

BTI 2012 | Georgia Country Report

Status Index	1-10	5.88	# 57 of 128	
Political Transformation	1-10	6.15	# 57 of 128	➔
Economic Transformation	1-10	5.61	# 64 of 128	➔
Management Index	1-10	5.38	# 54 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	4.5	HDI	0.733	GDP p.c.	\$	5073
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	75	Gini Index		41.3
Life expectancy	years	73	UN Education Index	0.839	Poverty ³	%	32.6
Urban population	%	52.9	Gender inequality ²	0.418	Aid per capita	\$	213.1

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

Executive Summary

The period under review was marked by the government's efforts to stabilize the situation in the country politically, socially and economically following the August 2008 war against Russia and the global financial crisis. An injection of substantial financial aid from the international community helped Georgia avoid extreme hardships, though some setbacks in the country's process of political and economic transformation were observed.

Firstly, while some sectors of the economy, such as the banking sector, profited from the incoming transfer of international funds, no sustainable economic development could be achieved. High levels of unemployment as well as widespread poverty continue to plague the country. Although the government, having introduced institutional reforms and liberalization, has succeeded in improving considerably conditions for foreign investors (as is reflected in Georgia's improved ranking in the World Bank's Ease of Doing Business Index), Georgia continues to struggle with attracting sustainable foreign investment and developing its export sector. Moreover, the government's ability to tackle all these problems in the near future will be severely constrained by the rising burden of foreign debt payments.

Secondly, with state revenues shrinking due to the war and the financial crisis, unfair practices in tax collection are on the rise. Having previously succeeded in combating this once-widespread problem, the government's failure to contain its re-emergence does not bode well for the positive reform balance achieved following the Rose Revolution.

During the period under review, the government did not implement any systematic procedures for open democratic dialogue and a comprehensive system of checks and balances. Power remains concentrated mainly within the inner circle surrounding the president. Authoritarian tendencies are clearly visible. There is no consistent long-term strategy for development. At the same time, opposition parties are weak and do not offer feasible programmatic alternatives.

History and Characteristics of Transformation

A series of dramatic ups and downs have characterized Georgia's political and economic transformation. After the dissolution of the Soviet Union, Georgia faced the difficult task of managing a post-independence transition that involved not only democratization and the institutionalization of a market economy but state-building and nation-building as well. The development of the republic, which from the outset was hampered by the heavy burden of two unresolved ethnic conflicts and a sharp economic decline (aggravated by pervasive corruption), can be roughly divided into five phases.

The first phase was marked by Georgia's first breakthrough to a democratic political regime, the parliamentary elections of October 1990. The election brought to power a heterogeneous umbrella movement under the leadership of the former dissident Zviad Gamsakhurdia. Despite his landslide victory in the May 1991 presidential elections, he failed to consolidate his rule, which mainly rested on charismatic mobilization. As a result, he was easily driven out of office by a violent coup d'état at the beginning of 1992.

The second phase, dominated by the return of former Georgia Communist party head Eduard Shevardnadze, began with a brief interlude of chaos following Gamsakhurdia's ousting. During the first three years of his rule, Shevardnadze tried to get rid of the competing gangs of criminals that had originally placed him in power. The adoption of a constitution and the successful organization of elections signaled a fragile consolidation. Notwithstanding quite impressive achievements in terms of ending violence and introducing the formal requisites of democratic statehood, and despite massive international assistance, Shevardnadze did not succeed in building stable governing institutions. His political survival depended on the application of two strategies. First, he used access to administrative resources and international development funds as a means to consolidate fluid clientelistic networks. The government thus never acted as a coherent team. Severely weakened by frequent reshuffles, it gained notoriety for the fierce competition between different ministries over the distribution of spoils. Secondly, Shevardnadze manipulated and frequently changed procedural norms regulating access to power. The only continuous feature was a clear dominance of the executive. In contrast, the shape of the parliament was adapted to varying needs. Until 1995, the abolishment of any kind of threshold ensured a highly fragmented legislature. After the creation of the Citizens' Union of Georgia (CUG) in 1993, which was designed to serve as Shevardnadze's party of power, the introduction of a barrier resulted in a stable majority for the CUG. Pluralism was mainly confined to intra-elite competition inside the ruling party, which was composed of former Soviet apparatchiks and a group of "young reformers."

In the third phase, beginning in 2001, these two strategies ceased to function. The distribution of official fiefdoms among the different cliques of the elite severely hampered economic growth and gave rise to popular unrest. As the international donor community became aware of the

increasing gap between legal fiction and corrupt practices, it demonstrated a growing reluctance to continue funding assistance programs. Confronted with a decline in its authority, the ruling party was compelled to adopt authoritarian measures, a move that provoked an internal split. The attempt to crack down on the independent TV station Rustavi 2 in October 2001 became a turning point. Prominent representatives of the wing of young reformers inside the CUG, headed by Saakashvili, Zhvania and Burjanadze, formed a new opposition that assumed power in the aftermath of popular protests against the rigging of parliamentary elections in November 2003. The relative ease with which Shevardnadze was overthrown during what was to be called the Rose Revolution can be explained partly by the existence of democratic facades erected under his rule. A dense network of NGOs, which had mushroomed during the 1990s, carried out parallel vote counts and organized public protests. Independent media outlets, which had never experienced serious threats to their existence, supported popular mobilization by providing uncensored information. The Supreme Court canceled the officially announced results with regards to the proportional part of the vote, retaining results of election by majority rule.

In the fourth phase, which followed the peaceful revolution, the victorious triumvirate of Saakashvili, Burjanadze and Zhvania rushed to stabilize the situation. In a wise move, they joined together in creating a new party named the United National Movement – Democrats. This move put an end to early speculations about internal rivalry. Supported by more than 96% of the popular vote, the charismatic leader Saakashvili seized an overwhelming victory in the presidential elections of January 2004. The newly created party won more than two-thirds of the mandates in the March 2004 parliamentary elections. The new elite was thus awarded with a more than comfortable starting point. Control over the executive and legislative branch of the government made implementing a far-reaching structural reform agenda a much easier job. As a result, the government achieved outstanding results in terms of curbing corruption, streamlining an inefficient administration, improving the tax collection capabilities of the Georgian state and providing public goods for an economy that underwent a significant upsurge. Despite these impressive results, critics of the new elite pointed at serious deficits and even setbacks in terms of institutionalizing checks and balances. First, the adoption of far reaching amendments to the constitution further weakened a legislative body, which due to the stable majority for the ruling party, was hardly able to exercise its oversight functions. Secondly, the new government emasculated the independence of the judiciary and was constantly suspected of exercising undue influence over judges. Thirdly, many concerns were raised with regard to state interventions into the independence of the media.

The fifth phase, beginning in the fall of 2007, was marked by the government's violent response to demonstrations which seriously undermined the legitimacy of Saakashvili's democratic credentials. Growing authoritarian tendencies as well as the inability of the ruling elite to translate dynamic economic growth into tangibly improved living standards for a majority of impoverished citizens gave rise to a series of popular protests while feeding the momentum behind deep political polarization. Although there is still no political actor in sight capable of posing a real threat to the ruling elite, a significant slowdown of economic growth caused not only by the global financial crisis but by a serious deterioration of the overall investment climate

in the aftermath of the war against Russia in 2008 can be expected to undermine stability further. Despite substantial financial aid granted to the Georgian state after the 2008 war against Russia, no sustainable economic development has been achieved.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Even before the 2008 war with Russia, the Georgian government's capacity to control the country's entire territory was limited, and there was a steady rise in violent incidents around the conflict zones in South Ossetia and Abkhazia.

Monopoly on the
use of force

5

During the war, Russian troops occupied large parts of Georgia proper, expelled representatives of Georgian power structures from the Upper Kodori valley in Abkhazia and the Akhgori district in South Ossetia. After the war, nearly 25,000 individuals from formerly Georgian-controlled villages who then found themselves under Russian rule were displaced. These internally displaced persons (IDPs) are unlikely to return to their homes in the near future. Immediately after the war, in the Gori region on the border with South Ossetia, the Russian military (assisted by South-Ossetian paramilitaries) effectively created a no-man's land by denying the Georgian police access to the territory, which resulted in widespread looting and killing in the area. In addition, there remains the unresolved problem of more than two hundred thousand "old" Georgian IDPs from conflicts in South Ossetia and Abkhazia during the early 1990s.

Currently, there are Russian military bases in the territories of Abkhazia and South Ossetia, and Russian border guards control the administrative borders between these territories and the rest of Georgia. There also have been attempts by the Russian Federation to move its state border with Abkhazia further to the south, taking over additional parts of Georgian territory.

In sum, the Georgian government's performance in terms of re-establishing control over all of its territory appears to be weak. Nonetheless, the very fact that Georgian statehood could be preserved, despite an almost deadly confrontation with neighboring Russia, underscores a certain capacity for survival. It points to the fact

that notwithstanding obvious weaknesses, Georgia has passed a critical test to its existence – a test it easily could have failed some years ago.

In the territory controlled by the Georgian state, all citizens share the same civil rights. No legal provisions discriminate against ethnic minorities or prevent their access to Georgian citizenship. Ethnic minorities represent about 16% of the population.

State identity
6

The significant Armenian and Azeri minorities are still heavily underrepresented in state structures at all levels. At the same time, these groups maintain close ties to their kin states (Armenia and Azerbaijan, respectively), particularly when problems arise, in part because of generally weak proficiency levels in the Georgian language.

