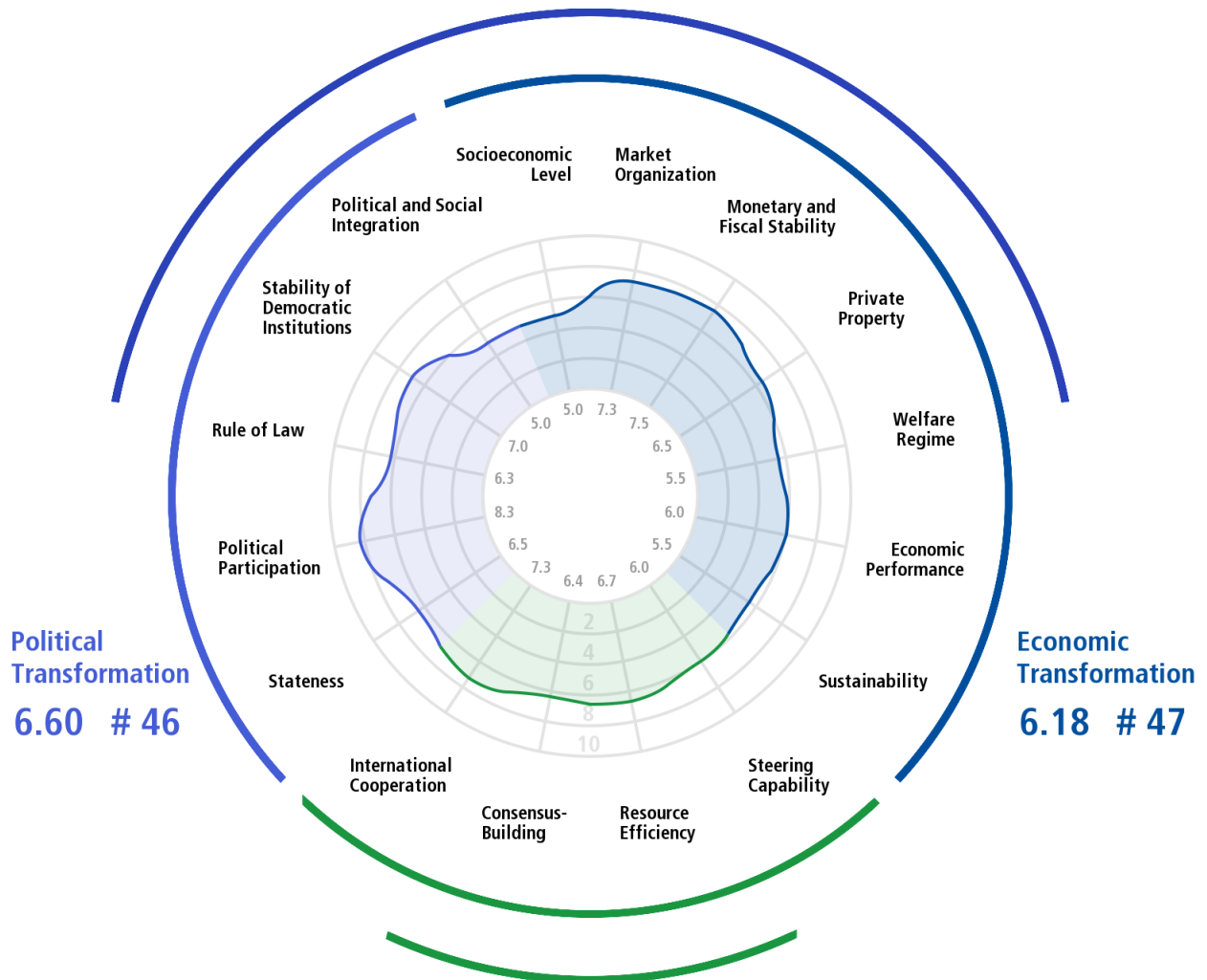


Georgia

Status Index

6.39 # 43

on 1-10 scale out of 137



Political Transformation
6.60 # 46

Economic Transformation
6.18 # 47

Governance Index

5.86 # 34

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	3.7	HDI	0.786	GDP p.c., PPP \$	11421
Pop. growth ¹	% p.a.	0.1	HDI rank of 189	70	Gini Index	37.9
Life expectancy	years	73.4	UN Education Index	0.856	Poverty ³	% 16.3
Urban population	%	58.6	Gender inequality ²	0.351	Aid per capita \$	119.7

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

On March 28, 2017, the visa-free regime for Georgian citizens traveling to the EU and Schengen Area countries came into effect. After the Association Agreement (AA) and the Deep and Comprehensive Free Trade Area (DCFTA) on July 1, 2016, this event was of high symbolic importance for Georgia – a further move closer to the EU. All visa requirements for Georgian citizens were lifted, though a suspension mechanism was added in case of massive misuse. Given continued socioeconomic challenges and a stark social divide, the issue of asylum-seekers from Georgia remained a concern. Georgia has taken the first measures in implementing the AA. For example, the government introduced a technical car inspection regime after years of laissez faire and growing air pollution in Tbilisi, upsetting car owners.

With a constitutional majority gained in the October 2016 parliamentary elections, the ruling Georgian Dream party initiated constitutional changes to finalize the transition from a presidential to a parliamentary system. This was the 21st amendment of the Georgian constitution since independence. The procedure for holding presidential elections was downgraded from a public vote to one by a special electoral body. However, the electoral system, which privileges the ruling party, will remain unchanged until 2024.

As a consequence of these electoral advantages, the ruling Georgian Dream party garnered an overwhelming victory in the 2017 local elections and now controls all local authorities in the country. During the October 2018 presidential elections, however, the political opposition managed to score a surprise success in the first round, forcing a second round for the first time since 1992. With “liberal” parties further marginalized, the candidate of the main opposition force, the United National Movement of former President Mikheil Saakashvili, came in just one percentage point behind the Georgian Dream-backed “independent” candidate. In a heated campaign characterized by personal accusations and unprecedented attempts at vote buying, and

an election with irregularities during vote counting, Georgian Dream's candidate, Salome Zourabichvili, managed to win in the second round.

The independence of the judiciary became an issue during 2018. The government failed to institutionalize rules for an impartial appointment of Supreme Court judges. It also failed to protect its citizens and hold civil servants accountable, as demonstrated by two highly controversial murder cases involving minors. Ruling party members increasingly targeted the leaders of watchdog organizations for criticizing the government on malpractice and nepotism. Civil society organizations openly spoke of informal governance and state capture.

A slowdown in economic development, mainly reflected in the devaluation of the Georgian lari, led to a deterioration in the socioeconomic condition of a greater shares of Georgian society. This led many in the electorate to vote for the leading opposition candidate in the 2018 presidential elections. Without tangible economic improvements – particularly in the form of employment opportunities – disappointment in the political system will only increase.

Georgia's good relations with its neighbors in the west, south and east continued. At the same time, there were no improvements in relations with Russia. A solution to the separatist territories of Abkhazia and South Ossetia remains out of sight. Particularly the "borderization" (i.e., demarcation, fortification and expansion) in South Ossetia continued to lead to friction.

History and Characteristics of Transformation

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

The insurgents invited a former Georgian communist leader and Soviet foreign minister, Eduard Shevardnadze, to head an interim government. He neutralized criminal military gangs and obtained international recognition for Georgian independence. A new constitution and parliamentary elections in 1995 consolidated the fragile state, but did not yield a modern governance system. The parliament remained weak, and intra-elite competition and corruption blossomed, causing the decline of the ruling Citizens' Union of Georgia. The party stayed in power thanks only to rigged parliamentary and presidential elections in 1999 and 2000.

Young reformers, headed by Mikheil Saakashvili, Zurab Zhvania and Nino Burjanadze, left the ruling party and formed a new opposition that in November 2003 headed popular protests against

the rigged parliamentary elections. Shevardnadze resigned. The Rose Revolution was a popular protest against democratic facades, fomented by a dense NGO network and independent television station Rustavi 2.

In the January 2004 presidential elections, the charismatic Saakashvili seized an overwhelming victory with 96% of the popular vote. The three leaders merged their parties into the United National Movement (UNM), which won more than two-thirds of deputies in the March 2004 parliamentary elections. This allowed them to implement far-reaching structural reforms with outstanding results. However, there remained serious deficits in institutionalizing checks and balances in the parliament, judiciary and media.

After dispersing broad protests and closing the government critical Imedi television station in a state of emergency in November 2007, Saakashvili could only maintain power by relying on “administrative resources” in the presidential and parliamentary elections early in 2008. The political crisis was followed by a slowdown in economic growth, the global financial crisis and a serious deterioration in the overall investment climate in the aftermath of the Georgian-Russian war in 2008. Stability in Georgia was only secured due to international assistance.

The highly competitive October 2012 parliamentary elections led to the first democratic change of power in Georgia’s history. The ruling UNM was defeated by the opposition coalition Georgian Dream (GD) of billionaire Bidzina Ivanishvili. After one year of tense cohabitation between President Saakashvili and Prime Minister Ivanishvili, the presidential elections on October 27, 2013 resulted in a clear victory for the GD candidate, Giorgi Margvelashvili, who secured over 62% of votes. With his inauguration on November 17, 2013, constitutional changes adopted under the previous government entered into force, marking a shift from a presidential to a mixed system with significantly diminished presidential powers. Directly afterwards, Ivanishvili voluntarily resigned and the GD-dominated parliament confirmed Irakli Garibashvili as the new prime minister. No less important, the former ruling UNM managed to survive its loss of power intact and formed the opposition faction in parliament.

The dismissal of the popular defense minister, Irakli Alasania, in November 2014 and the subsequent withdrawal of his Free Democrats from the majority, led to the first serious crack in the GD-coalition. The GD-government arrested several former ministers and prominent UNM leaders in order to hold them responsible for human rights violations, triggering international criticism for the apparent selective application of justice.

The most important foreign policy event has been the EU-Georgia Association Agreement (AA) entering into force on July 1, 2016. The AA contains serious reform commitments on the part of Georgia in exchange for visa regime liberalization and access to the EU’s market through the Deep and Comprehensive Free Trade Area (DCFTA). It also demonstrates Georgia’s intention to move closer to the EU on “Georgia’s European Way.” At the same time, the breakaway territories of Abkhazia and South Ossetia became more dependent on the Russian Federation, which opened military bases and conducted “borderization” (i.e., demarcation, fortification and expansion). The Geneva International Discussions became increasingly deadlocked and remain far from a solution to the 2008 Georgian-Russian war.

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

Contrary to the early 1990s, the monopoly on the legitimate use of force is nowadays in the hands of the Georgian state. Notwithstanding, the conflicts between Georgia proper and the two breakaway territories, Abkhazia and South Ossetia, remain unresolved. Abkhazian and South Ossetian authorities managed to stabilize their de facto statelets with the backing of the Russian Federation. Russia is increasing its military presence and strengthening security measures along its borders with Georgia, further isolating the two regions from the rest of Georgia. Russia's treaties on strategic partnership with Abkhazia (November 24, 2014) and on alliance and integration with South Ossetia (March 18, 2015) provide for close coordination of domestic and foreign policies. As a result, the two regions are increasingly included in a common security and defense space.

