



N 52/36

Management of Regional Development Fund's Projects



Performance Audit



For the Government of Georgia one of the main priorities is to ensure balanced, sustainable socio-economic development of municipalities. In achieving this goal, improvement of the local infrastructure has an important role, because it promotes the attraction of investments, creation of jobs, expansion of local production and enhancement of standard of living.

One of the main sources for financing infrastructural projects in municipalities is Regional Development Fund. Considering the importance of the Fund, in order to avoid inefficient and uneconomical spending of the resources, municipalities

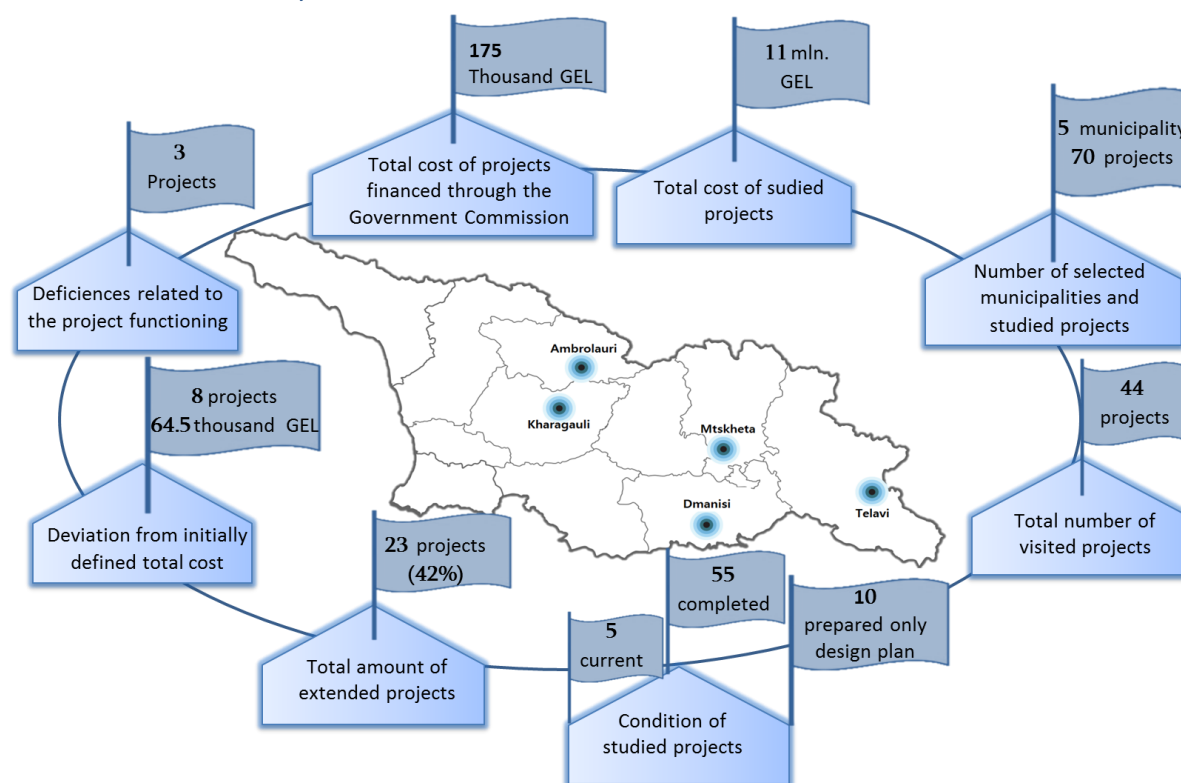
should plan and implement projects efficiently.

The present performance audit report discusses the management process of the projects financed by the Regional Development Fund, describes the deficiency in this process and issues appropriate recommendations for improvement.

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Executive Summary



Improvement of the local infrastructure has an important role in the socio-economic development of the municipalities, because it promotes the attraction of investments, creation of jobs, expansion of local production and enhancement of standard of living. One of the main source for financing infrastructural projects in municipalities is Regional Development Fund (hereinafter RDF). In 2015, 601 different projects were financed from the fund, based on Government Commission's decision, which amounted to more than 175 million GEL.

Taking into consideration the importance of the RDF projects, materiality of the funds and huge socio-economic impact on the rural population, the State Audit Office of Georgia (SAO) conducted the performance audit of management of RDF's projects.

Auditees are the Ministry of Regional Development and Infrastructure of Georgia, 5 selected municipalities (Ambrolauri, Telavi, Dmanisi, Kharagauli, and Mtskheta), and the Government Commission for Regional Development¹. Audit team studied the management process of 70 projects carried out by the audited municipalities.

¹ Created based on the Government Resolution #172

The audit team revealed the several deficiencies in regard to the RDF's resource allocation among municipalities and the management process of funded projects:

Existing criteria of allocating fund resources among municipalities do not completely reflect the needs and prevailing socio-economic conditions of the municipalities. Therefore, the current distribution practice of funds does not create the solid prerequisites for equal socio-economic development of them. According to the current practice, estimated marginal limits, due to which the RDF's resources should be distributed among municipalities, are determined based on number of population in municipalities and the actual spending of the previous year. Considering other socio-economic indicators in the calculation process of the marginal limits, will contribute to the achievement of goals defined by the Regional Development Strategy 2010-2017.

During project implementation phase, municipalities do not have defined form and periodicity of monitoring process. As a result, municipalities do not have comprehensive information about project performance/progress and also, in case of lagging behind the schedule of the project, timely actions are not carried out. The audit team revealed the cases, when between consecutive monitoring activities the big time gaps are in place and also, the presented monitoring information is not enough to receive a full picture of the project performance. Proper monitoring system would support timely detection and correction of deficiencies.

Within the studied projects there frequent were cases of time overruns and budget amendments. In particular, from 55 completed project, 23 (42%) were prolonged, and predefined budgets of 8 project were exceeded for a total amount of 64.5 thousand GEL. The main reasons for changes were deficiencies within the planning stage, such as omission of specific works in detail design plan, shortcomings in defining the necessary resources for proper functioning of the projects and obtaining the necessary licenses late.

Municipalities do not have project post appraisal system. As a result, they do not take into consideration the previous experience and knowledge in the planning process of the future projects. Existence of such system on the one hand, would allow municipalities to determine the solutions of the faced problems identified during evaluation process and on the other hand, would give opportunity to the Ministry of Regional Development and Infrastructure of Georgia (hereinafter the MRDI) to take into account the gained experience in the selection and planning process of the

further projects and also, to share all the shortcomings and challenges identified during project implementation process among municipalities.

Presented report describes problems, their causes and issued recommendations. The State Audit Office of Georgia believes that, in case of fulfillment of recommendations, there is potential to improve the management process of projects financed by the RDF based on the decision made by the Government Commission.

1. Introduction

Audit motivation

For the Government of Georgia one of the main priorities is to ensure balanced, sustainable socio-economic development of municipalities. In achieving this goal, enhancement of regional infrastructure has an important role, since it stimulates the growth of investments in business sector and improves the socio-economic conditions of population.²

One of the main sources for financing infrastructural projects in municipalities is RDF, which is managed based on the Government Commission's³ decisions. In 2015, 175,275 thousand GEL was transferred to the Government Commission by which 601 project was financed.

Since 2013, in Annual Reports on State Budget Execution⁴ the State Audit Office of Georgia reviews the management practice of the RDF, according which some deficiencies were identified. In particular, there are some shortcomings in defining estimated marginal limits of the fund, which should be distributed within municipalities, in project completion and acceptance procedures. Also there are some cases of project termination or extension, deficiencies related to the monitoring and reporting process.

² Regional Development strategy program for 2015-2017

³ The consultation body of government, created based on government resolution №172, which coordinates and promotes the regional development process in Georgia

⁴ Annual Reports on Budget Execution 2014 - <http://sao.ge/files/auditi/2014-biujetis-cliuri-shesrulebis-shesaxe-moxseneba-new.pdf>; State Audit Office of Georgia - Annual Reports on Budget Execution 2015-
<http://sao.ge/files/auditi/2015-clis-sax-biujet-shesrulebis-wliuri-angarishi.pdf>

The aforementioned circumstances were motivators for the State Audit Office of Georgia to conduct performance audit of management of RDF's projects to further investigate and to give recommendations for improvement.

Audit Objective and Main Question

The main objective of the audit is to assess the effectiveness of the management of the projects financed by the RDF based on the Government Commission's decision.

To disclose the systematic problems of the audit topic, to identify the causes and to issue relevant recommendations, audit team has to answer the following main question:

To what extent is ensured the effectiveness of the management of the projects financed by the RDF based on the Government Commission's decision?

