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**Improving Public Service Delivery of Transportation in Tbilisi Through Fiscal
Decentralisation: Lessons from the Dutch Case**

MA thesis

Supervisor: Kristina Muhhina, PhD

Tartu 2019

I have written this Master's thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used for writing this paper have been referenced.

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Improving Public Service Delivery of Transportation in Tbilisi Through Fiscal Decentralisation: Lessons from the Dutch Case

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Acknowledgements

First and foremost, I would like to extend my sincere gratitude to my supervisor PhD Kristina Muhhina, for the enormous contribution she has made to the thesis and for her professional support. I would also like to thank the Johan Skytte Institute of Political Studies and the University of Tartu for giving me an opportunity to study in a friendly and professional environment and gain valuable knowledge and experience. Furthermore, I am also extremely grateful to all of my respondents and the people who participated in my research as they have made an enormous contribution to the thesis.

Abstract

During the last couple of decades, after establishing a sovereign state, Georgia has been experiencing challenges with the performance of its public service delivery systems. Recently the Ministry of Regional Development and Infrastructure of Georgia has proposed an innovative decentralisation strategy, which provides a perfect opportunity for exploring the policy options that could be used to improve the overall performance of the public service provision in Georgia. One of the challenges mentioned above is the public transportation system of the capital. Tbilisi strives to have a well-functioning public transportation system; however, current policies cannot keep up with the rapid development and the growth of the city. The Dutch case of decentralisation of the transportation policy is explored in this thesis to seek opportunities for lesson-drawing that could assist Tbilisi in tackling its public transportation problems, and in re-designing its public transportation system.

More particularly, the goal of the thesis is to examine how Tbilisi can improve its public service delivery of transportation through fiscal decentralisation while applying Dutch experience in this particular field. This thesis outlines three policy issues in Tbilisi, which includes a lack of performance of the public transportation companies, missing public transport planning and operating systems, and a modest share of the public transport usage, and proposes solutions to these issues by analysing the Dutch case of fiscal decentralisation.

The results of this thesis demonstrate that there are multiple lesson-drawing/policy transfer opportunities that could be helpful in addressing the policy challenges in Tbilisi including fiscal decentralisation in terms of expenditure assignment and intergovernmental transfers, as well as, privatisation with the means of competitive tendering. Nevertheless, the research also acknowledges the limitations of policy transfer and the potential constraints of lesson-drawing in policy design.

Keywords: decentralisation; fiscal decentralisation; privatisation; competitive tendering; lesson-drawing; policy transfer; public service delivery of transportation; wet personenvervoer 1988; wet personenvervoer 2000; Tbilisi; the Netherlands.

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List of Abbreviations

EU – European Union

GDP – Gross Domestic Product

NPM – New Public Management

PTA – Passenger Transport Act

PTO – Public Transport Operator

STS – Smart Transportation Solutions

TTC – Tbilisi Transport Company

WHO – World Health Organization

Introduction

In the contemporary world, having a comprehensive and advanced public transportation system is a critical element of a well-functioning state. There is substantial evidence which outlines that countries' economic prosperity, liveability, and human welfare are strongly dependent on the public transportation system (Favero, 2006). Public transport provides a lot of advantages to communities, such as access to employment, education and leisure activities. Moreover, public transportation can have a positive impact on the environment as it significantly reduces the emission of exhaust gases and diminishes the risk of congestions, compared to transport systems dominated by private vehicles (Brazil & Caulfield, 2014). Numerous studies indicate that poorly implemented public transport systems can be linked to increased poverty, unemployment and lack of mobility (Brown, Thompson, Bhattacharya, & Jaroszynski, 2014).

According to the World Health Organization (WHO), Tbilisi is among dangerous cities where air pollution is significantly above the standard threshold (World Health Organization, 2018). The latest report provided by WHO admits that Georgia ranks 70th among 194 countries with mortality rate due to air pollution (World Health Organization, 2018). This tendency mostly is caused by the fact that in Tbilisi, the use of private cars is steadily expanding, while public transport is becoming unpopular (Municipal Development Fund, 2001), since the capital city lacks a comprehensive and well-performing public transportation system (MacDonald, 2017). Therefore, there is a particular need to address issues with the public transportation system of Tbilisi.

Recently, the Georgian government proposed the Decentralisation Strategy 2019-2025 (Ministry of Regional Development And Infrastructure of Georgia, 2019) in order to draft a new structure and division of responsibilities among the national and regional governments. The document analysed the importance of a decentralised control over public services by outlining the main benefits of decentralisation, promoting the idea that a delegation of responsibilities will increase the local budget and therefore have a positive impact on public service delivery (Ministry of Regional Development And Infrastructure of Georgia, 2019). By acknowledging the positive outcomes of decentralisation, the Georgian government decided to propose legislative changes to the constitution by which local authorities of each Georgian municipality will be empowered to determine the

requirements and preferences of local citizens and formulate their budgets accordingly (Ministry of Regional Development And Infrastructure of Georgia, 2019).

The new vision of fiscal decentralisation of the Georgian government creates room for further inquiry into how fiscal decentralisation can benefit public service delivery, particularly in the field of public transportation in Tbilisi.

It is interesting to observe that at the end of the 20th century, similar reforms were conducted in the Netherlands, where public services were equally decentralised (Ministry of Transport, Public Works and Water Management, 2010). As a result, the country developed one of the most advanced and well-functioning transportation systems (Ministry of Transport, Public Works and Water Management, 2010). Accordingly, an analysis of the Dutch case may provide opportunities for policy transfer to the context of Tbilisi to tackle current problems.

The main aim and research question of this thesis are to analyse how Tbilisi could improve its public service delivery of transportation through fiscal decentralisation, drawing on lessons learned from an analysis of the Dutch experience in this field. Thus, this thesis aims to provide a set of recommendations for improving public transportation concerns in Tbilisi. Moreover, this thesis also examines how Tbilisi could enhance its current transportation system consisting of buses, metro, and Marshrutka through fiscal decentralisation, mainly whether competitive tendering provides opportunities for development.

For the theoretical part of the thesis, I examined the concept of decentralisation and how it has been implemented across Europe. I conducted a rigorous literature review into research on the ideas of fiscal decentralisation, privatisation as well as competitive tendering, using the database from government reports, peer-reviewed articles while focusing on the context of developing countries in the past 20 years.

For the empirical part of this research, in order to understand the local realities of Tbilisi as well as to explore the first dynamic and implementation issues of the Dutch fiscal decentralisation policy, this thesis draws on seven in-depth semi-structured interviews with street-level bureaucrats. They are front-line workers who were engaged in the implementation process of Dutch fiscal decentralisation policy, including policy officers as well as project managers. With the context of Tbilisi, the interviews were conducted

with experts of public transportation in order to better identify the main concerns of Tbilisi within the public transportation system.

To contextualise my analysis, I furthermore used the method of document analysis, investigating documents and publications on the public transport system issued within the past twenty years including policy strategies, legal acts, and draft documents from Georgia and the Netherlands.

As a method of analysis, this thesis uses thematic content analysis due to the reason that it provides researchers with the opportunity to identify and set the leading themes and patterns in the data (Braun & Clarke, 2006). Moreover, it creates a room to deeply examine and contextualise the respondents' experience.

As for the structure of this thesis, this thesis is divided into five chapters. The first section starts with problem identification and description of the public transportation system in Tbilisi by outlining three main leading concerns of Tbilisi. Then it moves on describing current fiscal decentralisation strategy of Georgia. The second section reviews a deep understanding of the main concepts of this thesis. It begins with analysing the idea of decentralisation by providing thorough literature review covering the main advantages and limitations. The thesis offers the conceptualisation of fiscal decentralisation as well as indicators for defining this phenomenon. The second part of the thesis also analyses the concepts of privatisation and competitive tendering as these concepts are strongly linked with the decentralisation itself. In the third section, a methodology part is presented, including research questions, research design, research methods, sampling strategy, interview set-up, method of analysis and reliability and validity. The fourth section, a Dutch case study, is presented while applying for thematic content analysis and describing the policy „Wet personenvervoer 1988-2000” in detail and outlining its components.

Moreover, the thesis analyses policy in the context of the three dimensions of fiscal decentralisation as conceptualised in the theoretical part. The fifth section draws lesson-drawing opportunities for Tbilisi. It explains what Tbilisi can learn from the Dutch case as well as identifies a set of recommendations that will address the three public transportation problems of Tbilisi. In this part of the thesis, the limitations of lesson-drawing by analysing ‘policy transfer’ and ‘lesson-drawing’ literature will be presented

for acknowledging some of the constraints that need to be considered while applying the Dutch experience.

1. Chapter 1: Problem Identification

1.1. Public transportation governance in economies in developing economies

In the past decades, various studies have been conducted about public transport system designs due to its practical importance (Szeto, Sun & Wong, 2015). Mostly these studies were focused on determining the routes, frequencies, and schedules of public transport services, however, there is a room for discussion how specific policies can determine the effectiveness and efficiency of the public service provision of the transportation system (Favero, 2006).

According to Leigh Glover (2011), public transport debates lack understanding of what are the main characteristics of public transport and how it can be distinguished from private, collective or individual transport. Glover (2011) also notes that generally, public transportation is perceived as an essential subject of public interest.

From the perspective of the classical economic approach, the provision of public transport should be strongly interwoven with government's course of action as the free market fails to be active and efficient with providing this particular service. More particularly, because of the market monopoly and its competitive features, public transport should be provided by the state as public transport is a part of a collective good while free market tends to be profit-oriented (Glover, 2011). However, it is also observed that public transport tends to perform poorly without systematic public policy (Berg, et al., 2015). Moreover, various studies have figured out that effective and result-oriented strategies in transportation management are a determinant indicator for ensuring competitive public transportation systems (Berg, et al., 2015).

Provision of public transport associated with the state, took its roots in the late nineteenth century when there was a steady expansion of urban and regional transports. From that period, states perceived themselves as the primary source of transport provision, and therefore, their role in controlling provision of this service at the local or regional level has increased (Glover, 2011).

According to Mulley and Nelson (2009), in developed and developing countries, there is a steady expansion of the consumption of public transport services. This trend is mostly caused by the fact that public transport service provision is one of the most significant

components of the entire public good as it brings many benefits to the individuals and communities. The main characteristics of public transport are cost-efficiency and affordability to every social level of the population as it is cheaper than driving a personal vehicle (Mulley & Nelson, 2009).

Public transport is a relatively environmentally friendly option for movements as it protects the environment and improves air quality. Studies show that public transportation is a good option for sustainability as it produces 95 and 90 per cent less carbon monoxide, and volatile organic compounds (Hodges, 2010). Moreover, compared to personal automobiles buses emit 20% fewer pollutants, 10%, and 75% more hydrocarbons and nitrogen oxides, respectively (Hodges, 2010).

Another critical fact while analysing the main advantages of public transportation is that by using public transport, traffic congestion is significantly reduced, as public transport can convey many people in much less space than private automobiles (Favero, 2006).

It should be noted that well-functioning public transport services and adequate supply of these services are essential preconditions of a modern state (Favero, 2006). Moreover, it has been proven that a country's progress is in line with an effective public transportation system as well-functioning public transport promotes efficiency, economic growth and overall development of a country (Favero, 2006). The flexible and good physical connection between urban and rural areas play a crucial role in achieving a steady, sustainable economic improvement, and therefore, under-developed public transport poses complications (Favero, 2006).

Furthermore, there is no doubt that the modern lifestyle is strongly influenced by public transportation in terms of everyday commuting for work, education or leisure. Accordingly, our everyday performance is highly depended on these services, and sophisticated provision of public transportation has significant importance. Failing to do so can result in various unfavourable circumstances such as inadequate road infrastructure, poor traffic management, old buses and subways, etc. (Glover, 2011).

The contribution of the public transportation system when it comes with the socio-economically disadvantaged population is also worth analysing as it enhances their mobility and therefore can have positive effects on socio-economic development (Titheridge, Oviedo Hernandez, Ye, Christie, & Mackett, 2014). Moreover, it advances

the equality and diversity dimensions as according to Enrique Peñalosa Londoño, the mayor of Bogotá, Colombia, public transport seeks to “stimulate democratic equality, whereby all citizens are treated equally“ (Scania, 2014).

By acknowledging the assumptions mentioned earlier, it is obvious to note that having a well-functioning public transportation system should be a key factor for the domestic policy domain. However, this is not always reached in the contemporary world, as according to Iles (2005), in the developing countries, there is a high tendency of having malfunctioning public transports. Local authorities mostly are unable to cope with problematic features of a public transportation system that are mainly caused by multiple factors, such as insufficient road infrastructure, reduced traffic and parking management, old buses, subways, etc. (Iles, 2005)

According to Replogle (1991), the function of many forces, including subsidy, investment, tax, and tariff policies, can strongly determine the provision of the public transportation system. At the same time, the effective circumstances of the dimensions above can be strongly influenced by the local authorities and elites. The role of social elites in policy planning and policy shaping processes are essential as they tend to foster the direction of policy that may be resulted in policy success or policy failure. (Lipsky, 2010)

The most real issues in public transportation policies when it comes to non-OECD countries refers to the fact that generally state cannot provide satisfactory investment in public transportation as well as the demand-supply dimension is not adequately considered (Iles, 2005). Moreover, in rural areas, the transport services are not easily accessible, affordable and available for the majority of people (Jacobs & Greaves, 2003). This tendency is explained by the fact that governments of developing countries lack resources and entrepreneurship for future policy innovations.

It is worth mentioning that changes in different policies, as a matter of fact, are required, and they are an on-going process. Generally, keeping up with all changes is a contested and complicated process as it requires resources, flexibility, and creativity. When it comes to changes in transport policies in non-OECD countries, the situation becomes more dramatic as local authorities of these countries are unable to deal with all the new policy-

based requirements as well as to catch up with rapid social and economic development is not easy (Replogle, 1991).

Thus public transportation policies in economies in transition/developing economies generally lack a comprehensive and accurate understanding of what the main issues are in transport planning (Mulley & Nelson, 2009). The OECD Road Research Programme investigated the foremost concerns in public transport planning in developing countries (Mulley & Nelson, 2009). The results were impressive as it outlined two problematic patterns, including a lack of efficiency and effectiveness within the system. In this context, effectiveness implies the outcomes of the service, while efficiency seeks to identify ways of achieving these results (Mulley & Nelson, 2009).

1.2. Overview of the Georgian public transport system

As already analysed above, it is crucial to have a well-functioning public transportation system as it is tightly connected to the socio-economic development of the country. During the last couple of decades, after establishing a sovereign state, Georgia has been experiencing lack of efficiency with its system (Giely, 2015; MacDonald, 2017). It should be noted that recently the Ministry of Regional Development and Infrastructure of Georgia proposed innovative decentralisation strategy (Ministry of Regional Development And Infrastructure of Georgia, 2019). Thus, it provides a perfect opportunity to explore the policy options that could be used to improve overall performance and efficiency of the public service provision in Georgia (Ministry of Regional Development And Infrastructure of Georgia, 2019).

Georgian transportation system by features is divided into three main categories: municipal, commercial and technological. Municipal transportation has the most demand and combines all types of public transport that are operated by governmental organisations, as well as private automobiles or other transportation means. Private companies operate commercial transports and provide transportations services to the population, while technological transportation combines all transports that are used mainly for industrial cases, for instance transporting building or chemical materials (Soselia, 2014).