Over more than two decades, Abkhazia and South Ossetia have developed into stable, but isolated de facto states without the prospect of international recognition. The Geneva Talks, the only international forum for direct negotiations among all concerned parties, including the two breakaway territories of Abkhazia and South Ossetia, did not produce tangible results. Likewise, the Non-Recognition and Engagement Policy (NREP) for Abkhazia and South Ossetia that the EU adopted in 2009 has also not brought progress.

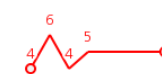
In April 2018, the Georgian government adopted a package of legislative amendments in the framework of its peace initiative "A Step to a Better Future," covering three main objectives: to ease and expand trade across dividing lines, simplify education opportunities, and ease access for the populations of Abkhazia and the Tskhinvali Region in South Ossetia to the services and benefits created in the course of development, including in the process of European integration.

Question
Score

Monopoly on the
use of force

5

'06 '20 10



1

The ethnos inherited from Soviet nationality policy still dominates over the demos of the newly formed state. This led to strong sentiments of ethnic entitlement instead of equal civil rights among the majority population; in effect a dominance of ethnic Georgians over the non-Georgian minorities.

Abkhazians and Ossetians denounced Georgian citizenship between 1991 and 1993. A Civic Equality and Integration Strategy and Action Plan for 2015 to 2020 has been adopted, but not produced tangible results. The same applies to the Anti-Discrimination Law from May 2014, which should protect minorities from discrimination.

Several conflicts relating to the return of religious buildings to non-Georgian Orthodox communities (e.g., the Tadoyants Church) and racist incidents toward foreigners demonstrate tangible hindrances when minorities attempt to exercise their rights or display their convictions or lifestyle in public. Incidents of religious intolerance toward Muslim communities in Adjara and Samegrelo-Zemo Svaneti exhibit an increasing ethno-religious identity among the majority. Many of these incidents were not prosecuted by law enforcement agencies.

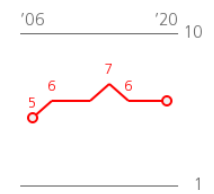
Since the conclusion of the concordat between President Shevardnadze and Patriarch Ilia II in 2002, the Georgian Orthodox Church (GOC) holds a privileged position, close to that of a state church, reflecting its increased influence in society. The GOC and its patriarch, Ilia II, represent the most trusted institution in Georgia, with approval ratings of over 70%. The orthodox religion has become the main marker of Georgian national identity and the GOC claims to be its pivotal mentor. In addition to an asymmetrical legal (i.e., discriminatory tax code, budgetary law and state property law) and institutional environment (i.e., favoring the GOC), minor religious groups frequently face discrimination.

Recent developments have significantly challenged the GOC, as they provoked public discussion about potential corruption and internal disputes. Archpriest Giorgi Mamaladze was arrested at Tbilisi International Airport in February 2018 for the “planned murder of a high-ranking cleric” using a virulent poison – sodium cyanide. After a closed to the public trial, the Tbilisi court sentenced him to nine years in prison. He unsuccessfully challenged the verdict. The “cyanide case” has been termed a “lustration trial” in Georgia as it exposed problems within the country’s most influential and closed institution – the GOC. Clergymen undermined the authority of the church, making scandalous statements to the media – accusing each other of squandering money, spinning intrigues at the patriarchal court and tussling for influence. As a result, the church’s public approval has declined.

Politicians would not dare to meet the patriarch toward the second round of the presidential elections in November 2018. A dialog launched by civil society organizations with the GOC on EU issues led in December 2016 to the first official visit of GOC representatives to the EU and NATO in Brussels. Positive assessments

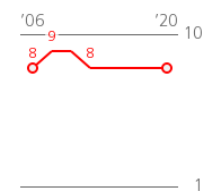
State identity

6



No interference of religious dogmas

8



by GOC leaders on Georgia's orientation toward EU and NATO notwithstanding, there remains a strong traditionalist and Russia-leaning faction within the organization, one of the most opaque in Georgia. The GOC can still exert pressure on the political elite, but its influence on legislation and decision-making is not guaranteed.

The Georgian Dream government was able to build a functioning state administration that brings basic administrative services closer to citizens by establishing one-stop civil service centers around the country.

However, especially in remote and mountainous regions challenges persist. Based on official data, the share of the population with access to sanitation declined from 93% in 2005 to 86% in 2015. On the other hand, access to water resources for the same period reached 100% in 2015, up from 93% in 2005. At the same time, however, the still high unemployment rate, officially 13.9% in 2017, underrepresents the severity of the challenge. The majority of subsistence farmers in the countryside are counted as self-employed but are heavily in need of social assistance and do not understand how to apply for their entitlements. As for public opinion on local services, based on the latest surveys, roads (35%), pollution of the environment (22%), the cost of utilities (22%) and the water supply (18%) are the most important local issues for the population.

Even if there has been some progress on the declared objective of depoliticizing the state administration after 2012, watchdog organizations have detected mismanagement, nepotism and corruption. So-called administrative resources remain crucial for the ruling party during elections.

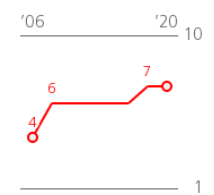
2 | Political Participation

During the reporting period 2017 to 2018, two elections were conducted in Georgia, municipal elections in October 2017 and – for the last time – presidential elections in October 2018. Both were deemed generally free and largely fair. While in technical terms election administration improved, an imbalance in election legislation favors the ruling party and the misuse of “administrative resources,” mainly on the local level, persisted in both elections.

The ruling Georgian Dream party did not take serious action to achieve a more pluralist political environment on all levels. Thus, in the municipal elections, almost all municipalities were won by Georgian Dream candidates. Even so, in the first round of presidential elections in October 2018, their candidate was nearly defeated, winning with just one percentage point ahead of the main competitor from the United National Movement led opposition coalition. Under shock, Georgian Dream then used its dominant position as well as so-called black PR against the opposition contender.

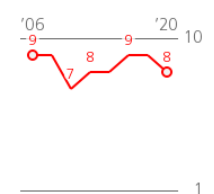
Basic administration

7



Free and fair elections

8



A journalist recently joked that Georgia is ruled by three informal authorities, by the billionaire Bidzina Ivanishvili on behalf of the government and the ruling Georgian Dream party, by former president Mikheil Saakashvili for the leading opposition party United National Movement, and by the Patriarch Ilia II for the Georgian people. Georgia had four prime ministers during the six years that Georgian Dream was in power: Bidzina Ivanishvili (2012-2013), Irakli Garibashvili (2013-2015), Giorgi Kvirikashvili (2015-2018) and Mamuka Bakhtadze (since June 2018). Unlike during Saakashvili's presidency (2004-2013), which saw six prime ministers, since 2013 the prime minister rather than president is formally the most influential post in the country. The changes at the highest level are indications of personalized and informal decision-making procedures. The same is true for subsidiary local bodies.

Though he is wanted in Georgia and therefore lives abroad, former president Mikheil Saakashvili still exerts huge influence on his United National Movement party, launching television speeches during the campaign of the last presidential election in October and November 2018. The interests of the Georgian Orthodox Church, which exercises significant political influence, were formally incorporated by the establishment of a State Agency for Religious Issues staffed with people close to the GOC. So far, there is no sign that the Georgian Dream with a constitutional majority in parliament exerts increased oversight and control of the government.

Recently, civil society has raised concerns regarding the control exercised by an influential group over public institutions and its use of those institutions for the promotion of narrow group interests.

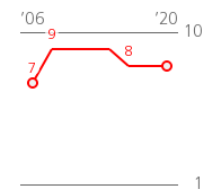
Since 2012, there have been no observable restrictions nor government interference on the freedom of association and assembly. During its first term (2012-2016), the Georgian Dream coalition was very enthusiastic about close cooperation with civil society. However, once the Georgian Dream party was ruling alone, critical concerns were raised. These came to the fore during the 2018 presidential election campaign, when watchdog NGOs criticized the ruling Georgian Dream for misusing "administrative resources," opaque decision-making and, at the end of 2018, for the opaque selection process for judges of the Supreme Court.

Some minorities still face difficulties in public (e.g., Muslim communities and gay rights activists). Trade unions, the largest membership-based organizations in Georgia, can freely associate. Overall, the civil society sector remains weak in terms of membership and dependent on grants provided mainly by foreign donors. Even so, it plays a decisive role in policy formulation and government oversight. With the EU-backed National Platform of the Civil Society Forum, it has a channel to voice concerns on the international level.

In September 2018, there was an incident of gross police interference with the right to peaceful assembly at a protest rally in front of the parliament. As confirmed by news reports, the protesters were planning to erect a tent, but would not have spoiled

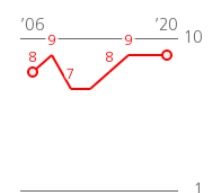
Effective power to govern

8



Association / assembly rights

9



work in the parliament building. Police officers dismantled the tent and forbid the protesters from continuing their protest. There were also reports that police had used physical force against the protesters, confiscated the tent and conducted a search of a car.

Pluralist but not yet independent was the conclusion of Reporters Without Borders' World Press Freedom Index 2018. Georgia improved its rank, reaching 61st (in 2013, it placed 100). This is a huge improvement compared to the overall negative trends in the region. There is no direct state interference in the media. Coverage, however, proved highly polarized during the presidential election in 2018. While the most popular private television channel, Rustavi 2, backed the United National Movement candidate, the Imedi television channel, sacked in November 2007 by Mikhail Saakashvili, openly positioned itself against the UMN candidate and in favor of the independent candidate Salome Zourabichvili, backed by Georgian Dream. Another, but less influential private channel, TV Pirveli, provided independent coverage.

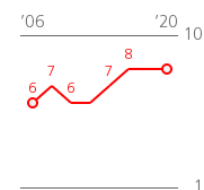
In 2017, ECHR suspended enforcement of a Supreme Court decision regarding Rustavi 2. A legal dispute over the ownership of Rustavi 2 has raised concerns about dangers to freedom of the media. Even though this case was (nominally) represented as a dispute between two private parties over property ownership, it left the impression that the government had been attempting to take control of the main opposition media outlet, which would significantly damage media pluralism and democracy in Georgia.

During 2017 and 2018, the Georgian Public Broadcaster departed from its reform path: hiring people who were considered Ivanishvili allies, with some taking senior positions. Civil society groups issued a joint statement in 2017 to express concern about these hires and about the station's coverage, which they said had become less critical of the government.

Print media are less influential, but news agencies such as Netgazeti and former investigative journals such as Liberali are setting trends for electronic media on the internet. According to a NDI survey from December 2018, 44% of those polled stated that freedom of speech and 37% that media independence is developing in the right direction (19% wrong direction). Today, citizens acknowledge media as an important institution, though editorial independence must still be achieved. Journalists who work for pro-government outlets are aware of boundaries they should not cross. Moreover, some large businesses can wipe out material that puts them in an unfavorable light.

Freedom of expression

8



3 | Rule of Law

With the presidential inauguration of Georgian Dream backed independent candidate Salome Zourabichvili in December 2018, constitutional amendments from 2017 finally entered into force. She is the first female president elected by the people and will be the last one. Completing the transition from a semi-presidential to a parliamentary system, further redistributing the executive's power to the prime minister, she will hold merely representative functions. In the future, an electoral body consisting of parliamentarians and representatives of local authorities will elect the president.

Changes to electoral legislation introducing a fully proportional voting system and dismantling the majoritarian vote, which greatly privileged the ruling party, will enter into force in 2024. Given the results of the local elections in October 2017, Georgian Dream can secure its dominant position for the near future.

