

BTI 2014 | Georgia Country Report

	scale	score	rank	trend
Status Index	1-10	6.16	# 48 of 129	
Political Transformation	1-10	6.50	# 52 of 129	➔
Economic Transformation	1-10	5.82	# 57 of 129	➔
Management Index	1-10	5.76	# 41 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	4.5	HDI	0.745	GDP p.c.	\$	5901.5
Pop. growth ¹	% p.a.	0.6	HDI rank of 187	72	Gini Index		42.1
Life expectancy	years	73.8	UN Education Index	0.842	Poverty ³	%	35.6
Urban population	%	53.0	Gender inequality ²	0.438	Aid per capita	\$	111.3

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. 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 most important event in the period under review was undoubtedly the October 2012 parliamentary elections. During the 22 years of Georgia's transformation process, change of power has been provoked variously by putsches, demonstrations or impeachments. This time, the opposition coalition Georgian Dream defeated the ruling United National Movement. The period prior to the elections was marked by deep tensions and an atmosphere of polarization. The elections were mainly peaceful, however, despite serious irregularities in the vote count, and isolated incidents of political violence.

During the electoral year 2012, the government considerably obstructed democratic dialogue. Numerous human rights violations, including torture and prison rape, demonstrate the very problematic situation of social, civil and human rights in the country. The new electoral legislation adopted prior to the elections favored the ruling party, thereby preventing a majority of the 1.5 million Georgians living in Russia from voting.

The winning coalition Georgian Dream is led by entrepreneur Bidzina Ivanishvili, who worked many years in Russia, where he invested in metals, in the banking sector, in hotels, and in a popular chain of drugstores, accumulating a fortune estimated at \$6.4 billion. He has been able to act largely independently from the networks knit by the United National Movement (UNM) as his financial resources enabled him to withstand pressure from the state apparatus. Among the populace, Ivanishvili earned a lot of trust by using some of his considerable financial resources for building and reconstructing churches and other representative buildings.

The coalition Georgian Dream was established in April 2012 and unites a number of very different political parties, all opposed to the policy of President Mikhail Saakashvili. These include conservative, Western-oriented liberal and even nationalistic parties. The coalition won 54.97% of the vote and is now the main political force in the country. However, until the presidential

elections of October 2013, Saakashvili will remain in office as president, the so-called phase of cohabitation.

After the elections, a government under Ivanishvili assumed all government positions, except for a few still controlled by the United National Movement, mainly at the level of governors and municipal officials. The new government is planning important economic reforms, particularly in the agrarian sector. However, it is still too early to evaluate the new government's impact.

During the period under review, no significant economic reforms were implemented. The former neo-liberal course has been essentially continued, although social policies are much better represented in the new budget. Some of Saakashvili's most controversial projects, such as building the new city Lazika, were suspended. The new government has to cope with many sad legacies of the previous period, among which poverty and unemployment are probably the most difficult.

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 very 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 regard 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 rewarded 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 to 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. Second, the new government weakened

the judiciary's independence and was constantly suspected of exercising undue influence over judges. Third, 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, violence that seriously undermined 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. 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—undermined stability further. Despite substantial financial aid granted to the Georgian state after the 2008 war, 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 1 (worst) to 10 (best).

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, as it did not control the territory of Abkhazia other than the Upper Kodori Gorge, or more than half of South Ossetia. At the same time, violent incidents flared around and within these two conflict zones.

Monopoly on the
use of force

5

During the war, Russian troops occupied large parts of Georgia proper, expelling representatives of Georgian power structures from the Upper Kodori Valley in Abkhazia, from Georgian-held enclaves (mainly in the Big Liakhvi Valley), and from the Akhagori district in South Ossetia.

As a result of the war, approximately 25,000 individuals from formerly Georgian-controlled villages in South Ossetia and Abkhazia remain displaced, in addition to more than 200,000 displaced persons 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, as well as the adjacent maritime areas in Abkhazia. There have also 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, while the Georgian government maintains full control over much of Georgia's territory, it has no control over South Ossetia and Abkhazia, and there is little opportunity to reestablish control any time soon.

Although two parts of the Georgian territory are not under the control of the Georgian government, even there the populations hardly question the legitimacy of the Georgian state as such, although a majority would not consider their respective territories to belong to the Georgian nation-state.

State identity

7

Within the territory controlled by the Georgian state, all citizens legally share the same civil rights. No legal provisions discriminate against ethnic minorities (which represent about 16% of the population) or prevent their access to Georgian citizenship. However, even the significant Armenian and Azeri minorities are still heavily underrepresented in state structures at the national level, as are other minorities. At the same time, these two groups maintain close cultural and political 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, but also due to the legacy of mistrust toward national authorities.

The government has responded to this situation by establishing a public administration institute to train minority representatives. Although somewhat inefficient, it has promoted civic integration with a program to improve the knowledge of Georgian among ethnic minority groups and to integrate them into the higher education system through targeted educational programs. Much attention also has been paid to economic development of the regions populated by minorities, with significant international assistance.

In the last couple of years, the integration of young ethnic Armenians and Azeris, particularly in urban areas, has improved. They tend to master the Georgian language better than their parents' generation and are better adapted to new political and economic conditions. Schoolbooks integrate the perspective of ethnic minorities to a far larger degree than previously. However, despite these improvements, the problem of political, social and linguistic integration persists. Georgian legislation prohibits the creation of any political party based on regional membership, which means minorities are unable to create separate political institutions to defend their interests.

There still exist a number of persons without citizenship, mainly among Roma and partly among the repatriated Muslim Meskhetians, but the state, assisted by international organizations, has made gradual progress in ameliorating this situation.

Even though the Georgian Parliament adopted The Rule of Registration of Religious Organizations as Legal Entities of Public Law in July 2011, taking an important step toward integration of minority faiths, the Georgian Orthodox Church still enjoys privileged status, having signed a constitutional agreement with the Georgian state in 2002. 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.

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, and over permission for some Muslim communities to build mosques. However, while the society is generally more tolerant toward traditional faiths (Islam, Judaism, Gregorian or Catholic Christianity), the

No interference of
religious dogmas
8

nontraditional religious denominations are by far less favored by the population, and the state is doing little to promote religious tolerance.

In the Autonomous Republic of Adjara, where 30% of the population is Sunni Muslim, 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, apart from the secessionist regions of Abkhazia and South Ossetia, and even there some services are still provided (social allowances, educational assistance) to ethnic Georgian communities.

Basic
administration
6

Still, some shortcomings can be observed in the overall provision of public services like healthcare or the integration of disabled persons by providing them with basic services such as daycare centers, especially outside major cities.

Low and midlevel corruption has been largely extinguished, but in the higher ranks of the government, it remains an integral part of the system. Administrative reliability has been improved and a wider range of administrative services is being offered. There are also various administrative services being offered online. The problem of data protection remains to be solved.

Key state institutions such as the police and the state attorney, as well as a number of educational institutions, have been largely politicized and influenced by the previous government party (UNM). It remains to be seen if this will change under the Georgian Dream coalition.

2 | Political Participation

Even though the 2012 elections were conducted far from perfectly, with many violations especially in the pre-election period, they marked the first time in Georgian history that the opposition came to power through electoral victory, and elections became the accepted means of filling political posts. It is also worth mentioning that after initial controversial statements by president Saakashvili and UNM representatives, the president conceded the defeat of his party after the first results showed a clear trend toward a Georgian Dream victory.

Free and fair
elections
8

Prior to the elections, the UNM held 119 of a total of 150 mandates, while the opposition had only 31 mandates. As a result of the October 2012 parliamentary elections (involving 14 parties, two coalitions and four independent candidates), a significant shift in disposition of power within the parliament was achieved, as the coalition Georgian Dream gained 85 mandates and the UNM 65. Later, some UNM

members of parliament left the party, which currently holds only 54 of the 150 mandates.

Since the Rose Revolution, the government has significantly improved the legal and procedural norms governing the electoral process, even if elections continue to be less than fair. The election law has been amended according to the recommendations of a working group composed of eight parties, including some that had been boycotting parliament meetings. Some of these amendments had been recommended by the Council of Europe's Venice Commission on constitutional matters and include the extension of the complaint deadline from 24 to 48 hours, but not all recommendations have been followed.

