

# BTI 2016 | Georgia Country Report

|                          | scale | score       | rank        | trend |
|--------------------------|-------|-------------|-------------|-------|
| <b>Status Index</b>      | 1-10  | <b>6.31</b> | # 45 of 129 |       |
| Political Transformation | 1-10  | 6.70        | # 40 of 129 | ➔     |
| Economic Transformation  | 1-10  | 5.93        | # 53 of 129 | ➔     |
| <b>Management Index</b>  | 1-10  | <b>5.72</b> | # 40 of 129 |       |

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

|                          |        |      |                                |       |                      |        |
|--------------------------|--------|------|--------------------------------|-------|----------------------|--------|
| Population               | M      | 4.5  | HDI                            | 0.744 | GDP p.c., PPP \$     | 7582.0 |
| Pop. growth <sup>1</sup> | % p.a. | 0.4  | HDI rank of 187                | 79    | Gini Index           | 40.0   |
| Life expectancy          | years  | 74.1 | UN Education Index             | 0.770 | Poverty <sup>3</sup> | % 28.6 |
| Urban population         | %      | 53.5 | Gender inequality <sup>2</sup> | -     | Aid per capita \$    | 145.5  |

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

With the first peaceful transfer of power in the highly competitive parliamentary elections of October 2012, after one year of cohabitation and another year of unchallenged rule of the Georgian Dream coalition, high expectations of socioeconomic improvements and justice yielded disappointment among the population. The economy did not really improve. On the contrary, it contracted and did not provide an expected increase in employment. The new government tried to depoliticize the public sector and to achieve justice. It released prisoners and summoned former officials from the new opposition, the United National Movement (UNM). Political motivation for bringing them to court cannot be denied. Nor can the violations of fundamental human rights during UNM's own reign. More than ever, Georgia is desperately in need of common ground with inclusive and transparent state institutions, an empowered civil society and a much more educated population able to provide homegrown entrepreneurship to increase the economic output and create employment with the help of foreign investments. Further integration with Western structures, mainly the EU and NATO, requires serious reforms, the positive, as well as negative, implications of which need to be openly addressed. At the same time, public debate needs to be institutionalized.

## History and Characteristics of Transformation

A series of dramatic ups and downs have characterized Georgia's political and economic transformation. The development of the country, which from the outset was hampered by the heavy burden of two unresolved ethnic conflicts and a sharp economic decline, could roughly be divided into six phases.

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

The second phase, dominated by the return of former Georgia Communist Party head Eduard Shevardnadze, began with a brief interlude of chaos following Gamsakhurdia's ousting. During the first three years of his rule, Shevardnadze tried to get rid of the competing gangs of criminals that had run havoc in the country and originally supported his return. The adoption of a constitution and the successful organization of elections signaled a fragile consolidation of power. Notwithstanding quite impressive achievements in terms of ending violence and introducing the formal requisites of democratic statehood, and despite massive international assistance, Shevardnadze ultimately did not succeed in stable governance. The only continuous feature was clear dominance by the executive. In contrast, the shape of the parliament was adapted to varying needs. Until 1995, the abolishment of any kind of electoral threshold ensured a highly fragmented legislature. After the creation of the Citizens' Union of Georgia (CUG) in 1993, which was designed to serve as Shevardnadze's party of power, the introduction of an electoral threshold resulted in a stable majority for the CUG. Pluralism was mainly confined to intra-elite competition within the ruling party, which was composed of former Soviet apparatchiks and a group of young reformers.

In the third phase, beginning in 2001, the distribution of official fiefdoms among the different cliques of the elite severely hampered economic growth and gave rise to popular unrest. Confronted with a decline in its authority, the ruling party adopted authoritarian measures, a move that provoked an internal split. Prominent representatives of the wing of young reformers inside CUG, headed by Saakashvili, Zhvania and Burjanadze, formed a new opposition that assumed power in the aftermath of popular protests against the rigging of parliamentary elections in November 2003. The relative ease with which Shevardnadze was overthrown during what was to be called the Rose Revolution can be explained partly by the existence of democratic facades erected under his rule, fomented by a dense network of NGOs and independent media outlets.

In the fourth phase, which followed the peaceful revolution, the victorious triumvirate of Saakashvili, Burjanadze and Zhvania rushed to stabilize the situation. In a wise move, they joined

together to create a new party named the United National Movement (UNM). Supported by more than 96% of the popular vote, the charismatic leader Saakashvili seized an overwhelming victory in the presidential elections of January 2004. The newly created party won more than two-thirds of the seats in the March 2004 parliamentary elections. Control over the executive and legislative branch of the government made implementing a far-reaching structural reform agenda possible. As a result, the government achieved outstanding results in terms of curbing corruption, streamlining an inefficient administration, improving tax collection and providing public goods for an economy that underwent a significant upsurge. Despite these impressive results, critics of the new elite pointed to serious deficits and even setbacks in terms of institutionalizing checks and balances. This concerned the parliament, as much as the judiciary's independence and the media.

The fifth phase, beginning in the fall of 2007, was marked by the government's violent response to demonstrations, violence that seriously undermined Saakashvili's democratic credentials. Growing authoritarian tendencies, as well as the inability of the ruling elite to translate dynamic economic growth into tangibly improved living standards for a majority of impoverished citizens, gave rise to a series of popular protests while feeding the momentum behind deep political polarization. A significant slowdown of economic growth—caused not only by the global financial crisis, but rather by a serious deterioration in the overall investment climate in the aftermath of the war against Russia in 2008—further undermined stability.

The sixth phase started with the defeat of the ruling UNM by the opposition coalition Georgian Dream (GD) in the highly competitive parliamentary elections of October 2012. Initially this led for one year to cohabitation with President Saakashvili during which tensions prevailed. Several former ministers and prominent UNM leaders were arrested or summoned to court in an attempt to hold them responsible for numerous human rights violations. However, how the government coped with this legacy caused international concern and accusations of selectively applying justice. The presidential elections on 27 October 2013, despite some irregularities in the vote count and isolated incidents of political violence, were considered free and fair, and resulted in a straight victory for the GD candidate, Giorgi Margvelashvili, with over 62% of votes, which further consolidated GD's power. The party is now formally in charge of both the presidency and the government and has a majority in parliament. However, Margvelashvili is not a member of any political party, and there are rising tensions between him and Prime Minister Gharibashvili. Finally, the municipal elections in June 2014 completed the democratic transfer of power from UNM to GD at all levels. No less important, for the first time, the former ruling party managed to survive its loss of power intact and formed an opposition faction in parliament.

Giorgi Margvelashvili's inauguration on 17 November 2013 marked the entry into force of constitutional changes adopted under the previous leadership that mark a shift from a presidential to a mixed system, significantly diminishing the president's powers. Bidzina Ivanishvili, who left the office of the prime minister voluntarily in November 2013, introduced Irakli Garibashvili as his successor. The latter assumed the constitutionally most powerful office of prime minister since independence, confirmed by the GD-dominated parliament.

In 2014, Georgia was relatively calm, besides the fact that the Ukraine crisis resonated there. The GD Coalition experienced its first serious crack with Irakli Alasania's dismissal from the post of defense minister in November and the subsequent withdrawal of the Free Democrats from the coalition.

However, the public's appraisal of the GD coalition's performance has decreased in 2014, primarily due to a lack of socioeconomic improvements. The year 2013 turned out to be a transition period, with weak economic activity during the first half, characterized by slower private investment, weak credit growth and budget underspending. Thus, the government had to revise its growth target downwards from 6% to 2.5% at the end of 2013. In 2014, a GDP growth of 4.8% was recorded, and in 2015, only 2% growth is expected. While tackling unemployment is the number one issue among the population, there has been little improvement in this regard.

The most important foreign policy event in recent times is the conclusion of the EU-Georgia Association Agreement on 27 June 2014. It contains serious reform commitments on the part of Georgia in exchange for visa regime liberalization and access to the EU's internal market through the Deep and Comprehensive Free Trade Area (DCFTA), and demonstrates Georgia's intention to move closer to the European Union.

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

Except in the two breakaway territories, Abkhazia and South Ossetia, the state's monopoly on the use of force is secure in Georgia. After the start of the Russian-Ukrainian crisis, and the signing of the Association Agreement between Georgia and the EU on 27 June 2014, Georgia's relationship with its two breakaway regions further deteriorated. The Geneva Talks over Georgia's territorial conflicts, the only international forum left for direct negotiations among all parties concerned, including the two breakaway provinces of Abkhazia and South Ossetia, remain stalled. Moreover, since 2013 Russia has been increasingly engaged in strengthening security measures along the borders with South Ossetia and Abkhazia, which amounts to further isolation of the two regions from the rest of Georgia. On 24 November 2014, Russia and Abkhazia concluded a treaty on strategic partnership that tied their interests together more than ever before. A similar treaty on Alliance and Integration between South Ossetia with Russia was concluded on 18 March 2015. Both treaties provide for close coordination of foreign policies and harmonization of budgetary and customs legislation with a view to implementation in a future Eurasian Union. But most importantly, the two regions are now included in a common security and defense space.

Besides the Abkhazians and Ossetians, who denounce Georgian citizenship, the whole population are entitled to full citizenship rights. However, in the case of ethnic, religious and sexual minorities there exists a gap in adequate implementation of those rights, as far as the practices or exercise or display of convictions or lifestyle are concerned. During the reporting period, there were repeated incidents of clashes between gay rights supporters and Georgian Orthodox followers together with Muslims. Throughout these events, the state failed to secure the constitutional rights of those advocating gay rights. The repatriation process of the Muslim Meskhetians, deported by the Soviet Union in 1944 – an obligation undertaken by Georgia upon its accession to the Council of Europe – is proceeding very slowly. A revision of the National Concept for Tolerance and Civic Integration and a respective action plan are in preparation.