Audit sub-questions are:

- To what extent is ensured the optimal distribution of the resources between the municipalities?
- How well-functioning is the implementation process of the projects financed by the RDF?
- To what extent is ensured assessment of completed projects?

Audit Scope and Methodology

Auditees of the performance audit are: the Government Commission for regional development⁵, as the responsible body for projects' selection; the MRDI, as the supervisor unit on selection and implementation of the projects financed through the Government Commission, and 5 municipalities (Ambrolauri, Telavi, Dmanisi, Kharagauli, and Mtskheta), as the responsible parties to dispose the fund's resources purposefully.

Municipalities were selected by the risk based approach and the selection criteria were:

- A significant difference between initial and final budgets of the projects;
- A significant difference between initial and final timeframes of the projects;
- Terminated/extended projects;

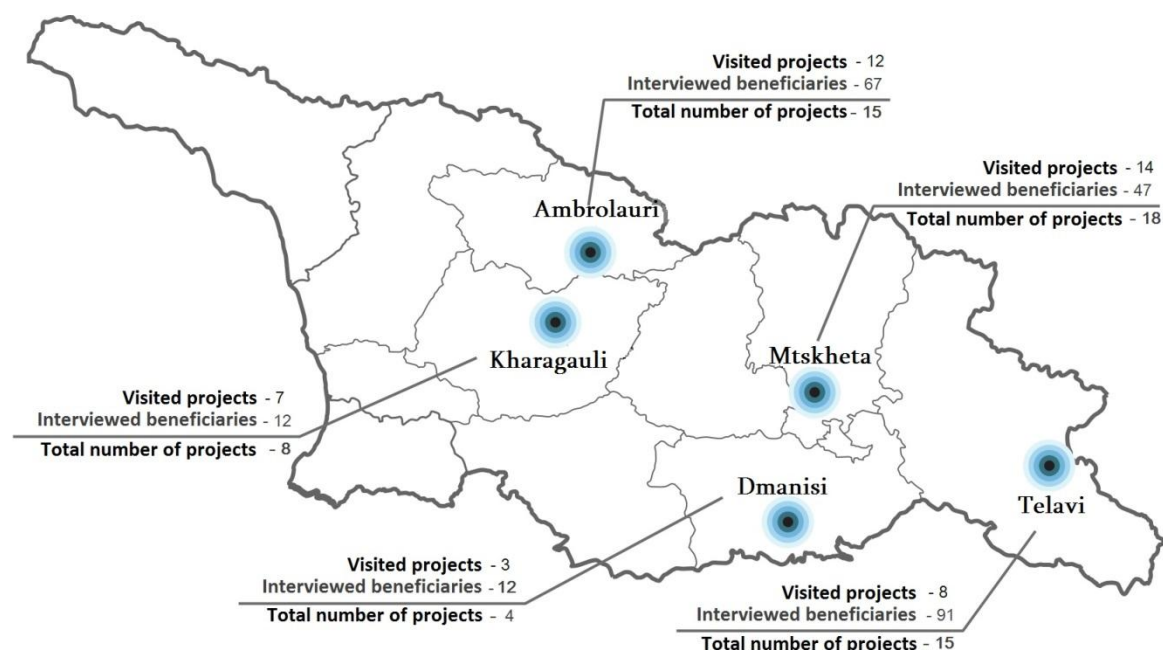
⁵ Created based on the government resolution #172

- Water rehabilitation projects – studies revealed that, the majority of deficiencies in RDF projects were detected in water projects.

To answer all the audit questions, audit team used following methods and procedures:

- › **To what extent is ensured the optimal distribution of the resources between the municipalities?** - To answer this question, audit team studied legislative base related to the determination of estimated marginal limits based on which resources are allocated between municipalities. Audit team analyzed the criteria and technics applied in calculation process of the estimated marginal limits used by the MRDI during 2013-2016. Beside, estimated marginal limits determined for 2015 were compared with the actual cost and the differences between them were analyzed. Regarding to those mentioned issues the audit team had interviews with MRDI and representatives of the municipalities.
- › **How well-functioning is the implementation process of the projects financed by the RDF?** - To answer this question audit team studied project documentations for the projects financed in 2015. In particular, team reviewed contracts, take-over acts, correspondence during the project implementation period and acts of expertise. In addition, to assess the conditions and proper functioning of the projects, the audit team visited 73% of the selected current projects (from 60 project, audit team visited 44 of them) and interviewed 229 final beneficiaries (see map 1.1). Team also studied monitoring documentation for additional 20 projects. To assess the compliance of the completed projects with the detail design plan, audit team used expert opinions issued by the independent expert companies, which are prepared at the end of the projects. Regarding to those mentioned issues the audit team had interviews with MRDI and representatives of the municipalities.
- › **To what extent is ensured assessment of completed projects?** – To answer this question and analyze the existing practice, audit team held interviews with the representatives of the municipalities. For confirming the information received during interviews, the audit team analyzed the project completion documentations.

Map: 1.1: Number of visited projects and interviewed beneficiaries in studied 5 municipalities



**Audit team studied 70 projects, but in this statistics are not included those projects (10 projects) for which only design plans were prepared and the construction works were not launched; therefore, overall number of projects here is 60.*

The audit period is 2015 and I and II quarters of 2016, however for the purpose of the audit the information from the previous years or/and ongoing audit period was also used.

Considering the fact that the selection and implementation process of the projects financed by the Government Commission have predefined procedures, whereas remaining part of the fund is not allocated among spending agencies according to any such type of procedures, the audit team decided to study only those projects, which are financed through the Government commission, which represents 44% of the whole fund.

Assessment criteria

To support the usage of such criteria in the marginal limits calculation process, which are oriented to decrease the inequality among municipalities, the audit team used Regional Development Program for 2015-2017 and Regional Development Strategy of Georgia for 2010-2017. According to those documents the main goal for regional development is to create prerequisites, which supports elimination of socio-economic disparities in regions.

To assess planning, implementation and post appraisal procedures of RDF funded projects, the audit team used the World Bank's Public Investment Management Indicator Framework⁶ according to which the World Bank assesses the management quality of investment projects in developing countries. The manual describes all the activities which are necessary for project life cycle, which helps to implement projects more efficiently and effectively. Those mentioned issues will be broadly represented in subsequent chapters.

2. General Information

Distribution of RDF resources

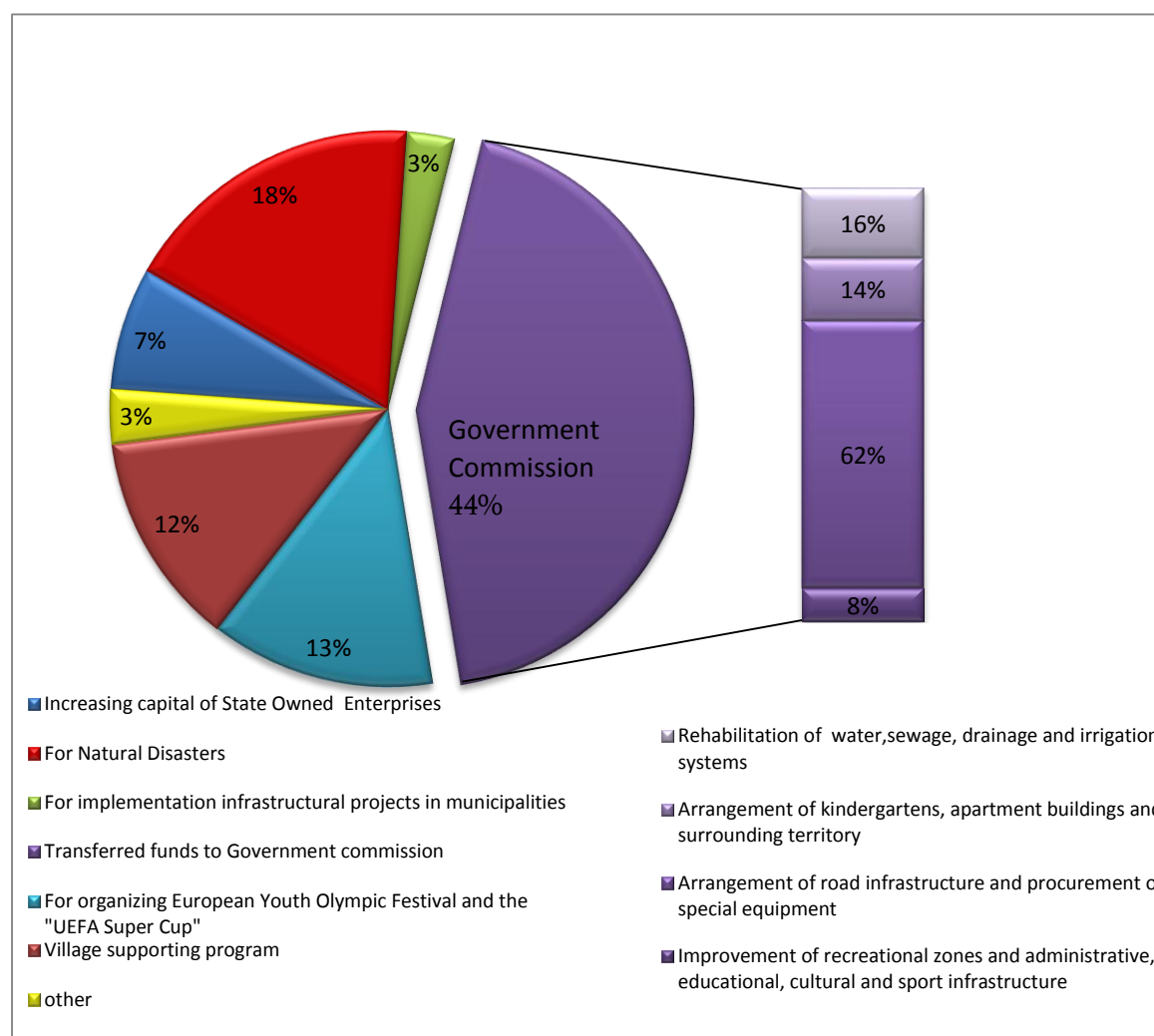
Some part of the RDF's resources is transferred directly to the spending agencies, local self-governing and autonomous republics for different purposes and remaining part is allocated among municipalities based on the Government Commission decisions, to implement the infrastructure projects.

