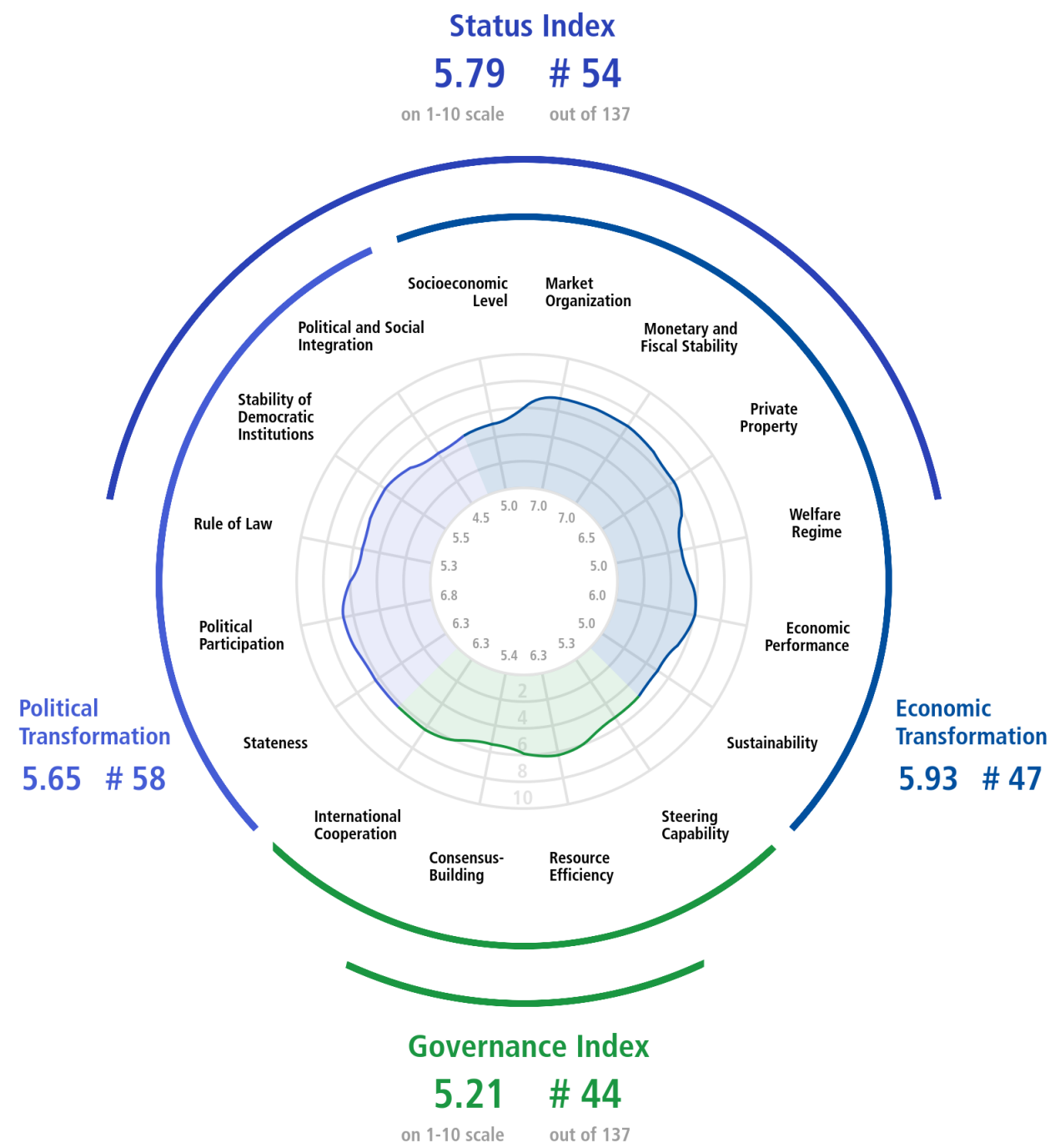


Georgia



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	0.802	GDP p.c., PPP \$	20113
Pop. growth ¹	% p.a.	0.1	HDI rank of 189	63	Gini Index	34.2
Life expectancy	years	71.7	UN Education Index	0.860	Poverty ³	19.1
Urban population	%	60.3	Gender inequality ²	0.280	Aid per capita \$	207.0

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Over the past two years, Georgia has missed numerous opportunities to make progress in becoming a more inclusive, secure and prosperous state. The COVID-19 pandemic somewhat reduced hostilities among political factions. However, the resignation of Giorgi Gakharia as prime minister, just three months after parliamentary elections where the ruling Georgian Dream (GD) party secured a third term, clearly highlighted the fact that billionaire Bidzina Ivanishvili wields ultimate power rather than serving as the constitutional leader of the government. Following successful local elections, GD now holds control over all levels of the state, strengthening its influence over the judiciary through the appointment of loyal judges. In addition, it is now targeting critical NGOs, labeling them as “agents of foreign interests” and threatening their activities.

Micheil Saakashvili’s unexpected return to Georgia and his immediate imprisonment, along with the improper treatment of his illness, have been seized upon by his United National Movement (UNM), the leading opposition party, to portray him as a potential martyr for another revolution. In 2021, there was a brief moment of hope when the April 19 agreement, brokered by the European Union, seemed capable of resolving the political gridlock and democratic regression. However, the UNM initially refused to sign the agreement until their imprisoned party chairman, Nika Melia, was released, and subsequently, the ruling GD party withdrew from it after three months. Georgia’s political elite failed to embrace the European lesson of compromise in democratic politics. Instead, GD uses increasingly manipulative rhetoric that purports to defend “national traditions.” But, in fact, by marginalizing critical civil society and allowing violent groups to continue their actions against minorities and outspoken dissenters, it makes a mockery of its proclaimed European values.

Despite some grassroots protests, like the one against the Namakhvan dam project in western Georgia, and labor protests by precarious workers and miners, no new, more representative political parties or interest groups have emerged. As a result, the ruling GD party continues to claim the sole representation of all social interests.

The country's democratic backsliding is further exacerbated by geopolitically significant events. First, the COVID pandemic and then the Russian war against Ukraine revealed the ambivalence of Georgia's leadership. While Georgia condemned Russia's blatant breach of international law at the United Nations General Assembly, it did not impose Western sanctions against Russia, making it a haven for Russian capital and service companies. This has boosted Georgia's currency and generated an economic boom. Now, Russia has a presence on both sides of the "administrative border" – militarily in Abkhazia and South Ossetia and economically in mainland Georgia. With the Nagorno-Karabakh conflict between Armenia and Azerbaijan still unresolved, this creates a complex situation.