The government has responded to this situation by establishing a public administration institute to train minority representatives, and it has targeted civic integration by launching a program to improve the knowledge of Georgian among ethnic minority groups. Although no official information on the effects of this program have been made publicly available, teachers involved in the instruction of minority groups point to many shortcomings, including outdated or poorly translated teaching materials used with non-Georgian students.

Since 2006, the government has made moves to improve university admissions opportunities for ethnic minorities. Students whose mother tongue is Azeri or Armenian can take the university entrance exam in their native language, the same right having been granted to ethnic Abkhaz and South Ossetians. These students are offered a one-year preparatory course with intensive Georgian language instruction before they engage in their undergraduate study programs. There are quotas for the admission of students with Azeri or Armenian as mother tongues.

The Georgian Orthodox Church enjoys a privileged status in Georgia, having signed in 2002 a constitutional agreement with the Georgian state. However, parliament has not reached similar agreements with other confessions, treating them as ordinary private associations obliged to pay taxes on the donations they receive. There are, however, no direct obstacles for other religious communities to perform their activities, although there have been disputes over the ownership of some churches with the Armenian Apostolic Church.

No interference of
religious dogmas
8

The Georgian Orthodox Church has also signed agreements with the Georgian Ministry of Justice, and the Ministry of Education and Science, which means that it could influence both the educational process and the penitentiary system.

In the Autonomous Republic of Adjara, where 30% of the population are Sunni Muslims, there has been an observed trend of Muslims converting to Orthodox Christianity, especially among young people. There is, however, no reason to attribute this to direct government action.

Administrative structures in Georgia do provide basic public services throughout the country, but some shortcomings can still be observed.

Efforts to fight corruption by increasing the salaries of state officials have been continued during the period under review. Judges' salaries have been raised from pre-2007 levels of \$40 to \$150 per month to as much as \$2,600 per month by the end of 2009. In addition, court budgets have been increased and the provision of technical equipment improved.

Despite these efforts, there are deficits in the administrative system's efficiency and in building long-term capacities. The existence of a "core" team around President Saakashvili is an element of stabilization within the system. But this core team is based on personal relationships rather than democratic procedures. There have also been some arbitrary appointments to key strategic positions, such as the minister for economic matters or the ambassador to Germany. These kinds of appointments raise questions about how well-established or institutionalized democratic routines are in Georgia's administration.

2 | Political Participation

Since the Rose Revolution, the government has significantly improved the legal and procedural norms governing the electoral process. Georgia's electoral law has been amended in accordance with recommendations made by a working group composed of eight parties, some of which had been boycotting parliamentary meetings. One such adopted recommendation was to extend the deadline for filing complaints against electoral fraud. In line with another amendment, the mayor of Tbilisi was for the first time elected directly by the people in the local elections of May 2010. Further amendments of the electoral legislation are currently being negotiated, but these negotiations are very difficult, as the ruling party would block any change that may jeopardize its dominance in future elections.

Although the OSCE's Office for Democratic Institutions and Human Rights (ODIHR) identified the local elections in May 2010 as marking "evident progress" toward international standards, there were some reported cases of inappropriate administrative and financial resource use with the aim of influencing voters. For example, the Tbilisi mayor's office provided financial benefits to pensioners

Basic
administration
6

Free and fair
elections
8

registered in the city in the form of a rise in pensions, vouchers for medication and discount cards for public transport. It has been claimed that such benefits violate social security legislation and therefore constitute an abuse.

Although it is hard to determine whether this misuse of public resources by the administration heavily influenced election results, these activities helped undermine popular trust in the authorities' commitment to electoral fairness and transparent democratic procedures.

The capability of elected rulers to exercise effective power is not constrained by formal veto powers. Highly successful efforts at curbing corruption since the Rose Revolution have imposed discipline on formerly powerful economic actors, who are no longer able to manipulate the state to their advantage. However, whereas corruption among lower level civil servants has dramatically decreased, it continues among the higher ranks. Many privatization tenders have ended in scandals, including those announced for the construction of the new Tbilisi international airport. This suggests that formal procedures can still be circumvented by those connected to the bureaucracy, which places constraints on transparent and democratic governance.

Effective power to govern

9

The military has never acted as an independent force and is under firm civilian control. In connection with the incidents at the Mukrovani military base in 2009, there were rumors that the government doubted the loyalty of some military units. The police, which is administered by the powerful Minister of Internal Affairs, Vano Merabishvili, is not completely under democratic control.

Georgian law guarantees freedoms of association and assembly. Although authorities' reaction to rising political tensions and mass protest has not been as violent as those witnessed in November 2007 when government aggressively dispersed peaceful demonstrations, human rights groups in Georgia maintain that the government continues to engage in non-democratic and even illegal activities in eliminating dissent.

Association / assembly rights

7

In summer 2009, the Georgian parliament passed a bill considerably restricting the right to organize street protests. According to this government-initiated bill, protesters are not allowed to block streets or in any way interfere with the work of public transportation, whereas former legislation simply required organizers to notify the municipality if streets were to be blocked. Other provisions of this new law include the legalized use of non-lethal weapons such as rubber bullets by the police for riot control purposes and increased prison terms from 30 to 90 days for administrative offenses like "blocking" state buildings. The bill was approved hastily in parliament by the dominating ruling party, who ignored the numerous discussions and protests of the opposition.

The Human Rights Center, a Tbilisi-based NGO, identified several incidents of inappropriate state action related to demonstrations held in November 2009 at the Mukrovani Military Base, which the government referred to as a “mutiny.” These include the state’s failure to investigate claims that demonstrators were harassed, the unfair persecution of demonstrators, the disproportionate use of force to dismantle public assemblies, and so on. Similar reactions by the authorities have also been noted in connection with protests that took place in front of the Tbilisi police headquarters in early summer 2009. The latest examples of the state using excessive violence was in January 2011 during a demonstration organized by war veterans and later in the same month in response to IDPs who refused resettlement from urban to rural housing.

The media in Georgia is fairly independent, compared to almost all former post-Soviet republics and in particular those neighboring the country. Freedoms of speech are guaranteed both by the constitution and several items specific legislation. However, after the events of November 2007, serious restrictions have been imposed on the freedom of speech, some of which were by no means of an exceptional or temporary character.

Freedom of
expression

6

Today, most television stations are to a varying degree under the influence of the government, although there have been some encouraging developments. Examples include Georgia’s second public broadcast channel, which now allows all registered political parties to air their views – uncensored – for one hour per month. There are also television stations that are quite critical of the government, such as Maestro and Kavkasia. However, the diversity of news and opinions broadcast by pro-government channels is quite limited. Journalists feel self-censorship to be a central element of their job, “it came from above” being a very common phrase among journalists.

The majority of television stations are incorporated within off-shore zones and their ownership is in most cases unknown to the public. Legislation is being discussed to prohibit such unclear ownership and make it transparent.

Print media are, generally speaking, more independent than broadcast television, but the economic crisis has hit this branch very hard, many newspapers depending on international funding in order to publish. The distribution system is very weak, making nationwide access to newspapers quite difficult. In addition, pro-government publications are able to collect a lion’s share of advertisement money through informal pressure exerted on companies. The impact of print media on society is quite limited, as television constitutes the main source of information for 88% of the population.

A strong polarization between pro- and anti-government media can also be observed among newspapers and internet media, which means that balanced and

unbiased reporting remains rare. Particularly during electoral periods, print and broadcast media are felt to be major tools of political manipulation. For this reason, international observers have stressed the need of independent editorial boards.

Some recent incidents may serve as an illustration of the role television stations play in Georgian public discourse:

In November 2010, a Russian spy ring was smashed by Georgian authorities. At that time, a number of Russian and Georgian citizens were arrested under the accusation of having transmitted military secrets to Russia, including tactical plans of the Georgian army during the 2008 war. Unsurprisingly, Russian government officials declared the incident a farce. The Georgian authorities appear to have continued the tendency to turn foreign policy scandals involving Russia into a televised scandal by granting the pro-government “Rustavi 2” channel access to classified material regarding the spies’ arrest. A documentary was then broadcast shortly after the incident became known through a report by Reuters.

In March 2010, the pro-government “Imedi” channel sparked panic in Georgia after it had broadcast a report stating that Russian tanks had invaded Tbilisi and the president was dead. Afterwards, in a public apology, the head of the holding company which owns “Imedi” claimed that the intention was to demonstrate what could happen if the president should die.

3 | Rule of Law

Under the current constitution, the executive enjoys almost unrivaled power. The ability of the legislative body to act as an effective counterweight is severely restricted by the excessive legal competences concentrated in the hands of the president.

The constitutional amendments adopted in October 2010 diminish the powers of the president and considerably strengthen the position of the prime minister, who is to perform the function of a head of government with far-reaching prerogatives in both domestic and foreign policies. The president will no longer have the right to present law proposals, to present the state budget or to hold any official position in a political party. He remains, however, the head of state as well as the commander-in-chief of the armed forces. Moreover, the president still has the power to call for new elections if the parliament fails three times to approve the proposed new government. In many respects, the delimitation of competences between the president and the government still remains unclear. For this reason, the Venice Commission, which is the Council of Europe’s advisory board on constitutional matters, considers the amendments to the constitution adopted in October 2010 as “a step in the right direction,” but identifies parliament’s continued limited

Separation of
powers
6

influence as a major shortcoming. The Venice Commission also noted that the role assigned to the parliament in overseeing budgetary issues is quite limited, as only the government will have the right to initiate legislation on such issues.