This thesis will be concentrated on exploring transport policy issues in the capital city of Georgia, in Tbilisi. During 1921-1990, when Georgia was under the regime of the Soviet

Union, in the capital city numerous significant infrastructure project was started, such as the construction of new roads, railway projects, building Metro lines as well as developing bus, trolleybus, and electric tram networks (Siradze, 2018).

However, after the collapse of the Soviet Union and the civil war of 1991, the economy of Georgia was weakened significantly. The events above were the critical junctions for Georgia, as they resulted in numerous severe factors, such as stagnation in public services, chaotic urban infrastructure, including public transportation system (Siradze, 2018). According to World Bank statistics Georgia had 68% decline in Gross Domestic Product (GDP) between 1991 and 1994 (The World Bank, 2019) and level of investment was as low as 265 USD million (1998) compared to 1,596 USD million 10 years later (2008) (CEIC, 2019). Moreover, regained independence and the civil war caused many challenges for Georgia, especially with regard to the economy. Therefore, due to the significant decline in the economy as well as instability, public transport infrastructure was no longer sophisticated and advanced in Tbilisi.

After the Rose Revolution in 2003, there was a steady expansion of economic development in Georgia. It should be noted that there were many incentives for renewing infrastructure and enhancing public service provision. However, despite the significant steps that were taken to advance public transportation system, still, the government of Georgia made some controversial decisions (Siradze, 2018). The reason for such an assumption is connected with the reconstruction of the Hero's square, where the new urban highway was built, and it was cut through Central Zoo of Tbilisi and Mziuri park (Siradze, 2018). Unfortunately, this project had a very negative impact on the environment as well as it was against the transportation planning recommendations that were proposed by the Tbilisi Master Plan (Siradze, 2018). Under the policy paper, it was recommended to invest money for the development of a public transportation system rather than encouraging the ownership of private cars (Siradze, 2018). Due to this reason nowadays the most dramatic traffic congestions and traffic jams are visible mostly on Hero's square as residents prefer using privately owned cars than public transport.

Currently, there are several types of public transport used in Tbilisi, namely bus, route-taxi (so-called Marshrutka), underground metro, a passenger train, trolleybus, and a cable car (MacDonald, 2017). However, it should be noted that above-mentioned public

transports are not evenly distributed around the whole country, and they are only accessible in bigger cities of Georgia. More particularly, metro network functions only in the capital city of Georgia in Tbilisi as well as city buses are not in every municipality of Georgia (MacDonald, 2017). Moreover, it is essential to outline that 58% of the population lives in urban areas in Georgia (The World Bank, 2019), where transportation issues are most apparent (Soselia, 2014).

It is worth mentioning that although Georgia has a large and diverse transport sector, still the public transportation system faces many significant challenges (Giely, 2015). Despite the great willingness of governmental bodies to develop and invest in this sector, yet, Georgia lacks sophisticated and well-functioning public transportation system (Giely, 2015).

Furthermore, it has great importance to review the public transportation system governance in Georgia in order to provide a brief understanding how the tasks and responsibilities are divided as well as to observe the main characteristics of Georgian policy-making with regard to public service provision of transportation. It should be noted that the governance of the city of Tbilisi consists of several dimensions. More particularly, the capital city Tbilisi is divided into ten districts, and each of these districts has their appointed politician in charge (MacDonald, 2017). Moreover, Tbilisi is also divided into 33 sub-districts. Tbilisi City Hall combines 12 departments such as the Municipal Transport Department, Municipal Department of Economic Development and other Legal and Procurement departments. Each of these departments has its own Chief Officers (Figure 1; MacDonald, 2017).

City Council and Tbilisi Transport Company (TTC) have a public service contract agreement that is signed by City Council and the four microbus operating companies. These companies have a separate contract with the City Council, even though the form of these contracts is similar (MacDonald, 2017).

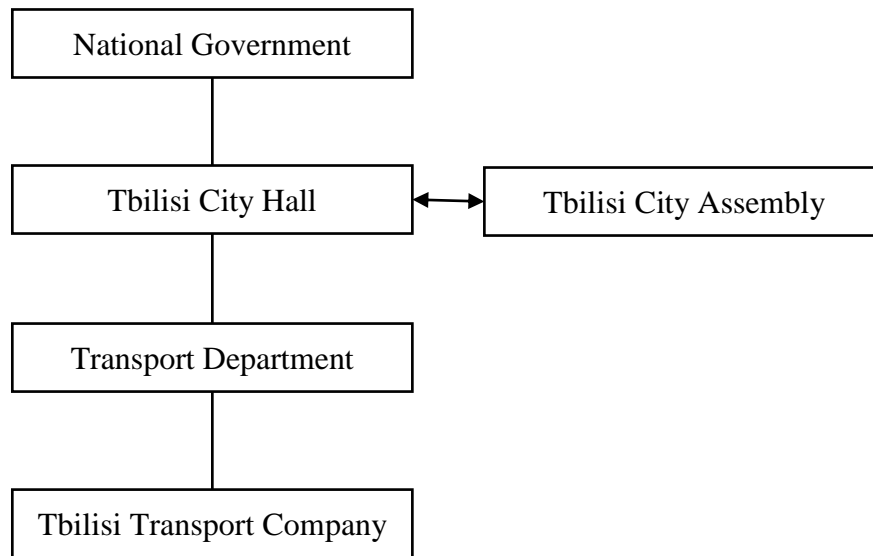


Figure 1. Tbilisi Transportation Governance Structure;

Source: Compiled by the author.

A Public Service Contract outlines the primary obligations and contractual relationship for the contracting parties, including public transport authority and the public transport operator. Thus it combines the following approaches: the central obligations and rights of contracted parties, quality, and quantity of service provided by the operator company, monitoring, management of the contract, compensation payments to the operator for delivered service, use and ownership of rolling stock and infrastructures (MacDonald, 2017).

1.3. Public transport governance in Tbilisi

While analysing the leading public transport operating company in Tbilisi, it is essential to mention Tbilisi Transport Company (TTC). It was created in 1966 as the primary operator of Tbilisi Metro when the first line was opened. TTC is 100% government-owned, and also since 2000, the company operates municipal buses network and from 2012 Rike-Narikala cable car (Giely, 2015).

Another outstanding company operating in the current system is route-taxi Marshrutkas. Their role in the bigger picture is substantial. The network of routes covers most of the city; they are faster, more frequent, less crowded and more convenient for the population

than other means of public transportation (O'Connor', 2015). In 2006 and 2017, the share of marshrutkas were 33% and 42% respectively (O'Connor', 2015; MacDonald, 2017).

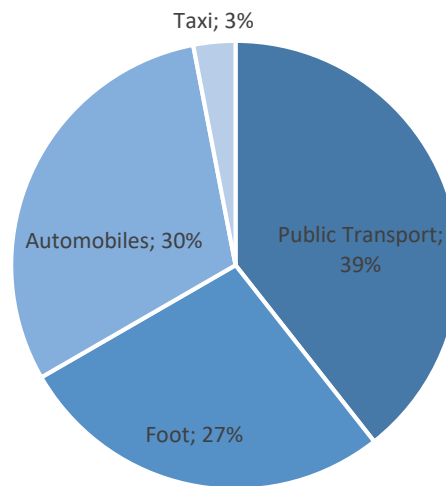


Figure 2. Tbilisi Transport Share Distribution 2017; Sources: Compiled by the author by drawing on MacDonald, 2017

The usage of the transportation system in Tbilisi has the following distribution (Figure 2) as of 2017: public transport (39%), on foot (27%), personal automobiles (30%), Taxi (3%) (MacDonald, 2017). It should be noted that the share of public transport has decreased from 49% in 2014 to 39% in 2017 (Giely, 2015; MacDonald, 2017).

2015 survey of Tbilisi residents by Jean O'Connor perfectly respectively outlined concerns of the public transportation system of Tbilisi. According to her study, 38.76% of Tbilisi residents admit that it is too difficult to travel in Tbilisi with public transport (O'Connor', 2015). As well as 36.99% of Tbilisi population believes that it is essential to have changes in the public transportation system. Moreover, 64.34% of respondents believe that the problem of the crowdedness of transport is unacceptable. (O'Connor', 2015).

Thus, the main problematic features of Tbilisi public transportation system are the following (Siradze, 2018; MacDonald, 2017; Giely, 2015; O'Connor', 2015):

- The metropolitan system is approaching its end of exploitation timeline

- Since modern security standards are not met in metropolitan, it is impossible to use the system on its full capacity
- Old buses cause a frequent breakdown, are uncomfortable and did not meet modern security standards
- Missing public transport network and operation planning systems, because of that different types of public transport do not work together, but in contrast, they contest with each other resulting inefficient planning and traffic network of the transport
- Poor quality of pavements discourages residents from walking more frequently
- The rapid growth of several personal cars, causing traffic jams. Poor public transportation system stimulates growth even more.

The transport concerns in Tbilisi are inter-woven, and thus, it is challenging to find one solution without considering other problematic circumstances too. For instance, in the final report of Tbilisi Bus Network Improvement and Pilot Surface Transit System Pre-Feasibility Study (MacDonald, 2017), it is outlined that expansion of commercial speed of buses requires bus priority lanes. Furthermore, priority lanes need to be parking free, and prohibition should be enforced for taxis and minibuses for stopping at the curb. (MacDonald, 2017).

Generally, public transportation issues in Tbilisi can be categorised into the following classes:

- Missing public transport planning and operation systems
- Lack of performance of the public transport company
- Decreasing the share of public transport

This thesis will aim to find solutions to these three problems.

1.3.1. Missing public transport planning and operating systems

One of the problematic features of the Tbilisi public transportation system refers to missing public transport planning and operation systems (from the interview, 08.04.2019). This tendency is caused by the fact that public transport provider companies do not cooperate, but in contrast, they compete with each other resulting inefficient

planning and traffic network of the transport. For instance, minibuses company (Marshrutkas) have a 20-year contract term, and mostly they are duplicating TTC bus routes. Thus, they are creating rivalry on the road, instead of filling gaps in the system (from the interview, 10.04.2019).

Studies outline that the structure of the Tbilisi bus network is inefficient, and it is a result of ill-development of the last fifteen years (MacDonald, 2017). More particularly, the new bus network is designed around former trolleybus and tram routes that cannot keep up with the growth of the city and demand on public transport.

Therefore, all persuading influences entail better directive and management for advancing the quality of the buses, the metro, and minibuses in order to make it easily accessible and comfortable to passengers (from the interview, 08.04.2019).

1.3.2. Lack of performance

This thesis also identifies lack of performance as a major concern of the public transportation system of Tbilisi (from the interview, 08.04.2019). There is a piece of strong evidence that outlines that public transport operating companies lack performance, which is resulted in inefficient and incompetent public service delivery of transportation (MacDonald, 2017; from the interview, 08.04.2019). Lack of performance is illustrated by long travelling and waiting times, unreliable schedules, as well as a number of changes needed to get to the desired destination (from the interview, 10.04.2019; MacDonald, 2017).

It is interesting actually to observe what are the main preconditions for such a trend in Tbilisi. This research illustrates that in Tbilisi, there is no competition between the companies for operating rights (from the interview, 10.04.2019). As already outlined above, only two companies including Tbilisi Transport Company (TTC) that is 100% government owned and Marshrutka company that is a privately owned and at the same time contract based with Tbilisi City Hall, function for delivering transport service. This tendency causes severe consequences such as there is no incentives and motivation to increase the performance of public transport due to the reason that without any competition, companies do not feel that they could lose the operating rights (from the interview, 10.04.2019).

Moreover, the performance of the public transportation system is profoundly affected by the condition of the bus fleet. As MacDonald (2017) states “public transport is old and of poor quality” (p.10) and “the bus fleet is life expired and unreliable” (p. 10) this leads to frequent breakdown of busses (from the interview, 10.04.2019) which causes the system not to perform as expected.

According to Giely (2015) performance of the network in Tbilisi “is continuously decreasing due to the growing congestion, absence of dedicated bus lanes and priority for buses at junction” (p. 14). Moreover “citizens do not trust operating companies as the timetables are unreliable” (from the interview, 01.04.2019) and “due to congestions travelling time is extremely long” (from the interview, 08.04.2019).

Additionally, it should be noted that bus, microbus and metro are operating on the same lines. Thus, they are duplicating each other, which limits the possibility to use system with its full capacity and further deteriorates performance. Tbilisi public transportation system also lacks “proper interchange stations” (Giely, 2015, p. 16), meaning that it is hard to transfer from one mode to another or from one line to another. Lack of network hierarchy (MacDonald, 2017) and no high capacity buses on the main transport corridors (Giely, 2015; MacDonald, 2017) further contribute to the underperforming system.

1.3.3. Decreasing the share of public transport

2016 Household Survey outlines that in Tbilisi, there is a steady expansion of car ownership (8-9% in 2014-15) and the consumption of public transport services are decreasing significantly. (MacDonald, 2017). It is worth mentioning that some critical reasons explain this tendency. One essential purpose for the steady expansion of car usage refers to the fact that public transport is an old and in poor condition that causes a negative impression in the entire society. Moreover, old buses cause a frequent breakdown, are uncomfortable and did not meet modern security standards (MacDonald, 2017).

Another determinant factor for car ownership refers to the fact that parking in Tbilisi is very cheap and parking spaces are common that gives significant advantages for private cars usage (from the interview, 10.04.2019). Low prices in parking and “on-street” locations strengthen the problem of traffic congestion and concerns with the bus system. On-street parking has a very negative impact on the bus priority line provision as it eliminates two lanes and therefore promotes car usage. Another fact is that a parking

permit is easily accessible for everyone, and its price is inadequate. Moreover, parking fines are also low, and the driver can get rid of it by not accepting to receive it by post (MacDonald, 2017). The only way to ensure that fine is paid can be achieved by vehicle removal system by TTC (formerly by CT Park). Accordingly, due to the weak parking system, traffic congestion and road safety hazards are apparent (MacDonald, 2017). Furthermore, other problems include unregulated parking on the bus routes and the lack of bus priority lanes (from the interview, 08.04.2019).

1.4. Next step: Decentralisation strategy of Georgia

As already analysed above, Tbilisi strives to get better public transportation system, and at the same time, Georgian policymakers and local authorities proposed a new vision of decentralisation strategy. For this reason, it will be extremely interesting to observe how public transportation system management of Tbilisi can benefit from the decentralisation while applying Dutch experience in this particular field.

The newly emerged challenge for Georgian policymakers is the Decentralisation Strategy 2019-2025. In particular, in 2019, the Parliament and Government of Georgia prepared a national vision of decentralisation strategy 2019-2025 (Ministry of Regional Development And Infrastructure of Georgia, 2019). The main implications of this strategy are to strengthen local self-governance and therefore, empower local authorities with decision-making autonomy (Ministry of Regional Development And Infrastructure of Georgia, 2019).

More particularly, the vision of the government of Georgia concerning decentralisation implies the establishment and development of a system of local governance. The principal reason for applying for decentralisation strategy is related to strengthening active participation and considering local interests. Moreover, decentralisation would provide efficient and timely solutions to the local issues, utilise full potential of the municipality, ensure sustainable economic development as well as raise the quality of life (Ministry of Regional Development And Infrastructure of Georgia, 2019).

