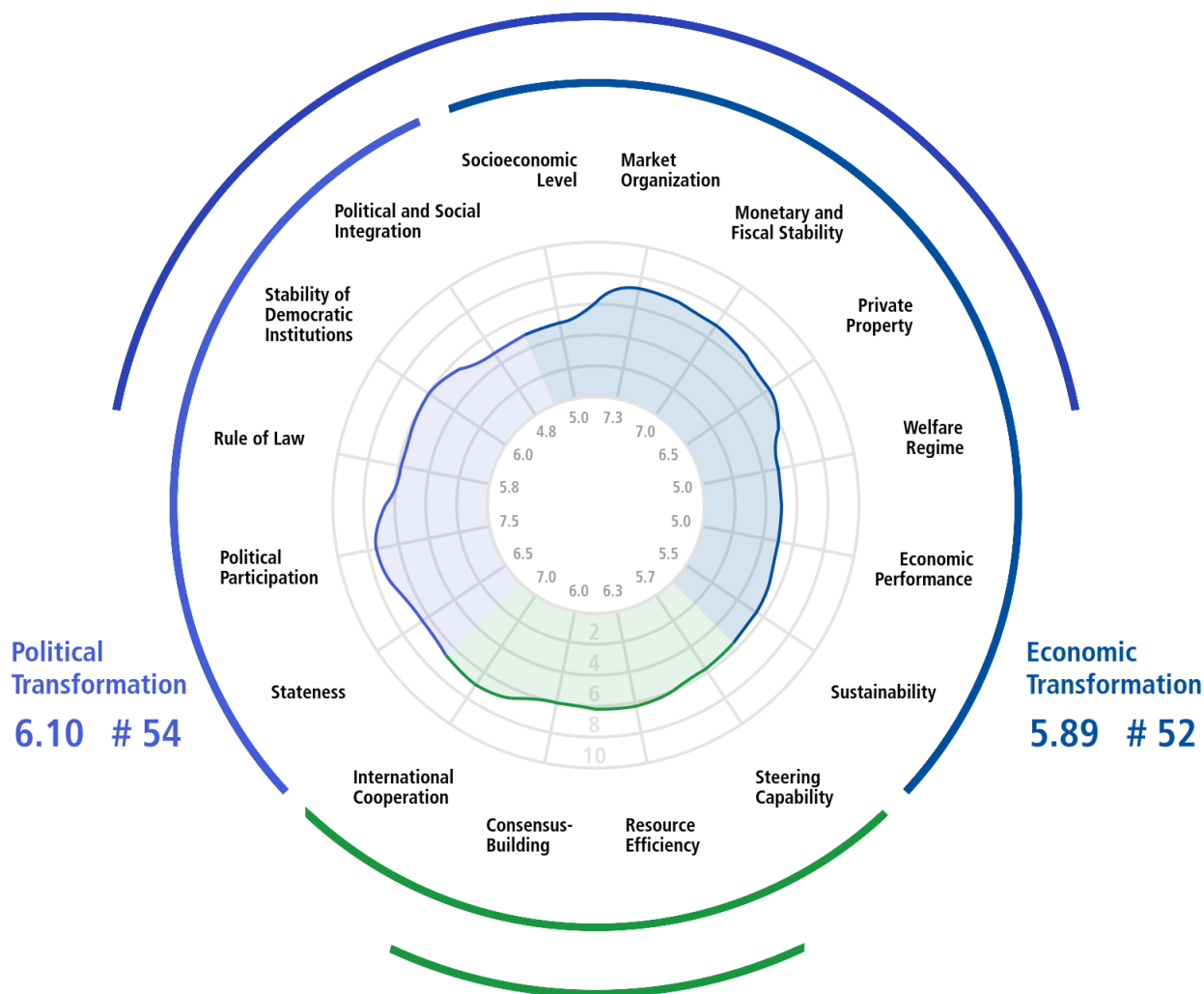


Georgia

Status Index

6.00 # 52

on 1-10 scale out of 137



Political Transformation
6.10 # 54

Economic Transformation
5.89 # 52

Governance Index

5.55 # 38

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	3.7	HDI	0.812	GDP p.c., PPP \$	14863
Pop. growth ¹	% p.a.	-0.2	HDI rank of 189	61	Gini Index	35.9
Life expectancy	years	73.8	UN Education Index	0.862	Poverty ³	% 14.9
Urban population	%	59.5	Gender inequality ²	0.331	Aid per capita \$	133.5

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review billionaire Bidzina Ivanishvili's Georgian Dream party (GD) repeated the historical pattern in Georgia of transforming the country's political regime into a hybrid regime in which the governing party controls all branches of the state. The government has adopted the constitution to its needs and increasingly antagonizes the leading opposition party UNM as an enemy rather than a competitor. The government rejected growing criticism from civil society as politically biased. The GD majority did not exercise self-restraint or stick to democratic standards. The state has violently dispersed several demonstrations led by a growing opposition. Infected by the informal clientele politics of Big Men behind the scenes, the GD gave in to particularistic interests. CSOs allege "state capture."

However, GD did not improve its policies and programs despite claiming to be a social democratic party. It only appeared to "remember" its populist promises to a disappointed and poverty-stricken population ahead of the parliamentary elections on October 31, 2020. To fill its policy void, it launched a polarizing campaign against Mikheil Saakashvili and his UNM representatives in Georgia.

However, the opposition led by UNM gained some ground and replied in a similar way. Building on serious mistakes by GD politicians, they managed to unite major opposition parties and organized street protests to put pressure on the GD government. After international diplomatic facilitation, a political compromise in March 2020 lasted only until the allegedly fraudulent parliamentary elections of October 31, 2020. These elections gave GD – for the first time in Georgia – a third term as ruling party. Some new liberal-centrist parties increased their number of votes but could not stop the escalating polarization. Most of them joined UNM and refused to take up their seats in the new parliament. The political deadlock continues in 2021 and even high-ranking EU facilitators have so far been unable to break it.

In the meantime, Georgians have grown tired of the polarized political environment dominated by two antagonistic parties, which leaves little space for viable alternatives to solve the country's deeply embedded socioeconomic problems – a top concern for Georgian voters. The citizens have learned that they can use their votes as a weapon, but their weakness remains the lack of self-organization to control political actors. Low rates of trust in democratic institutions correlate with high ones in individuals (Catholicos Patriarch Ilia II, head of the Georgian Orthodox Church, billionaire Bidzina Ivanishvili, as well as the exiled former president Mikheil Saakashvili, who each attract different segments of the electorate). So far, the political deadlock has not had a negative impact on Georgia's commitments to the EU in the Association Agreement, Deep and Comprehensive Free Trade Area (DCFTA) and visa liberalization, all of which are in expectation of a distant prospect of membership.

Promising economic development continued in Georgia in 2019, but abruptly came to a halt with the COVID-19 pandemic. The successful management of the first wave in spring 2020 returned public credibility to the GD government. After the parliamentary elections a disastrous second wave hit the country, leading to a lockdown from November 2020 until February 2021. The socioeconomic consequences of the lockdown exacerbated the economic hardship of many Georgians.

It remains to be seen if the increased personalization and polarization in politics will continue at the expense of Georgia's democratic transition and the common good of Georgian society.

History and Characteristics of Transformation

Underway since 1989, Georgia's political and economic transformation has been characterized by civil war, territorial conflicts and sharp economic decline. The first free elections to Georgia's Supreme Soviet in October 1990 brought to power a heterogeneous national movement led by dissident Zviad Gamsakhurdia, which – following a referendum on March 30 – declared its independence from the Soviet Union on April 9, 1991. Despite his landslide victory in the May 1991 presidential elections, Gamsakhurdia failed to consolidate his rule and was ousted in a violent coup d'état in the winter of 1991-1992 that was accompanied by secessionist conflicts in South Ossetia and Abkhazia.

The insurgents invited former Georgian Communist leader and Soviet foreign minister Eduard Shevardnadze to head an interim government. He neutralized criminal military gangs and obtained international recognition of Georgia's independence. A new constitution and parliamentary elections in 1995 consolidated a fragile state. The parliament remained weak, intra-elite competition and corruption blossomed, and the ruling "Citizens' Union of Georgia" stayed in power thanks to rigged parliamentary and presidential elections in 1999 and 2000.

Young reformers, headed by Mikheil Saakashvili, Zurab Zhvania and Nino Burjanadze, left the ruling party and formed a new opposition that in November 2003 headed popular protests against rigged parliamentary elections. Shevardnadze resigned. The "Rose Revolution" was a popular

protest against only democratic facades, fomented by an NGO network, youth movement and independent TV station “Rustavi 2.”

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

After the brutal dispersal of broad protests and the shutting down of the critical “Imedi” TV station during a state of emergency invoked in November 2007, Saakashvili was able to restore democratic credentials through presidential and parliamentary elections held early in 2008. The political crisis was followed by sluggish economic growth, the global financial crisis, and a serious deterioration of the investment climate in the aftermath of the Georgian-Russian war over South Ossetia in 2008. Stability in Georgia could be secured only through the support of international assistance.

The highly competitive parliamentary elections of October 2012 led to the first democratic change of power in Georgia’s history. The ruling UNM accepted its defeat by the Georgian Dream (GD) coalition of billionaire Bidzina Ivanishvili. After one year of tense cohabitation between President Saakashvili and Prime Minister Ivanishvili, the presidential elections on October 27, 2013, resulted in a straight victory of 62% for the GD candidate, Giorgi Margvelashvili. With his inauguration on November 17, 2013, constitutional changes adopted under the previous leadership entered into force, which marked a shift from a presidential to a mixed system with significantly diminished presidential powers. Directly afterwards Bidzina Ivanishvili voluntarily resigned and the GD-dominated parliament confirmed Irakli Garibashvili (2013-15) as new prime minister, who was followed by Giorgi Kvirikashvili (2015-18), Mamuka Bakhtadze (2018-19) Giorgi Gakharia (2019-2021) and again Irakli Garibashvili. These changes indicate that the real source of power has remained with Bidzina Ivanishvili from behind the scenes.

Beginning in November 2014 with popular Irakli Alasania’s dismissal as defense minister and the withdrawal of his Free Democrats from the majority, the GD coalition started to fall apart. Until the 2016 parliamentary elections, almost all former coalition parties had left the ruling bloc. Accordingly, GD consolidated as ruling party and won a constitutional majority. Its government arrested several former ministers and prominent UNM leaders to hold them responsible for human rights violations, which drew international criticism of selective justice. No less importantly, the former ruling party managed to survive its loss of power and formed the main opposition faction in parliament that later split into UNM and European Georgia parties. As the third opposition party, the Alliance for Georgia overcame the 5% barrier.

Apart from the massive deterioration of relations with Russia that culminated in the 2008 war, the most important foreign policy event in the last 15 years was the EU-Georgia Association Agreement that entered into force on July 1, 2016. It contains serious reform commitments on the part of Georgia in exchange for visa regime liberalization and access to the EU’s internal market

through the Deep and Comprehensive Free Trade Area (DCFTA) and demonstrates Georgia's intention to move closer to the EU on "Georgia's European Way." Simultaneously, the reintegration of the breakaway entities of Abkhazia and South Ossetia became increasingly dependent on the Russian Federation, which maintains military bases and is pursuing a "borderization" strategy (i.e., erecting borders between occupied areas and Georgia proper). The Geneva negotiations have yet to find any resolution to the problem.

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

Transformation Status

I. Political Transformation

1 | Stateness

Contrary to the early 1990s, monopoly on the use of legitimate force is now held by the state in Georgia. However, the conflicts between Georgia proper and the two breakaway territories, Abkhazia and South Ossetia, remain unresolved. Abkhazian and South Ossetian authorities have managed to strengthen their de facto statelets, supported by the Russian Federation. Russia has expanded its military presence and security measures along the borders with Georgia. It also concluded treaties on strategic partnership with Abkhazia (November 24, 2014) and on Alliance and Integration with South Ossetia (March 18, 2015) which confirm their inclusion in a common security and defense space.

Both de facto states lack any prospect of international recognition. The Geneva Talks, the only international forum for negotiations among the conflicting parties, with the two breakaway provinces being represented by Russia, were unable to produce any tangible results. In 2009 the EU adopted a Non-Recognition and Engagement Policy (NREP) for Abkhazia and South Ossetia that has likewise brought no progress.