In 2015, actual transferred money from the RDF amounted 399,584 thousand Gel. Graph 2.1 represents the main purposes according to which the resources were allocated from the fund, including the types of projects financed based on Government Commission's decision.

As the chart shows below, 44% (175,275 thousand GEL) of fund resources were disposed by the Government Commission. The vast majority of those projects were roads', water systems' and kindergartens' rehabilitation or construction projects.

⁶ Strengthening Public Investment Management-Indicator Framework, 2011

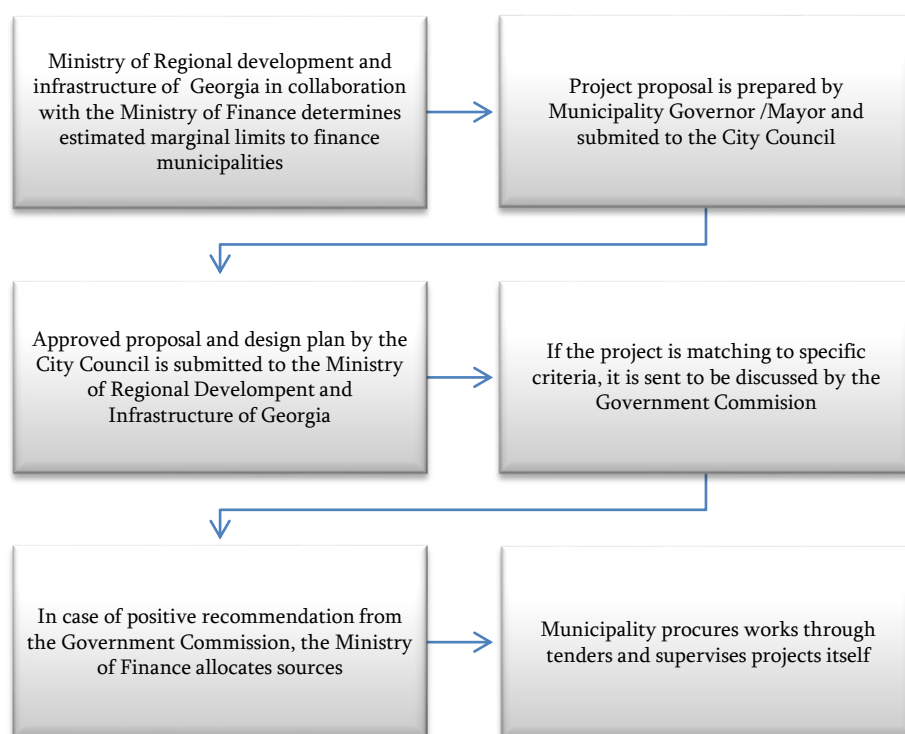
Chart 2.1 *Purpose of Regional Development Fund*



Management Process of Projects Financed through Government Commission

Since 2016, the MRDI in collaboration with the Ministry of Finance (MOF) defines estimated marginal limits to finance municipalities from the RDF, within which projects are selected and financed. The scheme below shows project selection, financing and implementation procedures:

Scheme 2.2: *Procedures of financing and implementing the projects*



After making the final decision to implement the project, municipality announces a tender to select a construction company. The winner company does works based on the project detail design plan. Municipalities, as the responsible parties for project implementation, monitor works. After finishing the project works, in most cases, independent expertise companies prepare opinions if the projects are done according to the plan. It is the construction companies' responsibility to prepare expertise act. After the final take-over act, projects are given into use.

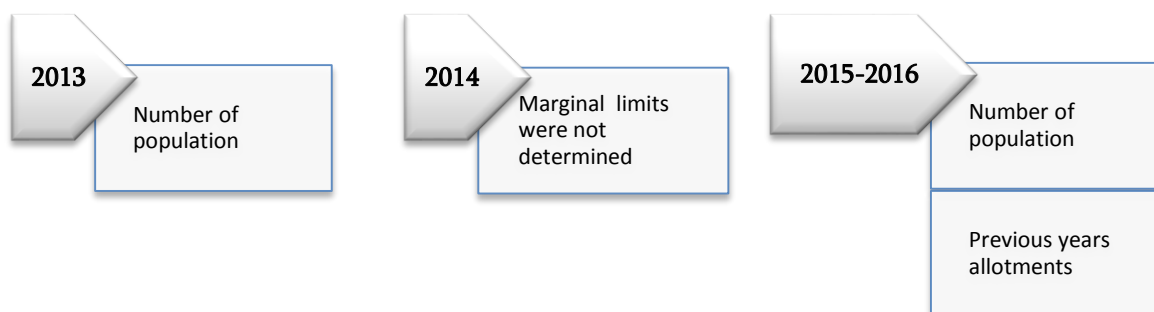
Audit Findings

3. Deficiencies Related to the Determination of Estimated Marginal Limits to Finance Municipalities from the RDF

The Government Commission makes final decisions how many and what types of projects should be financed in each municipality case within the resources, which are given to the Government Commission from RDF. Projects which are submitted by the single municipalities in the MRDI are financed within the predefined marginal limits. Until 2016 the determination of estimated marginal limits was not required by legislation, but the MRDI in collaboration with the MOF was defining estimated marginal limits for municipalities unofficially.

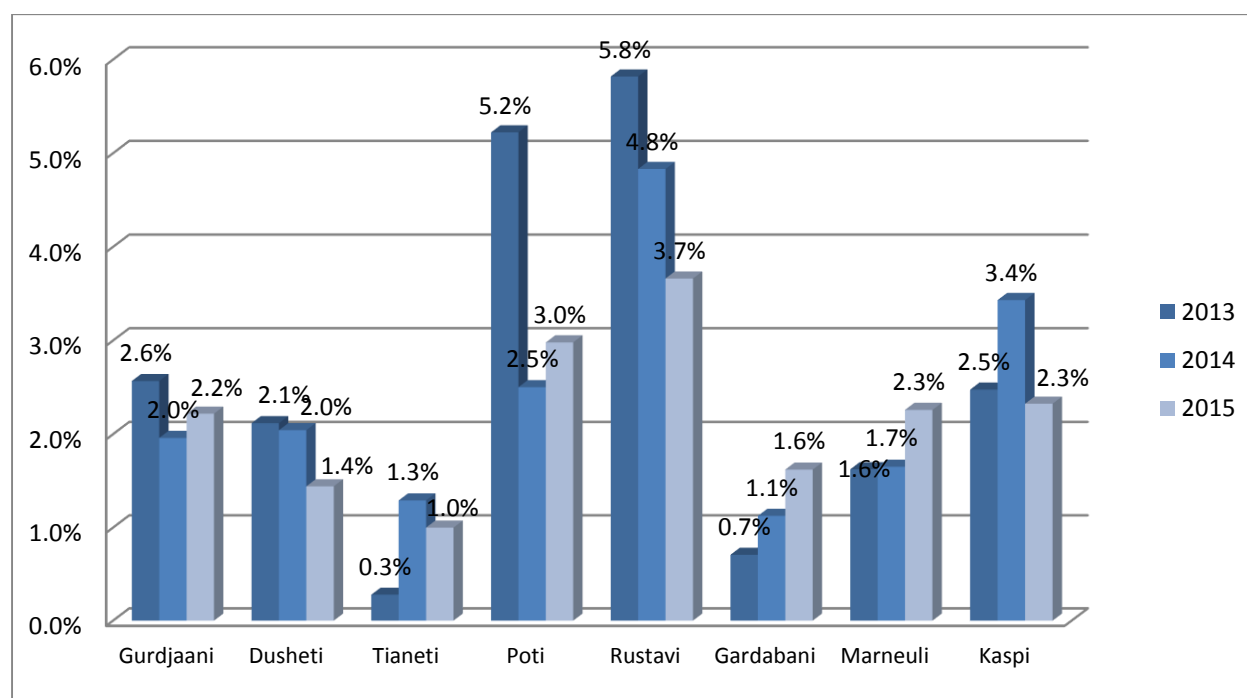
Since 2016 the Government issued the decree according to which it became obligatory to define estimated marginal limits by the MRDI in collaboration with the Ministry of Finance. In 2013-2016 estimated marginal limits were determined based on the criteria mentioned below.