Question  
Score

Monopoly on the  
use of force

5

State identity

6

The Georgian Orthodox Church represents the most trusted institution in Georgia. In particular, the Head of the Church, Patriarch Ilia II, continues to have an extremely high approval rating over 90%. Orthodox religion is coming to the fore as a marker of national identity, its pivotal role legally recognized by signing the Concordat between the church and the state in 2002. Public financing allocated to the Georgian Orthodox Church amounts to 25 million GEL per year since 2013. Only in 2014 did the government decide to finance four other major religious communities (Muslims, Armenian Apostolic Church, Roman Catholics and Jews) and allocated 4.5 million GEL from the state budget as a one-time payment to be disbursed among all four communities. In 2015, the sum will be doubled and distributed in the same way. This decision is perceived as discriminatory by many because it does not include other religious groups, in particular “non-traditional” denominations. Such proselytizing confessions (e.g., Jehovah’s Witnesses, etc.) face strong resentment from broad parts of the public, as well as from the Orthodox clergy, who in general demand stronger recognition of their dominant position and increased political influence. On 30 April 2014, Orthodox Church support groups, clerics among them, rallied in the cities of Tbilisi and Kutaisi to protest against the adoption of an anti-discrimination law. However, the parliament adopted the bill on 2 May 2014.

No interference of religious dogmas  
8

The Georgian Dream government was able to build on a functioning state administration and, at the same time, launch new social welfare programs. The declared objective of the new government when it came to power was the de-politicization of the state administration, and a certain amount progress has been achieved in this regard. There are an increasing number of watchdog organizations monitoring the performance of public administration and contributing to making the Georgian authorities more responsive to public demands. However, there are still problems with impartiality and the adequate provision of state services. In addition, the government and the ruling coalition are losing popularity (as revealed by the February 2015 survey by the International Republican Institute), reflecting public concern over the deteriorating economic situation and a lack of employment opportunities.

Basic administration  
6

## 2 | Political Participation

According to the OSCE and the ODIHR, as well as other international and domestic election observers, the presidential elections in October 2013, the parliamentary special election in April 2013 and the municipal elections in June-July 2014 were deemed to be free and largely fair, marking progress from the highly competitive parliamentary elections in 2012. Whereas the campaign environment was considered much less “polarized” than during the 2012 parliamentary elections, the ODIHR cautioned that “it was negatively impacted by allegations of political pressure, including on United National Movement (UNM) representatives in local

Free and fair elections  
9

governmental institutions.” Yet the misuse of “administrative resources” no longer featured as a major complaint. Arrests of several UNM officials, however, impaired the ability of the presidential party to campaign.

The recognized professionalism and impartiality of the Central Election Commission played a decisive role in ensuring such positive assessments. The last two chairpersons, nominated by civil society representatives according to the rules of procedure, significantly increased transparency, inclusiveness and impartiality. There was free access to the media during the campaign and after the presidential elections, a clear improvement compared to the 2012 parliamentary elections. The Georgian Dream government promised to introduce a more inclusive legislative revision of the Election Code to simplify election procedures and to address the issue of voter equality by redrawing the election districts.

In 2014, for the first time, mayors of several towns (other than Tbilisi) were directly elected. It should be noted that no opposition party managed to win a majority in municipal elections; yet the GD later in February 2015 lost the majority in the Supreme Council of the Autonomous Republic of Adjara due to parliament members’ defections.

The role of billionaire businessman Bidzina Ivanishvili was decisive in winning the 2012 parliamentary elections. After achieving his declared goal of replacing Mikhail Saakashvili by the Georgian Dream candidate, Giorgi Margvelashvili, he left his post as prime minister and active politics after two years in power, passing on the post to one of his followers from the ruling coalition, Irakli Garibashvili. However, his influence behind the scenes is a subject of political debates and another indicator of the still-dominant personalization and clientelism in politics, which reveals the remaining democracy deficit. The Georgian Orthodox Church also has significant influence on decisions made by democratically elected political representatives, who often avoid openly contradicting the Church.

There are neither formal, nor informal restrictions or interferences by the government on the freedom to association or assembly. However, after the change of administration, a new phenomenon of counter-demonstrations emerged, hindering minorities from publicly expressing their opinions. On 8 February 2013, hundreds of protesters prevented then-President Saakashvili from holding his annual State of the Nation address in the Tbilisi National Library. On 17 May 2013, an authorized and peaceful gathering against homophobia of around 100 people was violently disrupted by a massive counter-demonstration of about 30,000, in which some Georgian Orthodox clerics actively participated. Two thousand policemen were unable to stop the counterdemonstrators from disrupting the legal demonstration. Similarly, in some cases, Muslims have been prevented from protesting against discriminatory acts or decisions concerning their religious practice.

Effective power to govern

8

Association / assembly rights

9



In the Reporters Without Borders World Press Freedom Index 2014, Georgia was mentioned as a “noteworthy rise” by 16 ranks from 100th (2013) to 84th, with media polarization as a continuing problem. While the media enjoy a significant degree of pluralism and no longer suffer from traceable forms of state censorship, social polarization is reflected in certain media outlets. Some rely on hate speech and some clearly reflect the partisan views of respective owners. A lack of respect for the editorial independence of media employees, as well as the journalists’ professional objectivism are recurring issues. In the latest IRI Survey from February 2015, Georgian media was acknowledged as the third most trusted institution, after the church and the military

Freedom of  
expression

8

### 3 | Rule of Law

With the election of Georgian Dream candidate Giorgi Margvelashvili as president, previously adopted constitutional amendments entered into force, which redistribute the executive’s power from the president to the prime minister. With restricted competences and weak political support, the new president turned his attention to internal control over legislative process, vetoing several draft laws and consulting with civil society activists. The political environment is highly personalized. Margvelashvili lost the moral support of Ivanishvili, who is still highly influential. This has resulted in competition inside the executive branch of power between the dominant prime minister and the weakened president over actual, but also symbolic and representational superiority. At the same time, the parliament of Georgia does not make full use of its legislative authority and capacity to supervise the executive. Neither the legislative nor the judiciary branches of power are currently able to fully counterbalance the power of the executive branch.

Separation of  
powers

6

Politicization of the judiciary comprises one of the most serious legacies of Saakashvili’s administration. While many judges put considerable effort into improving standards by substantiating their decisions, in particular, in high profile cases, the Prosecutor’s Office still remains the weakest link in Georgia’s judicial system. Until 2012, the prosecution was a branch of the executive and courts were, to some degree, dependent on the executive. Prosecutors, who are now accustomed to adequately substantiating their requests only on rare occasions, seem reticent to change. After separating the Prosecutor’s Office from the Ministry of Justice, no institutional oversight of the Prosecutor’s Office was introduced. This is potentially damaging to the reputation of the whole justice system. With the adoption of a law on common courts and the selection of new members of the High Council of Justice under new rules, the GD coalition has attempted to increase transparency and diminish opportunities for political interference. Nevertheless, the independence of the judiciary, particularly at the level of individual judges, remains an important challenge. Overall, the number of acquittals has increased significantly, even in politically sensitive cases, which indicates some improvement in the independence of the courts.

Independent  
judiciary

7

The Prosecutor's Office has received more than 4,000 applications from victims of alleged torture, inhuman treatment or coercion, as well as members of the population forced to give up their property during the reign of Mikheil Saakashvili. Since 2012, the scope of criminal cases against the former leadership created a challenge for the current government. It faces allegations of politically motivated investigations and court cases. At the same time, the Prosecutor's Office is often criticized for failing to investigate cases of officials who overstep their powers, policemen who violate the law and people who claim to have been mistreated in prison. Responding to this situation, the Prosecutor's Office has expressed its intention to create a new department, which will investigate offenses committed in the course of legal proceedings.

Prosecution of  
office abuse

6

A widely respected institution, although not always heeded by authorities, is the Public Defenders Office, which is responsible for overseeing the observance of human rights and freedoms in Georgia and its jurisdiction. Recently, the Public Defenders Office compiled a list of legal cases that demonstrate that the authorities rarely follow its recommendations.

On April 30, 2014, the National Strategy for the Protection of Human Rights in Georgia, 2014-2020 was adopted. This is a landmark step which complies with the highest international standards. The strategy provides numerous entry points for civil society to reinforce the observance of human rights in Georgia, though the mechanisms for its implementation are not yet fully in place.

Civil rights

7

A growing network of watchdog NGOs is increasing its capacities to advocate for civil rights through campaigns, as well as monitoring government performance. This was demonstrated in the public "This Affects You—We Are Still Spied On" campaign. The purpose of this campaign was to rein in security agencies' direct, unfettered access to telecom operators' networks, after the parliament passed a government-backed surveillance bill that allows the Interior Ministry to retain direct access to telecom operators servers. At the same time, this law gives the office of personal data protection inspector the right to electronically authorize law enforcement agencies' legal interception of communications, once there is a court warrant.

There are still serious problems in the implementation of basic human and civil rights, in particular related to selective justice, frequent impunity in the behavior of law enforcement, and unjustified or excessive violence, though not on a massive scale. During the last two years, the number of prisoners or inmates who have died has decreased drastically. Minority groups facing various forms of discrimination are now more openly addressed.