On January 21, 2021, the European Court of Human Rights rendered a judgment in connection with the August War of 2008, in the case of Georgia v. Russia, which had been pending for 12 years. The court agreed with almost all of Georgia's arguments and found that the Russian Federation had violated several articles of the European Convention of Human Rights during and after the war. The judgment of the court is significant in that it has unequivocally established that the Russian Federation has exercised "effective control" over the occupied territories of Georgia (Abkhazia and South Ossetia).

Question
Score

Monopoly on the
use of force

5

'06 '22 10



1

Naturalization to Georgian citizenship can happen after five years of residence. Citizenship by investment in Georgia can be attained if the investor has made a significant contribution to the state. However, ethnic identity influenced by Soviet nationality policy has led to strong sentiments of ethnic entitlement among the Georgian ethnic majority. In some sensitive cases, this supersedes the demos as a community of equal citizens, as purported by the constitution.

Abkhazians and Ossetians from the separatist regions denounced Georgian citizenship in the period 1991 to 1993. To improve the status of other minorities, the government adopted a Civic Equality and Integration Strategy for 2015 - 2020 to foster access to quality education, equal participation in civic and political life, access to information and media, an equal and tolerant environment, and access to justice. As of February 2021, it has not been renewed. As a requirement to attain the visa-free regime with the EU, Georgia adopted an Anti-Discrimination Law in May 2014, intended to prevent any form of discrimination. However, it is not properly implemented, especially in the case of individuals from religious and sexual minorities.

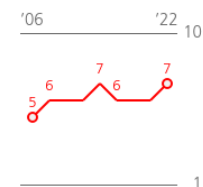
The repatriation of the Muslim Meskhs, deported in 1944 from southwest Georgia, which was an obligation for entering the Council of Europe in 1999, was restricted to only 5,841 applications filed by 2010. So far, only 1,254 people have been repatriated, and only 494 of them have ultimately received Georgian citizenship. However, in September 2020 fake news circulated that Turkish President Erdogan and Georgian Prime Minister Gakharia allegedly agreed to repatriate 100,000.

In Georgia, 83% of the population hold the Georgian Orthodox belief. Since the conclusion of a concordat between President Shevardnadze and Patriarch Ilia II in 2002, the Georgian Orthodox Church (GOC) holds a privileged position close to that of a state church, which reflects its immense influence in society, as the defender of national values. As compensation for the Anti-Discrimination Law from 2014, the constitution defined marriage “as a union of a woman and a man for the purpose of founding a family,” thereby excluding same-sex partners from marriage (Article 30). The GOC enjoys legal (e.g., tax code, budget and state property) and institutional shaping privileges compared with other religious groups.

The “Cyanide Case,” which came into the spotlight in February 2017, resulted in a “lustration trial,” exposing problems within the GOC. Archpriest Giorgi Mamaladze was sentenced to nine years in prison for “planned murder of a high-ranking cleric” using a virulent poison – sodium cyanide. Mamaladze’s appeal was rejected. In the GOC this caused internal strife, mutual accusations of money squandering, and resulted in intrigues and power struggles at the patriarchal court, which undermined its authority and saw its popularity with the public fall. However, President Salome Zourabichvili did not dare pardon Mamaladze for health reasons at Christmas 2019,

State identity

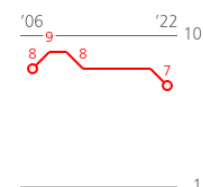
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1

No interference of religious dogmas

7



1

nor did the government impose COVID-19 restrictions on the GOC during Christmas or Easter events, as they had done for other denominations.

Traditionally supporters of the ruling party, the significant participation of the GOC hierarchy in Georgia Dream's campaign for the 2020 parliamentary elections marked a noticeable change.

The Georgia Dream government continues to expand a functioning state administration providing basic services to the citizens by establishing one-stop civil service centers all over the country. Even if there was some limited progress in the declared objective of depoliticization of the state administration after 2012, for the period 2019 - 2020, watchdog organizations detected increasing cases of mismanagement, nepotism and corruption. Infamous "administrative resources" were seen as crucial for the ruling party during the 2020 parliamentary elections.

Remote mountainous areas still face problems. While the percentage of the population with access to sanitation fell from 93% in 2005 to 86% in 2015, access to water resources for the same period reached 100% (2005: 93%). During the first wave of the COVID-19 pandemic in spring 2020, the government earned much respect by following the expertise of epidemiologists and preventing an uncontrollable increase of infections to which the health system would have been unable to respond. However, the second pandemic wave in autumn 2020 was much more severe.

According to the latest Caucasus Barometer from December 2020, public trust in the government is lower ("rather trust" 34% and "fully trust" 6%) than in the health care system ("rather trust" 44% and "fully trust" 12%).

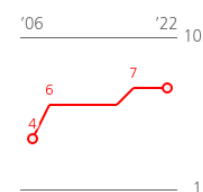
2 | Political Participation

On October 31, 2020, regular parliamentary elections were held under the state of emergency introduced due to the COVID-19 pandemic. Facilitated by Western diplomats in March 2020, Georgia Dream (GD) and the opposition finally agreed on changes to the electoral system. The system was altered from a mixed majoritarian and proportional system (77/73) privileging the ruling party, toward an increased proportional one (120/30). From parliamentary elections in 2024 onwards, there will be only a proportional vote. The election threshold was reduced from 5% to 1% of votes. A party receiving fewer than 40% of votes would be barred from establishing a single-party government. This agreement represented serious progress toward a level playing field.

66 political parties registered to contest parliamentary seats, and 490 candidates stood in the 30 majoritarian districts. During the pre-election period – besides COVID-19 pandemic restrictions – the polarized climate between GD and the United National Movement (UNM) intensified with a competition of opinion polls by biased TV stations. The personalities of individual candidates and negative PR, rather than political programs, dominated the campaign.

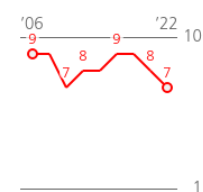
Basic administration

7



Free and fair elections

7



Due to the pandemic, only a few international observers - supplemented by local staff from diplomatic missions - were on the ground. The Office for Democratic Institutions and Human Rights (ODIHR) assessed the elections as generally free and largely fair, but with serious flaws. On polling day local watchdog CSOs mobilized thousands of observers nationwide and tried to field a parallel vote tabulation to verify official results. They assessed the elections as the worst held under GD rule to date, with misuse of administrative resources, alleged activist and voter intimidation, and the buying of votes, primarily at the local level outside Tbilisi. They detected cases of physical confrontation, a polarized media environment, and possibly corrupt campaign finance. Results in election precinct protocols were changed in favor of GD. The opposition parties rejected the election results as falsified and boycotted the second round for 17 majoritarian seats.

For the first time since 1991 a ruling party won a third term with 60 proportional seats (48.2%) and all 30 majoritarian seats. With 27.1%, the UNM won 36 seats and remained the dominant opposition force. Their splinter group, “European Georgia,” garnered a disappointing 3.7% of the vote, resulting in five seats. The right-wing “Patriot’s Alliance” fell from 5% in 2016 to 3.1% (four seats). On the other hand, five new small parties together gained 15 seats (Lelo – Mamuka Khazaradze 4, Strategy David the Builder – Giorgi Vashadze 4, Girchi – Zurab Japaridze 4, Citizens – Aleko Elisashvili 2 and the Georgian Labor Party – 1). They could form a desperately needed “third force” between the two antagonistic dominant parties.

However, due to alleged election fraud almost all opposition parties refused to enter parliament. At the opening of its 10th convocation, only the ruling GD faction was present. At a later date, four former Alliance of Patriots members, and two from the “Citizens” party took up their seats. Negotiations to overcome the crisis, again facilitated by Western diplomats, have not yet brought any tangible results. The continued boycott is harming the further development of democracy in Georgia.

Since 2013, the prime minister has represented the highest decision-making post in Georgia. Georgia has had five prime ministers during GD’s eight years in power: billionaire Bidzina Ivanishvili (2012 - 2013), Irakli Garibashvili (2013 - 2015), Giorgi Kvirikashvili (2015 - 2018), Mamuka Bakhtadze (2018 - 2019), Giorgi Gakharia (2019 - 2021) and again Irakli Garibashvili (2021 - present). However, despite Ivanishvili leaving his post as prime minister in 2013, all of his successors have been dependent on him. Giorgi Gakharia’s sudden resignation in February 2021 over his refusal to arrest the main opposition leader Nika Melia (UNM), and his replacement by Ivanishvili loyalist Garibashvili as prime minister, hint at informal, personalized decision-making. Ivanishvili himself returned officially to the post of GD party chairperson only after his candidate was almost defeated in the first round of presidential elections in 2018. Given his wealth and authority, Ivanishvili will certainly continue to exert influence behind the scenes.

Effective power to govern

7



1

The opposition's dilemma is that former president Mikheil Saakashvili, internationally wanted by Georgia and living in Ukraine, continues to polarize Georgians. He still exerts a huge influence on his UNM party and a sufficient segment of the electorate. In October 2020 he again announced his plan to return to Georgia. Nevertheless, a majority of Georgians do not want him to return to power.

CSOs are increasingly concerned over "state capture" by particular informal interest groups aligned with the ruling elites at the expense of the public good.

From 2012 to 2018 there were neither restrictions, nor interferences by the government on the freedom of association or assembly. However, once the GD party was ruling alone and polarization with UNM intensified (since late 2018), GD increasingly accused CSOs of political bias in response to criticism of its government.

The rights to assembly have suffered setbacks lately. Due to a disproportionate use of force, the authorities escalated mass protests in 2019 - 2020. After the Gavrilov scandal, when a Russian State Duma deputy tried to address an international Orthodox assembly from the speaker's chair in the Georgian parliament, UNM called for a "storm on the parliament" on 20 - 21 June 2019. Georgian riot police stopped the protesters with rubber bullets and tear gas. While demonstrators were sentenced, no formal investigation of law enforcement was launched. To appease the protesters, GD chairperson, Bidzina Ivanishvili, promised a proportional vote with zero threshold for the 2020 parliamentary elections.

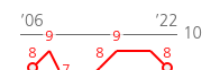
After the imposition of COVID-19-related restrictions in March 2020, most assemblies remained peaceful. Only on November 8, 2020, after a protest rally "Defend Your Vote," did some demonstrators walk to the Central Election Commission, where law enforcement dispersed them with water cannons and pepper spray. CSOs cautioned that the curfew introduced the following day would restrict protests from a growing opposition, and that extending the restrictions on the freedom to demonstrate would only further aggravate the already tense political situation.

"Pluralist but still very polarized" is how Reporters Without Borders conclude their World Press Freedom Index 2020 profile of Georgia. Since 2013 Georgia has continuously improved its rank from 100 to 60, which represents an achievement compared to the overall negative trend in the region. It is not the state, but politically aligned owners, who influence the editorial policy of their outlets. In the review period, politicians stopped talking directly with each other, relying only on friendly media outlets, which increased polarization further.

On July 18, 2019, the European Court of Human Rights (ECHR) confirmed a Georgian Supreme Court ruling (March 2017) to transfer the ownership rights of the most popular pro-opposition TV channel, Rustavi 2, to its former co-owner, the government-friendly entrepreneur Kibar Khalvashi. Rustavi 2 maintained a cautiously critical editorial policy. The dismissed CEO, Nika Gvaramia, leading

Association /
assembly rights

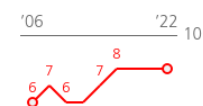
8



1

Freedom of
expression

8



1

journalists, and producers, all left in protest and established two new, strongly pro-opposition channels, Mtavari Arkhi and Formula TV. Another, less influential private channel, TV Pirveli, provides critical coverage, while Imedi TV is propagating the GD agenda.

In the review period, the management of the Georgian Public Broadcaster and the regional public broadcaster, “Ajaria TV,” were staffed with Ivanishvili’s allies, who amended the editorial policy and dismissed critical staff. The idea of public broadcasting serving the citizens’ public interest is lost.