Despite these reforms, elections were often marred by rigging and electoral fraud, deficient voter lists, abuse of administrative resources, and disproportionate use of media resources. Control of the dominant share of electronic media by Saakashvili's ruling party made previous election campaigns especially prone to political manipulation. However, both domestic and international pressure made the government, which gradually had been losing popularity and legitimacy since 2007, accept positive legislative changes, among which the most important were the "must-carry" rules securing opposition parties better pre-election access to mass media. The litmus test for the conduct of future elections will be the October 2013 presidential elections.

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, which are no longer able to manipulate the state to their advantage. It is rather that, until recently, it was the political leadership who would manipulate private businesses, and closeness to the political establishment was an important precondition for economic success. Since the 2012 elections, business and politics seem to be separated from one another, although, with former businessman Ivanishvili in power, it is too early to judge how the process will continue.

The military has never acted as an independent force and continues to stay under firm civilian control, exercised by the executive. The police, which is administered directly by the Ministry of Internal Affairs, is not subject entirely to democratic control, but is under control by the Ivanishvili government.

In the period under review, strong tendencies toward a centralization of power could be observed, and there is little sign that this is changing. Previously, a small circle comprising President Saakashvili and some of his closest advisors, such as Prime Minister Vano Merabishvili, Ministers of Internal Affairs Bach Achalalaia, Minister of Justice Zurab Aderishvili, as well as the head of the National Security Council, Giga Bokheria, controlled virtually all of the country's legal, political, social and cultural

Effective power to
govern

9

institutions. The tendency to concentrate political power in a small circle of decision-makers around the prime minister seems to continue under the new government, though promises have been made to decentralize power.

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

Association /
assembly rights

8

In the last couple of years, disproportionate use of violence to eliminate demonstrations could be observed on a number of occasions. This was, for example, the case on 25 May 2010 during a demonstration led by former parliament chairwoman Nino Burjanadze. According to Human Rights Watch, "police pursued fleeing demonstrators, kicking and beating many, using rubber truncheons. In one case, they chased down demonstrators who had taken shelter in a nearby cinema, detaining them and kicking and beating many as they exited." In the period under review, the situation regarding the use of violence by police authorities has become somewhat less tense, but Human Rights Watch has recently urged the newly elected government to put the issue on the top of its priority list.

Indeed, lately the Saakashvili's government reduced the use of violence against public protests, while continuing to rely on intimidation and violence in more subtle forms. Since the 2012 elections, the new leadership has not used violence against any assembly or association, although there have been cases when sporadic violence between groups of politicized citizens took place, especially immediately after the October elections.

Although major television outlets such as Rustavi 2, Imedi and GPB are still under political control, major improvements were made in the field of critical magazines, electronic media and social networks. According to the 2012 Freedom House report, press freedom in Georgia increased due to "the establishment of a number of new publications, the issuing of a broadcast license to a media group that is critical of the government, and the enforcement of new requirements on transparency of ownership."

Freedom of
expression

7

One of the major achievements during the period of review was the adoption of the "must-carry" amendment to the electoral code, obliging all cable networks to carry all television channels for a 60-day period in the run-up to an election. The amendment guaranteed more diversity of opinion in the pre-election period, particularly as three of the country's opposition TV stations, normally only available via satellite, were accessible to a broader audience.

The number of Internet users grew significantly during the period under review. According to latest figures, 24% of the population use the Internet on a daily basis, while 58% have no access at all. Social media such as Facebook, Twitter or Google+ are playing an increasingly important role, especially as a discussion platform for Georgians living abroad. However, TI Georgia criticizes the fact that standards for data protection are quite low in the country, many Internet providers being offshore companies not subject to any form of control. According to a February 2013 report by Radio Free Europe, cases of cyber-attacks on the private computers of both opposition politicians and critical citizens were registered during the electoral period. There are allegations that government agencies were responsible for these attacks.

Since October 2012, the electronic media landscape has become more level, and different perspectives are easily accessible both in printed and in electronic media. New electronic platforms that enable citizens to monitor government activities have recently been made accessible and citizens are encouraged to express their views through social media.

3 | Rule of Law

Under the current constitution, the executive enjoys almost unrivaled power. Until the October 2013 presidential elections, the ability of the legislature to act as an effective counterweight is formally restricted by the excessive legal powers concentrated in the hands of the president, although after the October 2012 parliamentary elections only a small portion of previous powers remained still in his hands. However, according to the constitutional amendments introduced in October 2010, the presidential powers will be significantly reduced, while those of the parliament and the cabinet strengthened, when these changes enter into force after the new president is inaugurated in October 2013.

Prior to the October 2012 elections, the UNM held 119 of a total of 150 mandates, which allowed the ruling elite to change the constitution and other legislation at will. The concentration of power in the hands of the president had been justified as necessary in order to carry out quick reforms.

However, in addition to the actual deprivation of President Saakashvili of many constitutional powers after his party lost the parliamentary elections, the parliament voted unanimously to approve an amendment that removed the president's unilateral power to appoint a new government without parliamentary approval.

Until October 2013, a constitutional gap exists during which the president still retains impressive powers. While the president recognized the defeat of the UNM at the elections, and was deprived of much of his previous influence, he still continues to exploit some of his constitutional prerogatives by nominating local governors or

Separation of
powers
6

delaying the confirmation of ambassadors proposed by the new government. However, the position of the parliament has been strengthened since the elections. This became apparent in December 2012, when the ruling coalition proved to be able to override the president's veto against the Amnesty Law.

After the review period, on 5 April 2013, the parliament passed (by a vote of 82 to 24) amendments to the law on common courts that reformed principles for staffing the High Council of Justice, making the country's weak judiciary somewhat more independent. Although the president is expected to hinder reform by refusing to sign the law, the process seems to be irreversible. However, further reforms are still needed in order to optimize the balance between the different branches of power.

Despite some far-reaching reform measures, which include new rules for the appointment of judges by a nonpolitical body of professionals (the High Council of Justice) and significant increases in judges' salaries, the judiciary has failed to earn a reputation for independence.

Independent
judiciary
6

The influence of the executive government and of the president in particular on the judiciary system remains strong. In recent years, cases of judges being ousted from office for political reasons could be observed.

In March 2012, the Georgian Young Lawyers' Association published a report showing that in all 520 cases it had monitored at the Tbilisi City Court during a six-month period between 2011 and 2012, the judges accepted all motions regarding the admissibility of evidence that were filed by the prosecution, while denying all motions by defense that were not supported by the prosecution.

An important step toward creating a more independent judiciary was the decision to grant all judges (except those sitting on the Supreme Court) lifetime appointments. In addition, as of October 2010, a new Code of Criminal Procedure, with jury trials in criminal cases, has been adopted. Further important steps are a fundamental reform of the Criminal Law as well as the reintroduction of a Juvenile Criminal Law.

Fundamental judiciary reform based on Venice Commission recommendations is one of the priorities defined by the newly elected government. The Ministry of Justice has presented two legal drafts to be discussed by the parliament in spring 2013. One of these drafts includes legislation meant to strengthen the autonomy of the judiciary system, so further reform steps can be taken without intervention from the executive. This draft was approved by the parliament on 5 April 2013 and is waiting to be signed into law by the president. The second draft concerns the role of the Minister of Justice, who no longer will be able to act as a prosecutor. Generally speaking, the drafts promise to make the Ministry of Justice and the judiciary system more transparent.

Legal prosecution of high-ranking officials (ministers, tax and custom officers, policemen and heads of local government) continues to be a prominent element in the official fight against corruption. In January 2009, the government established a new anticorruption council, which is part of the National Anti-Corruption Strategy and Action Plan elaborated with the participation of nongovernmental organizations.

