flows, since diversification is possible, which is a prerequisite for the loss of economic sovereignty. Therefore, the state should attract investments and investors focused on both the introduction of technological innovations and social protection of workers.

The investment environment of Georgia in terms of foreign direct investment by years and quarters of each year (see diagram N1) is as follows

diagram N1

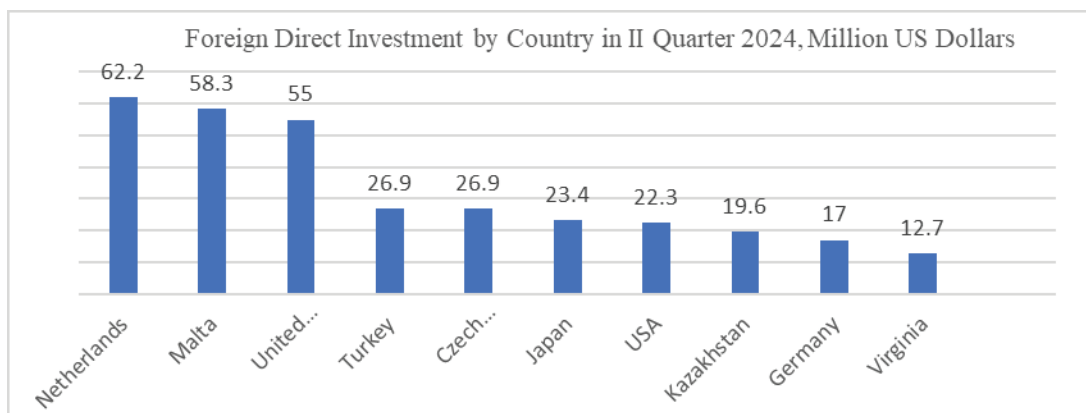


Source: National Bureau of Statistics of Georgia 2024

If we compare the dynamics of foreign direct investment in the third quarter of 2022 with the same indicator of 2024, then the volume of investments received has almost halved, the first quarter of 2024 in the financial sector is estimated as negative, revenues from foreign economic activity have also halved, and the volume of privatization has decreased by 517 thousand US dollars. However, most of the income should come from financial and economic activities, and not from privatization. It will be interesting to see if anything remains of privatisation by 2025. It is also worth noting that investors in Georgia avoid attracting high-tech investments. The reason is political and economic instability, as well as low qualifications of personnel.

That is why capital is of paramount importance for the region in mitigating the current difficult economic situation, since foreign direct investment changes the demand of the consumer market, increases the budget and increases the standard of living of the population. Accordingly, the difficult economic situation deals a direct blow to the business sector. In Georgia, the volume of foreign investment in 2023 amounted to 1902.2 thousand US dollars, while in 2022 investments were recorded at the level of 2253.4 thousand US dollars, and according to data for nine months of 2024 – 966.3 thousand US dollars. According to the Georgian Statistics Service, the largest foreign investments in Georgia in the third quarter of 2024 (see diagram N2) are:

diagram N2



Source: National Bureau of Statistics of Georgia 2024

In terms of foreign direct investment in Georgia in the third quarter of 2024, the Netherlands leads with \$60.2 million, Malta is in second place with \$58.3 million, and the United Kingdom is in third with \$55 million. Also, investments come almost equally from Turkey, the Czech Republic, Japan and the United States. Investment came from about seventy-five countries. By sector, the largest percentage was invested in finance and insurance – \$300.1 million, which is 52.3% of the total volume of foreign direct investment. This is followed by: real estate, communications, transport, art, education and administrative activities. It is also interesting that investments in the country increase gross domestic product, although in Georgia gross domestic product is still low at the current stage, which is aggravated by the violation of macroeconomic parameters called public debt, since it should not exceed 60% of GDP. It is also noteworthy that Georgia is characterized by low tax rates, and the sale of foreign investment in free industrial zones on its territory is not profit, but a heavy burden for the population. In particular, electricity consumption and taxes are growing, since a huge number of consumers are companies distinguished by technological innovations and cryptominers.

Investment at the local government level is a long-term development perspective. The municipality

gets the opportunity to achieve a competitive advantage over a long period of time, increase its own financial income and economy, introduce high-tech services and create jobs. All this in a completely new way represents the image of the municipality. Before investing, an investor at the municipal level takes into account the ratio of two types of factors: institutional and personal: what is the government's influence on the choice of investment location, the country's development potential in various indicators and its international image. Accordingly, before making a decision, he conducts an analysis that includes a large-scale view of the country's stability and macroeconomic sustainability. In addition, the decision is significantly influenced by personal and institutional factors and their ratio. Although investments are made in a particular municipality, economic growth and stability are important to them. In particular: gross domestic product, gross national product, gross domestic product per capita, savings, foreign direct investment, aggregate public debt and, most importantly, indicators and indices developed by international organizations that determine the country's rating. In recent years, the Georgian government has been actively improving communication with investors in the context of the effective use of indices and indicators.