Scheme 3.1: *Criteria based on which estimated marginal limits are determined in 2013-2016 years*



As the scheme represents, in 2013-2015 estimated marginal limits were defined based on the different criteria, that's why the limits were fluctuating. That fact refers to the nonhomogeneous approach of determining the limits. Fluctuation of the limits was also due to the problems related to the project plans, economies received after the tenders and prioritizing the single projects by the Government Commission. Detailed information about the allocation of resources among municipalities during 2013-2015 are given in the annex N2, and the chart 3.2 represents only those municipalities, which shares from the total fund changed significantly over the years.

Chart 3.2: *Shares allocated to the municipalities over years*



Worth to mention, that there is material difference between unofficially defined limits and real transfers. It is discretion of the Government Commission to allocate more or smaller portion of the fund's resources compared to the unofficially defined limits. The table below shows some of the real causes of the differences:

Table 3.3: *Causes of deviations between unofficially defined limits and real transfers among municipalities*

Municipality	Deviation	%	Reasons
Mestia	2,609,476	155%	The Government Commission decided to rehabilitate Chuberi Road
Sachkhere	1,677,502	67%	The Government Commission decided to rehabilitate the road till Akaki Tsereteli house-museum (commemorated to the 175 anniversary of Akaki Tsereteli)
City Mtskheta	782,538	50%	The Government Commission decided to allocate additional sources for building sport complex, which is multi-year project
Gori	(1,961,073)	-50%	According to the Government Commission's decision 4 projects were not financed, because implementation period was in winter and they considered non-reasonable to finance such projects.
Tsalenjikha	306,391	13%	The Government Commission decided to finance water system rehabilitation project
Lentekhi	(412,806)	-28%	The Government Commission decided not to finance procurement of special equipment

As it was mentioned in the introduction, RDF is one of the most important sources to finance infrastructural projects in municipalities. Consequently, to ensure the efficient use of the resources, it is necessary to use the fund's resources for achieving the predefined goals.

Also, it should be noted that, the fund is one of the integral parts of the Regional Development Program of 2015-2017. The program is based on the EU policy experience of reducing the disparities between regions and it aims to solve regional disparity problems by taking gradual retaliatory actions on the specific needs.

Existing fund's resource allocation practice shows, that the fund resources are distributed based on such criteria (number of population, previous year's spending), which do not reflect completely and accurately the needs of municipalities and do not ensure the equal socio-economic development of them. Beside the mentioned criteria, while determining limits can be used other criteria, like demographic conditions of municipalities, the existing condition of the municipal infrastructure,

other sources for financing projects, etc. It should be taken into consideration that regional socio-economic development oriented criteria are used by other countries as well. For example, Latvia uses Territorial Development Index, which is calculated based on the criteria like taxes per person, GDP per capita, amount of investments, number of enterprises in the municipalities, demographic indicators and etc.

Conclusion

Georgian regions have unequal development capabilities, which is due to their natural and geographical characteristics and different levels of economic development. In response to this, improvement of local infrastructure is one of the main prerequisites to decrease inequality in municipalities, to stimulate local businesses and to attract foreign direct investments. Taking into consideration the fact that the one of the main sources for investing into infrastructural projects in municipalities is the RDF, the allocation of the resources from the RDF should aim to reduce inequality among municipalities. Above mentioned result can be achieved by defining efficient criteria for determining estimated marginal limits within the fund.

Existing criteria (number of population, previous year's allotments) do not completely reflect the municipal needs and their socio-economic conditions, as a result, do not create the equal socio-economic development prerequisites, which is the goal of National Regional Development Strategy.

Recommendation

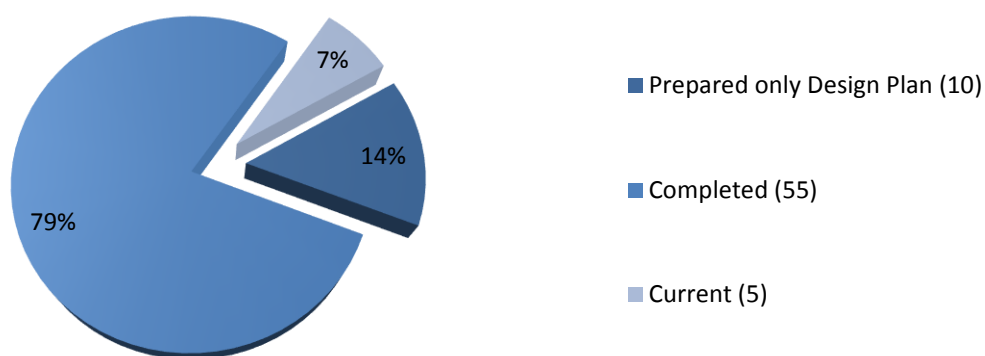
To the Ministry of Regional Development and Infrastructure:

To support equal development of municipalities, MRDI in collaboration with the Ministry of Finance, should develop the criteria for defining the marginal limits, which in addition to the number of population and previous year's spending, considers actual needs of the municipalities and other socio-economic factors.

4. Implementation Process of Projects Financed from the RDF

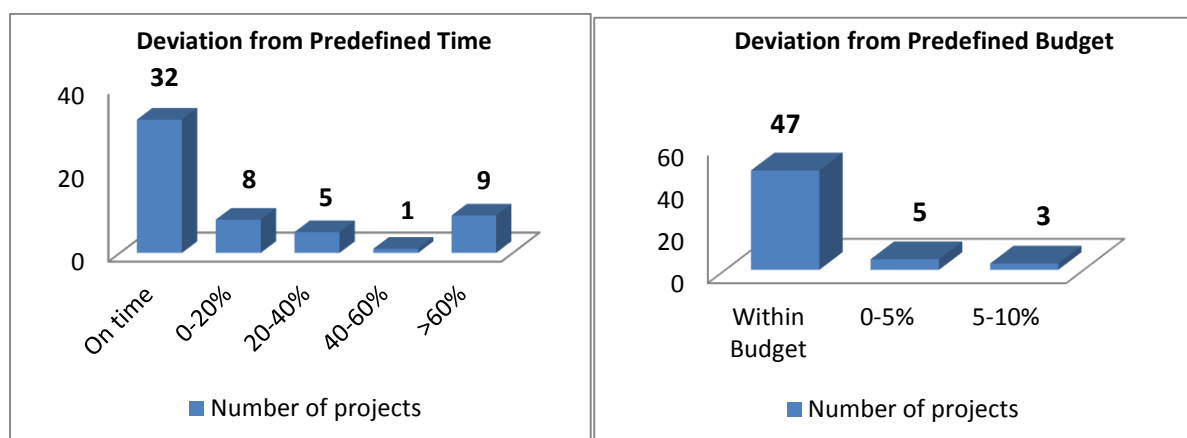
In 2015, within the selected municipalities 70 projects were financed from the RDF, which totally amounted 11,946 thousand GEL. Graph 4.1 shows conditions of the mentioned projects for September 1, 2016. Worth to mention, that from 5 current projects, 4 are water system rehabilitation projects, which were planned to be completed by the end of 2015, but, because of the deficiencies in the planning phase and contactors' failures to meet their obligations, are still in progress.