Prosecution of
office abuse

6

While low-level corruption has been significantly reduced, elite corruption is still a major issue. The 2012 Transparency International Report on Georgia lists a number of corrupt schemes in high government circles. Particularly in the Ministries of Education and Defense, misuse of funds and corruption figure into a number of cases currently under investigation. Bakhana Akhalaia, who was both Minister of Defense and Minister of Internal Affairs under Mikhail Saakashvili, is currently under arrest for several charges including torture and inhumane treatment of soldiers. Many of Akhalaia's deputies are also under arrest facing charges of torture and misuse of public funds. As a number of notorious murder cases, such as the Sandro Gvirgvliani case, are now being investigated, it is probable that further members of the former government, including former Prime Minister Merabishvili and the president himself, might face charges.

While prosecution on the grounds of abuse of power has become more frequent since the new government took office, there are frequent allegations and concerns voiced about politically motivated prosecution of former government officials. Such allegations will continue until the rule of law and an effective system of checks and balances are established.

The protection of fundamental civil rights was far from satisfactory during the period under review, although the situation started to improve by the end of 2012.

Civil rights

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Particularly in the country's penal institutions, the situation was precarious. According to a 2012 report by Human Rights Watch, the European Committee for the Prevention of Torture pointed to cases of former inmates of the Gldani prison near Tbilisi having been allegedly punched, kicked and struck with truncheons by staff during the intake process or as a punishment for minor infractions, such as talking loudly or attempting to communicate with prisoners from other cells.

In the summer of 2012, the Georgian TV station Maestro (later TV9) broadcast a report about a series of rapes and other forms of torture against the inmates of the same prison. This prison abuse scandal led to large-scale demonstrations, in particular by students and youth. Two of the ministers responsible for the situation had to resign, and the scandal contributed to the eventual defeat of the ruling party.

In the period immediately before the elections, 47 members of the opposition were imprisoned on charges of resisting the police. They were detained for periods of between 10 and 50 days on account of various "administrative infractions." In general, the number of political prisoners, including minorities and opposition

members, grew under the Saakashvili regime. Strikes and protests against poor working conditions in joint-venture companies were routinely repressed by police forces, as in September 2011 at the Kutaisi Hercules steel works.

After the elections, the atmosphere of fear dissipated significantly, and since then workers have been able to protest poor working conditions with fewer restrictions, for example at the Railway Company, the Port Authority, or healthcare services. All political prisoners have been freed, and the number of inmates is undergoing gradual reduction. However, in some cases, emboldened protesters went too far in expressing their anger, demonstrating violently, as they did in February 2013 in front of the National Library, where President Saakashvili was supposed to deliver his presidential address.

4 | Stability of Democratic Institutions

The process of consolidating democratic institutions is still far from complete, despite ongoing reform and substantial constitutional amendments.

Georgian government is highly centralized. Until very recently, the president and a restricted group of insiders were responsible for all critical decision-making and running the state. Because of the weakness of highly fragmented opposition parties, the ruling party had enjoyed clear hegemony in parliament as well as in the local councils. Particularly during the period prior to the 2012 parliamentary elections, the politicization of state institutions had become worrisome, and the limits between the state and the ruling party increasingly foggy. A clear example of this was the use of Georgian diplomatic representations by the UNM to discredit the opposition abroad, as observed in France, Britain and the U.S.

In 2006, when the lowest level of local self-government was abolished, the municipality remained the only territorial unit of local self-government; it was fully dependent on the central government. The municipalities lack real autonomy since they have no fiscal authority and are dependent on the central government for financial transfers. At the upper level, regional governors are not elected, but appointed by the president (as of 2013, they will be appointed by the prime minister). One of the priorities of the new government is a thorough administrative reform, and the reintroduction of community-level local government is under consideration.

A functioning system of checks and balances still needs to be developed. With the coming to power of the Georgian Dream coalition after the October 2012 elections, the situation has considerably improved. However, it remains to be seen whether this is a first step toward a greater pluralization of the political system and a decentralization of power.

Performance of
democratic
institutions

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Until recently, not all democratic institutions were equally respected. Political parties frequently complained about the excessive use of administrative resources by the incumbent elites during elections, and the general public mistrusted such institutions as the parliament and the judiciary. As a rule, opposition parties would doubt the fairness of elections, and would often refuse to accept their results. In the parliamentary elections of October 2012, the ruling elite was replaced through a peaceful and legitimate electoral process.

Commitment to
democratic
institutions
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Since the 2012 elections, significant improvements have been made. Political control of state institutions has decreased, and the new government makes an effort to be more transparent, posting to the Internet important documents, including evidence of corruption and the misuse of public funds.

The prime minister and at least some members of the cabinet regularly explain the details of government policies in press meetings as well as in dialogue with NGOs and/or with foreign diplomats. However, key decisions still appear to be made by a small circle close to the prime minister, and there is little if any tradition of strategic, long-term planning.

The elections and the increased transparency in governance have contributed to greater legitimacy of democratic institutions in the country. The existence of a rather vocal opposition in the parliament serves to further increase the public's attention on important issues, and therefore on the functioning of such institutions. There is, however, still a widespread mistrust toward judges, attorneys, finance inspectors, and some other public servants, whose resignation and legal prosecution have been constantly called for by different groups in society.

5 | Political and Social Integration

There are very few obstacles to creating and forming political parties in Georgia, other than the prohibition of parties based on regional or territorial principle. With about 200 registered parties, and five or six relatively influential parties, the party system reveals a high degree of fragmentation and fluidity. The United National Movement (UNM), which was the ruling party until the parliamentary elections in October 2012, continues in a sense a tradition dating back to the Round Table Coalition of former President Zviad Gamsakhurdia and the Citizens' Union of Georgia (CUG) of Eduard Shevardnadze in that it 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, and attracts mainly career-oriented conformists. Up to now, the stability of a party was largely dependent on its capacity to retain government offices. As soon as a party lost power, it ceased to exist.

Party system
5

Since the elections of October 2012, the UNM has become an opposition party and will remain in a situation of cohabitation until the presidential elections in late 2013. It remains to be seen if the party will continue to exist as a viable political institution after President Saakashvili leaves. Equally, it remains to be seen whether the now ruling Georgian Dream coalition develops into a consolidated party or splits into a number of independent smaller political units.

Generally, the Georgian party system is not based on clear-cut political conceptions and is criticized for not being able to represent any concrete social groups within society. The smaller value-based parties such as the Republican, Social-Democratic or Green parties, with clearer social profiles, visions and political mandates seem to indicate progress toward a more pluralistic and representative party system.

The influence of social interest groups is low. Trade unions do exist, but their felt presence is negligible. This is partly due to high rates of unemployment and self-employment and the lack of big industrial enterprises, but it is also because the ersatz trade unions from the Soviet past have discredited the notion of trade unionism. 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 Neighbourhood Policy (ENP) assessment report was hardly noticed by internal social actors.

Interest groups
4

A few other interest groups exist, including a few professional associations, youth organizations, the Landowners Union, the Employers' Association, the Federation of Businessmen (formerly the Taxpayers' Association) and other business associations. A number of community-based organizations had been created with the support of international organizations, but they mostly died out as soon as external funding ceased.

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.

According to a nationwide survey conducted by the National Democratic Institute in March 2013, 58% of respondents view Georgia as headed in the right direction, while 8% said the country is going in the wrong direction. Asked whether Georgia is a democracy now, 43% of respondents said yes, compared to 38% who said no. Just over half (51%) declared that democracy for them meant freedom of expression and a free press, while 44% declared that democracy for them meant equality of all citizens before the law, and 35% considered democracy to be the protection of human rights. According to this same survey, priority was given by the population to the creation of jobs, followed by ensuring territorial integrity, providing medical care and overcoming poverty.

Approval of
democracy
7

According to a recent study, Georgia exhibits high degrees of “bonding” social capital, i.e. of trust and of collaboration within tight-knit groups. Georgians demonstrate high level of solidarity within such groups, and most Georgians have given and received help from family, friends or neighbors, often putting the needs of others before their own.

Social capital
4

The data also showed that Georgians have positive attitudes about other nationalities. If needed, groups can form among neighbors or colleagues to address problems.