Print media are in decline. Exceptions are news portals like “Netgazeti,” which is leading in investigative journalism. Journalists experience intimidation, harassment and interference in editorial policies. During the COVID-19 pandemic, access to public information has worsened. According to the Caucasus Barometer (CRRC), in 2019 only 20% of the population trusted the media, but 50% remained undecided. In 2020 this steady decline over the past decade was reversed, with 35% trusting the media, 40% remaining indifferent and 19% distrusting the media.

In July 2020, the Georgian National Communications Commission (GNCC), a media regulating state body, proposed amendments to broadcasting and electronic communication laws allowing them to interfere directly in media outlets. Broadcasters, telecommunication representatives and CSOs protested in vain against this initiative. Early in 2021 GNCC’s competence was expanded by administrative measures against broadcasters for using “offensive, insulting statements.” GNCC’s independence remains questionable.

Disinformation and fake news are increasing, not only from foreign actors like Russia, but also from domestic political parties. In May 2020, Facebook removed 511 pages, 101 accounts, 12 groups and 54 Instagram accounts linked to the GD affiliated online platform “Espersona.” Facebook also removed 23 accounts, 80 pages, 41 groups and nine Instagram accounts linked to the UNM opposition and fake accounts linked to the Alliance of Patriots party.

3 | Rule of Law

With the inauguration of GD-backed independent candidate Salome Zourabichvili as president in December 2018, constitutional amendments entered into force and completed Georgia’s transition from a semi-presidential to a parliamentary system with executive power shifted to the prime minister. As the ruling party, GD continued the habit of its predecessors and used its constitutional majority to adapt the constitution according to its own interests.

While there is a formal separation of power, its implementation has deteriorated since 2016. The concentration of power in the hands of the GD leadership has enabled it to exert undue influence over key public institutions and prevent them from performing

Separation of powers

5

'06 '22 10



1

their roles in an independent and professional manner. During the last two years “informal governance” reached a systemic level insofar as many people loyal to billionaire Bidzina Ivanishvili have been appointed to high-ranking positions in all three branches of power.

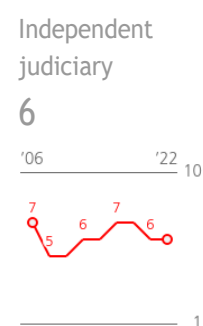
The government declared a state of emergency on March 21, 2020, and extended it until May 23, 2020. Parliament confirmed amendments to the law on public health granting the government state of emergency-like powers without parliamentary control. These were extended until July 2021. The ineffective examination of lawsuits related to the COVID-19 pandemic revealed the executive’s growing influence over the Constitutional Court, which had two new judges appointed under emergency conditions without any public scrutiny.

Since 1991, every Georgian government has tried to abuse a subservient judiciary inherited from Soviet times. The judiciary’s politicization remains one of the most serious legacies from Saakashvili and the GD administration. Moreover, Transparency International Georgia concluded a report entitled “The State of the Judicial System 2016 - 2020” that “the authorities abandoned the idea of creation of an independent judiciary.”

With constitutional amendments (December 2018) the High Council of Justice (HCoJ) is entitled to nominate judges to the Supreme Court. Parliament must appoint the nominees (who are in post until retirement) and the Chairperson of the Supreme Court with a 10-year term. Without selection criteria and a clearly defined nomination procedure, a small group of judges, labeled “the clan,” manage to secure nominations of their candidates. In February 2019, NGOs left a working group initiated by the Speaker of Parliament, because they had doubts over a merit-based, impartial and transparent selection of candidates according to international standards. Thus, in December 2019, parliament appointed 14 new judges to the Supreme Court, including candidates with insufficient legal knowledge, integrity, and independence required for such an important position. In 2020, due to the pandemic, recruitment of new judges to the common courts lacked transparency and public scrutiny, which led to international criticism.

Other deficiencies in the judiciary relate to the excessive powers allotted to the Chief Justice of the Supreme Court or the HCoJ, which create an unjustified hierarchy and risks influencing individual judges. Since Court Chairpersons can become HCoJ’s members, a further concentration of powers in this narrow group of judges is also possible.

The investigations of politically sensitive cases, such as the murders of 16-year-old Datuna Saralidze and 19-year-old Temirlan Machalikashvili, demonstrate that the law is not applied equally to all citizens. This caused a broader protest, led by the fathers of the killed, demanding justice. The “Cartographers Case” during the 2020



pre-election period, and the 2021 court ruling to detain UNM leader Nika Melia are two examples of cases alleged to be politically motivated.

The compromise reached on election law between GD and the opposition in March 2020 underlined the adherence to “highest standards” in the judiciary and proscribed a politicization of electoral processes. For the legitimacy of elections, an independent judiciary is of utmost importance, especially since criminal prosecutions of opposition politicians, civil activists and media representatives all increased during the campaign for the October 2020 parliamentary elections.

High-level corruption remains a challenge as evidenced by reports from several national and international observers. The Prosecutor’s Office and the State Security Service failed to investigate high-profile cases of corruption involving members of the ruling GD and their associates. Altogether, from August 2015 to November 2019, the State Security Service launched investigations into 425 criminal cases, including 291 conducted by the Anti-Corruption Agency.

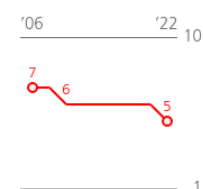
The Department of the Prosecutor’s Office for Investigations of Offenses during Legal Proceedings has a low rate of launching new investigations that seek to restore justice to people whose rights were violated. Missing guidelines and selection criteria for cases, or questions about possible bias in its activities, remained unaddressed. Literally all cases under investigation cover offenses committed under UNM rule up until 2012, but there none from the period of the GD government.

The State Inspector’s Office (SIO), an independent body tasked with investigating abuses committed by law enforcement and established in 2018, finally became operational in November 2019. According to Human Rights Watch 2021, by August 2020, the SIO had received over 1,300 reports of alleged abuses by law enforcement and other officials. It launched criminal investigations in 168 cases, mostly into abuse of authority, but also inhuman and degrading treatment. However, analyzing its first annual performance, NGOs doubt its independence, since it does not initiate investigations, but relies on a supervising prosecutor. Its narrow mandate excludes any authority to investigate possible crimes committed by the minister of internal affairs or the head of the State Security Service. Furthermore, its investigative jurisdiction does not encompass crimes committed by law enforcement, because here it lacks procedural precedence.

The lack of accountability for law enforcement abuses persists, particularly with regard to incidents that occurred before the SIO became operational. Investigations into the June 2019 protests at the parliament remained largely one-sided. The Public Defender’s Office (PDO) found that the investigation “only focused on offenses committed by rank-and-file police officers but failed to objectively or fully assess command responsibility.”

Prosecution of
office abuse

5



The PDO is responsible for overseeing the observance of human rights and freedoms in Georgian state entities. It reports to parliament annually, and parliament is expected to offer a response. Its performances are well received and the PDO is a widely respected institution, albeit without executive power. In 2019, the PDO received 68 complaints of ill-treatment by prison staff or the police.

Despite a commitment at the 13th EU-Georgia Human Rights Dialogue in July 2020 to the universality of human rights for all, regardless of religion, race, sex, language, sexual orientation, gender identity, the gap between rhetoric and deeds in Georgia is widening. In November 2020, the European Court of Human Rights (ECHR) found Georgia in violation of Article 2 – the right to life – in the high-profile case of torture and death of the Georgian sergeant, an Iraq War veteran, Roin Shavadze back in 2008. An investigation into the incident has never been completed. After Vazagashvili and Shanava, Enukidze and Girgvliani, this is the third case, where the ECHR has found that procedural violations significantly hinder effective, independent and impartial investigation.

There are growing signs of a politicization of the judiciary. Criminal prosecutions have been launched against high-ranking officials of the former government, which the opposition called “political prisoners.”

In January 2019, intimate recordings of a female member of parliament from the GD faction appeared on social media as a result of efforts to blackmail her, because she resigned as head of the Legal Affairs Committee in order to prevent the appointment of Supreme Court judges. In 2019, several journalists were injured during the June 20 - 21 protests. Police targeted them, although they were identifiable as journalists. Local and international organizations strongly criticized this use of force by police and called for a prompt investigation into the incidents.

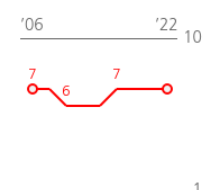
The latest, highly debated “Cartographers Case,” emerged several weeks before the 2020 parliamentary elections. The General Prosecutor’s Office detained two members of the Commission for Delimitation and Demarcation of the State Border between Georgia and Azerbaijan and charged them with treason for violating Georgia’s territorial integrity. A local NGO’s legal analysis deemed the charges as unfounded. The launch of an investigation during the pre-election period, accompanied by GD leaders’ unsubstantiated and populist public accusations, helped to discredit UNM opponents. In January 2021, the court released the defendants from prison on bail.

In February 2021, former justice minister and newly elected GD Member of Parliament Tea Tsulukiani publicized the cell phone number of the director of the leading opposition channel during a parliamentary session, thus violating his right to privacy.

After eight years in power, the GD government can no longer refer to its predecessors’ serious legacy of arbitrary application of the law in order to divert from its own violations of civil rights.

Civil rights

7



4 | Stability of Democratic Institutions

Georgian Dream's promise after assuming power in October 2012 that future parliaments would be more pluralist, has turned out to be the opposite. With the 2016 parliamentary elections, the GD lost its former liberal coalition partners, but gained a constitutional majority due to an election law which privileged the ruling party. With 85 out of 150 seats won in 2012, 115 seats in 2016, and 90 seats in October 2020, GD maintained its firm grip on power.

A 2018 constitutional reform strengthened parliamentary oversight through new rules of procedure. However, during the review period, parliament did not properly apply these new tools. Instead of using its power and exercising its legislative oversight, parliament became less transparent and more heavily influenced by the executive. In November 2019, the majority GD members of parliament rejected required constitutional amendments that would have entailed a shift to a fully proportional election system, as their party leader had promised in June 2019. In protest several MPs defected from the GD. The opposition, on the other hand, remained too weak, even if some of their rights were increased. Their preferred method of opposition appeared to be street protests to antagonize the GD government. Finally, in March 2020, under international diplomatic mediation, the opposition and GD reached a compromise over electoral legislation and "political prisoners." These achievements could have strengthened parliament, but after the contested October 2020 parliamentary elections, the opposition decided to boycott parliament. The ongoing political deadlock is weakening democratic institutions.

The government response to the COVID-19 pandemic has increased this trend. On May 22, 2020, one day before the end of the state of emergency, parliament adopted a law extending executive powers to restrict the freedom of movement and assembly, property, economic, and labor rights until July 15 without declaring a state of emergency. These powers were extended again through to the end of 2020. Human rights groups in Georgia repeatedly criticized parliament for its failure to limit executive powers during the pandemic, deeming this incompatible with the constitution. They challenged this in court. However, in February 2021, the Constitutional Court ruled that such a use of powers was constitutional.

The efforts of international and local organizations to empower parliament (e.g., through an Open Parliament Georgia Action Plan 2021 - 2022) are in vain as long as there are insufficient dedicated democrats in parliament to defend democratic principles against an overbearing executive. In practice, democratic institutions are exposed to strong political interests, with most actors in parliament and the justice system being unable or unwilling to resist them.

Performance of democratic institutions



The democratic change of government after elections in 2012 marked a qualitative step toward ingraining the idea of political ownership into the minds of Georgians. The following elections (e.g., presidential, local and parliamentary) appeared to confirm the pattern that power is indivisible with the ruling party. The necessity for a second round in the last direct presidential elections came as a surprise for the GD and appeared to trigger further polarization between the ruling GD and opposition UNM which has lasted until the present.

The behavior of the two main political forces, Ivanishvili's GD and exiled Saakashvili's UNM, can be described as a merely formal commitment to democracy. Their zero-sum power battles confirmed the popular, neo-patrimonial perception that parties are serving only their leaders' interests and not those of the people or democratic state institutions.

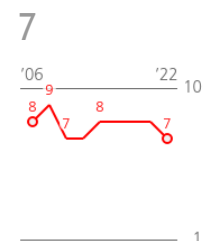
However, the problem in Georgia is more fundamental, and lies with the unwillingness of the population to engage in politics as active citizens, holding their political elite accountable. Only in special issue-based cases such as the Namakhvani hydropower plant construction in western Georgia are the public provoked into large-scale protests.