Representatives of the Georgian government outline that local self-governance is the primary basis of democracy (Ministry of Regional Development And Infrastructure of Georgia, 2019). Local governing institutions that possess substantial responsibility could provide useful and at the same time representative governance. Accordingly, it is the main

direction of the national government of Georgia to move development of a self-governance to the next level by ensuring the establishment of the democracy based on the Western values.

Irakli Kobakhidze, who is a Speaker of the Parliament of Georgia in his speech, outlined the importance of legislative changes and the new focus of Georgian policy-makers. As he noted, „fiscal decentralisation and delegation of competencies will increase the local budgets, enabling local self-government to effectively exercise their competences, raise the professional standard of civil servants and offer wider and better services to citizens“ (UNDP, 2018).

It is worth mentioning that the new national strategy of Georgia to give fiscal autonomy to local municipalities is a part of ongoing regional and local development reform, which is supported by international partners of Georgia such as the governments of Austria and Switzerland as well as UNDP (UNDP, 2018).

The Head of UNDP in Georgia, Niels Scott mentioned that “local self-governance must be capable of bringing decisions and services close to citizens, adapting them to people’s needs, and making citizens the active owners of the governance process. With this new national concept, Georgia is making a huge step forward to achieving this standard” (UNDP, 2018).

The decentralisation strategy for Georgia is a good illustration of how Georgia strives to have a better understanding of how to provide services adequately and appropriately. However, Decentralization Strategy 2019-2025 does not cover the aspects of transportation management in Tbilisi and similar issues. Accordingly, this thesis will try to analyse possible policy transfer options and propose recommendations from the Dutch fiscal decentralisation of the public transportation system to Georgia.

To sum up, Decentralisation Strategy 2019-2025 utilities the main objectives and dimensions of the policy including, increasing the role of the self-governing unit in substantial part in public affairs, ensuring proper implementation of responsibilities granted by law to self-governing entities. It promotes rising the power of self-governing bodies based on the principle of subsidiarity, securing consistent growth of revenue assignments of self-governing entities as well as guaranteeing the improvement of intergovernmental transfers.

Therefore, this thesis seeks to figure out some solutions for the problems above, including a lack of performance, decreasing the share of public transport and missing public transport planning and operating systems. In the next chapter, this thesis will turn the concept of decentralisation and analyse the main patterns and dimensions of decentralisation.

2. Chapter 2: Conceptualising Fiscal Decentralisation

2.1. What is decentralisation

Over the past two decades in many European countries, local authorities have started to implement decentralisation policies (Martinez-Vazquez & McNab, 2003). This phenomenon was perceived as a significant tendency towards greater decentralisation of governance activities. In the theoretical literature, the most common definition of decentralisation refers to the process of devolution of power, authority, and responsibility from the national level to the local level (De Vries, 2000).

This thesis will use this particular definition as it clearly articulates the central tenets and dimensions of the concept of decentralisation. It is worth mentioning that in the contemporary world, there is a steady expansion of the role of the public sector, especially with regard to public service delivery. This tendency shifted the new understanding and approach of public sector management and therefore, it resulted in so-called 'new public management' (NPM) (Hope & Bornwell, 2000). Moreover, the development of NPM is connected with the fact that the government in some cases fails to fulfil the main requirements of the entire population as local authorities lack time and resources to deliver services efficiently (Kaul & Collins, 1995). It should also be mentioned that NPM is associated with the statement 'run government like a business' due to the reason that NPM seeks to address more economic perspectives such as ensuring profit, innovation, efficiency, and competition (Hood, 1991).

According to Hood (1991), one of the differences between NPM and the traditional public administration is related to the different measurements of the government's involvement in the politics and decision-making processes. While the traditional approach assumes that ensuring security and reliability is the responsibility of the public rather than private organisations, NPM seeks the idea of shifting toward decentralisation and privatisation for public service provision that will indeed reduce the power of governmental institutions (Hood, 1991). Thus, one of the tenets of NPM is the changing role of government's activities that took its roots with the concept of decentralisation.

Decentralisation is a highly contested and multifaceted concept that varies based on different policy implications and policy areas. More particularly, there are different types of decentralisation, such as territorial decentralisation, fiscal decentralisation,

administrative decentralisation, and political decentralisation (The World Bank, 2001). Thus, it has great importance to carefully draw distinctions between these concepts as each of them have their unique characteristics, and their appropriateness for specific policies are also different. Moreover, there is some overlap in defining various forms of decentralisation as well as they can appear in different ways and combinations across time and countries (The World Bank, 2011). The overall literature on decentralisation tends to be focused on theoretical discussions rather than empirical analysis (De Vries, 2000). Therefore, it could be assumed that decentralisation is a topic that requires a more profound examination and investigation (Hidayat, 2017).

While assessing this phenomenon, various dilemmas emerged for numerous scholars (De Vries, 2000). The most contradictory one is that in the theoretical literature, similar arguments occur when analysing the main advantages of centralisation and decentralisation (De Vries, 2000). More particularly, Gary Bland (2000) assumes that decentralisation advances the democratic content of policy-making as well as it encourages public service delivery to be flexible, efficient and effective. On the other hand, arguments about centralisation occur in the same dimension, such as centralisation seeks to ensure integration, uniformity, and decisiveness of public service delivery (De Vries, 2000).

According to Cheema and Rondineli (2007), in developing countries, there are a high tendency of having unified, centralised and regulatory governments. Mostly political, economic and administrative functions of the state are through centralised institutions, and this phenomenon is perceived as an ideal and the most appropriate form of planning, decision-making, and policy-making. It should be noted that this tendency is logical as most developing countries tend to be former colonies, and as it is assumed, a direct legacy of colonial rulers tends to be centralised administrative and political institutions. Moreover, after the re-gained independence, the local authorities of these states started to nation building and these processes even strengthen the centralisation. This trend is also apparent in most former Soviet countries (The Cold War Museum). It should be noted that Georgia is a post-soviet country, and after the collapse of the Soviet Union, in Georgia, centralisation tendencies were apparent (The Cold War Museum). Although, during the last few decades Georgian governance shifted towards decentralisation, still,

this process requires time, resources, experience, and in-depth analysis (Ministry of Regional Development And Infrastructure of Georgia, 2019).

However, during the 1970s and early 1980s, many developing nations started decentralising planning and management functions of the government. The main reasons for such decision refer to the issue that there was a significant dissatisfaction towards administration and national planning as well as the 1970s is a period when international development strategies started to modify in the world (Manor, 1999). The main consequences of centralisation were that project managers were unable to receive resources on time from the central government (Cheema & Rondinelli, 2007). Moreover, due to the hierarchical system of decision-making, it was a time-consuming process to get approval or rejection from the central government. Another important fact was that central administrators did not have enough understanding and knowledge of concerns that may have a positive or negative impact on the project through the country. For instance, when a ministry of agriculture applies to crop production quotas within the whole country without considering the regional variations in soil and climate conditions (Cheema & Rondinelli, 2007).

The new policies aimed to increase the income and performance of all segments of society by creating better ways of distributing economic growth. This approach was perceived as the first step towards decentralisation in developing countries (Cheema & Rondinelli, 2007). However, even though developing nations justified the need for decentralisation, mostly problems emerged with regard to designing and implementing appropriate programs for decentralisation. Therefore, the process of decentralisation combined numerous challenges, and it was problematic for policymakers to consider all new approaches and changes that decentralisation required. Accordingly, most non-OECD countries were facing financial problems, as well as there was less export flow, increased the price for energy and imported good (Replogle, 1991).

When analysing the decentralisation policies in non-OECD countries, it is worth mentioning that policymakers of this country seek to assume that absolute central control and intervention in the market result in its imperfections. Accordingly, many experts of these countries outlined the importance of the public sector that provides a more flexible and result-oriented environment for policy-making (Replogle, 1991).

2.2. The conceptualisation of fiscal decentralisation

Generally, it is perceived that national government ought to provide policies that are the critical dimensions for the functioning of the state, such as national defence, international affairs, education, health care, social insurance, regional equity, fiscal policy coordination, etc. These policy domains should be the duties of the central government as their importance and scope are extremely big. However, other services such as the provision of infrastructure, public transport could be shared with the sub-national governments (The World Bank, 2001).

It should be outlined that in the contemporary world, many countries started to implement fiscal decentralisation strategy in order to reconstitute government from hierarchical top-down management to a bottom-up level (Favero, 2006). Moreover, fiscal decentralisation is a phenomenon that takes a lot of attention and is widely applied in many countries all around the globe (Ahmad & Tanzi, 2002). During the last decades, there was a steady expansion towards transferring political and fiscal powers to the sub-national government in many developed and developing states for achieving the economic growth and prosperity (Arzaghi & Henderson, 2005). The general understanding of this term is that it is mostly associated with assigning expenditures and revenues to the sub-national governments. (Ezcurra & Pascual, 2008).

Furthermore, one of the advantages of fiscal decentralisation is connected with the issue that by devolution of economic power to subnational governments, a state is provided with a balanced distribution of resources (Ezcurra & Pascual, 2008). Traditionally, fiscal decentralisation was very much linked with the study of the economy, and it has been an essential topic of discussion for the finance economists. However, in the contemporary world fiscal decentralisation has spread its influences to other fields of academia, this phenomenon is observed from the public governance perspective too, including policy-makers and people working in this particular field (Gramlich, 1993).

Another feature of fiscal decentralisation is to enrich economic efficiency, equality, and macroeconomic stability. (Neyapti, 2010) However, it is worth mentioning that policy priorities and implications have a significant effect on how these targets will be achieved.

For conceptualising fiscal decentralisation, this thesis will elaborate on the definitions by Ehtisham Ahmad and Vito Tanzi (2002), and by Bahl and Roy (2008). **Fiscal**

decentralisation is devolution of power and authority from the national to the local level, and it can be measured through expenditure assignment, revenue assignment and intergovernmental transfers (Bahl, 2008; Ahmad & Tanzi, 2002).

2.2.1. Expenditure assignment

The expenditure assignment is an essential dimension of fiscal decentralisation as the main characteristic of fiscal decentralisation is transferring some responsibilities for expenditures to the local governments (Ahmad & Tanzi, 2002). In other word expenditure assignment is about understanding what national and subnational governments' spending responsibilities is. The fact that local governments have fiscal autonomy to determine the allocation of their expenditures is a significant feature of fiscal decentralisation (The World Bank, 2001).

It has great importance to observe if governments of each municipality should consider the allocation of expenditure by themselves or the central government should be engaged in these processes by giving local governments only execution responsibilities (Bahl, 2008). Fiscal decentralisation can be perceived differently in different countries, and therefore, the characteristic features of fiscal decentralisation vary across time and space. Accordingly, it is essential to assess how federal and unitary governments provide different conditions for fiscal decentralisation. For instance, federal states are more likely to provide stronger independence of decision-making processes of local authorities as this type of government tends to have constitutionally protected sub-national governments (The World Bank, 2001). While unitary states do not have constitutionally empowered sub-national governments as these countries have subordinate levels (including provinces, districts, etc.) of one central government, thus their role in determining the scope and functions of government should be less compelling rather than in federal states. However, it should be noted that this is more a general assumption and in the political system, there exist federal states that can exercise less decentralised features (for instance Venezuela) and vice versa (Colombia).

According to Ahmad and Tanzi (2002), it is crucial to define expenditure responsibilities in a clear, accurate and appropriate manner in order to advance accountability mechanisms and to avoid some overlaps and duplications between local and central government's policies and authorities.

It is interesting to see what are the primary preconditions or factors for successful expenditure assignment. Based on Lugal and Shrestha (2004), for a successful expenditure assignment, elected local government is required as without legitimate local branch it will be hard to ensure accountability towards to local population and local authorities. Moreover, another essential precondition for successful expenditure assignment is related to assign tasks and functions between each level of government. This approach will ensure accountability mechanisms as well as provide public service delivery with an effective and efficient manner. It should also be mentioned that each branch of government should be empowered actually to manage and plan their resources (Bahl, 2008). However, the given autonomy to determine local budget requires effective transparency mechanisms to ensuring rational spending and at the same time avoid corruption. Another determinant factor for successful expenditure assignment is connected with a better linkage between central and local governments.

Furthermore, it has great importance to have a central government with strong leadership abilities to guarantee controlling and auditing mechanisms in place. Expenditure assignment needs a firm commitment from a central government for ensuring the main tenets of decentralisation and devolution of power. The willingness to guarantee the decentralisation should be resulted in giving local municipalities autonomy for budgeting, planning and fund flow (Lugal, Shrestha, Chapagain, & Bista, 2004).

2.2.2. Revenue assignment

Revenue assignment is another critical feature of fiscal decentralisation. It consists of various tax instruments including general, direct, indirect and individual taxes. Moreover, assigning taxes address the idea of allowing the subnational government to cover total or some part of expenses with their resources. (The World Bank, 2001).

The function of revenues assignment, in other words, tax assignment mostly is dependent on the combination of different taxes applied in the country generally. From the public finance theory perspective, observing what the ideal tax mix is still contested and vague issue even in the unitary states. However, the entire practice demonstrates that governments apply for the balanced tax systems and they sometimes overlap as income taxes, payroll taxes, and sales taxes tend to combine similar characteristic behaviours (The World Bank, 2001). It is worth mentioning that due to the regulatory considerations,

governments do not tend to apply for a single general tax base despite its contribution to efficiency and equity. This tendency is explained by the fact that several different taxes keeps overall rate low, thus, dropping motivation to evade taxes (The World Bank, 2001). It should be noted that, the situation is similar in federal government system regarding revenue assignment. There should be regulatory mechanisms to guarantee efficiency and equity and decision on specific assignment should be considered with the informed judgment as well as transfer of allocated resource pool between subnational governments (Bahl, 2008).

It should be noted that one of the most significant critical factors to consider while analysing fiscal decentralisation in terms of revenue assignment is ensuring equity throughout the country (The World Bank, 2001).

Ability to freely move goods, capital, services, and labour from one region to another is one of the prerequisites of an active state. Revenue assignment could have a significant impact on these matters. The discrepancy between two regions of the same country breaks assumption above and could raise the issue of competition between municipalities, as they could decrease taxes to attract resources to their region, and if multiple districts implement such policies, it will result to inefficiently low taxes or high subsidies (Bahl, 2008).

Consequently, the central government is the only level of the state, which could provide such equity, and fully decentralised taxation system could make it challenging to achieve this. Another argument for revenue assignment is accountability. Accountability questions might arise with centralised taxation system, as taxes collected by the national government provide ambiguity on revenue needs (Bahl, 2008). According to the World Bank (2001), the policy objective should be placing the level of government responsible for particular service as close as possible to the tax allocation instruments. Consequently, redistributive and resource rent taxes, as well as stabilisation instruments, should be allocated to the national government; while property taxes and municipal road toll should be the responsibility of regional authorities.

However, some level of decentralisation could still provide increased efficiency. The main idea of efficiency in revenue assignment is that governments should levy taxes on immobile resources, i.e. property and frontage taxes, as well as tolls on local roads and

poll taxes (The World Bank, 2001). The fact that these resources cannot be moved from one region to another provides a basis for equity that cannot be threatened by the decentralised tax system. However, these taxes would not be enough for the municipality to cover its expenses, and therefore, intergovernmental transfers should be used to mitigate the imbalances (The World Bank, 2001).