However, Georgia still has low levels of “bridging” social capital, particularly of the type that facilitates more systematic cooperation between relative strangers. Respectively, Georgia shows low levels of membership in formalized associations, NGOs or interest groups. According to data from the World Value Surveys, Georgia ranks extremely low in comparison to a broad peer group of transforming countries. Less than 5% of the population engages in associations or other formalized civic activity, and there are few membership-based associations in the country.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

According to a UNICEF 2011 survey, average household monthly income in Georgia during 2011 was GEL 374 as compared to GEL 322 in 2009, an increase of 15%, although when adjusted for inflation, income actually decreased by 2%. Poverty rates decreased from 2009 to 2011. According to official statistics the number of households below the relative poverty threshold (GEL 109.2) fell from 24% to 22%. Still, 8.3% of households in Georgia and over 9% of the population lived in extreme poverty in 2011, based on the extreme poverty threshold (GEL 71.7).

Socioeconomic
barriers
4

The poverty level remained high throughout the period of economic growth, although it is difficult to make longer-term chronological comparisons, as the government changed poverty measurement methodology in 2005 (at which point the official poverty level was ca. 54%), moving from measuring absolute to relative poverty.

Inequality is high. According to UNICEF data, the Gini coefficient for income in 2011 was 0.48, unchanged from 2009, although one should take into account that consumption figures are generally higher than commonly underreported reported income, partly because of the role played by in-kind consumption, particularly in rural areas.

While the situation with social exclusion remains worrisome, it has improved in the last several years. There is a significant difference between the rural and urban poverty rates (the former is significantly higher), and wide variation in poverty rates by region. Households with more children are more likely to be poor, and households with three or more children are more than twice as likely to be poor than a household with no children. Households in which adults have more education are less likely to be poor. The key reasons for social exclusion are incomplete education among household members, no employment or land ownership, lack of access to healthcare, lack of access to loans or credit, and lack of social assistance when needed and requested.

Gender inequality seems to be more important in urban areas, and less so in rural, although single mothers are among the most vulnerable groups everywhere. The Gender Inequality Index, a composite measure reflecting inequality in achievements between women and men in reproductive health, empowerment and the labor market, equaled 0.418 for Georgia in 2011.

While more than half of Georgia's population lives in rural areas, the share of GDP created in agriculture is ca. 8% to 9%, indicating high inefficiency of mainly subsistence agriculture. This is related to small land plots, outdated agri-technology and machinery, and the lack of access to seasonal or longer-term credit. 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.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	10766.8	11638.2	14434.6	15829.2
GDP growth	%	-3.8	6.3	7.0	6.0
Inflation (CPI)	%	1.7	7.1	8.5	-0.9
Unemployment	%	16.9	16.3	15.1	-
Foreign direct investment	% of GDP	6.1	7.5	7.5	5.0
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-1138.9	-1195.9	-1839.8	-1813.5

Economic indicators		2009	2010	2011	2012
Public debt	% of GDP	37.3	39.2	33.8	32.7
External debt	\$ M	8556.0	9519.2	11123.8	-
Total debt service	\$ M	769.7	803.5	1605.9	-
Cash surplus or deficit	% of GDP	-7.8	-4.4	-1.2	-0.5
Tax revenue	% of GDP	23.1	22.1	23.8	24.1
Government consumption	% of GDP	24.5	21.1	18.2	17.7
Public expnd. on edu.	% of GDP	3.2	-	2.7	-
Public expnd. on health	% of GDP	2.3	2.4	2.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	5.6	3.9	3.2	2.9

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

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 continued to be a very important factor in stabilizing Georgia's economy after the 2008 war. In order to counter the trend of decreasing state income in the aftermath of the war and the global financial crisis, the government is currently trying to foster investments in areas such as tourism, infrastructure and export development.

Comparatively low income taxes and liberal legislation are considered important instruments to attract foreign investment. Georgia further improved its position in the World Bank's Ease of Doing Business Index during the period under review. The country ranked 9th in 2012 (18th in 2007, 12th in 2010).

At the same time, as a Transparency International report revealed in December 2012, state intervention in the finance sector had become tighter by the end of 2011, and, in particular, a number of significant amendments enhancing the powers of the National Bank and the Financial Monitoring Service (FMS) had been implemented. In the pre-election period, the National Bureau of Enforcement confiscated opposition leader Bidzina Ivanishvili's share in the commercial Cartu Bank for his failure to pay a \$45 million fine, obviously imposed for political reasons.

While on the surface the economy seemed to be quite liberal in the period under review, political leadership applied significant pressures on businesses, high-level

Market-based
competition
6

corruption remained a problem, property rights were not well protected, effective antimonopoly provisions were lacking, and the lack of a fair and impartial judiciary imposed serious constraints on the development of a business-friendly market economy. Reflecting these constraints, another survey conducted by the World Bank showed Georgia to have some of the most extensive influence over the formal economy (72%) among the 151 countries covered.

The new government's long-term approach vis-à-vis business remains to be seen, but the tendency to date seems to be to dissociate business from politics.

The policy of economic liberalization and the opening of the Georgian economy to international trade and business did not improve the economic situation concerning monopolies and business conglomerates between state authorities and company owners. The European Union and Transparency International criticized the lack of an independent competition authority in Georgia. Transparency International published a large-scale analysis of monopolies and corruption in the Georgian economy from 2003 to 2012. This inquiry draws a dramatic picture of elite corruption and governmental pressure on business. The new government promises to restore the Anticartel Office and the Arbitration Court and to hold down taxes for business. Real action remains to be seen.

Anti-monopoly
policy

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As a consequence of reforms aimed at reducing the number of customs control institutions, lowering import duties and simplifying procedures for customs clearance, the foreign trade regime adopted in Georgia is comparatively liberal. 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 (38th in 2012). According to preliminary data of the National Statistics Office Geostat, Georgia's foreign-trade turnover was \$665 million in January 2013, a 1% year-on-year increase. Exports were valued at \$196.3 million, representing a 25.1% increase over the prior year. Imports reached a volume of \$468.4 million, down 6.4%. The \$272.1 million trade gap decreased by 20.9%.

Liberalization of
foreign trade

9

Although President Saakashvili announced many times his intention to make the cities of Batumi and Poti free-trade zones in order to attract investors from the Arabian Peninsula, no concrete results have yet been achieved, and the strategic approach of the new government to attracting FDI remains to be seen. Plans to create investment agencies, however, have been voiced by Prime Minister Ivanishvili.

After repeated negotiations between the new Georgian government and the European Union, a Deep and Comprehensive Free Trade Agreement (DCFTA) between Georgia and the European Union, as well as visa liberalization for Georgian citizens,

are likely to be signed later in the fall of 2013, as a part of more general Association Agreement.

In recent years, Georgia's financial sector has expanded significantly. Bank operations, once virtually unknown to most ordinary Georgian citizens, are now part of daily life. Banking total assets have increased from \$0.4 billion in 2001 to \$12 billion in 2011, representing an impressive 33% average growth rate. While the total value represents only 70% of GDP, which is a relatively modest figure that could be attributed to the large uncovered population in the country's rural areas. Interrupted by the decline following the 2008 war and subsequent global financial crisis, the economy in 2010 started recovering, and positive trends have since been observed in the financial sector.

Georgian banks have come out of the crisis with quite high levels of capital and liquidity, and the sector is considered stable. This can be attributed first to the fact that the banking sector had been firmly consolidated prior to the crisis, and second, the country received substantial international financial aid after the 2008 war, managed mainly by the local bank sector. Finally, many banks received direct aid from their shareholders as well as from international financial institutions. Within the last ten years, international financial institutions, such as the European Bank for Reconstruction and Development (EBRD), the World Bank, International Financial Corporation, European Investment Bank, German Development Bank, and others, have made significant investments in the Georgian banking industry. The participation of these organizations in the banking sector has been reflected also in the advanced corporate governance and transparency of the sector.

Today Georgia is represented by a two-tier banking system, one comprised of the National Bank of Georgia (NBG) and the other by commercial banks. The only permitted legal status of a bank is a joint-stock company. Capital requirements for commercial banks are in line with the standards of the Basel Committee on Banking Supervision and corresponding EU directives. The level of minimum capital for commercial banks is set by the NBG at GEL 12 million for newly founded commercial banks and branches of a foreign bank. It should be noted that Georgia does not impose any restrictions on the inflow or outflow of capital.