#### 4 | Stability of Democratic Institutions

In general, the capacity of the parliament to exercise its legislative, oversight and representative functions is quite limited not only due to the dominance of the executive, but also because many members of parliament from the ruling Georgian Dream coalition, which has the absolute majority, often lack the experience and skills to effectively work in public office. However, the parliament's lack of capacity has allowed civil society representatives greater access to the parliamentary process, both in terms of influence on policy-making, as well as the submission (through amenable members of parliament) of draft bills. Even so, only 35% of respondents in the August 2014 NDI poll stated that majoritarian members of parliament will represent voters' interests, but 50% expect them to do what the ruling party wants. According to a recent IRI poll (February 2015), the Georgian parliament is considered favorable by 49% and unfavorable by 44%. Thus, it is ranked eighth among trusted institutions.

Performance of  
democratic  
institutions  
6

By far the greatest challenge currently facing the parliament, however, is the poor relationship between the majority party and the opposition, which has further deteriorated since late 2013. The art of seeking consensus or compromise is not well developed among Georgia's mainly personality-based political actors.

An initiative for devolution of power to the local level was announced and, during the local elections in 2014, several mayors were directly elected for the first time. However, the capacity for democratic governance on the local level remains very limited and requires time and training to take deeper roots.

All major actors demonstrate a commitment to democratic institutions and values. Saakashvili's acknowledgement of the defeat of his party and return to the opposition without taking any serious illegal actions, as well as the relatively peaceful "cohabitation," from October 2012 until October 2013, of President Saakashvili and Prime Minister Bidzina Ivanishvili, are important steps in transition to democracy. Unfortunately, the ruling Georgian Dream coalition and the opposition United National Movement still have not yet arrived at more constructive forms of interaction in parliament and beyond. Nevertheless, while not all democratic institutions are held in high respect by the population, few doubts are voiced regarding their legitimacy, or a preference for any less democratic system of governance.

Commitment to  
democratic  
institutions  
8

The government of Georgia joined the international initiative Open Government Partnership and implemented a number of important reforms. Within the commitments undertaken in 2013, standards for proactive disclosure and electronic requests for public information were implemented. The country has also accepted the obligation to formulate a revised law on Freedom of Information no later than in 2015. However, there are still very few organizations and parties with a broader base in society. Representation and internal democracy are points that need to be addressed in the future.

## 5 | Political and Social Integration

Georgian politics are characterized by a low level of appreciation for parties and their function, as well as relatively low party membership, fragile partisan loyalty and weak rootedness of parties in broader society. Currently, there is no stable and socially rooted party able to articulate and aggregate societal interests, or to adequately represent any extensive interest groups. Financial dependence on the state and a low level of organizational loyalty among politicians are the most obvious signs of weak institutions with top-down hierarchical structures, in which most frequently the chairperson is the completely dominant figure. In most cases, Georgian political parties are built around the persons leading them and not around any specific political platform, ideology or set of values. In fact, politics is so personalized that drastic changes in the political opinions politicians express may go unnoticed. The Georgian Dream coalition, with its diverse range of political views, was established before the October 2012 parliamentary elections with the aim of ousting former President Saakashvili. The coalition united, on one the hand, the liberal Republican Party and the Free Democrats, and, on the other, the protectionist Industry Will Save Georgia party of beer magnate Giorgi Topadze. With the exception of UNM, which survived the loss of power, all previously ruling parties disappeared from the political scene after losing control over the state apparatus. After the parliamentary elections of October 2012, several smaller opposition parties like the Christian Democrats or the New Right virtually left the scene. At the same time, while Georgian Dream is rapidly losing public support, gains by the UNM are very modest, leaving a lot of uncertainty about the future composition and balance of political forces. An IRI survey in February 2015 found 36% support for GD, 14% for UNM and 10% for Irakli Alasania's Free Democrats, which left the coalition in December 2014. Shalva Natelashvili's Labor Party (at 6%), the Patriotic Union (at 5%) and Nino Burjanadze's United Democratic Movement (at 5%) may grow stronger.

Broader groups of the population are not adequately represented either by political parties or by CSOs. The principle of self-organization for representation of public or group interests beyond neopatrimonial relations has not yet taken deep roots in Georgian society. However, some early examples of self-organization can be observed in labor relations. After taking office, the new government abandoned a discriminatory policy against trade unions and, in June 2013, revised the Labor Code. This led to increased activity by employees demanding improvement in their dire working conditions. Trade union activists (teachers are the biggest professional association with about 30,000 members) started openly addressing labor issues, which also led to an increased number of strikes. Likewise, there is growing self-organization among employers, as well. However, social dialogue as an institutionalized form of conflict mitigation has not taken root. In the inefficient agricultural sector, farmer cooperatives are difficult to establish, since the memory of

Party system

5

Interest groups

5

Soviet collective farms still inhibits cooperative efforts aimed at increasing agricultural output, efficiency and quality. The civil society sector keeps growing in numbers and in capacity, but remains primarily concentrated in the capital and other bigger cities. It has only weak links with the broader population. CSOs in Georgia continue to demonstrate low levels of overall sustainability. According to the annual NGO sustainability index published by USAID, Georgian civil society remains steadfastly in the evolving sustainability category, with no change, either positive or negative, over the last three years.

According to a nationwide survey conducted by IRI in February 2015, only 25% of respondents view Georgia as headed in the right direction. This number is significantly higher than results provided by National Democratic Institute surveys: in August 2014, 40% approved of the country's direction and in March 2013, the percentage was 58%. In February 2015, 55% said the country is going in the wrong direction (compared to 16% in August 2014 and 8% in March 2013). This decline is certainly due to the deteriorating economic situation and the government's response to it. Asked whether Georgia is a democracy now, 46% of respondents said yes (in March 2013: 43%), compared to 39% (in 2013: 38%) who said no. Almost half (47% in 2015; in 2013: 51%) declared that democracy for them meant freedom of expression and a free press, while 43% (44% in 2013) declared that democracy meant equality of all citizens before the law, and 35% (35% also in 2013) considered democracy to be the protection of human rights. According to the same survey, priority was given by the population to creating jobs (65%), followed by fighting poverty (32%), ensuring territorial integrity (30%), pensions (25%) and affordable health care (24%). Although there were no direct questions regarding agreeing that democracy is the best form of government or the most preferred political system, dominant public support for EU integration (78%) is clearly related to approval of European values and principles of governance. In the February 2015 IRI survey, 38% opted for democracy, while 50% considered prosperity more important.

Approval of  
democracy  
7

Georgia has been characterized as a country with high “bonding” social capital, but low “bridging” social capital. In the Civicus Civil Society Index for 2010, Georgia scores comparatively low on sociocultural environment, which encompasses elements like propensity to participate and trust, as well as giving and volunteering. Levels of social capital are generally low, i.e., in-group solidarity and out-group mistrust still limit civic engagement in Georgia, mainly apparent as extremely low rates of group membership. Another 2011 survey on social capital and civic engagement indicates that, despite low levels of formal participation in the civil society sector, widespread norms of openness and altruism underlie vibrant forms of bridging social capital, that already exist in Georgia. The key challenge is how to increase civic activity among Georgian citizens and to formally institutionalize currently informal patterns of self-organization. Here, alternative formats for this process might be established by aligning the civil society sector with the population's existing priorities and needs (jobs and the eradication of poverty).

Social capital  
4

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
4

Since 2005, Georgia has been slowly moving from a high development country towards a very high development country with an overall rank of 79th out of 187 and a HDI of 0.744, according to the UNDP's Human Development Report for 2014. According to the National Statistics Office of Georgia, the average monthly salary in Georgian lari (GEL) in 2013 amounted to 773.1, approximately \$466 (in 2012: 712.5 GEL, and in 2011: 636.0 GEL). State pensions likewise increased. The subsistence minimum for a working age male is calculated for 2014 at 144.7-159.6 GEL (\$82.7-\$91.2). The share of the population living under the poverty threshold (Registered Poverty) was 9.7% in 2012 and 2013. According to Georgian official statistics, the number of households below the relative poverty threshold (GEL 109.2) fell slightly from 22.4% in 2012 to 21.4% in 2013. With the drop of the Georgian lari since November 2014, the situation has probably worsened even more.

Inequality remains pronounced. The Gini coefficient for income in 2013 was 0.40 (down from 0.41 in 2012). Consumption figures are generally higher than income, which is commonly under reported, partly because of the role played by in-kind income, particularly in rural areas (. Social exclusion remains worrisome. It has improved only slowly over the last years. There is a significant difference between rural and urban poverty rates (the former is significantly higher, especially when measured in cash income). Wide variation in poverty rates exists from region to region. For many households dependent on remittances from family members working abroad the situation worsened recently due to the economic crisis in Russia, where many labor migrants work. Households have also been hit by the associated fall in the Georgian lari's exchange rate, which resulted in significant price increases. Households with children are more likely to be poor, and households with three or more children are more than twice as likely to be poor than a household with no children. Households in which adults have better education are less likely to be poor. The key drivers of social exclusion include low education attainment levels among household members, unemployment, lack of land ownership, lack of access to health care, lack of access to loans or credit, and lack of social assistance.

Gender inequality seems to be more important in urban areas, and less so in rural, although single mothers are among the most vulnerable groups everywhere. The Gender Inequality Index was 0.438 for Georgia in 2012 (in 2011, it was 0.418).