5 | Political and Social Integration

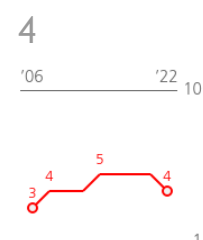
According to the State Audit Office there are in total 263 political parties registered in Georgia, out of which only 80 are in fact active. 66 successfully registered to run in the 2020 parliamentary elections, which under a new election code delivered a more pluralistic parliament. The ruling GD won 90 seats in 2020, down from 115 in 2016. The opposition UNM-led bloc "Strength in Unity" won 36 seats in 2020, up from 27 in 2016. The UNM splinter-group "European Georgia" won 5 seats in 2020. The right-wing, pro-Russian "Alliance of Patriots" won 4 seats in 2020, down from 6 in 2016. In addition, there are five more parties: "Lelo for Georgia" led by former bank director Mamuka Khazaradze, "Strategy Aghmashenebeli" and the "New Political Centre – Girchi" (with 4 seats each), former journalist Alexander Elisashvili's "Citizens" (2) and finally the Georgian Labour Party (one) with Shalva Natelashvili.

Political parties are not membership-based organizations, and without a democratic intraparty structure, they do not represent major segments of society. Instead, they use populist slogans to mobilize the population in support. The GD is led, formally or informally, by Ivanishvili, while former president Saakashvili still influences UNM. All other parties are clientele groups formed around a front man (the only female exception, Nino Burjanadze, with her "Democratic Movement – United Georgia" failed to win any seats).

Commitment to democratic institutions



Party system



Opinion surveys conducted by the Caucasus Research Resource Center in 2020 found only 18% of respondents in Georgia trust political parties, while 33% fully or rather distrust them. Given the weakness of political parties, CSOs contribution to policy formulation and government oversight is indispensable.

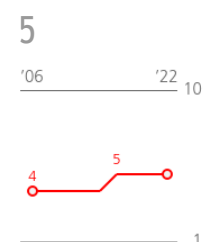
With growing political polarization in the country, interest groups were unable to encourage a more issue-based political debate. Broad segments of society do not organize themselves in interest groups or CSOs. It is still uncommon to join or establish formal associations for specific purposes in a post-Soviet, neo-patrimonial society. The principle of aggregating competing interests in a plural society has not yet taken root in Georgia.

The civil society sector keeps growing in numbers and in capacity but remains primarily concentrated in Tbilisi and Batumi. It has only weak links with the broader population. The strongest civil organization remains the Georgian Orthodox Church, claiming the prerogative in defining national values, often devised illiberally. However, within the context of the COVID-19 pandemic, CSOs are struggling to influence the political agenda, including with their demands for significant reforms in the judiciary and electoral system to ease political tensions and prevent a further polarization in society.

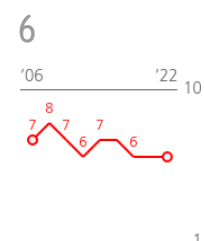
The elections and public protests affect the public perception of democracy. As confirmed by the latest Caucasus Barometer (via phone interviews due to the pandemic) the rate of those who think that Georgia is a democracy, marginally declined from 48% in August to 45% in December 2020, while those who do not think so, increased from 37% to 42% (14% and 12% responded do not know respectively). However, in November 2019 only 33% considered Georgia a democracy, 59% not and 8% did not know. While 73% of GD supporters think of Georgia as a democracy, 72% of opposition supporters do not support this view. However, the majority of the population believes that in general democracy is preferable to any other kind of government (58%) and only a minority thinks that in some circumstances, a non-democratic government can be preferable (16%).

Public opinion polls and social research hint at dominant authoritarian and neo-patrimonial views in a political culture inherited from Soviet times. This entails high approval rates for the executive – when it delivers social goods – and much lower trust for democratic institutions, media and civil society. Therefore, liberal or democratic minded civil society actors have to turn to the international Western community to have their voice heard. With the EU-backed National Platform of the Civil Society Forum, Georgian civil society is able to voice its concerns directly on the international level.

Interest groups



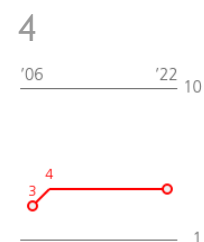
Approval of democracy



Georgia is characterized as a country with high “bonding,” but low “bridging” social capital. While religious institutions, the army and police continue to have the highest rates of trust, Georgians are consistently more willing to exploit wider society for personal benefit but find it less tasteful to damage their reputation among their closer circles of friends and relatives. The Western form of civil society therefore remains alien to Georgian society, especially in a politically polarized environment.

While there is civic engagement in Georgia, it is difficult to sustain or to institutionalize. Rare exceptions are the civil activism after the severe flooding in parts of Tbilisi in June 2015 and the protests against the construction of the Namakhvani hydropower station in western Georgia, ongoing since 2020. A sense of community and civic engagement and widespread norms of openness and altruism underlie vibrant forms of bridging social capital already existent in Georgia. On social media, there are solidarity campaigns for individuals in need of help (mainly for medical treatment abroad), which during the pandemic were extended to help the most vulnerable groups of society.

Social capital

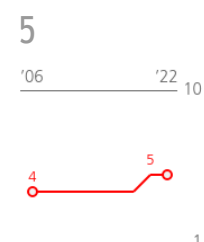


II. Economic Transformation

6 | Level of Socioeconomic Development

According to the UNDP’s Human Development Report for 2019, Georgia further improved its status as a high development country, with an overall HDI score of 0.812 (rank 61/189). This is slightly below neighboring Russia (0.824/52) and Turkey (0.820/54), but above Armenia (0.776/81) and Azerbaijan (0.756/88). However, in several HDI dimensions, such as life expectancy, access to knowledge, and a decent standard of living, Georgia is faring worse than its neighbors. Therefore, the local perception of social development with jobs and poverty remains among the most important issues, as they have been for over 25 years.

Inequality continues to impair Georgia’s development potential. While the Gender Inequality Index has declined over the last decade, from 2018 to 2019 it increased slightly from 0.327 to 0.331. The Gini Index for 2018 declined slightly to 36.4. In updated GeoStat calculations, it worsened from 37.3 (2018) to 37.5 (2019, calculated by total consumer expenditure). This means less equality of opportunity and higher income inequality. Birthplace still determines life chances and perpetuates Georgian society’s rigid divisions into those who are integrated into the modern economy and those who survive with subsistence farming as self-employed or depend on remittances from family members working abroad.

Question
ScoreSocioeconomic
barriers

According to World Bank data from 2018, 15.5% (2016: 17.1%) of the population in Georgia are still living on less than \$3.20 a day (international prices adjusted for PPP in 2011). Additionally, 19.5% of the population still lived below the absolute poverty line in 2019 (2.1% lower compared to 2015). The overall loss in HDI due to inequality has continued to decline. In 2018 it was 11.8% (2017:12.1%, 2016:12.6%, 2011:15.3%).

Overall, the poor have borne the brunt of the COVID-19 pandemic, which has reversed many of the socioeconomic achievements of the past decade.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	16242.9	17599.7	17477.3	15891.7
GDP growth	%	4.8	4.8	5.0	-6.2
Inflation (CPI)	%	6.0	2.6	4.9	5.2
Unemployment	%	13.9	12.7	11.6	12.1
Foreign direct investment	% of GDP	11.8	7.2	7.7	-
Export growth	%	11.7	10.1	9.8	-38.2
Import growth	%	8.1	10.3	6.6	-17.4
Current account balance	\$ M	-1306.0	-1191.7	-960.4	-1965.0
Public debt	% of GDP	39.4	38.9	40.4	60.0
External debt	\$ M	16423.9	17326.2	18757.0	20089.0
Total debt service	\$ M	2582.3	2434.9	2461.8	2434.7
Net lending/borrowing	% of GDP	-1.2	-1.7	-3.0	-
Tax revenue	% of GDP	22.1	21.7	19.6	-
Government consumption	% of GDP	13.9	13.2	13.1	14.4
Public education spending	% of GDP	3.6	3.5	3.8	3.8
Public health spending	% of GDP	2.6	2.8	-	-
R&D expenditure	% of GDP	0.3	0.3	-	-
Military expenditure	% of GDP	2.0	1.9	1.7	1.8

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Georgia is one of the leading countries in the World Bank’s Ease of Doing Business Index (7 out of 190) with only a few formal market entry and exit barriers. It takes just one day and entails costs of 2.1% of average income per capita for “Starting a Business,” which means Georgia is ranked second in this category for 2019. After FDI peaked in 2017 at almost \$2 million, it decreased to \$1.3 million in 2018 and 2019, and halved to only \$0.618 million in 2020 due to the COVID-19 pandemic (Geostat estimate).

Georgia established an institutional framework for ensuring competition according to the EU-Georgia Association Agreement and its Deep and Comprehensive Free Trade Area (in force since July 1, 2016). Georgian business will fundamentally change through alignment with EU Single Market standards. In February 2020 the EU acknowledged Georgia’s continued progress. However, with the COVID-19 pandemic, Georgia entered into a serious recession, with GDP declining by 12.3% year-on-year and real GDP by 6.1% in 2020 (preliminary Geostat results).

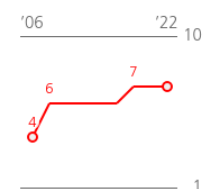
Access to capital is one of the problems for businesses due to the dominance of the banking sector and capital markets still being underdeveloped. This is partially due to the lack of companies with sufficient credit ratings. Fewer than 15 Georgian companies have a credit rating, and only four or five are registered on foreign stock exchanges. While the stock market – an essential tool to increase transparency in the business sector – is practically nonexistent in the domestic market, there has also been little movement in the bond market in recent years. Total bonds outstanding of Georgian companies reached GEL 13 billion in 2020 (almost 20% of GDP).

With almost 60% of all employed people reported as “self-employed” (GeoStat), it can be assumed that there is a large percentage of people working in the informal and subsistence economy. The IMF estimated the informal economy in Georgia between 1991 and 2015 to be 65% of GDP, with a steady decline from 72% (1995) down to 53% (2015). However, for the same year 2015 Geostat – using the Handbook for Measuring the Non-Observed Economy (OECD 2002) – calculated the size of the non-observed or “shadow” economy in Georgia to be 10.3% of GDP.

Georgia has continued to implement the provisions of the Deep and Comprehensive Free Trade Area agreement on competition, amending the Law on Competition (adopted in 2014) to better control market concentration, and improve the structure and competences of the Georgian Competition Agency (GCA). This has shifted the previous focus (2005 - 2012) from primarily regulating abuse of competition by the government, to covering areas like antitrust provisions in line with EU law, state aid provisions with general rules on procedures for granting state aid, and provisions on institutional independence, as well as investigative and decision-making powers. Georgia is a member of the International Competition Network (ICN).

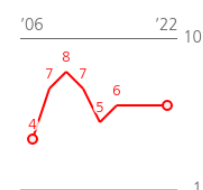
Market
organization

7



Competition policy

6



However, despite the legal framework, interference by state actors has continued. In July 2020, the Anaklia Development Consortium (ADC) and Bob Meijer, one of its principal investors, filed separate arbitration claims against Georgia in relation to their rights in the Anaklia Port Project. They claimed substantial losses, allegedly more than \$1 billion, resulting from the Georgian government campaign to undermine the project. ADC complained that the government and the ruling GD party attempted to undermine the project. The conflict began in January 2019 with a disputed criminal investigation against consortium leader and TBC bank director Mamuka Khazaradze, who was forced to leave his position. He then entered politics, forming his own party, “Lelo for Georgia.”

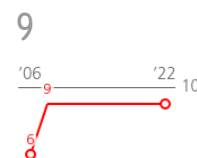
Public procurement, a sector worth GEL 5.3 billion in 2019, is in principle a substantial driver of competition. Overall, the electronic procurement system of the State Procurement Agency is highly acclaimed, but access to aggregated data remains problematic (a high share of single-source procurement, affiliation of suppliers with the ruling party, no information about subcontractors). On average only two offers compete in public tenders. The situation worsened in 2020 during the COVID-19 pandemic. Such a low level of competition in public procurement is symptomatic of informal deficiencies in Georgia (e.g., lack of reliability of courts, and the dominance of one billionaire’s business interests).