In accordance with the constitution, all these amendments will come into force only after the current president leaves his post in 2013. Should he decide to appoint himself prime minister, he will effectively remain in power.

The rather imbalanced separation of powers provided by the current constitution aggravated more political conflicts several times as opposition groups articulated their dissent through extra-institutional means such as street protests or hunger strikes. This has contributed to the growing polarization between the government and opposition.

After the defeat in the August war against Russia in 2008, which has further undermined the ruling elite's legitimacy, the authorities have demonstrated some readiness to change the situation. As a consequence, a State Constitutional Commission formed by six parliamentary parties, several NGOs, academics and state officials was created. The constitutional amendments discussed and finally adopted have cut (somewhat) the powers of the president by strengthening the role of parliament as well as the independence of the judiciary. The proposed amendments will also introduce a new rule according to which the president can exercise his power to dissolve parliament only once during his term in office. Dissolving parliament a second time would require the president to conduct a nationwide referendum beforehand.

Despite some far-reaching reform measures, which include new rules for the appointment of judges by a non-political body of professionals (the High Council of Justice) and significant increases in judges' salaries, the judiciary has failed to earn itself the reputation of an independent institution. According to a 2009 poll, only 6% of Georgians consider the judiciary to be independent from the executive. Even President Saakashvili had acknowledged in September 2008 the judiciary's weakness and lack of independence. Human rights organizations have also accused courts of subordinating to pressures from the executive, particularly in administrative and criminal cases. An important step towards creating a more independent judiciary is the decision (in effect as of 2013) to grant all judges (except those sitting on the Supreme Court) lifelong appointments. In addition, as of October 2010, a new Code of Criminal Procedure with jury tribunals in criminal cases was adopted.

However, doubts persist regarding the independence of courts from executive influence. The bribery charge raised against Israeli investors Ron Fuchs and Zeev Frenkiel in October 2010 may illustrate how the executive still tries to influence courts. These two businessmen have been charged of offering a bribe of \$7 million

Independent
judiciary
6

to the Georgian Deputy Finance Minister Avtandil Kharaidze after an international arbitration body had sentenced the Georgian government to pay them \$98 million in compensation for a pipeline deal that had been conducted irregularly. The Georgian government opposed this ruling and charged the businessmen, who had come to Georgia a couple months later on invitation by the prime minister, of offering a bribe to the government to drop its opposition to the ruling. The government maintained that the bribery charge had nothing to do with the pipeline issue and its settlement by international agencies. However, irregularities in how the process was conducted and in particular the slow pace at which the court proceeded were seen as a clear sign of the government using courts to exert political pressure.

Legal prosecution of high-ranking officials (ministers, tax and custom officers, policemen and heads of local government) continued to be a prominent element in the official fight against corruption. In January 2009, government established a new anti-corruption council, which is part of the National Anti-Corruption Strategy and Action Plan elaborated with the participation of non-governmental organizations. While low-level corruption has been largely reduced, whistleblowers claim that elite corruption continues. Procurement and privatization remain legal loopholes. In addition, observers suspect that legal prosecution is selective and pursued at higher levels only if an individual falls out of favor with the country's leadership.

Prosecution of
office abuse

6

The protection of civil rights during the period under review was far from satisfactory, the prosecution of violations of civil rights being often quite ineffective.

Civil rights

6

Excessive use of force by the police against protesters in front of the Tbilisi police headquarters in spring-summer 2009 or against war veterans in winter 2011 has been noted by international observers, whose detailed accounts suggest that the Georgian authorities do not take seriously the rights of free assembly and expression. Moreover, there have been reports of demonstrators being beaten by unknown armed individuals when leaving protests at night, and none of the about 50 incidents reported having been properly investigated by the authorities.

According to a report presented by the International Crisis Group, the acquittal rate in criminal cases is, at about 1%, far below international standards and the prison population in Georgia has increased considerably in the last years. However, overcrowded prisons are not the only problem; brutality in the penitentiary system, particularly during and after arrests, is prevalent.

With the acceleration of urban reconstruction in recent years, the violation of property rights has also increased in scale. In some cases, the state destroyed private property, claiming it had been acquired illegally or did not comply with the architectural image of the city, without giving due attention to the question of

procedural legitimacy. With the government facing budget difficulties, incorrect or arbitrary use of tax rules still occurs. There have been frequent reports of traders being extorted.

4 | Stability of Democratic Institutions

The process of consolidating democratic institutions is still far from complete, despite the recently adopted (and substantial) amendments made to the constitution. These amendments, which will come into force in 2013, strengthen significantly the position of the prime minister vis á vis the president. Critics see in this reform an attempt to adopt in Georgia a model similar to the one followed in Russia, where former President Vladimir Putin holds the powerful position of prime minister. Both President Saakashvili and his United National Movement (UNM) deny this to be the case.

Georgian government is highly centralized, both vertically and horizontally. The president himself and a restricted group of insiders are responsible for critical decision-making and running the state. There is no functioning system of checks and balances. Because of the weakness of highly fragmented opposition parties, the ruling party enjoys a clear hegemony in parliament as well as in the local councils.

The municipalities lack real autonomy since they have no fiscal authority and are dependent on the central government for financial transfers. Currently, regional governors are not elected, but appointed instead by the president (as of 2013, they will be appointed by the prime minister). The ruling party, Saakashvili's UNM, has a close-knit social network able to mobilize a large number of supporters, particularly during election periods. Individuals loyal to the government and to the ruling party hold key positions in schools, in the municipal administrations and even in non-governmental organizations. Even apartment buildings in Tbilisi have UNM district coordinators. The International Crisis Group reports that in some cases, prior to the local elections of May 2010, district coordinators would force their neighbors to vote for the UNM by claiming that they otherwise could lose their jobs in the state sector.

As a result of this situation, decisions are usually taken without sufficient discussion and due consideration of their possible consequences. The way the Georgian authorities provoked the August war with Russia in 2008 provides just one telling illustration of the problem. Another example cited by critics is the government's hastily adopted constitutional reforms, which lacked substantial discussion about key issues. In fact, the State Constitutional Commission presented its draft in July 2010 and was adopted by parliament by October of the same year.

Performance of
democratic
institutions
6

In addition, regular government reshuffles show that key institutions fail to establish routine procedures for handling challenges. Perhaps the most pressing of which being the fact that the international financial aid of \$4.5 billion granted by the international community to Georgia for postwar recovery will run out by mid-2011 without a significant growth of foreign investment or exports having been achieved.

On a rather general level, all relevant political and social actors demonstrate their commitment to democratic institutions.

With regard to the government, however, there are several things that undermine the credibility of this commitment. These include the extensive use during election periods of coercion by members of the ruling party in order to ensure a majority of the vote. In the run-up to the local elections of May 2010, there were once again several reported cases of coercion, and the government exercised considerable control over mass media outlets, particularly television.

In addition, there were cases of the executive interfering heavily with the operations of other branches of government. The executive branch also manipulated key legislation, including tax laws, in order to ensure continued revenues as international financial aid runs out.

The opposition's commitment to democratic institutions is subject to questioning as well. Opposition groups organize street protests, lead hunger strikes and boycott parliament sessions in order to compensate for their weakness in relation to the ruling party as well as their lack of a programmatic agenda. These activities testify to a general lack of confidence in democratic institutions. The opposition believes it must resort to extra-institutional means of articulating dissent.

5 | Political and Social Integration

There are no obstacles to creating and forming political parties in Georgia. With about 200 registered parties, the party system reveals a high degree of fragmentation and fluidity. Of these 200 parties, only ten actively take part in political life. None, however, constitutes a real threat to the ruling United National Movement (UNM), which continues a tradition dating back to the Round Table Coalition of former President Zviad Gamsakhurdia and the Citizens' Union of Georgia (CUG) of Eduard Shevardnadze. So far, this party lacks a clear-cut political program and ideological platform. Claiming to represent the interests of the whole nation, it is rather to be understood as the voice of the bureaucratic administration. After local elections in May 2010, the UNM managed to significantly strengthen its position, gaining the majority in all of the 69 municipal councils as well as in Tbilisi.

Commitment to
democratic
institutions

7

Party system

4

The party system shows a strong polarization between the ruling party and the opposition and is still not able to articulate the multiple interests existing in a pluralistic society. From a total of 150 seats in the national parliament, only 17 are held by opposition politicians; 16 deputies from the opposition regularly boycott parliament meetings. The opposition failed to formulate a common political agenda which would address urgent social and economic issues.

The influence of social interest groups is close to zero. Trade unions do exist, but their felt presence is negligible. This is primarily due to high rates of unemployment and self-employment. The overall weakness of trade unions is reflected by the fact that the adoption of a very flexible and liberal labor code criticized by the European Neighborhood Policy (ENP) assessment report was hardly noticed by the internal social actors. Though NGOs form a dense network in Tbilisi and some major cities, their ability to act as mediators between the state and society is still severely constrained by their loose roots in society, especially in rural areas. Their activities seem to be mainly influenced by the international organizations on which they are financially dependent.

Interest groups
4

According to a survey conducted by the National Democratic Institute in 2010 about public attitudes towards elections in Georgia, 46% of the respondents still did not consider Georgia to be a democracy. Asked about the meaning of democracy, 46% of the respondents answered “Freedom of Speech”, 45% “Equality before the Law/Protection of Justice” and 44% “Liberty.” Other aspects such as “Protection of Human Rights,” “Free and Fair Elections” and “Accountability of the Government” are less prominent. At the same time, only 1% of the respondents would associate democracy with instability. Some 52% of the respondents said they are able to influence election results by voting. Thus, there seems to be a widespread support in the country for fundamental democratic values, even if a substantial part of the respondents do not consider these values to be fully implemented and even if core elements of democracy such as “Fair Elections” and “Accountability of the Government” score less prominently, which suggests that a fleshed-out understanding of the key principles of a democratic state is not yet established.