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, 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. In a recent report (2012), Fitch Ratings considered Georgia's banking sector as inflated in relation to

Banking system

7

the total size of the country's economy. However, as many financial institutions have strong foreign owners, the pressure and risks for leading banks are relatively low.

8 | Currency and Price Stability

After comparatively low inflation in 2009 (1.7%), the Georgian economy again suffered from fairly high inflation rates, which exceeded 7% in 2010. However, in the course of 2012, inflation declined to a record -3% in July 2012, and, after a brief rebound in the winter, fell again to -2% as of March 2013. Some utility prices such as rates for electric energy, gas and water have also declined. Interest rates also sank in early 2013 (4.50% as of March 2013) to the lowest levels since 2008, when it reached as high as 12%.

Financial volatility is influenced by upward inflationary pressures reflecting a rising domestic demand for imports. As Georgia imports virtually all of its needed supplies of natural gas and oil products, and even essential food products, there is a rapid growth of the money supply and the expansion in net foreign assets, and, in addition, increasing volumes of imports are not matched by a corresponding growth in exports, creating a huge current accounts deficit. All this makes it difficult for the government to pursue a consistent anti-inflation policy. It is a very important challenge for the country to develop a powerful export sector in order to dramatically reduce the foreign-trade gap (in Q1 of 2013, a trade deficit of \$1.013 billion was registered, accounting for 47% of the total foreign trade), threatening the financial stability of the country, burdened also by large foreign debt.

Until recently, relatively high growth rates and the substantial reforms of 2004-2006 ensured a high degree of macroeconomic stability, temporarily disrupted by the 2008 war. Among these early 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 (ca. 26% in 2012). The comparatively stable financial situation in the country after the 2008 war was largely due to the significant financial aid allocated by the international community (\$4.5 billion).

However, no decisive increase in exports was recorded, while FDI growth never reached prewar volume. Foreign debt has been increasing (21% of GDP in 2008, 38% in 2010, 43.2% (projected) in 2011). Georgia's gross external debt amounted to \$138 billion, of which the public sector accounted for the 31.9% of the total debt, and the country's central bank -5%, as of 30 September 2012, according to the National Bank of Georgia.

Anti-inflation /
forex policy

7

Macrostability

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Several large repayments are due in the coming years, so that foreign debt is bound to increase further. In the long term, all this poses a serious challenge to macroeconomic stability.

The credit rating agency Fitch, which has raised Georgia's sovereign-credit rating one notch to BB-, three short of investment grade, with a stable outlook, said in December that general government debt was set to decline in 2012-2013 from the peak of 37% of GDP reached in 2010.

The budget deficit for 2013 is planned at around 2.8% of GDP, while in 2012 the budget deficit neared 3.5% (MoF calculation of budget deficit is based on the IMF Government Finance Statistics, 1986). Reducing the deficit, an important move toward fiscal consolidation, suggests a more responsible attitude by the government.

9 | Private Property

According to the 2012 World Bank's Registration of Private Property Index (one of the indices used to calculate the Ease in Doing Business Index), Georgia ranks first 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.

However, according to more critical observations made by local and international experts, 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 was growing increasingly acute after state revenues fell in the wake of the 2008 war and the global financial crisis.

Some objects belonging to the country's cultural heritage, such as the Romanov Palace in Borjomi, and the Alexander Chavchavadze Museum, were sold to foreign investors in the context of quite opaque transactions, without any public debate. Journalists have been investigating allegations that the president himself has been misusing these objects as private residences.

However, the new government has promised to curb the arbitrary disposition of public and private property, reestablish justice in dubious cases, guarantee property rights, and bring more transparency to both past and future transactions.

Immediately after the Rose Revolution, the government launched a large-scale privatization program, considerably accelerating the privatization of large enterprises. Prior to the Rose Revolution, state property privatization had focused primarily on small-scale enterprises. The process of creating an adequate institutional

Property rights
6

Private enterprise
7

framework for the privatization of major assets 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.

The Georgian Institute for the Freedom of Information recently published a report detailing dubious cases of privatization in which private and juridical persons received valuable real estate for a symbolic price of one Georgian lari. Among the beneficiaries were the president's mother and the brother of the mayor of Tbilisi, as well as ministers and high government officials.

In some cases, property ownership is hidden in offshore zones, and some companies are indirectly controlled by the government or its officials. 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.

In a February 2013 information session, the new government assured all entrepreneurs acting in Georgia that state intervention in private enterprises was going to stop immediately, and the office of a business ombudsman, an antitrust authority and an arbitration court were going to be created. The effects of these measures remain to be seen.

10 | Welfare Regime

Recent years have seen significant efforts by the Georgian government to improve the existing welfare regime, which is, however, still far from satisfying subsistence needs.

In 2004, a major reform of the welfare system, initially focusing mainly on pensions, was introduced. Pensions constitute the main social benefit and are available for men aged over 65 and women over 60, people with a first-degree disability, and war veterans or victims of Soviet repression.

The second phase of the reform effort began in 2006 with the main objective of improving the targeting of beneficiaries, shifting from category-based social assistance to means-tested assistance in order to ensure that scarce financial resources would be channeled to those with the most need. To test means, a sophisticated targeting system was set up and a database of the socially vulnerable population was launched. Households in need are classified by trained personnel according to a sophisticated points system.

Social safety nets

5

Targeted social assistance (TSA) is the main cash benefit available to families experiencing financial hardship. For eligible households within the score range for social aid, three packages may include electricity subsidies, health insurance vouchers and (even by Georgian standards) very modest monetary benefit.

There still exist categorical benefits, which include family assistance, utilities subsidies and internally displaced persons (IDP) benefits. Family assistance has been available to pensioner families, disabled children and others with first-category disability, and families with seven or more children. The entitlement is limited to those families who applied for assistance before 2007 and is now being phased out. Utilities subsidies are available for 12 categories of people, including war veterans, while the IDP benefit is available to all internally displaced individuals, victims of the conflicts in the 1990s and August 2008.

In addition to centrally administered social transfers, most municipalities also provide some cash and in-kind benefits, although both the coverage and the value of these benefits are quite low, and as a rule they are occasional or one-off events.

INGOs are providing additional assistance to vulnerable population groups, especially focusing on IDPs, gradually shifting from humanitarian relief to more development-focused activities, targeting those who are not adequately covered by the official assistance programs.

In the 2013 national budget, considerably more funds are devoted to social issues. The expenditures for health and other social issues reached GEL 630 million and thus almost doubled compared to the 2012 budget. Some important measures have been taken: The threshold for getting social help has been lowered, pensions have been raised, and are promised to rise further from September 2013. From 1 July 2013, all citizens will be entitled to basic healthcare.

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 access to infrastructure services. In addition, gender inequality remains an issue of concern. Although education enrollment rates now show no difference between female and male students, gender gaps are evident in labor force participation, career success, and remuneration, with women less represented in more prestigious or powerful positions. While unemployment was significantly higher among males (16.7%) than females (13.1%) as of 2011, according to official statistics, a higher number of women reported as employed appear to be, in reality, self-employed, a significant proportion of them in agriculture.

Although there is no legal discrimination against ethnic minorities, their representation in state jobs is disproportionately low. This can in part be explained by the lack of proficiency in the Georgian language often found among ethnic

minorities; language proficiency is a necessary precondition for taking many state jobs. The situation of ethnic minorities, particularly in urban areas, improved in the period under review, however, especially with regard to integration in the educational system and in the labor market.

One important aspect of social inequality is the stigma carried by representatives of sexual minorities, but also by disabled persons. In the latter case, little is done to integrate the disabled into society, jobs or educational institutions, both due to social barriers and to inadequate physical infrastructure. Still another issue is the frequently expressed general intolerance toward representatives of nontraditional religious denominations, e.g. Jehovah's Witnesses.

11 | Economic Performance

After several years of rapid economic growth and reform that started in 2004, Georgia's economy faced a serious downturn in mid-2008 as a result of the war with Russia, the financial crisis, and the subsequent global recession. As a result, the economy contracted by an estimated 3.9% in 2009, and has since shown relatively impressive annual growth of 6% to 7%.