While more than half of Georgia's population lives in rural areas, the share of GDP created in agriculture is 8-9%, indicating high inefficiency of mainly subsistence agriculture. This is related to small land plots, outdated machinery and lack of access to credit. Banks or micro-financial institutions are not considered a feasible option for small-scale farmers, as interest rates are high. Longer-term loans, which would give farmers time to harvest their crops and pay back the loans, are not available. After the change of government in 2012, broader support for reform of the agricultural sector was launched, but with little tangible impact so far.

| Economic indicators        |          | 2005   | 2010    | 2013    | 2014           |
|----------------------------|----------|--------|---------|---------|----------------|
| GDP                        | \$ M     | 6410.9 | 11638.5 | 16140.0 | <b>16530.0</b> |
| GDP growth                 | %        | 9.6    | 6.3     | 3.3     | <b>4.8</b>     |
| Inflation (CPI)            | %        | 8.2    | 7.1     | -0.5    | <b>3.1</b>     |
| Unemployment               | %        | 13.8   | 16.3    | 14.3    | -              |
| Foreign direct investment  | % of GDP | 7.1    | 7.5     | 5.9     | <b>7.7</b>     |
| Export growth              | %        | 17.2   | 24.9    | 21.0    | <b>0.5</b>     |
| Import growth              | %        | 17.3   | 14.6    | 3.0     | <b>9.7</b>     |
| Current account balance    | \$ M     | -694.8 | -1196.0 | -927.0  | <b>-1607.0</b> |
| Public debt                | % of GDP | 30.5   | 33.7    | 32.2    | <b>34.8</b>    |
| External debt              | \$ M     | 2151.3 | 9519.2  | 13693.8 | -              |
| Total debt service         | \$ M     | 194.7  | 803.5   | 1779.7  | -              |
| Cash surplus or deficit    | % of GDP | 1.5    | -4.4    | -       | -              |
| Tax revenue                | % of GDP | 12.1   | 22.1    | -       | -              |
| Government consumption     | % of GDP | 17.3   | 21.1    | 16.7    | <b>16.7</b>    |
| Public expnd. on education | % of GDP | 2.5    | -       | -       | -              |
| Public expnd. on health    | % of GDP | 1.6    | 2.3     | 2.0     | -              |
| R&D expenditure            | % of GDP | 0.18   | -       | -       | -              |
| Military expenditure       | % of GDP | 3.3    | 3.9     | 2.5     | <b>2.3</b>     |

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

The legal and institutional framework for a market economy created by the previous government since 2004 continued to be an important factor in stabilizing Georgia's economy. However, it turned out to be somewhat hollow in practice. After the change in government, past violations of property rights and formal and informal interventions by state authorities in private businesses became topics of public debate. The Georgian Dream coalition set out to depoliticize business and reinstate property rights. However, there have been new complaints (e.g., by TI Georgia) that the last two years have been marked by artificial obstacles and gratuitous regulations delivering negative messages to investors. So, at the end of 2014, the time limits for enacting 10 key reforms were postponed for a year. Another cause of concern is the new Law on the Legal Status of Aliens and Stateless Persons, drafted by the Ministry of Justice, which entered into effect on 1 September 2014 and tightened regulations on temporary residence in Georgia. The prohibition on the sale of agricultural land to foreigners, new postal service regulations, a prolonged process of reforming the Labor Code or new labor migration regulations provoked foreign businessmen, in particular, to seek recourse from the courts, often with success. No cases of administered pricing were reported. A World Bank study in 2013 found that, in 2008, 30.1% of GDP was produced in the informal sector with very little or no competition.

At the same time, in the World Economic Forum Global Competitiveness Report 2014-2015, Georgia further advanced to 69th position (over previous years: 2013-2014, 72nd; 2012-2013, 77th; and 2011-2012: 88th) and was characterized as an "efficiency driven" economy. The main contributors to this improvement are the macroeconomic environment (although marked by significant volatility), financial market development and goods market efficiency. The areas that mostly worsened are health and primary education. An inadequately educated workforce (20.2%) and lack of access to financing (18.8%) represent the major obstacles to doing business, followed by inadequate supply of infrastructure (10.4%), poor work ethic in the national labor force (9.0%) and insufficient capacity to innovate (8.3%).

The Association Agreement, including the creation of a Deep and Comprehensive Free Trade Area (DCFTA), concluded between the EU and Georgia on 27 June 2014, will fundamentally change business. These changes are focused on the alignment of the domestic business environment with that of the EU. While this will contribute to the economic sustainability in the long run, it creates additional costs and requires serious reform efforts in the coming years.

Market-based  
competition

6



Georgia's presumably highly liberalized economy with only few formal legislative and administrative barriers did not lead, however, to increased competition; to the contrary, it enabled some well-established market players to engage in anticompetitive practices and abuse their market power. The new government is trying to regain some lost ground. On 21 March 2014, the Georgian parliament amended the Law on Free Trade and Competition as well as the Georgian Law on State Procurement with a number of important changes in the regulatory framework. It has split the Competition and State Procurement Agency into two independent legal entities: the Competition Agency and the State Procurement Agency. The amendments also foresee stronger safeguards for the Competition Agency's independence and supervisory powers over state interventions that undermine competition, on the one hand. But, on the other hand, they allow economic agents to take their cases over alleged breaches of competition law straight to courts or to challenge the Competition Agency's decisions there. If functioning properly, the agency will ensure that the market's openness and transparency is secured and that the authorities do not impose administrative, legal and discriminatory obstacles for entering the market and illegally restrict competition. The agency will also determine an economic agent's market share in the relevant market by applying methodological guidelines of market analysis. The law lists potential cases of abuse of a dominant position, sets criteria for determining group domination in case of several economic agents, defines "unfair competition" and also describes cases where an economic agent is obliged to notify the agency about concentration. As a result, economic agents will know in advance what types of actions could qualify as unfair competition and can anticipate and avoid such actions in the future. These measures are expected to contribute to curbing the so-called elite corruption, often discussed in Georgia, such as setting privileged conditions in the market for individual companies, mostly those with political ties.

Anti-monopoly  
policy

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

Liberalization of  
foreign trade

9

Georgia's overall foreign-trade volumes in 2014 were 5% higher than in 2013, according to preliminary data from GeoStat, the National Statistics Department. Exports for 2014 were valued at \$2.9 billion, or 2% less than the previous year, while imports totaled \$8.6 billion, 7% more than the year before. The trade deficit was \$5.7 billion, or approximately 50% of the country's overall trade volumes. The impact of the Deep and Comprehensive Free Trade Area (DCFTA) between Georgia and the

EU on Georgia's trade balance is to date unclear. The DCFTA differs from other international trade agreements in that it covers not only market access provisions (tariffs, customs and mutual recognition of technical standards), but also aims at harmonizing Georgian national legislation with the EU-Acquis.

Over the last two years, Georgia's financial sector has expanded only slightly after a pre-2011 period of rapid growth. Bank operations became an essential part of daily life, though there is still a lot of room for further diversification of banking services. The banking sector operates within an increasingly stable legal framework, as the National Bank of Georgia (NBG) enforces progressive and stringent regulations, including capital and liquidity requirements, on commercial banks. The NBG is gradually introducing reforms to create a more advanced risk-based approach to supervision and to further harmonize its regulations with relevant EU directives and Basel II/III principles.

During 2013, there were 21 commercial banks and foreign bank branches operating in Georgia, 20 of which (including two branches of foreign banking institutions) had foreign capital participation. Georgian banking sector's total assets (including both domestic commercial banks and branches of foreign banks in Georgia) was 17.3 billion GEL as of 31 December 2013 (in 2012: 14.4 billion GEL) with the five largest banks accounting for 77.3% of total assets. Georgian banks are prudently capitalized with a capitalization ratio standing at 16.8%. Georgia's liquidity ratio was up by 1.5% to 37.3% at year-end 2013. The bank capital to assets ratio has decreased from 21.9% in 2004 to 16.6% in 2011, and only slightly increased to 16.8% in 2013. Domestic credits have increased continuously since 2009 from 5.8 billion GEL to 12.4 billion GEL in the third quarter of 2014. Loans in the Georgian banking sector thus increased in 2013 by 21.0% (29.4% in total individual loans, 14.7% in corporate loans). According to World Bank data, in 2012 Georgia had one of the smallest percentages of nonperforming loans among all eastern European countries. However, nonperforming bank loans increased from 3% in 2013 to 3.5% in 2014. The level of domestic savings in Georgia is still quite low relative to the financing needs of the country, even if customer deposits increased by 26.5% to 9.7 billion GEL in 2013 and further to 10.7 billion GEL in the third quarter of 2014 (3.9 billion GEL in 2009). The de-dollarization trend continued in 2013, with foreign currency deposits accounting for 60% of total deposits at the end of 2013 (64% in 2012). NBG's refinancing rate decreased during 2013 to 3.75%, compared to 5.25% at the end of 2012, mainly due to its intention to boost lending and economic activities in the country.

The low ratio of bank loans to GDP at 39.4% in 2013 demonstrates that Georgia's major problem is access to finance. This is grounded in persistent structural obstacles to financial sector development. First of all, the small market size with only limited real sector penetration prevent economies of scale for Georgian banks. Secondly, the moderate country ratings on international markets imply a continued reliance on

Banking system

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external sources of funding for commercial banks with a tendency for short-term lending. Thirdly, low financial reporting standards among Georgian companies and low levels of financial literacy among the economically active population prevent proper use of business loans. Finally, long-term lending is done almost exclusively in foreign currencies, which creates a FX credit risk, realized in early 2015 with the dramatic depreciation of the Georgian lari. Thus, the dependency on investments in the Georgian banking industry by international financial institutions continues.

## 8 | Currency and Price Stability

After suffering from high inflation in 2011 (8.5%), the Georgian economy experienced deflation at -0.9% in 2012 and at -0.5% in 2013. As of January 2015, annual inflation stood at 1.4% again. Thus, the Georgian National Bank increased its key policy rate by 50 basis points to 4.5%. The intention was to tighten monetary policy in late January 2015, amid depreciation of Georgia's national currency (GEL) against the U.S. dollar, and to neutralize additional inflation risks, which are to a significant degree dependent on exogenous factors. The last time the NBG changed its key rate was in February 2014, when it was increased by 25 basis points to 4%. During the period under review, the inflation rate was mainly influenced by price changes in the following groups: food and non-alcoholic beverages (where prices increased by 0.7%) and housing, water, electricity, gas and other fuels (with a price increase of 0.4%). In February 2015, ex-Prime Minister Bidzina Ivanishvili blamed the National Bank of Georgia and its president, Giorgi Kadagidze, who was appointed to his post under the UNM government, for inaction or incorrect actions in response to the Lari's depreciation. These accusations were rejected by the latter. No other attempts at interference from outside in the internal workings of the NBG have so far been reported.