2.2.3. Intergovernmental transfers

According to the World Bank, in most developing countries, for some of the subnational governments, the intergovernmental transfers are the leading source of revenues. Their role is extremely high for providing equality of local services and the general well-being of subnational governments. Intergovernmental transfers consist of two categories, such as selective matching and non-matching (The World Bank, 2001). At the same time, these categories combine some sub-categories; for instance, non-matching transfers can be selective (conditional) and general (unconditional) (The World Bank, 2001).

Selective non-matching transfers are funds assigned to one particular purpose, and local government is expected to spend at least the amount transferred on that specific field. If the government is already spending a sufficient amount, the selective non-matching transfer can be used for other purposes. When local government is receiving the general or unconditional transfer, it is free of any constraints as to how to spend it as it is not bound to any particular purpose. The government can use it to invest in public goods or services or provide tax relief to residents. (The World Bank, 2001).

On the other hand, selective or conditional matching transfers are meant to be spent for a specific purpose, and it is mandatory for the recipient to fulfil this requirement. Selective matching transfers stimulate expenditures on the assisted category from two different approaches. The first subsidy gives municipality additional resources that can be spent on improving the subsidised area. Secondly, subsidy reduces the relative price of the target service municipality is able to purchase more than it could without subsidy (The World Bank, 2001).

2.3. Privatisation and competitive tendering

One of the forms of decentralisation from the perspective of government is privatisation that is a modern phenomenon as this concept only appeared in the dictionary in 1983 (Savas, 1987). Privatisation was defined as “to make private, especially to change (as a

business or industry) from the public to private control or ownership” (Savas, 1987, p. 3). However, in the contemporary world privatisation is equipped with more broad meanings as it is perceived as a new way of looking on government’s responsibilities while providing public services to its citizens (Hodge, 2018). The main idea of privatisation refers to the fact that during privatisation, the role of government is significantly decreasing and at the same time, the role of the private sector is increasing (Sheshinski & López-Calva, 2003).

According to Savas (1987), pressures for privatisation comes from ideological, pragmatic, commercial and populist movements. The groups above consider privatisation from different perspectives. For instance, the representatives of pragmatic groups acknowledge that government could lack the resources in order to fulfil the main requirements of the entire population. This limitation mostly results in increased cost of government activities as well as higher taxes. In these circumstances, to privatise public services and therefor, give other private firms access to offer these services is convenient as it strongly eliminates the gap in resources that the government cannot afford to deliver. Accordingly, pragmatics assume that privatisation is a strategic approach that leads to more cost-effective public services (Savas, 1987). Moreover, it increases efficiency and improves the level of quality of delivered public services (Sheshinski & López-Calva, 2003).

It has great importance also to observe privatisation from a commercial standpoint as businesses are in favour of privatisation and therefore, they are seen as a strong defender of this phenomena. Commercial pressure when it comes with an understanding of privatisation refers to the idea that the government lacks management skills, entrepreneurship and profitability motivation, thus spending more than necessary in order to provide salaries for its employees. Most of the services that are provided from the government are a routine activity such as repairing streets, collecting trash, maintaining buildings, ships, aeroplanes, etc. and private sector provides these services more efficiently and cost-effectively (Savas, 1987).

Moreover, privatisation also receives its support from the populist groups. According to Savas (1987), populists are not in favour of the government and business sector. They assume that public and private sectors have become too bureaucratized and

institutionalised. This tendency causes that private and public sectors seek to strive for fulfilling their interests rather than considering the needs of their citizens. By acknowledging these assumptions, populists believe that citizens could be able to determine the public good, and their contribution with regard to defining the common needs should be significant. Thus, representatives of populist groups admit that ordinary people ought to have strength and power to choose appropriate public services instead of determining it from the political elites (Savas, 1987).

It is worth mentioning that privatisation appears in different dimensions. The most common form of privatisation is contracting out; in other words, so-called competitive tendering (Woodham, 2016). More particularly contracting out refers to the course of action while the government concludes the contract with private firms in order to deliver the required services (Bredenkamp, 2018).

It should be noted that there is a large body of literature analysing the effects of competitive tendering around Europe (Domberger & Rimmer, 1994; Hansen, 2010; Woodham, 2016; Bell & Hindmoor, 2009). According to Bell and Hindmoor (2009), the main idea of contracting out or competitive tendering is that services that were run by the government are exposed to competition. In other words, government services have been contracted to the private sector in order to receive the desired services appropriately and compellingly. The scholars above elaborate on the survey in which it is exposed that in the entire world, 'third sector organisations' account for around five per cent of world gross domestic product and they seek to employ approximately 40 million people (Bell & Hindmoor, 2009).

Moreover, Savas (1987) notes that the government should apply for privatisation by contracting out in some cases. Scholar distinguishes four crucial conditions that require the state to implement competitive tendering (Savas, 1987). These circumstances are the following: the government units should face severe fiscal stress; contracting could provide significant cost-savings without degrading the quality of the service; there is political readiness, and all factors have been considered for contracting out (affected employees, service constituency); political circumstances make it impossible for the government to continue provision by itself.

However, privatisation is a topic that has been subjected to severe criticism. Even though privatisation is seen as a response to the failure of the government's course of action still, it raises the questions with regard to the market failure itself. The main limitations of privatisation are grouped as implementation obstacles, required conditions for successful privatisation, etc. Thus, according to Savas (1987), there should be some preconditions in order to have a successful process of privatisation; however, in practice, these conditions are not always widespread. For instance, the interest of voluntary action could be lacking if there is no common understanding of needs.

Another critical limitation of privatisation is connected with implementation obstacles. It is worth mentioning that privatization of services requires significant resources as shifting from the public sector towards the private is a substantial change where authorities need to adjust their roles from service delivery-functions to control contracting company and at the same time ensure accountability mechanisms (Rubin, 2010). Another factor for consideration is market situation in the country, more particularly whether or not there are enough providers to privatise services. Expect resources there comes the issue of legitimacy. As it is observed, there is a high tendency of legitimacy gap between the providers (private sector) and its beneficiaries (citizens) (Hodge, 2018).

2.4. The relationship between fiscal decentralisation and public transportation system

In the theoretical literature, there is strong evidence that illustrates the connection between fiscal decentralisation and better public provision of the transportation system (Favero, 2006; Sow & Razafimahefa, 2015; Arzaghi & Henderson, 2005; Martinez-Vazquez & McNab, 2003). Over the past decades, many European countries started to implement decentralisation policies in order to subsidise the public good that was prioritised under the European Union as well as the regional policy of the European Commission. (Favero, 2006)

Numerous policy reviews and academic papers, outline that decentralisation policies, especially with regard to urban public transport provision, result in successful outcomes (Sow & Razafimahefa, 2015; Favero, 2006). According to Favero (2006) decentralisation has a high impact on urban public transport provision because the allocation of resources and responsibilities are different during decentralisation.

Fiscal decentralisation increases the expenditure in the management of public transport infrastructure and promotes the forecasting of revenues as well as the entrepreneurship of the domestic policy-makers. (Favero, 2006)

Sow and Razafimahefa (2015) argue that fiscal decentralization seeks to advance the efficiency of public service provision while some important circumstances are met. First of all, it is required to have sufficient political and institutional mechanism for any decentralisation to work. Second, for improving the efficiency of public service delivery, it is necessary to have an adequate degree of expenditure decentralisation. And third, sufficient revenue decentralisation is also required for achieving desired results. If any of these three pillars is weakened then, as scholars note, fiscal decentralisation will worsen the efficiency of public service delivery.

According to Favero (2006), fiscal decentralisation can benefit public service delivery, more particularly public transportation system. In his study *Fiscal Decentralisation and Urban Public Transport*, Favero reviewed five case studies of major European metropolitan areas including Madrid, Barcelona, Paris, Milan, and Stockholm, and covered the most common transportation types from railways to busses. He argues that after implementing fiscal decentralisation, first, the entrepreneurship of the local policymakers grows. Second, the expenditure on public transport increases. And since local governments are able to predict revenues, it allows them to plan improvements of transport infrastructure on medium to long-term (Favero, 2006).

Favero (2006) outlines that for achieving greater accountability and efficiency, subnational governments should be able to determine their revenues. According to this theory, while the expenditure mix and the tax rates are regulated closer to the citizens, there is more probability that the provision of local public services will improve. Throughout the fiscal policy, subnational governments ought to control their revenue sources, and this will also foster effective control of expenditures. (Favero, 2006).

Empirical studies show that local government spending is reactive to intergovernmental receipts and spending behaviour are determined by the need of raising money. Another critical dimension of fiscal decentralisation is that through fiscal decentralisation, the problem of moral hazard can be eliminated as local fiscal autonomy can impose a harder budget constraint on subnational governments. (Favero, 2006)

Arzaghi and Henderson (2005) examined the connection between fiscal decentralisation and public service provision. Scholars note that the assignation of power results in the efficient public provision of goods (Arzaghi & Henderson, 2005). They assume that central governments have structural problems with regard to public service provision as they have difficulties in understanding the preferences of their citizens (Arzaghi & Henderson, 2005). This particular tendency causes inefficient tax rates and problematic public service provision. This tendency can be balanced by giving empowerment to local government. He believes that fiscal decentralisation can enhance efficiency.

Other scholars who outline the positive relationship between fiscal decentralisation and public service provision are Vazquez and McNab (2003). In their study, they assume that public good should be provided at the local level and they believe that the central government fails to make distinctive their policies among other municipalities and therefore it raises a question of spill-over effects (Martinez-Vazquez & McNab, 2003). Oates (1972) outlines two main reasons of spill-over effects. The first reason is connected with information asymmetries, by this Oates means that local governments find it hard to find overall demand of needs at the regional level, for them, it is easier to observe local district's needs. Second reason refers to the fact of the problem of political constraints. By this, Oates means that the central government will be forced to treat each municipality in an equal way, and this circumstance will raise the questions of decentralisation (Oates, 1972).

2.5. Advantages of decentralisation

It is essential to mention that in the theoretical literature there exists some arguments in favour of decentralisation (Waldo, 2017). Mostly the main advantages of decentralization is connected with the issue that decentralization distributes resources and powers evenly throughout the country. Moreover, services tend to be easily customised to the needs of local citizens since the regional diversity, innovation and entrepreneurship of local policy-making are more presented (Waldo, 2017).

Allocative efficiency is perceived as a core characteristic of decentralisation because as a matter of fact, policies tend to be efficient when preferences of the population are exposed. In the decentralised state, policies mostly function at the local level. Therefore, it is more affordable to observe general patterns of the population than to assume general

will through the national level. According to World Bank (2001), decentralisation can also strengthen productive efficiency, causing increased accountability of local government structures to citizens as well as less bureaucracy and a better understanding of local costs.

However, at the same time, the World Bank assumes that in order to have allocative and productive efficiency as a result of decentralisation, some necessary preconditions are required. More particularly it has great importance to transfer administrative, political and financial authority to the local government as well as it is crucial to have well-functioning regional accountability mechanisms where the principle-agent relationship will be hardly scrutinised (The World Bank, 2001). These accountability channels include voice instruments for citizens in order to demonstrate their opinions and concerns to local governmental bodies. Another precondition is related to new incentives for public sector management in order to enrich transparent accountability system (De Vries, 2000).

The last but not least is the flexibility that is considered as a positive characteristic of decentralisation. The reasons for observing decentralisation policies as flexible refers to the fact that overall nature of decentralised institutions is adjustable as they tend to efficiently respond to the customers' requirements, moreover, in such circumstances the process of local service provision is much more straightforward and convenient (Osborne, 1993).

According to Zureiqat (2017), local governments have always had an essential role in managing public transportation system as transport planning were the part of their jurisdictions. One of the reasons for such an assumption is that planning of land use and scrutinising the demand for transport generated from that are mainly the responsibility of the municipality. Accordingly, it is straightforward that local entities would have better insights of the need of residents for public transport as observing the local requirements of the local population require fewer resources for local government compared to the entire state (Zureiqat, 2017).

To sum up, it is argued that decentralisation is an effective way for service delivery, especially while dealing with services that's scope could be allocated on the local level, including urban transit, water supply, roads maintenance, etc. (Estache & Sinha, 1994).

2.6. Limitations of decentralisation

It is worth mentioning that theoretical literature, as well as empirical evidence, also covers negative aspects of decentralisation (Ahmad & Tanzi, 2002). Most of the arguments rejecting decentralisation took its root to Leviathan of Thomas Hobbes, who strongly advocates about the need of centralisation. Thomas Hobbes argued that absolute state is the only institution that should be directly in touch with the individual (Frohnen, Beer, & Jeffrey, 2014).

Moreover, some scholars believe that decentralisation lacks efficiency in terms of policy-writing as it is much convenient and more comfortable to develop one policy that will be adjusted for the entire population and there will be less probability of policy duplication or competitiveness (De Vries, 2000).

According to scholars, equity is a characteristic that decentralisation lacks as it causes inequity in different regions as these regions could introduce various regulations on some vital spheres, therefore putting the population in unequal circumstances (Ostrom, 2015). Another disadvantage of decentralisation refers to a free-rider problem as there is a tendency that decentralisation may cause conditions in which who take advantage of the resources and public goods do not make any contribution to creating it (Ophuls, 1973).

Additionally, Hutchcroft & Paul (2001) assume that theoretical background about decentralised policies is too vague and controversial. Some scholars believe that that decentralisation depends on scale, more particularly in the bigger states, decentralisation functions better (Hutchcroft, 2001). Moreover, while it is crucial to assess political and decentralisation culture of the country due to the reason that decentralised policies might have different effects on the policy administration level (Bolleyer & Thorlakson, 2012). The last but not least refers to the issue that decentralisation could not be observed as one-dimensional and its efficiency depends on the characteristics of the policy at hand (Wibbels, 2006)

3. Chapter 3: Research design: Investigating fiscal decentralisation empirically

3.1. Research questions

The main objective of this research is to identify how can Tbilisi improve its public transportation system by applying fiscal decentralisation. As described in the previous chapters, this thesis analyses Dutch fiscal decentralisation experience with regard to the public transportation system and use it as a lesson-drawing opportunity guidepost for proposing it to local Georgian authorities. Finally, this thesis provides a set of recommendations for how Tbilisi can improve its public transportation system through fiscal decentralisation.

The insights stemming from the previous chapters will now be used to specify the research question further. Thus, this thesis proposes the following research question:

How could Tbilisi improve public service delivery of transportation through decentralisation while applying Dutch experience in this particular field?

This thesis offers the secondary research questions too:

RQ1 How could Tbilisi improve its transportation of buses, metro, and Marshrutka through fiscal decentralisation?

RQ2 How could Tbilisi improve its transportation of buses, metro, and Marshrutka through competitive tendering?

3.2. Research design

This thesis, as a research design, employs a Single Case Study. The main reason for applying for this particular design is related to the issue that a Single Case Study provides research with an in-depth understanding of the phenomenon „within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 1981, p. 14). Moreover, as Robert Stake (2005) notes, Single Case Study ensures research with a thorough analysis as a researcher is determined to investigate the tendencies and dynamics of one case. Accordingly, the resources are concentrated on a particular case, resulting in more profound inquire of phenomena, in contrast to the multi-case study where several cases should be considered at once.