A new Law on Public Procurement, which came into effect in January 2021, reformed the Public Procurement Dispute Review Council. It set new rules for the appointment or removal of the council members, introduced higher qualification requirements, and increased the term of office. However, since the prime minister appoints a commanding number of council members, questions regarding the level of their independence remain. New appointment rules do not ensure independence and impartiality of the review body, an issue that NGOs continuously raise.

Liberal foreign trade policy is one of the major principles of the economic policy of Georgia. Georgia has no quantitative restrictions (quotas) on trade (except on ozone depleting substances). In 2005, Georgia reduced the number of permits for import and export from 14 to eight (which has remained the same since). Excise taxes and VAT apply equally on imported and domestic products. The average MFN applied tariff is 1.4 (WTO, 2019).

Georgia is the only country in the region that has a free trade regime with both the EU and China. A free trade agreement with the UK entered into force in January 2021. In the DCFTA Georgia continued to overcome technical barriers to trade by improving its national quality infrastructure (including the adoption of 16,000 standards, out of which 8,000 represent European ones, as well as synchronizing the database of standards with the EU). The newly created Market Surveillance Agency is working on the enforcement of technical regulations covering the relevant EU acquis.

Liberalization of foreign trade



1

During the pandemic trade turnover with the EU as Georgia's largest trading partner contracted by -18.2% in 2020, compared to 2019. Imports fell by -20.1% and exports by -12.4% (GeoStat).

The banking system is well developed due to regulations from the National Bank of Georgia (NBG). The bank capital to assets ratio declined to 12.2% and bank non-performing loans fell to 1.2% in 2019. Georgia's financial sector is almost entirely dependent on its two largest banks, TBC and Bank of Georgia, now listed on the London Stock Exchange and included in the FTSE 250. With 72% of assets, they are considered systemic banks. The overall number of banks declined to 15 by March 2020.

Against this background, it came as a surprise that toward the end of 2018 the TBC Bank director, Mamuka Khazaradze, faced a criminal investigation over money-laundering allegations involving a \$17 million transaction from 2008. TBC bank refuted all allegations and complained that the authorities had inspected them multiple times. Opposition politicians saw this as Bidzina Ivanishvili's attempt to gain control of the bank. Mamuka Khazaradze, the TBC director, was forced to resign in January 2019. The reaction of the National Bank in this and other cases, closely related to the GD, negatively affected the perception of its independence.

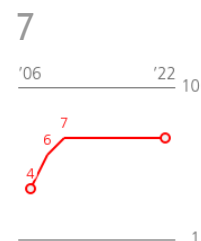
Being the most robust in the region, the Georgian banking system nevertheless suffered from the COVID-19 pandemic, mainly through the increasing losses in loan provisions, which led to a \$0.5 billion sector loss in the first quarter of 2020 due to the underdevelopment of capital markets. In March 2020, in response to the COVID-19 pandemic lockdown the NBG adapted the Rule to Extending Loans to Physical Persons from rule-based to principle-based risk management in order to develop a more flexible lending framework, protect consumers and improve financial literacy. By strengthening regulatory and supervisory frameworks, it addressed systemic risks such as currency mismatches, real estate and systemic banks. With a backdrop of high inflation rates, the central bank continued its de-dollarization measures.

8 | Monetary and fiscal stability

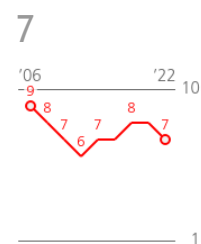
In 2020, Georgia's GDP fell by 12.3% year-on-year due to the COVID-19 pandemic. Its real GDP Growth was -6.1% (GeoStat). The Georgian lari (GEL) remained volatile in relation to the dollar, a risk for an economy with high dollarization, even if decreasing. This leads to serious repercussions for the households in Georgia, which often have to serve loans in dollars.

The long-term CPI inflation target is 3%. In 2017, the inflation rate was double the target at 6%. It then fell to 2.6% in 2018, then increased to 4.9% in 2019 and to 5.2% in 2020. In 2020, inflation in food and beverages reached 9%, which negatively affected the living conditions of the population with low incomes, whose expenditure on food represents 60% of total expenditure.

Banking system



Monetary stability



The real effective exchange rate index for 2019 was 93.4% (2017: 98.4; 2012: 110.3). The Georgian National Bank is legally independent and officially directed toward ensuring price stability (since 2009 by inflation targeting), which became more difficult for 2020 due to the impact of the pandemic.

Georgia's government slowly reduced its fiscal deficit (2017: 3.9% of GDP; 2018: 3.3% of GDP) through consolidation efforts and economic growth. Due to costly measures mitigating the consequences of the pandemic (e.g., health care spending and lower revenues) the fiscal deficit will increase to an estimated 8.5% of GDP after a budget revision in June 2020. The debt-to-GDP ratio is expected to surpass 60% in 2021, that is, reaching the ceiling of Georgia's Economic Liberty Act (IDFI: Budget Overview 2021). The total of the government's anti-pandemic plan amounted to 7.2% of expected GDP in 2020 and was solely financed by new debt (IDFI: Anti-crisis plan overview 2021).

According to the EU Association Implementation Report on Georgia, the current account deficit, which narrowed to 5.1% of GDP in 2019, will increase above 10% in 2020 due to a deteriorating service balance (mainly due to a fall in international tourism). The increased current account deficit will be financed by continuing (albeit slower) inflow of FDI and, most importantly, by increased volumes of grants and concessional loans already committed by international partners (EU, IMF and World Bank). Simultaneously, the EU-supported Economic Governance and Fiscal Accountability Program is bringing the Georgian economic governance system closer to the EU model.

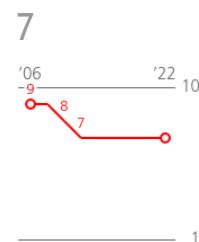
9 | Private Property

In general property rights are respected in Georgia. In the World Bank's "Doing Business" Index it now ranks fifth in registering property (agricultural land excluded). Decree # 1 of the President of Georgia on March 21, 2020, along with other decrees, meant property rights may be restricted in accordance with the constitution of Georgia during the state of emergency under the COVID-19 pandemic. This was not questioned by the public.

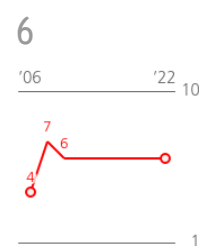
In 2020, the pandemic and parliamentary elections revealed a continuing discriminatory approach of the government toward the return of property nationalized in the Soviet period to various religious organizations besides the Georgian Orthodox Church. Muslim and other Christian denominations face serious difficulties to reinstate their property rights. On the other hand, the government granted the Orthodox Church exclusive right to receive state property (primarily forests) adjacent to churches and monasteries.

Likewise, the U.S. State Department has noted interference in judicial independence and a lack of impartiality. Disputes over property rights at times contributed to doubts over the impartiality of the Georgian judicial system (e.g., Rustavi 2 TV) and the continued significant impact of political interests on property rights. Georgia's score

Fiscal stability



Property rights



in the International Property Rights Index decreased in its Legal and Political Subindex (Judicial Independence, Rule of Law, Political Stability, and Control of Corruption), while it remained unchanged in its Physical and Intellectual Property Rights Subindices (73 out of 129 countries and 14 in the Central Eastern Europe and Central Asia region).

In 2020, Georgia ranked 7 out of 190 countries in the World Bank's Ease of Doing Business Index, down from 6 in 2019. This is one of several positive international indicators for the business environment in Georgia. It is among the world's top 10 countries in terms of starting a business (2), registering property (5) and protecting minority investors (7), but is ranked lower on resolving insolvency (64) and trading across borders (45). Some legal reforms are delayed (e.g., Law on Rehabilitation and Collective Satisfaction of Creditors, Enforcement Law and Mandatory Third Party Liability Insurance) with the independence of the judiciary, legal uncertainty and ongoing investigations of certain major businesses having an impact on the business environment.

In the 2020 Index of Economic Freedom, Georgia is ranked 12 in the world and 6 in Europe. With 77.1 points, Georgia's position slightly increased by 1.2 in comparison to the previous year (75.9).

After years of working on the draft law "On Entrepreneurs," the government finally sent it to parliament. The new law will better regulate corporate relations among the parties and company partners; will be in accordance with the EU directives and increase harmonization with EU legislation. It will also pave the way to important reform of corporate law in Georgia.

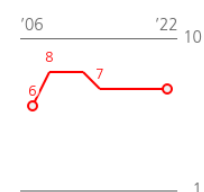
10 | Welfare Regime

Georgia is a divided society, which is compounded now by political polarization. Due to its neoliberal approach to welfare, it has failed to find a balance between creating opportunities for its urban and rural settlements. The divide between Georgia's traditional and modern economies limits its development prospects. The GD government introduced a public health system and increased social assistance after coming to power but did not continue to proactively include the rural population in social services, skills development and political participation. This left the country in a deplorable state to counter the COVID-19 pandemic and led the political elites to continue to define policy goals that are only altered if they collide with their interests (e.g., abuse of the visa liberalization regime with the EU for illegal labor migration).

As a supplement to the currently existing universal basic pension, which amounts to GEL 180 (subsistence minimum for a working male is GEL 195.6 as of January 2021), in July 2018, parliament introduced a much-debated mandatory accumulative pension system, which came into force in January 2019. Employees will accumulate

Private enterprise

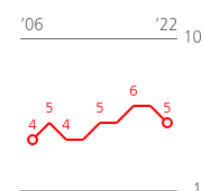
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Social safety nets

5



1

retirement security through directing 2% of their salary to a pension fund, with another 2% contribution by employers and 2% from the state. However, with a revised official unemployment rate of 17.6% for 2019 and 18.3% for the second quarter of 2020 (2013: 26.4%) and another third of Georgians classified as “self-employed,” the sustainability of the scheme has been questioned by opposition and NGOs. An Employment Service Agency, separating social from employment services, has been operational since the beginning of 2020.

UNICEF found in a Welfare Monitoring Study (WMS) 2018 that the volatility of Georgian households’ welfare remains a major concern. 70% of households participating in the WMS have been found to consume less than the subsistence minimum at least once in the past eight years. Material deprivation experienced by many children may have irreversibly damaging effects on their development.

Due to the pandemic, general poverty rates are expected to skyrocket again in Georgia, due to the lack of inclusive economic growth, unemployment and inflation in consumer prices. According to the WHO Global Health Expenditure database, public expenditure on health has continuously decreased from 9.8% of GDP in 2009 to 7.1% in 2018. To cope with economic hardship, more families resort to borrowing, with high interest rates at banks, microfinance institutions and pawn shops. Children in rural areas are most affected by poverty, with insufficient access to books and fewer years in education. Life expectancy in Georgia increased from 73.3 in 2016 to 74.1 years in 2019 (men: 69.8, women: 78.4).

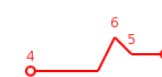
Legally speaking, Georgia has all the mechanisms for preventing discrimination in all its forms in place: the Law of Georgia on Elimination of All Forms of Discrimination. However, Georgia remains a society divided along ethnic, gender, and urban-rural lines. The social and economic status of Georgians is almost predetermined by their conditions at birth. 2020 was particularly difficult for vulnerable groups and minorities. Nevertheless, the needs of these groups and their protection have been missing in election programs and campaign agendas of the political parties. A party quota for women was introduced during the electoral reform. Domestic violence against women has increased, especially during the COVID-19 pandemic.

Although there is no legal discrimination against ethnic minorities, their representation in state, parliament and media is disproportionately low. Younger citizens of Georgia with a minority background are offered a free one-year integration program at universities. Sexual minorities face serious stigmatization and discrimination in Georgia. The situation of people with disabilities is slowly improving, nevertheless, a comprehensive approach of state and society toward creating a more disability-friendly Georgia is missing. For example, the accessibility of electronic government resources for people with disabilities needs improvement.

Equal opportunity

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Educational statistics are in line with other post-Soviet countries and display more encouraging figures: the literacy rate stands at 99.4% (99.3% female; 99.4% male for 2017). The ratio of female to male enrollment (GPI) stands at 1.0 for primary and secondary education and 1.1 for tertiary education. The gross enrollment ratio in 2020 was 99.3 for primary, 106.3 for secondary and 63.9 for tertiary education. The female labor force has been 44.9% since 2017.

