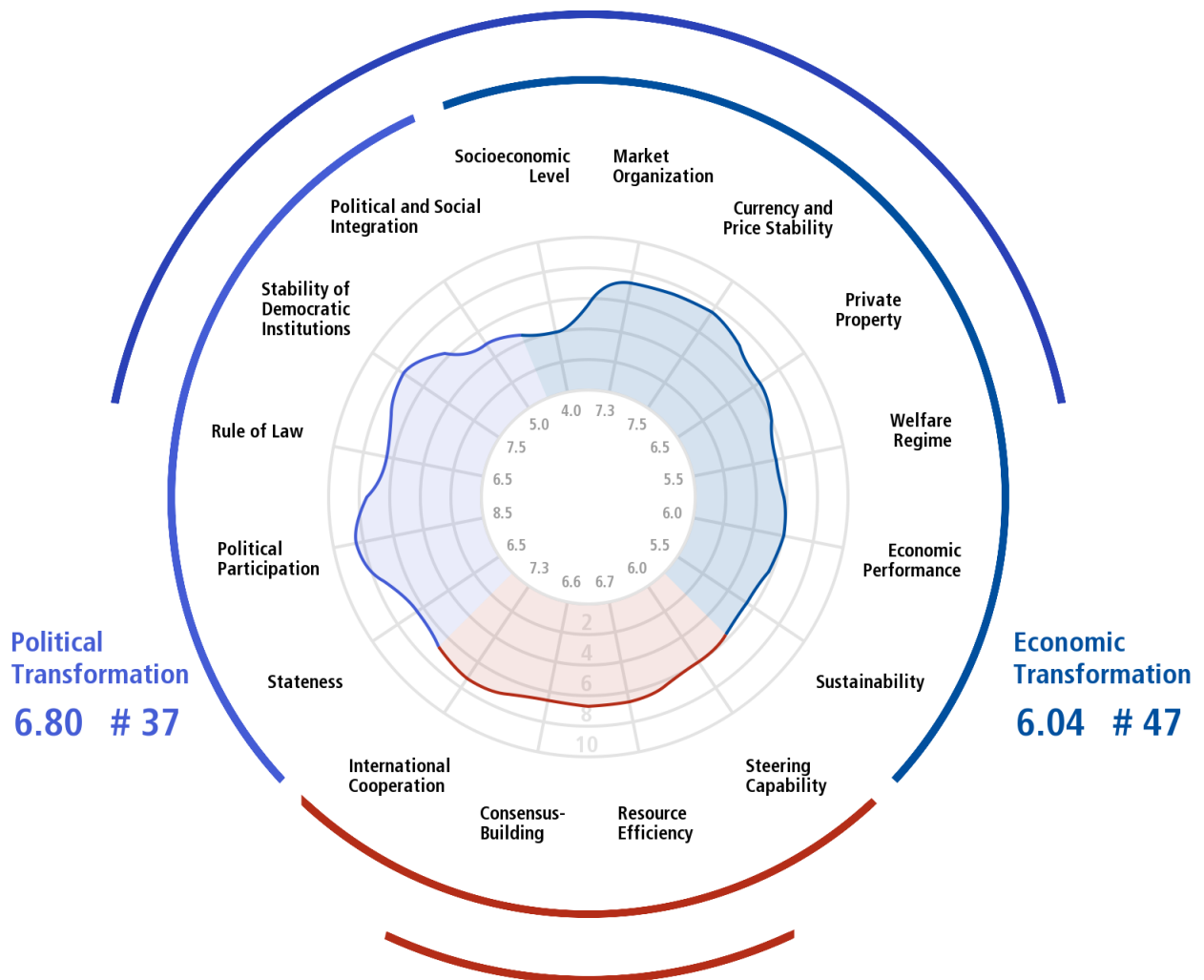


Georgia

Status Index

6.42 # 42

on 1-10 scale out of 129



Political Transformation
6.80 # 37

Economic Transformation
6.04 # 47

Governance Index

5.87 # 33

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2018 Country Report — Georgia. Gütersloh: Bertelsmann Stiftung, 2018.

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Key Indicators

Population	M	3.7	HDI	0.769	GDP p.c., PPP \$	9997
Pop. growth ¹	% p.a.	0.1	HDI rank of 188	70	Gini Index	38.5
Life expectancy	years	73.0	UN Education Index	0.804	Poverty ³	% 25.3
Urban population	%	53.8	Gender inequality ²	0.361	Aid per capita \$	120.4

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The years 2015 and 2016 seemed less politically tense than previous years of the power transition from United National Movement to Georgian Dream coalition, which reaped the results of a decade of reform efforts by political elites toward EU approximation: the Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) entered into force on July 1, 2016, and the visa liberalization regime on March 28, 2017, which foresees the lifting of visa requirements for Georgian citizens. The approval procedure continued 15 months after some EU member states required the introduction of an additional suspension mechanism in the case of massive misuse of visa liberalization, what hints at the continued socioeconomic problems in the country that will not be quickly overcome. In implementing the AA, Georgia will have a challenging task for the years to come that might fundamentally change the country's setup.

Despite some incidents (in Samegrelo region), the parliamentary elections of October 2016 were conducted in a much less polarized and tense environment than four years ago. They ended with the ruling Georgian Dream Democratic Georgia party gaining a constitutional majority. Furthermore, the political opposition was left behind in shatters, with liberal parties falling apart and the main opposition force, the United National Movement, splitting over the role of former president Saakashvili in the party. The disputed legacy of his term still causes many problems, mainly in the judiciary which is expected to become fully independent. Thus, the executive power remains to be the strongest branch of Georgia's state institutions. Only the civil society sector increasingly advocates and controls the government, which is, however, only loosely connected to the broader population.

The slowed-down economic development did not provide for tangible improvements, mainly employment for ordinary people. There is strong disappointment in society that the high expectations raised in the parliamentary elections in 2012 were not met. However, since there was

no convincing political alternative, 48.8% of the electorate voted for continuity of the Georgian Dream.

While Georgia established good relations with its neighbors in the west, south and east, the relationship with Russia remains strained and no solution in sight for the separatist territories Abkhazia and South Ossetia. The stronger Georgia integrates into Western structures, the more the breakaway regions align themselves with Russia.

History and Characteristics of Transformation

A series of dramatic ups and downs have characterized Georgia's political and economic transformation since 1989 including civil war, territorial conflicts and a sharp economic decline in the 1990s. In the first free parliamentary elections in October 1990, a heterogeneous national movement led by former dissident Zviad Gamsakhurdia came to power in the Supreme Council of Soviet Georgia, which – after a referendum on March 31 – on April 9, 1991, declared its independence from the Soviet Union. Despite his landslide victory in the May 1991 presidential elections, Gamsakhurdia failed to consolidate his rule and was ousted in a violent coup d'état in winter 1991 to 1992.

The coup leaders installed former Georgian Communist leader and Soviet foreign minister Eduard Shevardnadze, who neutralized criminal military gangs and obtained international recognition for Georgia's independence. A new constitution and parliamentary elections in 1995 further consolidated the fragile state; but Shevardnadze did not succeed in establishing a modern governance system. The parliament remained weak, intra-elite competition and corruption were blossoming and caused a declining authority of the ruling CUG party. Young CUG reformers, headed by Mikheil Saakashvili, Zurab Zhvania and Nino Burjanadze, left the party and formed a new opposition that in November 2003 led popular protests against rigged parliamentary elections. Shevardnadze resigned. The "Rose Revolution" can partly be explained by the existence of democratic facades, fomented by a dense NGO network and independent media ("Rustavi 2").

With 96% of the popular vote, the charismatic Saakashvili seized an overwhelming victory in the presidential elections of January 2004. The three leaders merged their parties into the "United National Movement" (UNM) that won more than two-thirds of the seats in the March 2004 rerun of the parliamentary elections. They used this to implement far-reaching structural reforms with outstanding results. However, there existed serious deficits in institutionalizing checks and balances in the parliament, judiciary and the media.

After the dispersal of protesters, closing a critical TV station and a state of emergency in November 2007 the government and Saakashvili could restore their democratic credentials only by relying on "administrative resources" in presidential and parliamentary elections early in 2008. The political crisis was followed by a slowdown in economic growth, the global financial crisis, and a

serious deterioration in the overall investment climate in the aftermath of the Georgian-Russian war in 2008. Stability in Georgia was only secured through large-scale international assistance.

The first democratic change of power in Georgia's history was achieved in the highly competitive parliamentary elections of October 2012. The ruling UNM was defeated by the opposition coalition Georgian Dream (GD) of billionaire Bidzina Ivanishvili. It was followed by one year of tense cohabitation with President Saakashvili and Prime Minister Ivanishvili. The presidential elections on October 27, 2013, despite some irregularities and isolated incidents of political violence, were considered free and fair, and resulted in a straight victory for the GD candidate, Giorgi Margvelashvili, with over 62% of votes. With his inauguration on November 17, 2013, constitutional changes adopted under the previous leadership entered into force, which marked a shift from a presidential to a mixed system and significantly diminished the president's powers. Directly afterwards, Bidzina Ivanishvili voluntarily resigned and Irakli Garibashvili was confirmed by the GD-dominated parliament as the new prime minister.

However, the GD coalition experienced its first serious crack with the popular Irakli Alasania's dismissal from the post of defense minister in November 2014 and the subsequent withdrawal of the Free Democrats from the coalition. Since then the new government arrested several former ministers and prominent UNM leaders in order to hold them responsible for human rights violations, especially in prisons. This practice caused international concern and criticism of selective justice. No less important, for the first time, the former ruling party managed to survive its loss of power intact and formed an opposition faction in parliament.

The most important foreign policy event was the EU-Georgia Association Agreement entering into force on July 1, 2016. It contains serious reform commitments on the part of Georgia in exchange for visa regime liberalization and access to the EU's internal market through the Deep and Comprehensive Free Trade Area (DCFTA), and demonstrates Georgia's intention to move closer to the European Union on "Georgia's European Way."

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The stalemate of the conflicts between Georgia proper and the two breakaway territories Abkhazia and South Ossetia continues. While the state's monopoly on the use of force is secure in Georgia, Abkhazian authorities were openly challenged internally in 2016. The continued Russian-Ukrainian crisis, as well as the Association Agreement between Georgia and the EU, signed on June 27, 2014, are pushing the separatist entities further away from Georgia proper. The Russian Federation as the protecting power is increasing its military presence and strengthening security measures along the borders with South Ossetia and Abkhazia.

Two treaties, the treaty on strategic partnership between Russia and Abkhazia, concluded on November 24, 2014, and the treaty on Alliance and Integration between Russia and South Ossetia from March 18, 2015, provide for close coordination of foreign policies and harmonization of budgetary and customs legislation with a view to integrating both into the Eurasian Union at some point in the future. But most importantly, the two regions are increasingly included in a common security and defense space. Thus, the Geneva Talks over Georgia's territorial conflicts, the only international forum left for direct negotiations among all parties concerned, including the two breakaway provinces of Abkhazia and South Ossetia, could not produce any tangible results. The most visible expression of this is the growing number of fences and barbed wire along the administrative border around the disputed territories. The agreement between Russia and Georgia signed in Geneva in 2011 to monitor the movement of goods at the borders has not been properly implemented and people-to-people contacts are now more limited.

While Abkhazians and Ossetians openly denounce Georgian citizenship, in general the population acknowledges Georgian statehood and equal citizenship rights. However, in the last years, several conflicts with ethnic, religious and sexual minorities over their entitlement to exercise their rights or display their convictions or lifestyle in public demonstrates a remarkable implementation gap. Religious

Question
Score

Monopoly on the
use of force

5

'06 '18 10



1

State identity

6

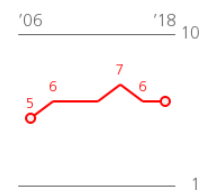
intolerance toward Muslim communities, especially in Adjara and Samegrelo-Zemle-Abkhazeti, shows a still strong ethno-religious identity among the majority. Several clashes between Muslims and Georgian Orthodox believers were not always followed up by the law enforcement agencies. A revised National Concept for Tolerance and Civic Integration was not renewed after the first action plan expired in 2014. There are still strong sentiments of ethnic entitlement rather than equal civil rights among the majority population.