Chart: 4.1 *Performance of projects*



Among completed projects, there are some which experienced budget and time overruns. The reasons for such amendments are deficiencies in planning process (see chapter 4.2.), problems caused by the contractors, changes in project design plan and/or other non-predictable events. Information below represents changes within the budget and time for 55 completed projects.

Chart 4.2: *Deviation from planned project completion date (chart I) and budget (chart II)*



4.1. Deficiencies within project monitoring process

To define the changes that should be made within projects and take an informed decision, it is important to have an organized monitoring and reporting system. Monitoring process includes checking/assessing if the works are going according to the predefined schedule. In addition, reporting of the monitoring results is also very important, which can be presented as a project progress report, where are presented brief description of amendments made within the project, reasons of deviations from the contract and design plan and review of causing reasons, information about the works monitored and quality controls.

Municipality is responsible for detailed monitoring of the financed projects. Each municipality has special units and inspection teams, which monitor projects progress. Namely, they approve the acts of hidden works, interim or final works. According to the municipalities, in most cases, the supervisors visit the sites, but do not prepare any report, where monitoring results would be discussed. Consequently, the audit team was not able to obtain any evidence neither about periodicity of monitoring, or the format of supervision. Auditees only in few cases presented the monitoring acts and photos, which described the problems identified during the site visits by supervisors.

It is worth to remark, that municipalities do not regulate monitoring process by any rule/regulation. In particular, they do not have predefined form, by which monitoring results will be reported. Also, supervision periodicity is not defined. As a result municipalities carry out different activities, in different time periods to monitor projects' progress, which is represented on the graph below.

Project Monitoring Process

The chart displays the following acts for each project:

- Boslebi - Azkakliani Road:** Beginning of works (Day 0), Hidden works act (Day 10), Hidden works act (Day 20), Interim act of acceptance (Day 40), Hidden works act (Day 45), Interim act of acceptance (Day 55), Hidden works act (Day 60), Hidden works act (Day 65).
- Saniore - Artanashi - Tsinandali Road:** Beginning of works (Day 0), Interim act of acceptance (Day 25), Sight Visiting act (Day 28), Interim act of acceptance (Day 30), Sight Visiting act (Day 45), Sight Visiting act (Day 55), Hidden works act (Day 65), Hidden works act (Day 75), Interim act of acceptance (Day 90), Interim act of acceptance (Day 95), Sight Visiting act (Day 120), Interim act of acceptance (Day 125).
- Tserovani Kindergarten:** Beginning of works (Day 0), Hidden works act (Day 10), Hidden works act (Day 20), Interim act of acceptance (Day 30), Hidden works act (Day 35), Interim act of acceptance (Day 40), Hidden works act (Day 45), Hidden works act (Day 50), Hidden works act (Day 55), Hidden works act (Day 60), Hidden works act (Day 65), Hidden works act (Day 70), Interim act of acceptance (Day 75), Hidden works act (Day 85), Interim act of acceptance (Day 95), Hidden works act (Day 100), Hidden works act (Day 105), Interim act of acceptance (Day 110), Hidden works act (Day 115), Hidden works act (Day 120).
- Bugeuli Kindergarten:** Beginning of works (Day 0), Hidden works act (Day 35), Hidden works act (Day 45), Interim act of acceptance (Day 50), Hidden works act (Day 65), Interim act of acceptance (Day 75), Hidden works act (Day 85), Hidden works act (Day 90), Hidden works act (Day 95), Interim act of acceptance (Day 100), Hidden works act (Day 105).
- Busheti & Gugilashi Bore:** Beginning of works (Day 0), Interim act of acceptance (Day 5), Sight Visiting act (Day 10), Interim act of acceptance (Day 55), Sight Visiting act (Day 60), Interim act of acceptance (Day 85), Sight Visiting act (Day 90).
- Dzalisi Water System:** Beginning of works (Day 0), Sight Visiting act (Day 30), Sight Visiting act (Day 35), Interim act of acceptance (Day 50), Sight Visiting act (Day 70), Interim act of acceptance (Day 75), Hidden works act (Day 120).
- Likheti Water System:** Beginning of works (Day 0), Hidden works act (Day 25), Interim act of acceptance (Day 35), Hidden works act (Day 40), Hidden works act (Day 55), Interim act of acceptance (Day 60), Hidden works act (Day 85), Hidden works act (Day 90), Interim act of acceptance (Day 95), Sight Visiting act (Day 120).
- Gomareti Water System:** Beginning of works (Day 0), Interim act of acceptance (Day 50), Interim act of acceptance (Day 75), Interim act of acceptance (Day 85).
- Ereda Water System:** Beginning of works (Day 0), Hidden works act (Day 10), Hidden works act (Day 15), Hidden works act (Day 85), Hidden works act (Day 90), Interim act of acceptance (Day 100), Sight Visiting act (Day 105).

In Mtskheta Municipality in the village Thserovani during the drainage arrangement works in the settlement for internally displaced people, within the month on average 5-6 hidden works acts and once in two months interim take-over acts were signed. The audit team by visiting the site revealed that, in July in number of areas the drainage systems were flooded and caused insanitary conditions. Also, damage to infrastructure was found among the completed and handed over works. Few days earlier before audit team detected the deficiencies, project supervisors visited the site and hidden works acts were approved, but nothing was mentioned about the problems. The main goal of the hidden works acts and interim acceptance reports is to confirm the quality and the completion of

the works, to discover the deviations from design plan and analyze causing reasons, and reflect information about the way how the project advances.



As it was already mentioned, during the supervision, compliance of the pace of the works with the project schedule should be evaluated, to have timely response on the project delays or other problems. In order to review the monitoring process, audit team selected and studied 20 projects' monitoring documentation and revealed that, the municipalities did not submit any monitoring document, which would review the overall performance of the project and the projects progress compliance with the predetermined schedule. By analyzing 4 prolonged water system projects, the audit team revealed that contractor was lagged behind the pre-determined schedule, but the municipality did not display any kind of information about the delay and the supplier has not been timely warned about it. For instance,

In the municipality of Mtskheta, in village Qvemo Nichbisi by the end of October 62% of water supplying project had to be completed according to the schedule, but according to the interim acceptance act, dated as of 5 November, only 32 % of works were done in that period. In this period, municipality supervisor had not prepared any type of monitoring reports, which would reflect the information about the project delay. Municipality sent warning letter to the company only on 11th November. Project should be completed on 10th December, 2015, but as of September 2016 the project is still in progress.

4.2. Deficiencies Related to the Project Planning and Functioning

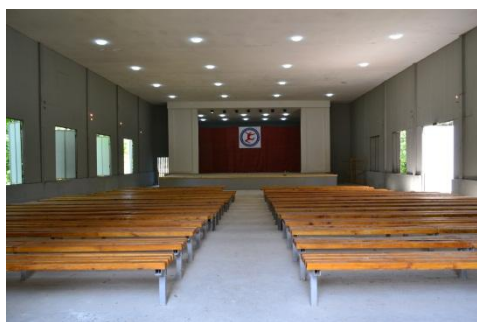
Deficiencies Related to the Project Planning

According to the World Bank's Public Investment Management Indicator Framework, at the planning stage implementing entity should assess and define following: all the potential risks related to the project implementation, all the alternatives, technical characteristics, necessary financial/human resources, detailed description of all the project activities and persons responsible for implementation of projects. In addition, it is important to accept all the necessary licensees and permission before starting the project, not to interrupt project progress. To ensure the completion of the projects within the predefined time, budget and with the consequent quality, accurate and well-prepared design plan is required.

Planning stage starts by determining the project technical requirements, based on which the winner company prepares project detailed design plan. If the project considers the construction of bridges, water supply and sewerage works, municipalities require expert opinions from the winner company to check the quality of the design documents of the project. In addition, independent expert should assess the quality of the design documents if the total amount of the project exceeds 500 thousand GEL, excluding local roads works.

Since 2013-2015 project design plans and expertise costs were financed from the RDF. However, since 2016, the municipalities must finance these costs.

Despite the fact that, in case of studied projects, conciseness of the information represented in the detail design plan is approved by the positive opinion of expertise, audit revealed number of deficiencies connected to the planning stage, namely, omission of specific works in detail design plan, shortcomings in defining the necessary resources for proper functioning of the projects and obtaining the necessary licenses too late. Below given examples illustrate mentioned deficiencies:



In Kharagauli Municipality within the rehabilitation project of open theater and central park

while preparing the project, the condition of the roof was not checked and was not considered in the design plan. After finishing the planned works, approximately in 2 months the rain damaged walls, roof and the scene. Municipality

demanding from the construction company to repair the building within the guaranty, which agreed

and finished rehabilitation works after 3 months. The audit team during the field work identified that the roof, walls and the blinds are still damaged.



