



PECULIARITIES OF PUBLIC INVESTMENTS IN GEORGIA

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ABSTRACT

State investments play a significant role in the economic development of small and transition-type countries such as Georgia. They perform a stimulatory function within the framework of state fiscal policy, exerting a positive impact on business development, job creation, the growth of budgetary revenues, and GDP expansion. Attracting investments to individual territorial units of the country is associated with substantial difficulties. Therefore, public infrastructure investments assume a particularly important role in shaping the investment environment (climate) and in fostering business development in regions and territorial units. For this purpose, in recent decades the state has appropriately employed the well-established principle of outsourcing. This, in turn, contributes to the formation of added value in territorial units, the creation of employment opportunities, and the growth of budgetary revenues, which positively affects their socio-economic development and the improvement of the population's standard and quality of living.

The paper examines and analyzes the key aspects that determine the role of public infrastructure investments, including in the territorial dimension (municipalities of Georgia). The main challenges are identified, and, based on the research, generalized conclusions and recommendations are formulated.

The authors argue that the selection and prioritization of state investments should be realistic and aligned with territorial development strategies. In the implementation of public investments, it is necessary to take into account competitiveness, sustainable development, innovativeness, job creation potential, equity, and environmental protection considerations. Given the importance of infrastructure investments, it becomes necessary to introduce appropriate amendments to budgetary legislation, ensure a clear delineation of competences between central, regional, and local authorities, and minimize duplication, thereby increasing efficiency.



The research primarily employs methods of comparative analysis and synthesis, statistical observation, a systems-based approach, and other analytical methods.

The informational base of the study consists of analytical materials and reports of the National Statistics Office of Georgia, as well as strategic documents, laws, and regulatory acts; scholarly works published by Georgian and foreign authors; and the official websites of relevant ministries, agencies, and municipalities of Georgia.

Keywords: State investment; Infrastructure; Project; GDP; Municipality; Region

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აბსტრაქტი

სახელმწიფო ინვესტიციები მნიშვნელოვან როლს ასრულებს ისეთი მცირე და გარდამავალი ტიპის ქვეყნების ეკონომიკურ განვითარებაში, როგორც საქართველოა. ისინი მასტიმულირებელ ფუნქციას ასრულებენ სახელმწიფოს მიერ ფისკალური პოლიტიკის გატარების პროცესში, რაც პოზიტიურ ზეგავლენას ახდენს ბიზნესის განვითარებაზე, სამუშაო ადგილების შექმნაზე, საბიუჯეტო შემოსავლების და მშპ-ის ზრდაზე. ინვესტიციების მოზიდვა ქვეყნის ცალკეულ ტერიტორიულ ერთეულებში მნიშვნელოვან სირთულეებს უკავშირდება. ამიტომ, სახელმწიფო ინფრასტრუქტურულ ინვესტიციებს განსაკუთრებული როლი ეკისრებათ საინვესტიციო გარემოს (კლიმატის) ჩამოყალიბებაში, რეგიონებსა და ტერიტორიულ ერთეულებში ბიზნესის განვითარებაში. ამისთვის, ბოლო ათწლეულებში, სახელმწიფო მართებულად იყენებს გარე კონტრაქტირების აპრობირებულ პრინციპს. აღნიშნული განაპირობებს ტერიტორიულ ერთეულებში დამატებული ღირებულების ფორმირების ხელშეწყობას, სამუშაო ადგილების შექმნას, საბიუჯეტო შემოსულობების ზრდას, რაც პოზიტიურად აისახება მათ სოციალურ-ეკონომიკურ განვითარებაზე, მოსახლეობის ცხოვრების დონე და ხარისხის ამაღლებაზე.

ნაშრომში განხილული და გაანალიზებულია სახელმწიფო ინფრასტრუქტურული ინვესტიციების როლის განმსაზღვრელი უმთავრესი ასპექტები, მათ შორის ტერიტორიულ ჭრილში (საქართველოს მუნიციპალიტეტები), გამოკვეთილია ძირითადი გამოწვევები, კვლევის საფუძველზე განზოგადებულია დასკვნები და რეკომენდაციები.

ავტორები მიიჩნევენ, რომ სახელმწიფო ინვესტიციების არჩევანი და მიმართულებები უნდა იყოს რეალისტური და დაუკავშირდეს ტერიტორიის განვითარების სტრატეგიას. სახელმწიფო ინვესტიციების განხორციელებისას აუცილებელია კონკურენტუნარიანობის, მდგრადი განვითარების, ინოვაციურობის, სამუშაო ადგილების შექმნის პოტენციალის, თანასწორობისა და გარემოს დაცვის ასპექტების გათვალისწინება. ინფრასტრუქტურული ინვესტიციების მნიშვნელობის გათვალისწინებით საჭირო ხდება საბიუჯეტო კანონმდებლობაში შესაბამისი ცვლილებების შეტანა, უფლებამოსილებათა მკაფიო გამიჯვნა ცენტრალურ, რეგიონულ და ადგილობრივ ორგანოებს შორის, დუბლირების მინიმუმამდე დაყვანა, რაც გაზრდის ეფექტიანობას.