While the state in Georgia is formally secular, over the years the Georgian Orthodox Church (GOC) increased its influence in state and society. GOC is the most trusted institution in Georgia represented by Patriarch Ilia II with extraordinary high approval ratings of over 90%. Orthodox religion has become the main marker of national identity and the GOC claims to be its pivotal mentor legally recognized by signing the Concordat between the church and the state in 2002. In 2014, public financing for the GOC was increased to GEL 25 million per year and – for the first time – a total of GEL one million per year installed for four other major religious communities (Muslims, Armenian Apostolic Church, Roman Catholics and Jews). Other religious groups, in particular “non-traditional” actively proselytizing denominations (e.g., Jehovah’s Witnesses, etc.) are still excluded from state funding and face strong resentment from broad parts of the public, as well as from the Orthodox clergy.

Recognizing the dominant position and influence of the GOC, a State Agency for Religious Issues was established in February 2014 and staffed with people close to the GOC. Its task is to regulate the relationship between the state and religious communities.

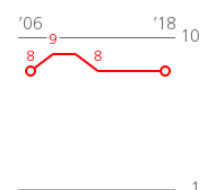
However, for further approximation toward the EU, on May 2, 2014, Georgian legislators adopted an anti-discrimination law against the strong resistance of the GOC. Since then civil society organizations launched a dialog with the GOC on EU issues, which led to an official visit of GOC representatives at EU and NATO in Brussels in December 2016. The positive assessments by the current GOC leadership of Georgia’s orientation toward EU and NATO notwithstanding, infighting with strong traditionalist and Russia-leaning factions persists in one of the least transparent organizations in Georgia.

The Georgian Dream government was able to build on a functioning state administration and, at the same time, launch new social welfare programs to compensate for the consequences of persistently high unemployment rate (the official rate of 13.4% in 2014 insufficiently represents this key problem). Certainly, there was some progress in the declared objective of de-politicization of the state administration, but in the last two years an increasing number of watchdog organizations monitoring the performance of public administration detected mismanagement and nepotism (e.g., extra bonuses paid in addition to meager salaries



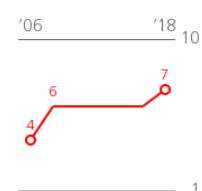
No interference of religious dogmas

8



Basic administration

7



in public service). Thus, they try to make Georgian authorities more responsive to public demands and good governance.

There are still serious problems with the adequate provision of state services. The share of the population with access to sanitation continuously declined from 93% in 2005 to 86% in 2015, due to the cost-intensive necessity to overhaul the entire Soviet-era infrastructure. On the other hand, access to water resources for the same period has been increased from 93% to 100%. Public opinion surveys consistently indicate the public concern over unemployment, but not basic services. It is a popular misconception that the state should create employment.

2 | Political Participation

After the parliamentary elections in 2012, where an opposition party came to power via elections in post-independence Georgia for the first time, the Georgian Dream coalition also succeeded in presidential elections in October 2013, the parliamentary special election in April 2013 and the municipal elections in June to July 2014. All of them were deemed to be free and largely fair.

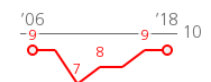
In October 2016, the cycle started anew with parliamentary elections, which occurred in a much less tense environment despite few incidents in the Samegrelo region. They were assessed generally as free and fair. With the Georgian Dream coalition breaking apart, several new parties appeared on the scene in addition to the established United National Movement (UNM). Voters had a competitive choice and free access to the media. The misuse of “administrative resources” no longer featured as a major complaint.

The election results, however, did not bring a more plural parliament as promised in 2012, but a constitutional majority for the ruling Georgian Dream Democratic Georgia Party (GDDG). In the proportional race they garnered 44 out of 77 seats (48%), but won all 73 majoritarian seats (one of them an independent candidate backed by GDDG), in total 121 out of 150 seats (80.6%). These results again showed that existing election legislation favors the ruling party. The Georgian Dream government did not introduce a promised revision of the Election Code, which would have increased inclusiveness by simplifying election procedures and addressing the issue of voter equality by redrawing the election districts before the parliamentary elections. The growing professionalism and impartiality of the Central Election Commission were also recognized.

The role of billionaire businessman Bidzina Ivanishvili was decisive in winning the 2012 parliamentary elections. After achieving his declared goal of replacing Mikheil Saakashvili by the Georgian Dream candidate, Giorgi Margvelashvili, he left his post as prime minister and quit active politics after two years in power, passing on the post to one of his followers from the ruling coalition, Irakli Garibashvili. However, his

Free and fair elections

9



Effective power to govern

8

Effective power to govern

8

influence behind the scenes is a subject of political debates and another indicator of the still-dominant personalization and clientelism in politics, which reveals remaining democracy deficits.

Interestingly, President Giorgi Margvelashvili became a more independent actor, trying to represent the state beyond party lines and vetoing several bills adopted by parliament. In 2015, this led to a somewhat tense relationship with the dominant executive branch. After Giorgi Kvirikashvili's appointment as new prime minister in December 2015, the governance style became more conciliatory. With a constitutional majority in parliament there is no increased oversight and control of the government expected in the near future.

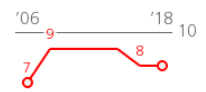
There are neither formal, nor informal restrictions nor interference by the government on the freedom to association or assembly. However, after the change of administration, a new phenomenon of counter-demonstrations emerged, hindering minorities from publicly expressing their opinions, for example Muslim communities demanding the establishment of a mosque in their village or protesting against discriminatory acts or decisions concerning their religious practice. After the violent disruption of a small, authorized peaceful event celebrating the International Day Against Homophobia on May 17, 2013, by a massive counter-demonstration of about 30,000 including some Orthodox clerics, further public manifestations in defense of sexual minorities did not occur.

Remarkable improvements were achieved in the field of association in trade unions, where organizations with a broad membership can be found. In March 2017, the Educators, Scientists and Teachers Free Trade Union of Georgia, representing some 30,000 members, concluded the first sectoral agreement with the Ministry of Education and Science, which represents the acknowledgment of organized employees' interests by the state as an employer.

Overall civil society remains weak in terms of membership and dependent on grants, but plays a decisive role in policy formulation and government oversight. Through the EU-backed National Platform of the Civil Society Forum, it has a channel to voice its concerns on the international level.

The media enjoy a significant degree of pluralism and no longer suffer from state censorship. In the Reporters Without Borders World Press Freedom Index 2016, Georgia further improved its ranking by another five ranks to 64 (2013: 100, 2014: 84, 2015: 69). This improvement stands in contrast to the overall negative trends in the region. In June 2015, parliament adopted a law against incitement to violence, criminalizing any form of expression that causes discord.

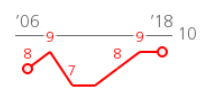
However, the most critical-minded opposition-leaning and most popular private TV channel "Rustavi 2" underwent a legal dispute over its ownership during most of the reporting period, causing financial problems for the company. The court case will be



1

Association /
assembly rights

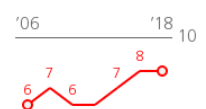
9



1

Freedom of
expression

8



1

reviewed at the European Court for Human Rights in Strasbourg. Also, the deteriorating situation at the Georgian Public Broadcaster since the beginning of 2017 under a new director general cast some doubts over the reversibility of the achievements so far. On March 6, 2017, Prime Minister Kvirikashvili responded to this situation by proposing to establish a Media Ombudsman supported by the OSCE Representative on Freedom of the Media. In an International Republican Institute (IRI) Survey of April 2016, Georgian media was acknowledged as the third most trusted institution in Georgia (74%), after the church (89%) and the army (84%).

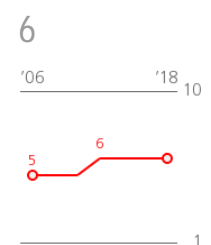
3 | Rule of Law

With the inauguration of Georgian Dream candidate Giorgi Margvelashvili as president in November 2013, previously adopted constitutional amendments entered into force, which redistribute the executive's power from the president to the prime minister. This led to competition inside the executive branch between the dominant prime minister and the weakened president over actual, but also symbolic and representational, superiority. With restricted competences and weak political support, the new president turned his attention to internal control over the legislative process, vetoing several draft laws and consulting with civil society activists. In a highly personalized environment, Margvelashvili attempted to behave as a bipartisan president representing the country, but lost the support of still influential Ivanishvili and the Georgian Dream party leadership. At the same time, parliament did not make full use of its legislative and oversight authority over the executive.

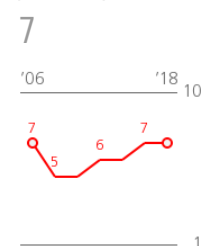
Winning a constitutional majority in the October 2016 parliamentary elections gives the Georgian Dream party a huge responsibility on the country's future development and if parliament will control its government, even with a weakened and divided opposition. Also, the ownership case over TV company "Rustavi 2" cast some doubts over the independence of the courts and judges. Neither the legislative nor the judiciary branches of power are currently able to fully balance the power of the executive branch. The litmus test will be the constitutional changes that are currently under preparation.

Politicization of the judiciary comprises one of the most serious legacies of Saakashvili's administration. Since coming to power, the Georgian Dream government set out to reform the judiciary and strengthen its independence. Many judges put considerable effort into improving standards by substantiating their decisions since an objective appraisal mechanism for their lifetime appointment was introduced. As a consequence, the number of acquittals has increased significantly, even in politically sensitive cases, which indicates some improvement in the independence of the courts. Due to understaffing there are still problems with effectiveness, which produced growing backlogs.

Separation of powers



Independent judiciary



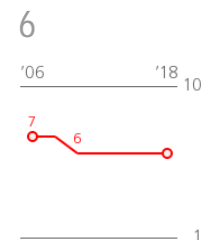
With the adoption of a law on common courts and the selection of new members of the High Council of Justice under new rules, the GD coalition has attempted to increase transparency and diminish opportunities for political interference. Nevertheless, the independence of the judiciary, particularly at the level of individual judges, remains an important challenge as seen in the cases of former mayor Gigi Ugulava in 2015 or with “Rustavi 2” most recently.

The Prosecutor’s Office still remains the weakest link in Georgia’s judicial system. Until 2012, the prosecution was a branch of the executive and courts were, to some degree, dependent on the executive. After separating the Prosecutor’s Office from the Ministry of Justice, in September 2015, amendments to the law on the prosecution service entered into force that aimed to increase its independence by establishing a Prosecutorial Council and a Consultation Board in early 2016. However, the procedures of appointment, evaluation, transfer and promotion of prosecutors as well as the correct implementation of existing disciplinary procedures and ethical standards remain to be addressed. An independent investigative body to deal with alleged misconduct of prosecutors and law enforcement officers is pending, but very much needed to improve the public trust in the judiciary, which is still quite low.

The Prosecutor’s Office has received nearly 20,000 citizen complaints of alleged torture, inhuman treatment or coercion, as well as forceful transfer of property during the reign of Mikheil Saakashvili. This scope of criminal cases against the former leadership created a challenge for the current government. It faces allegations of politically motivated investigations and court cases. At the same time, the Prosecutor’s Office is often criticized for failing to investigate cases of officials who overstep their powers, policemen who violate the law and people who claim to have been mistreated in prison. Responding to this situation, the Prosecutor’s Office has expressed its intention to create a new department, which will investigate offenses committed in the course of legal proceedings.