11 | Economic Performance

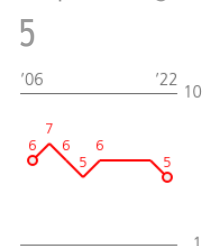
After two years of economic decline, Georgia's output strength improved, but is still far from stable. GDP grew continuously from \$15.14 billion in 2016 to \$17.5 billion in 2019. Its GDP per capita (PPP) grew from \$12,858 (2016) to \$15,637 (2019). Accordingly, GDP per capita growth almost doubled from 2.8% in 2016 to 5.3% in 2019. However, the economy has still not reached the (nominal) GDP level of 1989. The annual inflation rate has fluctuated; 4.9% in 2019 (2016: 2.1%, 2017: 6% and 2018: 2.6%) and the official unemployment rate fell from 19.2% in 2018 to 17.6% in 2019, and then increased to 18.5% in 2020 (mostly, due to the COVID-19 pandemic).

As in previous years, polling data from December 2020 showed dissatisfaction over the state of the country's economy. 24% of Georgians report that they are unemployed (same as in NDI's August 2020 poll), which likely indicates the continued economic impact of the pandemic. Only a quarter feel they are better off economically since 2016; 32% said they are worse off, while 45% believe their situation remains unchanged.

The FDI rate decreased from 11.7% of GDP in 2017 to 7.9% in 2019. The state budget improved its overall negative current-account balance of \$893.7 million (2019), down from \$1,885.9 million in (2016. Between 2016 and 2019 the public debt lingered around 40% (42.2% (2016), 40% (2018) 42.6% (2019) of GDP), but it has increased by 10% since 2012 when GD came to power. and is expected to surpass 60% of GDP by 2021. Tax revenues remain around 22% of GDP (2018: 21.7%). The gross capital formation went down from 30.2% in 2016 to 26.8% of GDP in 2019. All progress in economic output will be lost due to the pandemic in 2020.

Overall, the economic performance of Georgia is positive but not sufficient to significantly increase the existing low income per capita and improve people's wellbeing. The government is unable to overcome economic challenges and shocks. Inflexibility to changing economic circumstances and frequent politically-motivated decisions, which neglect economic reasoning, create barriers to long-term economic development. The government could be more proactive in attracting FDI and adopt laws to establish an independent economic arbitrage to improve the investment climate.

Output strength



12 | Sustainability

Georgia has a rich biodiversity, microclimates and cultural landscapes. It is especially sensitive to economic interventions into vulnerable ecosystems. The legal framework for environmental protection was established in the 1990s. It was ineffective and has undergone excessive deregulation since 2004, in conjunction with economic liberalization. Now Georgia is facing major environmental problems as land and forest degradation, pollution, and waste management contributes to climate change and leads to a reduction of biodiversity.

The year 2020 marked some progress in aligning Georgia's legislation to regulations and directives of the EU acquis. Parliament adopted a Law on Ambient Quality Protection (air quality) and a new Forest Code providing for sustainable forestry management. In July 2020, the government submitted a draft Law on Environmental Liability to parliament as part of the concept of Extended Producer Responsibility. Four technical regulations for specific waste streams came into force in September 2020. Only the construction of EU-compliant sanitary landfills was delayed. Georgia is yet to adopt its long-term Low Greenhouse Gas Emission Development Strategy (LEDS) and its updated nationally determined contribution (NDC) as required under the Paris Agreement. Generally, new commitments will depend on the availability of external financial support.

However, in practice Georgia's environmental management continued to be subordinated to the one-sided attraction of FDI and shortsighted economic interests. Moreover, decision-makers rarely practice inclusive approaches to sustainable and environmentally sensitive planning.

Local protests in the mountains against the construction of hydropower plants (HPP) continue in Svaneti. In September 2020, the European Bank for Reconstruction and Development (EBRD), following a two-year review, found the Nenskra HPP Project in the mountainous Svaneti region to be non-compliant with its 2014 Environmental and Social Policy. In western Georgia's Tskaltubo and Tsageri districts, the months-long local protests against the Namakhvani HPP project grew to become mass protests after police interfered on behalf of the Turkish construction company. In February 2021, the government was forced to acknowledge this protest and belatedly launch public consultations. Other concerns are air pollution in Tbilisi and the overuse of natural resources leading to serious degradation and destruction of old landscapes due to a rapidly growing tourism industry.

IDFI and other CSOs, most importantly members of the Open Government Georgia's Forum, advised the Open Governance Inter-Agency Coordination Council to endorse the Extractive Industries Transparency Initiative (EITI) and beneficial transparency principles. Focusing mainly on open and accountable management of the extractive sector, EITI represents a global standard, whose principles will positively affect Georgia's environmental management. Despite the advocacy of CSOs, the government has not yet endorsed the principles of EITI and beneficial transparency.

Environmental
policy

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Since 2004 the education sector has undergone numerous reforms, with ambitious announcements of often questionable impact, especially concerning the quality of school education. The UN Education Index rates Georgia relatively highly, with a score of 0.862 for 2019 (2016: 0.848). However, the quality of education is very poor. According to the 2019 data, the OECD placed Georgia in the bottom eight of 79 countries in its international student assessment. Public expenditure on education increased to 3.6% of GDP (2018), but still lags behind the government's ambitious goal of 6% by 2022 as part of its Unified Strategy for Education and Science for 2017 - 2021. Due to the COVID-19 pandemic this goal will not be met.

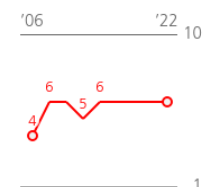
While the population is almost fully literate (2017: 99.4%), the lack of an adequately educated modern workforce negatively affects Georgia's competitiveness. The vocational education and training (VET) reform continued with the adoption of a new VET law and its by-laws to follow. The government plans to expand the VET sector into general education countrywide, as well as into the higher education sector, with short cycle technical education and training programs. However, everything depends on the quality of teaching and school teachers currently struggle with low salaries and a low level of social esteem held for this profession. Teaching is not an attractive career to young people.

Another weak point is research and development (R&D) as ingredients for a creative and innovative SME sector. For years, with only 0.3% of GDP dedicated to R&D, Georgia has been far below the OECD and EU-27 average of 2.3% and 1.9% of GDP respectively. The Shota Rustaveli National Science Foundation managed to create several cooperation programs to internationalize Georgian academia and disseminate results of its research abroad. The HORIZON 2020 Policy Support Facility made a recommendation to simplify and unify its grant scheme, restructure its R&D Innovation Council, set up a systemic R&D database, identify relevant research fields and encourage collaborative R&D. Georgia's participation in the EU's HORIZON 2020 remains high, with Georgian entities being involved 53 times in grants, receiving €6.5 million of direct EU contributions.

Georgia is facing new challenges due to the COVID-19 pandemic. Distance learning in the Georgian education system was not adopted before the pandemic. Consequently, the country was completely unprepared to address the radical changes required. Problems include not having appropriate equipment (e.g., computers, laptops, tablets and mobile phones), as well as access to the internet (especially for people living outside the major cities).

Education policy /
R&D

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Governance

I. Level of Difficulty

Following economic decline, violent conflicts, and political crisis in the 1990s, Georgia lost many capable and creative citizens. Only after 2004 did the situation improve, when a group of young reformers under Saakashvili gained power. While being successful in their state-building efforts, they did not succeed in establishing democratic rule in Georgia's neo-patrimonial society. Notwithstanding its initial promises in 2011, GD perpetuated these practices.

Qualitative changes are difficult to achieve in a political culture built around personal loyalty, tactical rapprochements and confrontation, rather than one building consent through compromises. While Saakashvili succeeded in curbing endemic corruption within state bureaucracy, law enforcement and – most problematically – the judiciary, the reliance on informality did not disappear. Political actors build on informal networks as safeguards or as entry points for a career. Formally or informally, billionaire Bidzina Ivanishvili will continue to influence politics as the most influential patron in Georgia, which has suffered from backsliding in institution-building since 2016.

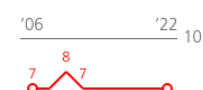
The EU-Georgia Association Agreement provides a formal blueprint for substantial internal reforms to overcome an outdated Soviet governance style. In the hopes of EU membership, the political elites have to introduce a huge amount of EU regulations and standards into national legislation, while principled professionals and serious proposals to close the implementation gap are missing. The temptation for window dressing rather than tangible action remains high.

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

Georgia is experiencing severe social and economic consequences from the pandemic. Besides a contracting economy, increasing state debts have exceeded the ceiling of 60% of GDP. There have been a total of 283.000 infections and 3,800

Structural
constraints

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deaths from COVID-19 recorded in Georgia (February 26, 2020 – March 31, 2021, Rank 49 of Worldometer). Georgia is facing serious challenges of social cohesion and public debt, which will limit the government’s coping capacity.

The divide between Georgia’s political elite and the public more broadly, a legacy of the country’s Soviet Union past, has yet to be overcome. A Western-style civil society emerged only in the 1990s and did little to support Georgian democratic institutions struggling to overcome the endemic lack of trust in public institutions. Participatory approaches that promote political dialogue are rare. Civil society organizations themselves still have not extended their limited outreach across the population in Georgia.

While occasional mass actions (e.g., election campaigns and protests against election fraud in 2003 and 2012, oppositional street protests in 2007, 2019, 2020) energized real political change, strong membership-based voluntary associations or interest groups are missing. The country also lacks the public debates needed to achieve consensus. Georgian civil society can grow only if it is rooted in the social reality found beyond the country’s capital. NGOs are dependent on Western support in terms of funding, consultation and concepts of individual freedom, all of which are increasingly challenged by pro-Russian actors. Georgian intellectuals, political actors and civil society activists in the capital neglect, for various reasons, much of the population that lives in poverty and adheres primarily to collective, illiberal forms of identity and belief.

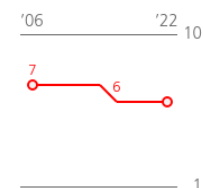
Since the liberalization of Soviet autocracy during perestroika in the late 1980s was accompanied not by the introduction of a “strategic civil society” but by NGOs supported by Western donor funding, the country’s limited civil sector failed to communicate the function and role of a democracy. As a result, democratic institutions that lacked a constructive civil society became a policy tool in the hands of political elites (for example GD’s allegations that CSOs are part of the opposition in order to neutralize their criticism). On a more positive note, the latest public opinion survey suggests that Georgians who have interacted with NGOs have more positive impressions about them than those who have not.

Persistent social, ethnic and religious cleavages in a country without a tradition of consensus-building can lead to confrontation over personalized issues. The experience of extreme violence in the early 1990s with paramilitary groups taking over the state and rendering it hostage to their particular interests has led to caution over escalating conflicts into violent confrontation. However, there were still several cases of violence, such as the Russo-Georgian war in August 2008, the violent police responses to mass protests in November 2007, May 2010, and June 2019, and torture having become routine in prisons under the Saakashvili regime.

The polarization among the ruling GD party and Saakashvili’s United National Movement increasingly undermined democratic institution-building. The latest

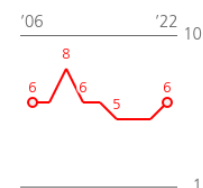
Civil society traditions

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Conflict intensity

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stalemate with the opposition's rejection of entering parliament over allegedly fraudulent parliamentary elections since October 2020 contains the potential for a violent escalation and again blocks alternative consensual conflict solutions. The COVID-19 pandemic has aggravated this trend.

There were a number of incidents of discrimination or violence against gay activists, between Orthodox people and Muslims in mixed communities, as well as hate speech accompanied by a further strengthening of an ultra-nationalist "Georgian March," which is positioning itself as a social and political force against all "non-Georgian" elements (i.e., religious, ethnic, racial and sexual minorities). However, "Georgian March" did not gain parliamentary seats at the most recent election. The state authorities still need to learn how to handle such conflicts in an effective and impartial way. Today, Russia, which has military bases in the separatist regions of Abkhazia and South Ossetia, represents the main threat to Georgia's security in public perception.