At this geopolitical "turning point," the only glimmer of hope for Georgia lies in the prospect of EU accession. However, this prospect is clouded by the European Commission's demand for 12 points of political reform to catch up with Ukraine and Moldova in candidate status. Within a year, Georgia's government will need to demonstrate how it meets not only the technocratic requirements of the Association Agreement but also the Copenhagen accession criteria.

History and Characteristics of Transformation

Georgia's political and economic transformation, which began in 1989, has been marked by civil war, territorial conflicts and severe economic downturns. In October 1990, the first free elections for Georgia's Supreme Soviet brought a diverse national movement to power that was led by dissident Zviad Gamsakhurdia. Following a referendum on March 30, this movement declared Georgia's independence from the Soviet Union on April 9, 1991. Despite a resounding victory in the May 1991 presidential elections, Gamsakhurdia struggled to establish firm control and was eventually ousted in a violent coup d'état in the winter of 1991/1992, accompanied by separatist conflicts in South Ossetia and Abkhazia.

Subsequently, the insurgents invited former Georgian Communist leader and Soviet foreign minister Eduard Shevardnadze to lead an interim government. He successfully neutralized criminal military groups and secured international recognition of Georgia's independence. The introduction of a new constitution and currency as well as parliamentary elections in 1995 helped stabilize the fragile state. However, the parliament remained weak, intra-elite competition and corruption flourished, and the ruling "Citizens' Union of Georgia" clung to power through rigged parliamentary and presidential elections in 1999 and 2000.

A group of young reformers, including Mikheil Saakashvili, Zurab Zhvania and Nino Burjanadze, departed from the ruling party to form new opposition parties. In November 2003, they spearheaded popular protests against rigged parliamentary elections, ultimately leading to Shevardnadze's resignation. This historic uprising, known as the "Rose Revolution," was driven by a network of NGOs, a youth movement and the independent TV station "Rustavi 2."

In the January 2004 presidential elections, the charismatic Saakashvili secured an overwhelming victory with 96% of the popular vote. The three leaders merged their parties into the United National Movement (UNM), which went on to win over two-thirds of the seats in the March 2004 repeat parliamentary elections. This majority enabled them to implement far-reaching structural reforms, which yielded notable results. However, these achievements were marred by significant shortcomings in checks and balances within the parliament, judiciary and media, which led to serious human rights violations.

After the brutal suppression of broad protests and the closure of the critical “Imedi” TV station during a state of emergency declared in November 2007, Saakashvili managed to restore democratic legitimacy through early presidential and parliamentary elections held in 2008. Subsequently, Georgia faced challenges such as sluggish economic growth, the global financial crisis and a deteriorating investment climate following the Georgian-Russian war over South Ossetia in 2008. The country’s stability largely relied on international assistance.

In the competitive parliamentary elections of October 2012, Georgia witnessed its first-ever democratic transfer of power. The ruling UNM gracefully conceded to the Georgian Dream (GD) party, led by billionaire Bidzina Ivanishvili. This ushered in a year of tense cohabitation between President Saakashvili and Prime Minister Ivanishvili. On October 27, 2013, GD candidate Giorgi Margvelashvili was elected as the new president. With his inauguration, constitutional changes came into effect, shifting Georgia from a presidential system to a mixed system with significantly reduced presidential powers. Shortly after this shift, Bidzina Ivanishvili voluntarily stepped down. The GD-dominated parliament subsequently confirmed Irakli Garibashvili (2013 – 2015) as the new prime minister, followed by Giorgi Kvirikashvili (2015 – 2018), Mamuka Bakhtadze (2018 – 2019), Giorgi Gakharia (2019 – 2021) and, once again, Irakli Garibashvili. These changes underscored that the true locus of power resided not with the prime minister but behind the scenes with Bidzina Ivanishvili.

By the 2016 parliamentary elections, nearly all former coalition parties had left the ruling bloc. Consequently, GD solidified its position as the ruling party and secured a constitutional majority. The government’s arrest of former ministers and prominent UNM leaders on charges of human rights violations drew international condemnation for perceived selective justice. Additionally, the former ruling party managed to adapt to its loss of power and became the primary opposition force in parliament, later dividing into the UNM and European Georgia parties. The Alliance for Georgia, as the third opposition party, crossed the 5% threshold.

Aside from the Georgian-Russian war in 2008, the most notable foreign policy development was the EU-Georgia Association Agreement’s implementation on July 1, 2016. This agreement involved substantial commitments to reform from Georgia in exchange for visa regulation liberalization and access to the EU’s internal market through the Deep and Comprehensive Free Trade Area (DCFTA). Simultaneously, the reintegration of the breakaway regions of Abkhazia and South Ossetia increasingly relied on the Russian Federation, which maintained military bases and implemented a “borderization” strategy involving wired borders between the occupied territories and Georgia proper. The Geneva negotiations regarding their status are currently at a standstill.

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

Transformation Status

I. Political Transformation

1 | Stateness

Contrary to the early 1990s, the state in Georgia now holds a monopoly on the use of legitimate force. However, conflicts between Georgia proper and the two breakaway territories, Abkhazia and South Ossetia, remain unresolved. The de facto authorities of these territories have managed to stabilize their statelets with decisive support from Russia. Since 2008, Moscow has consolidated its military presence along the administrative border line (ABL) with Georgia. Russia's treaties on strategic partnership with Abkhazia (November 24, 2014) and on alliance and integration with South Ossetia (March 18, 2015) have included them in a common security and defense space.

Neither de facto state has any prospect of international recognition. The Geneva Talks, the only international forum for negotiations among the conflicting parties with Russia representing the two breakaway provinces, have not produced any tangible results. In 2009, the European Union adopted a Non-Recognition and Engagement Policy (NREP) for Abkhazia and South Ossetia. The judgment by the European Court of Human Rights from January 21, 2021, in connection with the August War of 2008 established that the Russian Federation, under "effective control" over the occupied territories of Georgia (Abkhazia and South Ossetia), is responsible for the violation of several articles of the European Convention of Human Rights during and after the war. On June 30, 2022, the International Criminal Court approved arrest warrants for three members of the South Ossetian administration.

Until January 2023, the 110th Incident Prevention and Response Mechanisms (IPRMs) were conducted, but they did not prevent the continued arrests of Georgian citizens at the ABL. Following the Russian invasion of Ukraine in February 2022, both separatist regimes aligned themselves with Russia and have since deployed soldiers.

Question
Score

Monopoly on the
use of force

5

'06 '24 10



1

Naturalization for Georgian citizenship is possible after a five-year period of residence in the country. Citizenship is also available through significant investment in Georgia, provided the investor has made a substantial contribution to the state. However, it's important to note that the influence of ethnic identity, which has been shaped by the Soviet nationality policy, has led to strong sentiments of ethnic entitlement among the ethnic Georgian majority. In certain sensitive situations, these sentiments can take precedence over the idea of the “demos,” or the collective of equal citizens, as outlined in the constitution.