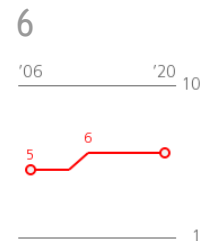
During 2017 and 2018, there were no indications that the legislature could control the work of the executive. The parliamentary majority did not take serious moves in this direction and the minority was too weak, even if some of their rights were increased. While there is a formal separation of powers, its implementation leaves room for improvement, especially when it comes to the weak performance of the judiciary, whose independence was questioned by human rights organizations.

Since Georgia's independence in 1991, each government in power tried – to varying degrees – to abuse the subservient judiciary inherited from the Soviet system. The politicization of the judiciary comprised one of the most serious legacies of Saakashvili's administration. Indicative are high-profile cases like the murders of 16-year-old Datuna Saralidze and 19-year-old Temirlan Machalikashvili, the former covered up by the procuracy and the latter the responsibility of Georgian special forces. Both cases demonstrated that the law is not applied equally to all Georgian citizens. Having occurred during the reign of Georgian Dream, they caused broad protest in society and were led by the fathers of the killed. The NGO Human Rights Center has listed similar cases in their annual report.

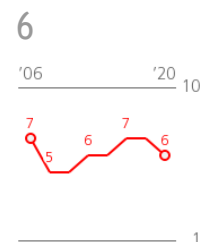
With the newly elected president taking her oath on December 16, 2018, amendments to the constitution came into effect. These stipulated that judges of the Supreme Court are no longer to be nominated by the president, but rather by the High Council of Justice (HCoJ) and then appointed until retirement by parliament. The Chairperson of the Supreme Court must be elected for a 10-year term by the same procedure.

While the constitution of Georgia stipulates that judges should be selected according to their competence and integrity, legislation does not provide a transparent procedure with clearly defined qualification criteria for candidates to positions as Supreme Court Justice or Chairman. On December 24, 2018, without waiting until parliament

Separation of powers



Independent judiciary



had adopted legislative amendments, members of the HCoJ submitted a list of candidates drawn up by several judges behind closed doors. Watchdog NGOs protested this practice. In their view, this small group of judges misused their position at the HCoJ to nominate their own ten candidates in order to strengthen their power. Besides procedural violations, they raised doubts concerning the integrity of the proposed candidates. Two of the candidates were acting members of the HCoJ and therefore had a conflict of interest. The criteria for selecting these judges remained unclear and precluded any equal participation in a fair, open and transparent competition. The one-page letter of the HCoJ submitted to parliament did not contain any substantiation regarding the proposed candidates. On December 26, 2018, following public protests and a negative reaction from MPs of the ruling Georgian Dream, the speaker of parliament postponed the parliamentary hearing and decision to the spring session. Later, all of the nominated judges withdrew their candidacies.

In February 2019, NGOs abandoned a working group initiated by the speaker of parliament to elaborate selection criteria and a nomination procedure, since in their view it did not ensure a merit-based, impartial and transparent approach for the selection of candidates. These incidents cast doubts about Georgian Dream's reform agenda for creating a truly independent judiciary.

In 2017, the Anti-Corruption Department of the State Security Service charged 61 individuals with corruption and other instances of abuse of power, though none were high-level government officials. During the reporting period, Georgian media and NGOs disseminated information about several cases of possible high-level corruption involving current and former public officials. However, law enforcement agencies failed to launch an investigation, which undermines public trust in law enforcement and the investigative authorities.

The Office of the Chief Prosecutor of Georgia has not created an independent investigative mechanism for state officials exceeding their powers. In 2018, the parliament of Georgia discussed legislative amendments after consultations with NGOs. The amendments envisaged a reform of the Prosecutorial Council to strengthen its independence and depoliticize it. An Organic Law on the Prosecutor's Office was adopted on November 30, 2018, without including any of the suggestions from civil society or a timely notice of its third and final hearing. In December 2018, the Venice Commission issued an opinion on the need for implementing significant reforms in the judiciary. Among other issues, it covered the depoliticization of the Office of the Prosecutor and the formation of a Prosecutorial Council. It also echoed a draft law by NGOs that strongly, but in vain, advocated for the firm presence of civil society representatives in the Prosecutorial Council. After six years in power, the Georgian Dream government can no longer refer to the legacy of arbitrary law applications of its predecessors.

The Public Defender's Office (PDO) is responsible for controlling the observance of human rights and freedoms in Georgian state entities. Once a year it reports to

Prosecution of
office abuse

6

'06 '20 10



1

parliament, which then should react. Its performance has been well received and has made the PDO a widely respected institution, though without executive power.

In addition to the problem of high-level corruption, which was recently noted by the European Parliament and the OECD Anti-corruption Network (2016 report), challenges also exist with regard to conflicts of interest and ethics. In 2018, the Civil Service Bureau of Georgia (CSB) conducted its annual monitoring of declarations of public officials and established that 78% of the declarations contained incorrect and/or incomplete information. CSB issued fines for 349 public officials and warnings for 31 individuals. Instances of conflict of interest are particularly visible on the local level, where civil society organizations have reported instances of nepotism, cronyism and other ethical violations.

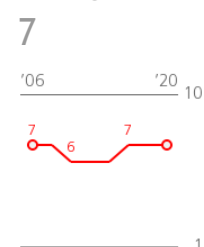
Within its Human Rights Dialogue with the EU, Georgia stressed its commitment to the universality of human rights for all, regardless of religion or belief, race, sex, language, sexual orientation, gender identity, ability or other distinction. It established a Human Rights Department in the Ministry of Internal Affairs to enhance the effective response to hate crimes and improve its human rights coordination mechanism in the government. A National Strategy for the Protection of Human Rights in Georgia 2014 to 2020 was adopted in April 2014 as a signal of Georgia's readiness to comply with the highest international standards.

However, several cases of abuse of office and misbehavior by law enforcement bodies led to massive public protests that pushed the government's activities to close the implementation gap in order to regain legitimacy. Watchdog NGOs with their civil right campaigns were not nearly as successful as the two fathers who demanded justice for their murdered children (i.e., Zaralidze and Machakalashvili). Their cases indicated to every family that they are not secured from interference by the state. Still there were cases of phone tapping public figures to elicit compromising material.

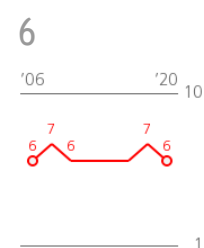
4 | Stability of Democratic Institutions

The promise of the Georgian Dream coalition after coming to power in October 2012 that future parliaments would be more pluralist was not realized. Since the 2016 parliamentary elections, Georgian Dream lost its former liberal partners. Due to an election law privileging the biggest party, they gained a constitutional majority. This power was not used with constraint or to exercise legislative oversight. Decision-making became less transparent. Several leading members of the ruling coalition recently began open attacks on civil society activists who criticized them. However, there are serious internal differences in the ruling majority.

Civil rights



Performance of democratic institutions



In March 2017, the ruling Georgian Dream party publicly considered reducing the number of self-governing cities from 12 to five, partly revoking the devolution of power to the local level.

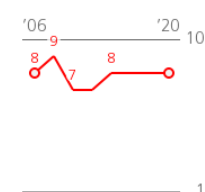
National civic organizations (as well as international organizations such as Transparency International) have also increasingly pointed to “informal governance,” where individuals not holding public office have been taking major decisions on political, socioeconomic and legal issues. An example was the former chief prosecutor resolving business disputes among private parties. In addition, the same individual (i.e., Partskhaladze) has been reported to have had major influence on the decision-making of the Office of the Chief Prosecutor as well as other government agencies. Concerns about “informal governance” and state capture were growing throughout 2017 and 2018. Most recently, the chairman of the largest bank in Georgia reported that public agencies, including the Office of the Chief Prosecutor and the National Bank of Georgia, have exerted undue influence on the bank.

The democratic change of government through elections in 2012 was a qualitative step toward engraining the idea of citizenship into Georgians’ minds. The following elections, presidential, local and parliamentary, then seemed to confirm the pattern that power is indivisible with the ruling party. However, the last direct presidential elections came as a surprise. In the first round many voters (e.g., civil servants) either did not vote or they voted overwhelmingly for opposition candidates. The Georgian Dream backed candidate Salome Zourabichvili received only 615,572 votes (38.64%), closely followed by UNM candidate Grigol Vashadze with 601,224 votes (37.74%) and Davit Bakradze from European Georgia, being clearly ahead of all remaining competitors, with 174,849 votes (10.97%). Thus, for the first time in Georgia’s modern history a second round was to be held in presidential elections. This led to a polarizing negative campaign between the two top contenders and their parties. This once again confirmed the popular and neopatrimonial perception that the parties are serving only their interests and not those of the people.

While citizens are aware of the weight of their vote, they still refrain from interfering in party politics in an organized way to defend their interests. Instead, as confirmed by an NDI poll from December 2018, we observe a highly personalized perception of politics with clientelistic networks in opposition to the expectation that politics should serve all people. It is like a democracy without democrats. After the presidential election, public debate revolved around informal politics in the ruling party, accused of again relying on “administrative resources” to secure the victory of its “independent” candidate.

Commitment to democratic institutions

8



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5 | Political and Social Integration

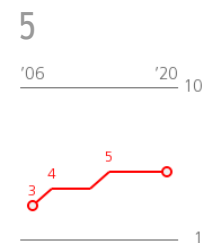
Georgian politics is characterized by a low level of appreciation for parties as well as relatively low party membership, fragile partisan loyalty and weak party roots in society. This was again reflected in the latest survey conducted by NDI and CRRC in December 2018. 44% of those polled stated that the parties only follow their own interests or those of their leaders (31%); only 13% stated that they follow the interests of “people like you,” whereas 2% stated that they follow the interests of a foreign entity. Party allegiances change the picture insofar as 32% of Georgian Dream supporting respondents stated that they are representing the interests of the people and only 28% their own party interests, whereas followers of other parties hold to more than 50% party interests and only between 4% and 14% the interests of the people.

After four years in power, the coalition split in the run-up to the parliamentary elections in 2016 that left the more liberal parties below the five-percent threshold. Free Democrats, Republicans or the newly formed State for the People party almost disappeared from the political scene. On the other hand, there are political entrepreneurs like Nino Burjanadze and her Democratic Movement or Shalva Natelashvili and his Labor Party that always manage to collect a respectable number of protest votes. The new nationalist Alliance of Patriots, entered parliament in 2016 with 5.1% of the votes, thus preventing a two-party parliament. The major opposition party, United National Movement, split with a more radical group composed of Mikheil Saakashvili’s loyal followers and the more moderate, programmatic European Georgia.

In general, Georgia’s political parties are weakly institutionalized and highly dependent on personalities and particular leaders. A lot of populism, little programmatic content, no internal democracy, financial dependence on the state and a low level of organizational loyalty among members are the most obvious trappings. Hence, citizens are essentially left with only one choice, either in favor of or against the ruling party. In the first round of the presidential election in October 2018, they voted against, thus informing Georgian Dream that they are replaceable.

Most importantly, the Georgian political environment is highly polarized, which has a negative impact on the democratic processes in the country: it causes political instability, decreases government accountability, shrinks the middle ground, divides the society into two camps and leaves little room for a measured discussion on policy issues.