Financial volatility is influenced by upward inflationary pressures and reflects a rising domestic demand for imports. As Georgia imports virtually all of its natural gas and oil products, and even essential food products, there is rapid growth of the money supply and an expansion in net foreign assets. In addition, increasing volumes of imports are not matched by a corresponding growth in exports, creating a persistent current accounts deficit. All this makes it difficult for the government to pursue a consistent anti-inflation policy. It is an important challenge for the country to develop a powerful export sector in order to reduce the foreign-trade gap (in 2014 the trade deficit was \$5.732 million or 50% of the total turnover).

Anti-inflation /  
forex policy

7

Georgia ranks slightly below the average for post-Soviet Eurasia on macroeconomic stability. While risks to macroeconomic stability lessened in 2012, Georgia continuously performs worse than its peers in terms of poverty and inequality. Due to the political insecurities of the recent transition period, macroeconomic stability has been temporarily disrupted. No decisive increase in exports was recorded, while FDI growth never reached the volume it enjoyed before the war with Russia in 2008.

Macrostability  
7

Foreign debt has decreased from 39.3% of GDP in 2010 to 32.2% in 2013. Georgia's gross external debt amounted to \$13.8 billion, of which the public sector accounted for 31.9% as of 30 September 2012, according to the National Bank of Georgia. As of December 2014, the gross external debt is \$13.1 billion. Georgia's current account balance was halved to -\$923.1 million in 2013, up from -\$1.8507 billion in 2012. The total debt service grew from \$1.605 billion in 2011 to \$1.779 billion in 2012 and to \$1.644 billion in 2013.

With increased state expenditures, primarily on social assistance, it is not yet clear how the government will attempt to reduce the deficit. Fiscal consolidation could represent a move forward to a more responsible attitude by the government. Georgia recorded a government budget deficit equal to 2.9% of GDP in 2013 (3.5% in 2012).

## 9 | Private Property

The World Bank's Registration of Private Property Index 2014 again ranked Georgia first among the countries surveyed with one procedure within one day. This positive figure is only overshadowed by the increase in cases of violations of private property by affiliates of the previous government. These are pending in court. These cases indicate that amendments to the laws on registration of immovable property, in particular, have closed substantial gaps in the country's legislation. Improper implementation during Saakashvili's administration revealed severe institutional weaknesses in the judiciary and tax administration agencies. Both are quite vulnerable to executive interference and tend to ignore norms of procedural justice. However, the Georgian Dream coalition has declared its intention to curb the arbitrary disposition of public and private property, reestablish justice in dubious cases, guarantee property rights, and bring more transparency to both past and future transactions.

Property rights  
6

There were serious infringements on property rights before 2012 –including abandonment or citizens handing over property to the state as a gift, arbitrary title registration in the name of the state to property already registered by the owners and missing transparency in government launched large-scale privatization programs. The new authorities tried to secure interests in both real and personal property which are recognized and recorded. However, deficiencies in the operation of the court system hampers foreign investors, especially, from realizing their rights to property

Private enterprise  
7

offered as security. The improvements so far were acknowledged in the 2015 Index of Economic Freedom where Georgia's score is 73.0, making its economy the 22nd freest (primarily due to freedom from corruption, monetary freedom and the management of government spending).

State companies still remain one of the country's major employers, where labor conflicts with trade unions have occurred. Under new regulations, the public postal service came into conflict with private providers. Privatizations were conducted mostly by the previous authorities before they left office. Their conformity to the market still needs to be studied.

## 10 | Welfare Regime

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

When the Georgian Dream coalition entered office, they increased social spending, which accounts for about 35% of the 2015 state budget. As a result, the threshold for getting social assistance has been lowered and support to IDPs and war veterans has been improved. From 1 July 2013, all citizens were entitled to basic health care. Minimum pensions were raised from 100 to 125 GEL in April 2013 and again to 150 GEL (about \$90) in September 2013 (with a further rise by GEL 10 due in September 2015). Depending on length of service, a sum of 2-10 GEL is added monthly to that minimum rate. Thus, half of the budget for the Ministry of Healthcare and Social Protection for 2015 (1.39 billion GEL out of 2.785 billion GEL) or 17.3% of total budget spending is allocated for pensions. The retirement age for women is 60 and 65 for men. In 2013, there were about 694,000 pensioners registered with the Georgian social service agency. The average life expectancy of 74.2 years (males 69.3, females 79.0 years) lies just below the European average of about 75 years. If not seriously addressed by a consistent reform, the costs for pensions in the state budget will explode in coming years.

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

Social safety nets  
5

Georgia is still far from ensuring equal opportunities to all its citizens. Social and economic vulnerability in Georgia is directly coupled with restricted opportunities for some minorities, internally displaced persons (IDPs), people with disabilities and the population living in remote mountainous regions. Significant differences persist between rural and urban areas and between the poorer and the more developed regions of the country in terms of access to infrastructure services. Gender inequality remains an issue of concern, even if there are some improvements. The proportion of women in parliament increased from 6% in 2008 to 11% in 2012. The voluntary gender quota – inclusion of women on party lists – increased from 20% to 30%. For the parties that comply with this provision, more budget funds are allocated. However, the proportion of women in local councils increased only slightly from 11% to 11.8% after the municipal elections in 2014. A Gender Equality National Action Plan for 2014-2016 was adopted to achieve greater gender equality in different areas of political, social and economic life. However, education enrollment rates show no significant difference between female and male students, while in tertiary education there is a higher rate of female students. Gender gaps are more evident in the field of employment, where the prospects for career success and equal remuneration for women remain limited. While unemployment was significantly higher among males (16.5%) than females (12.3%) as of 2013, according to official statistics, a higher number of women reported as employed appear in reality to be self-employed, a significant proportion of them in agriculture and in petty trade.

Although there exists no legal discrimination against ethnic minorities, their representation in state jobs is disproportionately low. This can only in part be explained by the lack of proficiency in the Georgian language – a necessary precondition for taking many state jobs – as proficiency has increased over the last decade, mainly among the younger generation. The situation of ethnic minorities, particularly in urban areas, has improved as well. However, especially with regard to integration into the educational system and in the labor market, there are still obstacles to overcome that are mainly grounded in public perception and discriminatory hiring practices. One important aspect of social inequality is the stigma carried by representatives of sexual minorities, and also by disabled persons. In the latter case, some initial steps have been taken to integrate the disabled into society, jobs and educational institutions. Still another issue is the frequently expressed, general intolerance toward representatives of non-traditional religious denominations, e.g. Jehovah's Witnesses.

A new policy tool for creating better opportunities that has been slowly introduced by the current administration, while fully neglected by the previous government, is employment policy. In order to better coordinate supply and demand on the labor market, vocational training is garnering more attention. The impact of this approach is not yet measurable, as preparation by the Ministry of Labor, Health and Social Affairs is ongoing.

Equal opportunity

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## 11 | Economic Performance

After several years of rapid economic growth at an average of 6% annually, Georgia's GDP stands now at \$16.13 billion and its GDP per capita increased from \$922 (2003) to \$3,681 (2014). However, its economy has still not reached the GDP level of 1989. Economic growth markedly slowed down in the past two years, which happened largely due to uncertainty after the October 2012 parliamentary elections, low investment and slow budget execution (because the government withheld certain investments from infrastructure development). Only in the quarter after the October 2013 presidential elections did economic growth recover, picking up speed to reach 4.8% in 2014.

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

The declining trend of FDI in Georgia continued through 2013 and 2014 in most sectors. A significant increase in investments was observed only in the fields of energy, mining, transport and communications, while the largest decrease occurred in the construction sector.

Both exports and imports drastically decreased from the second semester of 2014, after a positive trend in 2013 that took place mainly due to the removal of the Russian trade ban. Georgian authorities state that the drop in exports was caused by several external factors and specifically the difficult political and economic situation in Russia and Ukraine. The two countries imported less wine, alcohol, mineral water and citrus than usual. The deepening of the crisis in Russia also led to a drop in remittances (-23%) and tourism, which, coupled with modest foreign investment, led to downward pressure on the Lari exchange rate that further deteriorated in the beginning of 2015.

Georgia's exports to the EU and Turkey are assessed to be significantly below its potential. The share of exports to the EU remained at an almost stable level of 20%, while exports to Turkey have declined over the last decade. Even if exports to the EU are expected to be enhanced by joining the DCFTA, the unsophisticated export basket continues to be a challenge if not diversified to become more competitive. As a consequence of the decrease in exports and increase of imports, the trade balance in 2014 widened by 12% compared to 2013. Only tourism has positioned itself with about 25% growth per year as the most important service export in Georgia. In 2013, it accounted for almost one third of the total service export and 12% of GDP.