Since 1991, individuals from the separatist regions of Abkhazia and Ossetia have rejected Georgian citizenship. In June 2021, the government introduced a new Civic Equality and Integration Strategy for 2021 to 2030. However, this strategy is not particularly innovative and primarily focuses on supporting initiatives related to learning the state language and integration in education.

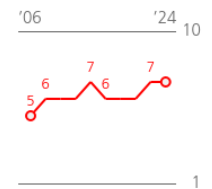
Furthermore, Georgia's Anti-Discrimination Law, enacted in May 2014, has not been effectively enforced. This observation was made by the Council of Europe Commissioner for Human Rights, Dunja Mijatović, in February 2022, and reiterated by the U.N. Committee on the Elimination of Racial Discrimination in its findings in December 2022. The latter committee raised concerns about Georgia's persistent structural socioeconomic inequalities in areas with high ethnic minority populations. These disparities include limited access to quality education and a low level of political representation for minorities. The committee called on Georgia to intensify its efforts to address the various challenges faced by minority communities, including language barriers, which present a significant obstacle to effective integration.

In Georgia, 83% are members of the Georgian Orthodox Church (GOC), which is one of the most trusted institutions in the country. Its leader for the past 45 years, Patriarch Ilia II, is the most respected person in the country. Since the conclusion of a concordat between President Shevardnadze and Patriarch Ilia II in 2002, the GOC has held 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 of 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 privileges, including those related to the tax code, budget and state property, as well as institutional privileges compared with other religious groups.

Over the past few years, the GOC Patriarchate has emerged as an active political player, shifting its focus from the spiritual well-being of believers to consolidating its economic standing and political influence. In an effort to secure popular support amid diminishing regime legitimacy, the authorities have begun sharing power and material resources with the GOC.

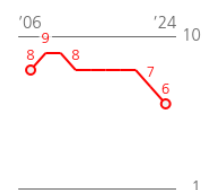
State identity

7



No interference of religious dogmas

6



In September 2021, leaked files from the state security service revealed that the GOC is the least transparent institution, and it appears that numerous Georgian clergymen are playing a role in Russia's soft power strategy in Georgia. Traditionally, the GOC has supported the ruling GD party during elections. However, there has been a noticeable change in this pattern, marked by the active involvement of clergy members in GD's campaign during both the 2020 parliamentary elections and the 2021 local elections.

The GD government continues to expand a functioning state administration by establishing one-stop civil service centers in municipal centers all over the country, providing basic services to the citizens. However, contrary to initial plans, no real depoliticization of the state administration has occurred since 2012. Watchdog organizations detected increasing cases of mismanagement, nepotism and corruption in basic administrative services at the local level for the period from 2021 to 2022. "Administrative resources" are utilized to hire staff loyal to the ruling party instead of individuals with professional qualifications.

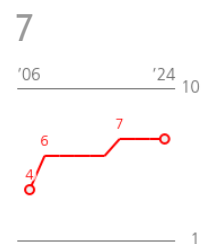
In terms of essential infrastructure, in 2020, 97.3% of the population had access to a basic water source, and 66.4% had access to a safely managed water source. Additionally, 85.8% had access to a basic sanitation facility, while 34.4% had access to safely managed sanitation. Access to electricity was universal, reaching 100%. Nevertheless, there remains a significant urban-rural divide, with remote mountain regions and villages receiving less support for basic infrastructure.

According to the most recent NDI survey conducted in August 2022, the top local concerns identified by respondents were related to water supply (25%), roads (24%), and sewage (20%). Additionally, an IRI survey from March 2022 indicated a decline in Georgians' satisfaction with the government's response to the COVID-19 pandemic, dropping from 79% in June 2020 (with 41% expressing very satisfaction and 38% somewhat satisfied) to 64% (with only 17% expressing very satisfaction).

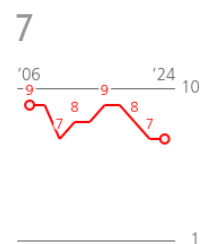
2 | Political Participation

The 2012 parliamentary elections marked the first change of government in Georgia, generating high hopes for the country's democratic progress. Subsequently, positive evaluations of the 2013 presidential elections and the 2014 local elections, which saw the direct election of mayors in 12 cities for the first time rather than their appointment by Tbilisi, further fueled optimism. However, concerns arose in the wake of the 2016 parliamentary and 2018 presidential elections due to perceived close connections between the capital, the ruling party and state institutions, as well as incidents of violence. Nonetheless, international observers generally characterized these elections as "free and fair."

Basic administration



Free and fair elections



However, in 2022, former Deputy Head of the State Security Service, Ioseb Gogashvili, leaked materials revealing multiple violations of the law and potential crimes committed to mobilize voters for the 2018 presidential election.

During the 2020 parliamentary elections, the OSCE noted that “fundamental freedoms [...] were respected, but allegations of pressure on voters and blurring of the boundary between the ruling party and the state were pervasive,” which diminished public confidence in the electoral process. Prior to the election, the opposition staged massive protests, prompting a compromise mediated by U.S. and EU ambassadors. This compromise introduced greater elements of a proportional system, with 120 out of the 150 members of parliament now being elected through party lists, as opposed to the previous 75. However, the 2020 elections were burdened by legal shortcomings, a hastily implemented new system, and COVID-related restrictions. These factors ultimately led to the opposition’s refusal to recognize the election results and sparked renewed protests.

Georgia’s October 2021 municipal elections were assessed as technically well-administered, but with deep flaws in the electoral and political environment. The ruling GD party massively misused its “administrative resources,” resulting in virtually all local councils and mayors (with only two being female) being won by GD candidates. Massive barriers to the voting process were reported in the three municipalities featuring incumbent officials from the opposition.

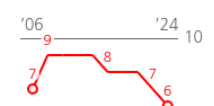
These elections took place against the backdrop of a prolonged political impasse following the 2020 parliamentary elections and were viewed by many as a crucial test for the future of democracy in Georgia. While municipal elections typically center on local issues and community leadership, the events of 2020 and the anticipation of snap parliamentary elections if the ruling party failed to secure at least 43% of the vote, raised the stakes for all political parties involved. The campaign was characterized by acrimonious rhetoric and exchanges of insults, with national-level narratives overshadowing local-level concerns. It became apparent that partisan gains were increasingly prioritized over the welfare of the Georgian public.