In Telavi Municipality in the Ruispiri village, within the water supply project the construction of the water chlorination building was considered. During the construction works, the company found out that the chlorination building's costs were included in the cost breakdown, while its design plan was not prepared. Besides, the territory, where it should be built, was not predefined. As a result, the project was prolonged for 1 month.

In Mtskheta Municipality in the village Navdaraantkari, to arrange the origin of the water supply system, the municipality needed a license from the Ministry of Environment to use the forest territory. Municipality signed the contract with the construction company on 23th November, but the license was requested only in October. The process of getting the license was lengthened for 3 months, which delayed the completion of the project. As of September 2016, the project is still not finished.



Deficiencies in coordination during the planning process are the main reason that in *Mtskheta municipality in the village Tsilkani (in the settlement of refugees), kindergarten is not operational*. Construction was completed on 29th December, however, as for September 2016, the kindergarten is not operational, because it does not have necessary equipment and the surrounding yard of the building is swamped. Project initiator was Akhalgori municipality, because in 2014 the population of the Tsilkani refugee settlement set as a priority a construction of the kindergarten, because the children were going to another village Tserovani. Design plan was prepared within

the “Village Support Program” funds. In 2015 Mtskheta municipality took obligation to construct the building of the kindergarten, but detailed design documents did not included the obligation for providing necessary equipment for the kindergarten. According to the representatives of Mtskheta municipality, kindergarten equipment should have been bought by Akhalgori municipality; however, as the representatives of Akhalgori municipality stated, they did not taken this obligation because of lack of appropriate resources. Akhalgori municipality had requested the finances from the MRDI and Governor of Mtskheta-Mtianeti Region since February 2016, but this issue has not yet been solved by September 2016.

Deficiencies related to the functioning of completed projects

By visiting projects and interviewing the final beneficiaries the audit team has revealed that one completed project is not used and 2 projects do not operate properly. In particular:

In Mtskheta Municipality in the villages Galavani and Tsinamdzhvriantkari new water supply networks were arranged, through which all the inhabitants should get the water. The audit team through interviews revealed that only small part of the village got water regularly. As municipality and beneficiaries declared, the main reasons of deficiencies in water supply system are noneconomic usage of water, willful control of water supply by inhabitants and use of water for irrigation purposes in summer. The beneficiaries are facing this problem since June, but for the moment (26th July) of visiting the project, audit team found out that the problem was still relevant and the deficiencies were not eliminated.

In Mtskheta Municipality in village Galavani new water system and 2 reservoirs were constructed, which aimed to provide the rural population with water. But during field work audit team by interviewing beneficiaries revealed that the village does not use the newly done water pipes and they still get water from old ones. The reason was spilling excess water in the private land, and the owner of the land did not allow the municipality to supply water from this reservoirs. Before beginning the project, municipality made an agreement with the mentioned owner to place the reservoir on his land, with a provision that special water tank overflow protection would be installed. Despite the fact that the municipality fulfilled the requirements, in case of excess water, it did not manage to avoid flooding the private land. As a result, the population does not receive water from the new water system.

4.3. Non Existence of Project Evaluation Practice

According to the World Bank's Public Investment Management Indicator Framework, project evaluation can be divided into Basic Completion Review and Project Evaluation. *The Basic Completion Review* pays attention how the project was carried out in predefined time and budget frames. The review also describes achieved results, their compliance with goals and reasons of deviating from the plan. As usual, such assessments are held 3 month after project completion. Unlike to the Basic Completion Review, *Project Evaluation* demands more comprehensive and technical analysis of results, which gives an opportunity to estimate real economic and social benefit from the project, which might need more time for realization. As a result, the evaluation is held after several years from project completion. Basic Completion Review is recommended to be conducted for each infrastructural project, while only some parts of projects are evaluated, mostly large scale and strategically important projects. Considering the fact, that projects financed from the fund do not have large scale, it is recommended to make their Basic Completion Review.

Municipalities do not conduct even Basic Completion Review for RDF's projects and consequently, municipalities do not send basic review reports after the completion of project to the MRDI.

Nonexistence of at least Basic Completion Review is caused by two main reasons:

1. Municipalities do not have an obligation to prepare project post reviews;
2. Municipalities do not have a predefined form according which the project basic review results will be accumulated.

Taking into consideration the fact that municipalities do not carry out project post review, the possibility to share the experience gained from previous periods' projects in future projects is limited. Existence of such system on the one hand, would allow municipalities to determine the solutions of the faced problems identified during evaluation process and on the other hand, would give opportunity to the MRDI to take into account the gained experience in the selection and planning process of the further projects and also, to share all the shortcomings and challenges identified during project implementation process among municipalities.

Conclusion

Successful implementation of the project largely depends on the project planning. Shortcomings in planning stage, in turn, occurs at the implementation stage, which is reflected in growth of total cost of projects or in the extension of the time, or in the worst cases, failure to comply with the final goal of the project.

As for the project monitoring process, for the municipality it is a key factor to get information systematically about project performance and condition. The system is working properly if a particular format for a project supervision and the regularity of submission its results is already defined. Frequency of monitoring and reporting process for projects is not regulated by municipalities, as a result, there are some cases when the supervision is carried out in a long time intervals, and the information about project progress, presented in documents, is not enough to presents a full picture about project performance. The mentioned hinders an opportunity to detect shortcomings and react consequently on time. Also, informal character of presenting monitoring results makes it difficult to assess project as on implementation stage, as well as after project completion.

The audit within different projects detected deficiencies, which are related to the planning stage and functioning issues. It is natural that in case of proper project planning it is possible to solve such kind of problems, though to prevent deficiencies, by developing the system of evaluation for completed projects, there is a potential to improve the planning process. If the MRDI spreads existing practice, defined mistakes and shortcomings, it would give an opportunity to municipalities to takes such information into consideration and avoid it in further functioning phase.

Recommendations

To the Ministry of Regional Development and Infrastructure:

To ensure identification and elimination of mistakes made during project implementation phase, compliance of works with the predefined schedule and reporting of monitoring results, the ministry must recommend the form and periodicity of monitoring by taking into consideration the type of projects.

To the Ministry of Regional Development and Infrastructure:

To take into consideration and avoid deficiencies made in previous projects, the Ministry:

- In collaboration with municipalities, should develop the format of project post evaluation (preparation of the report will be a responsibility of municipality) and ensure analysis of those reports;
- Should identify and share the results of analyzing deficiencies revealed on the planning and implementation stages through municipalities.

Executive Conclusion and Recommendations

Improving the local infrastructure is one of the main prerequisites for reducing disparity within the municipalities, which is one of the most important goals for National Regional Development Strategy. Taking into consideration the fact that RDF is one of the main sources for financing infrastructural projects in municipalities, it is important to distribute fund resources within municipalities based on such criteria which should ensure reduction of disparity. Though, existing criteria (number of population and previous year's spending) cannot support reduction of disparity. In addition to the mentioned criteria, defining other criteria, which will be based on the needs of municipality and economic factors, will support the development of municipalities and achieving specific goals defined within Regional Development Strategy.

In turn, there is a potential to improve the project implementation stage. In particular, proper monitoring system is a prerequisite for detecting and improving deficiencies on time. In addition development of project post evaluation phase will support the use the accumulated knowledge and experience in future projects, which will in turn improve project implementation process, quality and raise achieved results.

The State Audit Office of Georgia believes that by improving criteria for distribution of fund resources within municipalities, determining periodicity and format for presenting monitoring results and establishing the post evaluation practice for completed projects, will improve the management process of the projects financed by the RDF based on Government Commission's decision.

Recommendations:

To the Ministry of Regional Development and Infrastructure:

To support equal development of municipalities, MRDI in collaboration with the Ministry of Finance, develop the criteria for defining the marginal limits, which in addition to the number of population and previous year's spending, considers actual needs of the municipalities and other socio-economic factors.

To the Ministry of Regional Development and Infrastructure:

To ensure identification and elimination of mistakes made during project implementation phase, compliance of works with the predefined schedule and reporting of monitoring results, the ministry must recommend the form and periodicity of monitoring by taking into consideration the type of projects.

To the Ministry of Regional Development and Infrastructure:

To take into consideration and avoid deficiencies made in previous projects, the Ministry:

- In collaboration with municipalities, should develop the format of project post evaluation (preparation of the report will be a responsibility of municipality) and ensure analysis of those reports;
- Should identify and share the results of analyzing deficiencies revealed on the planning and implementation stages through municipalities.