When investing in local governments, an asset can exist, but only part of it can be used. That is why the government should plan and prepare a concept for major infrastructure events. By sector, the largest share of foreign investment in 2023 falls on financial and insurance activities – 30.7%, followed by trade – 16.5%, manufacturing – 16.9%, transport – 8.7%, information and communications – 6.3% and other sectors – 22%. Investments in municipalities in the region were distributed according to needs. In 2024, Georgia received \$891.5 million in foreign direct investment, which was distributed across the largest sectors as follows:

- ✓ Financial Insurance System – \$526.5 million
- ✓ Manufacturing – \$170.2 million
- ✓ Real Estate – \$155.3 million

In recent years, when communicating with investors, positions seem to be improving, but in our realities, the data best speaks of fundamentally negative dynamics. In particular, for the three quarters of 2024, there is an increase in investment, while the fourth quarter turned out to be negative. Such a rapid drop from 202 368 thousand lari to -16 301 thousand lari (almost 186 thousand lari) does not occur with orderly regional management. Investors are often wary of a country with volatile macroeconomic indicators and monitor the current economic environment and policies, which can cause difficulties. This applies in particular to gross domestic product, gross national product, gross domestic product per capita, purchasing power parity, savings rate and is based on data published by the National Bureau of Statistics of Georgia.

Identifying investment needs and attracting investment for municipalities in developing and low-income countries is an important aspect of economic development that should answer the questions:

- What direction of development of the region is a priority;
- Which sector is growing to receive investment in the municipality;
- What specific advantages does the municipality have?

In addition, in response to rising inflation in the world, most countries have tightened monetary policy. This reduced inflation somewhat, but affected the pace of economic recovery, affecting financial markets and global interest rates. The impact of the pandemic and war on the economy and the pace of its subsequent recovery differ depending on the country and sector of the economy and is due, on the one hand, to fluctuations in the world commodity and financial markets, and on the other, to the uncertainty that arose as a result of the Russian-Ukrainian war and other geopolitical problems.

According to the October 2024 World Economic Outlook, the International Monetary Fund, after

growing 3.3% in 2023, estimated global growth in 2024 and 2025 at 3.2%. It is noteworthy that the actual rate of economic growth in 2023 is 0.1 percentage points higher than the forecast made in April of the same year (3.2%). Global inflation is still at a high level, although it tends to decline. In 2022-2023, world inflation was 8.6% and 6.7%, respectively, the International Monetary Fund estimated this figure for 2024 at 5.8%, and for 2025 at 4.3%. The global inflation forecast for October 2024 is 0.1 percentage points lower than the forecast made in April of the same year and amounts to 5.8%, while inflation will decrease to 4.3% by 2025 (in contrast to 4.5% expected in April). It is worth noting that expectations for the medium term were revised downward, and inflation in 2026-2028 is expected to be 0.12 percentage points lower compared to the April forecast of the current year, which was also facilitated by the downward trend in food prices and petroleum products. In addition, future economic growth will continue to require avoiding further economic fragmentation, maintaining global liquidity, managing debt problems, and overcoming climate change.

The economic growth of the region is facilitated not only by attracting investments, but also by the active involvement of citizens in the process of municipal administration, which is a new main challenge. In particular, what contribution each resident makes to the development of his settlement, to what extent he participates in solving important issues for the municipality and whether he shares responsibility with the authorities. Accordingly, it is important for citizens to know about the filling of the budget with taxes and the spending of income. Knowledge of this issue increases the motivation of citizens to actively participate in the budget process. In 2020, against the backdrop of geopolitical risks developing in the region, as well as a worsening fiscal situation and a reduction in income, private investment received a significant blow, which continued in 2021 and averaged 13.1% of GDP. Against the backdrop of geopolitical events in 2022, private investment amounted to 15.9%, and in 2023 increased to 16.9%. The growth trend will continue in 2024 and is expected to improve to 18.1%. It is also important that reducing investment, on the one hand, reduces the current account deficit, which is a positive factor in external vulnerability. However, on the other hand, this reduces the growth potential, which impedes the maintenance of macroeconomic stability. Accordingly, in the medium term, supporting investment through government capital spending will be important to sustain economic growth. It is expected that in 2025 the current account deficit will continue to decline and by 2028 will decrease to 3.7% of GDP. Accordingly, if the current situation worsens, we may receive high external debt and an increase in interest expenses, which will put additional pressure on the fiscal balance. Since not only taxes will increase, but also the process of economic recovery will slow down. In particular, it is important to analyze global geopolitical risks. The recent growth of inflation and interest rates in the world will significantly slow down the economic recovery.

Conclusion

Thus, investments are considered the most effective means of business development in the implementation of strategic goals and objectives for the development of the region. The investment structure should increase the volume of investments directed to the revival and development of production. Territorial investment measures should meet different and diverse needs. The investment environment played an important role in eliminating the difficulties encountered in the Georgian economy and accelerating structural optimization. In particular, in connection with the growth of investments in the region, four free industrial zones were created, which will contribute to increasing the country's competitiveness and economic growth.



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