Politics in Georgia is highly personalized. Since 2013, the prime minister – the highest decision-making post in Georgia – has changed five times during GD’s ten years in power. These changes include billionaire Bidzina Ivanishvili (2012 – 2013), Irakli Garibashvili (2013 – 2015), Giorgi Kvirikashvili (2015 – 2018), Mamuka Bakhtadze (2018 – 2019), Giorgi Gakharia (2019 – 2021), and a return of Irakli Garibashvili (2021 – present).

Politics in Georgia is characterized by a strong sense of personalization. Over the past decade, there have been five changes in the position of prime minister, which holds significant decision-making power in the country, all within the ruling GD party’s tenure. These changes include billionaire Bidzina Ivanishvili (2012 – 2013), Irakli

Effective power to govern

6



Garibashvili (2013 – 2015), Giorgi Kvirikashvili (2015 – 2018), Mamuka Bakhtadze (2018 – 2019), Giorgi Gakharia (2019 – 2021), and a return of Irakli Garibashvili (2021 – present).

Despite Bidzina Ivanishvili stepping down as prime minister in 2013, all of his successors have maintained a dependence on him. Giorgi Gakharia's abrupt resignation in February 2021, stemming from his refusal to arrest the main opposition leader, Nika Melia of the UNM, and the subsequent reappointment of Ivanishvili loyalist Irakli Garibashvili, highlight Ivanishvili's influential role behind the scenes. In 2022, the European Parliament, in its annual implementation report of the EU-Georgia Association Agreement, recommended addressing the excessive influence of vested interests, notably oligarch and former Prime Minister Bidzina Ivanishvili, through comprehensive structural and regulatory reforms across various aspects of the country's political, economic and public spheres. Notably, "deoligarchization" is among the 12 priorities set by the European Union for Georgia to achieve EU candidate status.

Former president Mikheil Saakashvili remains a polarizing figure in Georgia, even while incarcerated. His significant influence within his UNM party has hindered a comprehensive evaluation of his legacy. Although a sizable minority of the electorate continues to support him, a majority of Georgians do not wish to see his return to power. Saakashvili's unlawful return to Georgia during the October 2021 municipal elections led to his imprisonment. His deteriorating health condition in custody raises concerns about potentially fatal consequences in early 2023. Instead of focusing on policy reforms, the polarized public debate has largely centered on his release for medical treatment abroad.

Civil society organizations express growing concerns about "state capture" by informal networks, with particular scrutiny on Bidzina Ivanishvili and the GD party. In response to criticism from these groups, the ruling circles have countered with unfounded allegations of corruption, accusations of being controlled by the UNM opposition, and even claims of being "agents of foreign influence." Simultaneously, an alt-right movement is gaining momentum across Georgia, aligning with certain segments of the clergy, with the aim of replacing Western values with "national traditions." Notably, six GD MPs have formed a sub-faction called "People's Power," openly criticizing the European Union and U.S. ambassadors for what they perceive as undermining Georgian national interests. Consequently, they are aligning themselves with Vladimir Putin's narrative of the colonializing West.

Between 2012 and 2018, the government did not impose any restrictions on or interfere with the freedom of association or assembly. However, as the ruling GD party began to govern independently and tensions escalated with the UNM opposition, the rights to assemble faced setbacks. This deterioration can be traced back to the closely contested first round of the 2018 presidential elections, in which the GD-backed candidate Salome Zurbishvili nearly lost to the UNM candidate. In response to criticism from non-governmental organizations (NGOs) of alleged political bias and corruption within the government, the GD increasingly accused these organizations of political bias and corruption.

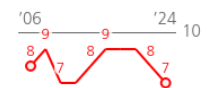
Nine anti-Western GD defectors from the “People’s Power” faction in parliament initiated a draft law labeled the “Foreign Agents” law that targeted NGOs and media outlets. This legislation threatened the freedom of association by potentially stigmatizing civil society and independent media, taking inspiration from the Russian model of 2012. The GD initially supported the adoption of this law during its first reading, despite objections from the EU, United Nations and the United States. In March 2023, following extensive protests in Tbilisi, the GD revoked the law during its second reading. However, GD members continue to promote the law through information campaigns in traditional, online and social media.

COVID-19-related restrictions on assemblies, implemented in March 2020, persisted beyond the parliamentary elections and the November 2020 protests, taking the form of a curfew. This curfew remained in effect until July 2021, following sustained and significant protests known as the “March of Disobedience” in February 2021. Even after the curfew was lifted, citizens still faced obstacles to their right to assemble, including restrictions on large gatherings and the erection of tents.

The problematic practice of arresting demonstrators for minor offenses such as petty hooliganism and disobedience continues to infringe on the freedom of assembly without proper justification. This is due to Georgia’s enforcement of the Code of Administrative Offenses inherited from Soviet times, which does not meet the standards of a fair trial. Conversely, the government has displayed tolerance toward protests by nationalist and violent groups. For instance, during the annual “Tbilisi Pride” event on July 5/6, 2021, such groups disrupted the proceedings, and the state failed to protect the participants. Consequently, an angry mob harmed 54 journalists, and one cameraman later succumbed to injuries. The subsequent criminal investigation has progressed slowly.

Association /
assembly rights

7



1

In the latest World Press Freedom Index 2022, Georgia's continuous improvement of its rank from 100 in 2013 to 60 in 2021 has been reversed, falling to rank 89 out of 180 countries. In 2021, the country was subject to growing state interference and an unprecedented number of physical assaults on journalists, primarily during the violence waged against "Tbilisi Pride" in July 2021. The Council of Europe (PACE), in its annual progress report on Georgia, hinted at the worsening press freedom conditions in 2022, citing the case against Nika Gvaramia as a prominent example. Gvaramia, the director of TV broadcaster Mtavari Arkhi, which is associated with the opposition, was sentenced to 3.5 years in prison for the abuse of power and embezzlement of funds during his tenure as director of Rustavi 2 TV. The timing of Mr. Gvaramia's case and the charges issued against him were questioned by Georgia's public defender, as well as by local and international actors.

News portals like "Netgazeti" are at the forefront of investigative journalism in Georgia. However, journalists in the print media sector often face intimidation and interference in their editorial policies, often driven by politically affiliated owners. The Georgian Democracy Initiative (GDI) has observed a troubling trend of increased "harassment and pressure" on critical media and journalists, especially between 2021 and 2022. This period saw a notable rise in defamation lawsuits against critical media outlets, often initiated by government officials or their associates. In 2022, journalists encountered significant obstacles when attempting to obtain public information from government institutions. According to data from the Institute for Development of Freedom of Information (IDFI), public institutions disclosed the lowest amount of public information since 2010. Additionally, politicians largely refrained from direct communication, relying solely on friendly media outlets, which further contributed to polarization.