The remarkable economic growth that Georgia witnessed in the years prior to the 2008 war was due largely to the country's ability to attract foreign direct investment, although much of it, apart from developing important transportation infrastructure, was either speculative capital or invested in real estate. 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. General conditions for foreign investment continue to be favorable, but FDI has yet to catch up with earlier rates. Georgia is also still struggling to develop its exports (in particular agriculture, food processing and industry) in order to narrow a huge trade deficit and pay out the gross external debt of \$13 billion (as of September 2012).

In order to stimulate economic activity, the new government has created three different investment funds. The Partnership Fund, with \$2 billion in capital, is meant to attract national and international investors and is based on the idea of shareholding. The second investment fund is designed to support Georgian enterprises. The third fund is designed to foster research activities and develop innovation.

The tax rate for enterprises has been kept at 16%.

There are hopes that signing the DCFTA with the European Union, which is supposed to take place by the end of 2013, will open EU markets to Georgia's products, and new prospects for attracting FDI. However, what is lacking is a sound long-term strategy for the economic development of the country, fully exploiting its

Output strength
6

comparative advantages and prioritizing the most promising directions of development.

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 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 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 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. As a result of persistent corruption, almost 60% of the annual forest harvest (40% of Georgian territory is covered by forest) goes unrecorded. Exacerbating the situation is the total absence of strategies and resources for sustainable resource management. 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.

The construction of several hydroelectric plants, which could have a substantial impact on the ecosystem, has been often criticized by environmental NGOs such as Green Alternative. However, this has not hindered the plans, in particular for the big Khudoni Dam on the Enguri River. The construction of seven hydroelectric plants in the Kazbegi district and in the Dariali Valley has already begun. The planning and construction of these hydroelectric plants have not been sufficiently transparent; they have been conducted without consultation of ecological experts or open discussion. The government tends to emphasize the economic advantages of these projects and trivialize possible ecological risks.

Environmental
policy

6

Another problematic issue is the question of waste disposal and the situation of canalization systems, which are the source of numerous infections. The situation of the country's polluted lakes and rivers requires urgent action.

Education policy in Georgia has been marked by increased investment, but corruption and politicization in the educational system remain major issues in certain areas.

The great achievements of the education policy since Georgia joined the Bologna Process in 2005 was the elimination of corruption for university entrance exams. The national exams, while reducing corruption in the admissions process to university, have generated a demand for fees-based private instruction for young people in preparing for these exams. At the same time, this has compromised motivations among secondary school 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 that 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. Another major issue is the tuition fees to be paid at all universities in the country, although some students will get fee waivers. For other students, this poses a major difficulty, as tuition fees are about GEL 2300 at state universities and more than GEL 5000 at private universities, the average salary being GEL 636 per month according to official statistics.

At the same time, the quality of higher education at the majority of universities is rather low. Particularly lacking are basic sciences and engineering, which are thoroughly neglected by the government.

Investment in education has been continuously increasing in the last couple of years (GEL 625.7 million in 2012 and GEL 670 million in 2013). Teachers' salaries were raised, and schools provided with better infrastructure.

The goals to decentralize the educational system and to grant schools a greater degree of autonomy were not reached. Instead, after Dimitri Shashkin became Minister of Education and Science in December 2009 (a position he held until Summer 2012), a very strong tendency toward centralism in the whole of the country's school system has been observed. Security guards with police authority were sent to the schools. According to independent media reports, these security guards would also survey the political orientation of the teachers. Indeed, in the year prior to the 2012 parliamentary elections, many teachers were fired for political reasons.

However, the greatest concern is the poor quality of education, as has been demonstrated by all international testing programs conducted in Georgia during the last several years (PIRLS, TIMSS, TEDS-M and PISA).

In October 2012, a commission for the reform of the educational and academic system was created. The mechanisms for ensuring high academic standards include the tenure track system, peer reviewed publications and promotion based on merit. An important impetus will be provided by the U.S. Millennium Challenge program, which has allocated ca. \$350 million over the next several years, prioritizing support of vocational education and higher education in science, technology, engineering and mathematics.

Transformation Management

I. Level of Difficulty

The level of structural difficulties faced by the political leadership is comparatively high. Soviet legacies 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. The country's self-sustaining lack of political pluralism is exacerbated 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 to catalyze 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

After the collapse of the Soviet Union, many social institutions had to be built from scratch, as the genuine civil society institutions started to emerge only during the late perestroika years.

Civil society
traditions

7

NGOs and CSOs have often proved ineffective, lacked legitimacy in the public's eye, and failed to create trust in the population, especially because their activities often were restrained to a very narrow sector. Frequently, civil activists who were urban intellectuals were unable to make foreign concepts understandable to a local audience brought up in different political and cultural environment. Most CSOs and NGOs are located in urban areas, mainly in the capital Tbilisi.

In some cases, NGOs have indeed developed into a real industry with the aim of acquiring foreign assistance funds, or served as temporary havens for politicians. Nevertheless, the civil sector played and continues to play an important role in initiating public debate on issues of public concern; pressures the government to follow democratic procedures and defend human and minority rights; conducts independent evaluations; and monitors important political, social, economic or environmental projects or processes.

Civil society played a key role in Georgia's democratic transformation, including the electoral victory of the opposition in 2012.

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, a conflict that 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 that virtually cemented the breaking away of these two regions from the Georgian state. Although the war was also about a confrontation with Russia, unresolved ethnic tensions between ethnic Georgians and ethnic Ossetians and Abkhazians played a role as well.

In recent times, the idea that ethnic conflicts will have to be solved politically through dialogue as well as through concrete measures aimed at building trust on both sides, rather than through military action, has become popular, especially among young people. The new Minister of Reintegration Paata Zakareashvili, who has a wide experience in the field of conflict management, advocates this idea strongly.

Conflict intensity

6

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 previous government engaged in this war and counted on more active Western support illustrates that it failed to realistically evaluate the international context.

The lack of strategic vision in publicly debated strategy documents, along with the lack 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. Furthermore, 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 lack of strategic thinking is related partly to the legacy of an outdated political culture, and partly to the weakness of institutional incentives to think and plan strategically. That weakness, in turn, is related to decision-making by a small circle of leadership, and its reluctance to involve independent experts or consult with the population and civil society, which may oppose governmental plans. Poor definition

Question
Score

Prioritization

5

of priorities is linked to the absence of institutionalized channels through which policies can be publicly negotiated. There is also a tradition of imitating democratic institutions and procedures, which leads to disinterest in the content of any policy debate unless politically relevant, and to widespread populism.

It remains to be seen whether the new government will be able to change the pattern; early signs are not encouraging.

While the Saakashvili government implemented many important reforms during its first years in power, from 2007 its main concern became political survival. Implementation of reforms stalled, hindered further by the lack of strategic vision on the part of the leadership and by the preoccupation with unrealistic projects like building a new city (Lazika), or promoting democratic reforms abroad.

Because many of the strategic documents were drafted to sway public opinion, especially abroad, their implementation could not be straightforward, consistent or successful. The government's promises included eradicating poverty, developing agriculture, resolving conflicts in Abkhazia and South Ossetia, and joining NATO and the European Union.

In general, all the governments in Georgia struggled both to develop functional strategic plans and to implement existing plans. There are fears that the problem may continue with the new government, whose officials in some cases lack professional expertise and managerial skills.

In the period prior to the October 2012 parliamentary elections, one could have the impression that the Saakashvili administration had been committing the same mistakes as Edward Shevardnadze during the last years of his presidency: high turnover in government positions, politicization of state institutions, and the use of violence and intimidation.

After the elections, the cooperation between the government and civil society organizations improved considerably. Criticism presented by NGOs is being taken into account by the authorities. In February 2013, a conference organized by the government, Human Rights and the Rule of Law, was attended by a number of NGOs, opposition politicians, representatives of media organizations, and independent experts. During this conference, issues such as the situation of inmates, the status of political prisoners, and the definition of future priorities in the improvement of human rights were discussed.