Party system



Similar to the party system, broader segments of society are not adequately represented by interest groups or CSOs. The idea of self-organization around group interests is unfamiliar to a nation minted by neopatrimonialism. The principle of aggregating competing interests in a plural society is only slowly developing.

Some self-organization can be observed in labor relations. Even without discrimination against trade unions and in light of a revised labor code, which allows for collective bargaining and improving work security, much remains on paper, with only a marginal number of organized employees and employers conducting a social dialog. The teachers' trade union (ESFTUG) remains one of the biggest professional associations, with about 30,000 members; it concluded one of the first sectoral agreements with the Ministry of Education and Science in March 2017. Due to the low public appreciation of trade unions, the importance of this achievement has not been grasped. Facing high unemployment, it is not the trade unions, but rather relatives and friends who are named as the most important source for getting hired in a NDI survey from December 2018.

Having been recognized as the “first Social-Democratic peasant republic” during the first Democratic Republic of Georgia between 1918 and 1921 with many bottom-up farmer cooperatives, today farmer cooperatives must be revived with EU-support. Here as well, old habits from Soviet-style collective farms die hard, and there is a long way to go in order to increase agricultural output, efficiency and quality.

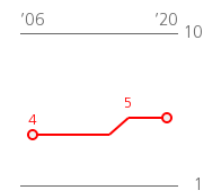
The civil society sector keeps growing in numbers and in capacity, but remains primarily concentrated in Tbilisi and Batumi. It has only weak links with the broader population. The strongest civil organization remains the Georgian Orthodox Church, claiming the prerogative in defining national values often devised illiberally.

Georgians are democratic in theory, but democratic traditions are weak due to a lack of relevant political culture. While for an overwhelming majority 59% of those surveyed (NDI poll, December 2018) it is very important and another 33% important to live in a democracy, only 43% consider Georgia a democracy (46% think it is not); those living in the capital and older than 55 years being more critical. 53% hold a Western-style democracy as the most suitable political system for Georgia. A strong leader unaccountable to parliament is judged as “a bad way” by 55% (good way 28%).

Serious reservations toward parliament and political parties are reflected in the NDI poll as well: only 45% of those surveyed state that parliamentarians are considering ordinary people's opinions, while 51% disagree. They perceive parliament as inaccessible for them and mainly dealing with political bickering (71%). Only 36% hold that the parliamentarians represent their interests (against 53%), but very often cannot even name the member of parliament in their voting district.

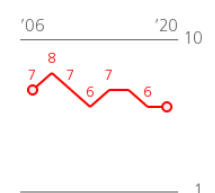
Interest groups

5



Approval of democracy

6



As far as public opinion on political institutions is concerned, parliament is the least trusted among Georgians (just 15% trust it), while the police enjoys relatively high confidence among other institutions (42%). The president, who has minimal rights according to the new constitution, is more trusted (30%) than the prime minister (22%). The level of public trust in the legal system is between 19% and 25%.

Georgia is characterized as a country with high “bonding” social capital, but low “bridging” social capital. According to the Caucasus Barometer, from 2010 to 2013 the share of trust increased from 21% to 29% (“Most people can be trusted”). Since then it has declined to 18%, as has the share of those with a “neutral” position – from 41% to 30%. On the other hand, mistrust (“You can’t be too careful”) skyrocketed between 2013 and 2015 from 29% to 53% (52% in 2017).

On the other hand, religious institutions, the army and police do have trust rates above 50%. Thus, Georgians are consistently more willing to exploit the larger society for benefit, but find it less tasteful to damage their reputation with closer relations. While there is civic engagement in Georgia, it is often not institutionalized to make it more sustainable. There are extremely low rates of group membership, regular student protests and the severe flooding in parts of Tbilisi in June 2015 demonstrated that it exists, but does not hold for long.

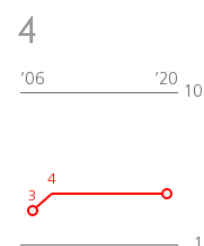
In spite of only rare moments of a sense of community and civic engagement, widespread norms of openness and altruism underlie vibrant forms of bridging social capital that already exist in Georgia. The western form of civil society therefore remains alien to the Georgian environment as long as there is no way to integrate existing in-group solidarity into a broader context.

II. Economic Transformation

6 | Level of Socioeconomic Development

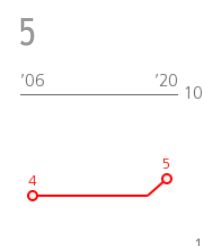
According to the UNDP’s Human Development Report for 2017, Georgia further improved its status as a high development country with an overall HDI score of 0.780 (rank 70/189). This is below its direct neighbors Russia (0.816, rank 49) and Turkey (0.791, rank 64), but above Azerbaijan (0.757, rank 80) and Armenia (0.755, rank 83). However, with regard to some HDI dimensions (e.g., a long and healthy life, access to knowledge and a decent standard of living), Georgia turns out to be at the end among its direct neighbors, with only Turkey faring worse. Therefore, it is not surprising that the HDI rank does not correspond to the local perception of social development, where jobs and poverty have remained among the most important issues for over 25 years.

Social capital



Question Score

Socioeconomic barriers



Inequality costs Georgia its development potential. The Gini index in 2016 was 36.5, which in practice means less equality of opportunity and very high income inequality. Birth still determines your life chances and perpetuates society's rigid divisions into those who are integrated into the modern economy and those who survive in traditional subsistence farming and other forms of self- or underemployment. Many households depend on remittances from family members working abroad. According to 2016 World Bank data, 17.1% of the population in Georgia are living on less than \$3.20 a day (at 2011 international prices adjusted for purchasing power parity).

Gender inequality is more of an issue in urban areas than in rural ones; single mothers are among the most vulnerable groups. The Gender Inequality Index came down, scoring at 0.350 for Georgia in 2016 and 2017 (2015: 0.373 and 2014: 0.374). There is some improvement in terms of women raising their voices and becoming more confident on their own rights. Since the beginning of 2016, reporting of domestic violence has increased almost threefold over the span of two years (data from the Ministry of Internal Affairs).

Households have been regularly hit by the fall of the GEL's exchange rate and consequently suffered from significant price increases not matched by wage increases: GEOSTAT's national statistics estimated the average monthly salary at GEL 999.10 in 2017 (GEL 940 in 2016).

State pensions for the 720,000 retirees were raised in July 2016 by GEL 20 to a monthly total of GEL 180. This is just above the subsistence minimum for a working age male calculated for January 2017 at GEL 166.30 or \$68.40 (2014: GEL 144.70-159.60 or \$82.70-\$91.20). Additionally, in 2018 the government adopted the Law on Cumulative Pension. However, the introduction of this pension reform with employers, employees and the state each paying 2% of the monthly salary will only reach one-third of the work force with regular employment and not the "self-employed" farmers at the subsistence level.

Households with children are more likely to be poor, and those with three or more children are more than twice as likely to be poor than a household with no children. The share of the population living with under 60% of the median consumption, regarded as relatively poor, has remained flat (21.4% in 2014 and 20.1% in 2015). The World Bank calculated a higher share of 25.3%. Key drivers of social exclusion are low education levels, unemployment, lack of land ownership, limited access to health care and affordable loans, and often the inability of the most needy to apply for their entitlements of social assistance.

With a substantial part of Georgia's population still living in rural areas, the share of GDP created in agriculture is only 9.1%, indicating high inefficiency (small land plots, outdated machinery, inadequate access to credit). After the change of government in 2012, broader support for reform of the agricultural sector was intended, but with little tangible impact as of yet.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	13993.6	14378.0	15081.3	16209.8
GDP growth	%	2.9	2.8	4.8	4.7
Inflation (CPI)	%	-	-	-	-
Unemployment	%	14.1	14.0	13.9	14.1
Foreign direct investment	% of GDP	11.9	10.9	12.1	7.3
Export growth	%	6.0	7.7	10.3	-
Import growth	%	10.4	6.3	0.9	-
Current account balance	\$ M	-1767.0	-1890.1	-1331.5	-1246.2
Public debt	% of GDP	41.5	44.4	45.1	44.9
External debt	\$ M	14374.6	15820.1	15923.9	17118.1
Total debt service	\$ M	2119.4	2567.7	2543.5	2409.8
Net lending/borrowing	% of GDP	-1.2	-1.7	-1.3	-1.8
Tax revenue	% of GDP	23.8	23.5	23.8	23.6
Government consumption	% of GDP	17.9	18.4	17.2	16.6
Public education spending	% of GDP	-	3.8	3.8	-
Public health spending	% of GDP	2.8	3.1	-	-
R&D expenditure	% of GDP	0.3	0.3	0.3	-
Military expenditure	% of GDP	2.1	2.2	2.0	1.9

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

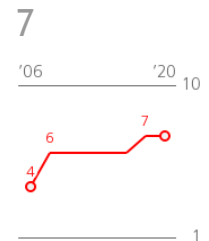
For many years, Georgia has been one of the leading countries in the World Bank’s Ease of Doing Business Index. The index and its components are a good example of how Georgia has few significant market entry and exit barriers. The 2019 sub-index “Starting a Business” confirms that it takes just one procedure and costs 2.2% of average income per capita to establish a business, putting the country on rank 2 out of 190, just after New Zealand. In 2017, FDI exceeded the 2016 level by almost 21%. However, in 2018 FDI in Georgia dropped to \$1.2 billion, which is a 34.9% decrease, according to preliminary data from Geostat. In the fourth quarter alone, it decreased by 62.3% (\$197.1 million).

While formal bureaucratic barriers are insignificant, there are reasons for this instable development. Access to capital is one challenge in Georgia because of the dominance of the banking sector, as capital markets remain underdeveloped. Another area is public procurement. Despite the fact that the public procurement market could be a substantial driver for competition (the sector is worth GEL 2-3 billion annually), data from the Public Procurement Agency for 2017 show that on average only two offers competed in public tenders; the situation was even worse in previous years. Such a low level of competition in public procurement is symptomatic of the deficiencies in Georgia.

Despite its high rankings for ease of doing business, the country has a very high self-employment rate – nearly 60% of total employment, which leads to a high share in the informal economy. According to an IMF Working Paper, the average rate of Georgia’s “shadow economy” from 1991 to 2015 is estimated at 64.9% of GDP. Geostat, which applies an international methodology (Handbook for Measuring the Non-Observed Economy, OECD 2002), estimated the size of the shadow economy in Georgia much lower, at 10.3% of GDP in 2015.

Despite these negative trends, Georgia has a strong institutional framework for ensuring competition. Since the EU-Georgia Association Agreement entered into force on July 1, 2016 with a Deep and Comprehensive Free Trade Area (AA/DCFTA), Georgia’s economy keeps expanding. Customs tariffs have already been removed and quotas, trade related laws and regulations adopted to comply with EU standards. Georgian business will fundamentally change through alignment with EU Single Market requirements. So far, however, the effects for economic sustainability have not been realized, additional costs were incurred and serious reforms had to be taken that also function as a blueprint for legal and institutional changes toward a competitive market economy. The EU in its latest Association Implementation Report on Georgia from January 2019 acknowledged the progress of its “best performer” in the Eastern Neighborhood.