Simultaneously, the government intensified its efforts to control critical media. The Georgian National Communications Commission, the state body overseeing the media, consistently ruled against oppositional media outlets in 2022. Furthermore, with the amendments to the Law on Broadcasting passed in December 2022, the parliament expanded its authority. This is in addition to the previously attempted, albeit temporarily unsuccessful, "foreign agent" legislation proposed by the ruling majority in parliament. Independent online media outlets like Netgazeti, Studio Monitor and Publika have become primary targets, along with watchdog NGOs.

Freedom of expression

7



3 | Rule of Law

In December 2018, with the inauguration of Salome Zourabichvili as president, who ran as an independent candidate but had the backing of the GD party, Georgia completed its transition from a semi-presidential to a parliamentary system due to constitutional amendments coming into effect. Under this new system, executive power is now vested in the prime minister, who has, thus far, been exclusively male, and the ruling GD party. Similar to previous governments, the GD party has maintained control over all branches of government, resulting in heightened political polarization between the GD and the UNM and ultimately leading to a state crisis.

While there exists a formal separation of powers, the practical implementation of this separation has notably deteriorated since GD secured its third term in the parliamentary elections held in October 2020. The concentration of power within the GD leadership has allowed them to exert significant influence over all three branches of government and key public institutions. Nontransparent practices, such as the exclusive appointment of judges and interference in agencies tasked with ensuring the independence and professionalism of state institutions, have further propagated clientelist “informal governance.” Over the past decade, individuals loyal to billionaire Bidzina Ivanishvili have been placed in influential positions across all three branches of government. Following Georgia’s membership perspective in June 2022, EU institutions have closely monitored the state’s separation of powers and have openly criticized the “interference in internal affairs” by right-wing populists.

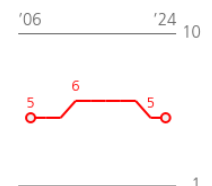
During the COVID-19 pandemic, the government declared a state of emergency on March 21, 2020, extending it initially until May 23, 2020, and again to July 2021. The inadequate handling of lawsuits related to the pandemic has exposed the growing influence of the executive branch over the Constitutional Court, which witnessed the appointment of two new judges under emergency conditions.

Since 1991, every Georgian government has consistently tried to exploit the subservient judiciary inherited from Soviet times, making the politicization of the judiciary a persistent issue. This problem has gained even more urgency recently due to the escalating polarization between the ruling GD party and the main opposition party, the UNM.

On January 26, 2023, the Parliamentary Assembly of the Council of Europe (PACE) expressed dissatisfaction with the state of the rule of law in Georgia in its annual monitoring report for 2022. PACE raised concerns about opaque appointments and unclear qualification criteria, which have cast doubts on the government’s commitment to genuine judicial reforms. PACE strongly urges the authorities to conduct a comprehensive and independent evaluation of their judiciary reforms to guide future reforms and establish a genuinely independent judiciary in the country.

Separation of powers

5



Independent judiciary

5



In an expedited procedure on December 30, 2021, Georgia's parliament expanded the grounds for disciplinary responsibility and lowered the majority required to impose disciplinary sanctions on individual judges. NGOs criticized these amendments, citing concerns about judicial independence. The constitutionality of these changes was challenged by five judges of the Common Court of Georgia, but the ruling from the Constitutional Court of Georgia is still pending.

As highlighted by Transparency International Georgia in 2020, the entire reform process aimed at establishing an independent judiciary is now under scrutiny. Politically biased and often nontransparent nominations and appointment procedures for key positions within the High Council of Justice (HCoJ), appellate courts, Constitutional Court and Supreme Court have enabled a small group of judges, commonly referred to by NGOs as “the clan,” to ensure the selection of their preferred candidates. This informal concentration of power among this limited group of judges continues to persist. Additionally, the five non-judge positions within the HCoJ, which require appointment by parliament with a three-fifths majority of all deputies, remain vacant due to the inability of the ruling GD party and the opposition to agree on suitable candidates.

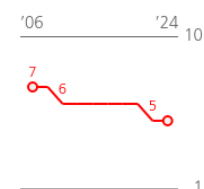
Two independent state agencies have been subject to growing pressure and interference because of their principled stance against abuses committed by powerful institutions in Georgia. The first agency is known as the Public Defender's Office (PDO). Recently, its outgoing director, Nino Lomjaria, faced accusations of bias, which has raised concerns about the only active institution with limited authority to monitor state institutions. Unfortunately, the ruling GD party and the parliamentary opposition have been unable to agree on a suitable replacement for Lomjaria, as a three-fifths majority is required for the election. If this deadlock continues, it will inevitably impact the credibility and effectiveness of the PDO.

The other agency, the State Inspector's Service (SIO), faced dissolution or “reorganization” when it initiated a critical investigation into the government's possible inhumane treatment of the imprisoned former president, Saakashvili. On December 30, 2021, during a fast-track final hearing, parliament adopted a package of draft amendments, leading to the abolishment of the SIO on March 1, 2022. It was replaced by two new state agencies: the Special Investigation Service and the Personal Data Protection Service, each with new leadership. The former State Inspector, Londa Toloraia and her deputies, who were originally hired for a six-year term to ensure independence from executive bodies, were dismissed. This move signaled that independent actions by state officials would be punished by the GD executive, effectively undermining formally independent institutions.

These actions by the authorities clearly demonstrate a deliberate effort to undermine the independence and integrity of institutions and their staff responsible for overseeing state bodies and the executive. This only worsens the lack of accountability, especially within law enforcement agencies, as pointed out by human rights defenders over the past two years.

Prosecution of office abuse

5



The continued politicization of the judiciary has had a detrimental impact on civil rights in Georgia. In April 2021, the Georgian parliament hastily amended the code of administrative offenses, which resulted in increased penalties for petty hooliganism and police disobedience, which are the primary reasons for arrests during demonstrations. Criminal prosecutions have been initiated exclusively against high-ranking officials from the previous government, who are perceived by the opposition as “political prisoners.” The most prominent cases include the treatment of former president Mikheil Saakashvili while in custody following his unlawful return to Georgia in October 2021, as well as the problematic ruling in May 2022 concerning Nika Gvaramia, the director of the most critical opposition TV channel.

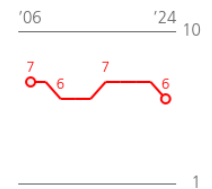
The protection of human rights for various minority groups continues to be insufficient, with LGBTQ+ individuals, as one of the most vulnerable groups, lacking adequate state protection from violent interference. This was evident in the mistreatment of the organizers and participants of “Tbilisi Pride” in July 2021. Religious and ethnic minorities also face discrimination, and investigations into domestic violence against women are conducted reluctantly.