ნაშრომში წარმოდგენილი კვლევის პროცესში ძირითადად გამოყენებულია შედარებითი ანალიზისა და სინთეზის, სტატისტიკური დაკვირვების, სისტემური მიდგომის და სხვა მეთოდები.

კვლევის საინფორმაციო ბაზას ქმნის საქართველოს სტატისტიკის სახელმწიფო დეპარტამენტის ანალიტიკური მასალები, ანგარიშები, აგრეთვე სტრატეგიული დოკუმენტები, კანონები და ნორმატიული აქტები, ქართველი და უცხოელი ავტორების მიერ გამოქვეყნებული ნაშრომები, საქართველოს პროფილური სამინისტროების, უწყებების და მუნიციპალიტეტების ოფიციალური ვებგვერდები.

საკვანძო სიტყვები: სახელმწიფო ინვესტიცია; ინფრასტრუქტურა; პროექტი; მშპ; მუნიციპალიტეტი; რეგიონი

THE NEW ECONOMIST / ახალი ეკონომისტი



INTRODUCTION

The management of economic activity by the state constitutes one of its core functions and, unlike the private sector, is not voluntary but mandatory in nature (McConnell & Brue, 2000).

The implementation of economic activity by the state, particularly in its investment component, is almost always associated with the creation of value added and therefore contributes to the formation of the country's gross domestic product. In the process of implementing such investments, the primary criterion is the maximization of benefits for society.

The specificity of state investments is determined by such aspects as: the use of budgetary resources by the state for the implementation of investment programs and projects; a high degree of property independence of the state as an investor; and orientation not toward profit, but toward achieving positive socio-economic and political outcomes.

MAIN PART

State investments represent one of the most powerful instruments for economic development. In the investment process, the state must reconcile public and societal interests, creating conditions and guarantees for their realization.

According to one approach, state investments are expenditures incurred by the government that contribute to the stock of physical capital (tangible assets, property excluding land, buildings and structures, machinery, transport equipment) and intangible assets (OECD, 2016).

Governments employ public investments to address various challenges over time, including global issues (climate change), local problems, periods of economic downturn, diverse demographic trends, rapid urbanization, and adaptation to new technologies. Public investments are an integral component of economic and social well-being and contribute to the formation of national capital stock. Allocating resources to core infrastructure, education, research, and development leads to increased productivity and improved living standards (Danaj & Reçi, 2024).

In OECD countries, the majority of public investments are implemented at the local level, accounting on average for 41% of total public investment. Most studies on subnational government debt focus on

regional or state levels, while very few analyze public investments undertaken specifically by local governments (Vammalle & Bambalaite, 2021).

Local governments play a significant role in public investment, particularly in large-scale infrastructure projects essential for economic development and welfare. Across the OECD, local governments account on average for nearly 60% of total public investment. When well managed, public investment becomes a catalyst for regional and urban growth and development. A place-based approach to investment, supported by effective multi-level governance systems, enables countries to maximize investment efficiency and support regional development (OECD, 2024).

Public investments also play a critical role in facilitating recovery from crises and economic collapse. Some studies conducted during the COVID-19 period demonstrated that increasing public investment by 1% of GDP could strengthen confidence in recovery and raise GDP by 2.7%, private investment by 10%, and employment by 1.2% (Gaspar et al., 2020).

The annex of capital projects attached to the Law of Georgia "On the State Budget of Georgia for 2025" includes 75 capital projects, with a total allocation exceeding GEL 4.2 billion in 2025, while the cumulative cost of projects through 2028 exceeds GEL 38.0 billion. More than 92% of the total value of these projects consists of ongoing projects, primarily implemented by the Ministry of Infrastructure (Ministry of Finance of Georgia).

Notably, in the medium-term period (2025–2028), the total cost of new projects (11 projects) amounts to GEL 4,174 million, of which budgetary resources constitute GEL 2,629 million (62.9%). In 2025 alone, GEL 360 million is allocated for these projects, representing 63.7% of the total amount.