Approval of
democracy
6

The same poll shows that the job situation in the country is still the most urgent issue to be addressed by the government. A whopping 80% of the respondents consider job creation the top issue to be addressed and 71% of the respondents consider themselves to be unemployed. Improving the employment situation will prove crucial in shaping citizens’ attitudes toward democratic norms and procedures.

An interesting illustration of the general attitude towards democracy is the controversy about the Stalin monument in Gori. In summer 2010, authorities removed during the night a six meter high statue of Joseph Stalin which had stood in the main square in Gori since 1952. In 2009, crowds of university students had

protested against the presence of this statue, but elderly demonstrators counter-protested in favor of Stalin. Many of these elderly protesters were unhappy with the pro-Western course adopted by the Saakashvili administration. Fearing clashes, the authorities decided to remove the statue during the night more or less secretly.

This episode shows that the attitude towards democracy seems to be a generational issue, young people being more inclined to accept democratic values than older people. The older generation, which accords priority to personal relationships and tends to harbor nostalgic views of the communist (in particular Stalinist) past and has only a modest experience of life in a democratic state, has a limited understanding of how democratic structures can effectively improve one's way of life.

Patronage networks in Georgia undermine the capacity of formal institutions to operate properly and inhibit the emergence of horizontal links between citizens. Their presence continues to breed distrust of formal procedures and therefore severely impede the emergence of authentic and democratically legitimized forms of social self-organization. Official efforts at fighting the dominance of personal ties did not really change the situation radically as most people consider these efforts rather selective and politically one-sided.

The existence of NGOs does not by itself dispel this common perception, as their emergence is mainly donor driven. Moreover, most NGOs resemble advocacy groups staffed by urban intellectuals whose bonds to the interests of those they claim to represent are quite loose.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Georgia's comparatively high Gini coefficient (40.8 in 2009 compared to 37.1 in 1996) points to a very pronounced increase in the level of income inequality. Large parts of the population remain excluded from enjoying the benefits of economic growth, which prior to the 2008 war had been very high. As a consequence of the war and the international financial crisis, GDP decreased in 2009, but not as much as many observers had feared. In 2010, GDP growth was at 5.5%.

Despite economic growth, unemployment rates have been increasing since 2004 (11.5% in 2004 to 13.3% in 2007 and 16.4% in 2009). Combined with high inflationary pressure on consumer prices and especially on food prices (13.4% by March 2011), these figures explain why, according to the results of public opinion

Question
Score

Socioeconomic
barriers
4

polls, the majority of people do not feel the impact of macroeconomic stabilization on their lives. At first glance, urban and rural areas seem to be comparably affected. Villages suffer mainly from underdevelopment and output decline in the agricultural sector, whose share in GDP has fallen from 19.3% in 2003 to 9.7% in 2007 and 8.3% in 2009. This shrinking in relative terms is accompanied by a decline in absolute terms. As a result, 60% of Georgia's poor dwell in rural areas. At the same time, cities and towns struggle with unemployment rates that are five times higher than that observed in rural areas. Upon closer inspection, however, poverty and unemployment reveal a typical rural-urban imbalance. Officially, agriculture employs 55.6% of the work force. As most of these farmers have only small plots and mainly engage in a very limited form of subsistence production, these figures actually conceal a much higher rate of factual unemployment. At the same time, citizens in rural areas still lack access to facilities like potable water, health care and qualified education, which in recent times have been significantly improved in the urban areas.

In 2010, due to an unusually dry summer, harvest yields in Georgian agriculture were low, so that many Georgian small-scale farmers are now left with little financial resources to purchase seeds, fertilizer and other assets. A non-governmental Georgian farmer association estimates that the strawberry harvest, for example, has decreased by 70%.

Banks or micro-financial institutions are not felt to be 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. Farmers as well as many Georgians living in rural areas are relying increasingly on store credits or small loans in order to buy daily life goods and food. The government has recently launched a \$87.7 million dollar program to modernize Georgian agriculture, the effects of which are, however, still to be seen.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	10172.9	12795.0	10766.8	11667.4
GDP growth	%	12.3	2.3	-3.8	6.4
Inflation (CPI)	%	9.2	10.0	1.7	7.1
Unemployment	%	13.3	16.5	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	17.2	12.2	6.1	7.0
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-2009.4	-2915.7	-1210.5	-1333.0
Public debt	% of GDP	21.5	27.6	37.3	39.1
External debt	\$ mn.	2610.0	7351.6	8270.4	9237.6
Total debt service	\$ mn.	192.3	710.2	781.6	813.0
Cash surplus or deficit	% of GDP	0.8	-1.9	-7.8	-
Tax revenue	% of GDP	17.7	23.8	23.1	-
Government consumption	% of GDP	21.9	25.9	24.5	21.0
Public expnd. on edu.	% of GDP	2.7	2.9	3.2	-
Public expnd. on health	% of GDP	8.2	8.7	10.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	9.2	8.5	5.6	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The solid legal and institutional framework for a competitive market economy created by the government since the Rose Revolution has been in the period under review a very important factor in stabilizing Georgia's economy after the 2008 war. In 2009, the economy decreased by about 4% of GDP which is quite modest considering that transit ways for trade with neighboring Russia had been blocked since 2006 and foreign investments partially withdrawn from the country. In 2010, economic growth was at about 5%. This is particularly remarkable because international rating agencies have always considered political instability to be a major drawback for the country's macroeconomic development.

In order to counter the trend of decreasing state income due to the war and the global financial crisis, the government is currently trying to foster investments in areas such as tourism, infra-structure and export development. The government is

Market-based
competition

6

expecting for the year 2011 foreign investments in the order of \$400 million in the energy sector alone as part of the plans to transform Georgia into an energy corridor between the Caspian and the Black Sea.

In the eyes of the Georgian government, comparatively low income taxes and liberal legislation are important instruments to attract foreign investment. Georgia has considerably improved its position in the World Bank's Ease of Doing Business Index during the period under review. The country ranked 12th in 2010 (18th in 2007) and showed remarkably good figures in indicators like "Dealing with Construction Permits" (rank 7), "Registering Property" (2) and "Getting Credit" (15), whereas it continues to rank poorly on the important aspects of "Enforcing Contracts" (41) and "Paying Taxes" (61). Another survey conducted by the World Bank shows to have one of the highest shares of shadow over formal economy (72%) among the 151 countries taken into consideration.

There are continued reports of tax rules being arbitrarily applied (a common practice in the period prior to the Rose Revolution), manifest in the harassment of small-scale enterprises and traders.

As a result of the policy of economic liberalization adopted by the government after the Rose Revolution, the emergence of monopolies is no longer an issue for the Georgian economy, since this is widely open to international trade and business. Some concerns remain with regard to equal access to export opportunities. Also, during the period under review, the EU and Transparency International criticized the lack of an independent competition authority in Georgia.

Anti-monopoly
policy
7

As a consequence of a number of reforms aimed at reducing the number of custom control institutions, lowering import duties and simplifying procedures for custom clearance, the foreign trade regime adopted in Georgia is comparatively liberal. Institutions regulating tax and custom issues have been consolidated into a unified State Revenue Service, a move which has largely simplified bureaucratic procedures. According to official information, there are no quotas on foreign trade in Georgia. Only a very restricted number of goods require licensing for import and export. A number of bilateral agreements with most industrialized countries have significantly contributed to facilitating access to Georgian goods on international markets. Despite a difficult geopolitical location, Georgia ranks relatively high in the World Bank's Trading Across Borders Index (ranking 35th in 2011).

Liberalization of
foreign trade
9

In the past years, Georgia's financial sector has expanded significantly, with assets growing by 60% and deposits by 55% on annual average between 2005 and 2007. Having laid years ago the legal and institutional foundations for the development of a properly managed and prudently controlled banking system, the country has taken important steps to expand its formerly highly underdeveloped credit market.

Banking system
7

Starting from a low base, credit growth accelerated rapidly until 2008. Bank operations, once virtually unknown for most ordinary Georgian citizens, are now part of daily life.

As a result of this remarkable expansion, the Georgian banking system has managed the hardships of the global financial crisis very well. According to one leading rating agency, Georgian banks have come out of the crisis with quite high levels of capital and liquidity, so that the sector is considered very stable. This quite comfortable situation can be attributed firstly to the fact that, as noted, the banking sector had been firmly consolidated prior to the crisis. Secondly, the country received substantial international financial aid after the 2008 war. These financial resources have been managed mainly by the local bank sector. Thirdly, many banks received direct aid from their shareholders as well as from international financial institutions.

At the same time, the National Bank of Georgia has successfully assumed a supervisory role and is – to name just one example – applying prudential limits for foreign currency borrowing by commercial banks. However, at the end of 2009, loans in foreign currency still comprised 77% of the total volume of money lending, which is an additional source of risk for credit. Access to credit is often still quite limited. Whereas credit is mainly concentrated in the retail trade and construction sector, agriculture remains underfunded. Higher interest rates than those seen in most emerging markets limit the availability of needed capital injections to small and medium sized enterprises (SMEs). As a whole, the banking sector is small in absolute figures (\$4.8 billion total assets), and most of these assets are foreign-owned. Foreign ownership can be a valuable resource in providing banks with financial assistance through their shareholders if needed.