Between 2021 and 2022, a significant number of private conversations involving clergy, opposition politicians, journalists and even EU diplomats, collected through illegal surveillance and wiretapping, were leaked by an anonymous source claiming to have worked for the state intelligence agency. This suggests a failure by the state to secure the protection of personal information, often leading to the use of these “compromising materials” to tarnish the reputation of opponents. The rapid adoption of amendments to the surveillance law, expanding the capabilities of the state security service, is cause for concern. Although the constitutionality of covert electronic surveillance was challenged in 2017, the Constitutional Court has yet to deliver its judgment.

Numerous high-profile cases, including that of Nika Gvaramia, the ongoing “Cartographers Case,” and the arrest of former deputy head of the State Security Service Ioseb Gogashvili in July 2022 for illegally obtaining, storing and distributing personal data, raise doubts about the fairness of investigations. In a November 3, 2022 judgment on the “Cyanide Case” of Deacon Giorgi Mamaladze vs. Georgia, the European Court of Human Rights criticized a violation of the defendant’s right to a fair trial, often necessitating the pursuit of justice abroad. After ten years in power, the GD government can no longer deflect attention from its own violations of civil rights by referring to the arbitrary application of the law by its predecessors.

Civil rights

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4 | Stability of Democratic Institutions

Georgian Dream, upon taking power in October 2012, had promised to usher in a more pluralist era in future parliaments. However, the reality has been quite the opposite. In the 2016 parliamentary elections, the Georgian Dream lost its liberal coalition partners but gained a constitutional majority, thanks to an election law that favored the ruling party. To provide some context, GD initially won 85 out of 150 seats in 2012, increased to 115 seats in 2016 (with GD winning all majoritarian districts), and then dropped to 90 seats in October 2020. Despite this decrease, GD has maintained its firm grip on power for a third term, and this dominance extended to local authorities in the municipal elections of October 2021.

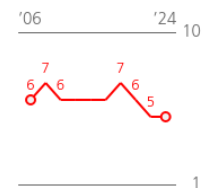
Following the 2018 constitutional reform, the opportunity to bolster parliamentary oversight through new rules of procedure was missed. Instead, the parliament became less transparent. Hasty amendments, made without public consultations, such as the controversial “reorganization” of the State Inspector’s Office in December 2021 or the changes to the surveillance law in June 2022, highlight the transformation into a rubber-stamp parliament dependent on the executive. The widely criticized, nontransparent appointment of judges further adds to this troubling situation.

With no meaningful influence in parliament, the opposition continued to resist through street protests, exacerbating the political divide with the GD government. On two occasions, in March 2020 and April 2021, international diplomatic mediation led to compromises between the opposition and GD regarding electoral legislation, “political prisoners,” and conditions for the opposition in parliament. These compromises had the potential to strengthen the role of parliament. However, due to political antagonism, first by the oppositional UNM and later by the ruling GD, these commitments were withdrawn. This ongoing political deadlock continues to weaken democratic institutions.

Despite the efforts of international and local organizations to empower the legislative branch (e.g., the Open Parliament Georgia Action Plan 2021 – 2022), these endeavors may prove futile if there aren’t a sufficient number of committed democrats within parliament, the judiciary or local authorities who can defend democratic principles against an overbearing executive or narrow group interests.

Performance of
democratic
institutions

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The democratic change in government following the 2012 elections represented a significant milestone in fostering the idea of political ownership among Georgians. However, subsequent elections, including presidential, parliamentary and local ones, have seemingly reinforced the perception that power is inseparable from the ruling party. Notably, the need for a second round in the most recent direct presidential elections in 2018 was a source of surprise for the GD and triggered an escalating polarization between the ruling GD and the opposition UNM, which has had a detrimental impact on Georgia's democracy up to the present.

The conduct of the two main political forces, led by Ivanishvili's GD and the imprisoned Saakashvili's UNM, appears to be characterized by a mere formal commitment to democracy. Their power struggles, often viewed as zero-sum games, have reinforced the perception that political parties primarily serve the populist and neo-patrimonial interests of their leaders. According to a poll by the NDI from February 2023, public disillusionment with both the ruling and opposition parties is on the rise. A majority of Georgians, 61%, feel that none of the parties represent their interests (compared to 56% in the summer of 2022). Even among GD supporters, a third believe none of the parties represent their interests, and half of opposition supporters share the same sentiment.

However, Georgia's challenge runs deeper – it lies in the reluctance of the population to actively engage in politics and hold their political elite accountable. Only issue-based, large-scale protests, like those against the Namakhvani hydropower plant construction in western Georgia or the “Law on Agents of Foreign Influence” in March 2023, have had some impact on the political landscape. However, these single-issue protests cannot replace sustained civic engagement. Instead, the government seems to promote ethno-cultural “national traditions” as an alternative to European values, often derisively referred to in a Moscow-inspired manner as “Gayrope.”

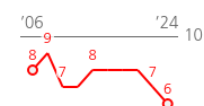
5 | Political and Social Integration

Political parties in Georgia generally do not rely on democratic intraparty decision-making or represent specific segments of society; instead, they often use populist slogans to mobilize the population. However, there are exceptions to this trend, notably the GD, formally or informally led by Ivanishvili, and the UNM, influenced by the imprisoned ex-president Saakashvili. The remaining parties typically consist of clientele groups centered around a charismatic leader. There are, however, several noteworthy female exceptions to this pattern, including Member of Parliament Khatuna Samnidze from the liberal “Republican Party,” Ana Dolidze from the extra-parliamentary group “For the People” and Nino Burjanadze from the “Democratic Movement – United Georgia.”

Following the parliamentary elections of October 2020, the ruling party GD secured 74 out of 134 mandates, while the opposition UNM obtained 23 mandates and an additional 6 through associated parties, forming the “Strength in Unity” faction. In third place is the party “For Georgia,” founded by former Prime Minister Giorgi Gakharia, which holds six mandates. These three parties also have a presence at the

Commitment to democratic institutions

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Party system

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local level, with 1,359 municipal councilors from GD, 508 from UNM, and 113 from “For Georgia.” The other ten smaller parties in parliament hold between four and one mandate, with limited representation at the local level, totaling only 88 councilors.

In January 2023, Member of Parliament Levan Khabeishvili was elected as the new chairman of the opposition UNM, defeating the incumbent, Nika Melia. Khabeishvili secured 52.58% of the votes (21,656 votes), while Melia received 40% (16,476 votes). This rare example of intraparty democracy stands in contrast to an NDI opinion survey from December 2022, which revealed that 61% of respondents in Georgia believed that no political party represented their interests (up from 56% in August 2022), while only 31% thought that one did (down from 39% in August 2022).