Market
organization



Georgia continues to implement the provisions of the DCFTA on competition, focusing on capacity-building of the Georgian Competition Agency (GCA), on cooperation between the GCA and the sector regulators, and on promotion a public competition culture. A Competition Law was adopted in 2014 and since then the Competition Agency has been attempting to see its implementation. It shifted the previous focus (2005-2012) from mainly regulating abuse of competition by the government to covering areas including antitrust provisions in line with EU law, state aid provisions with general rules on procedures for granting state aid, and provisions on institutional independence as well as investigative and decision-making powers.

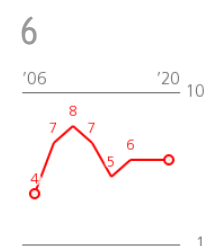
Over the four years since its inception, the GCA has had over 40 cases of breaches of competition rules, upon the request of economic operators. The most famous case was an investigation of petroleum companies in which the agency fined the companies a total of GEL 3 million. Despite efforts by the agency, the law prevents it from investigating cases of government companies breaching competition rules, significantly diminishing its reach. This legal flaw is important as the law on public procurement has several exemptions on procuring services and goods from certain state-owned companies (e.g., the Georgian Post), creating ground for monopolistic structures. Additionally, the Competition Agency is limited both legally and in terms of human resources from conducting preventive research on breaches of the competition law, it mostly responds to requests.

According to the EU's assessment of the implementation of the EU-Georgia Association Agreement Action Plan, Georgia continued to improve its foreign trade regime. This occurred mainly on the institutional level. A humidity laboratory obtained international recognition as a valid reference laboratory for standards and metrology. The Georgian Accreditation Center is preparing for the implementation of EU standards, and the Technical and Construction Supervision Agency will provide market surveillance services for a range of industrial as well as consumer products in Georgia. The National Food Agency has continued to enhance its capacity to implement sanitary and phytosanitary standards.

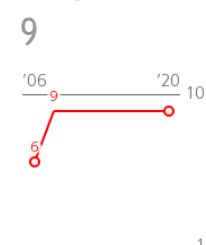
On customs and trade facilitation, the Law on Border Measures Related to Intellectual Property Rights entered into force in February 2018. The Regional Convention on pan-Euro-Mediterranean preferential rules of origin applies since June 2018. A new Customs Code will be adopted by parliament in 2019. Other technical and administrative reforms aligning with EU regulations are underway.

On December 23, 2017, parliament passed amendments establishing a body tasked with reviewing decisions taken by contracting authorities. This new review body, with representatives of various governmental and non-governmental entities, does not however comply with the requirements for an independent and impartial review body set out in the DCFTA. On May 24, 2018, parliament enacted new legislation on public-private partnerships, which was assessed as “not yet in compliance with the

Competition policy



Liberalization of foreign trade



relevant EU legislation in the field.” The simple average was the MFN applied rate of 1.5% in 2017.

The Georgian banking system is the most robust in the region. This is due to the underdevelopment of capital markets (GCI 2018 ranked 121 out of 140). Georgia’s financial sector is almost entirely dependent on its two largest banks, now listed on the London Stock Exchange and included in the FTSE 250: TBC Bank and Bank of Georgia. Together they account for 72% of assets. Through mergers with other banks, they reduced the overall number of banks to 16 in 2018. Both can be considered systemic banks. Toward the end of 2018, TBC Bank faced a criminal investigation over potential money laundering involving a \$17 million transaction that took place in 2008. TBC Bank refuted the allegations, claiming the transaction was legal and had been inspected multiple times by the authorities, the national bank and international auditors. Opposition politicians interpret the investigation as an attempt by the Georgian Dream party leader, Bidzina Ivanishvili, to take control of the banking sector.

The National Bank of Georgia is making headway in strengthening the regulatory and supervisory frameworks for banking, payments, and capital and securities’ markets as well as finalizing the introduction of macroprudential regulations to address currency mismatches, real estate risks and systemic banks. It has introduced de-dollarization measures and developed a more responsible lending framework, protected consumers and improved financial literacy. The Insurance State Supervision Service of Georgia has advanced legislation on compulsory third party liability for vehicles. Bank non-performing loans decreased from 5.9% in 2010 to 2.8% in 2017. The bank capital-to-assets ratio declined from 16.9% to 12.8% during the same period.

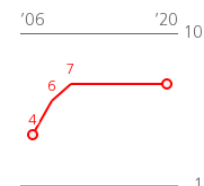
8 | Monetary and fiscal stability

In the first nine months of 2018, Georgia’s GDP increased by 4.9% year-on-year thanks to growing domestic and international demand. Consumer price inflation has decreased from 6% in 2017 to below 3% in the first ten months of 2018, allowing the national bank to reduce the refinancing rate to 7% in July 2018. The Georgian lari remains relatively volatile in relation to the U.S. dollar, a risk for an economy where dollarization remains high, even if it is gradually decreasing. This has serious repercussions on households in Georgia.

After the disastrous results of the first round of the presidential election, party leader and billionaire Bidzina Ivanishvili launched a long-planned refinancing program for 600,000 Georgians that could not serve their loans and were blacklisted. This was criticized by civil society organizations and the opposition as vote buying.

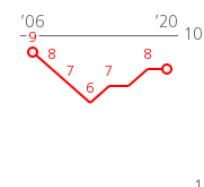
Banking system

7



Monetary stability

8



The long-term CPI inflation target is 3%. The inflation target was gradually reduced from 6%. It was 4% for 2017. In 2018, it was 3%, meeting the target. The real effective exchange rate index for 2017 was 98.4 (2012: 111.4). The Georgian National Bank is legally independent and officially directed to ensure price stability (since 2009, by inflation targeting).

Georgia's government slowly reduced its fiscal deficit (3.9% of GDP in 2017, 3.3% of GDP in 2018) through consolidation efforts and economic growth. However, due to a large current account deficit, its external debt reached almost \$16 billion. Georgia's international reserves have increased in recent years, totaling €2.7 billion at the end of October 2018, but still remain below an adequate level. These risks are amplified by external factors such as the tightening of financing conditions for emerging markets and the currency crisis in Turkey. According to the World Bank, the public debt/GDP ratio for 2017 was 41.3% and the net lending/borrowing in percentage of GDP stood at -1.31%.

9 | Private Property

In December 2018, the Constitutional Court of Georgia suspended a moratorium on the sale of agricultural land to foreigners. However, with the inauguration of the new president on December 16, 2018, a new constitution entered into force that gives the right to purchase and sell agricultural land exclusively to Georgian citizens. Furthermore, foreigners are now unable to register land even if they marry Georgian citizens. The constitution does allow for exemptions to be determined by laws or sublegal acts.

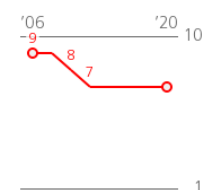
Beyond these constitutional changes, the most controversial and politicized case involving property rights has been the ownership claim of one of the most-popular, but pro-opposition, television companies: Rustavi 2. This case indicates that political interests continue to have a substantial impact on property rights, if the judiciary is not functioning properly. Despite these negative trends, Georgia managed to improve its ranking to 74 out of 125 countries on the International Property Rights Index.

Ranking 6 out of 190 countries in the World Bank's Ease of Doing Business Index 2019 is one of several positive international indicators of the business environment in Georgia. The country continues to improve the tax regime, business governance, and access to financing and innovative technologies to sustain a business-friendly climate.

In July 2018, the turnover tax for small businesses was significantly reduced (from 5% to 1% of revenues). In the Heritage Foundation's 2019 Index of Economic Freedom, Georgia is ranked 16th in the world. With 75.9 points, Georgia's position slightly decreased in comparison to the previous year (76.2) due to a sharp drop in

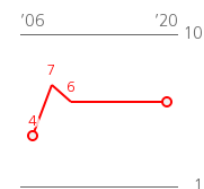
Fiscal stability

7



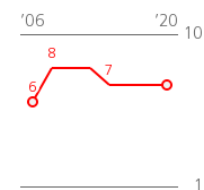
Property rights

6



Private enterprise

7



judicial effectiveness and lower scores for government integrity and monetary freedom against a big gain in financial freedom.

However, these positive trends notwithstanding, small and medium-sized enterprises have hardly benefited. Only one-third of Georgia's workforce is officially employed in a company or state institution, one-third remains "self-employed" (mainly in subsistence farming), while the remainder of the population are unemployed. 16% of Georgian respondents reported a belief that political connections are essential to building a successful business in addition to professional skills and experience (22%), education (21%) and hard work (12%).

10 | Welfare Regime

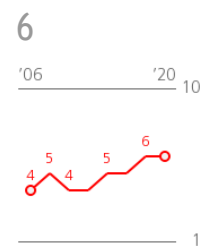
Georgia is a divided society. Due to a neo-liberal approach to welfare, it has failed to find a balance in opportunities for its urban and rural settlements. As a result, the divide between Georgia's traditional and modern economies has increased, limiting its development prospects. The Georgian Dream government introduced a public health system and increased social assistance after coming to power, but failed to proactively address the inclusion of the rural population in social services and skills development.

As a supplement to the universal basic pension (which amounts to GEL 180), parliament introduced in July 2018 a much-debated mandatory accumulative pension system, which came into force in January 2019. Employees will accumulate retirement security by directing 2% of their salary to a pension fund. Employers and the state will contribute 2% each to this fund. However, with an official unemployment rate of 12.7% (as of 2018, Geostat statistics), its sustainability has been questioned by the opposition and NGOs, who consider the reform to be an indirect attempt to increase tax revenues.

According to major findings of the UNICEF Welfare Monitoring Study 2018, general poverty rates in Georgia increased. A lack of strong and inclusive economic growth, unemployment and consumer price inflation are likely reasons for this. The average out-of-pocket expenditure on health increased, with purchases of medicines remaining the main component of health care spending. To cope with economic hardships, more families resort to borrowing at high interest rates from banks, microfinance institutions and pawn shops. However, recent legislative changes make it difficult to take loans. Primarily rural children are affected by poverty and have insufficient access to children's books and less years in school.

Life expectancy slightly improved in 2016 to 73.3 years (2015: 73.1). Public expenditure on health has declined since 2009 as a share of GDP. According to the WHO Global Health Expenditure database, public expenditure on health decreased from 9.8% of GDP in 2009 to 7.9% in 2015.

Social safety nets



Legally, Georgia has the mechanisms for preventing discrimination in all its forms in place: the Law of Georgia on the Elimination of All Forms of Discrimination. However, Georgia remains a divided society, partly due to ethnic and urban-rural disparities. The social and economic status of Georgians is largely pre-determined by their condition at birth. According to a NDI survey from December 2018, public perception toward nepotism and its prevalence was overwhelming, with connections considered the most important factor for getting a job (37%) rather than qualifications and experience. This especially applies to minorities, IDPs, persons with disabilities and mountain dwellers that received special support through regional development programs. Significant differences continue to persist between rural and urban areas, and between poorer and more developed regions in terms of infrastructure and services, which are continuously improved. Gender inequality remains a concern, even if there are some improvements also in the countryside.

Although there is no legal discrimination against ethnic minorities, their representation in government, parliament and media is disproportionately low. Younger citizens of Georgia with minority backgrounds receive a free one-year integration program at higher education institutions. Sexual minorities face serious stigmatization and discrimination in Georgia. The situation of persons with disabilities is slowly improving, nevertheless, a comprehensive approach from state and society toward creating a more solidary community of citizens is still missing.