8 | Currency and Price Stability

After comparatively low inflation in 2009 (1.7%), the Georgian economy is again suffering from a fairly high inflation rate, which reached 5.7% in 2010. This volatility points to the government's incapacity to control inflation. The Georgian economy is highly susceptible to externally driven shocks. Upward trends reflect a rising domestic demand, which is in part rooted in a steady rise in energy prices (Georgia imports virtually all of its needed supplies of natural gas and oil products), a rapid growth of the money supply and the expansion in net foreign assets. In addition, increasing volumes of imports (the country imports even essential foodstuffs) are still not matched by a corresponding growth in exports. Critics blame the authorities for not using taxation as an instrument to cut demand in imported goods. It is very important for the country to develop a powerful export sector to replace exports once headed for Russia.

Anti-inflation /
forex policy

6

Until recently, high growth rates and substantial reforms ensured a high degree of macroeconomic stability. Among these reforms, the adoption of a simplified tax code with the introduction of a flat rate income tax has led to a significant rise in budgetary revenues from 15.1% of GDP in 2002 to 28% in 2008. In 2009, as a consequence of the war in August 2008 and of the global financial crisis, tax revenue fell by 13%. Still, the institutional measures which had been adopted by the government prior to the war prevented the country from falling into a situation of macroeconomic instability. However, the comparatively stable situation of the country after the war was largely due to the significant financial aid granted by the international community (\$4.5 billion). These resources will be depleted by mid-2011. A sound economic foundation based on increasing exports or on a bigger inflow of foreign direct investments could not be created. Foreign debt has been increasing (21% of GDP in 2008, 38% in 2010 and projected to reach 43.2% in 2011). Several large repayments are due in 2012 and 2013, so that foreign debt is bound to increase further. In the long term, all this poses a serious challenge to macroeconomic stability. It remains to be seen whether the statement made by the Georgian Finance Minister Kakha Baidurashvili in December 2010 that the government would be able to keep foreign debt in 2011 at the same level as in 2010 and to reduce the share of foreign debt from its current level of 46% to 41% in 2012 is more than sheer rhetoric.

Macrostability
7

9 | Private Property

According to the 2009 World Bank's Registration of Private Property Index (one of the indices used to calculate the Ease in Doing Business Index), Georgia ranks second among the countries surveyed. This positive figure reflects the fact that the legal basis for the protection of private property has considerably improved since the Rose Revolution. The amendments to the laws on registration of immovable property in particular have closed substantial gaps in the country's legislation.

Property rights
6

However, according to critical remarks made by representatives of international organizations, a wave of police-led seizures of private property reflects severe institutional weaknesses in the judiciary and tax administration agencies, both of which are quite vulnerable to executive interference and tend to ignore norms of procedural justice. This problem is growing increasingly acute since state revenues have fallen in the wake of the 2008 war and global financial crisis.

The Tbilisi city government, a key ally of President Saakashvili, stood in the middle of a hot controversy concerning private property. Amid a real estate boom in the Georgian capital, there were cases of tenants being evicted from their houses in order to clear the way for profitable deals with new investors.

Immediately after the Rose Revolution, the government launched a large-scale privatization program which considerably accelerated the privatization of large enterprises. Prior to the Rose Revolution, state property privatization had focused primarily on small-scale enterprises. In 1999, in order to stimulate the privatization of large-scale companies, a law was amended to introduce auctions without floor prizes. These auctions often lacked transparency, which considerably hampered the whole privatization process. It was only after the Rose Revolution that an adequate institutional framework for the privatization of major assets could be created. This process is now complete. Nonetheless, the privatization of large-scale companies continues to lack transparency, an early example being the very first privatization of the aviation factory in Tbilisi. The full adequacy of the institutional framework therefore remains questionable.

Private enterprise
8

In some cases, as already noted in the case of television media outlets, property ownership is hidden in off-shore zones, and some companies are indirectly controlled by the government.

The private sector is still dominated by formerly state-owned enterprises, whose net job creation rate is quite low, in part because they are still tackling the difficult task of restructuring. New private enterprises, which are generally a source of labor demand, still constitute a relatively small but growing share of the private sector.

10 | Welfare Regime

The last years have seen significant efforts by the Georgian government to improve the existing welfare regime, which is, however, still far from satisfying existential needs. The social security system adopted after the Rose Revolution is based on the needs of the people affected and does not take into consideration factors like former income or years of active work. Families in need are classified by the authorities according to a point system. If they fall into the eligible score range for social aid, this aid is organized into three packages which may include electricity subsidies, health insurance and (even by Georgian standards) very modest monetary aid.

Social safety nets
4

In December 2010, the Georgian government informed the International Monetary Fund that there will be no increase in pensions or in social security thresholds despite the country's inflation rate, which was about 11% at that time. As of March 2011, the inflation rate had risen above 13%.

So far, the war on poverty declared by the government in response to social unrest has not delivered tangible results. The tense budgetary situation created by the 2008 war against Russia and by the global financial crisis will, on the contrary, lead to a deterioration of the social welfare situation in the country.

A major issue in Georgian politics remains the living conditions of internally displaced persons (IDPs), whose numbers have increased significantly since the August 2008 war. In summer 2010, representatives of international organizations claimed that about 90% of the IDPs live below the poverty line and are dependent on external food aid. The government has resettled about 30,000 IDPs (or 25,000 according to UNHCR) since the 2008 war and grants them modest financial aid. Because Georgia is facing a serious employment crisis (unemployment in 2009 was at 16.4%), these individuals lack any concrete perspectives. For this reason, Amnesty International urged the Georgian government to do substantially more to provide employment and better land for IDPs. However, the government maintains that available resources are not sufficient to cover all needs. Evictions of IDPs from private-owned Tbilisi buildings have taken place many times during the period under review but were often followed by a public outcry which, in some cases, forced the government to halt actions.

Georgia is still far from ensuring equal opportunities to all its citizens. Significant differences persist – between rural and urban areas and between the poorer and the more developed regions of the country – in terms of the access provided to infrastructure services. In addition, gender inequality remains an issue of concern. Although education enrolment rates now show no difference between female and male students, gender gaps are evident in labor force participation and remuneration, women being less represented in more prestigious or powerful positions. In 2008, only 54.8% of the adult female population was employed compared to 73.9% of the adult male population (these are the most recently available figures at the time of writing). To make things worse, a great number of women reported as employed are in reality self-employed – a significant proportion of them in agriculture. As a consequence, women earn on average less than half of what men earn.

Another important point is that although there is no legal discrimination against ethnic minorities, their representation in state jobs is disproportionately low. However, this can in part be explained by the lack of proficiency in the Georgian language often found among ethnic minorities.

Equal opportunity
4

11 | Economic Performance

The remarkable economic growth which Georgia had witnessed in the years prior to the 2008 war was due largely to the country's ability to attract foreign direct investment. A substantial inflow of international financial aid (\$4.5 billion) since the 2008 war has helped Georgia to navigate both the consequences of the war and the global financial crisis. Most of these funds have already been spent; the rest is expected to be spent by mid-2011. However, neither a continuous inflow of foreign investment nor a significant increase in export-oriented activities could be achieved.

Output strength
5

Although the general conditions for foreign investment as a consequence of sound institutional reforms adopted after the Rose Revolution have considerably improved. Georgia is still struggling to develop its exports sector (in particular agriculture, food processing and industry) to an extent that would allow it to make up for the loss of the Russian market since 2008.

At the same time, Georgia imports many basic foodstuffs, which will frustrate attempts to achieve a favorable foreign exchange balance. As a consequence, foreign debt has been growing from 21% of GDP in 2008 to 46% in 2010 and is projected to drop down to 43.2% in 2011. It remains to be seen whether the government will be able to attract enough foreign capital to ensure sustainable economic development and equilibrium in its trade balance.

12 | Sustainability

As in many other areas, Georgia established a comprehensive legal framework for environmental protection in the 1990s. However, as a result of corruption and indifference, there have been serious problems with the enforcement of these legal norms. Reforms initiated by the authorities since the Rose Revolution have been aimed primarily at enhancing the state's potential in monitoring and exercising sanctions. The strategy pursued is built on two pillars. First, in order to strengthen oversight capacities, a wide range of competing agencies with overlapping competences have been merged under the roof of the Ministry for the Protection of the Environment. Second, the authorities have reduced the number of permits needed for construction and extraction activities in order to remove opportunities for extortion. Critics claim that in particular the second pillar of the overall reform strategy has led to some fatal consequences. For example, once authorities cut down regulations, construction as well as oil and gas extraction ceased to be classified as environmentally sensitive activities which in turn resulted in severe environmental problems. Forests are poorly protected from environmental degradation. As a result of persistent corruption, almost 60% of the annual forest harvest (40% of Georgian territory is covered with forest) goes unrecorded. Exacerbating the situation is the total absence of strategies and resources for a sustainable management of resources. No reliable forest inventories exist. Official leasing contracts are, as a rule, short-term and do not provide any incentives for a sustainable use of resources. As a consequence, there is an alarming degree of deforestation in Georgia, which increases the likelihood of soil erosion, landslides and flooding.

Further, large numbers of the Georgian population still have only limited access to a supply of clean potable water and problems with the infrastructure have resulted in contaminated water in many parts of the country. In 2005, almost 30% of the population was not connected to water pipelines. Corrupt management, a lack of resources and inadequate pricing fuel these problems. In 2007, tariffs covered only

30% of the real costs. In recent years, however, Georgia has taken steps to rehabilitate water pipelines and optimize management. However, Georgia continues to receive a low rating on the Yale Water Quality Index (40.24 %).