The state recognizes infrastructure development as a priority, including the promotion of municipal infrastructure development. Specifically, the national development strategy emphasizes the necessity of constructing and rehabilitating basic, educational, sports, and tourism infrastructure as a prerequisite for strengthening the economic, social, cultural, infrastructural, and institutional capacities of self-governing units (Strategy 2030).

Among the priorities of the Ministry of Infrastructure of Georgia for 2025 are: water supply, education, tourism, roads, and municipal infrastructure (see table 1).

Table 1. Budgetary Allocation of the Ministry of Infrastructure’s 2025 Priorities by Share of Activities (%) (Total budget 2926 million GEL)

Sector / Area	Share of Total (%)
Water supply	18
Education	3
Tourism	1
Roads	65
Municipal infrastructure	14

Source: Compiled by the authors based on data from (www.moi.gov.ge)

As shown in Table 1, nearly two-thirds of the budget is allocated to roads (65%). Other major components include water supply (18%) and municipal infrastructure (14%).

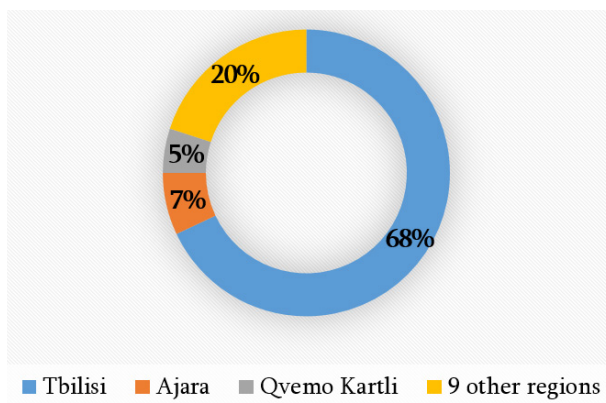
An analysis of investments in fixed assets in Georgia is also important. In this regard, the public sector exhibits the lowest share: in 2023 it accounted for only 13%, declining to 8.6% according to 2024 results (see Table 2).

Table 2. Distribution of Investments in Fixed Assets by Sector (%), 2024

Sector	Business Sector	Industry
Private (domestic)	68.0	67.6
Private (foreign)	23.4	24.2
Public	8.6	8.2

Source: Compiled by the authors based on data from the National Statistics Office of Georgia

Figure 1. Regional Distribution of Public Investment in Fixed Assets (%), 2024

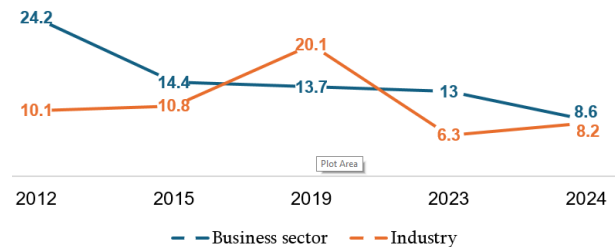


Source: Compiled by the authors based on data from the National Statistics Office of Georgia

At the same time, a pronounced asymmetry is observed in the regional distribution of public investment in fixed assets (see Figure 1). Specifically, 68% of total public investment in fixed assets is concentrated in Tbilisi, 7% in Adjara AR, 5% in Kvemo Kartli, and 20% across the remaining nine regions (business sector data).

A variable dynamic is also observed in the share of the public sector in total fixed asset investment, driven by similar dynamics in public investment in fixed assets during the period under review (see Figure 2).

Figure 2. Dynamics of the Public Sector Share in Fixed Asset Investment in Industry and the Business Sector, 2012–2024 (%)



Source: Compiled by the authors based on data from the National Statistics Office of Georgia

Constraints on the financial capacity of budgets at all levels, combined with the presence of private sector potential, create objective opportunities for integration between the public and private sectors, particularly in the implementation of infrastructure projects. In turn, the successful realization of infrastructure projects serves as a prerequisite for the socio-economic development of the country and its regions (Rusadze et al., 2022).

Over the past two decades, Georgia has actively applied outsourcing principles to promote cooperation with the private sector, especially in infrastructure activities (Chikhladze & Rusadze, 2015). As a result, the scale of the public sector changes under the influence of economic policy priorities, external economic conditions, phases of economic development, and other factors.

Georgian scholars, when characterizing the advantages of contracting with the private sector, note that this alternative mode of service delivery is cheaper, less costly, more flexible, and more adaptable to the environment. As a contracting authority, the state can select a contractor with specialized experience and skills in a particular field, employing professionals with

Table 3. Quantitative Analysis of Infrastructure Projects Implemented in Kutaisi Municipality, 2020–2024

Indicator	2020	2021	2022	2023	2024
Number of completed works/projects	102	75	136	97	66
Number of economic entities	65	51	80	52	43
Average per entity (units)	1.6	1.5	1.7	1.9	1.5
Total expenditure (thousand GEL)	19,370.2	13,035.3	39,888.1	24,358.9	44,981.7
Expenditure per project/work (thousand GEL)	189.9	173.8	293.3	251.1	681.5
Expenditure per entity (thousand GEL)	298.0	255.6	498.6	468.4	1,046.1

Source: Compiled by the authors. Datas from the Infrastructure Service of Kutaisi Municipality City Hall.

relevant expertise (Dolidze, 2014).