Voter expectations do not precisely align with the core functions of political parties, as outlined in a report by the Georgian Institute of Politics (May 2022), which contribute to the consolidation of democracy. These functions include: agreeing on important national issues; enhancing accountability; using political platforms to establish cooperative principles among parties; reducing polarization; strengthening party identity; pursuing program-oriented policies; promoting intraparty democracy; facilitating institutional decentralization of parties; increasing political awareness among voters; and improving public communication by political parties. These issues correspond with the 12 points set by the European Commission for granting Georgia candidate status for EU membership.

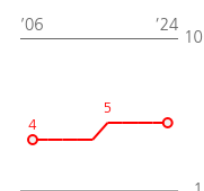
As political polarization in Georgia intensifies, interest groups in the country have not been able to facilitate issue-driven political debates. A significant portion of society has not organized into interest groups or non-governmental organizations (NGOs). Establishing or joining formal associations with specific purposes remains uncommon in Georgia, especially in a post-Soviet, neo-patrimonial society where reaching compromise agreements among competing interests appears to be unacceptable.

The civil society sector is steadily growing in terms of both numbers and capacity. However, it remains primarily concentrated in Tbilisi and Batumi and has limited connections with the broader population. The Georgian Orthodox Church, which asserts its authority in defining national values, often adopts illiberal approaches and remains the most influential organization in society.

During the COVID-19 pandemic, NGOs struggled to influence the political agenda. They aimed to bring about significant reforms in the judiciary and electoral system to alleviate political tensions and prevent further societal polarization. However, the ruling GD government and its supporters initiated a smear campaign against leading watchdog NGOs, primarily accusing them of corruption. This campaign reached its zenith with the attempt to introduce the “Law on Agents of Foreign Influence,” which ultimately failed to pass. The GD government does not endorse politically constructive interactions between the state and civil society, as outlined in the EU’s 12-point candidate catalog.

Interest groups

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Since the parliamentary elections of 2012, which led to a change in government, the perception of democracy in Georgia has been on a steady decline through January 2022, as reported by the Caucasus Barometer. In 2011, 50% of the population believed Georgia was a democracy, with 8% considering it a full democracy and 42% acknowledging minor problems. However, by December 2021, the share of those who perceive Georgia to be a democracy had fallen to 30%, with only 4% perceiving it as a full democracy and 24% recognizing minor issues. Conversely, the number of individuals who no longer saw Georgia as a democracy increased from 38% in 2011, with 11% stating it wasn't a democracy and 27% identifying major problems, to 62% a decade later, with 16% deeming it non-democratic and 46% recognizing significant issues. Trust in democratic institutions remained persistently low, consistently hovering around or dipping below 10%, while distrust climbed to nearly 50%. Among these institutions, political parties, parliament and the government garnered the lowest levels of trust, while the military, religious institutions and the European Union enjoyed the highest levels of confidence.

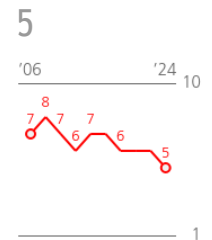
Public opinion polls and accompanying social research also highlight the persistence of authoritarian and neo-patrimonial mindsets. These are characterized by strong approval ratings for the executive branch when it provides social benefits, but significantly lower levels of trust in democratic institutions, the media and civil society.

As a result, civil society actors with liberal or democratic inclinations primarily find their voices heard within the Western community. Through the EU-backed National Platform of the Civil Society Forum, Georgian civil society can directly share its concerns at the international level. In contrast, over the past two years, the GD party, the Georgian Orthodox Church, and extreme right-wing groups have increasingly promoted idealized forms of national traditions as a counterpoint to civil and democratic reforms that might challenge or limit their hold on power.

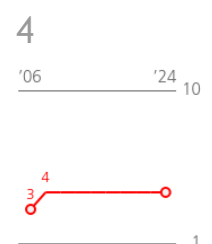
In terms of social capital, Georgia has a high level of “bonding” and low level of “bridging” social capital. In this context, religious institutions, the military and the police consistently enjoy the highest levels of trust. Georgians tend to be more inclined to utilize the wider society for personal gain while being cautious about tarnishing their reputation within their closer circles of friends and family. Consequently, the Western model of civil society remains somewhat foreign to Georgian society, especially in the current politically polarized climate.

Although civic engagement does exist in Georgia, it faces challenges in terms of sustainability and institutionalization. There have been noteworthy instances of civic activism following events such as the severe flooding in Tbilisi in June 2015 and protests against the construction of the Namakhvani hydropower station in western Georgia. However, these positive experiences unraveled due to conflicts between conservative protesters and more liberal activists, particularly in relation to LGBTQ+ rights in 2021, as well as protests against the “Foreign Agent” Law in March 2023.

Approval of democracy



Social capital



While there is a sense of community, civic engagement, and a prevalence of norms promoting openness and altruism that contribute to forms of bridging social capital, these positive trends tend to remain at a localized level. For example, on social media, there are solidarity campaigns aimed at helping individuals in need, especially those requiring medical treatment. During the pandemic, these efforts extended to support the most vulnerable segments of society. However, the transition to broader membership-based and issue-driven forms of self-organization has generally encountered obstacles.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the UNDP's Human Development Report for 2020 and 2021, Georgia is classified as a high-development country with an overall HDI score of 0.802 (rank 63/191). This is slightly below neighboring Russia (0.822/52) and Türkiye (0.838/52), but above Ukraine (0.773/77), Armenia (0.759/85) and Azerbaijan (0.745/91). However, in several HDI dimensions, such as life expectancy, access to knowledge and a decent standard of living, Georgia fares worse than its neighbors. Therefore, the local perception of social development, including jobs and poverty, remains the most pressing issue as it has been for the last 30 years.

Inequality continues to hinder Georgia's development potential. Overall, and despite a slight increase from 0.271 in 2020 to 0.280 in 2021, Georgia's Gender Inequality Index score has steadily declined since 2011 (0.411). Although Georgia's Gini index improved from 36.4 in 2018 to 34.5 in 2020, limited job opportunities and a significant income disparity between higher and lower incomes persist. A person's birthplace often determines their opportunities in life and perpetuates divisions within Georgian society, thus separating those who are integrated into the modern economy from those who rely on subsistence farming or remittances from family members working abroad.

According to World Bank data from 2020, 21.4% of the population in Georgia are still living on less than \$3.65 a day (2018: 15.5%; 2016: 17.1%), adjusted for international prices and adjusted for purchasing power parity in 2017. As per Geostat, in 2021, 17.5% of the population still lived below the absolute poverty line, while 18.9% lived below the relative poverty line (below 60% of median consumption). The overall loss in HDI due to inequality further declined in 2020/2021 to 12.0% (2018: 12.1%, 2016: 12.6%, 2011: 15.3%). Overall, the poor have borne the brunt of the COVID-19 pandemic that reversed many of the socioeconomic achievements of the past decade. It keeps the poor population dependent on their patrons in the higher echelons of the state and society.