Because education was hit extremely hard in the 1990s by the transformation crisis and entrenched corruption, educational reform became a priority after the Rose Revolution. Strategies applied can be roughly divided in two. On the one hand, the government introduced new methods of financing, management and quality control. On the other hand, with rising budget revenues, government spending on educational needs was increased. This resulted in a significant expansion of education institutions' self-management capacities, the introduction of centralized tests for university entry, a reduction in the number of universities through a centrally managed accreditation process, the institutionalization of open competitions for academic positions, and a threefold increase in public spending on education by 2007 (compared with 2003).

Despite impressive progress, a number of shortcomings remain. In relative terms, budgetary expenditure on education remained fairly stable at 3% of GDP and is very low even in comparison to other post-Soviet states. To name just one consequence of this, despite significant rises in teachers' salaries, which went up from \$63.5 per month in 2005 to \$132 in 2007, they are still too low to ensure a viable livelihood. As a rule, teachers still need to supplement their income with additional work. Thus, the professional quality of teachers remains a sensitive issue, given that the profession is neither prestigious, nor well-paid.

Moreover, with more emphasis given to secondary education in recent years, new problems began to surface. Schools now have greater autonomy in financial issues with boards of trustees exercising oversight. However, some of them clearly fail to act in a responsible manner. To date, no mechanisms are in place to ensure accountability and independence in decision-making.

The national exams, while reducing corruption in the admission process to university, have recreated the institute of private tuition which is supposed to prepare adolescents for national exams. At the same time, private tuition has undermined motivations based in learning among students insofar as their main concern now is simply to pass the national exams.

According to a poll conducted in 2008, universities continue to suffer from corruption. Whereas students in the past would pay bribes for admission, now they pay for grades. Moreover, there are claims that the staff renewal which took place at the country's major universities was in some cases again overshadowed by corrupt practices. These include the granting of positions to former staff who participated in ostensibly open competitions for their positions despite the presence of allegedly more qualified candidates.

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

The level of structural difficulties faced by the political leadership is comparatively high. Soviet legacies, which include an unbalanced economy badly adapted to the pressures of globalization, the lack of autonomous social organizations, a weak civil society and a longstanding tradition of authoritarian rule, as well as a self-sustaining lack of political pluralism are in the case of Georgia further complicated by the burden of the unresolved ethnic conflicts in South Ossetia and Abkhazia, by difficult relations with neighboring Russia and by the legacy of pervasive corruption, which contributed to a weakening of state structures and a significant delay of structural reforms under the Shevardnadze administration. Two of the few advantages, a comfortable geographical location at the crossroads of important energy transport lines and the presence of a well-educated labor force, have the potential of triggering economic development. The 2008 war with Russia has demonstrated with utmost clarity that all future plans at sustainable recovery rely on a long-lasting resolution of ethnic conflict.

Structural
constraints
7

Despite the existence of a great number of NGOs, no authentic tradition of civil society has emerged in Georgia. Marked by a long history of foreign domination and a deeply entrenched culture of clientelism, there is a high degree of distrust in public institutions within Georgian society. Although this overall attitude has started to change slightly in the course of successful reforms since the Rose Revolution, a prevailing atmosphere of apathy persists and renders the emergence of a vibrant civil society highly unlikely.

Civil society
traditions
7

Further, the lack of a tradition of charity and philanthropy makes the development of civil society institutions largely dependent on foreign funding.

Compared with previous years, conflicts in Georgia seem to have lost some of their intensity. The ethnic conflict around the two breakaway regions of South Ossetia and Abkhazia, which was for more than 14 years superficially stabilized in a fragile state of “no war, no peace,” exploded into open violence and warfare in 2008 and created a status quo which virtually cemented the breaking-off of these two regions from the Georgian state, even if the authorities would never recognize this. Although the war was mainly about a confrontation with Russia as an external

Conflict intensity
6

actor, unresolved ethnic tensions between ethnic Georgians and ethnic Ossetians and Abkhazians played their role as well. These tensions remain unresolved. On the contrary, atrocities committed during the war have reinforced tensions to a significant degree.

After the violent protests in November 2007, the opposition's efforts to use street politics as a means of competing for power did not produce sustainable results. Although the number of those who participated in public protest has decreased quite significantly, the potential for social unrest is still quite high. As long as the poor and impoverished do not see themselves represented in democratic institutions, a latent threat to stability will continue.

II. Management Performance

14 | Steering Capability

The period prior to the 2008 war was marked by a significant decline of the political leadership's capacity to maintain strategic priorities and adequately define goals. The very fact that the government engaged in this war and counted on more active Western support illustrates that it failed to realistically evaluate the international context. In a system where efficient mechanisms of checks and balances as well as procedures for an open democratic discussion are implemented, this kind of development would have been unlikely. Some of these deficiencies still persist.

The lack of strategic vision expressed in publicly debated strategy documents and of clearly formulated agendas on the part of almost every political force is a major drawback. Whenever such documents exist, their intention is more related to public relations objectives than an operational plan. Further, whenever strategic priorities are set, they may haphazardly change or not be maintained in a consistent manner, due to dominance of voluntarism and unpredictability at the top level of governance.

The main shortcomings observed both by international donor institutions and by Georgian NGO activists involve the failure to introduce genuine democratic reforms. The government and opposition parties remain deeply polarized on many issues. Another key problem with profound effects for the political system as a whole is the reform of the electoral code. Since the beginning of 2010, several political parties in the opposition have been engaged in talks with the government

Question
Score

Prioritization
5

to reform an electoral code that was subject to manipulation (and to the advantage of the ruling party) prior to the 2008 parliamentary elections. To date, however, no concrete results could be attained.

The government has also failed to achieve tangible progress in its self-declared war against poverty, which should have translated the results of economic reform to the level of daily experience. Instead of concentrating scarce public resources on social welfare spending and investment in agriculture, the decision to wage a war against Russia in order to restore territorial integrity led to an irresponsible waste of urgently needed budgetary revenues and the destruction of large parts of public and private infrastructure. The international financial aid granted to Georgia has helped to attenuate some of the hardships caused by the war and by the global financial crisis, but did not succeed in creating sustainable economic development and effectively combating unemployment, which is still very high (2009: 16.4%).

All this points to a very poor definition of priorities caused mainly by the absence of institutionalized channels through which policies can be publicly negotiated.

In recent times, particularly since the 2008 war and the global financial crisis, the capacity of Georgian authorities to implement far-reaching reforms, which in previous years had been very high, has clearly deteriorated. This concerns the capacity of implementing democratic reforms as well as of establishing a strong welfare system capable of covering existential needs. This is, in part, a consequence of the strong political polarization between the government and the opposition.

With regard to welfare policies, a slightly different picture emerges. Although one can rightfully argue that the August 2008 war with Russia and the global financial crisis forced the Georgian government to set new priorities – which thus prevented it from living up to the expectations raised by its self-declared war against poverty – problems with implementing adopted political measures have also played a limited role. This refers first of all to the ambitious plan to replace unemployment benefits with a unified support program for poor families in order to better target those most vulnerable. Although local administrations should have kept reliable data on those who needed assistance since 2005, evidence from different local areas suggests that local officials successfully circumvented targeting mechanisms and, thus, to a certain degree, succeeded in undermining the rationality of the reform. Thus, the reform of the welfare system was by no means well planned and was largely based on unrealistic assumptions. In cases such as this, a political arena characterized by the absence of a truly independent media and the dominance of one single political force hampers feedback mechanisms, which in turn makes consistent reforms difficult to implement.

Implementation

6

Under the compounded stress of a deep internal crisis with an opposition that lacks any concrete social and economic programs and an almost deadly confrontation with neighboring Russia, the current government has not improved upon its capacity to learn from past policies. Both the internal political crisis and the war with Russia can be in part attributed to an unrealistic appraisal of the authorities' own resources and options. However, the authorities did show some flexibility in applying new policy tools for achieving old aims, even if they stopped short of adopting innovative strategies. In the end, they prevented the worst from happening; but they did so at the expense of postponing solutions to pressing problems.

Concerning political affairs, Georgian authorities have displayed a quite high degree of flexibility in their conflicts with an initially unified opposition. Currently, the government is engaged in dialogue with some of the opposition parties in order to reach an agreement about the reform of the electoral code. It thus seems to have responded to frequent calls from international organizations which consider an open dialogue with the opposition to be one of the most important aims to be achieved in the near future.

By constantly emphasizing their will to compromise, the authorities were however keen to shift to the opposition the blame for failed negotiations. By making concessions on some issues while remaining steadfast on others, they placed an apple of discord in the camp of opposition parties which failed to reach consensus on a convincing strategy and thus lost popular support. At the same time, by prioritizing their short-term interest in political survival, the ruling elites missed the chance to bolster their faltering legitimacy in the eyes of a growing number of citizens. They gambled away the opportunity to actively involve the opposition in a broad consensus on future reforms, which would have forced them to share responsibility for the outcomes. These consequences were soon felt when in the aftermath of Georgia's defeat in the August 2008 war with Russia, in spring 2009, people filled the streets again and called for Saakashvili's resignation.

It remains to be seen how the authorities will deal with this situation. For the time being, they seem to confine themselves to the old strategy of making minor concessions. This impression is mainly confirmed by the numerous cabinet reshuffles that have disappointed hopes that an all-inclusive anti-crisis government might be established. Indeed, voluntaristic and non-meritocratic principles of personnel policies, as currently applied by the government, constitute a major drawback.