A widely respected institution, although not always heeded by the authorities, is the Public Defenders Office (PDO), which is responsible for overseeing the observance of human rights and freedoms in Georgia and its jurisdiction. In 2015, the PDO finalized its work on a National Preventive Mechanism on torture and ill treatment in the Georgian penitentiary system, which has still the most inmates in Europe. It also compiled a list of legal cases that demonstrate that the authorities rarely follow its recommendations. Assessments by the NGO Georgian Young Lawyers’ Association showed that in most of the 22 investigated cases there was no proper investigation of torture or ill treatment by the law-enforcement agencies. There still seems to be a prevailing corps spirit of impunity in the public sector.

Prosecution of
office abuse



On April 30, 2014, the National Strategy for the Protection of Human Rights in Georgia 2014-2020 was adopted and signals Georgia's readiness to comply with the highest international standards. The strategy provides numerous entry points for civil society to reinforce the observance of human rights in Georgia, though the mechanisms for its implementation are not yet fully in place.

In 2015, following the public defender's recommendations, parliament commissioned relevant agencies to take certain measures. In addition, the parliamentary committee on human rights and civil integration monitored the implementation of those recommendations. The PDO regrets in its 2015 annual report that some very important recommendations were not implemented, which dilutes the protection of human rights in Georgia.

Watchdog NGOs are increasingly campaigning for civil rights and monitor government performance. This was demonstrated by "This Affects You–We Are Still Spied On" campaign, which criticized the security agencies' direct, unfettered access to telecom operators' networks in a government-backed surveillance bill passed by parliament. In April 2016, the Constitutional Court ruled unconstitutional legislation granting state security services direct, unrestricted access to telecom operators' networks to monitor communications, and it ordered the authorities to reform surveillance regulations by March 2017.

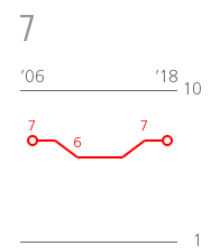
There are still problems in the implementation of basic human and civil rights, in particular related to selective justice, frequent impunity in the behavior of law enforcement, and unjustified or excessive violence, though not on a massive scale as before October 2012. During the last two years, the number of prison inmates who have died has decreased drastically, but has not been eradicated yet. Minority groups are still facing various forms of discrimination, which are now more openly addressed. In rural areas, there is less protection by human rights defenders and NGOs.

4 | Stability of Democratic Institutions

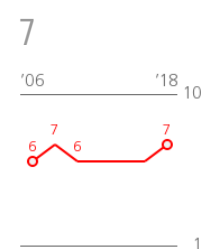
In general, parliament is able to exercise its legislative, oversight and representative functions. Yet the ruling Georgian Dream coalition has not managed to contain the overwhelming dominance of the executive by exercising parliament's oversight power. But parliament has provided civil society representatives with greater access to the parliamentary process, both in terms of influence on policymaking, as well as the submission (through amenable members of parliament) of draft bills.

Public opinion is disappointed in the performance of its representatives. According to an IRI poll from March-April 2016, parliament is considered favorably only by 36% (February 2015: 49%), but unfavorably by 57% (February 2015: 44%). Thus, its position went down to the tenth rank (2015: 8th) among trusted institutions. Only

Civil rights



Performance of democratic institutions



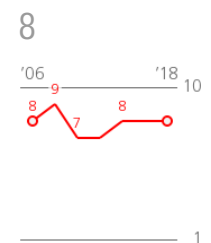
35% of respondents in a NDI poll from August 2014 stated that members of the majority in parliament represent voters' interests, but 50% expect them to do what the ruling party wants. This is mainly due to the severe polarization between the majority coalition and the United National Movement opposition that superseded problem solving of the most urgent issues like unemployment and poverty.

After the constitutional changes, President Giorgi Margvelashvili tried to use his reduced powers in a more principled way and vetoed several bills against the will of his Georgian Dream party. His bipartisan approach brought the President's office, as an institution, a more positive perception in the public opinion, ranked 6th or having a 43% favorable assessment in 2016 IRI poll.

An initiative for devolution of power to the local level was announced and in the 2014 local elections several mayors were directly elected for the first time. However, the capacity for democratic governance on the local level remains very limited and requires time and training to take deeper roots. In March 2017, the ruling Georgian Dream party publicly considered to reduce the number of self-governing cities from 12 to five.

All major actors demonstrate a commitment to democratic institutions and values. After Saakashvili's precedent of acknowledging his party's defeat and allowing for the first democratic change of government in Georgia in October 2012, his United National Movement only hesitantly acknowledged the disappointing results of the 2016 parliamentary elections. Unfortunately, the ruling Georgian Dream coalition and the opposition United National Movement still have not yet arrived at more constructive forms of interaction in parliament and beyond.

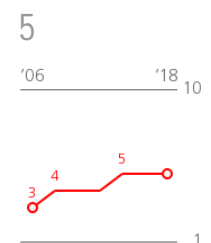
Commitment to democratic institutions



5 | Political and Social Integration

Georgian politics are characterized by a low level of appreciation for parties and their function, as well as relatively low party membership, fragile partisan loyalty and weak roots of parties in society. Political parties do have a very low standing in the public, only 16% see them favorably (73% unfavorably). The parliamentary elections of October 2016 once again demonstrated that there is no stable and socially rooted party able to articulate and aggregate societal interests beyond the ruling party. This is now Georgian Dream Democratic Georgia, which was established only in 2011 and initially had to rely on collaboration with other, smaller parties, providing professional politicians. Ahead of the 2016 elections, the coalition split and left several parties below the 5% threshold and thus 20% of the votes cast outside parliament.

Party system



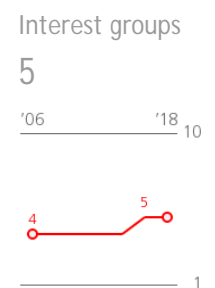
In the weeks following the elections many parties like the Free Democrats (4.6%), Republicans (1.5%) or the newly formed State for the People party by former opera singer Paata Burchuladze (3.4%) imploded. Personality-based opposition parties like Nino Burjanadze's Democratic Movement (3.5%) and Shalva Natelashvili's Labor Party (3.1%) collected a respectable amount of protest votes. Only the relatively new nationalist Alliance of Patriots managed to enter parliament with 5.1%. The United National Movement (27.1%) marginalized itself over a split of its leadership in response to their second defeat: juxtaposing constructive opposition in parliament as the moderate wing in the party suggested, or obstructionist opposition as Saakashvili and his followers advocated.

Financial dependency on the state and a low level of organizational loyalty among politicians are the most obvious signs of weak institutions with top-down hierarchical structures and the chairperson in total command. In the end, the low participation of citizens in party politics left the voters with no other choice than voting for the ruling party. The party system is in shatters and leaves the responsibility for further democratization of Georgia with the ruling Georgian Dream Democratic Georgia party.

Broader segments of society are not adequately represented by interest groups or CSOs. The idea of self-organizing around certain collective interests to voice them in the public is unfamiliar to a nation socialized mainly in neo-patrimonialism. The principle of aggregating competing interests in a plural society for achieving consensus about the common good has not yet taken roots in Georgia.

However, slowly – with low satisfaction in state service for two decades – self-organization can be observed in labor relations. The new government abandoned a discriminatory policy against trade unions, revised the labor code and allowed for collective bargaining. On the other hand, there is increased activity by employees demanding improvements for dire working conditions. In February 2016, the teachers' trade union (ESFTUG), the biggest professional association with about 30,000 members, officially opened negotiations with the Ministry of Education and Science as its major employer over a new Sectoral Agreement, which were successfully concluded in March 2017. Due to the low public appreciation of trade unions the importance of this achievement was not adequately noticed in the media. This agreement represents a first step toward the formalization of reconciling conflicting interests in the labor sector through a framework agreement. However, due to high unemployment, the experience with Soviet-style trade unions and a majority of small-scale employers, the self-organization in the business sector advances very slowly.

In the inefficient agricultural sector, farmer cooperatives are gaining new experience that was not found in Soviet-style collective farms, and joint efforts help to increase agricultural output, efficiency and quality. The civil society sector keeps growing in numbers and capacity, but remains primarily concentrated in the capital and other



bigger cities. It has only weak links with the broader population. CSOs in Georgia continue to demonstrate low levels of overall sustainability, but unlike political parties they are entitled to apply for international grants. According to the USAID CSO Sustainability Index for 2015, Georgian civil society remains steadfastly in the evolving sustainability category, with no change, either positive or negative, over the last years.

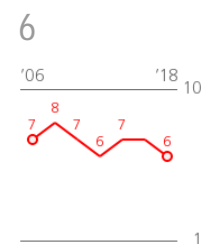
While not all democratic institutions are held in high respect by the population, few doubts are voiced regarding their legitimacy, or a preference for a less democratic system of governance. Thus, the dominant reason for voting in the October 2016 parliamentary elections (68% in NDI poll from January 2017) was “civic duty” and not expression of political will. On the other hand, voter turnout has been declining continuously from 74% in 1992 to 51% in 2016. Only the parliamentary elections of 2004 (64%) and 2012 (61%) stand out as exceptions demonstrating the serious will of the electorate for political change. The problem is a serious gap of institutionalized representation of interests in Georgian society. Political parties have a very low standing in public opinion – only 16% see them favorably (73% unfavorably). That is the 17th rank in the 2016 IRI poll with the trade unions coming in last.

An overwhelming majority of 55-70% respondents in nationwide surveys commissioned by IRI and NDI in February 2015 and March 2016 view Georgia as heading further in the wrong direction with only 16-25% in the right direction. This decline is certainly due to the deteriorating economic situation and the government’s response to it. Only 26% of respondents think democracy progressed, 28% regressed and for 39% it stayed the same (IRI March 2016). Asked which matters more, democracy or prosperous economy, only 29% opted for the former (Feb. 2015: 38%), but 61% for the latter (Feb. 2015: 50%).

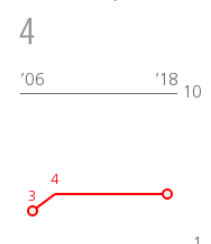
Since the Georgian Dream government could not significantly address the deteriorating economic situation and create jobs over the last four years, public disappointment is slowly undermining trust in democracy. As long as the people have to fight for their very existence, the commitment to democracy will stay fragile and can further deteriorate with economic developments. However, a stable majority hopes for economic improvements with EU approximation.

Georgia has been characterized as a country with high “bonding” social capital, but low “bridging” social capital, i.e. in-group solidarity vs. out-group mistrust. In short, Georgians are consistently more willing to exploit society at large for their benefit, but find it less tasteful to damage their reputation with closer relations. While there is still limited formal civic engagement in Georgia with extremely low rates of group membership, in June 2015 severe flooding in Tbilisi demonstrated that it is possible. With many lives lost and severe damages to infrastructure, there was an unprecedented mobilization of volunteers, which significantly raised public and government appreciation of volunteer work. This rare moment of a sense of community helps confirm the findings of a 2011 survey on social capital and civic

Approval of
democracy



Social capital



engagement that, despite low levels of formal participation in the civil society sector, widespread norms of openness and altruism underlie vibrant forms of bridging social capital, that already exist in Georgia. The Western form of civil society therefore remains alien to the Georgian environment as long as the existing in-group solidarity cannot be transformed into a broader out-group one.