Output strength  
6

## 12 | Sustainability

Georgia possesses rich biodiversity, microclimates and cultural landscapes, but is especially sensitive to economic interventions into vulnerable ecosystems. The comprehensive but ineffective legal framework for environmental protection established in the 1990s has undergone excessive deregulation since 2004, in conjunction with economic liberalization. Even with the Green Party joining the Georgian Dream coalition, this trend was not really reversed by the new government (the party's only deputy in parliament left the coalition within a year). Georgia's environmental management remains under threat of shortsighted economic interests. Notwithstanding growing protests from the affected population and civil society activists, this has resulted in unsustainable use of natural resources causing – in addition to the impact of global climate change – serious environmental degradation that is especially devastating in agricultural, mountainous and coastal regions of Georgia, causing an increased number of eco-migrants. Exacerbating the situation of global climate change is the absence of strategies and capacities for sustainable resource management (waste, water, forests, glaciers). Official leasing contracts are, as a rule, short-term and do not provide any incentives for a sustainable use of resources. As a consequence, there is an alarming degree of deforestation in Georgia, which increases the likelihood of soil erosion, landslides and flooding. The construction of several hydroelectric plants, which could have a substantial impact on ecosystems, has been openly resisted by environmental NGOs, such as Green Alternative, and local populations. However, this has not hindered plans, in particular, for construction of the huge Khudoni Dam on the Enguri River. The construction of seven hydroelectric plants in the Kazbegi District and in the Dariali Valley has already begun. The planning and construction of these hydroelectric plants have not been sufficiently transparent; they have been conducted without the necessary consultations with ecological experts or open public discussion. The government tends to emphasize the economic advantages of these projects and trivializes possible ecological risks, which became more visible during the reporting period. Another problematic issue is waste disposal and the situation of canal systems, which are the source of numerous infections. The situation of the country's polluted lakes and rivers also requires urgent action. Disaster risk reduction measures are to be prepared to prevent increased weather- and climate-related hazards.

Environmental  
policy  
5

Although education policy in Georgia has been marked by increased investment, and the education system has undergone serious reforms, its quality remains a major problem that the government has been trying to address since 2014, in particular with the elaboration of a new Education Strategy. However, since 2006, despite a real increase of nearly 47% in education expenditure, public spending on education has remained around 3% of GDP and therefore lacks serious investment to substantially improve the sector. The poor performance of Georgian pupils in international

Education policy /  
R&D  
6



assessments like PISA and TIMSS points to substantial deficiencies in the education sector that also reflect the deep urban-rural divide and social inequalities. Higher education has been to a great extent converted from a public good into a commodity accessible only for those who can afford it.

The problem of quality education is linked to the excessive number of teachers from pre-school to secondary level teaching fewer than the OECD average number of hours, being less qualified for the requirements of modern education than teachers in OECD countries, and, in most cases, underpaid – among the lowest paid in the public sector. However, salaries represent almost 75-80% of the budget assigned to education, leaving little space for curriculum improvement, teacher training, grants for research and development or scholarships. The government is currently trying to address the need for improvements in teacher training and remuneration. One success is the de-politicization of schools in comparison to the previous government, under which teacher trade union activists were discriminated against. Overall, self-organization among teachers is low and they are not actively involved in social reform, which has limited the impact of all reform efforts since 2004.

In higher education, Georgia joined the Bologna Process in 2005 and successfully eradicated corruption for university entrance exams by implementing a system of national exams. However, this has also generated a demand for fee-based private instruction for young people preparing for these exams. With little internationalization and extremely little money available for research funds, human resources are not adequately renewed so as to contribute to the elaboration of programs and curricula that would be more closely tied to the demands on the labor market.

Only very late in 2009, the government realized the importance of reforming the vocational education and training (VET) sector, which, under the new government, received increased funding. However, the contribution of the VET system to overcoming the skills mismatch on the job market is still very limited. As in the whole field of education, reforms in this sector will take a while to create the intended impact. The stigmatized perception of vocational education has also contributed to its negligence. Informal as well as continuous education opportunities are marginalized in the education sector, although Georgia has adopted Lifelong Learning Policies and Strategies. Overall, it seems that quality standards in education can only be achieved with the active involvement of employers' and employees' representative organizations.

# Transformation Management

## I. Level of Difficulty

Georgia is still suffering from its deep decline in socioeconomic development after the demise of the Soviet Union. Violent conflicts, economic decline and the loss of the state monopoly on legitimate power led to an immense outflow of capable people during the 1990s. Those societal actors who create change were mainly missing and the overall level of education seriously deteriorated. Thus, the group of political reformers under Saakashvili which came to power in 2004 did not have a broader organized base in society. While being successful in some of their state-building efforts, establishing formal procedures and rules that are accepted and adhered to by the majority of society remain problematic in Georgia's socially segregated society, where members of the small group of elites know each other personally. Qualitative changes appeared difficult to achieve in a political culture built around personal loyalty, tactical rapprochements and confrontation instead of a broader consent over long-term strategic development goals. Certainly, the overall limited resources of people, finances and capacities available, and the path dependence on Soviet governance style and overall political culture constantly impede substantial reforms that limit privileged access to resources to the few in favor of increased participation of the broader population organized in different kinds of interest groups, often replacing change with only superficial window dressing. While Saakashvili's reforms succeeded in undermining the overall prevalence of informal practices in dealings with state bureaucracy, the education system, health care, law enforcement and the judiciary, the reliance on informality did not disappear. Informal networks are still employed as coping mechanisms and as social safety nets, or as doors to building a career.

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

Structural  
constraints

7

In Georgia, civil society organizations emerged and became active only during the late perestroika period of the Soviet Union as a part of the national movement challenging the Communist Party. During the 1990s, non-governmental organizations managed to survive only thanks to international donor grants, though this fact had mixed impact on their effectiveness and legitimacy among the broader population. Through access to donor funding CSOs provided political activists a niche for their economic survival. Over the years, civil society managed to emerge as an important and influential factor in pushing for constructive and principled change in the political culture, including the moral atmosphere conducive to the peaceful change of power after the parliamentary elections in 2012. On 12 December 2013, the Georgian parliament acknowledged the important role of CSOs in concluding a memorandum with the civil organizations, and established a new tradition of cooperation. Thanks to relatively greater freedom in comparison to most other post-Soviet countries, several capital-based NGOs developed into serious watchdog organizations challenging governments and politicians. However, although increased NGO activity is observable now also in the rural areas, most of these lack a broader membership base. Trade unions represent one of the few exceptions with several thousand members, but their influence is limited. The majority of the impoverished and disenfranchised population is turning towards the Orthodox Church of Georgia for orientation, and to social networks or friends for assistance in need. The emergence of an elitist NGO sector focused on professional consulting and service provision is to a great extent disconnected from the broader society. Those NGOs are still vulnerable to allegations as “grant eaters” or as politically biased, as happened at the end of 2014. Among the younger generation, students’ civic activity has become more common.

Civil society traditions

6

Persistent social, ethnic and religious cleavages in a country without a tradition of consensus-building through open and transparent dialogue over disputed issues or interests can lead to a confrontation over personalized issues. However, the experience of extreme violence in the early 1990s with paramilitary groups taking over the state and making it a hostage to their particular interests led to caution in escalating conflicts. However, there still are some earlier cases of violence, as mass protests were roughly dispersed by the police in November 2007 and May 2010, the Russo-Georgian War took place in August 2008, and torture became routine in prisons under the Saakashvili regime. Since the change in government in October 2012, there have still been several incidents of smaller violent clashes between the followers of Saakashvili and his contenders from the Georgian Dream, against gay activists, or between the Orthodox majority and the Muslim minority. The state authorities still need to learn how to handle such conflicts in an impartial way, as in the most notorious case of an anti-homophobic rally that was held in Tbilisi on 17 May 2013, the International Day Against Homophobia, during which gay rights activists were violently harassed by thousands of protesters opposing homosexuality who managed to break through a police cordon.

Conflict intensity

5

## II. Management Performance

### 14 | Steering Capability

The billionaire Bidzina Ivanishvili united the Georgian Dream coalition in its intention to oust President Saakashvili and his United National Movement from power. In its election platform the coalition promised to do a lot of things differently, but any coherent strategy or program was missing. The lack of strategic vision in publicly accessible strategy documents, along with the lack of clearly formulated agendas on the part of almost every political force, is a major drawback. Whenever such documents exist, their function is more closely related to public relations objectives than to an operational plan, and the lack of a realistic implementation agenda remains the main problem even when such documents read well. Even when strategic priorities are set, these may haphazardly change or not be followed in a consistent manner, due to a good deal of voluntarism and unpredictability at the top level of governance. The lack of strategic thinking emerges partly from the legacy of an outdated political tradition, and partly from a weakness in institutional incentives to think and plan strategically. That weakness, in turn, is related to decision-making by a small circle of people in political leadership reluctant to involve independent experts or to consult with the population and civil society. There is also lack of institutionalized channels through which policies can be publicly negotiated, mixed with the tradition of imitating democratic institutions and procedures, which leads to disinterest in the content of any policy debate unless politically relevant, and to widespread populism. Only at an early stage after coming to power, the new government consulted broadly on the revision of the deregulated labor code. Some attempts were made toward inclusive strategy elaboration in the case of less influential ministries like those of sports and youth affairs, or of culture and monument protection. However, it was in the field of culture that the scandal emerged around the destruction of the presumably 5,000 year-old Sakdrisi gold mine that fell victim to a mining company's commercial interests. So far, the new government has not demonstrated any serious will to look for participatory mechanisms aimed at resolving such conflicts.

With the signing of the Association Agreement (AA) between Georgia and the EU on 27 June 2014, Georgia has once more underscored its goal of approximation and full integration into the EU. The AA is supposed to provide the master plan for all future reforms. But the question remains as to how implement the European values of democracy, good governance, rule of law, protection of human rights and fundamental freedoms into everyday practice. Over two decades, three different governments have introduced a number of reforms, modernized financial and public

Question  
Score

Prioritization  
5

Implementation  
6

institutions, initiated the harmonization of Georgian legislation with EU regulations, and made considerable progress in the fight against corruption. However, there exists an “operational gap” in proper implementation of these reforms. Frequently delayed introduction or enactment of important legislative amendments has become one of the negative traits of the Georgian Dream government, which has prevented the formation of a stable and predictable legal environment in the country. At the end of 2014, the deadlines for enacting 10 promised key reforms were delayed for a year.