15 | Resource Efficiency

The continual rotation of leading members of the government since the Rose Revolution does not seem to be motivated by any long-term strategy for the efficient management of resources. Core agencies like the Ministry of Internal Affairs have not been affected by these changes. To make things worse, whimsical nominations to high government positions do not convey the impression of a rational and efficient management of human resources. The case of Vera Kobalia serves as an example. Kobalia, who had lived in Canada for 14 years prior to her nomination as Minister of the Economy in July 2010, was widely criticized for her lack of relevant qualifications and experience. Appointments such as these have seriously undermined trust in the government's commitment to sound and consistent reforms. Reshuffles in key positions of Georgia's diplomatic service have also met criticism for being arbitrary and mainly motivated by the president's own personal preferences.

Efficient use of
assets

5

Critics have also raised some concerns with regard to the rational and efficient use of financial resources. In the period under review, some prestige projects such as the "Bridge of Peace" in Tbilisi and the Presidential Palace - both by the Italian star architect and designer Michele de Lucchi - have been widely criticized for both aesthetic and financial reasons. The high costs involved in both projects in a period of sinking state revenues show a modest capacity of defining adequate priorities.

Even those decisions that appear to mark a step in the right direction are at the very least controversial. For example, defense spending, which in 2008 reached 10% of GDP and comprised the largest share of state budget expenditures, had been widely criticized as not having delivered significant structural and qualitative changes, especially after the poor performance of the Georgian army during the August 2008 war with Russia. As a consequence, defense expenditures have been drastically slashed by 52% from \$878 million in 2008 to a projected \$425.4 million in 2011. Clearly, financial constraints arising from the war and the global financial crisis play a role, but critics locate the real motives in doubts about the political loyalty of certain army units, as was evidenced by the army unrest in 2009 after which several officers were arrested.

Welfare spending is another area where the use of available resources was less than satisfactory. Bearing in mind the government's goal of improve its ability to target the poor and vulnerable populations, the fact that pensions still consume the lion's share of all welfare spending appears hardly appropriate. Critics claim that Georgia's single flat-rate pension scheme, which does not differentiate between poor and wealthy pensioners, makes the task of alleviating poverty even more difficult. The chance of improving targeting mechanisms was missed. Instead, in

December 2010, the government declared that there would be no increase in pensions or in the monetary aid granted to the poorest, despite the fact that inflation reached 13.4%.

Since the Rose Revolution, policy coordination has improved significantly. Ministries no longer function as shields for influential circles of economic actors; policy has gained in coherence. Ample space, however, remains for improvement with regard to inter-agency coordination. Regular interference by the president still represents the single most important means of ensuring cooperation between different parts of the administration. Recent events have highlighted the inherent structural weaknesses of this hierarchical and unpredictable form of policy coordination. The hearings before the parliamentary commission studying the August 2008 war, for example, revealed that the Georgian intelligence service forgot to share information with the Ministry of Economy on the willingness of Russian investors to invest into the Georgian energy sector.

Policy
coordination
7

Five years after the Rose Revolution, combating corruption is still a priority of the current government. So far, the official anti-corruption plan, which aims at improving the transparency and effectiveness of the civil service, mainly targeted lower and mid-level corruption. As a consequence, Georgia allegedly continues to suffer from corruption on elite levels, a concern which is constantly raised by the opposition.

Anti-corruption
policy
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Recently, claims have been raised that police authorities misuse legislation to extort money from citizens. The extortion of shop owners and traders by police officers and tax inspectors was a widespread practice in the period prior to the Rose Revolution and had been successfully eradicated. Now, with state revenues sinking, this practice is said to be on its way back.

Though it is quite difficult to judge the legitimacy of the opposition's claims, one has to bear in mind that at least the opportunities for cronyism and insider deals have grown considerably in recent times due to the concentration of power among a small and interwoven circle of individuals around the president. Moreover, the strategies applied so far in the battle against corruption have to some extent enhanced the opportunities for power abuse on the elite level. Aside from structural reforms aimed at deregulation and the simplification of administrative procedures, anti-corruption policies were mainly based on strengthening the state's capacity to discipline harshly officials who (potentially) violated the rules. Quite often, this resulted in somewhat arbitrary executive interference with the daily execution of administrative tasks. The emergence of depersonalized institutional routine was thus prevented.

The impression remains that the anti-corruption mechanisms implemented by the government, which may have been appropriate for making initial progress, may in the long run turn out to be obstacles for further progress.

16 | Consensus-Building

All major political actors among both the government and the opposition subscribe to the dual goal of establishing a viable market economy and a functioning democracy. Nonetheless, the government has frequently stressed the priority goal of state-building over democratic reform.

Consensus on goals

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In addition, until recently, there has been a general consensus on the country's orientation toward the West. In May 2010, the oppositional Democratic Movement - United Georgian Party led by former parliament speaker Nino Burjanadze engaged in a more Russia-friendly course. This move, however, has led to the complete isolation of this party within the opposition.

The overall consensus does not exclude fundamental conflict over the appropriateness of the measures to be taken in order to achieve these goals. The exchange of accusations between the government and the opposition is a clear sign that a culture of mistrust is deeply rooted in Georgian society.

To date, the so-called "reformers" dominate the political arena to such an extent that they are not faced with the challenge of excluding or coopting anti-democratic veto-actors. This comfortable situation is mainly rooted in the fact that no political actor has to date proved capable of mobilizing the excluded and marginalized segments of the population in any sustainable way. Cautiousness with regard to the stability of democratic institutions appears justified, as the double burden of the global financial crisis and the defeat in the August 2008 war with Russia may easily turn out to confront the reformers with a real threat to their survival in the near future.

Anti-democratic actors

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The authorities' inclination to sacrifice democratic principles in the name of what they call a "strengthening of state capabilities" poses a genuine challenge to democratization. The return of corruption in daily life – in particular with regard to the police and tax inspection – may be seen in the light of this general trend.

The ruling elite's capabilities in conflict management appear to be very much underdeveloped. They have failed to reach any substantial progress with regard to reconciliation between ethnic groups and did not manage to depolarize the very strained relations with the opposition. A first positive step can be seen in the talks between the government and the opposition to reform the electoral code. However,

Cleavage / conflict management

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these talks have not yielded any concrete results and therefore cannot be considered a sign of changing conflict management.

The opposition is quite fragmented and weak. The government also tries to split the opposition by treating key figures differently. It is a noteworthy fact that many prominent opposition members took part in the Saakashvili government at one time or another.

For example, former Foreign Minister Salome Zourabichvili, who in the period immediately after the Rose Revolution had enthusiastically supported President Saakashvili, eventually left the government and founded her own opposition party, “Georgian Way.” Later, she was asked to take on the position of a deputy minister of internal affairs but was finally rejected by the majority in parliament controlled by President Saakashvili’s ruling party.

On the other side of the political fence, former parliamentary speaker Nino Burjanadze, one of the “heroes” of the Rose Revolution, has been repeatedly attacked by the government both for allegedly evading taxes and for maintaining too close ties to Russia, an allegation on par with a political death sentence in Georgia.

This differentiated attitude towards different key figures of the opposition illustrates the way the government tries to maintain its own powerful position by undermining the credibility of the opposition as a whole.

In March 2010, members of various opposition parties gathered in Tbilisi to discuss ways of bringing about peaceful regime change. They addressed an appeal to the international community to put an end to what they called “the dictatorship” of President Saakashvili. This meeting was organized by the Labor Party, which until that date had avoided cooperation with other opposition parties. Some of these parties, including the “Georgian Way” of former Foreign Minister Salome Zourabichvili and the “Alliance for Georgia,” refused to attend the meeting allegedly in protest of the presence of former Prime Minister Noghaideli. This illustrates again how split the opposition is.

Saakashvili’s rise to power has weakened the once-vibrant NGO sectors by the fact that these NGOs have become an important pool for the recruitment of government personnel.

At the same time, especially in the initial stage after the Rose Revolution, the new authorities demonstrated indifference to concerns raised by some NGOs with regard to the hasty adoption of constitutional amendments, bureaucratic harassment of independent media outlets or human rights violations.

Nevertheless, observers note a more differentiated attitude on behalf of the government towards civil society organizations. Whereas some ministries, such as the Ministry of Justice and the Ministry of Education regularly take advice from and have contact with civil society organizations, others like the Ministry of Interior or the president himself appear reluctant to cooperate closely with these organizations. However, NGOs do participate in the policy process when their capabilities and know-how are needed or when donor organizations exert pressure. In most cases, this cooperation happens on less politically sensitive issues. Besides, the government, including the president, does cooperate with some pro-governmental NGOs such as The Liberty Institute, which is quite influential.

Civil society is involved in some political areas, such as efforts involving constitutional amendments, or those developing a strategy for occupied territory. Besides, NGOs are also commonly involved in monitoring elections.

Memories of past injustice committed by Georgians as well as by Abkhazians and South Ossetians during the secessionist wars of the early 1990s still deeply divide communities in Georgia. The authorities did little to address issues of reconciliation. Instead, the military attack launched by the Georgian government in August 2008 against Tskhinvali deepened mutual distrust. The Georgian authorities have also waged a war of rhetoric, thus sowing the ground for renewed stereotypes. By blaming Russia exclusively, the Georgian authorities and the majority of all relevant political actors show no regard for the legitimate concerns of either Abkhazians or Ossetians. The prospects for rapprochement between the ethnic groups involved are not likely in the near to medium-term future.