The relationship between the parties supporting the government and the UNM is uneasy. Thus, the UNM accused members of the new government of pro-Russian orientation. On the other hand, both political camps sometimes succeeded in bridging considerable differences. For example, constitutional amendments that will limit the powers of the president passed with a majority of 134 votes from both political

Implementation

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Policy learning

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camps. Along the same lines, on 7 March 2013, the parliament adopted a resolution, drafted jointly by the coalition Georgian Dream and UNM, reiterating Georgia's commitment to its pro-Western foreign policy course.

At present, the president seems to play a destructive role in Georgian politics, always speaking about the country "deviating from the European path" and about "Russia's victory." Scaremongering tactics include his claim that soon "criminals from Russia as well as the 'thieves in law' will overtake power." The president frequently delays signing bills into law, or approving the nomination of various ambassadors, including some in key positions, sabotaging or hindering most decisions by the government.

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. 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 July 2010 nomination as minister of the economy, was widely criticized for her lack of relevant qualifications and experience. 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

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It remains to be seen whether the government elected in November 2012 will significantly alter this state of affairs. However, there have already been some controversial appointments with the new government. The minister of energy, for example, is a well-known footballer but hardly an expert on energy-related issues. These practices will continue to undermine trust in the government's commitment to sound and consistent reforms.

Since the Rose Revolution, policy coordination has improved significantly. Ministries no longer function as shields for influential circles of economic actors, and policy has gained in coherence. Ample space, however, remains for improvement with regard to interagency coordination. Regular interference by the president represented the single most important means of ensuring cooperation between different parts of the administration.

Policy
coordination

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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. There are

signs that the issue of intra-governmental and interagency coordination will remain a weakness of the new Georgian government as well, although more time is needed to see how things develop.

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

Anti-corruption
policy

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Claims have often 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 was subsequently eradicated. Now, with state revenues sinking, this practice is said to be staging a comeback.

Though it is quite difficult to judge the legitimacy of the opposition's claims, the opportunities for cronyism and insider deals have certainly grown in recent years due to the concentration of power among a small and interwoven circle around the president. Moreover, the strategies applied so far in the battle against corruption have to some extent enhanced the opportunities for abuse of power at the elite level.

Aside from structural reforms aimed at deregulation and the simplification of administrative procedures, anticorruption policies were mainly designed to enhance the state's capacity to discipline officials. Quite often, this resulted in somewhat arbitrary executive interference with the daily execution of administrative tasks.

The establishment of depersonalized institutional routine was thus prevented. The impression remains that the anticorruption mechanisms implemented by the government, which may have been appropriate for making initial progress, may in the long run turn out to be an obstacle to further progress. Indeed, internal deals, political intervention in the private economy, and elite corruption have remained an essential component of government activities under Saakashvili. Numerous examples of this are mentioned in a book recently published by Transparency International under the title "Who Owned Georgia." For example, the monopoly held by a small number of companies in the pharmaceutical sector is significantly reducing the sector's competitiveness, enabling the companies to maintain high income margins. The same companies made huge donations to the UNM.

Since the new government came to power, there have not been any allegations with regard to corruption, but clientelism and cronyism remain. There already allegations that barely qualified family members of the new ministers stand to be rewarded with influential and prestigious jobs in other ministries. If this tendency continues, the credentials of the new government will be undermined.

16 | Consensus-Building

At the early stage of the “cohabitation,” the political climate in Georgia has become even more polarized than it was before. One reason for this is the fact that the UNM never really accepted that it lost power and did not miss any single opportunity to stoke controversy. President Saakashvili has played a particularly destructive role in this process. While presenting himself as a great conciliator abroad, open for every kind of dialogue, in Georgia he often prevents reconciliation and dialogue from taking place and renders cohabitation particularly difficult. An example of this is the fact that the president only agreed to appear publicly with Chairman of the Parliament David Usupashvili after long hours of negotiation. The president denigrated people who had been released from prison under the government’s December 2012 amnesty law as a “herd of criminals” and spoke about the existence of “Russian agents.”

Consensus on goals

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However, there is hardly any consensus on common goals among the members of the rather diverse coalition of political parties that make up Georgian Dream. There is no detailed strategic and value-based document around which the coalition can unite, and instead it is kept together by political circumstances and the fact of now being in power. There have already been some clashes of opinions on whether Georgia should transform into a parliamentary republic (promoted by the Republican Party). Personal disagreements have flared, for example between the defense minister and the prime minister regarding the former’s presidential ambitions; in the end, he lost his status as vice-prime minister.

The primary challenge to democratization in Georgia does not so much consist of excluding or co-opting antidemocratic actors, but rather fighting the authorities’ inclination to sacrifice democratic principles in the name of what they call a “strengthening of state capabilities.”

Anti-democratic actors

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Although a thorough reform of the police authority has been implemented, the task of depoliticizing state institutions such as the police, the Ministry of the Interior, the State Audit Office and the Control Chamber remains. In the period prior to the October 2012 parliamentary elections, a coalescence of these institutions with the ruling UNM party could be observed. After the change of government in October 2012, the police and other security organs were not sure whether their loyalty should be with the newly elected government or with the old president still in office. This raised questions as to their independence.

The issue of excessive centralism and dominance of a single party is also reflected on the level of local administration. In some communities, officials would shift from the UNM to one of the Georgian Dream coalition parties, or else be put under pressure to give up their positions. The mayor of Tbilisi, Gigi Ugulava, a close ally of President Saakashvili, has employed some of the officials who had lost their

positions after the change of government in the city administration of Tbilisi. Among those was former minister of the Interior Vano Merabishvili. This is a clear example of political allegiance that does not conform with democratic standards.

There also seem to be certain less democratic politicians and groups within the new ruling coalition. For example, there was a public outcry when the minister for IDPs, refugees and accommodation made xenophobic statements. The recent clash between the conspicuous MP Davitashvili and Minister of Health Sergienko is another example of resorting to non-democratic instruments of political action.

Prior to the change of government in October 2012, the ruling elite's capabilities in conflict management appeared to be very much underdeveloped. They failed to reach any substantial progress with regard to reconciliation between ethnic groups and did not manage to depolarize the very strained relations between the government and the opposition.

Cleavage /
conflict
management

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Even now, there is an insufficient culture of dialogue and negotiation, and reform-oriented forces have not been able to build effective institutions. However, some signs of improvement can be observed. In March 2013, for example, the new Minister of the Interior Irakli Garibashvili presented to the parliament a detailed report of activities and answered the questions of the opposition. In the same way, other members of the government, such as Minister of Defense Irakli Alasania, Minister of Justice Thea Tsoulukiani and Minister of Finance Nodar Khaduri, have been open to questioning from the opposition and media.

Saakashvili's rise to power has weakened the once vibrant NGO sector in 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 have demonstrated indifference to concerns raised by some NGOs with regard to the hasty adoption of constitutional amendments, bureaucratic harassment of independent media outlets, and human rights violations.

Civil society
participation

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Nevertheless, observers note a more differentiated attitude on behalf of the government toward 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 have appeared reluctant to cooperate closely with these organizations. However, NGOs have participated in the policy process when their capabilities and know-how were needed or when donor organizations exerted pressure. In most cases, this cooperation has come about on less politically sensitive issues.

Apart from that, the previous government and the president did cooperate with some pro-governmental NGOs such as the Liberty Institute, which was quite influential, and often considered to be a government-organized non-governmental organization

(GONGO). Liberty Institute staff have included influential UNM MP Givi Targamadze and Giga Bokeria, a quite influential member of the government who was a deputy minister of foreign affairs under Saakashvili, and later Security Council secretary. Under Saakashvili, many NGOs, such as Reformer, had been created to support government policies. For this reason, the whole NGO sector did not enjoy much trust in society. More recently, according to a report published by Transparency International, cooperation between the new government and civil society organizations on issues such as new labor laws, the state budget or local administration reform has become more productive.

Under the new government, NGOs such as Transparency International Georgia and GYLA fulfill a controlling function normally exercised by the opposition, in this case the UNM. It seems that the UNM has yet been unable to accept its loss of power or to play a more constructive role in politics. The new government should, for its part, make a clear action plan for the near future in order to meet the expectations of the electorate. As U.S. ambassador to Georgia Richard Norland put it in February 2013, the opposition will have to provide its input via “responsible criticism.”