II. Economic Transformation

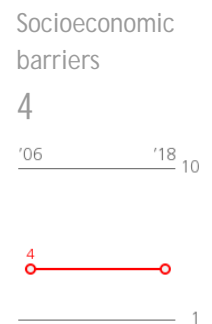
6 | Level of Socioeconomic Development

According to the UNDP's Human Development Report 2014, Georgia has reached the status of a country with high development with an overall HDI score of 0.754 and a rank of 76 out of 187. The puzzling issue is that this is not reflected in its social development. The European Bank for Reconstruction and Development's (EBRD) November 2016 Transition Report, *Equal opportunities in an unequal world*, draws attention to the inconvenient truth that Georgia has exceptionally underperformed with regard to inclusion and social mobility. It did not bridge the huge gap between largely urban "haves" and mainly rural "have nots." In fact, it is a country with the least equality of opportunity and very high income inequality (Gini coefficient in 2014 at 0.41), where birth predetermines life chances and perpetuates society's rigid divisions of those who are integrated into the modern economy, and those who survive in traditional subsistence farming and other forms of self- or underemployment. Wide variations in poverty rates exist from region to region. For many households dependent on remittances from abroad the situation worsened recently due to the economic crisis in Russia, where many labor migrants work.

Since November 2014, households have also been hit by the fall of the GEL's exchange rate and consequently suffered from significant price increases and the fall in value of Georgia's average monthly salary. The National Statistics Office estimated in the fourth quarter of 2016 GEL 1.130,40 (\$465) – the same as the average monthly salary of GEL 773.1 in 2013. State pensions for the 720,000 retirees increased in July 2016 by GEL 20 to a monthly total of GEL 180. This is just above the subsistence minimum for a working-age male calculated in January 2017 at GEL 166.3 or \$68.4 (2014: GEL 144.7-159.6 or \$82.7-\$91.2).

Households with children are more likely to be poor, and those with three or more children are more than twice as likely to be poor than a household with no children. The share of population living on 60% or below of the median consumption are regarded as relatively poor, which declined from 21.4% in 2014 to 20.1% in 2015. The World Bank calculated a higher share of 25.3%.

Question
Score



The key drivers of social exclusion are low education attainment levels among household members, unemployment, lack of land ownership, lack of access to health care, lack of access to loans or credit and inability to apply for social assistance. While more than half of Georgia's population lives in rural areas, the share of agriculture for GDP is 9.1%, indicating high inefficiency of mainly subsistence agriculture. This is related to small land plots, outdated machinery and lack of access to credit. Banks or micro-financial institutions are not considered a feasible option for small-scale farmers, as interest rates are high. Longer-term loans, which would give farmers time to harvest their crops and pay back the loans, are not available. The reform projects in the agriculture sector started in 2012, for instance establishing cooperatives, have not had a tangible impact yet.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	16140.0	16509.3	13993.5	14332.9
GDP growth	%	3.4	4.6	2.9	2.7
Inflation (CPI)	%	-0.5	3.1	4.0	2.1
Unemployment	%	14.6	12.4	12.0	11.6
Foreign direct investment	% of GDP	5.9	10.7	11.3	11.6
Export growth	%	20.3	0.4	8.5	-0.2
Import growth	%	2.9	11.1	9.7	-2.5
Current account balance	\$ M	-934.6	-1750.6	-1672.8	-
Public debt	% of GDP	34.7	35.6	41.4	44.6
External debt	\$ M	13467.3	14035.1	14817.3	15986.8
Total debt service	\$ M	1701.0	1793.6	2075.0	2693.8
Net lending/borrowing	% of GDP	-1.5	-2.3	-1.2	-
Tax revenue	% of GDP	23.4	23.5	23.8	-
Government consumption	% of GDP	16.7	16.7	17.9	18.4
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.3	1.6	-	-
R&D expenditure	% of GDP	0.1	0.2	0.3	-
Military expenditure	% of GDP	2.7	2.5	2.4	2.2

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The EU- Georgia Association Agreement fully entered into force on July 1, 2016, including a Deep and Comprehensive Free Trade Area (DCFTA), which has been provisionally applied since September 2014. It already led to the removal of customs tariffs and quotas and an approximation of trade-related laws and regulations to the standards of the EU, which will fundamentally change business through the alignment of the domestic business environment with that of the EU Single Market. While it may contribute to economic sustainability in the long run, it creates additional costs and requires serious reform efforts in the coming years, but also functions as a blueprint for legal and institutional reforms toward a competitive market economy.

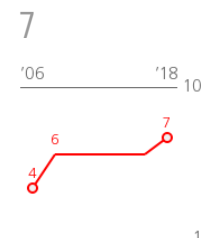
In its latest Association Implementation Report on Georgia (November 2016), the EU acknowledged progress with the approximation to the provisions of the DCFTA competition chapter and recommends strengthening the capacity of the Competition Agency in order to support the implementation of Georgia's state aid legislation. There exist an Office of the Business Ombudsman and an Economic Council as collegiate body at the Prime Minister's Office to support private enterprise.

According to the Index of Economic Freedoms, Georgia improved its international ranking, ranking 13 out of 180 states in 2016. In the World Economic Forum Global Competitiveness Report 2016-2017, Georgia further advanced to 59 out of 138 (2014/15: 69, 2013/14: 72; 2012/13: 77; 2011/12: 88) and maintained its place in the group of "efficiency driven" countries. The report praised Georgia's achievements in maintaining the most stable conditions compared to other countries in the Eurasian region.

A World Bank study in 2013 found that, in 2008, 30.1% of GDP was produced in the informal sector with very little or no competition. With more than 50% of the labor force – mainly in the rural areas – considered to be self-employed even the Georgian Statistics Agency assumes a contribution of 20% of the informal sector to the GDP. Even Saakashvili's drastic market reforms did not succeed to include the informal sector into the formal economy. However, the gap between the real socioeconomic fabric in Georgia and the economic policy of the government expresses the dilemma of economic reforms in transition countries. On the one hand, imperatives of reforms demand non-interference in the economy to avoid supporting any particular actors, but on the other, this prevents the development of SMEs out of informal micro-enterprises.

Georgia's presumably highly liberalized economy with only few formal legislative and administrative barriers did not lead to increased competition yet. To the contrary, it enabled some well-established market players to engage in anti-competitive practices and abuse their market power. The new government is trying to regain some

Market-based
competition



Anti-monopoly
policy

6

lost ground. For instance, it improved the legal framework for market surveillance following provisional application of the DCFTA. In March 2014, parliament adopted amendments to the Law of Georgia on Free Trade and Competition, developed as part of anti-monopoly reform to improve the institutional framework of businesses by promoting free competition and developing a competitive market as a prerequisite for joining the Deep and Comprehensive Free Trade Area (DCFTA) with the EU.

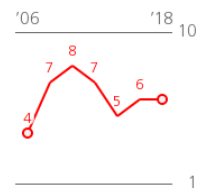
In order to assure its proper implementation, a Competition Agency was established to exercise effective state supervision over a free, fair and competitive environment in the market.

After the split of the Competition and State Procurement Agency into two independent legal entities in 2014 with EU assistance, the technical and enforcement capacity of the Competition Agency was strengthened in 2015 and will be supported in 2017 to safeguard the Competition Agency's independence and supervisory powers over state interventions that might undermine competition. These measures are expected to contribute to curbing the so-called elite corruption, often discussed in Georgia, such as setting privileged conditions in the market for individual companies, mostly those with political ties. So far, no open conflict occurred that might have demonstrated the Competition Agency's real independence.

The foreign trade regime adopted in Georgia is increasingly aligned with the new EU Customs Code. The government agreed to use the EU Customs Blueprints as reference guidelines and as a base in its modernization efforts. In September 2016, the Joint Committee of the pan-Euro-Mediterranean Convention on Rules of Origin decided to admit Georgia as a contracting party to the convention.

It has only a limited number of customs control institutions, import duties and procedures for customs clearance. Only a very restricted number of goods require licensing for import and export. A number of bilateral agreements with the majority of developed countries have significantly contributed to facilitating access of Georgian goods on international markets. As a result, Georgia managed to further improve its relatively high ranking in the World Bank's Trading Across Borders Index from 38th in 2012 to 33rd in 2014.

Georgia's overall foreign-trade turnover in 2016 amounted to \$9.35 billion and thus declined from \$9.43 billion in 2015, according to preliminary data from GeoStat, the National Statistics Department. Exports for 2016 were valued at \$2.1 billion (2015: 2.2), while imports totaled \$7.23 billion (2015: 7.28). The trade deficit was \$5.12 billion (2015: 5.07). In spite of the DCFTA it is assumed that export opportunities to the EU market will need time to fully materialize. The DCFTA differs from other international trade agreements in that it covers not only market access provisions (tariffs, customs and mutual recognition of technical standards), but also aims at harmonizing Georgian national legislation with the EU Acquis.



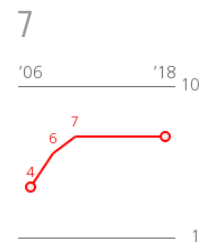
19 commercial banks operate in the Georgian banking sector. The two largest banks have almost 60% of total assets, however, competition is considered intense. Due to the increased competition, there is a trend of further consolidation in the sector. The two largest banks – TBC Bank and Bank of Georgia – are listed on the London Stock Exchange. Around 90% of assets are foreign owned. The IMF assessed the Georgian banking sector generally as sound and stable, which has continued to perform well. Key challenges were named as the credit and funding risks related to the dollarization, the concentration in the banking sector and reliance on non-resident deposits. The bank capital to assets declined from 17.4% in 2014 to 14% in 2015. In the area of financial services, a law on securities market, specifying what type of securities can be subject to trade, was adopted in June 2016. Total market capitalization/GDP ratio of all Georgian companies listed on the Georgian Stock Exchange is only around 6%.

A huge problem for the development of home-grown businesses are the high interest rates for bank loans, which results in a low ratio of bank loans to GDP and demonstrates that Georgia's major problem is access to finance. This is grounded in persistent structural obstacles to financial sector development. First of all, the small market size with only limited real sector penetration prevents economies of scale for Georgian banks. Secondly, the moderate country ratings on international markets imply a continued reliance on external sources of funding for commercial banks with a tendency for short-term lending. Thirdly, low financial reporting standards among Georgian companies and low levels of financial literacy among the economically active population prevent proper use of business loans. Finally, long-term lending is done almost exclusively in foreign currencies, which creates a foreign exchange credit risk, realized in early 2015 with the dramatic depreciation of the Georgian lari. This compromises the low share of non-performing loans (2.7% in 2015). Thus, the dependency on investments in the Georgian banking industry by international financial institutions continues.

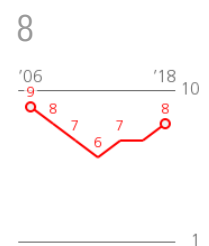
8 | Currency and Price Stability

After the Georgian economy experienced a deflation in 2012 (-0.9%) and in 2013 (-0.5%), it saw inflation rates of 3.1% in 2014, 4.0% in 2015 and 2.1% in 2016. The monetary policy regime of the National Bank of Georgia is targeting a rate of inflation of 3%. The intention was to tighten monetary policy in late January 2015, amid depreciation of Georgia's national currency (GEL) against the U.S. dollar, and to neutralize additional inflation risks, which are to a significant degree dependent on exogenous factors. In February 2015, ex-Prime Minister Bidzina Ivanishvili blamed the National Bank of Georgia and its president, Giorgi Kadagidze, who was appointed under the UNM government, for inaction or incorrect actions in response to the Lari's depreciation. These accusations were rejected by the latter. However, in September 2015, the government initiated amendments to the law on the national bank, which would have transferred supervisory function over the financial sector from the

Banking system



Anti-inflation / forex policy



National Bank of Georgia to an independent public agency. The Constitutional Court contested the proposed amendment. In February 2017, the government of Georgia stated that it will not wait for the final verdict of the Constitutional Court and left the supervisory functions within the competence of the National Bank of Georgia.

Financial volatility is influenced by upward inflationary pressures and reflects a rising domestic demand for imports. As Georgia imports virtually all of its natural gas and oil products, and even essential food products, there is a rapid growth of the money supply and an expansion in net foreign assets. In addition, increasing volumes of imports are not matched by a corresponding growth in exports, creating a persistent current account deficit. All this makes it difficult for the government to pursue a consistent anti-inflation policy. It is an important challenge for the country to develop a powerful export sector in order to reduce the foreign-trade gap (in 2016 the trade deficit was \$5.112 million or almost 55% of the total turnover).