II. Governance Performance

14 | Steering Capability

With the EU-Georgia Association Agreement, which entered into force on July 1, 2016, there is a clear roadmap for a gradual approximation toward EU standards, which is guiding long-term goals under the perspective of future EU membership. However, indicators in accompanying action plans are rarely clearly formulated or are difficult to measure. Without clear evidence of achievement toward a long-term strategic goal, short-term public relation objectives appear to be of higher relevance to the government. With often rotating office holders at all levels, voluntarism and unpredictability often prevail. Due to a tradition of top-down decision-making by a small circle in the political leadership, there is reluctance to involve independent experts or openly consult with civil society. Institutionalized channels for exchanges, primarily with civil society actors, are slowly developing. Some ministries have attempted to elaborate an inclusive strategy (Youth strategy, Culture 2025), but implementation was forthcoming. Entrenched business or other interests are ultimately more decisive for the setting of priorities.

Within the mandate of the Public Administration Reform (PAR), one of the important pillars of EU-Georgia cooperation, the government has started to improve its policy planning and monitoring system from January 1, 2020. However, the adopted new rules set only the minimum standards of dialogue and consultation, beginning only after the first draft of a policy document is concluded. A mandatory Regulatory Impact Assessment for specific legislation was also introduced. However, two NGOs

Question
Score

Prioritization

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monitoring the PAR implementation found that several objectives and activities have been implemented only partially or not at all in the planned period 2019 - 2020. Only a third of all short-term (two years) recommendations from a 2018 SIGMA report have been implemented. Thus, significant challenges remain for policy planning and coordination.

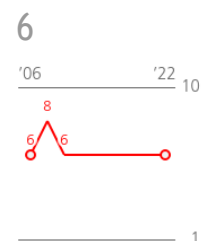
In general, Georgia's administrations have struggled to implement existing plans. Since 1991, three different governments have introduced a number of reforms, including the modernization of financial and public institutions, initiating the harmonization of Georgian legislation with EU regulations, and making considerable progress in the fight against corruption. However, the "operational gap" in proper implementation of reforms not only at the top, but also at the grassroots levels has not yet been closed. Frequent staff rotation, lack of institutional memory, and lack of horizontal coordination between state agencies, as well as profound deficiencies in evidence-based policy formulation have affected the government's implementation capacities.

The implementation quality of the EU-Georgia Association Agreement is assessed annually by the EU in its "Association Implementation Report." It provides some external scrutiny. Extensive training is planned to ensure proper implementation of the ambitious Association Action Plan with the EU.

The civil service still does not adhere fully to meritocratic principles. It is not free from direct political interference. Nor does it offer competitive salaries. All these contribute to an underperforming public service. In February 2020, regulations for internal promotions were introduced via the Law on Public Service (LPS) in order to provide for better career opportunities in public institutions.

Another important step toward improving implementation is the "Open Government Partnership," in which Georgia has been a member since 2011. It is currently implementing 28 commitments from the 2018 - 2020 action plan with increased transparency and free access to public information. According to an OECD SIGMA report, progress in reform of the policy planning and implementation system has proven slow since 2018. The main obstacle is the politicization of the civil service, especially during election periods, known as exploitation of "administrative resources." Public agencies avoid undertaking important commitments to actually achieve policy objectives and fail to even carry out less important activities which they are responsible for.

Implementation



Policy learning has been impaired since independence by continuing deep divisions in Georgian politics. The relationship between government and opposition has remained confrontational and counterproductive. Bidzina Ivanishvili's GD and Mikheil Saakashvili's UNM have been the focal points, especially since October 2018. Only in rare cases do both political camps succeed in bridging their considerable differences as in the agreement on electoral reform facilitated by EU, U.S. and German diplomats, which lasted until the parliamentary elections. The current deadlock, with the opposition refusing to enter parliament until the announcement of snap-elections, leaves little space for policy learning.

The once positive trend of cooperation between the new GD government and civil society after the 2012 parliamentary elections has also fallen victim to growing polarization. Criticism by leading watchdog NGOs of the government's legal initiatives was harshly rejected by the authorities as politically biased. As long as there is no understanding that the opposition parties are not state enemies or personal foes, but competitors for the best ideas on how to develop the country, there is no chance to have substantial debates over policy issues.

Policy monitoring in Georgia is weak and practically no policy evaluation occurs. The policy planning process is generally of only a formalistic nature – a proper situation analysis, risk assessment and mitigation tools are rarely or only superficially conducted. Public consultations in the policy planning process became mandatory by government decree in 2020, but only minimalistic standards have been set. Improper policy planning, monitoring and lack of policy evaluation result in a lack of learning from past experiences.

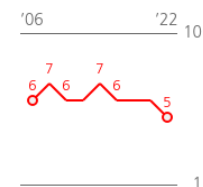
15 | Resource Efficiency

A Civil Service Reform and Public Administration Reform will provide for an efficient use of resources. After long preparation which began in 2014, a new law affecting the Civil Service was adopted in 2015 and went into effect in July 2017. Its key components were only implemented during 2019 and 2020, which the EU diplomatically praised in its Annual Report for 2020. This significant delay indicates the low priority such changes had for the government, in comparison to informal rule. So far, legislative and practical changes have not resulted in a more professional, meritocratic, effective and politically neutral civil service. Civil society's skepticism is often backed by frequent cases of nepotism, favoritism in public procurement and the use of administrative resources for political purposes. This also applies to the local administrations.

Efficient utilization of budgetary resources is another area facing significant challenges. For a number of years, watchdog organizations have informed the public about bureaucratic costs and inefficient budget spending. They repeatedly call for

Policy learning

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Efficient use of assets

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better parliamentary oversight on the effectiveness of government spending, and especially now under COVID-19 pandemic conditions.

In 2018, GD with its constitutional majority, removed relevant thresholds in the law on Economic Freedom.

The GD government promoted greater decentralization with the adoption of a new Local Self-Government Code (2014) and in 2019 a Decentralization Strategy 2020 - 2025. In addition, the 2017 constitutional changes created additional guarantees for the implementation of local self-governance reform. Although the reform introduced various important novelties for local authorities (e.g., legislation that enables municipalities to retain more funds accrued from taxes), major competences still remain with the central government. These limit the opportunities for local governments to accumulate revenues.

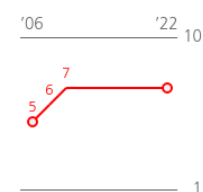
Since the parliamentary elections of October 2012, policy coordination has not been a strength of the GD party. After the 2013 constitutional reforms, vertical interference was exerted by the prime minister as the single most important means of ensuring cooperation between different parts of the administration. National policy planning and coordination forms part of the national public governance reform, which has been conducted by the Georgian government since 2015 per the EU-Georgia Association Agreement. In February 2020, the Georgian government presented a new national policy planning and coordination system, which was designed to be “in line with European standards,” to make government activities “more results-oriented, measurable and effective” and “boost the effectiveness of reforms.” In a technocratic way, the launch of an electronic system will make the policy planning and coordination process “fully automated,” ensuring better communication between state agencies.

So far, this means that EU procedural norms had little impact on formal and informal practices of governance. As a donor requirement introduced externally, the relevance of policy coordination to the Georgian government in everyday practice remains weak. An intrinsic shift toward a more integrative and bipartisan policy-driven approach, as proposed by TIG in November 2018, is unlikely in times of steadily increasing political confrontation.

Georgia continues to be a frontrunner in the post-Soviet area in the Corruption Perception Index and in the 2019 World Bank control of corruption indicator (2019: 74.04 out of 100; 2017: 77.00 out of 100). However, Transparency International’s latest Report on Corruption and Anti-Corruption Policy in Georgia (October 2020) identified several alarming trends of potential backsliding from previous achievements. While levels of petty corruption have been low in Georgia, from 2016 onwards, the concentration of power, informal influence on public institutions, and state capture evidently prevented proper investigations into possible cases of high-level corruption involving officials or influential individuals connected with the

Policy
coordination

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Anti-corruption
policy

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ruling GD party. The success rate of companies connected with public officials or donors to GD in public procurements is suspiciously high. The slow reform of Georgia's anti-corruption legislation has thwarted the implementation of an effective anti-corruption policy. Simultaneously, the enforcement of the existing anti-corruption norms remains problematic (including the prevention of illicit enrichment, conflict of interest, and whistleblower protection).

Besides some technocratic improvements, the government has not established an independent and impartial Anti-Corruption Agency as demanded by CSOs. The parliamentary Committee on Legal Issues even refused to discuss a legislative initiative on the creation of an Independent Anti-Corruption Agency. So far, anti-corruption responsibilities remain scattered among several law enforcement agencies tasked with fighting abuse of public office – the State Security Service, Office of the Chief Prosecutor, and Investigation Service of the Ministry of Finance. Moreover, important elements in the fight against political corruption lie within the State Audit Office. Coordination of anti-corruption policy and monitoring of its implementation is the task of the Inter-Agency Anti-Corruption Coordination Council, whose secretariat belongs to the analytical department of the Ministry of Justice. Georgia's membership in the "Open Government Partnership" encompasses anti-corruption issues. Despite a positive role of the council and the active involvement of CSOs, the problem of high-level corruption has not been sufficiently addressed.

According to the latest progress update report from the OECD-ACN, out of the 22 total anti-corruption recommendations made for Georgia, none showed significant progress, 17 were assessed as having some progress, and four of them indicated lack of progress. Similarly, the latest compliance report of the Group of States Against Corruption (GRECO) states that 70% of the recommendations with regard to the prevention of corruption have not been fully implemented by Georgia.

A whistleblowing mechanism has been in place in Georgia since 2009. However, its effectiveness is questionable, and the number of whistleblowing cases is very low. An Institute for Development of Freedom of Information (IDFI) study reveals that the national legislation regulating whistleblowing still has a number of shortcomings with respect to international requirements and recommendations. The political will to support the effectiveness of the whistleblowing mechanism appears to be lacking.

16 | Consensus-Building

There seems to be a strong consensus among the political elite and wider society that Georgia is a part of Europe and should join the EU (83%) and NATO (78%) in the future (NDI poll December 2020), which demonstrates a great consistency in values and foreign policy orientation. However, ethnic minorities do form part of this consensus. Georgia's geostrategic position and the negative perception of Russia contribute to this foreign policy outlook. However, analyzing the results in detail, the issue becomes trickier. While 58% of Georgians prefer democracy to any other form of government, another 16% can imagine in some circumstances a non-democratic one, and for 13% it simply does not matter. They refrain from actively interfering in party politics and adhere to personalized patron-client networks. The most trusted institutions are religious (trust:distrust = 83:5), the army (81:5), police (56:18) and – because of the COVID-19 pandemic – the health sector (56:20), education (48:23), and followed by central and local governments (40:27), the media (35:14) and NGOs (24:22). Institutions trusted the least are the courts (26:29), banks (29:35), parliament (24:32), the president (25:37) and finally political parties (18:36). In fact, democratic institutions that should serve the common good for all people remain the least trusted ones.

While there is general agreement regarding the basic principles of a market economy, there is little consensus on policy goals. This is largely due to the negative perception of neoliberal policies among the population. The socioeconomic divide has continued for decades and led to a growing discontent toward the ruling GD coalition since 2018. Nevertheless, dissenting opinions are more often voiced about political issues and rarely about economic ones. A consensus on democracy and market freedom can be assumed for the majority of the political elites and is certainly an asset for its international orientation toward the United States and the EU. Representatives and views of a more social market economy are effectively marginalized and fragmented. Besides the Georgian Labour Party, which just reached the necessary 1% threshold of the vote to win one seat in the new parliament, all other left-leaning parties and election blocs failed to win any seats. There remains a risk that public opinion changes if poverty and employment are not addressed in the future. Illiberal and anti-Western alternatives do exist.

Consensus on goals

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The most influential actor in Georgia is the rather conservative and nontransparent Georgian Orthodox Church (GOC) with very high rates of public trust, primarily with respect to the person of Patriarch Ilia II. Besides its rejection of any legal or ecumenical bonds with other Christian faiths, the GOC has become more conciliatory toward Western integration as long as it does not diminish the church's leading moral role in society. In the 2020 parliamentary elections, the clergy allegedly backed the GD and its candidates. On the other side, the GD government did not dare to openly confront the GOC with COVID-19 restrictions and instead issued a curfew during Easter without prohibiting service and practices that could spread COVID-19. For the same reason, the government failed to protect LGBTQ+ activists during a pride event in May 2013 against violent homophobia.