This thesis examines Dutch fiscal decentralisation with regard to the public transportation system by looking at the particular policy, so-called “Wet personenvervoer 1988” (PTA 1988) and its addition “Wet personenvervoer 2000” (PTA 2000). It is a legislative bill that identifies the public transport decentralisation policy in the Netherlands (Wet Personenvervoer, 1988; Wet personenvervoer, 2000). It outlines the foremost tenets and elements of Dutch fiscal decentralisation with regard to the public transportation system.

Furthermore, the main justification for lesson-drawing from the Netherlands is connected with the fact that the urbanisation level of the Netherlands is 91.5% and is one of the highest in the EU (The World Bank, 2019). The Dutch transportation system is sophisticated and complex with different types of roads and public transports. The efficiency of transportation is also high, on the average single person in the Netherlands travels more than 35 km a day, and it takes him/her just over an hour (CBS, 2016). Additionally, since the 1980s, Netherlands became an excellent example of the decentral welfare state by using privatisation, decentralisation, and deregulation. There was a tendency of the increased role of provinces and municipalities in the public service provision, fiscal decentralisation and at the same time decreased responsibilities of the national government in the Netherlands (Bos, 2010).

Moreover, the Netherlands has a modern, well-functioning and sophisticated public transport. The innovation and a long tradition of entrepreneurship in public transport service provision are the main dimensions by which Dutch people are proud. It is worth mentioning that in 1980, the Netherlands introduces a national ticketing and fare systems for transport companies operating on local and regional levels. In 2010, the Netherlands implemented an electronic card system, so-called the OV-chipkaart by which passengers can travel on all types of public transport including train, buses, trams, metro around the country (Ministry of Transport, Public Works and Water Management, 2010).

Another justification for choosing the Netherlands is connected with the fact that the capitals Tbilisi and Amsterdam have similar characteristics. Both are the largest cities in the countries as well as the population of both capital cities are more or less similar. According to the 2015 statistics, the populations of Amsterdam in 821,752 people (Eurostat, 2019), while 2016 statistics show that Tbilisi has 1.114 million inhabitants (GeoStat, 2019).

By acknowledging that the Netherlands implemented fiscal decentralisation policy successfully as well as it is a country that has a well-functioning public transportation system, it would make a good example to learn from for Tbilisi and to apply for the policy transfer from that country.

Once this thesis determined that for answering research questions, it is required to use a qualitative case study, it also has great importance to specify what type of case study will be conducted. Accordingly, this study uses an exploratory type of case study, as this type of case study is used to explore the main dynamics and patterns of the chosen case (Baxter & Jack, 2008). Even though theoretical literature provides information with regard to Dutch case at the same time, it raises some important questions too. By acknowledging this circumstance, exploratory type of case study was used in order to get a more accurate and more precise picture of Dutch fiscal decentralisation experience with regard to the public transportation system.

3.3. Research methods

As a data collection method, this research employs interviews and document analysis. Interviews seek to provide a deep understanding of the central topics. A qualitative interview tends to provide process-tracing research (Mosley, 2013) as well as it encompasses appropriate qualitative data for this study. For answering research questions, this thesis requires the data that will clearly illustrate the following aspects, including what were the main reasons of implementing fiscal decentralisation in the Netherlands; How fiscal decentralisation was implemented in the Netherlands and how it affected public service provision of transportation. How can Georgia benefit from Dutch experience of fiscal decentralisation with regard to public service provision of transportation? Why is Dutch experience in this field relevant for Tbilisi? The role of the interviews for obtaining that information is high as with interview it is possible to collect information and observe what were the main policy implications of Dutch fiscal decentralisation and how this policy functions in reality (Silverman, 2013; Appendix II-III).

The main aim of using interviews refers to the fact that despite fiscal decentralisation is more or less economic term and issue; it still has a broader implication in qualitative research. As in the contemporary world, fiscal decentralisation is becoming more

equipped with the political framework, and its role in policy-making processes is increasing steadily. The interviews provided this study with a picture of the Dutch political system. Therefore, this data collection method assisted us to comprehend and observe the main tendencies, dynamics and characteristic behaviours of Dutch decentralisation with regard to public service provision of the transportation system.

For this study, four in-depth semi-structured interviews were conducted (face to face or via e-mail, according to the availability of the interviewee) with Senior Policy Makers and Project Managers in the field of mobility and public transport, as well as Secretary-General at European Metropolitan Transport Authorities in order to draw a more comprehensive scenario of the public transportation system of Dutch municipalities and fiscal decentralisation. Moreover, for this research three in-depth semi-structured interviews were carried out with Urban Traffic and Railway Management Specialists for observing the problematic features of Tbilisi public transportation system.

The sampling strategy was purposive sampling, as respondents have been chosen based on specific criteria, such as their experience, knowledge, and understanding of the research topic (Battaglia, 2008). However, this thesis also applies to snowball sampling as an additional form of sampling to get in contact with more respondents.

The main reason for coming up with seven interview number refers to the fact that the similar patterns started to show up from the interviews. Thus, saturation was more or less reached, and new interviews would not give us any additional insights (Kvale, 2008; Seidman, 2006).

The respondents of this thesis are the following (Appendix IV):

- **Eddy le Couvreur**, who is a Senior Policy Officer within the Province of Zuid-Holland. Department of Mobility and Environmental Protection Bureau Public Transport.
- **Edso Wijvekate**, who is a Senior Policy Maker and Advisor in Public Transport within the Province of Zuid-Holland in the Netherlands.
- **David Aulman**, who is a Senior Project Manager in Amsterdam Public Transport Contracting in the Netherlands.

- **Ruud van der Ploeg**, who is a Secretary-general at European Metropolitan Transport Authorities in the Netherlands.
- **George Kevkhishvili**, who is a Traffic Organization and Management specialist at Smart Transportation Solutions (STS) in Georgia.
- **Zurab Beradze**, who is an Urban Transport Specialist and Technical Director at Smart Transportation Solutions (STS) in Georgia.
- **Vakhtang Tavidshvili**, who is a Railway Transport Management Specialist in Georgia.

As a document analysis, this thesis uses policy strategies, legal acts, and draft documents from Georgia and from the Netherlands. More particularly, this research employs Georgian Fiscal Decentralisation Strategy (Ministry of Regional Development And Infrastructure of Georgia, 2019), GEO: Tbilisi Bus Network Improvement and Pilot Surface Transit System Pre-Feasibility Study (MacDonald, 2017), Passenger Transport Act 2000 (Wet personenvervoer, 2000), Passenger Transport Act 1988 (Wet Personenvervoer, 1988), Public Transport Tendering in the Netherlands (Velde, Eerdmans, & Westerink, 2010).

3.3.1. Interview set-up

All seven interviews were semi-structured. The main reason for applying semi-structured interviews refers to the fact that this particular method consists of various benefits for the research. One of the main characteristics of the semi-structured interview is that the interviewer is not obliged to stick only for the questionnaire and if interviewee starts elaborating on other issues too, interviewer seek to follow that process (Leech, 2002).

According to Silverman (2013), the main advantage of semi-structured interviewing is that it provides researchers with in-depth and inclusive qualitative data. The foremost reason for afore-mentioned assumption refers to the fact that during the semi-structured interviewing the respondent has the freedom to express his/her ideas outside of the scope of the questionnaire too. Therefore, this tendency creates a room for flexibility in expression. Moreover, this method tends to create a more comprehensive picture of the topic as it “allows researchers to develop in-depth accounts of experiences and perceptions with individuals” (Cousin, 2009, p. 71).

It is worth mentioning that the contribution of respondents to the study is extremely high as local actors are an essential resource for producing knowledge and a deeper understanding of the local dynamics. Dutch local experts played a significant role in analysing the fiscal policies of Dutch municipalities with regard to the transportation system, and therefore they fulfilled data with qualitative information.

All seven conducted interviews lasted around 30-40 minutes. For each interview, the audio-recording was used. Moreover, for these studies, collected data from the interviews were transcribed. Interview questions were based on Patton's (2015) classification that clearly outlines how to come up with a proper interview guide while balancing questions about knowledge, opinions, and values.

3.3.2. Sampling

For the interviews, the respondents were not selected randomly. As a sampling strategy, the snowball sampling was applied for this research due to the reason that finding the potential respondents for this study was hard. The snow-ball sampling provides research with a technique by which existing study respondents recruit future subjects from among their acquaintances (Naderifar, Goli, & Ghaljaie, 2017).

However, snowball sampling has some limitations too as it may result in sampling bias and 'margin of error' due to the fact that there is more probability to refer people who the current respondent knows with the same assumptions and ideas on the particular topic. Therefore, there is a risk of monotony in ideas (Faugier & Sargeant, 1997). However, there is a solution for addressing this particular issue, such as data triangulation that is a widely applied method in qualitative research. By using data triangulation researchers become able to ensure validity and measurement error as its main characteristics are related to applying for more than one method while collecting data for the research, i.e. document analysis (Carter, Bryant-Lukosius, DiCenso, Blythe, & Neville, 2014).

3.3.3. Method of analysis

For analysing qualitative interview data, the thematic content analysis was used (Appendix V). Thematic analysis is a widely-used qualitative method for analysing and identifying some crucial patterns within the data (Braun & Clarke, 2006). One of the advantages of thematic analysis while working with verbal data, such as interviews is its flexibility. The process of the investigation was following: the first step was to familiarise

within the data, that involves transcribing the data and reading data very carefully, next step was to generate initial codes that include coding significant patterns of the data in a systematic way. The third approach was to search for themes, that combines transferring codes into potential themes as well as gathering data for each theme. The fourth approach was to reviewing themes, that is connected with fact to ensure that codes and themes fit each other. The fourth step was to define and name themes, that includes to find an appropriate definition of each theme and refine specific of each theme. The last step of the analysis was to create a comprehensive report on the insights relating to research questions, by selecting most important themes and providing relevant quotes and extracts from the interviews (Braun & Clarke, 2006, p. 87).

3.3.4. Reliability and validity

It should be mentioned that reliability and validity risks with regard to interviews should be considered. First and foremost, the respondents of this research were street-level bureaucrats; people who are engaged in the policy implementation process. According to Michael Lipsky, street-level bureaucrats exercise the high level of autonomy and discretion in their work. Sometimes, they make decisions based on their self-judgment and subjective opinions (Lipsky, 2010).

This tendency raises questions that could be seen as validity and reliability threats. Thus, this study acknowledges this trend as a limitation due to the fact that personal biases could influence the study results and findings. Furthermore, this thesis outlines that biases could also emerge during sampling (Smith & Noble, 2014). Again, to address these concerns, this thesis will employ data triangulation that yields many benefits, including access to multiple sources of data in order to expand a broad understanding of research theme (Patton, 2015).

4. Chapter 4: Case study – Passenger Transport Act 1988 – 2000

This chapter will provide a discussion of the results of thematic content analysis. The analysis has been conducted with research questions of the thesis in consideration and according to the steps outlined in chapter 3: transcribing data and getting familiarized with it, generating codes, identifying initial themes, fitting themes with codes, categorizing final themes, analysing results and insights, and providing a report (Braun & Clarke, 2006). The subchapters will overview the identified themes and provide a thorough analysis of the results.

4.1. Identified Themes

While analysing the interviews and relevant documents, the themes described in Figure 3 have been identified.

During the analysis, data outlined public transport decentralisation policy vision in the Netherlands, including issues that fostered government to move forward with the implementation of decentralisation policy. It overviewed the structure of the governance and fiscal politics of the Dutch public transportation system before and after policy implementation. Moreover, interviewees discussed outcomes and limitations of the decentralisation policy and overviewed details that were not foreseen while designing bills.

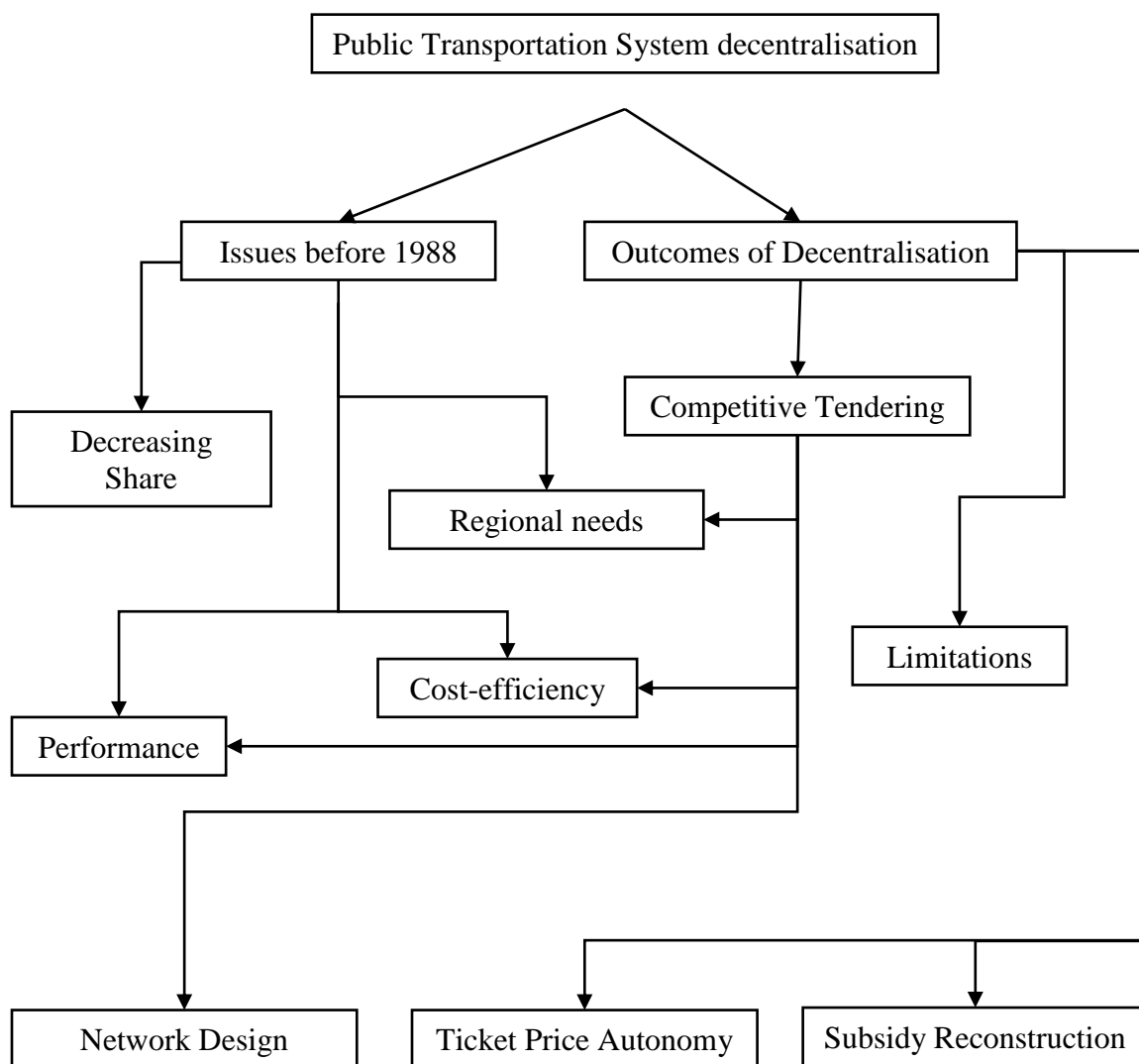


Figure 3. Identified Themes

4.2. Public Transportation System in the Netherlands

Public transport policy in the Netherlands mostly has a top-down structure. However, the bottom-up approach is also visible (Ministry of Transport, Public Works and Water Management, 2010). While talking about the policy-making process in the Netherlands, it should be noted that each layer of government sets frameworks and has an equal contribution to the policy shaping. With regard to Dutch public transport system management, all layers of government have executive functions. More particularly, local authorities intend to set new incentives for the development of the public transport system as well as they exercise power to adjust national legislation and regulations that are implemented by the central government (from the interview, 05.04.2019).