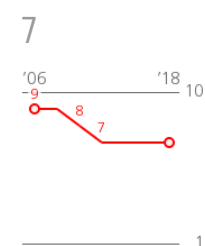
Georgia's macroeconomic situation remained stable overall. The economy has shown significant resilience, managing to maintain a positive growth (+2.8% in 2015) in an unfavorable regional context. No decisive increase in exports was recorded, while FDI growth never reached the volume it enjoyed before the war with Russia in 2008. Georgia's fiscal and external situation worsened with a government deficit from 3.1% of GDP in 2014 to 3.8% in 2015. It is expected to reach 4.5% in 2016. Meanwhile, the public debt ratio has increased to 42.7% of GDP at the end of 2015 and the current account deficit reached 11.7% of GDP in 2015. With increased state expenditures, primarily on social assistance, it is not yet clear how the government will attempt to reduce the deficit.

To some degree, the government has managed to partly compensate the deficit by a significant recovery of foreign direct investment since 2014. Fiscal consolidation could represent a step towards a more responsible attitude by the government. On the other hand, external debt increased among other reasons because of the depreciation of the currency. It reached 107.3% of GDP by the end of 2015.

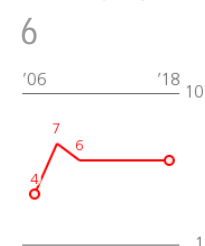
9 | Private Property

The World Bank's Registration of Private Property Index 2016 again ranked Georgia third among the countries surveyed with one procedure within one day. This positive figure is only overshadowed by the increase in cases of violations of private property by affiliates of the previous government, which are pending in court (the most controversial is the ownership claim of the most popular TV company "Rustavi 2"). These cases indicate that amendments to the laws on registration of immovable property, in particular, have closed substantial gaps in the country's legislation. The low rank of 90 out of 128 countries at the International Property Rights Index is mainly due to ongoing serious violations of intellectual property rights.

Macrostability



Property rights



There were serious infringements on property rights before 2012 – including abandonment or citizens handing over property to the state as a gift, arbitrary title registration in the name of the state to property already registered by the owners and missing transparency in government launched large-scale privatization programs. The new authorities tried to secure interests in both real and personal property which are recognized and recorded. However, deficiencies in the operation of the court system hampers foreign investors, especially, from realizing their rights to property offered as security. The improvements are acknowledged in the 2016 Index of Economic Freedom, where Georgia’s score is 72.6 and ranked 23rd.

State companies still remain one of the country’s major employers, where labor conflicts with trade unions have occurred, which now are regulated in a social dialogue by a Tripartite Commission. A Business Ombudsman is mediating between the state and private sector as well as consulting on new regulations. Privatizations were conducted mostly by the previous authorities before they left office. Their conformity to the market still needs to be studied.

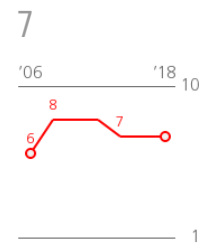
Tax legislation was one of the main mechanisms that allowed the state to exert influence on private companies. In particular, fines that were prescribed by the Revenue Service did not have a specific cap, which allowed the state to deliver unreasonably large fines. Current tax legislation still allows for such practices, but they have dramatically decreased.

10 | Welfare Regime

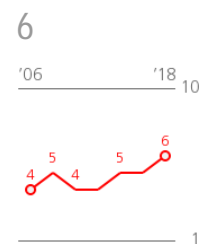
Recent years have seen significant efforts by the Georgian government to improve the welfare regime, which is, however, still far from satisfying basic needs. All social benefits are solely funded out of general taxation. The government provides a range of income support to families and individuals including targeted social assistance (using a proxy means test to identify the poorest households), universal pensions and categorical benefits, such as internally displaced persons (IDP) and disability allowances. From the poorest 20% of Georgian households, 25% receive cash benefits from the state. Pensions reach 61% of the bottom quintile. However, 28% of the bottom quintile has never applied for assistance, as an UNICEF report detected.

When the Georgian Dream coalition entered office, it increased social spending, which accounts for about 35% of the 2015 state budget. As a result, the threshold for getting social assistance has been lowered and support to IDPs and war veterans has been improved. From July 1, 2013, all citizens have been entitled to basic health care, which became the Georgian Dream coalition’s biggest success among the population. Minimum pensions were raised from GEL 160 to 180 right before the parliamentary elections in July 2016. Since Georgia represents an aging society every year the number of pensioners is increasing together with the budget for the Ministry of Health Care and Social Protection. In 2016, already 720,000 elderly received state pensions

Private enterprise



Social safety nets



(2013: 694,000) from the Georgian social service agency. The average life expectancy at birth continuously increased to 74.7 years in 2014, which lies just below the European average of about 75 years. If not seriously addressed, the costs for pensions in the state budget will explode in coming years.

In addition to the need for greater financial support for social programs, self-help is also needed. Georgian community, governmental and non-governmental institutions, as well as international organizations, have demonstrated growing interest in establishing additional social and health-related assistance for citizens. However, until now, these efforts have done little to significantly reduce overall poverty and vulnerability, which is of a systemic nature.

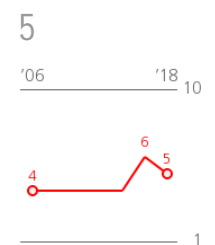
Georgia is still far from ensuring equal opportunities to all citizens. Social and economic vulnerability in Georgia is directly coupled with restricted opportunities for some minorities, internally displaced persons (IDPs), people with disabilities and the population living in remote mountainous regions that receive special support through regional development programs. Significant differences persist between rural and urban areas and between the poorer and the more developed regions of the country in terms of access to infrastructure services.

Gender inequality remains an issue of concern, even if there are some improvements. In the 2016 parliamentary elections, women won 24 out of 150 seats (16.0%), a progress as compared to 6% in 2008 and 11% in 2012. The voluntary gender quota – inclusion of women on party lists – increased from 20% to 30% and political parties that comply with this provision, receive special funds from the budget. However, the proportion of women in local councils increased only slightly from 11% to 11.8% after the municipal elections in 2014. A Gender Equality National Action Plan for 2014-2016 was adopted to achieve greater gender equality in different areas of political, social and economic life.

Education enrollment rates show no significant difference between female and male students, while in tertiary education there is a higher rate of female students. Gender gaps are more evident in employment, where the prospects for career success and equal remuneration for women remain limited. While unemployment was significantly higher among males (16.5%) than females (12.3%) as of 2013, according to official statistics, a higher number of women reported as employed appear in reality to be self-employed, a significant proportion of them in agriculture and in petty trade.

Although there exists no legal discrimination against ethnic minorities, their representation in state jobs is disproportionately low. In the 2016 parliamentary elections, ethnic minority candidates won 11 seats (7.3%). This can only in part be explained by the lack of proficiency in the Georgian language – a necessary precondition for taking many state jobs – as proficiency has increased over the last decade, mainly among the younger generation. The situation of ethnic minorities,

Equal opportunity



particularly in urban areas, has improved as well. However, especially with regard to integration into the educational system and in the labor market, there are still obstacles to overcome that are mainly grounded in public perception and discriminatory hiring practices.

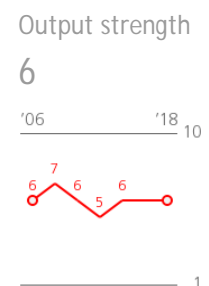
One important aspect of social inequality is the stigma carried by representatives of sexual minorities, and also by disabled persons. In the latter case, some initial steps have been taken to integrate them into society, jobs and educational institutions. Still another issue is the frequently expressed, general intolerance toward representatives of non-traditional religious denominations, e.g., Jehovah's Witnesses. A new policy tool for creating better opportunities that has been slowly introduced by the current administration, is employment policy. In order to better coordinate supply and demand on the labor market, vocational training receives more attention. The impact is not yet measurable, as preparation by the Ministry of Labor, Health and Social Affairs is ongoing.

11 | Economic Performance

After several years of rapid economic growth at an average of 6% annually, Georgia's GDP in 2015 stood at \$13.96 billion and in 2014 at \$16.50 billion. Its GDP per capita increased from \$9,204 (2014) to \$9,679 (2015) PPP. The GDP growth slowed down from 4.6% in 2014 to 2.8% in 2015 with an accelerating annual inflation rate of 3.1% in 2014 and 4% in 2015. However, its economy has still not reached the GDP level of 1989. The official unemployment rate was 13.4% in 2014 (2013: 14.6%). However, in the mentioned NDI survey from 2016 about 66% considered themselves unemployed.

Remittances from Georgian migrant workers, mainly from Russia, were until recently the most reliable and least volatile source of external monetary inflow that compensated inadequate employment opportunities at home. In recent years, remittances were almost twice as much as FDI, but now suffers from Russia and Greece's economic crisis. Flows are more stable from other EU countries and the United States.

The declining trend of FDI in Georgia changed after its low of 5.9% in 2013 to 10.6% in 2014 and 9.6% in 2015. The state budget faced a negative account balance of \$-1,678.9 million in 2015 and \$-1,747.8 million in 2014. Between 2014 and 2015 public debt increased from 35.5% to 41.5% of GDP. The gross capital formation further increased from 29.8% of GDP to 32.1% of GDP between 2014 and 2015.

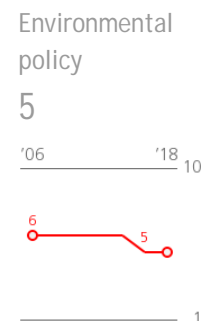


12 | Sustainability

Georgia possesses rich biodiversity, micro-climates and cultural landscapes, but is especially sensitive to economic interventions into vulnerable ecosystems. The legal framework for environmental protection established in the 1990s was comprehensive but ineffective and has undergone excessive deregulation since 2004, in conjunction with economic liberalization. Nowadays Georgia is facing major environmental issues such as land and forest degradation, pollution and waste management. The Ministry of Environment and Natural Resources Protection implements policies to alleviate these environmental problems. Its subordinate Georgian National Environmental Agency is dealing with natural hazard prevention and the Agency for Protected Areas is overseeing several endangered biospheres.

However, Georgia's environmental management is threatened by short-sighted economic interests such as the Tbilisi Panorama project or gold metal exploitation in Sakdrisi, mentioning just the most criticized examples. Even with the Green party in the Georgian Dream coalition, the government has not reversed this trend. Notwithstanding regular protests from the affected population and civil society activists, inclusive approaches to sustainable environmental decision-making are the exception and result in unsustainable use of natural resources causing – in addition to impacting global climate change – serious environmental degradation. This was especially devastating in the agricultural, mountainous and coastal regions of Georgia, causing an increased number of eco-migrants and serious health problems in affected areas. Low-income groups are disproportionately affected by environmental degradation. It is estimated that because of natural disasters 77% of the total number of newly poor individuals in Georgia live in rural areas.

According to the watchdog NGO Green Alternative, the developments in aligning the environmental sector to EU norms as detailed in the Association Agreement are positive. In 2015, the Ministry of Environment and Natural Resources Protection of Georgia with the support of EU developed a road map for the convergence of Georgian legislation with the EU environmental and climate change laws. In the fall of 2016, the new updated version of the road map was presented, which outlines the activities according to time schedules, with the purpose of implementing reforms in particular sectors. The environmental section of the 2014-2016 National Action Plans and the road map highlights the accomplishments in harmonizing the environmental legislation both in horizontal (environmental governance) and sectoral (air, water, biodiversity, forest, etc.) directions. At the same time, not a single draft law has been approved, including the laws which should have been already approved or, at least, submitted to parliament for consideration, according to the plan.