The literacy rate stands at 99.6% (99.5% among females and 99.7% among males in 2014). The ratio of female-to-male enrollment (GPI) stands at 1.0 for primary and secondary education and 1.2 for tertiary education. The gross enrollment ratio is 102.6 for primary, 104.3 for secondary and 51.9 for tertiary education. Women's participation in the labor force slightly declined from 46.3% in 2007 to 45.6% in 2017.

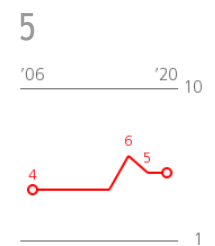
11 | Economic Performance

After two years of economic decline, Georgia's output strength improved, but remains far from stable. GDP in 2016 grew to \$14.38 billion and to \$15.16 billion in 2017. Its GDP per capita increased from \$10,005 (2016) to \$10,699 (2017, PPP). GDP per capita growth was 2.8% in 2016 and 5% in 2017 with an annual inflation rate of 2.1% in 2016 and 6% in 2017.

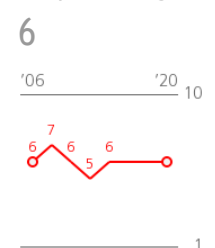
However, the economy has still not reached the GDP level seen in 1989. The official unemployment rate was 13.9% in 2017 (2016: 14.0%) and dropped to 12.7% in 2018 (data from the Statistics Office of Georgia). However, in the latest NDI survey from December 2018, about 62% considered themselves unemployed and jobs remain the paramount issue in society.

The rate of FDI slowly increased from a low of 11% of GDP in 2016 to 12% in 2017 (2015: 11.9%). The state budget slightly improved its overall negative account

Equal opportunity



Output strength



balance of \$1,311.1 million (2017) down from \$1,848.1 million (2016). Between 2016 and 2017, the public debt was also slightly reduced from 44.6% to 41.3% of GDP; similarly, the gross capital formation fell from 32.7% to 31.9% of GDP.

12 | Sustainability

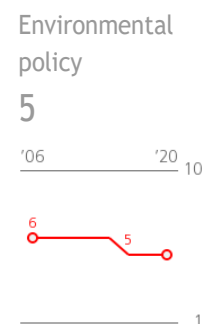
Georgia has rich biodiversity, microclimates and cultural landscapes but is especially sensitive to economic interventions into vulnerable ecosystems. The legal framework for environmental protection established in the 1990s was comprehensive but ineffective and has undergone excessive deregulation since 2004, in conjunction with economic liberalization.

Nowadays, Georgia is facing major environmental challenges as land and forest degradation, pollution and waste management lead to climate change and a reduction in biodiversity. In March 2018, the Ministry of Agriculture was merged with the Ministry of Environmental Protection, resulting in the Ministry of Environmental Protection and Agriculture (MEPA) in charge of policies to alleviate environmental challenges. Its subordinated Georgian National Environmental Agency is charged with natural hazard prevention and the Agency for Protected Areas oversees several endangered biospheres. However, Georgia's environmental management has continued to depend on the one-sided attraction of FDI and short-sighted economic interests. Moreover, decision-makers rarely practice inclusive approaches of sustainable and environmentally sensitive planning.

Local protests have surfaced in the mountains against the construction of hydropower plants in Ajara and Svaneti. Other protests concern air pollution in Tbilisi or the overuse of natural resources because of growing tourism, which is causing serious degradation and the destruction of ancient landscapes.

On June 1, 2017, parliament adopted an Environmental Assessment Code that came into effect on January 1, 2018. The code envisages several impact assessment tools and sets various timeframes for the enactment. The government is improving resources and capacities for enforcement, including adopting a new Law on Environmental Liability. Georgia adopted its 3rd National Environment Action Program (2017-2021) in May 2018, which defines the country's long-term priorities and plans.

Georgia's legal approximation for environment and climate action under the Association Agreement with the EU is progressing particularly on waste management, water supply and wastewater treatment. A new Forest Code and new regulation on plastic bags were also adopted. Georgia is currently updating its national contribution to curb global carbon emissions relating to the Paris Agreement on climate change. Generally, however, new commitments will continue to largely depend on the availability of external financial support.



In July 2018, the Ministry of Culture and Sports was merged with the Ministry of Education and Science. This restructuring followed the election of Mamuka Bakhtadze as prime minister on June 20, 2018, and an announcement that education will be a priority. He appointed Mikheil Batiashvili as the new minister, who in turn replaced several staff in the ministry and executive agencies.

Since the early 2000s, the education sector has undergone continuous reforms with ambitious announcements and often questionable impact, especially relating to the quality of school education. The UN Education Index rates Georgia quite high with an index of 0.848 for 2016 and 2017. Public expenditure on education increased to 3.8% of GDP (2016), but still lags behind the international average of 4.8% (2007-2008). At the end of 2017, the government adopted a Unified Strategy for Education and Science for 2017 to 2021, a strategic document on inclusive education, approved at the beginning of 2018.

Yet, the quality of education has not improved over the years. The international organization WorldAtlas recently ranked Georgia among the countries with poor education. While the population is largely literate (2014: 99.6%), the lack of an adequately educated modern workforce negatively impacts Georgia's competitiveness. Where the new Vocational Education and Training Law will help to create wider lifelong learning opportunities for youth and adults needs to be seen. Besides low salaries for schoolteachers, the low level of social esteem for the profession repels young people.

Another weak point is research and development, essential ingredients for a creative and innovative SME sector. With 0.3% of GDP for R&D, Georgia is far below the OECD and EU-27 average of 2.3% and 1.9% of GDP respectively. The Rustaveli Science Foundation did manage to create several cooperation programs to internationalize Georgian academia and disseminate the results of its research abroad.

Education policy /
R&D

6

'06 _____ '20 10



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Governance

I. Level of Difficulty

Following a steep socioeconomic decline, violent conflicts and the loss of the state's monopoly on power in the 1990s, Georgia faced an immense outflow of capable and creative citizens. Only in 2004 did the situation improve as a group of young reformers under Saakashvili gained power. While successful in their state-building efforts, they did not succeed in establishing formal rules and procedures accepted and adhered to by the majority of Georgia's divided society.

Qualitative changes appeared difficult to achieve in a political culture built around personal loyalty, tactical rapprochements and confrontation rather than consensus seeking. While Saakashvili's reforms succeeded in undermining the prevalence of informal practices when dealing with state bureaucracy, the education system, health care, law enforcement and the judiciary, the reliance on informality did not disappear. Political actors continue to rely on informal networks as social safety nets or as doors to building a career.

The EU-Georgia Association Agreement offers alignment with the EU and provides a blueprint for substantial internal reforms to overcome the country's outdated Soviet governance style. Political elites must manage the adoption into national legislation of vast EU regulations and standards, while relevant professionals are often missing and the temptation for window dressing is high.

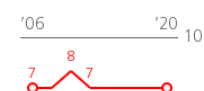
So far, Georgia has not managed to fully capitalize on its important geopolitical position as a transport and transit corridor between the Black and Caspian Seas as well as between Russia in the north, and Turkey and Iran in the south. The unresolved territorial disputes in Abkhazia and South Ossetia limit Georgia's role in regional affairs. The search for security from Russia is the basis for a broad pro-Western orientation in Georgian society. Georgia enjoys fairly good and pragmatic relations with its other immediate neighbors.

The divide between the political elite and society inherited from the Soviet Union has not been overcome since Georgia achieved independence. Without the involvement of civil society, Georgian democratic institutions cannot overcome the endemic lack of trust in public institutions. Participatory approaches that promote dialog at the political level are rare. Civil society organizations themselves have not extended their limited outreach toward the Georgian population.

While occasional mass actions (e.g., the Rose Revolution, opposition protests in November 2007 and the 2012 election campaign) energized real political change,

Structural
constraints

7



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Civil society
traditions

6



1

strong membership-based voluntary associations and interest groups are missing. As a mode of democratic self-reflection, public debates are important for Georgian society to achieve consensus. Georgian civil society can only grow if it is rooted in the social reality of Georgia's regions. Instead, civil society is dependent on Western funding and concepts of individualism that do not apply to the local context. Georgian intellectuals and political actors neglect a major share of the population: those living in poverty.

Since the liberalization of the autocratic regime during perestroika was not accompanied by a "strategic civil society," but by its reinstatement through Western funding, it could not prepare the ground for a clear understanding of the function and role of democracy. As a consequence, democratic institutions became a policy instrument in the hands of political elites.

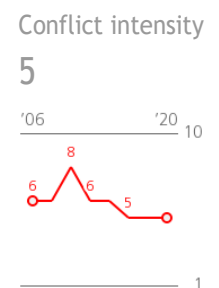
Instead of the more reflexive civil society deemed necessary for a consolidation of democracy, we are faced today with an anti-liberal, "nativist" and often un-civil society. This is one consequence of naive optimism about the spread of liberal democracy in the 1990s and the underlying paradigm of universal citizenship that informed the Western conceptual approach to Georgian civil society.

Persistent social, ethnic and religious cleavages in a country without a tradition of consensus-building can lead to a confrontation over personalized issues. However, experiences of extreme violence from the early 1990s, when paramilitary groups took over the state and made it a hostage to their particular interests, have led to caution in escalating conflicts. There nonetheless are cases of violence, including mass protests that were violently dispersed by the police in November 2007 and May 2010, the Russo-Georgian war in August 2008, and torture in prisons that became routine under the Saakashvili regime. The polarization among the dominant political forces, the Georgian Dream coalition and Saakashvili's United National Movement, continued after the change in government in October 2012 and often blocked consensus decision-making.

There were several cases of discrimination against gay activists and against the Muslim minority by the Orthodox majority as well as cases of hate speech during the reporting period. State authorities must learn how to handle such conflicts in an effective and impartial way.

The last two years have also seen the troubling emergence and strengthening of an ultra-nationalist movement in Georgia. This movement is increasingly positioning itself as a social and political force opposing all "non-Georgian" elements (i.e., religious, ethnic, racial and sexual minorities) and that does not shy away from using violence.

Russia is today perceived as the major threat to Georgia's security.



II. Governance Performance

14 | Steering Capability

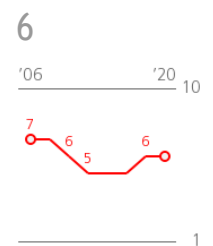
With the EU-Georgia Association Agreement, which entered into force on July 1, 2016, there is a clear roadmap for a gradual approximation of laws toward EU standards. The personalization of politics between billionaire Bidzina Ivanishvili, with his Georgian Dream party ruling with a constitutional majority, and former President Mikheil Saakashvili, with his United National Movement party and the split-off European Georgia party, intensified during the last presidential elections. It demonstrated that the latter two parties can claim leadership of the opposition. The pre-election agendas of all competing parties consisted of lists of paternalistic promises but no coherent strategies and programs. Even so, due to intensified cooperation with international donors, more and more strategies adopted by government are accessible for public scrutiny.

Indicators in accompanying action plans are often vaguely formulated and difficult to measure. This demonstrates that clear evidence and a long-term strategic vision are considered less relevant than short-term public relations objectives. The practice of changing ministers, voluntarism and unpredictability at the top level still prevail. Due to a tradition of top-down decision-making by a small circle in the political leadership, there is reluctance to involve independent experts or openly consult with civil society. Institutionalized channels for exchanges with civil society actors are slowly developing. Some attempts were also made toward inclusive strategy elaboration in the case of less influential ministries (e.g., the youth strategy and Culture 2025). Nonetheless, entrenched business and other interests still have an impact on setting priorities.