The illustration of Dutch fiscal decentralisation in public transportation system is the bill ‘The Passenger Transport Act 1988 (Sevenster, 1988) as well as an extension of the bill The Passenger Act 2000 (Wet personenvervoer, 2000). Before analysing the bills above, this thesis will briefly outline how the tasks and responsibilities for governing public transportation system were distributed in the Netherlands before the implementation of PTA 1988 and what were the main motivational factors for implementing these bills.

As a matter of fact, before 1988, the governance of the public transportation system was centralised, “central government was responsible for both urban and regional transport” (from the interview, 22.04.2019). They were determining the prices and spending levels as well as contracting and managing relations with the transportation companies (from the interview, 22.04.2019).

The centralised system was working well, but it had some flaws. At that time, most major cities had their public transport operators (PTOs), and smaller cities were dependent on these operators as they did not have enough resources to manage their PTOs (from the interview, 17.04.2019). Accordingly, the regional needs of small towns were usually left unattended (from the interview, 17.04.2019). This tendency caused the underperforming and transportation system in smaller towns (from the interview, 17.04.2019).

Moreover, it was recognized that the local/regional authorities have a better insight into the needs of the potential passengers in their areas and the opportunities for improvement of the performance of public transport system, than the national government could ever have being situated too far away from the daily operations (from the interview, 22.04.2019).

Furthermore, another reason for implementing this bill was related to the issue that the local/regional authorities would be able to incorporate public transport in their regional transport policies to create a more integrated transport policy and transport system. Municipalities and provinces/regions are situated closer to the daily practice and could, therefore, better judge how regional public transport should be organised (from the interview, 15.04.2019).

It is interesting to observe that even though operating rights on “public transport was given out in concessions, they were permanent” (from the interview, 05.04.2019), meaning that “the company who ran all the buses could do that forever” (from the

interview, 05.04.2019). And because of that there “was no real incentive to increase performance” (from the interview, 05.04.2019) and usually PTOs were operating in a non-cost-effective way since their perception was that no matter what companies would not run into the risk of losing their business if they didn't perform and they would always have funding from the government (from the interview, 05.04.2019).

To address the issues above, the government of the Netherlands initiated PTA 1988. The PTA 1988 introduced a distinction between local public transport (by city buses and trams) and regional public transport (Wet Personenvervoer, 1988; from the interview, 17.04.2019). Hence, the subsidies for local public transport was granted to the municipalities, who themselves became responsible for urban transport (Wet Personenvervoer, 1988; from the interview, 15.04.2019). The national government remained responsible for regional public transport and trains. Hence government subsidies for regional transport remained to be paid directly to the regional PTO's (from the interview, 15.04.2019).

Another issue that was evident with the Dutch public transportations system at that time was decreasing the share of public transportation in the mobility market. From 1960 to 1980, that share has dropped from 35 to 10 per cent (from the interview, 17.04.2019). The reason behind this mainly was poor performance, which led citizens to use private cars or bicycles instead of public transport (from the interview, 17.04.2019). Taking into consideration all this at the end of 1991, Minister of Transportation and Water Water Management Maij-Weggen established the Brokx commission to further improve on PTA 1988 by investigating how public transport can increase its share in the mobility market.

The reports of Brokx commission laid the groundwork for the PTA 2000 that introduces competitive tendering in Dutch public transportation system (from the interview, 05.04.2019). Authorities believed that the solution for a declining market share of public transport was in structural renewal of the sector (from the interview, 05.04.2019). Their vision was that only if there is competition in bus transport will it become both cheaper and more customer-friendly (from the interview, 17.04.2019).

4.3. PTA 1988 - 2000

The main contributors to designing Dutch decentralised system were Tiebout (1956), Musgrave (1959), Olson (1969), and Oates (1972). According to them, neither fully

centralised or fully decentralised governments are likely to be efficient. But the state should aim to have a hybrid of both where central government focuses on providing services that benefit the whole nation or has the significant strategic or economic scale and value, such as security, foreign affairs, monetary policy, etc. On the other hand, local governments should take care of provisioning the needs and requirements of the population on the local scale.

The PTA 1988 introduced a distinction between local public transport (by city buses and trams) and regional public transport. Hence, the subsidies for local public transport was granted to the municipalities, who themselves became responsible for urban transport. Towns and cities without their own Public Transport Operator (PTO) were called “BOS municipalities”, and “BOV”-cities (owning their operator) were endowed with responsibilities and received a public transport budget. The national government remained responsible for regional public transport and trains. Hence government subsidies for regional transport remained to be paid directly to the regional PTO’s. (Wet Personenvervoer, 1988)

In 1996, seven plus-regions were formed around the larger cities (the so-called “kaderwetgebieden”). The responsibility for all public transport within those regions was decentralised to these regions. From 1998, the entire regional public transport (by bus/tram/metro) was completely decentralised to 35 authorities: 12 provinces, seven-plus regions and 16 so-called VOC-municipalities (Vervoersautoriteiten Openbaar vervoer Centrumsteden). Competitive tendering was introduced in the Netherlands from 2001 with the PTA 2000. The legislator (national government) aimed to create a level playing field as indicated in European Legislation (Public Service Obligation Regulation, COM 1370/2007) aligning to previously made choices on transport decentralisation (Wet personenvervoer, 2000). This law sought to improve further both the quality and efficiency and to reduce the cost of public transport (from the interview, 05.04.2019).

PTA 2000 is based on public transport authorities (provincial and regional government) that receive operating grants through the Ministry of Transport, Public Works and Water Management to be able to "hire" city and regional transport, decentralized train transport, Collective Demand-dependent Transport and/or student transport from a carrier for the

inhabitants of the area (Wet personenvervoer, 2000). Figure 4 illustrates the current structure of transportation governance of the Netherlands.

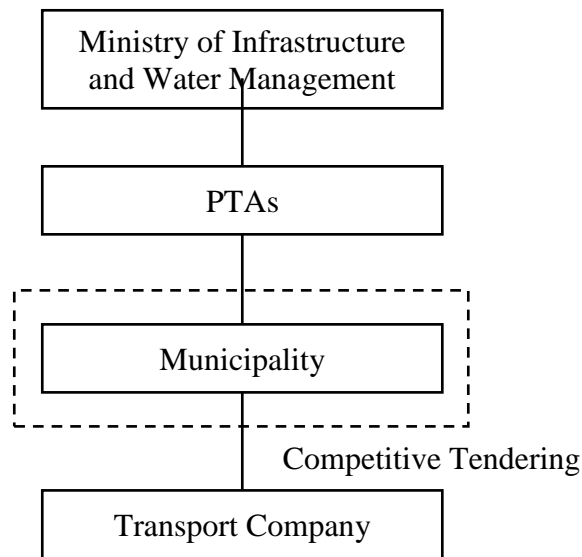


Figure 4. Netherlands Transportation Governance Structure (Ministry of Transport, Public Works and Water Management, 2010)

It is interesting to observe how the Dutch government searches for public transport operating companies. The public transport authority organises a public tender as a concession provider. The grantor divides the territory and the existing lines into so-called concession areas that are tendered as bite-sized packages. For such a concession area, the grantor chooses for a maximum period of eight years (for concessions with rail a maximum of 15 years) the carrier that offers the best quality, the lowest price or a combination of both (Wet personenvervoer, 2000). The tendency that more and more public transport authorities make the assessment to a greater extent, dependent on the quality offered (from the interview, 22.04.2019).

Since 2000 all provinces were required to tender out their public transportation systems in open public tender, but there was an exception for Amsterdam, Rotterdam-The Hague, and Utrecht (Wet personenvervoer, 2000). They were allowed to award urban transport privately. The principal reason for such decision was related to the fact that the Dutch government wanted to make it evident how the new policy of tendering would function before implementing it in big cities. But as of 2019, all the provinces and the cities are

contracting public transport (from the interview, 17.04.2019). The central government remains responsible for national rail transport.

Thus, the main aim PTA 2000 is to empower transport operator companies to identify and observe the possible passenger demand and therefore accordingly provide the transport services (from the interview, 17.04.2019). Moreover, one of the main implications of this bill was to select operators through competitive tendering as well as giving freedom to local authorities to actually define the Operators are to be selected in a competitive tendering procedure, but the Act leaves considerable freedom for authorities to specify the way in which services are authorized (from the interview, 05.04.2019).

4.4. Analysis across the dimensions of fiscal decentralisation

PTA 1988 introduced significant changes in Dutch governance of public transport in terms of fiscal decentralisation. This chapter will analyse changes across the dimensions of fiscal decentralisation: revenue assignment, expenditure assignment, and intergovernmental transfers. It should be noted that PTA 1988 had a significant impact on expenditure assignment and intergovernmental transfers, as it empowered local authorities to define their spending in public transportation as they see it fit and central government would support local entities with subsidies and grants. However, PTA 1988 had limited influence on revenue assignment as the national government remains centralised structure for this matter (from the interview, 22.04.2019).

4.4.1. Revenue Assignment

Decentralisation of public transport governance had limited influence in the context of revenue assignment. The national government remains centralised structure and is still in charge of taxation, and all of the funds are distributed to municipalities on the discretion of the central government (Wet Personenvervoer, 1988; Wet personenvervoer, 2000; from the interview, 15.04.2019). However, local authorities still have some leverage in managing the revenues. Ticket prices of public transport are in hand of the municipalities and, even though it is a “tricky” political decision, in theory, they can change prices to get more revenue (from the interview, 17.04.2019).

Moreover, other revenue sources connected directly or indirectly to public transportation system such as revenues from advertising at public transport stops, revenues from car-parking, revenues from land exploitation (new housing/business developments near

public transport hubs), generate a lot of income for the municipalities, a part of which they could invest in improving public transport (from the interview, 20.04.2019).

4.4.2. Expenditure Assignment

While analysing one of the indicators of fiscal decentralisation that is an expenditure assignment, it is vital to clearly outline how this dimension was reflected in the Netherlands through PTA 1988-2000. Passenger Transport Act defined 35 public transport authorities and authorised them to set local public transportation policy according to the needs of local citizens (from the interview, 22.04.2019). This fact has resulted in shifting expenditure responsibilities from central to local government (Wet Personenvervoer, 1988). After 1988 the operating contribution for local public transport was given to the municipalities, who themselves “became responsible for urban transport” (from the interview, 17.04.2019). More particularly, the representatives of each province had a legal right to actually determine expenditure assignment and accordingly distribute it for public transport service provision. This approach is justified that the fact that “the transport authority is the contracting party thus it has a legal right to decide issues like revenue assignment, level of subsidies, etc.” (from the interview, 05.04.2019).

As outlined in the chapter 2, there exists some important preconditions for ensuring successful expenditure assignment. It is interesting to figure out that these prerequisites are strongly visible while analysing expenditure assignment of the Netherlands. More particularly Netherlands have elected local government that exercise the legislative and executive functions while determining the local expenditures (from the interview, 05.04.2019). Moreover, in the Netherlands there is strong mechanisms for ensuring the accountability and transparency instruments between the local and central governments and applying for principal-agent relations are apparent indicator for Dutch fiscal decentralization policy. This approach is justified by the tendency that while dealing with expenditure assignment, it is extremely essential to limit possibilities of corruption or misuse of public funds (from the interview, 17.04.2019). Furthermore, in the Netherlands there is a big commitment from a central government to advance and guarantee the overall process of fiscal decentralization by empowering autonomy of local municipalities for determining their budgeting of expenditure assignments (from the interview, 17.04.2019).

4.4.3. Intergovernmental Transfers

With the PTA 1988 Dutch government created a distinction between local public transport and regional public transport. Since, as discussed above, revenue assignment remained in the hands of central government subsidies were defined for each public transport authority (Wet Personenvervoer, 1988) for managing public transportations (from the interview, 05.04.2019). Intergovernmental transfers are visible in the Netherlands in the sense that the Ministry of Transport determines the budget and pays it to the central municipalities/provinces instead of operator companies. These transfers are perceived as subsidies and grants to spend on the different parts of their responsibilities (from the interview, 17.04.2019).

4.5. Competitive Tendering

Current Dutch national legislation defines competitive tendering as one of the central tenets of public transport governance, and therefore it could be assumed that the role of tendering is extremely high about public transport service provision in the Netherlands (from the interview, 17.04.2019). The concessions, in other words, the legal right for companies to operate in the Netherlands were tendered. Competitive tendering contributed a lot for new operational opportunities, including that new transport companies started to emerge in the market as well as decentralized authorities took new measures, such as efficiency improvements mostly yield to the integration with bus transport, removal of parallel bus services and the rise of the service level (from the interview, 17.04.2019).

Thus, in order to find the most suitable carrier, the public transport authority organises a public tender as a concession provider (from the interview, 15.04.2019). The grantor divides the territory and the existing lines into so-called concession areas that are tendered as bite-sized packages for a maximum period of eight years (for concessions with rail a maximum of 15 years) the carrier that offers the best quality, the lowest price or a combination of both. The tendency is that more and more public transport authorities assess a greater extent, dependent on the quality offered (from the interview, 05.04.2019).

It should be noted that the 19 transport authorities consist of 12 provinces and 9 City Regions. Each jurisdiction has the discretion to divide concession areas to their wish. PTA 2000 resulted in 70 concession areas throughout the Netherlands, including all types of

transports: bust, metro, tram, ferry, and regional rail. Concession areas are defined as an area where transportation company has operating rights for a set period, usually 6 to a maximum of 8 years (Velde & Eerdmans, 2010).

4.6. Outcomes of PTA 1988-2000

The consequences of PTA 1988-2000 could be summarized as the following: first of all this particular bill had a positive impact on analysing how resources could be effectively and efficiently distributed among Dutch municipalities „It helped to better align local public transport services to citizens’ needs “(from the interview, 17.04.2019) that resulted in improved efficiency of public transportation system. Moreover, a customer satisfaction survey (see Figure 5) represents that in the Netherlands, customer satisfaction has grown steadily during the last 16 years (Cazemier, 2018).