Since the early 2000s, the education sector has been undergoing fundamental reform. There was increased investment, but its quality remains a major problem. The government has addressed this in its “Main directions of education system development in Georgia” (2014). A recent report of the Program for International Student Assessment (PISA, 2015) states that approximately 50% of 15-year-old students perform at or below the international threshold (benchmark 2) in science, literacy and math tests (OECD, 2016).

One of the key strategies to boost the quality of education is improvement of teacher pre-service programs as well as strengthening research capacity for testing and developing innovative approaches to teaching. However, since 2006, despite a real increase of nearly 47% in education expenditures, public spending on education has remained around 3% of GDP and therefore lacks serious investment to substantially improve the sector. The poor performance of Georgian pupils in international assessments points to substantial deficiencies in the education sector that also reflect the deep urban-rural divide and social inequalities. Another problem is linked to the excessive number of teachers from pre-school to secondary level teaching fewer than the OECD average number of hours. They are less qualified for the requirements of modern education than teachers in OECD countries and underpaid. The teacher profession is among the lowest paid in the public sector and therefore not competitive. In March 2017, the government concluded the first sectoral agreement with the teachers’ trade union ESFTUG thus giving a voice to 30,000 teachers currently trying to address the need for improvements in teacher training and remuneration. Involving teacher representatives in the reforms is key for improving the education system. After years of trade union activists’ discrimination this marks a step in the right direction.

Another institutional success story is the National Assessment and Examinations Center (NAEC), which monitors the education system and also conducts the national entrance exams for university. In comparison to the ministry, NAEC has high staff continuity and is perceived as fair, transparent, uniform and based on the principles of meritocracy. While successfully eradicating corruption for university entrance exams, it generated a demand for fee-based private tutoring for young people preparing for these exams.

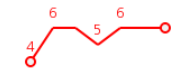
In higher education, Georgia joined the Bologna Process in 2005 and established the necessary legal framework. At this level, quality of education remains equally a major problem due to often insufficient salaries for lecturers and a gap between teaching and research. There is a persistent need to elaborate study programs and curricula that would be more closely tied to demands on the labor market. Higher education has to a great extent also been converted from a public good into a commodity accessible only for those who can afford to study in several new private universities.

Internationalization and limited research funds (2014: 0.1% of GDP) provided by the public Rustaveli Foundation are challenges to educate more qualified workers and to

Education policy /
R&D

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successfully participate in the EU HORIZON 2020 program that Georgia joined in April 2016. Also, the recently established Techno Park cannot overcome the missing link to an underdeveloped business sector in Georgia.

Only very late in 2009, the government realized the importance of reforming the vocational education and training (VET) sector, which received increased funding in the framework of a sector development program supported by the EU. However, the contribution of the VET system to overcoming the skills mismatch on the job market is still limited. Recently much attention was paid to the German system of dual education. Since major parts of the Georgian business sector will not be able to contribute to vocational education, serious adaptations will be required. As in the whole field of education, reforms in the VET sector will take time to achieve the intended impact. The stigmatized perception of vocational education has also contributed to its negligence. Informal as well as on-the-job training opportunities are marginal in the education sector, although Georgia has adopted Lifelong Learning Policies and Strategies. Overall, it seems that quality standards in education can only be achieved with the active involvement of employers' and employees' representative organizations.

Governance

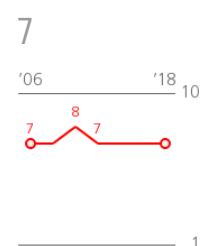
I. Level of Difficulty

Georgia has been suffering from its deep decline in socioeconomic development after the demise of the Soviet Union connected to violent conflicts, economic collapse and the loss of the state monopoly on legitimate power. This led to an immense outflow of capable people during the 1990s that would have been able to generate change. The overall level of education seriously deteriorated. Thus, the group of political reformers under Saakashvili which came to power in 2004 did not have an organized base in society. While being successful in their state-building efforts, they did not succeed in establishing formal rules and procedures that are accepted and adhered to by the majority in Georgia's socially segregated society. Qualitative changes appeared difficult to achieve in a political culture built around personal loyalty, tactical rapprochements and confrontation instead of seeking a broader consent over long-term strategic development goals.

Fortunately, the growing interconnectedness of the country is having a lasting, but often not too visible impact. The most important step in the reporting period was the adoption of the EU-Georgia Association Agreement that offers alignment with EU principles and standards and provides a blueprint for substantial internal reforms to overcome the path dependency on Soviet governance style. A self-critical and inclusive implementation will be necessary to escape superficial window dressing. While Saakashvili's reforms succeeded in undermining the overall prevalence of informal practices in dealings with state bureaucracy, the education system, health care, law enforcement and the judiciary, the reliance on informality did not disappear. Informal networks are still employed as coping mechanisms and as social safety nets, or as doors to building a career.

Having an important geopolitical position as a transport and transit corridor between the Black and Caspian Seas, as well as between Russia, Turkey and Iran gives Georgia a special role in international affairs of the region. However, the civil war with the separatist regions of Abkhazia and South Ossetia was instrumentalized by Russia to prevent Georgia from joining NATO. Such a pro-Western orientation is one of the few shared axioms of Georgian society that is supposed to provide more security from its increasingly estranged neighbor – Russia. Georgia enjoys fairly good and pragmatic relations with its other immediate neighbors, but its relations with Russia remain one of the biggest security threats overshadowing Georgia's development.

Structural
constraints



In Georgia, civil society organizations emerged and became active only during the late perestroika period of the Soviet Union as a part of the national movement challenging the Communist party. During the 1990s, non-governmental organizations managed to survive only thanks to international grants, though this fact had mixed impact on their effectiveness and legitimacy among the broader population. Through access to donor funding CSOs provided political activists a niche for economic survival.

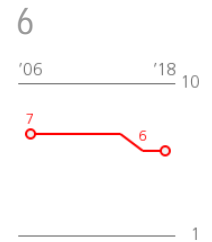
Over the years, civil society managed to emerge as an important and influential factor in pushing for constructive and principled change in the political culture, including the moral atmosphere conducive to the peaceful change of power after the parliamentary elections in 2012. In December 2013, the Georgian parliament acknowledged the important role of CSOs in concluding a memorandum with civil organizations, and established a new tradition of cooperation. Thanks to relatively greater freedom in comparison to most other post-Soviet countries, several capital-based NGOs developed into serious watchdog organizations challenging government and politicians. They are also able to launch effective advocacy campaigns. However, although increased NGO activity is observable also in the rural areas, most of these lack a broader membership base and mostly leave out the most pressing issues for the broader society: socioeconomic development. Trade unions represent one of the few exceptions with several thousand members, but their influence is limited.

Without the resources and experience to participate in public affairs, the majority of the impoverished and disenfranchised population turns toward the Orthodox Church of Georgia for orientation and to social networks or friends for assistance in case of need. The NGO sector focused on professional consulting and service provision is to a great extent disconnected from the broader society and still vulnerable to allegations as “grant eaters” or as politically biased, as happened at the end of 2014. Among the younger generation, students’ civic activity has become more common.

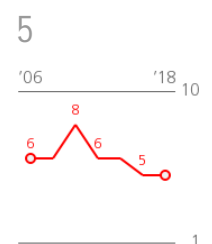
Acknowledging civil society as a consultative and advocacy partner is very important for the EU in its Neighborhood Policy as well as in the negotiations for the Association Agreement. A National Platform of the Civil Society Forum is channeling the interaction with the EU and acts as one of the leading horizontal platforms in Georgia.

Persistent social, ethnic and religious cleavages in a country without a tradition of consensus-building through open and transparent dialog over disputed issues or interests can lead to a confrontation over personalized issues. However, the experience of extreme violence in the early 1990s with paramilitary groups taking over the state and making it a hostage to their particular interests led to caution in escalating conflicts. But there are still some later cases of violence, as mass protests were roughly dispersed by the police in November 2007 and May 2010, the Russo-Georgian War took place in August 2008, and torture became routine in prisons under the Saakashvili regime. The polarization among the dominant political forces – the

Civil society traditions



Conflict intensity



Georgian Dream coalition and Saakashvili's United National Movement – persisted after the change of government in October 2012 and often hampered finding ways for consensual conflict solutions. There are increasing cases of discrimination against gay activists, or between the Orthodox majority and the Muslim minority. As well, hate speech was observed during the reporting period. The state authorities still need to learn how to handle such conflicts in an effective and impartial way.

II. Governance Performance

14 | Steering Capability

In June 2014, the EU and Georgia signed an Association Agreement, which entered into force on July 1, 2016. This represents a serious commitment to long-term adaptation of EU principles and standards, which also will provide clear guidance for policy reforms and political decisions in the years to come. The personalization of politics, in the past between billionaire Bidzina Ivanishvili and his Georgian Dream and former President Saakashvili and his United National Movement, has somewhat decreased, but still persist as Saakashvili's prosecution and his televised appearance in the 2016 parliamentary election campaign showed. On the other hand, election programs of the competing parties resembled a list of promises more than a coherent strategy or program based on political principles.

However, due to intensified cooperation with international donors there are many more strategies in place and are accessible for public scrutiny. Yet the indicators in accompanying action plans are often not clearly formulated and difficult to measure. It only shows that policies are not based on clear evidence and a strategic vision, but on public relations objectives. Even when strategic priorities are set, these may haphazardly change or not be followed in a consistent manner. This can be due to a change of the minister or voluntarism and unpredictability at the top level of government due to a tradition of decision-making by a small circle of people reluctant to involve independent experts or to consult the population and civil society.

Slowly institutionalized channels through which policies can be publicly negotiated are developing, mainly with civil society actors. Some attempts were made toward inclusive strategy elaboration in the case of less influential ministries like those of sports and youth affairs, or of culture and monument protection. However, it was in the field of culture that a scandal emerged around the destruction of the presumably 5,000-year-old Sakdrisi gold mine that fell victim to a mining company's commercial interests. The Georgian Dream government has to demonstrate in its second term that it is committed to establishing effective participatory mechanisms to solve an increasing number of conflicts of interest.

Question
Score

Prioritization

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With the Association Agreement (AA) between Georgia and the EU, Georgia has voluntarily committed to its goal of approximation and full integration into the EU in the future. The AA is supposed to provide a master plan for all future reforms. But the question remains as to how implement the European values of democracy, good governance, rule of law, protection of human rights and fundamental freedoms into everyday practice.

Over two decades, three different governments introduced a number of reforms, modernized financial and public institutions, initiated the harmonization of Georgian legislation with EU regulations, and made considerable progress in the fight against corruption. However, there exists an “operational gap” in proper implementation of these reforms. Frequently delayed introduction or enactment of important legislative amendments has become one of the negative traits of the Georgian Dream government, which has prevented the formation of a stable and predictable legal environment in the country.

General promises are often offered instead of addressing the lack of a common strategy by a diverse leadership regarding how to achieve its claimed objectives in a consistent way. Numerous strategic documents were drafted to appeal to international donors, while their implementation proved neither straightforward nor consistent nor successful. The government’s promises included eradicating poverty, developing agriculture, resolving the conflicts in Abkhazia and South Ossetia, and joining NATO and the European Union.

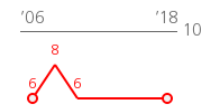
In general, all Georgian administrations have struggled not to develop, but to implement, existing plans. Obviously, this problem has not disappeared with the new government, whose officials often lack professional expertise, managerial skills and clear leadership from the prime minister’s office. Frequent staff rotation, lack of institutional memory and of horizontal coordination among state agencies, as well as profound deficiency in policy formulation and implementation capacities still persist.

The Open Government Partnership intended to increase transparency and free access to public information is a good example. However, as the 2014-2016 End of Term Report clearly states, “Georgia has shown significant progress in increasing access to information through using open data and improving public participation mechanisms in decision-making. The three most important commitments – developing a separate Freedom of Information Act, a petitions web-portal for citizens, and an interactive crime statistics and map system – were not implemented by the government. These commitments were highly demanded by local civil society and directly addressed open government values of transparency, public accountability and civic participation.”