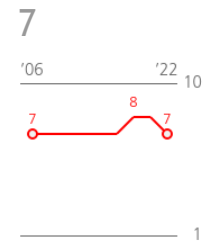
Other anti-democratic actors resemble political “entrepreneurs,” acting on behalf of particular interests, who tend to become majoritarian candidates for the GD in the parliamentary elections. Moreover, there are numerous cases of donors to the GD party being awarded multiple contracts through single-source procurement. Lately Georgia experienced the emergence of right-wing extremist groups, such as the “Georgian March” that are positioned further right of the anti-Western, somewhat pro-Russian “Patriots’ Alliance,” which lost half of its seats in the most recent parliamentary elections. As of now there is little chance that these groups will enter parliament.

As the current stalemate between the ruling GD and opposition UNM clearly demonstrates, the will of the political elite to solve conflicts remains limited. Political competition is played out as a zero-sum game with an increasing polarization between GD and UNM over the last few years. To compromise is perceived as weakness. Dialogue and negotiation could only be achieved in March 2020 with the mediation of Western diplomats. However, polarization continued after the parliamentary elections of October 2020: opposition parties refused to enter parliament because of what they alleged to be fraudulent elections. The tension increased with the arrest of the opposition leader, Nikanor Melia from UNM, in March 2021. The political parties failed to negotiate and reach an agreement even with high-level EU officials being involved as mediators. Political reformers able to institutionalize effective conflict-resolution and mitigation mechanisms are marginal.

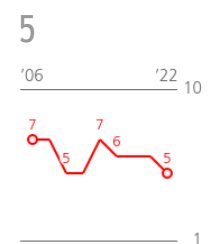
The majority of the population, due to dire socioeconomic conditions, are reluctant to engage politically. Civil society actors improved their role in conflict management and – with Western support – do oversee the government or negotiate issue-based compromises in place of a weak political opposition. Certainly, the EU approximation agenda plays a disciplining role here.

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, constantly instigated by “borderization” and arrests of Georgians along the administrative borders. The initial progress achieved

Anti-democratic actors



Cleavage / conflict management



in civic integration of ethnic and religious minority groups is undermined by an insufficient enforcement of constitutional rights for religious and sexual minorities. There are only rare public statements of leading GD politicians emphasizing the importance of integration of ethnic and religious minorities.

Over the last few years, but especially during the parliamentary election campaigns of 2016 and 2020, the GD ruling party and the government reluctantly collaborated or consulted with civil society. They more often rejected civil society's criticism as politically biased in an increasingly polarized environment. Due to the relatively weak roots of NGOs in society, they are easily targeted by ruling populist politicians.

However, the state is not imposing any formal restrictions on NGOs, and they can continue to receive funding from Western donors. With the National Platform of the Civil Society Forum, the EU even created a regular consultation channel with them. Their impact on democratic governance remains limited. However, they can have an impact on the political agenda setting by providing critical arguments for public debates.

The wider population, with its socioeconomic problems, tends not to participate in civil engagement, which appears to many to be another way of preparing for a career in politics, as it often happens to be. In the majority of cases when public entities consult civil society and/or the wider public, government representatives are reluctant to establish a well-organized process for discussing submitted comments and providing relevant feedback. Thus, they leave the impression that consultations are only tokenistic. This has a negative impact on the trust of the society toward the process, thus demotivating them to engage in similar processes in the future.

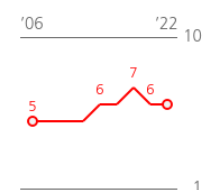
In domestic politics, GD has never attempted mediation between former victims and perpetrators under Saakashvili's regime. They came to power with the promise to restore justice and hold perpetrators accountable, a promise that was largely left unfulfilled, with numerous high-profile cases being shelved to this day. With the resilient UNM as a potential contender for power, during election campaigns the prospect of restoration of justice was revived by the incumbent GD. While continuing to pay political dividends for the ruling GD, this strategy does prevent reconciliation and rather deepens the animosity between major political actors and their constituencies.

Reconciliation with the separatist Abkhazian and South Ossetian authorities has not improved. These separatist entities have become gradually included in Russian Federation structures. Georgia has tried to counter the diplomatic stalemate with offers of free health care to Abkhaz and Georgians residing in Abkhazia. There is no dialogue between the conflicting sides.

The issue of Soviet injustice, its acknowledgment and the remuneration of victims were conducted in a low-key manner, because of the still virulent adoration of Stalin

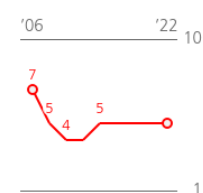
Civil society participation

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Reconciliation

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(born in the Georgian city of Gori) among the older generation. The lack of reconciliation over human rights violations is symptomatic of the inability to facilitate reconciliation during the current political confrontation. The state is trying to evade the legacy of the Soviet past. It is just purposefully forgotten.

17 | International Cooperation

The Association Agreement (AA) concluded with the EU is accompanied by an Association Agenda as a blueprint for reforms. The agenda provides for an explicitly formulated long-term development strategy and requires consistent implementation, which is mainly restricted to formal structures, since EU conditionality is often not applied in a consistent way.

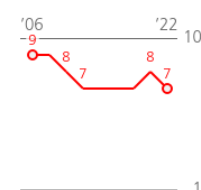
The EU is the biggest donor supporting Georgia's approximation process under its European Neighborhood Instrument (ENI) 2014 - 2020 with €610-746 million for reforms of public administration, agriculture and rural development, the justice sector and complementary support for capacity development and civil society as outlined in its Association Implementation Report on Georgia. It also reprogrammed an amount of €183 million of grants to fight the serious consequences of the COVID-19 pandemic in Georgia. In addition, the EU allocated an exceptional Macro-Financial Assistance program of €150 million in 2020. Part of the 2019 bilateral allocation (€127 million) and of the 2020 bilateral allocation (€102.7 million) have been reprogrammed to better support the country's COVID-19 response in three main areas: the health sector, socioeconomic recovery and help to the most vulnerable. The EU supports the Georgian government's anti-crisis economic plan to address the challenges of the COVID-19 pandemic, accompanied by flanking measures in the areas of environment, health, socioeconomic recovery and migration, and the promotion of human rights.

The other important donor to Georgia is the U.S., whose four long-term objectives are economic growth, energy sector reform, democracy and governance, and social and health services development. USAID began operating in Georgia in 1992 and altogether has provided over \$1.8 billion in assistance to Georgia. Building on this partnership, the U.S. government dedicates approximately \$40 million annually to 50 wide-reaching programs.

In January 2020, Georgia hosted the UN Annual Development Partnership Forum in Tbilisi discussing the eradication of poverty through inclusive, sustainable and smart economic development, strengthening high quality, accessible education, social welfare and other issues. Due to the COVID-19 pandemic, the role of CSOs in monitoring and assessment of donor cooperation programs has increased. They have raised concerns regarding the effective use of the financial resources allocated to Georgia to counter the pandemic.

Effective use of support

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The reform efforts by the GD government, even during the pandemic, have been acknowledged in the latest EU-Georgia annual report by the EU in January 2020. Georgia remains a frontrunner in reforms and EU approximation in the EU Eastern Partnership. The commitment to achieving sustainable results was overshadowed by EU discussions questioning the prospect of membership, even if there is still a lot to be implemented in the framework of the Association Agreement. Given the latest political developments, Georgia still has much to do to convince the EU and its members. This is less so about its seriousness than about the sustainability of its reform efforts.

Georgian citizens have made over 1,150,000 visits to the EU since the visa-free-regime entered into force in March 2017. The third report under the Visa Suspension Mechanism adopted on July 10, 2020, confirmed that visa liberalization benchmarks continue to be fulfilled. Georgia has undertaken a number of actions to bring the initially high number of unfounded asylum-seekers under control, including the adoption of a Law on the Rules and Procedures for Georgian Citizens exiting and entering Georgia by parliament in September 2020. While this is another technical approach to problem solving, the political elite has to convince its population not to misuse the newly gained opportunity of travel to the EU, despite existing social and economic problems in the country.

Being a small but geostrategically important country, Georgia has managed to establish good relations with all neighboring countries with the exception of Russia. Georgian foreign policy focuses primarily on withstanding an increasingly assertive Russia in Georgia's separatist regions. The GD's attempts to improve its relations with Russia suffered a serious setback with the Gavrilov scandal in June 2019. The Russian "borderization" regime and the imprisonment of Georgian citizens for "border" violations in South Ossetia also undermined any progress. The Geneva talks on Abkhazia and South Ossetia have stalled because they exclude the status issue for both entities.

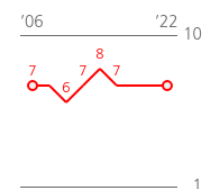
On the other hand, prospects for NATO admission have diminished since the 2008 war. Regional cooperation is primarily fostered within the EU Neighborhood Policy and the weaker Black Sea Synergy. The EU is reluctant to give Georgia a membership perspective.

Twenty years after its accession to the Council of Europe, Georgia chaired for the first time the Committee of Ministers of the Council of Europe (CoE) from November 2019 until May 2020. This inter-governmental decision-making body is composed of foreign ministers from all 47 member states.

The violent escalation of the conflict over Nagorno-Karabakh and Armenia's defeat in autumn 2020 altered the geopolitical environment. Russia's and Turkey's role in the Caucasus increased after both urged Azerbaijan and Armenia to halt the fighting. The Minsk group, chaired by France, Russia and the United States, the OSCE proper and the EU did not manage to play a successful role in conflict mitigation. Having significant Azeri and Armenian minorities, Georgia stayed neutral.

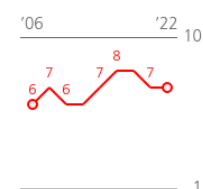
Credibility

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Regional cooperation

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The idea of Georgia becoming a transportation and energy corridor in the region is still relevant, but the Anaklia port project came to a halt in 2019. The Baku-Tbilisi-Kars railway, operational since October 2017, transports cargo mainly from Azerbaijan and Central Asia. Cargo traffic from Turkey to CIS countries may shift to this new route through Georgia. With its Road and Belt program China is gaining influence in Georgia, investing in infrastructure and production as an entry point to the EU internal market.

Strategic Outlook

The political polarization in Georgia is exacting a high price. Georgia's international reputation as being committed to European values such as the rule of law, democracy and an independent judiciary is at risk. The impoverished population is emigrating, trust in democratic institutions and the readiness of citizens to participate in a political "Game of Thrones" is in steady decline. Any chances to achieve social cohesion by empowering broader parts of the population beyond Georgia's religious-cultural identity are fading.

The political elite has apparently made its choice. GD, in a kind of siege mentality, is afraid that a UNM-led opposition coming to power will take revenge, and is ready to defend its grip on power using all means necessary. Prime Minister Gakharia's resignation in February 2021 over his personal refusal to arrest UNM opposition leader Nikanor Melia demonstrates the urgency of the situation. Western partners' repeated calls for de-escalation and their attempts to facilitate a political dialogue and reinstate parliament as the main forum for political competition have failed to break the deadlock. If the political elite will not overcome its partisan interests in favor of a broad development agenda countering the disastrous socioeconomic consequences of the COVID-19 pandemic for the struggling majority of the society, the strategic outlook will remain bleak.

Therefore, civil society actors need a more proactive approach in reaching out to citizens in rural areas. They need to involve motivated, young people in their activities and campaigns in order to build trust among the citizens and better represent their interests. An independent judiciary will remain a goal difficult to achieve given recent questionable appointments. In March 2021, a decision of the Court of Appeals against Transparency International Georgia (TIG) found the views expressed in TIG's study on corruption risks in the judiciary "defamatory." This sets another dangerous precedent, undermining the freedom of speech and expression. In the media sector the Georgian National Communications Commission's competences were increased early in 2021, and it can now apply administrative measures against broadcasters for using offensive, insulting statements.

This all works to weaken internal resilience at a time when the Nagorno-Karabakh conflict demonstrated a resurgence of Russia - and to some degree of Turkey - in the Southern Caucasus, while EU and U.S. influence wanes. This leaves the strategic outlook for the coming years more challenging.