The new Minister of Reintegration Paata Sakariashvili is an expert in the field of conflict management. He declared that his policy aims at building confidence between Abkhazians and Georgians by stimulating commerce, rebuilding the railway connection between Abkhazia and “mainland” Georgia, and organizing direct negotiations on neutral soil. The minister also plans to issue Georgian personal documents for the Abkhazian population so as to give people the possibility of working, studying and traveling in throughout the country. They also would be entitled to medical aid. These plans are meeting some reluctance in Georgian society, and the Abkhazians themselves have not shown any outspoken interest in the promised benefits.

The many cases of extortion of small- and medium-scale enterprises by state officials during the Saakashvili administration have created a deep split in society. After the new government took office, claims have proliferated for “reestablishing justice,” which would include persecuting state authorities for having misused their position for their own advantage.

On the other hand, international pressure is also very high on the new government not to practice “revenge” justice. The newly nominated attorney general has brought charges against 20 persons of the former state service, all of whom were freed under plea deals. At present, the new government is facing a lot of domestic criticism for not facing the issue of “re-establishing justice” with enough determination.

As many persons accused of misdeeds remain in office, there is a widespread conviction that a thorough reappraisal of the past would require more than merely juridical measures. For this reason, Anna Dolidze and Thomas De Waal have

suggested that the new government build truth and reconciliation commissions to be composed of prominent members of civil society. So far, no such commission has been created.

17 | International Cooperation

As in previous years, Georgia has 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-sized enterprises. While some of these projects were considered 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 prior to the parliamentary elections.

Many critics claim that aid money was not always spent in ways that helped to strengthen democracy and the rule of law. Furthermore, aid money has failed to provide 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 development strategy.

Though it has not succeeded in building a stable foundation for economic 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. Georgia received international financial aid of \$4.5 billion granted by the international community for postwar recovery. Also, the European Commission adopted the Annual Action Programme for Georgia in July 2011, committing over €50 million (\$70 million) to support the country's criminal justice system, conflict resolution efforts, and IDPs. The United States committed over \$90 million to support democracy and good governance in Georgia (Human Rights Watch 2012). No significant results were achieved. It is still too early to evaluate the lines of action adopted by the new government or the efficacy of its development plans.

In the period immediately following the Rose Revolution, the Georgian authorities earned themselves a great deal of credibility among the international 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 about the "chaotic" operation of government agencies and the lack of long-term strategic planning and clearly defined priorities. The fact that, prior to the October 2012 change of government, important administrative decisions were usually taken by a small circle of insiders with no inclusion of the persons affected by them was felt to be a major problem that seriously

Effective use of support

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Credibility

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compromised the government's credibility as well as its commitment to implementing serious reforms and establishing transparent and democratic practices of governance.

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. The overall balance of the cooperation between Georgia and the international donor community remains good.

Georgian society supports the course of orienting the country toward the European Union and NATO. According to a poll conducted in 2011, public opinion toward the European Union in Georgia is generally favorable; 89% of respondents consider EU support to be very important for Georgia, and 80% favor EU membership. However, aspirations for EU and NATO membership are often seen unrealistically as the solution for all social and economic problems of the country. Critics blame President Saakashvili for having raised these unrealistic expectations in the population in order to legitimize his own pro-Western course.

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 is no longer a realistic short-term goal and has been moved somewhat to the periphery of the foreign policy agenda since the 2008 war.

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

Relations with Turkey, Azerbaijan and Armenia are basically good and not much influenced by conflicts. The new Georgian Prime Minister Ivanishvili visited all three countries even before traveling to the United States. Local experts considered this to be a sign that the new Georgian government will want to intensify regional cooperation. Indeed, during this visit, agreements were signed to strengthen economic and cultural relations and establish exchange programs. The idea of becoming a transportation and energy corridor in the region is still relevant, and the Baku-Tbilisi-Kars (Turkey) railway is expected to be concluded by July 2013. Another project connecting Armenia and Georgia with Abkhazia and Russia has been considered, but resistance in Georgian society to these plans is strong, as many fear Russian influence, and difficult negotiations with Russia and Abkhazia would be required.

Regional
cooperation

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The new government is currently concerned with improving relations with Russia. The main aim is to gain access to the Russian market for Georgian products such as wine and mineral water. The Georgian prime minister sent his special envoy Zurab Abashidze to conduct talks with Deputy Minister of Foreign Affairs Gregory Karasyn. Russia's official recognition of South Ossetia and Abkhazia as independent states has been excluded from the dialogue between the new Georgian government and Russia, a step called "pragmatic" by Russian Minister of Foreign Affairs Sergei Lavrov. Although President Saakashvili abolished the visa regime for Russian citizens, traveling to Russia remains difficult and cumbersome for Georgian citizens as the visa requirements are very strict.

Strategic Outlook

President Saakashvili's increasingly authoritarian leadership, especially during the period under review, has not contributed much to the consolidation of democratic institutions in Georgia. The president and his party were not receptive to any form of criticism. Political processes were in most cases opaque and hermetic. The ability of the opposition and other critical organizations to influence government policies were quite limited.

In the period prior to the October 2012 parliamentary elections, the politicization of key state institutions, such as the police, the State Auditing Office, the Office of the Attorney General, and the tribunals, became obvious. Furthermore, the government followed a policy of whimsical nominations for important government positions. The auctions through which state-owned real estate were sold became increasingly opaque. The activities of small- and medium-scale enterprises became restricted as a consequence of state interventions in economic activities, interventions that included cartel agreements that benefited enterprises supporting the government.

For a considerable part of the population, subsistence economy still remains the only possibility to earn a living. The social rift between the impoverished majority of the population, the thin middle class working for international organizations or in state offices, and the new rich elite deepened in the period under review. This summary already outlines some of the fields in which the new government will have to take urgent action.

The negotiations with the European Union on a free-trade agreement and on the liberalization of the visa regime started by the Saakashvili administration continue under the new government. Georgia, up to now, has not been able to develop a powerful export sector; a free-trade agreement with the European Union would be a substantial boost toward that end. 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 and invests more in the protection of the natural environment.

The work of NGOs on the consolidation of civil society in Georgia was unsatisfactory in the period under review. NGOs have often been used as a means of accumulating financial resources. In the future, it would be desirable for NGOs and their international partners not only to work according to rigid Western schemes and conceptions, but also to enter into real dialogue with the local population, taking advantage of existing cultural resources and people's life experience. Still, NGOs fulfill an important function by monitoring government activities in a far more effective way than the parliamentary opposition does. On the other hand, a new class of young, well-trained Georgian experts is rising. It is essential that discussions on political, economic and social issues both within the government and in civil society be open to this new segment of society. The increasingly critical attitude in Georgian society with regard to the government's social and

political policies has contributed to the emergence of a new culture of discussion, which will ultimately lead to greater pluralism in society as a whole.

The peaceful shift of power after the parliamentary elections in October 2012 is a clear sign that democracy in Georgian is beginning to consolidate. However, the fact that this shift of power was so smooth is not so much to be credited to the Saakashvili administration, but rather to a greater degree of maturity of a society that had to bear the consequences of an authoritarian and populist rule for many years. While President Saakashvili and his staff often presented themselves abroad as the modernizers of a backward society, the young and well-trained generation of Georgians was to a large extent opposed to the nomenklatura-style system of government staffing created by the president and his party. The electoral victory of Bidzina Ivanishvili and his coalition was a serious blow to the Saakashvili system.

Ivanishvili succeeded for the first time in uniting a split opposition into a strong coalition able to face the ruling party. This means that the new government came to power with a solid reputation; expectations are as high as when Shevardnadze and Saakashvili took office. Thus, a cyclic development, with a new government launching amid great expectations only to slide into clientelism, authoritarianism, populism and corruption, should be avoided at all costs. It is essential that the government take further steps to develop a fully independent judiciary so that cases of civil rights violations committed by the former administration, especially the usurpation of property rights, are fully and correctly investigated.