Policy learning has been imperiled for quite some time by the deep divisions in Georgian politics. The relationship between the parties supporting the government and the UNM opposition remains confrontational and counterproductive. Only in rare cases do both political camps succeed in bridging their considerable differences.

Implementation

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Policy learning

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Overall, parties stand only on very narrow programmatic bases with little interaction and legitimization by their membership.

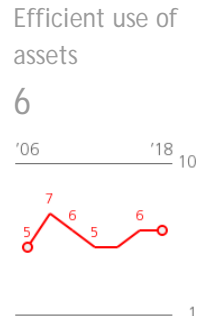
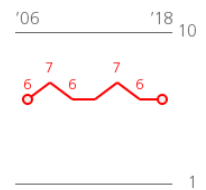
On the positive side, since the 2012 parliamentary elections, cooperation between the new government and civil society organizations improved considerably and the practice of repression and intimidation of the opposition ended. However, recently legitimate criticism by leading watchdog NGOs against the government's legal initiatives strengthening surveillance has been rejected by the authorities as politically biased. Another negative example is the continuing bad practice of the frequent rotation of government positions, disguised by declared intentions of capacity building and de-politicization of state institutions. There are very few ministers that survived one term in office. While this might serve political needs, on the lower levels in the hierarchy, staff mobility negatively impacts institutional learning and institutional memory. However, developing a stable and meritocratic civil service assisting political office holders in professional decision-making or policy formulation is still to come. First, professionals need a secure, enabling and competitive environment.

15 | Resource Efficiency

The rotation or replacement of non-performing members continued under the new government, although in some cases the decisions had political or personal overtones, and do not seem to be motivated by any long-term strategy aimed at efficient management of resources. Still, whimsical nominations to high government positions based on personal favoritism common under Saakashvili was not replaced by more rational, meritocratic and efficient management of human resources. Controversial appointments continued with the new government. Consequently, the minister of energy and vice prime minister is a well-known footballer, but hardly an expert on energy; the former prime minister was director of Ivanishvili's Cartu Foundation before entering politics as minister of the interior having been handpicked by the billionaire, who left after one year in office. Ivanishvili still uses his personal authority to influence governmental decisions from behind the scenes.

Civil service reform that should provide security to professionals is still under preparation, as is decentralization of governance and devolution of decision-making and financing authority to the local level. These processes are restricted by a serious deficit of capable human resources in rural areas. At the level of local authorities, a selection process was conducted aimed at replacing political appointments by more professional staff. However, not always the most competent candidates have been selected, as NGOs monitoring the process revealed.

The Institute for the Development of Freedom of Information, proactively working on the provision of public information, repeatedly detected that leading state officials' self-allocated premiums often greatly exceeded their salaries. Such practices continue



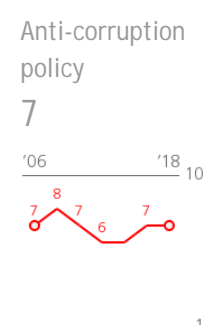
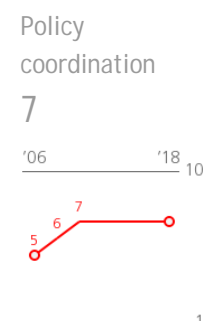
to undermine public trust in the government's commitment to sound and consistent reforms.

Since the parliamentary elections of October 2012, policy coordination has not been the strongest feature of the diverse members of the Georgian Dream coalition, which was united under the single goal of ousting then-President Saakashvili. With the results of the parliamentary elections of October 2016, the coalition broke apart and the Georgian Dream Democratic Georgia (GDDG) party can rule alone. They inherited a state apparatus that had developed certain steering capacities, even if previously these were mainly used to implement the tactical decisions of the power circle around Saakashvili. Ministries no longer function as shields for influential circles of economic actors, and policy has gained coherence.

Ample space, however, remains even now for improving horizontal inter-agency coordination. After the constitutional reforms, vertical interference is exerted by the prime minister as the single most important means of ensuring cooperation between different parts of the administration. Ideally, the government should be guided by its revised program, For Strong, Democratic and Unified Georgia (adopted on July 26, 2014), and the Association Agreement Implementation Action Plan. However, while observing disputed cases like the destruction of the ancient Sakdrisi gold mine or the revision and implementation of the Labor Code, it has become clear that, in the presence of strong economic interests, there are not yet sufficiently transparent procedures to accommodate opposing interests along balanced policy principles. Very often, horizontal coordination is only induced from the outside through donor coordination requirements and therefore remain weak. It remains to be seen how far EU procedural norms will impact the practice of governance.

The State Audit Office of Georgia (SAOG), the auditor general's primary auditing body, improved its performance in identifying misuse or ineffective use of state funds by public employees in office. In-depth audits of public institutions had never been attempted before. The findings by the State Audit Office point to essential shortcomings ignored by government or state agencies over the years, due to both mismanagement and a lack of parliamentary oversight.

In 2015, the State Audit Office detected wasteful and undocumented spending of millions of lari in public funds, which implied serious risks of corruption, in 122 (2013: 95) financial and performance audits at different public entities. The total amount was GEL 5.894 billion and it discovered violations worth GEL 148 million. It issued 347 recommendations. Procurement was leading (GEL 68.9 million), followed by the management of budgetary resources (GEL 46.4 million) and management of assets (GEL 32.1 million). With its broad powers to monitor party finances and seize assets or fine any group or organization in violation of Georgia's campaign finance regulations in September 2016 it fined six of the country's political parties for election campaign violations.



The Inter-Agency Anti-Corruption Coordination Council represents the other important institution created on the basis of the law on Conflict of Interests and Corruption in Public Service. It is tasked with coordinating anti-corruption activities in Georgia, updating the anti-corruption action plan and strategy, as well as supervising their implementation, monitoring accountability toward international organizations, initiating relevant legislative activities and drafting recommendations by its nine thematic groups.

Since July 2013, the council has also followed up on Georgia's implementation of the Open Government Partnership (OGP), which obliges government institutions proactively to make key operational information public. In July 2016, the Ministry of Justice (MoJ) published for public comment the first draft of the 2016-2017 OGP national action plan for Georgia's third cycle. On October 24, 2016, the Ministry of Justice shared with stakeholders the second updated draft. This important tool is coordinated by the Ministry of Justice which has only limited influence on other line ministries and also did not separately budget OGP implementation, which to some degree might limit its effects.

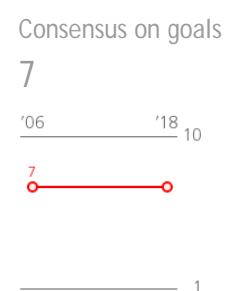
These institutional mechanisms do not fully prevent cases of nepotism and cronyism, but do provide ground for making such cases public and putting pressure on the government, for instance, in 2016 with the excessively high premiums received by high-ranking officials. The recent appointments of former watchdog NGOs to leading positions in the state structures are certainly a sign of hope. Despite these accomplishments, the government did not create an independent anti-corruption agency recommended by international organizations.

16 | Consensus-Building

With the signing of the Association Agreement between Georgia and the EU on June 27, 2014, the country committed itself voluntarily to conducting serious reforms in further aligning itself with EU standards. The Association Agreement was essentially prepared under the UNM government and finalized by the Georgian Dream coalition.

Among the political elites, there is a broad consensus on Western integration. While UNM was more aligned with neoliberal de-regulative approaches by Republican administrations in the U.S., Georgian Dream follows the prevalent model of the EU for a regulated free market. Another dividing line between the two political forces is policy toward Russia, in which case the UNM accuses Georgian Dream of a pro-Russian stance and being too conciliatory in addressing Georgia's separatist conflicts. With the Russian annexation of Crimea and the ongoing fights in eastern Ukraine the public mood consolidated over EU approximation, while support for democracy suffered some decline over the last two years due to the disappointment among broader society that their socioeconomic situation did not improve.

While there is general agreement regarding the basic principles of a market economy, there is hardly any consensus on common policy goals within the rather diverse



coalition of political parties that made up the Georgian Dream coalition until parliamentary elections in 2016. Nevertheless, dissenting opinions are more often voiced with regards to political issues, and rarely relate to strategic decisions in the economic sphere promoted by the government – the parliament more often simply rubber-stamping government initiatives. The general consensus on democracy and market freedom is certainly an asset for the country. There remains a risk that public opinion might change if there more employment opportunities are not created in the future.

Although the National Movement under former President Saakashvili prioritized state-building over democratization, it acknowledged its defeat in the parliamentary elections of October 2012. Georgian Dream set itself the task of depoliticizing state institutions. The legacy of human rights violations by the previous government created a segment in society that demands revenge or justice against UNM members previously in power.

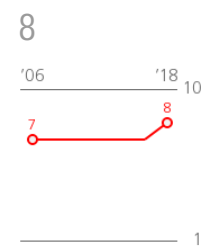
An Alliance of Patriots (AOP) managed to unite some of these people. AOP was also in favor of delaying signing the AA with the EU, and considers Georgia's NATO aspirations "fruitless." It came in fourth in last year's local elections by garnering just under 5% of the vote and entered parliament with slightly over 5% in October 2016. Although this group cannot be called explicitly anti-democratic, it argues that the new government did not take sufficient legal action against the alleged UNM perpetrators, in contrast with the position promoted by the majority of Georgia's Western partners. Other anti-democratic actors resemble political "entrepreneurs," acting on behalf of business interests, which garnered some support but stayed outside parliament.

The most influential factor is the rather conservative Orthodox Church of Georgia (GOC), one of Georgia's least transparent institutions, but with very high public trust mainly due to public respect of Patriarch Ilia II. In November 2016, a delegation of the GOC visited the EU and NATO and stated afterwards that they revised some of their misperceptions about them. However, Patriarch Ilia II maintained in his Christmas message on January 6, 2017, "Divine law is so superior, that even the most coherent and rational state laws cannot be compared to it."

The disappointment over lack of improved living conditions for the population did not translate into an increased approval of anti-democratic forces in the latest IRI survey from February-March 2017. Support for democratic governance seems to be taking root among Georgians, of which 92% have expressed their approval for the continuation of direct presidential elections, rather than indirectly by the parliament.

The conflict management capabilities of political elites remain underdeveloped. No substantial progress has been achieved with regard to reconciliation with the separatist regions of Abkhazia and South Ossetia, widely perceived as instruments of Russian geopolitical manipulation. The initial progress achieved in civic integration of ethnic and religious minority groups is hindered by insufficient enforcement of

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essential constitutional rights. There are more public statements of leading political figures emphasizing the importance of integration of these minorities.

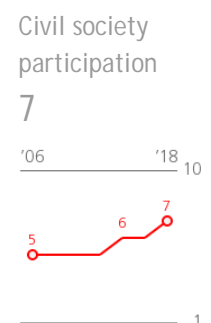
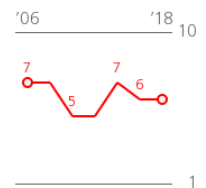
While the polarization between Georgian Dream and United National Movement continues, the more liberal opposition parties and UNM were collapsing after the devastating election results of October 2016. How this might affect the current insufficient culture of dialogue and negotiation remains to be seen. In particular the conciliatory approaches by former Republican leader Davit Usupashvili as speaker of parliament and of UNM opposition leader David Bakradze will be missed.

Thus, reform-oriented forces have not been able to institutionalize effective conflict-resolution and mitigation mechanisms. Institutionalized forms of consensus-building procedures are still the exception to the rule, also because the majority of the population, due to dire socioeconomic conditions, are reluctant to engage politically, or are prone to becoming victims of populist rhetoric, which often exploits existing tensions and conflicts. Civil society actors improved their role in conflict management and negotiating compromises, replacing weak political opposition. Certainly, the EU approximation agenda plays a disciplining role here.