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Annex

Annex 1: Information about selected and visited projects

N	The Name of Municipalities	Project Name	Project Status	Cash Expenditure (GEL)	Visited Projects
1	MUNICIPALITY OF KHARAGAULI	Construction of youth camp in the village Zvare	Prepared only design plan	5,000	
2	MUNICIPALITY OF KHARAGAULI	Kitskhi-Khidari road rehabilitation project	Completed	655,254	✓
3	MUNICIPALITY OF KHARAGAULI	Kharagauli-Bazaleti road rehabilitation project	Completed	546,000	✓
4	MUNICIPALITY OF KHARAGAULI	Arrangement of infrastructure in the hospital surrounding area	Completed	37,821	✓
5	MUNICIPALITY OF KHARAGAULI	Rehabilitation of Kharagauli central library	Completed	89,917	✓
6	MUNICIPALITY OF KHARAGAULI	Boriti-Mariamtskharo-Ghoresha road rehabilitation project	Completed	82,958	
7	MUNICIPALITY OF KHARAGAULI	Rehabilitation project of Kharagauli open theater and central park	Completed	437,247	✓
8	MUNICIPALITY OF KHARAGAULI	Arrangement of water supply system in the Hospital and surrounding streets: (Devdariani, Guramishvili, Chipashvili)	Completed	169,543	✓
9	MUNICIPALITY OF KHARAGAULI	Kharagauli - Partskhnari road rehabilitation project	Completed	222,279	✓
10	MUNICIPALITY OF AMROLAURI	Construction of kindergarten in Bugeuli	Completed	121,388	✓
11	MUNICIPALITY OF AMROLAURI	Water supply system arrangement in Skhvava – Putieti	Completed	228,367	✓
12	MUNICIPALITY OF AMROLAURI	Arrangement of water supply line and origin rehabilitation in Khotevi	Completed	173,800	✓
13	MUNICIPALITY OF AMROLAURI	Bostana -Ghviari water - pipe rehabilitation project	Completed	224,777	✓
14	MUNICIPALITY OF AMROLAURI	Rehabilitation of central water supply building in Likheta and water supply works in the district Beshidzeebi	Completed	238,523	✓
15	MUNICIPALITY OF AMROLAURI	Accession of Khotevi and Axalsopeli water system lines	Completed	62,168	✓

16	MUNICIPALITY OF AMROLAURI	Khotevi bridge rehabilitation project (2 bridges on the river Khotura and footbridge in Sharabidzeebi district)	Completed	64,866	
17	MUNICIPALITY OF AMROLAURI	Rehabilitation of the bridge Mukhli on the river Rioni	Completed	125,418	✓
18	MUNICIPALITY OF AMROLAURI	Rehabilitation of Khotevi - Kviriketsminda - Velebi - Betlevi rural roads	Completed	74,273	
19	MUNICIPALITY OF AMROLAURI	Rehabilitation of Khvanchkara district road	Completed	67,446	✓
20	MUNICIPALITY OF AMROLAURI	Embankment works in village Tsesi	Completed	47,166	✓
21	MUNICIPALITY OF AMROLAURI	Additional water supply works in Nikortsminda	Completed	309,023	✓
22	MUNICIPALITY OF AMROLAURI	Water pipe rehabilitation works in Zeda Ghvardia	Completed	65,466	✓
23	MUNICIPALITY OF AMROLAURI	Water pipe rehabilitation works in Sadmeli	Current		
24	MUNICIPALITY OF AMROLAURI	Water supply rehabilitation works in Agara, district - Abutidzeebi	Completed	64,582	✓
25	MUNICIPALITY OF MTSKHETA	Drinking water system works in Lisi	Prepared only design plan	3,158	
26	MUNICIPALITY OF MTSKHETA	Numerator installation in Tsilkani	Prepared only design plan	1,200	
27	MUNICIPALITY OF MTSKHETA	Water system rehabilitation works in Mskhaldidi	Prepared only design plan	1,500	
28	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Akhali Nichbisi	Prepared only design plan	5,050	
29	MUNICIPALITY OF MTSKHETA	Arrangement of Bore and water system works in Dzegvi	Prepared only design plan	9,707	
30	MUNICIPALITY OF MTSKHETA	Drainage system arrangement in Tserovani (Refugees district)	Current		✓
31	MUNICIPALITY OF MTSKHETA	Drainage system arrangement in Tsilkani	Completed	263,776	✓
32	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Natakhtari	Completed	220,662	✓
33	MUNICIPALITY OF MTSKHETA	Construction of kindergarten in Tserovani	Completed	553,809	✓

34	MUNICIPALITY OF MTSKHETA	Akhatani-Bitsmendi-Frezeti road rehabilitation project	Completed	147,679	✓
35	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Kvemo Nichbisi	Current	92,350	
36	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Navdaraatnkari and Arashenda	Current	61,084	✓
37	MUNICIPALITY OF MTSKHETA	Water supply works in Navazi	Completed	67,554	✓
38	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Mukhrani	Current	312,923	✓
39	MUNICIPALITY OF MTSKHETA	Bore and water system arrangement in Frezeti	Completed	47,591	✓
40	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Dzalisi	Completed	88,456	✓
41	MUNICIPALITY OF MTSKHETA	Arrangement of water supply system in Zakaro	Completed	171,115	✓
42	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Saskhori	Completed	55,047	
43	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Galavani and Tsinamdzgvriantkari	Completed	201,263	✓
44	MUNICIPALITY OF MTSKHETA	Water system and central building rehabilitation village Tsodoreti	Completed	64,986	
45	MUNICIPALITY OF MTSKHETA	Water system rehabilitation in Ereda	Completed	41,802	
46	MUNICIPALITY OF MTSKHETA	Construction of kindergarten in the village Tsilkani (Refugees district)	Completed	227,091	✓
47	MUNICIPALITY OF MTSKHETA	Construction of youth - palace in Tserovani (II part)	Completed	54,494	✓
48	MUNICIPALITY OF DMANISI	Ifmnari - Kizlajo road rehabilitation project	Completed	590,306	✓
49	MUNICIPALITY OF DMANISI	From Dmanisi - Safarlo to Ingarchai road rehabilitation project	Completed	458,519	✓
50	MUNICIPALITY OF DMANISI	Boslebi-Azkakliani road rehabilitation project	Completed	395,700	
51	MUNICIPALITY OF DMANISI	Rehabilitation of Gomareti water supply system and 6km backbone line	Completed	174,559	✓

52	MUNICIPALITY OF TELAVI	Arrangement of water supply system in Kvemo Khodasheni	Prepared only design plan	2,945	
53	MUNICIPALITY OF TELAVI	Bore deepening works and arrangement of independent power source in Vanta	Prepared only design plan	2,520	
54	MUNICIPALITY OF TELAVI	Arrangement of Bore and independent power source in Ikalto	Prepared only design plan	2,520	
55	MUNICIPALITY OF TELAVI	Water supply system rehabilitation in village Tsinandali	Prepared only design plan	2,945	
56	MUNICIPALITY OF TELAVI	Central road rehabilitation from the village Saniore to Artanashi (2.3 KM) // Rural roads in Tsinandali	Completed	684,673	
57	MUNICIPALITY OF TELAVI	Procurement of waste-disposal vehicle and garbage containers	Completed	497,950	
58	MUNICIPALITY OF TELAVI	Procurement of garbage containers	Completed		
59	MUNICIPALITY OF TELAVI	Procurement of waste-disposal vehicle	Completed		
60	MUNICIPALITY OF TELAVI	Arrangement of bore and independent power source in Busheti // Bore arrangement in Gulgula	Completed	168,492	✓
61	MUNICIPALITY OF TELAVI	Arrangement of bore and independent power source in Vanta // Bore arrangement in Akura	Completed	141,695	✓
62	MUNICIPALITY OF TELAVI	Bore rehabilitation, and water system project in Ikalto	Completed	92,138	✓
63	MUNICIPALITY OF TELAVI	Water supply system arrangement in Kisiskhevi	Completed	109,508	
64	MUNICIPALITY OF TELAVI	Arrangement of drainage system in Lapankuri	Completed	138,768	
65	MUNICIPALITY OF TELAVI	Water supply system rehabilitation in Akura // Water supply system rehabilitation in Vanta	Completed	164,129	✓
66	MUNICIPALITY OF TELAVI	Drainage system arrangement in Ruispiri	Completed	72,350	✓
67	MUNICIPALITY OF TELAVI	Water supply system rehabilitation in Laliskuri and Saniore	Completed	192,999	