Reconciliation
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17 | International Cooperation

As in previous years, Georgia has during the review period continued to receive massive financial aid from multilateral and bilateral donors with the bulk of financial assistance spent on infrastructure projects like the rehabilitation of roads, water pipelines, irrigation systems and the electricity sector as well as on credits to small and medium enterprises. While some of these projects were largely considered to be highly successful, donor-driven efforts to create a professional civil service were partly blocked by President Saakashvili's quite whimsical nominations to key government positions during the period under review.

Effective use of
support
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Moreover, many critics claim that aid money was not always spent in ways that helped to strengthen democracy and the rule of law. Further, aid money has clearly missed the task of offering employment opportunities to large parts of the population. The main problem seems to be the lack of an explicitly formulated and consistently implemented long-term strategy of development.

The international financial aid received by Georgia after the 2008 war was nonetheless essential in allowing the country to cope with the hardships resulting from the war itself and from the global financial crisis, though it has not applied toward building a stable foundation for economic development.

In the period immediately following the Rose Revolution, the Georgian authorities earned themselves a great deal of credibility among the international donor community for pursuing a coherent reform agenda. However, with authoritarian tendencies in the Georgian state becoming stronger, representatives of international donor organizations would increasingly complain of the “chaotic” operation of government agencies and the lack of long-term strategic planning and clearly defined priorities. The fact that important administrative decisions are usually taken by a small circle of insiders with no inclusion of the persons affected by them is felt to be a major problem that seriously compromises the government’s credibility as well as its commitment to implementing serious reforms and establishing transparent and democratic practices of governance.

Credibility

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For their part, Georgian authorities have often criticized donor organizations for being too bureaucratic, addressing issues not felt to be essential in Georgian society and for being interested primarily in keeping their financial resources in their home country while at the same time claiming to support Georgia. Thus, the credibility issue concerns not only the government but also the donor community.

However, these concerns do not seem to have had any direct impact on the intensity of donor activities in the country. The overall balance of the cooperation between Georgia and the international donor community remains good.

During the period under review, for example, the European Union Monitoring Mission to Georgia, which was established after the ceasefire in 2008, continued its activities. After the withdrawal of the OSCE Mission in South Ossetia and the United Nations Mission in Abkhazia, it has become the only international observatory entity left in Georgia. Its activities are concentrated on monitoring how Georgian police and military authorities operate in border areas as well as the living conditions in the various camps for internally displaced persons. Because the mission’s mandate extends across the country, some patrols are sent to areas at the borders with Azerbaijan and Armenia, far away from the conflict zone. Sometimes, the mission’s activities have little in common with border security. For example, in early July 2009, one patrol helped NGOs to organize a charity concert for IDPs. Another patrol discussed gender issues with women police officers in Akhmeta because, in the eyes of many Georgians, this may raise concerns about the mission’s capacity to protect the population against an eventual Russian aggression, since patrols are unarmed. All this casts a shadow on the reliability of Western engagement in the country.

Although in the beginning of 2009 there were some controversies involving a Georgian military camp near Dusheti, the monitoring mission pronounced itself “very satisfied” with Georgia’s commitment to limiting armament in bordering zones.

The closure of the OSCE mission to Georgia has been heavily criticized by a great number of international actors, as the OSCE had been the only international organization in Georgia with a solid record. However, the closure was mostly due to a Russian veto rather than to any action taken by the Georgian government.

In the framework of the European Neighbourhood Policy, a so-called National Priority Programme has been implemented with an overall budget of €120 million for a period of four years (2007 – 2011). As part of this program, concrete goals with clearly defined priority areas have been established. However, it has been criticized that the time frame set by the program is too short to allow any substantial progress to materialize. A mid-term assessment conducted in 2009 turned out to be quite difficult, as none of the projects started in 2007 had been completed. In 2009, the so-called Eastern Partnership, which aims at deeper integration in the areas of institution building, visa-agreements, free trade, energy security and regional development, received an additional €600 million of funds to be spent from 2010 to 2013.

According to an opinion poll conducted in 2009 by Swiss experts, the public opinion toward the European Union in Georgia is generally favorable, with 77% of the respondents being in favor of EU-membership, 26.4% declaring that they fully trusted the EU (20.0% in 2007).

However, the very fact that formal cooperation between the EU and Georgia has been intensified shows that credibility concerns, especially with regard to the Georgian government, have a limited impact on actual practice.

For understandable reasons, Georgian foreign policy has been focused primarily on the closely interconnected issues of handling strained relations with Russia and gaining admission to NATO. However, admission to NATO has been moved somewhat to the periphery of the foreign policy agenda since the 2008 war, since it is no longer a realistic short-term goal.

In addition, regional cooperation, which is also fostered in the framework of the European Union Neighbourhood Policy, continued to be of some importance.

Relations with Turkey, Azerbaijan and Armenia are basically good and not much influenced by conflicts. However, an agreement reached between Georgia, Turkey and Azerbaijan in 2007 over the construction of a regional railway linking these three countries was met with clear objection by Armenia. Recently, there have been some tensions between Baku and Tbilisi arising over incidents such as a Georgian

shepherd killed by Azeri border guards or the territorial concerns regarding the David Gareja monastery site. There has been some tension as well over the nomination of the Georgian ambassador to Azerbaijan. But overall these issues have not dominated the agenda. There was some irritation with regard to Turkey's involvement with Abkhazia, but this has also not dominated the agenda.

In the aftermath of the 2008 war, it is not really surprising that relations between Russia and Georgia have become increasingly tense. One of the main points of contention between has been Russia's formal recognition of Abkhazia and South Ossetia as independent states, a step most nations (including even Russia-friendly Belarus) did not take. Since then, Georgian authorities have strictly denied admission to the country to anybody having an Abkhazian or South Ossetian entry stamp in his or her passport, thereby avoiding any practice that could be interpreted as a tacit recognition of those two countries.

Generally speaking, the visa issue between Georgia and Russia has been controversial ever since Russia introduced the visa regime for Georgians back in 2003. For reasons of reciprocity, a visa regime for Russian citizens wishing to enter Georgia has also been introduced. In October 2010, Georgian authorities decided to waive the visa obligation for Russian citizens from the North Caucasian republics, a step which has contributed to tensions around this matter. Opposition member Nino Burjanadze designated the unilateral abolition of the visa regime for this group of persons as a "provocation," which by no means is going to relieve the humanitarian situation in the border areas as claimed by Georgian authorities.

Attempts by the Georgian administration to enlarge its sphere of influence in the North Caucasus, for example by raising the issue of the genocide of the Circassians on the part of Russia in the second part of the 19th century, have been criticized as being a threat to stability in the region. According to certain press reports, the Saakashvili administration wishes to use this issue in order to prevent the Olympic Games to be held in Sochi in 2014 from taking place. As it seems, this genocide has indeed been a much-discussed topic in Circassian communities abroad, but not in the country itself. Besides, the relevant facts had been known for many years without the Georgian administration having felt the need to interfere in any way before now.

Another indication of the degree of mistrust in the relations between Georgia and Russia is the smashing in November 2010 of a spy ring in Tbilisi that allegedly transmitted classified Georgian war information to the Russians. Several Russian and Georgian citizens were arrested. Pro-government TV-stations in Georgia gave this incident extensive coverage, while the Russians condemned the arrests as "farcical." In 2006, a similar incident had led to a serious deterioration of the

relations between the two countries and to the expulsion of hundreds of ethnic Georgians from Russia, many of whom had been living there for many years. At the time of this writing, however, no similar crisis in Georgian-Russian relations could be observed, even if tensions indeed do remain.

Strategic Outlook

The trends observed at the beginning of President Saakashvili's second term in office – an authoritarian style of governance, declining economic growth rates and a deterioration of the security environment – have persisted in part during the period under review. Important measures must be taken in order to ensure sustainable economic and political development.

On the political level, one of the main issues involves implementing clear and transparent procedures for an open democratic dialogue with all interest groups in society. At present, oppositional and non-governmental groups claim that the government is not taking open dialogue seriously, and that it is concerned only with securing its own powerful position and making occasional minor concessions for tactical reasons. This is particularly true with regard to the controversial reform of the electoral code. An open dialogue would help build trust in democratic institutions which are still met with skepticism by parts of the population.

In terms of consolidating democratic institutions, it is important that the government take further steps to develop a fully independent judiciary. It is essential that cases of civil rights violations, especially the usurpation of property rights, are fully and correctly investigated.

In terms of its economy, it is important for Georgia to create a solid basis for sustainable development. The high growth rates attained by Georgia in the years prior to the 2008 war were to a great extent due to massive inflows of foreign direct investment in primarily infrastructure rather than the production sector. Both the 2008 war and the global financial crisis decimated this inflow, which has been compensated for by a substantial injection of financial aid granted to Georgia by the international donor community. Even with such resources, it has not successfully developed a powerful export sector. Considering the modest industrial basis of the country and its scarce natural resources, the agrarian sector could, in the long run, offer good opportunities for sustainable development, especially if Georgia concentrates on the high-value segment of organically grown goods. Similar recommendations have been formulated by the Georgian Orthodox Church. The government's idea of Georgia as an energy corridor between the Caspian and the Black Seas might at first glance seem promising, but the sustainability of such plans depend largely on factors which are beyond the control of the Georgian government.

Another viable alternative would be to explore the country's relatively well-educated labor force and human capital in order to develop a functioning service sector, for example in the tourism area.