After Saakashvili's defeat in the parliamentary elections, the once-vibrant NGO sector returned as an active interlocutor with the government in several important civil rights reform fields. Cooperation between the new government and civil society organizations on issues such as the new labor law, the state budget or local administration reform has become more productive. These NGOs continued to be an important pool for the recruitment of government personnel, as well as a field of activity for former politicians creating new NGOs critical of the current government. The new authorities responded to concerns raised by some leading watchdog organizations with regard to correcting authoritarian trends in constitutional amendments, bureaucratic harassment of independent media and businesses, and human rights violations. NGOs have participated in the policy process when their capabilities and know-how were needed. Parliament even passed a memorandum of understanding, acknowledging the special role of civil society organizations in the legislative process and in monitoring the proper implementation of the laws.

Leading CSOs are united in various coalitions and often successfully advocate for policy changes (e.g., Georgian Civil Society National Platform for Eastern Partnership, Coalition for an Independent and Transparent Judiciary, Economic Policy Advocacy Coalition, Open Government Georgia's Forum, Media Advocacy Coalition, Coalition for Euro-Atlantic Georgia, etc.).

However, due to the fact that Georgian NGOs do not sufficiently represent society, and often follow an agenda not aligned with the needs of the population, they do not enjoy much trust in society (for instance, in comparison with the church, army or more recently the media). NGOs fulfill control functions normally exercised by political opposition. Trade unions and professional associations have developed

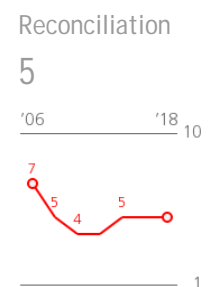


slowly, being concentrated mainly in the capital and urban centers. In rural and mountainous areas, the few existing NGOs are still very weak and have only very limited influence on local affairs.

Pursuant to a successful advocacy campaign “This Affects You” of an NGO coalition against the government’s unfettered access to telecom operators’ networks, attempts towards this by former Prime Minister Irakli Garibashvili in May 2014 disappeared with Kvirikashvili’s appointment as new prime minister late in 2015. Even if not deeply rooted in the broader population, civil society actors increased their advocacy and control functions of the government.

Prospects for reconciliation with the separatist Abkhazian authorities deteriorated further with Abkhazia’s conclusion of a treaty of alliance and strategic partnership with the Russian Federation in December 2014. A similar treaty was signed on March 18, 2015, between Russia and South Ossetia’s de facto authorities. These acts to some extent are seen as a Russian reaction to the conclusion by Georgia of the Association Agreement with the EU. State Minister of Reconciliation and Civic Equity Paata Zakareishvili has very little to offer the secessionist entities other than to become more self-reflective on the conflicts’ origins and Georgian mistakes in the past, which is not very popular among Georgians. There are only few government-led confidence building measures toward Abkhazians and South Ossetians, focused mainly on the provision of medical aid. The status-neutral personal travel documents offered by Tbilisi were rejected by both Abkhazians and Ossetians, since they had to be issued by Georgian authorities (and they can easily receive Russian documents anyway). The Georgian side has mainly focused on the growing Russian influence in the breakaway regions without looking for ways to establish a direct dialogue with the Abkhaz and Ossetians.

The deep split in society about the many cases of selective justice, arrests of political opponents and businessmen, or extortion from small- and medium-scale enterprises by state officials during the Saakashvili administration continues. For the victims, the Georgian Dream government did not “re-establish justice” quickly enough by prosecuting previous government officials holding them accountable for their arbitrariness. At the same time, there is also international pressure on the government to evade selective “revenge” justice. So far, there is no thorough reappraisal of the past beyond juridical measures. During the reporting period, the process of taking former high-ranking UNM politicians to court came to an end, but most of the attention shifted to the ownership case of the popular, but opposition-leaning TV company “Rustavi 2” that now exemplifies the very same dilemma in the media sector.



17 | International Cooperation

The Association Agreement (AA) concluded with the EU is accompanied by the Association Agenda and represents a detailed blueprint for reforms to be conducted in the coming years. The development plan of the Georgian government is aligned to this in an AA Implementation action plan that is reviewed annually by the EU. The agenda provides for an explicitly formulated long-term development strategy and requires to be consistently implemented.

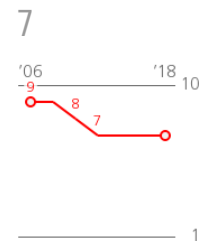
One of the major donors is the European Union, supporting Georgia's approximation process under its European Neighborhood Instrument (ENI) 2014-2020 with €10-746 million for reforms of public administration, agriculture and rural development as well as justice sector reform, while providing complementary support for capacity-building and civil society. The other important donor is the U.S., whose focus is on building democracy, promoting regional stability and fostering economic growth and health services. USAID aims to promote attitudes that encourage citizens to be responsible and accountable for their country. The four long-term objectives are economic growth, energy sector reform, democracy and governance and social and health services development.

Thus, Georgia has continued to receive massive financial aid from multilateral and bilateral donors with the bulk of financial assistance spent on infrastructure projects as well as on credits to small and medium-sized enterprises. While some of these projects were considered successful, donor-driven efforts to create a professional civil service are still under way. Critics claim that, under the Saakashvili administration, aid money was not always spent in ways that helped strengthen democracy and the rule of law. Ownership of cooperation programs was varying in accordance to political convictions, which was sometimes expressed in drastic policy shifts.

Although these shortcomings have mostly been rectified, donor coordination remains weak. The government should coordinate international assistance according to its development strategy Georgia 2020, which, however, lacks clearly formulated indicators. The coordination function of the Prime Minister's Office is pivotal since cooperation with the EU is managed by the Office of the State Minister on European and Euro-Atlantic Integration, but the remainder of the development cooperation is coordinated under the Ministry of Finance.

The reform efforts by the Georgian Dream government (and its predecessors) were acknowledged in the fourth and final report for the Visa Liberalization by the European Commission late in 2015. The Georgian authorities performed well in all cooperation agreements and reform projects of high importance. For the implementation they often received international expertise and assistance. Therefore, the overall balance of the cooperation between Georgia and the international donor

Effective use of support



Credibility

7

community remains good and Georgia was recognized as the lead reformer in the Eastern Neighborhood. The commitment to achieving sustainable results through cooperation even increased, such as the framework of the Association Agreement.

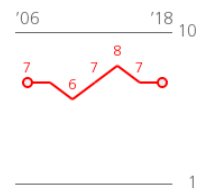
However, aspirations for EU and NATO membership are often unrealistically viewed as the solution for all the country's social and economic problems. Unrealistic expectations seem to lie in the tradition of patrimonial relationship with leading figures, when loyalty is provided on the condition of delivering material improvements. Thus, Mikheil Saakashvili, as well as Bidzina Ivanishvili, can be blamed for having raised such unrealistic expectations in the population in order to legitimize their aspirations for power. However, only business can create jobs, which require entrepreneurial skills and affordable loans for start-ups.

In several reform areas, some reform policies either lack consistency or are still in need of proper implementation as reported by NGO watchdogs.

Due to past experiences of threat perception and conflict, Georgian foreign policy has been focused primarily on the closely interconnected issues of handling strained relations with Russia and gaining admission to NATO, which since the 2008 war has been moved to the periphery of the foreign policy agenda. Regional cooperation, which is also fostered in the framework of the EU Neighborhood Policy, has continued to be of some importance, but for example remained weak in the Black Sea Synergy.

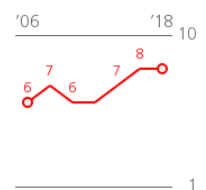
Relations with Turkey, Azerbaijan and Armenia are basically good and conflict-free. The idea of becoming a transportation and energy corridor in the region is still relevant, and the Baku-Tbilisi-Kars (Turkey) railway was expected to be finished by 2015, but its completion is delayed until 2017. The railway is being built to create an energy corridor by rail for cargo mainly from Azerbaijan and the Central Asian states. In addition to that, current cargo traffic from Turkey to CIS countries may shift to this new route.

The Georgian Dream government attempted to improve its relations with Russia and regained access to the Russian market for some Georgian food and beverage products in 2013. The Georgian prime minister's special envoy Zurab Abashidze conducts talks with Russian Deputy Minister of Foreign Affairs Grigory Karasyn on the condition that official recognition of South Ossetia and Abkhazia as independent states by Russia is excluded from the dialog. However, lately, relations with Russia have become more strained due to the agreements concluded by Moscow with Abkhazia and South Ossetia, against the background of the undeclared "hybrid" war in Ukraine. The visa-free regime for Russian citizens is still in force, but traveling to Russia remains difficult and cumbersome for Georgian citizens, as visa requirements are strict.



Regional cooperation

8



Strategic Outlook

During the 26 years of Georgia's transformation process, seemingly strong executive branches lost their power by coups, demonstrations, impeachments and lately by elections. After the October 2016 parliamentary elections, we again observe a strong executive backed by a constitutional majority in parliament, which the Georgian Dream intends to use for constitutional changes, for example, the election of the president by parliament instead of by the people (in spite of the fact that 92% of the population support direct presidential elections). The new Georgian Dream majority should exercise self-restraint in using the huge power at its disposal in the coming four years.

So far, no government has ever implemented real decentralization that strengthens local democracy. The latest announcement of Georgian Dream party officials to reduce the number of self-governing cities from 12 to five is alarming. Georgia needs to take further steps toward the development of a democratic system of horizontal accountability, establishing a set of checks and balances through institutions of comparable strength, continuously overseeing one another.

The parliament of Georgia, which has remained a weak instrument in the hands of government over the last decades, needs to pay closer attention to the findings of the State Audit Office and assume a more responsible oversight role. The extent to which it succeeds in doing this will determine whether Georgia can finally establish a working and transparent system of checks and balances, promote good governance, limit the scope for abuse of power and make further progress in fighting corruption.

The judiciary is still the weakest link for creating an independent system of checks and balances as the recent "political" cases against UNM leaders and the ownership case over "Rustavi 2" demonstrated. To establish an independent judiciary free from political interference still remains the greatest challenge in a small post-Soviet society.

Overall, the Georgian state should continue to involve civil society and business more systematically in legislative processes. It should ensure the development of constituency-related political parties. Such participation could promote dialogue at the political level in order to ensure a proper implementation of legislation and coordination among relevant authorities. Civil society organizations should be supported to improve their limited outreach toward the broader population. Georgia does not need a strong executive, but an empowered society to make the state more resilient to the challenges in a globalized world.

By signing the Association Agreement and DCFTA, the government committed itself to a long-term and deep structural overhaul of its institutions and policies in accordance with European values, standards and regulations. However, EU approximation is not the solution, but a tool to adequately address existing national problems by applying European values to the specific local reality, strengthening the sense of community and common good in addressing pressing

socioeconomic issues such as employment and supporting Georgia's unique environment and culturally diverse heritage, not only for foreign tourists, but for itself.

If Georgia's economy is to remain competitive, more must be done to facilitate and encourage the transition out of low productivity agriculture and other traditional activities (e.g., house-keeping) into modern sectors of the economy. The remedy for lack of social mobility is not only vocational training, but also investment in early learning systems targeting the rural population. The country's main capital – human resources – deserves a significant budget increase in the education sector, improving its quality to particularly strengthen entrepreneurial skills and the population's financial literacy.

To make effective use of international assistance, the government should establish a functioning donor coordination mechanism in line with its Georgia 2020 development strategy. The broad approval rate for EU approximation and integration into Western structures provides the basis for serious reforms of the state and society, which needs to accept that pluralism does not represent a threat to national identity. On the contrary, pluralism may strengthen the moral basis that allows for resolving conflicting interests in an institutionalized, inclusive and transparent way. This possibly represents the biggest challenge of qualitative change for the country.