General promises are often offered, instead of dealing with the lack of a common strategic vision by a rather diverse leadership, regarding how to achieve its claimed objectives in a consistent way. Numerous strategic documents were drafted to appeal to international donors, while their implementation proved neither straightforward nor consistent nor successful. The government’s promises included eradicating poverty, developing agriculture, resolving the conflicts in Abkhazia and South Ossetia, and joining NATO and the European Union. In general, all of Georgia’s administrations have struggled to develop strategic plans and to implement existing plans. Obviously, this problem has not disappeared with the new government, whose officials often lack professional expertise, managerial skills and clear leadership from the prime ministers’ office. Frequent staff rotation, lack of institutional memory and of horizontal coordination among different, related state agencies, as well as profound deficiency in policy formulation and implementation capacities still persist.

Policy learning has been imperiled for quite some time by the deep divisions in Georgian politics. The relationship between the parties supporting the government and the UNM opposition remains confrontational and counterproductive. Only in rare cases do both political camps succeed in bridging their considerable differences. For example, on March 7, 2013, the parliament adopted a jointly drafted resolution reiterating Georgia’s commitment to its pro-Western foreign policy course. Overall, parties stand only on very narrow programmatic bases with little interaction and legitimation by their membership.

On the positive side, after the 2012 parliamentary elections, cooperation between the new government and civil society organizations improved considerably and the practice of repression and intimidation of the opposition was discarded; however, recently, legitimate criticism by leading watchdog NGOs against the government’s legal initiatives strengthening surveillance has been rejected by the authorities as politically biased.

And another negative example: After the 2012 elections, the Georgian Dream coalition continued the bad practice of the preceding Shevardnadze and Saakashvili administrations with regard to excessively frequent rotation of government positions, disguised by declared intentions of capacity-building and de-politicization of the state institutions. However, developing a stable and meritocratic civil service assisting political office holders in professional decision-making or policy formulation is still to come.

## 15 | Resource Efficiency

The rotation or replacement of non-performing members continued under the new government, although in some cases the decisions had political or personal overtones, and do not seem to be motivated by any long-term strategy aimed at efficient management of resources. Still, whimsical nominations to high government positions based on personal favoritism common under Saakashvili were replaced for the sake of more rational and efficient management of human resources, although this has not always led to more competent appointments. Civil service reform that should provide security to professionals is still under preparation. So is decentralization of governance and devolution of decision-making and financing authority to the local level. These processes are restricted by a serious deficit of capable human resources in rural areas. At the level of local authorities, a selection process was conducted aimed at replacing political appointments with more professional staff. The most competent candidate has not always been selected, as NGOs monitoring the process discovered. Controversial appointments continued to occur with the new government. Consequently, the minister of energy and vice prime minister is a well-known footballer, but hardly an expert on energy-related issues; the prime minister, formerly the managing director of Ivanishvili's Cartu Foundation, became minister of interior, was handpicked for this highest governmental position by the billionaire, who left after one year in office. There are allegations that Ivanishvili is using his personal authority to influence governmental decision-making from behind the scenes. The Institute for the Development of Freedom of Information, proactively working on the provision of public information, repeatedly detected that leading state officials' self-allocated premiums often greatly exceeded their impressive salaries. Such practices continue to undermine public trust in the government's commitment to sound and consistent reforms. On the positive side, internal control mechanisms, like the State Audit Office, improved performance in identifying misuse or ineffective use of state funds by public employees in office. Only in 2013, the State Audit Office conducted 95 financial and performance audits at different public entities covering the performance period from 2004 to 2013. In-depth audits of some of these institutions had never been attempted before. The findings by the State Audit Office point to essential shortcomings ignored by government or state agencies over the years, due to both mismanagement and a lack of parliamentary oversight. This had resulted in wasteful and undocumented spending of millions of Lari in public funds, which posed serious risks of corruption.

Efficient use of  
assets

6

Since the parliamentary elections of October 2012, policy coordination has not represented the strongest suite of the diverse members of the Georgian Dream coalition, which was united under the single goal of ousting then-President Saakashvili. They inherited a state apparatus that had developed certain steering capacities, even if previously these were mainly used to implement the decisions of the power circle around Saakashvili. Ministries no longer function as shields for influential circles of economic actors, and policy has gained coherence. Ample space, however, remains even now for improvement with regard to horizontal inter-agency coordination. Vertical interference by the president or prime minister represented the single most important means of ensuring cooperation between different parts of the administration. Ideally, the government should be guided by its revised program, “For Strong, Democratic and Unified Georgia,” adopted on 26 July 2014. However, while observing disputed cases like the destruction of the ancient Sakdrisi gold mine or the revision and implementation of the Labor Code, it has become clear that, in the presence of strong economic interests, there are no transparent procedures to accommodate opposing interests along balanced policy principles.

Policy  
coordination  
7

The Georgian Dream government set out to fight the “elite corruption” of the previous government, which had set up privileged conditions for individual companies (having political connections) in the market. On 21 March 2014, the parliament of Georgia adopted its “On the Amendments to the Law of Georgia on Free Trade and Competition”-law, which was developed as a part of anti-monopoly reform to improve the institutional framework of businesses by promoting free competition and developing competitive market as a prerequisite for joining the Deep and Comprehensive Free Trade Area (DCFTA) with the EU. In order to assure its proper implementation, the Competition Agency was established to exercise effective state supervision over a free, fair and competitive environment in the market by preventing the abuse of dominant positions by any economic agent, by supporting small and medium businesses, and by reacting rapidly to violations of the legislation regulating free competition. However, given the past experience of selective justice cases, it remains to be seen how impartially the new agency will operate.

Anti-corruption  
policy  
7

The State Audit Office of Georgia (SAOG) is the office of the auditor general and the primary auditing body. Open access to declaration forms and legislation, as well as a hotline number, are provided on the office’s website. According to Freedom House’s Nations in Transit – Georgia 2013, the SAOG is provided with broad powers to monitor political finances and seize assets or fine any group or organization in violation of Georgia’s campaign finance regulations. So far, auditing activities mainly covered periods before the new Georgian Dream coalition was in power, and SAOG’s impartiality regarding later developments remains to be observed.

The Inter-Agency Anti-Corruption Coordination Council represents the other important institution created on the basis of the law on Conflict of Interests and Corruption in Public Service. Its functions include: coordination of anticorruption

activities in the country, updating the anti-corruption action plan and strategy, as well as supervision of their implementation, monitoring accountability towards international organizations, initiation of relevant legislative activities, and drafting recommendations by its nine thematic groups. The council is also following on Georgia's implementation of the Open Government Partnership (OGP). Based on an official decree "about the necessary measures for the implementation of the action plan of Georgia for the Open Government Partnership," starting from July 2013, government institutions are obliged to make public key operational information. The implementation of a National Action Plan of 2014-2015 (NAP) – jointly elaborated by the government, civil society, as well as in consultations with the public – will be monitored by the government. Relevant reports will be regularly prepared by the Inter-Agency Anti-Corruption Coordination Council.

These institutional mechanisms do not fully prevent cases of nepotism and cronyism, but do provide ground for making such cases public and putting pressure on the government.

## 16 | Consensus-Building

With the signing of the Association Agreement between Georgia and the EU on 27 June 2014, the country committed itself voluntarily to conducting serious reforms in further aligning itself with EU standards. The Association Agreement was essentially prepared under the UNM government and finalized by the Georgian Dream coalition. Among the political elites, there is a broad consensus on Western integration, although, while UNM was more in accord with neoliberal approaches favored by Republican administrations in the U.S., Georgian Dream seems to prefer the approaches prevalent in the EU. Another dividing line between the two political forces is policy towards Russia, in which case the UNM accuses Georgian Dream of a pro-Russian stance and too conciliatory an approach in addressing Georgia's separatist conflicts.

Beyond the basics, there is likewise little unity within the ruling coalition. After the arrest of top staff members from the Ministry of Defense for corruption, Minister Irakli Alasania, leader of the Free Democrats Party, was sacked by the Prime Minister for his public criticism of this action. As a consequence, the Free Democrats Party quit the coalition and went into opposition, while some members of the party left the government and the majority faction in the parliament, accusing Georgian Dream of deviation from a consistent pro-Western policy. Parliament Speaker, Davit Usupashvili, denounced, on behalf of his Republican Party, another member of the ruling coalition, the allegations about Georgia's Euro-Atlantic course being under threat as "groundless," and announced that his party will not leave the coalition. However, Republicans frequently criticize decisions supported by the majority of the Georgian Dream, and are expected to further dissent in the future. This, once again,

Consensus on goals

7



demonstrates that there is no detailed strategic and value-based vision around which the coalition can be united. Instead, it is kept together by political circumstances and the fact of being in power.

While there is general agreement regarding the basic principles of the market economy, there is hardly any consensus on common policy goals within the rather diverse coalition of political parties that make Georgian Dream. Nevertheless, the dissenting opinions are more often voiced with regards to political issues, and rarely relate to strategic decisions in the economic sphere promoted by the government – the parliament more often simply rubber-stamping government initiatives.