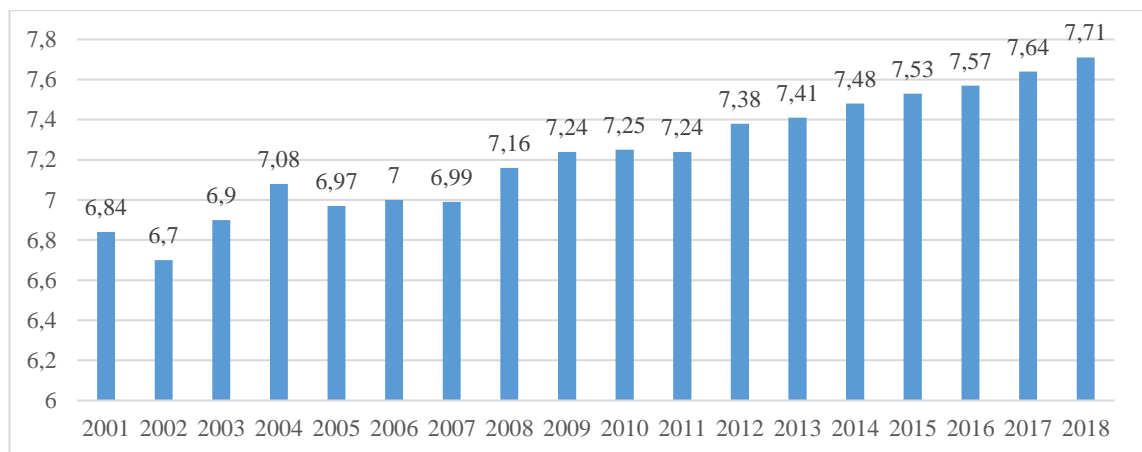


Figure 5. Customer Satisfaction Index 2001-2018; Source: Otto Cazemier, 2018.

Moreover, PTA 2000 allowed local municipalities to define terms of the tender as suited to the needs of the municipality, this resulted in “a positive effect on network-design and realising more integral transportation solutions” (from the interview, 05.04.2019). After the PTA 2000 municipalities where free to define requirements for contracting company and hence achieve better cost-saving as well as more efficiency (from the interview, 05.04.2019).

It is also interesting to observe that the critical outcome of PTA 1988-2000 was that this bill introduced competition among public transport operating companies but “not a competition on the road, but competition for a concession” (from the interview, 15.04.2019). This trend had a successful outcome with regard to diversification of public

transport providing companies as “there are more companies now active in public transportation than there were before and they provide a better service for the same budget” (from the interview, 17.04.2019). The element of competition also resulted in cost-efficient due to the result that “because of competition we can say that they provide better service and also more cost-effectiveness, including more bus hours for the same amount of subsidy” (from the interview, 22.04.2019).

Moreover, cost-effectiveness did regulate not only the price for subsidy but also had a positive impact on the overall price for service (see Figure 6) as “the prices for the consumers did not go down, but they didn't increase anymore at the same rate than they did before” (from the interview, 15.04.2019).

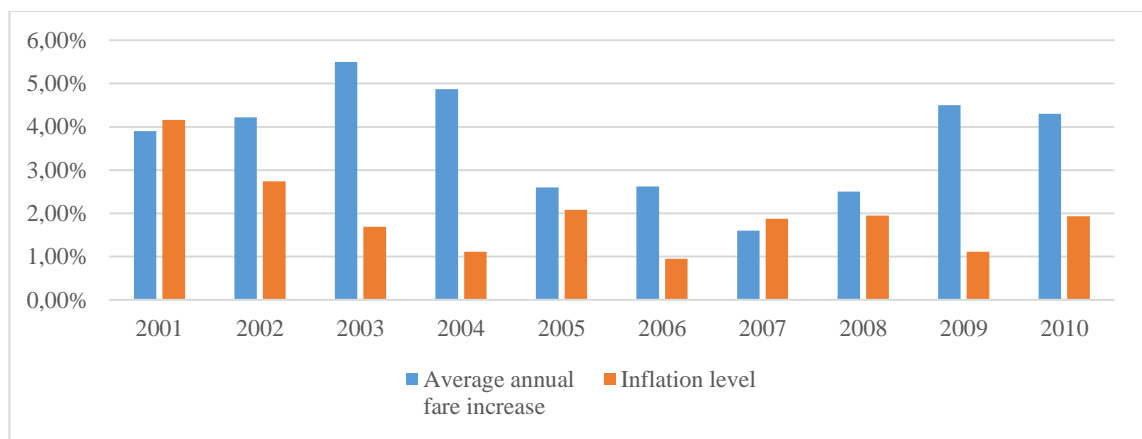


Figure 6. Average public transport fare increase and inflation level 2001 – 2010 (Ministry of Transport, Public Works and Water Management, 2010; Inflation.eu, 2019)

Furthermore, outcomes of PTA were that the cost for the delivering the public transport service was also reduced as “at the beginning of this century you saw that the costs of the operating companies dropped by 30 per cent” (from the interview, 05.04.2019).

There were several cases in the Netherlands after the introduction of PTA 2000 where transport authorities defined a specific budget for a company and allowed them to keep any extra revenue. This trend resulted in an increased share of public transport service as the bus company started to be “responsible for marketing and increasing the passenger revenue” (from the interview, 15.04.2019). Meaning that they will have to “think and make an effort in getting as many riders as they can because that will increase their income and they can keep that” (from the interview, 15.04.2019).

Thus, it should be outlined that decentralization policy helped to solve public transport related problems in the Netherlands, as fiscal decentralization introduced the competitive tendering in the Dutch market that had a positive impact on overall performance of public transport operating companies (from the interview, 05.04.2019).

4.7. Limitations

One of the main limitations of the Dutch system is that the Transport Region cannot raise taxes. Thus, the municipality is entirely dependent on the subsidies coming from the national government (from the interview, 05.04.2019). On the other hand, the local authority is responsible for the ticket-prices in public transport. For example, public transport planners of Amsterdam try to optimise revenue-levels, although this always is a button which is politically very “tricky” to use. Another possibility public policy maker currently pursuing is to make deals with municipalities regarding the revenues which are being generated directly or indirectly in conjunction with public transport. For instance: revenues from advertising at public transport stops, revenues from car-parking, revenues from land exploitation (new housing/business developments near public transport hubs which generate a lot of income for the municipalities, a part of which they could invest in improving public transport) (from the interview, 20.04.2019).

Additionally, one of the goals of PTA 1988-2000 was a reduction of ticket prices however in reality prices did not go down but their increase rate slowed down from 6% annually to 2-3% (from the interview, 17.04.2019), that is around inflation level (see Figure 6) (Inflation.eu, 2019). But it should be noted that, even though prices did not go down as planned, public transport operators delivered “more bus hours for the same amount of subsidy” (from the interview, 17.04.2019) that could still be preserved as a positive outcome.

Another limitation of this bill was connected with the fact that tenders cause some disagreements and tensions between the public transport companies and the local government as “a lot of these tenders end in the courts because companies who lose often don't agree, and then they take us to court” (from the interview, 17.04.2019). The tension between two parties resulted in having lengthy court processes that delayed making into force new operating rights (from the interview, 17.04.2019)

Moreover, if the tender length is defined for a short period like 6-8 years, this makes “the bus companies tend to look at short term goals and not that long term goals” (from the interview, 05.04.2019) and accordingly strategies that could benefit system in the long term are never considered.

Accordingly, the main findings of a Dutch case study could be summarised as fiscal decentralisation had a positive impact on expenditure assignment and intergovernmental transfers. However, it had a limited effect on determining revenue assignment. Moreover, fiscal decentralisation enhanced the better allocation of resources and responsibilities between the central and local governments. It introduced one of the common forms of privatisation, competitive tendering, that was used to choose public transport operating company for a fixed amount of time. This trend increased overall performance of the operator and promoted the quality of their services.

The next chapter will provide lesson-drawing, policy transfer opportunities for Tbilisi in the field of public transportation improvement while considering the Dutch experience in this particular field.

5. Chapter 5: Lesson-drawing opportunities for Tbilisi

This chapter will summarise recommendations for Tbilisi public transportation system based on the Dutch experience. Moreover, this thesis also provides recommendations about how the transportation policy system could benefit from fiscal decentralised in Georgia. As already analysed above Georgian government introduced the decentralisation strategy however this strategy could be observed as a more general approach that combines the central tenets of decentralisation itself, including the devolution of power and responsibilities between the local and central governments. Accordingly, this particular policy does not employ the public transportation sector. Therefore, provided recommendations could make valuable incentives for expanding on Decentralization Strategy 2019-2025 in public transportation sphere.

5.1. What can Tbilisi learn from the Dutch case?

5.1.1. Lack of Performance

As already analysed in Chapter 1, public transport companies of Tbilisi lack performance. For addressing this particular concern and therefore, provide a set of recommendations, it is interesting to observe how Dutch experience with regard to public transportation tackled this issue. The findings of this research have revealed that, before implementing fiscal decentralisation policy in the Netherlands, Dutch society faced the same problem.

One of the biggest concerns for the Dutch government was the performance of the public transportation system in the Netherlands. To solve these issues the Dutch local authorities and policymakers applied for fiscal decentralisation and competitive tendering as they believed fiscal decentralisation and competitive tendering could provide a lot of benefits and therefore strengthen the public service delivery of transportation. These assumptions were justified by the fact that devolution of power and responsibilities between the central and local branches and giving fiscal autonomy to the local municipalities to determine their expenditure and revenue assignments will have a positive impact on the overall performance of public transport services (from the interview, 15.04.2019). Moreover, scrutinising the preferences and requirements of local citizens would further provide insights on local transportation issues and how to solve them efficiently.

Furthermore, before 1988, the operating rights for the public transport of the Netherlands was given out permanently. More particularly public transport operating companies could

run forever. Therefore, there were no incentives to increase the performance (from the interview, 17.04.2019). However, in order to deal with this particular concern, Dutch policymakers applied for competitive tendering. This approach strongly eliminated the problem of lack of performance due to the reason that public transport operating companies developed a tendency to compete with each other and therefore increase their operating standards (from the interview, 17.04.2019).

Thus, given the range of views around the issue of lack of performance of public transport companies, the evidence from this research suggests that Georgia should apply for fiscal decentralisation and competitive tendering. Giving fiscal autonomy to local entities and empowering local authorities with legitimacy to consider the expenditure assignments will support the effectiveness and efficiency of transportation management.

Moreover, another recommendation for increasing the performance of public transport companies is related to competitive tendering. This research figured out that competitive tendering has a more significant impact on public transport planning. In particular, in the Dutch case, it was shown that introducing competition on the market helps to motivate operating companies to deliver better results and improve overall performance and if the operator could not meet the expectations, it could be replaced easily (from the interview, 15.04.2019; Ministry of Transport, Public Works and Water Management, 2010; Velde, Eerdmans & Westerink, 2010).

If Tbilisi City Hall faces severe fiscal stress and there is a political readiness for contracting out, such as no corruption and well-functioning accountability and transparency mechanisms, introducing competitive tendering in Tbilisi will encourage other companies to engage in public service delivery of transportation. This will motivate TTC and Marshrutka operator companies to improve and enhance their services. If they would not be able to meet the required standards, their contracts could be dismissed.

Thus, by taking into consideration all the factors outlined in case justification in chapter 3, it could be concluded that fiscal decentralisation and competitive tendering could be used to improve the entire performance of public transport companies in Tbilisi, again if there are a political will and well-functioning public institutions (Rose, 1992). Since institutions are a significant resource for delivering public policy. Moreover, for

achieving the desired outcomes, there should be political readiness, including law adjustment as well as the political will to authorise the new policy (Rose, 1992).

5.1.2. Missing public transport planning and operating systems

Another issue that this research tends to resolve is related to missing public transport planning and operating systems. This particular concern emerged in the public transportation system of the Netherlands too. It should be mentioned that missing public transport planning and operating systems were not an immediate issue discussed before PTA 1988-2000, but it was a positive side effect of fiscal decentralisation and competitive tendering. The reason for this tendency was two-fold. First of all, since forces of the free market pushed operating companies to deliver more and deliver better one of the outcomes was an analysis of the network design from the local point of view providing valuable insights on how it could be improved (from the interview, 22.04.2019).

And second, authorisation of municipalities to define features of local public transportations allowed them to tailor a tender contract to their needs. All these resulted in “a positive effect on issues such as network-design and realising more integral transportation solutions” (from the interview, 22.04.2019). For instance, Amsterdam transport authority utilised this possibility and requested new network design and planning improvements from the leading operator in Amsterdam GVB (from the interview, 22.04.2019).

Thus, one of the recommendations for improving public transport planning and operating systems could be related again with tendering. More particularly Tbilisi can include the network improvement as a condition of tendering. Requesting comprehensive network design through tendering will contribute to the overall performance of the system and thus this tendency will bind tender participating companies to commit into improving planning and network system.

5.1.3. Decreasing the share of public transport

Decreasing the share of public transport was also evident in the Netherlands and at the same time there was a steady increase in the share of private cars at the expense of public transport. Reasons for such tendency were connected to the efficiency of the system as wait times, and average commute duration, made public transport not appealing to the residents and promoted private automobile use (from the interview, 05.04.2019).

Reasons for the decreasing the share of public transport in Tbilisi as discussed in chapter 1 are mostly the same. The lack of performance of public transport operating companies and conditions of the bus fleet and metro rolling stock as well as frequent malfunctions further discouraged passengers for using public transport, and they opted for private cars.

One of the goals of PTA 1988-2000 was to solve this issue by empowering local authorities. Introduction of competitive tendering rapidly improved performance and the level of public transportation as outlined in chapter 4. Accordingly, since the problem and causing factors are more or less in line between Amsterdam and Tbilisi and since decentralisation and competitive tendering helped authorities of Amsterdam to solve this issue, we can argue that the results would be similar for Tbilisi. Only if there are well-functioning accountability and monitoring mechanisms in place as well as the political will to improve.

5.2. Limitations of lesson-drawing.

In chapter 4, the case study about the Netherlands has revealed that fiscal decentralisation can have positive outcomes on local public transport provision. As already analysed above, while Dutch government agreed on giving each Dutch municipality fiscal autonomy and therefore empowering them with legitimacy to determine the financial needs of their population, this tendency resulted in efficient and effective public transport planning. In that particular case, this effective planning led to competitive tendering by which the operating public transport companies have been chosen for a fixed amount of time. Dutch contracting out, in other words, the competitive tendering policy of public transport is considered as a successful case that reached its desired outcomes, including improved capacity and quality of local public transport, as well as a positive effect on issues such as network-design and more integral transportation solutions (from the interview, 20.04.2019, Velde, Eerdmans & Westerink, 2010). Therefore, it could be assumed that it will be clever if other countries take an example from the Netherlands. More particularly, this thesis seeks to use a method of lesson-drawing/policy transfer and provide a set of recommendations for public transport improvement for Tbilisi.

It should be mentioned that according to Cairney (2012) policy transfer, lesson drawing and emulation are widely used mechanisms in public policymaking in many countries. Most studies on policy transfer started to emerge as a fragment of comparative politics

literature (Cairney, 2012). Even though terminologies vary from each other still policy transfer, lesson drawing and emulation are a process where accumulated knowledge about specific policies and administrative arrangements are applied to another country to adjust the problematic features of a particular issue (Dolowitz & Marsh, 2000). It is also interesting to observe which groups tend to transfer policies. The overall literature on policy transfer identifies that these processes are mostly carried out by policy entrepreneurs, experts and supra-national organisations (Dolowitz & Marsh, 2000). Policy entrepreneurs, also known as policy agents, play a crucial role in policy change.