As noted above, one of the most effective tools for supporting the private sector and business is the application of outsourcing principles. Given the scale involved, this primarily concerns the implementation of infrastructure activities at the municipal level.

The analysis demonstrates that the share of state investments in the budget is relatively high, driven by the implementation of infrastructure projects and the recognition of this direction as a long-term development priority. Accordingly, the share of infrastructure expenditures in the budget is also substantial.

Infrastructure projects play a significant role in urban economic development and the creation of value added. During 2020–2024, 476 infrastructure works/projects were implemented through state investment by 291 economic entities. On average, one economic entity performed 1.5–1.9 works/projects (see table3).

During the period under review, the average expenditure per project (work) varied considerably. It was

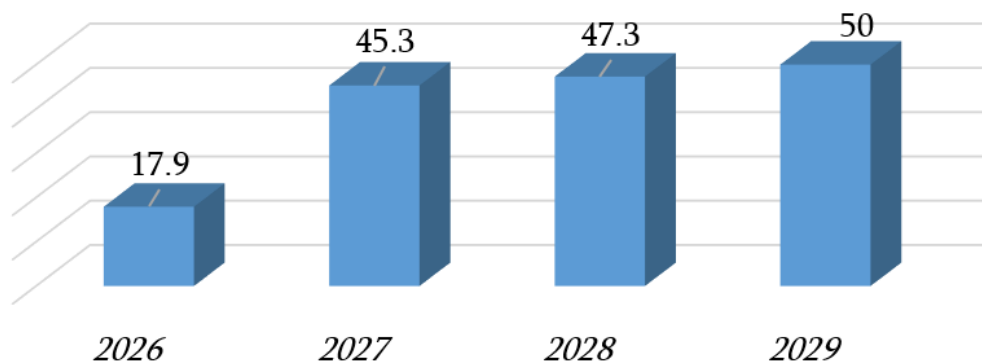
lowest in 2021 (GEL 173.8 thousand) and highest—four times greater—in 2024 (GEL 681.5 thousand), due to the implementation of larger-scale works financed by GEL 18.5 million transferred from the central budget for disaster recovery.

A similar pattern is observed for average expenditure per economic entity: it was minimal in 2021 (GEL 255.6 thousand) and maximal in 2024 (GEL 1,046.1 thousand) (Chikhladze, 2025).

Over the analyzed period, average expenditure per project amounted to GEL 297.6 thousand, while average expenditure per entity reached GEL 486.7 thousand. All projects implemented during the period were classified as small-scale, i.e., with a value below GEL 5 million (Government Decree, 2023).

Under the initial version of the 2026 budget, GEL 1,739 million is allocated to infrastructure projects, accounting for 15.4% of total expenditures. A sharp increase in these allocations is expected over the three-year period (see Figure 3).

Figure 3. Allocations for Infrastructure Projects in the Kutaisi Municipality Budget, 2026–2029 (million Gel)



Source: Compiled by the authors based on the 2026 budget of Kutaisi Municipality.



Under conditions of high financial centralization, the primary source of funding for infrastructure projects implemented in Kutaisi Municipality is the central budget. Specifically, only 26% of projects are financed from the local budget, while more than one-third (35%) are funded through the Regional Development Projects Fund.

CONCLUSION

The study demonstrates that the selection and orientation of state investments must be realistic and aligned with territorial development strategies. Through the implementation of large-scale investment projects, the state aims to increase production volumes and value added, foster innovative technologies, and support intellectual potential. In implementing state investments, it is essential to consider competitiveness, sustainability/sustainable development, innova-

tion, job creation potential, equity, and environmental protection. The implementation process should be inclusive, open, and transparent, with plans, expenditures, and outcomes subject to a certain degree of public oversight.

Given the high public significance of state investments, it would be appropriate for budgetary legislation to define the concept of “state investment.” Current legislation distinguishes only between “foreign” and “domestic” investment.

Clear delineation of powers among central, regional, and local authorities, minimization of duplication, and reduction of administrative barriers and burdens would enhance efficiency and effectiveness. In addition, information on state investments should be partially processed with the involvement of the National Statistics Office of Georgia and published on its official website.