Within the mandate of the Public Administration Reform, one of the important pillars of EU-Georgia cooperation, the government has begun to improve the policy planning and monitoring system. This includes efforts toward an evidence-based policy planning approach. Some steps have also been taken on the local level and municipal authorities began developing local sectoral and multi-sectoral strategies.

Question
Score

Prioritization



In general, government administrations have struggled to implement existing plans, particularly in conflict-ridden Georgia after independence in 1991. Since then, three different governments have introduced reforms: they modernized financial and public institutions, initiated the harmonization of Georgian legislation with EU regulations and made considerable progress in the fight against corruption. However, there still exists an “operational gap” in proper implementation of reforms not only at the top, but also at the grassroots level. Frequent staff rotation, lack of institutional memory and horizontal coordination among state agencies, and a profound deficiency in policy formulation and implementation capacities persist.

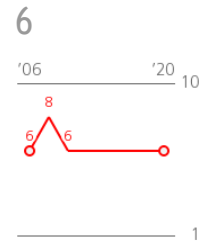
With the Association Agreement (AA) between Georgia and the EU, Georgia has voluntarily committed to the approximation of law and full integration into the EU. The AA functions as a master plan for reforms under EU scrutiny. The quality of its implementation is pivotal and measured annually by the EU.

One major challenge is securing sectoral experts that can assure a proper and professional implementation. With a civil service that still does not fully follow meritocratic principles and de-politicization as well as non-competitive salaries in the public sector, the demand for a well-functioning public service cannot be met by the current state of technical expertise in Georgia. For example, the management of several educational agencies – including directors and several staff members – resigned in September 2018 when the new minister, Mikheil Batiashvili, declared a new approach in education reforms. The business sector is also desperately searching for technical experts to align their companies with EU standards and regulations. Only the capital-based watchdog NGOs can provide critical expertise to assess achievements and challenges.

Another important step toward improving implementation is the “Open Government Partnership” intended to increase transparency and free access to public information.

Although some steps were taken in 2018 to improve the policy planning and implementation system, most strategic documents do not have clearly defined monitoring procedures nor indicators and baseline data. The absence of baseline data often hinders the measurement of the effectiveness of policy interventions. The OECD and EU joint initiative SIGMA has conducted an overview of the policy development and coordination process and has assessed implementation of the reform as slow.

Implementation



Policy learning has been impaired since independence by continuing deep divisions in Georgian politics. The relationship between government and opposition remains confrontational and increasingly counterproductive. Bidzina Ivanishvili, with his Georgian Dream, and Mikheil Saakashvili, with his United National Movement, are the focal points, especially since the latter managed to garner some support in the first round of the presidential election in October 2018. Only in rare cases do both political camps succeed in bridging their considerable differences.

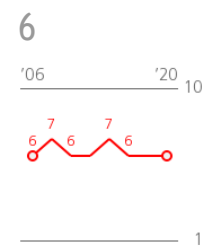
The positive trend of cooperation between the new government and civil society after the 2012 parliamentary elections slowed down when NGOs began criticizing the Georgian Dream government more intensely after 2016. There is certainly no repression and intimidation by the government. However, criticism by leading watchdog NGOs against the government's legal initiatives (e.g., the life-time appointment of judges or misuse of administrative resources during elections) was harshly rejected by the authorities as politically biased. Another negative example is the continuing bad practice of frequently rotating government positions, disguised as capacity-building and the de-politicization of state institutions. There are very few ministers such as the popular health minister Sergeenko who have survived one full term in office. This also occurs on the lower levels of the government hierarchy, with negative impacts on institutional learning and memory. Here again, developing a stable and meritocratic civil service assisting political officeholders in professional decision-making and policy formulation has yet to come. Most of all, professionals require a secure, enabling and competitive environment.

15 | Resource Efficiency

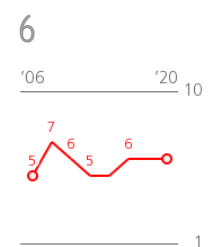
In November 2017, then Prime Minister Giorgi Kvirikashvili launched a government reshuffle: dismissing six ministers and reducing the number of government bodies from 18 to 14. Kvirikashvili projected “very significant changes in the quality of management” and parliament speaker Irakli Kobakhidze predicted financial savings. Observers welcomed the reduction of the bloated cabinet inherited from Saakashvili, but remained skeptical over the reorganization of some ministries and the actual savings when staff were only reallocated into other ministries. Just seven months later, in June 2018, Kvirikashvili resigned over disagreements with the party's leader, Bidzina Ivanishvili, and was succeeded by 36-year old Minister of Finance Mamuka Bakhtadze and a new cabinet of ministers.

Civil society organizations also negatively assessed structural changes in the government which took place in 2018, when several ministries were abolished or merged, resulting in a further reduction in the number of ministries from 14 to 10. According to quantitative analysis conducted by civil society organizations, the optimization of ministries has resulted in a minor reduction in staff, which has not affected the total salary allocation of the ministries.

Policy learning



Efficient use of assets



The Civil Service Reform is one of the key components of the Public Administration Reform and efforts taken have been praised by the European Parliament. Although the Civil Service Reform began in 2014, implementation of its key components was significantly delayed. For example, a new law on civil service was adopted in 2015 but only came into effect in July 2017. Although major components of the reform are in the process of being implemented, it remains questionable whether legislative and practical changes have resulted in the establishment of a professional, meritocratic, effective and politically neutral civil service. The skepticism voiced by civil society is often backed by frequent cases of nepotism, favoritism in public procurement and, most recently, the use of administrative resources for political purposes.

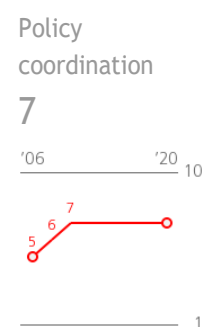
Efficient utilization of budgetary resources is another area of significant challenges. For several years, civil society has been informing the public about bureaucratic costs. In a comprehensive study published by IDFI in December 2017, it was pointed out that between 2011 and 2016, bureaucratic costs increased by approximately GEL 800 million (\$370 million). Yet, this figure only relates to the administrative expenses of the public sector; it does not examine the efficiency of budgetary programs.

It is noteworthy that changes to a law on economic freedom in 2018 removed relevant thresholds. Article 2 of the law originally set the following ceilings: 1) the sum of consolidated budget expenses (central and local together) and acquisition of non-financial assets should not exceed 30% of GDP, 2) the consolidated budget deficit should not exceed 3% of GDP and 3) the public debt should not exceed 60% of GDP. According to the 2018 amendments, the first threshold will be totally removed, eliminating the limit on the size of government.

The Georgian Dream party has taken some steps toward ensuring greater decentralization, manifested in the adoption of a new Local Self-Government Code in 2014. Although the reform has created various important novelties for local public institutions (e.g., legislation that enables municipalities to retain more funds accrued from taxes), competences remain concentrated in the hands of the central government.

In order to improve Georgian governance, Transparency International Georgia proposed in November 2018 the establishment of a group for planning and coordinating government reforms. Under the prime minister's leadership, it should convene existing reform expertise, analyze the situation, define priorities, and plan and coordinate the implementation of reforms. The group should include representatives of the executive and legislative branches, political parties and civil society as well as experts.

Since the parliamentary elections of October 2012, policy coordination has not been a strength of the Georgian Dream party. With the shocking results of the presidential election of October 2018, they reacted with populist responses to the major challenges (e.g., unemployment, poverty and the low quality of the education system). Civil



society organizations claim that clan interests have returned to politics and the ministries.

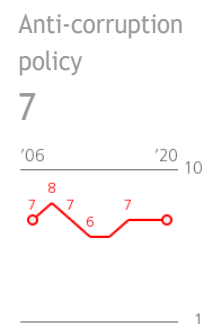
The government's flexibility in policy-making has been somewhat limited as a result of international commitments, most of all the EU Association Agreement. Vertical interference is exerted by the prime minister as the single most important means of ensuring cooperation between the various parts of the administration.

The presence of strong business interests is felt to a much greater extent by the public and has contributed to a decline in public trust toward the ruling Georgian Dream party. Very often horizontal coordination is only induced from the outside through donor coordination requirements; it remains therefore weak. EU procedural norms have not much impacted the practice of governance in Georgia.

Georgia remains the frontrunner among post-Soviet countries in tackling corruption. However, doubts persist with regard to unbiased investigations when it comes to high-level corruption, the efficient enforcement of anti-corruption legislation and successful implementation of anti-corruption policy. In order to minimize corruption risks, public procurement legislation requires improvements. Reforms to existing legislation are especially necessary regarding the contracting of companies linked to politicians and persons who have made donations to the ruling party, the lack of transparency in the use of sub-contractors in tenders, the awarding of contracts to the companies owned by persons who were convicted for corruption-related crimes, and the large share of non-competitive contracting in public procurement.

In the period following the Rose Revolution, Georgia managed to overcome extensive corruption present on all levels and in all branches of government. This success mostly consisted of the eradication of petty corruption and bribery, while "elite corruption" continued. Although there are anti-corruption and integrity mechanisms, high-level corruption remains a (growing) challenge in Georgia. This was pointed out by the Monitoring Report of the OECD Anti-Corruption Network as well as by the European Parliament in October 2018.

Civil society organizations have requested an independent anti-corruption agency equipped with the necessary tools to fight and prevent corruption on all levels. So far, the anti-corruption mandate is scattered among various public institutions. Several law enforcement agencies are tasked with fighting abuses of public office (e.g., the State Security Service, Office of the Chief Prosecutor and Investigation Service of the Ministry of Finance). Important elements in the fight against political corruption lie within the State Audit Office. Coordination of anti-corruption policy and monitoring of its implementation is the task of the Inter-Agency Anti-Corruption Coordination Council, whose secretariat is located in the Analytical Department of the Ministry of Justice. The council coordinates anti-corruption activities in Georgia, updates the anti-corruption action plan and strategy as well as supervises their implementation, monitors accountability toward international organizations, initiates



relevant legislative activities and drafts recommendations from its nine thematic groups. Together with the Open Government Partnership, which held its summit in Tbilisi in July 2018, this creates a platform to discuss anti-corruption policy and its challenges. Despite the positive role of the council and the active involvement of civil society groups, it has not been able to address the challenge of high-level corruption over the years.

The problem of high-level corruption has been particularly visible during the last three years, when watchdog organizations and media discovered several alarming instances of corruption that were not followed up by the relevant law enforcement agencies.

16 | Consensus-Building

There is a strong consensus among the political elite and society that Georgia is a part of Europe and should one day join the European Union (83%) and NATO (78%), according to an NDI poll from December 2018, indicating that there is great consistency in values and a foreign policy orientation. Only ethnic minorities do not share this worldview. Georgia's geo-strategic position and the negative perception of Russia contribute to this consensus.

While there is general agreement regarding the basic principles of the market economy, there is little consensus on economic policy goals. This is largely due to the negative perception of neo-liberal policies among the population. The socioeconomic divide has continued for decades, leading to growing discontent toward the ruling Georgian Dream coalition in the 2018 presidential election. Nevertheless, dissenting opinions are more often voiced with regard to political issues and only rarely with regard to economic decisions. The general consensus on democracy and market freedom is certainly an asset for the country, though there remains a risk that public opinion might change if employment opportunities do not improve in the future.