Although the National Movement under former President Saakashvili prioritized state-building over democratization, it acknowledged its defeat in the parliamentary elections of October 2012. The Georgian Dream coalition set itself the task of depoliticizing state institutions. The legacy of human rights violations by the previous government created a segment in society that demands revenge or justice against UNM members previously in power. The Alliance of Patriots (AOP) managed to unite some such people. AOP was also in favor of delaying signing of the AA with the EU, and considers Georgia's NATO aspirations "fruitless." It came in fourth in last year's local elections by garnering just under 5% of the vote. Although this group cannot be called explicitly anti-democratic, it argues that the new government did not take sufficient legal measures against the alleged UNM perpetrators, in contrast with the position promoted by the majority of Georgia's Western partners. Other anti-democratic actors resemble political "entrepreneurs," acting on behalf of some bigger business interests. Another influential factor is the rather conservative Orthodox Church of Georgia, one of Georgia's least transparent institutions, but with very high public trust rates mainly due to public respect of the person of Patriarch Ilia II. As disappointment grows because living conditions for the population are not improving, more support for antidemocratic forces can be expected. According to an IRI survey from February 2015, if people had to choose, only 38% opted for a democratic system of government while 50% wanted a prosperous economy. However, support for joining the EU (85%) and NATO (78%) remains high.

The capabilities of political elites related to conflict management remain to a great extent underdeveloped. No substantial progress has been achieved with regard to reconciliation with the separatist regions of Abkhazia and South Ossetia, widely perceived as instruments of Russian geopolitical manipulation. The initial progress achieved in civic integration of ethnic and religious minority groups is hindered by insufficient enforcement of essential constitutional rights for some religious and sexual minorities. The polarization between Georgian Dream and United National Movement continues. There is an insufficient tradition and culture of dialogue and negotiation, and reform-oriented forces have not been able to institutionalize effective conflict-resolution and mitigation mechanisms. Institutionalized forms of consent-building and legitimizing procedures are still more the exception than the

Anti-democratic  
actors

7

Cleavage /  
conflict  
management

6

rule, also because the majority of the population, due to dire socioeconomic conditions, are reluctant to participate in the political field as active citizens, or are prone to become victims of populist rhetoric, which often exploits existing tensions and conflicts.

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

However, due to the fact that the NGOs do not sufficiently represent broader parts of society, and often follow an agenda not aligned with the needs of the population, CSOs do not enjoy much trust in society (e.g., in comparison with the church, army or patrol police, or recently, the media). Under the new government, leading NGOs fulfill some control functions normally exercised by political opposition. Trade unions and professional associations have developed slowly, being concentrated mainly in the capital and bigger urban centers. In rural and mountainous areas, the few existing NGOs are still very weak and have only very limited influence on local affairs. However, there have also been some threats voiced against NGOs. In May 2014, Prime Minister Irakli Garibashvili slammed NGOs united in the This Affects You coalition, a group campaigning against the government's unfettered access to telecom operators' networks, saying that they "damage" Georgia's international reputation and "undermine" the country's security. Previously, in a joint statement on 2 February 2014, 46 non-governmental organizations condemned ex-Prime Minister Bidzina Ivanishvili's remarks in which he stated that he is looking into the activities of several civil society activists considered to be "threatening."

Possibilities for reconciliation with the separatist Abkhazian authorities deteriorated further with Abkhazia's conclusion of a treaty of alliance and strategic partnership with the Russian Federation in December 2014. A similar treaty was signed on 18 March 2015 between Russia and South Ossetia's de facto authorities. These acts to some extent are seen as a Russian reaction to the conclusion by Georgia of the Association Agreement with the EU. State Minister of Reconciliation and Civic

Civil society  
participation  
6

Reconciliation  
5

Equity Paata Zakareishvili has very little to offer the secessionist entities other than to become more self-reflective on the origins of the conflicts and Tbilisi's mistakes. There are only few government-led confidence building measures toward Abkhazians and South Ossetians, focused mainly on the provision of medical aid. The status neutral personal travel documents offered by Tbilisi were rejected by both Abkhazians and Ossetians, since they had to be issued by Georgian authorities.

The many cases of selective justice, arrests of political opponents and businessmen, or extortions from small- and medium-scale enterprises by state officials during the Saakashvili administration have created a deep split in society. After the new government took office, demands proliferated for "re-establishing justice," which would include prosecuting previous government officials for having misused their position for their own advantages or political interest. At the same time, international pressure on the new government to not practice selective "revenge" justice is also very high. As many persons accused of misdeeds remain in office, there is a widespread conviction that a thorough reappraisal of the past would require more than merely juridical measures. However, suggestions that truth and reconciliation commissions be composed of prominent members of civil society have not been brought to realization. The ongoing revision of the National Concept for Tolerance and Civic Integration could offer still another approach towards a broader reconciliation process in Georgia.

## 17 | International Cooperation

As in previous years, Georgia has continued to receive massive financial aid from multilateral and bilateral donors with the bulk of financial assistance spent on infrastructure projects like the rehabilitation of roads, water pipelines, irrigation systems and the electricity sector, as well as on credits to small and medium-sized enterprises. While some of these projects were considered successful, donor-driven efforts to create a professional civil service are still under way. Critics claim that, under the Saakashvili administration, aid money was not always spent in ways that helped strengthen democracy and the rule of law. Ownership of cooperation programs was varying in accordance to political convictions, which was sometimes expressed in drastic policy shifts. Donor coordination remained weak. The new government should coordinate international assistance according to its development strategy Georgia 2020, which lacks clearly formulated indicators.

The Association Agreement concluded with the EU is accompanied by the Association Agenda, which for the first years will steer the implementation of Georgia's commitments towards EU principles and standards. The agenda provides for an explicitly formulated long-term development strategy and requires it to be consistently implemented. One of the major donors is the European Union, supporting Georgia's approximation process under its European Neighborhood

Effective use of support

7

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

The fact that, prior to the October 2012 change of government, important administrative decisions were usually taken by a small circle of insiders with no inclusion of the persons affected by these decisions was felt to be a major problem that seriously compromised the government's credibility as well as its commitment to implementing serious reforms and establishing transparent and democratic practices of governance. The new Georgian authorities stopped criticizing donor organizations for being too bureaucratic, and the overall balance of the cooperation between Georgia and the international donor community remains good. The commitment to achieving sustainable results through cooperation even increased, e.g., in the framework of the Association Agreement.

Credibility  
7

Georgian society supports the course of orienting the country toward the integration into European Union and NATO structures. A vast majority of respondents consider EU support to be very important for Georgia, and 80% favor EU membership. However, aspirations for EU and NATO membership are often seen unrealistically as the solution for all social and economic problems of the country. Unrealistic expectations seem to lie in the tradition of patrimonial relationship with leading figures, when loyalty is provided on the condition of delivery of material improvements. Thus, Mikheil Saakashvili, as well as billionaire Bidzina Ivanishvili, can be blamed for having raised such unrealistic expectations in the population in order to legitimize their aspirations for power. However, they cannot create employment, but only the necessary environment. Only business can create jobs, which require entrepreneurial skills and affordable loans for start-ups.

Due to past experiences of threat perception and conflict, Georgian foreign policy has been focused primarily on the closely interconnected issues of handling strained relations with Russia and gaining admission to NATO. However, admission to NATO is no longer a realistic short-term goal and has been moved somewhat to the periphery of the foreign policy agenda since the 2008 war. Regional cooperation, which is also fostered in the framework of the EU Neighborhood Policy, has continued to be of some importance. Relations with Turkey, Azerbaijan and Armenia are basically good and not much influenced by conflicts. The idea of becoming a transportation and energy corridor in the region is still relevant, and the Baku-Tbilisi-Kars (Turkey) railway is expected to be finished by the second half of 2015. The

Regional  
cooperation  
8

railway is being built to create an energy corridor by rail for cargo mainly from Azerbaijan and the Central Asian states. In addition to that, current cargo traffic from Turkey to CIS countries may shift to this new route.

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

## Strategic Outlook

During the 24 years of Georgia's transformation process, changes in power have been provoked variously by putsches, demonstrations or impeachments. Besides his increasingly authoritarian leadership style, former President Saakashvili also set a positive precedent in acknowledging defeat in parliamentary elections, which may contribute to the consolidation of democratic institutions in Georgia. Georgia needs to take further steps toward the development of a democratic system of horizontal accountability, establishing a set of checks and balances through institutions of comparable strength, which continuously oversee each other. The Georgian judiciary and parliament have a particularly important role to play in the development of such a system. The parliament of Georgia needs to pay closer attention to the audit findings of the State Audit Office and assume a more responsible oversight role. The extent to which it succeeds in doing this will determine whether Georgia can finally establish a working and transparent system of checks and balances, promote good governance, limit the scope for abuse of power, and make further progress in the fight against corruption.

Overall, the Georgian state should strive to involve civil society and business more systematically and ensure that they are properly involved in the law-making process. Such participation could promote dialogue at the political level in order to ensure a proper implementation of legislation and coordination among relevant authorities. Civil society organizations themselves should improve their limited outreach toward the broader population.

The government needs to develop and explicitly formulate a strategic vision with clear policies to increase and diversify the country's industrial base with a focus on small and medium enterprises, putting into due use the country's main capital – human resources and cultural heritage. This could help commercial banks better assess the future direction of development and increase private lending, as well as sustainable employment. However, this requires a serious effort and increased investment in quality education, especially in entrepreneurial skills and the population's financial literacy. A well-designed policy mix, aimed at increasing financial literacy and informational transparency, could significantly improve the growth prospects for the Georgian economy.

To overcome Georgia's weak economy the DCFTA between Georgia and the EU is a challenge and an opportunity at the same time. It is a vital trade instrument for building long-term economic relationships. In order for DCFTA to fulfill its potential, Georgia will need the EU's increased support with a view to facilitating legal approximation and its effective implementation. Georgia should prioritize those spheres and degrees of approximation which are most relevant from a development point of view. When prioritizing harmonization, the EU should tailor its recommendations to Georgia's needs and socioeconomic situation, e.g., public demand for employment and mitigating the negative effects of approximation.

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