68	MUNICIPALITY OF TELAVI	Water supply system rehabilitation in Vardisubani	Completed	77,707	✓
69	MUNICIPALITY OF TELAVI	Bore arrangement in Kvemo Khodasheni	Completed	99,560	✓
70	MUNICIPALITY OF TELAVI	Water supply system rehabilitation in Busheti and Tsinandali	Completed	103,419	✓

Annex 2: Allocation of resources among municipalities during 2013-2015

MUNICIPALITY	The Value of Approved Projects (thousand GEL)			% Share in Total Fund		
	2013	2014	2015	2013	2014	2015
REGION OF GURIA	15,596	10,933	14,115	6.9%	7.8%	8.1%
MUNICIPALITY OF LANCHKHUTI	2,415	2,936	3,898	1.1%	2.1%	2.2%
MUNICIPALITY OF OZURGETI	9,721	5,597	4,539	4.3%	4.0%	2.6%
MUNICIPALITY OF CITY OZURGETI			2,815			1.6%
MUNICIPALITY OF CHOKHATAURI	3,460	2,400	2,863	1.5%	1.7%	1.6%
REGION OF IMERETI	53,001	34,046	42,408	23.3%	24.3%	24.2%
MUNICIPALITY OF CITY KUTAISSI	16,237	11,926	13,939	7.1%	8.5%	8.0%
MUNICIPALITY OF BAGHDATI	2,145	2,261	2,033	0.9%	1.6%	1.2%
MUNICIPALITY OF VANI	2,069	1,356	1,763	0.9%	1.0%	1.0%
MUNICIPALITY OF ZESTAFONI	4,023	2,370	3,126	1.8%	1.7%	1.8%
MUNICIPALITY OF TERJOLA	4,254	2,183	2,865	1.9%	1.6%	1.6%
MUNICIPALITY OF SAMTREDIA	3,905	1,742	2,218	1.7%	1.2%	1.3%
MUNICIPALITY OF SACHKHERE	3,863	1,922	4,178	1.7%	1.4%	2.4%
MUNICIPALITY OF TKIBULI	3,267	2,148	2,062	1.4%	1.5%	1.2%
MUNICIPALITY OF TSQALTUBO	4,338	2,369	3,292	1.9%	1.7%	1.9%
MUNICIPALITY OF CHIATURA	3,543	2,690	2,912	1.6%	1.9%	1.7%
MUNICIPALITY OF KHARAGALI	3,315	1,920	2,408	1.5%	1.4%	1.4%
MUNICIPALITY OF KHONI	2,042	1,160	1,611	0.9%	0.8%	0.9%

REGION OF KAKHETI	29,037	16,862	21,239	12.8%	12.0%	12.1%
MUNICIPALITY OF AKHMETA	2,844	2,587	2,084	1.3%	1.8%	1.2%
MUNICIPALITY OF CITY TELAVI			1,580			0.9%
MUNICIPALITY OF GURJAANI	5,840	2,744	3,890	2.6%	2.0%	2.2%
MUNICIPALITY OF DEDOFLISTSKARO	3,763	1,561	2,091	1.7%	1.1%	1.2%
MUNICIPALITY OF TELAVI	3,678	2,947	2,607	1.6%	2.1%	1.5%
MUNICIPALITY OF LAGODEKHI	3,432	1,852	2,508	1.5%	1.3%	1.4%
MUNICIPALITY OF SAGAREJO	3,548	2,031	2,467	1.6%	1.5%	1.4%
MUNICIPALITY OF SIGHNAGHI	2,897	1,789	2,029	1.3%	1.3%	1.2%
MUNICIPALITY OF KVARELI	3,035	1,351	1,984	1.3%	1.0%	1.1%
REGION OF MTSKHETA - MTINANETI	15,307	10,940	10,842	6.7%	7.8%	6.2%
MUNICIPALITY OF DUSHETI	4,817	2,860	2,530	2.1%	2.0%	1.4%
MUNICIPALITY OF TIANETI	634	1,809	1,752	0.3%	1.3%	1.0%
MUNICIPALITY OF CITY MTSKHETA			2,358			1.3%
MUNICIPALITY OF MTSKHETA	8,036	4,991	2,958	3.5%	3.6%	1.7%
MUNICIPALITY OF KAZBEGI	1,820	1,280	1,244	0.8%	0.9%	0.7%
REGION OF RACHA - LECHKHUMI KVEMO SVANETI	8,672	5,582	7,868	3.8%	4.0%	4.5%
MUNICIPALITY OF CITY AMBROLAURI			860			0.5%
MUNICIPALITY OF AMBROLAURI	2,576	1,773	2,318	1.1%	1.3%	1.3%
MUNICIPALITY OF LENTEKHI	1,941	975	1,087	0.9%	0.7%	0.6%
MUNICIPALITY OF ONI	1,441	1,159	1,531	0.6%	0.8%	0.9%
MUNICIPALITY OF TSAGERI	2,713	1,674	2,072	1.2%	1.2%	1.2%
REGION OF SAMEGRELO ZEMO SVANETI	38,031	23,092	31,554	16.7%	16.5%	18.0%
MUNICIPALITY OF CITY POTI	11,879	3,502	5,223	5.2%	2.5%	3.0%
MUNICIPALITY OF ABASHA	2,188	1,040	1,993	1.0%	0.7%	1.1%

MUNICIPALITY OF CITY ZUGDIDI			3,789			2.2%
MUNICIPALITY OF ZUGDIDI	9,700	6,027	4,207	4.3%	4.3%	2.4%
MUNICIPALITY OF MARTVILI	2,039	2,574	2,682	0.9%	1.8%	1.5%
MUNICIPALITY OF MESTIA	2,479	3,674	4,297	1.1%	2.6%	2.5%
MUNICIPALITY OF SENAKI	3,080	2,132	2,882	1.4%	1.5%	1.6%
MUNICIPALITY OF CHKHOROTSKU	1,944	1,003	1,955	0.9%	0.7%	1.1%
MUNICIPALITY OF TSALENJIKHA	2,560	1,869	2,669	1.1%	1.3%	1.5%
MUNICIPALITY OF KHOBI	2,161	1,271	1,855	1.0%	0.9%	1.1%
REGION OF SAMTSKHE - JAVAKHETI	19,442	11,333	14,002	8.5%	8.1%	8.0%
MUNICIPALITY OF ADIGENI	1,727	1,342	1,940	0.8%	1.0%	1.1%
MUNICIPALITY OF ASPINDZA	2,730	1,270	1,685	1.2%	0.9%	1.0%
MUNICIPALITY OF AKHALKALAKI	3,212	1,870	2,600	1.4%	1.3%	1.5%
MUNICIPALITY OF CITY AKHALTSIKHE			1,604			0.9%
MUNICIPALITY OF AKHALTSIKHE	4,519	3,006	2,083	2.0%	2.1%	1.2%
MUNICIPALITY OF BORJOMI	4,927	2,666	2,587	2.2%	1.9%	1.5%
MUNICIPALITY OF NINOTSMINDA	2,328	1,179	1,502	1.0%	0.8%	0.9%
REGION OF KVEMO KARTLI	28,894	14,788	19,239	12.7%	10.6%	11.0%
MUNICIPALITY OF CITY RUSTAVI	13,236	6,764	6,419	5.8%	4.8%	3.7%
MUNICIPALITY OF BOLNISI	1,885	495	1,545	0.8%	0.4%	0.9%
MUNICIPALITY OF GARDABANI	1,609	1,577	2,843	0.7%	1.1%	1.6%
MUNICIPALITY OF DMANISI	4,518	1,364	1,655	2.0%	1.0%	0.9%
MUNICIPALITY OF TETRITSKARO	2,001	945	1,269	0.9%	0.7%	0.7%
MUNICIPALITY OF MARNEULI	3,697	2,314	3,960	1.6%	1.7%	2.3%
MUNICIPALITY OF TSALKA	1,948	1,329	1,548	0.9%	0.9%	0.9%
REGION OF SHIDA KARTLI	19,472	12,415	14,008	8.6%	8.9%	8.0%

MUNICIPALITY OF CITY GORI			2,708			1.5%
MUNICIPALITY OF GORI	6,866	3,523	1,976	3.0%	2.5%	1.1%
MUNICIPALITY OF KASPI	5,631	4,805	4,076	2.5%	3.4%	2.3%
MUNICIPALITY OF KARELI	3,150	2,024	2,814	1.4%	1.4%	1.6%
MUNICIPALITY OF KHASHURI	3,825	2,063	2,433	1.7%	1.5%	1.4%
TOTAL SUM	227,452	139,992	175,275	100.0%	100.0%	100.0%