Although the United National Movement under former President Saakashvili prioritized state-building over democratization, it acknowledged its defeat in the parliamentary elections of October 2012. The ruling Georgian Dream had nearly the same experience in the 2018 presidential election. United National Movement is again the main contender for power in the upcoming parliamentary elections in 2020.

Georgia has experienced the emergence of right-wing extremist groups (e.g., Georgian March). Other anti-democratic actors resemble political "entrepreneurs," acting on behalf of business interests, which garnered between 1% and 3% during the recent presidential election. There are few chances that these minor groups will ever enter parliament.

The most influential actor is the rather conservative and opaque Orthodox Church of Georgia (GOC). The church enjoys very high public trust rates mainly due to public

Consensus on goals

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Anti-democratic actors

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respect for Patriarch Ilia II. GOC claims to be the main interpreter of the national identity, but unclear budget spending for status symbols did cost them some authority in 2017 and 2018. Besides its rejection of any legal bonds with other Christian faiths, the GOC visited the EU and NATO headquarters several times and became more conciliatory toward Western integration – so long as it does not diminish its leading moral role. Patriarch Ilia II maintained in his Christmas message on January 6, 2017: “Divine law is so superior that even the most coherent and rational state laws cannot be compared to it.”

The ability of the political elite to manage conflicts remains underdeveloped. No substantial progress has been achieved with regard to reconciliation with the separatist regions of Abkhazia and South Ossetia, widely perceived as instruments of Russian geopolitical manipulation. The initial progress achieved in the civic integration of ethnic and religious minority groups has been hindered by insufficient enforcement of essential constitutional rights for religious and sexual minorities. There are however more frequent public statements by leading political figures emphasizing the importance of integrating ethnic and religious minorities.

Polarization between Georgian Dream and United National Movement intensified after the presidential election. A still insufficient tradition and culture of dialog and negotiation as well as the lack of mediating politicians with conciliatory approaches (e.g., the former Republican leader Davit Usupashvili and UNM opposition leader David Bakradze) in parliament remain additional weaknesses.

Reform-oriented forces have not yet been able to institutionalize effective conflict-resolution and mitigation mechanisms. Institutionalized forms of consensus-building and legitimizing procedures remain the exception to the rule. The majority of the population, due to dire socioeconomic conditions, are reluctant to engage politically or are prone to becoming the victims of populist rhetoric. Civil society actors improved their role in conflict management and negotiating compromises, making up for a weak political opposition. Certainly, the EU approximation agenda plays a disciplining role.

Over the last few years, but especially since the parliamentary elections in 2016, the Georgian Dream ruling party and the government have become more reluctant to collaborating or consulting with civil society. They more often reject civil society’s criticism as politically biased in an increasingly polarized environment. Due to the relatively weak roots of NGOs in society, they are easy populist targets for ruling politicians.

Thanks to the fact that Georgia does not impose any formal restrictions on NGOs, they can continue to receive funding from Western donors. Their impact, however, on democratic governance remains limited. They do have an impact on agenda setting by providing critical arguments for public debates.

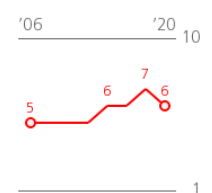
Cleavage /
conflict
management

6



Civil society
participation

6



The Georgian Dream government never strived for mediation between former victims and perpetrators under Saakashvili's regime. Just the opposite, they came to power on the promise to restore justice and hold perpetrators responsible, a promise that was largely left unfulfilled, with numerous high-profile cases shelved to this day. With the reappearance of the United National Movement as a potential contender for power, this voting argument against the former ruling party was massively revived. While this strategy continues to pay political dividends for the ruling party, it does nothing for reconciliation. Instead, it deepens the animosity between major political actors and their constituencies.

Reconciliation with the separatist Abkhazian and South Ossetian authorities did not improve. Abkhazian and South Ossetian political entities become gradually included in Russian Federation structures. Georgia has tried to counter the diplomatic stalemate with offers of free health care to Abkhaz and Georgians residing in Abkhazia.

17 | International Cooperation

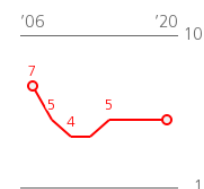
The Association Agreement (AA) concluded with the EU is accompanied by an Association Agenda that represents a serious blueprint for reforms. The development plan of the Georgian government is aligned to this agenda through an AA implementation action plan that is reviewed annually by the EU. The agenda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

The EU is the biggest donor supporting Georgia's approximation process under its European Neighborhood Instrument (ENI) 2014-2020 with €610 million to €746 million for reforming public administration, agriculture and rural development, justice sector reform, and complementary support for capacity development and civil society. The other important donor is the United States, whose four long-term objectives are economic growth, energy sector reform, democracy and governance, and social and health services development. USAID began operating in Georgia in 1992. Over 26 years, it provided over \$1.8 billion in assistance to Georgia. Building on this partnership, the U.S. government dedicates approximately \$40 million annually to 50 wide-reaching programs.

With the government reorganization in March 2018, the State Ministry for European and Euro-Atlantic Integration was dissolved and integrated into the Ministry of Foreign Affairs. The EU-Georgia cooperation unit has been integrated into the general aid coordination unit at the Ministry of Finance, which should serve to better coordinate financial aid from multilateral and bilateral donors spent on infrastructure, credits, and small and medium-sized enterprises.

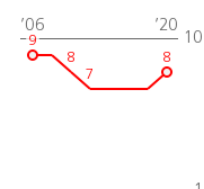
Reconciliation

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Effective use of support

8



Donor-driven efforts to create a professional civil service are still under way. Under the Georgian Dream government, technical and financial cooperation as well as political dialog improved and has been more streamlined than under the Saakashvili administration. Ownership of cooperation programs has improved and drastic policy shifts are no longer observed.

The reform efforts by the Georgian Dream government were acknowledged by the EU in January 2019 in the latest EU-Georgia annual report. Georgia was labeled a frontrunner in reforms and EU approximation in the European Eastern Partnership. The commitment to achieving sustainable results through cooperation even increased (e.g., in the framework of the Association Agreement, AA). However, the implementation of the AA has just begun and there are ambitious initiatives to receive an EU membership perspective. Georgia must convince the EU and its member states of the sustainability of its reform efforts, given the increasing numbers of Georgian asylum-seekers in the EU for socioeconomic reasons since visa liberalization entered into force. The social and economic challenges of the country are being addressed for a limited time by opening channels of legal labor migration. The political elite must convince the population not to misuse this newly gained opportunity.

Due to past threats of and actual conflict, Georgian foreign policy was focused primarily on the closely interconnected issues of handling the difficult relations with Russia and gaining admission to NATO. Since the 2008 war, the latter has moved to the periphery of the foreign policy agenda. Regional cooperation, which is also fostered within the framework of the EU Neighborhood Policy, has continued to be of some importance, but remains fairly weak within the Black Sea Synergy initiative.

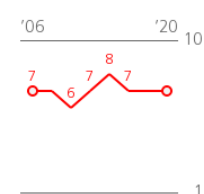
Due to the geographical location of Georgia as a transit country, relations with Turkey, Azerbaijan and Armenia are good and not prone to conflict. The idea of becoming a transportation and energy corridor in the region remains relevant, with the Baku-Tbilisi-Kars railway became operational in October 2017. The railway was built to create an energy corridor for cargo mainly from Azerbaijan and the Central Asian states. Cargo traffic from Turkey to CIS countries may also shift to this new route as Georgia is part of China's Belt and Road Initiative.

The Georgian Dream government attempted to improve relations with Russia. It regained access to the Russian market for some Georgian food and beverage products in 2013. Tourism from Russia also increased. The Georgian prime minister's special envoy to Moscow, Zurab Abashidze, regularly conducts talks with Russian Deputy Minister of Foreign Affairs Gregory Karasin. However, these talks are conditioned upon excluding the issue of South Ossetia and Abkhazia. The visa-free regime for Russian citizens remains in force, but traveling to Russia remains difficult for Georgian citizens, as visa requirements are strict.

Lately, however, these relations have become more strained due to agreements concluded by Moscow with Abkhazia and South Ossetia against the background of

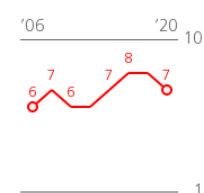
Credibility

7



Regional cooperation

7



the undeclared “hybrid” war in Ukraine, an ongoing “borderization” (i.e., demarcation, fortification and expansion) process with barbed wire and a Russian military presence in the separatist regions. As a consequence of this “borderization,” several Georgian citizens were kidnapped by separatist forces, some of whom were killed. In March 2018, parliament adopted a resolution establishing a sanctions list of perpetrators and persons responsible for covering up grave human rights violations in the disputed territories (i.e., the Otkhozoria-Tatunashvili list). On June 14, 2018, the European Parliament adopted a resolution on the Georgian occupied territories (2018/2741(RSP)) which welcomes the Georgian parliament’s adoption of the bipartisan resolution and calls on EU member states and the European Council to blacklist and impose sanctions on those who appear on the Otkhozoria-Tatunashvili list.

Strategic Outlook

Over the 26 years of Georgia's transformation process, seemingly strong executives lost their power through putsches, demonstrations, impeachments and, lately, elections. The period after the first electoral change of government in 2012 can be characterized as another democratic opening. Since the October 2016 parliamentary elections, which brought a constitutional majority to the Georgian Dream party (not just the coalition), there is a tendency toward democratic closure. Georgian Dream, now an established party, controls all branches of government and levers of power. It changes the constitution as it deems necessary, admonishes the leading opposition party for mistakes made over six years ago, and accuses civil society of being politically biased when it shares concerns with international partners. The Georgian Dream majority has not exercised the necessary self-restraint to introduce democratic standards. Instead, the majority is infected by informal clientele politics. Local and international civil society organizations openly speak of state capture.

The first round of the 2018 presidential elections reminded Georgian Dream that its power is not unlimited and that there is an opposition competitor. Yet it did not seize the opportunity to improve its policies and programs for the poverty-stricken population. Instead, it reacted with a smear campaign against Mikheil Saakashvili and his representatives in Georgia. Saakashvili's UNM replied in a similar manner.

The leaders of Georgian Dream showed weakness in not being able to control the political power game and risk losing the support of local Big Men. They endeavor now to use all necessary means to demonstrate that they can in fact control the process. The 2018 presidential elections also signaled to the opposition that some of the electorate are ready to reconsider their reservations toward Saakashvili and his government. The fight to dominate the parliamentary elections in 2020 is already underway.

While the electorate has demonstrated a willingness to use their votes as a weapon, self-organization around shared interests remains weak. There is also low trust in public institutions, while personalized authorities (e.g., the Georgian Orthodox Church and Patriarch Ilia II, the billionaire Bidzina Ivanishvili and his ruling party, and Mikheil Saakashvili and his successor parties) enjoy a high degree of trust. Unfortunately, in present-day Georgia, there is no place left for liberal parties.

It remains to be seen to what degree, during a period of increased polarization and personalization, both sides of the political divide stick to democratic rules and procedures as well as the law. This could impact all commitments in the EU-Georgia Association Agreement and DCFTA. Genuine democracy requires empowering the population to political self-organization – not neopatrimonial promises – and securing the rights of minorities.