According to Dolowitz and Marsh, the motivation for applying to policy transfer can be categorised on several dimensions, including voluntary transfer, direct coercive transfer, and indirect coercive transfer. The foremost reason for voluntary transfer refers to the steady dissatisfaction in the society and status quo approach towards the problem. This tendency generally strengthens the idea to search for possible solutions and at the same time, react to the government's course of action while demanding better functioning policies. It is worth mentioning that in the literature, the results of dissatisfaction are analysed as a reaction towards the policy failure or the government itself. Many scholars assume that policy failure can be measured easily, and it is a noncontentious process (Dolowitz & Marsh, 2000). However, Dolowitz and Marsh (2000) critically note that assuming certain policy as a failure is a complex and vague procedure due to the fact that it can be perceived differently among different groups and there is no universal understanding and perspective of what is policy success and policy failure.

The direct coercive transfer is related to the tendency when the government of the concrete state, as well as international organisations, force others to implement a particular policy. It should be mentioned that supra-national institutions are the main providers of direct coercive transfer as they tend to stimulate certain policy. A good illustration of this assumption is the European Union (EU) that forces policy transfer among member states. The last but not least is an indirect coercive transfer that is a process when the government is pushed indirectly to apply for a certain policy. This tendency could be caused due to several reasons, including the world economy constrain the steady development of technology, or other political issues (Dolowitz & Marsh, 2000).

Thus, this thesis will apply for voluntary policy transfer by using Dutch fiscal decentralisation experience of the public transportation system. Before providing a set of recommendations for Tbilisi, it is important to acknowledge that this thesis does not intend to copy one in one the Dutch fiscal decentralisation experience of public transport. The main reason for such an assumption is that this thesis recognises that Georgia is a developing country while the Netherlands belongs to the group of developed countries. The significant economic, political and social differences between Georgia and the Netherlands force us to consider limitations that might arise during the process of voluntary policy transfer. However, there is strong evidence that outlines that public sector reforms could extend from one country to another as a distribution of accumulated knowledge could be considered as a flexible process (Evans, 2009). According to Jones and Thompson (2007), developing countries tend to receive policy transfers from developed countries as they have a “huge need to grow their economies and shrink their governments” (p. 89). Accordingly, Georgian policy-makers could also apply for some aspects of Dutch case and take advantage of successfully implemented policy practice.

Moreover, it should be noted that there are some important avenues for further research. As this study analysed three problems of the public transportation system in Tbilisi and therefore provided a set of recommendations only covering these three problems, for further research, it will be interesting to observe the infrastructural point of view too. Moreover, it will be also important to figure out the public transport related problems not only in the capital city of Georgia, but also in the entire country. This approach will create a ground to observe the whole system of public transportation. Furthermore, this research encompasses local public transportation issues of Tbilisi, while PTA 1988-2000 also defined competitive tendering for regional railway transport.

Conclusions

This research aimed to find solutions for the issues of the public transportation system of Tbilisi by analysing Dutch policies about decentralisation and competitive tendering of this field. The research is concentrated on three main issues of the public transportation system of Tbilisi: lack of performance of public transport operating companies, missing public transport planning and operating systems and decreasing the share of public transport in the mobility area of Tbilisi. The main research question was, how Tbilisi could improve public service delivery of transportation through decentralisation while applying Dutch experience in this particular field?

This thesis applied the thematic content analysis of semi-structured interviews, reports, and documents with the aim to analyse theoretical and empirical evidence concerning the effects of fiscal decentralisation and competitive tendering on the public transportation system in the Netherlands. This research has summarised the theoretical predictions and empirical estimates for the effect of fiscal decentralisation on public service delivery of transportation.

Research outlines that PTA 1988-2000 was one of the most significant contributors in improving Dutch public transportation system. Moreover, the Netherlands faced similar public transport related concerns as Tbilisi. Accordingly, the approaches of Dutch policymakers could be successfully used for Tbilisi case.

Considering all the limitations discussed above this thesis concludes that based on the Dutch experience, Tbilisi can improve its public transportation system with two ways: fiscal decentralization and competitive tendering. The fiscal decentralization will empower local authorities to determine local needs, while competitive tendering on the other hand will contribute in improving the overall system for choosing the public transport operating companies.

However, limitations should be taken into account while applying for policy transfer.

This thesis has looked at the Dutch fiscal decentralisation experience of a public transportation system. The process of lesson-drawing/policy transfer from the Netherlands toward Georgia acknowledges the critical limitations.

First of all, policy transfer requires a lot of consideration before it will be implemented in a donor country. These requirements are connected with fitting the domestic policy and new policy of a country with each other by considering jurisdictions, laws and socio-economic factors. Moreover, even though policy transfer is a widely spread method all over the world and the transition of policies is mostly from the developed countries to developing ones, still, it is crucial to recognise that dimension as a limitation. This particular assumption is proved mainly by the fact that the political, economic or social circumstances in developing and developed countries significantly vary from each other. Therefore, if one policy is successful in one place, it could be a failure in other.

Another limitation is related to the fact that if Tbilisi will apply for competitive tendering for choosing the public transport operating company for a fixed amount of time, there is a probability of still having one company offering its services for tender. The lack of willingness to provide public transport services could be explained by the fact that the companies from the local market might not be able to source enough resources to be able to compete with TTC. Additionally, Georgian market might not be of interest of international players. Thus, this particular issue requires additional research and analysis on how to appeal the Georgian market of public transportation for multiple players.

Furthermore, this particular study outlines that there is room for further research. More particularly, this thesis is focused on finding solutions for local public transportation issues in Tbilisi, while PTA 1988-2000 also defined competitive tendering for a means of regional railway transport. Analysing the Georgian transportation system in whole and examining its problematic features could be the next logical step.

Additionally, this thesis does not cover the infrastructural point of view of public transportation that might be an influential factor for the overall assessment of the public transportation system. Thus, examining other determining features of the entire public transportation system not only in Tbilisi but also in other municipalities of Georgia will provide a ground for further research and investigation.

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Appendices

I. CONSENT FORM

INFORMED AND VOLUNTARY CONSENT

I have been told about the purpose and topic of the interview, and how my responses will be used.

I have been able to ask questions about the interview, and they have been answered.

I understand that any attributed quotes from the interview will only be used for published academic work. If I have agreed to conduct the interview anonymously, I understand that quotes will be attributed to ‘a party source familiar with the situation’.

I understand that I am not required to answer any of the questions, and I can withdraw from the interview at any time.

I agree to participate in this interview and to it being digitally recorded

Name: (print name)

Signature:

Date:

II. Interview Guide – The Netherlands

1. Before 1988, the Netherlands had a national transportation system but in 1988 the parliament adopted new bill – ‘Wet personenvervoer 1988’ by which the exploitation of public transport services was given to ‘public transport authorities’. Could you please tell me what were the main reasons for implementing a new bill?
2. Could you please tell me what were the main implications of the bill ‘Wet personenvervoer 1988’?
3. How did the bill “Wet personenvervoer 1988” affect the Dutch public transportation system?
4. In the Netherlands, budgets, authority and powers have been decentralised from the national government to regional government (called provinces) about regional public transport. Could you please elaborate on this issue more and tell me which main factors determined decentralisation processes in the Netherlands?
5. How fiscal decentralization was implemented in the Netherlands and how it affected the public transportation system?
6. How the bill ‘Wet personenvervoer 1988’ affected public transportation system governance in the Netherlands?
7. What were the main reasons for adopted “Wet personenvervoer 1988” with “Wet personenvervoer 2000”?
8. How did “Wet personenvervoer 2000” improve public transportation service delivery in the Netherlands?
9. What are the future incentives to have a more advanced public transportation system in the Netherlands?
10. According to the Ministry of Transport, Public Works and Water Management, the central government of the Netherlands determines the budget and gives it to the regional local authorities. At the same time, municipalities are free to spend this budget based on their needs. Accordingly, what are the main challenges that

regional authorities are facing while spending budgets that are not defined by themselves?

11. Besides, what are additional limitations of Dutch decentralisation?
12. How do these limitations affect the Dutch public transportation system?
13. What are the main policy approaches of Dutch policy-makers working in the field of Dutch fiscal decentralisation of the public transportation system?
14. What are the main limitations of Dutch policy-makers working in the field of Dutch fiscal decentralisation of the public transportation system?
15. Do you think are there different views among different agencies or governmental bodies, different ideas about how things should be to have more enhanced, coherent and cost-efficient public service delivery of the Dutch transportation system?

III. Interview Guide – Tbilisi

1. What are the most problematic features of Tbilisi public transportation system (including buses, a route taxi so-called Marshutka, and metro)?
2. How these problems affect the public service provision of transportation in Tbilisi?
3. What are the main challenges that Georgian policy-makers face while working in the field of public service provision of transportation in Tbilisi?
4. What do you think what the possible solutions to these problems are?
5. What are the possible incentives in Tbilisi to get a more advanced public transportation system (including buses, a route taxi, so-called Marshutka, and metro)?
6. In 2019, the Parliament and Government of Georgia prepared a national vision of decentralisation strategy 2019-2025. The main implication of this strategy is to strengthen local self-governance and therefore, empower local authorities with decision-making autonomy. What do you think what were the main reasons for such an incentive? And how this incentive might affect the provision of the public transportation system in Tbilisi?
7. After decentralisation, what might be the main challenges that will face Georgian policy-makers working in the field of public transportation system?
8. The Netherlands is a country that applied for competitive tendering to have a better public transportation system. By competitive tendering, transport planners choose the best company that should operate in each municipality for 5-7 years. Do you think this particular policy can work for Tbilisi too as well as can Tbilisi apply for Dutch experience to have a more comprehensive and well-functioning public transportation system?

IV. Interview Details

#	Interviewee	Position	Type	Location	Duration
1	Eddy le Couvreur	Senior Policy Officer within the Province of Zuid-Holland. Department of Mobility and Environmental Protection Bureau Public Transport	Face-to-face	The Hague	35 minutes
2	Edso Wijvekate	Senior Policy Maker and Advisor in Public Transport within the Province of Zuid-Holland in the Netherlands	Face-to-face	Amsterdam	40 minutes
3	David Aulman	Senior Project Manager in Amsterdam Public Transport Contracting in the Netherlands	Face-to-face	Amsterdam	35 minutes
4	Ruud van der Ploeg	Secretary-general at European Metropolitan Transport Authorities in the Netherlands	Face-to-face	The Hague	45 minutes
5	George Kevkhishvili	Traffic Organization and Management specialist at Smart Transportation	Via Skype Call	Online	35 minutes

		Solutions (STS) in Georgia			
6	Zurab Beradze	Urban Transport Specialist and Technical Director at Smart Transportation Solutions (STS) in Georgia	Via Skype Call	Online	30 minutes
7	Vakhtang Tavidshvili	Railway Transport Management Specialist in Georgia	Via Skype Call	Online	30 minutes

V. Thematic Coding Table

No.	Code label	Description of code	Example quote	No. of coded segments
1.	Issues before 1988	Observing what were the main issues before 1988 in the Netherlands. Thus, providing understanding which main issues promoted a shift towards the decentralisation strategy.	<p>“central government was responsible for both urban and regional transport.”</p> <p>“public transport was given out in concessions; they were permanent.”</p> <p>“the company who ran all the buses could do that forever.”</p> <p>" the smaller towns were very dependent on the public transport company."</p> <p>"the rural areas didn't have any influence at all."</p>	6
2.	Outcomes of Decentralization	Providing what were the main policy outcomes and policy implications of the Dutch decentralisation strategy.	<p>“[municipalities] became responsible for urban transport.”</p> <p>"They provide more service for the same budget."</p>	13

			<p>"Central government remains responsible for national rail transport."</p> <p>"Carriers are increasingly being challenged to offer demand-oriented transport."</p> <p>"regional authorities were better equipped to manage public transport than the national government would"</p>	
3.	Decreasing Share	Decreasing share presents how the usage of public transportation was reducing in Dutch society.	<p>"Since 1960, that share has dropped from 35 to 10 per cent"</p> <p>"declining market share of public transport force a structural renewal of the sector."</p>	2
4.	Competitive Tendering	Competitive tendering was one of the main outcomes of Dutch fiscal decentralisation. It was used for searching for a public transport operating company.	<p>"Only if there is competition in bus transport will it become both cheaper and more customer-friendly."</p> <p>"the public transport authority organises a public tender as a concession provider."</p> <p>"there are more companies now active in public transportation than there were before."</p>	7

			"more and more public transport authorities make the assessment to a greater extent dependent on the quality offered"	
5.	Regional Needs	A better understanding of regional needs was one of the main advantages of Dutch fiscal decentralisation policy. Regional needs to identify what were the main requirements and preferences of each Dutch municipalities.	<p>"It helped to better align local public transport services to citizens' needs."</p> <p>"The idea was that the local/regional authorities have a better insight into the needs of the (potential) passengers in their areas and the opportunities for improvement of the public transport system than the national government could ever have."</p> <p>"Municipalities and provinces/regions are situated closer to the daily practice and can therefore better</p>	3

			judge how regional public transport should be organised."	
6.	Cost-efficiency	Cost-efficiency describes the pattern that during decentralisation, costs for public transport was decreasing.	<p>“at the beginning of this century, you saw that the costs of the operating companies dropped by 30 per cent”</p> <p>“there are more companies now active in public transportation than there were before and they provide a better service for the same budget.”</p> <p>“more bus hours for the same amount of subsidy.”</p>	7
7.	Performance	Performance identifies the general picture of public transport operating companies and how they were delivering the services.	<p>“think and make an effort in getting as many riders as they can because that will increase their income and they can keep that.”</p> <p>"companies were trying to run the risk of losing their business if they didn't perform."</p> <p>“no real incentive to increase performance.”</p>	10

8.	Network Design	The structure and efficiency of the Dutch transportation system network	<p>“a positive effect on network-design and realising more integral transportation solutions.”</p> <p>“a positive effect on issues such as network-design and realising more integral transportation solutions.”</p>	2
9.	Ticket price autonomy	After decentralisation local authorities were determinant actors for transport ticket fares	<p>"we are responsible for the ticket-prices in public transport, so we can try to optimise revenue-levels, although this always is a button which is politically very “tricky” to use"</p> <p>"revenues which are being generated directly or indirectly in conjunction with the public transport, for instance: revenues from advertising at public transport stops, revenues from car-parking, revenues from land exploitation."</p>	3
10.	Subsidy reconstruction	After decentralisation central government reconstructed subsidy	"Central government remains responsible for national rail transport."	3

		allocation from the transportation company to local authorities	<p>“the transport authority is the contracting party; thus, it has a legal right to decide issues like revenue assignment, level of subsidies, etc.”</p> <p>"From 1998, the entire regional public transport (by bus/tram/metro) was completely decentralised to 35 authorities: 12 provinces, seven plus-regions and 16 so-called VOC-municipalities "</p>	
11.	Limitations	What were the limitations of the decentralisation and competitive tendering in the Netherlands	<p>“a lot of these tenders end in the courts because companies who lose often don't agree and then they take us to court.”</p> <p>"Then you still have a process sometimes over six months, sometimes even a year before the contract becomes final."</p>	3