Question
Score

Socioeconomic
barriers

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Economic indicators		2019	2020	2021	2022
GDP	\$ M	17470.4	15842.9	18629.4	24605.4
GDP growth	%	5.0	-6.8	10.5	10.1
Inflation (CPI)	%	4.9	5.2	9.6	11.9
Unemployment	%	11.6	11.7	12.2	11.3
Foreign direct investment	% of GDP	7.9	3.5	6.8	8.3
Export growth	%	9.8	-37.6	24.4	38.2
Import growth	%	6.6	-16.6	11.0	14.4
Current account balance	\$ M	-1024.5	-1980.6	-1937.4	-979.3
Public debt	% of GDP	40.4	60.2	49.7	39.8
External debt	\$ M	18757.0	20089.0	22053.3	-
Total debt service	\$ M	2461.8	2434.7	2690.9	-
Net lending/borrowing	% of GDP	-2.0	-8.4	-6.0	-2.6
Tax revenue	% of GDP	23.1	21.4	21.7	-
Government consumption	% of GDP	13.1	14.7	14.0	12.6
Public education spending	% of GDP	3.9	3.8	3.6	3.8
Public health spending	% of GDP	2.7	2.8	-	-
R&D expenditure	% of GDP	0.3	0.3	0.3	-
Military expenditure	% of GDP	1.8	1.8	1.6	1.4

Sources (as of December 2023): 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's open and Western-style business environment, its pending application for EU membership, sturdy financial expertise, and strong regional connections have led many people to assume that Georgia would be the natural place for setting up a regional market. Georgia is gradually improving in the ratings of international agencies. However, some observers argue that Georgia's aspirations to become a hub for regional capital markets have yet to materialize due to a lack of a clear and cohesive strategy. Foreign direct investment (FDI) followed a fluctuating trajectory, peaking at \$1,990.5 million in 2017, declining to \$1,300 million in both 2018 and 2019, plummeting to just \$0.589 billion in 2020 due to the COVID-19 pandemic, and then rebounding in 2021 to \$1,241.8 million, with an estimated \$1,675.6 million in 2022 (according to Geostat). These favorable conditions led to the relocation of 17,000 Russian businesses to Georgia, with over half of them making the move in response to the Russian-Ukraine conflict and Western sanctions in February 2022.

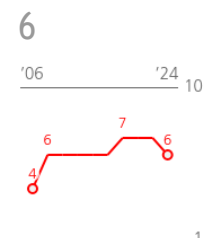
Georgia has established a formal institutional framework for competition as outlined in the EU-Georgia Association Agreement and its Deep and Comprehensive Free Trade Area, which has been in effect since July 1, 2016. In February 2023, the European Union recognized Georgia's progress in this regard. However, informal networks involving politics, Russian business interests and capital are eroding the foundation for genuine competition.

Due to the dominance of an inflexible banking sector, an underdeveloped capital market and the scarcity of companies with adequate credit ratings, access to capital remains one of the primary challenges for domestic businesses in Georgia. Less than 15 Georgian companies possess a credit rating, and only four or five are listed on foreign stock exchanges. Additionally, the stock market, which serves as a means of promoting transparency in the business sector, is virtually nonexistent. Furthermore, the bond market has experienced minimal activity in recent years.

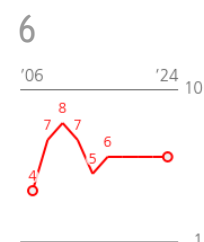
In 2021, Georgia's informal economy, estimated at 46.2% and roughly equivalent to \$29 billion at GDP PPP levels, continued to shrink. This marked a significant decrease from 72% in 1995 and 53% in 2015, as estimated by the IMF. Informal employment stands at 55.6% for 2020.

Georgia has been working to implement the provisions of the EU Deep and Comprehensive Free Trade Area Agreement related to competition. This involves amending the Law on Competition, which was initially adopted in 2014. The aim of these amendments is to enhance control over market concentration and improve the structure and competencies of the Georgian National Competition Agency (GNCA), which is also a member of the International Competition Network. In September 2020, the parliament made amendments to the Law on Competition and secondary legislation, formally increasing the administrative independence of the GNCA and

Market organization



Competition policy



strengthening its enforcement powers, including the ability to conduct investigations and impose fines. These changes also intend to provide market players with additional tools to effectively exercise their right to defend themselves and enhance procedural justice.

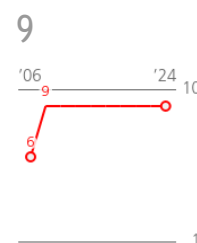
Despite these improvements in the legal framework, the failure of the Anaklia Deep Sea Port investment project, which was managed by the Anaklia Development Consortium (ADC) with a significant Western investor, signaled that businesses may not be fully secure from state interference. In July 2020, the ADC initiated arbitration proceedings against Georgia at the International Chamber of Commerce in Geneva. They alleged that the GD government had undermined the project since January 2019 through a disputed criminal investigation against consortium leader Mamuka Khazaradze, who was compelled to resign from his position and entered politics, establishing his opposition party “Lelo for Georgia.” Notably, between 2017 and 2021, Georgian state agencies signed 96 substantial contracts worth GEL 135 million with foreign companies for legal services related to international arbitration disputes. This represented a significant increase compared to the lower expenses incurred before 2017 (GEL 5 million for 32 large contracts from 2011 to 2016, as reported by Transparency International Georgia).

Public procurement is a significant sector, valued at \$5.3 billion in 2019, and theoretically plays a vital role in promoting competition. In February 2023, the State Procurement Agency introduced a draft Law of Georgia on Public Procurement, replacing the existing law and presented by the government. As part of its obligations under the Association Agreement, this new law introduced more transparent state procurement procedures. However, challenges persist, including a substantial portion of single-source procurement, the involvement of suppliers affiliated with the ruling party, and incomplete information about subcontractors.

During the COVID-19 pandemic, there was a notable increase in simplified public procurement contracts, often not disclosed by the authorities. This lack of transparency in public procurement reveals underlying issues within Georgia, such as unreliable courts and the substantial influence of a single billionaire’s business interests.

Georgia maintains a robust commitment to a liberal foreign trade policy, a central tenet of its economic strategy. The country imposes no quantitative restrictions (quotas) on trade, except for ozone-depleting substances. Since 2005, Georgia has adopted a simple tariff system with three categories: 0%, 5% and 12%. A significant proportion, approximately 81%, of product categories in 2021 enjoy duty-free status. Only a small fraction, 2.5% of the total categories, encompassing items like motor vehicles, vinegars and alcoholic beverages (excluding beer), are subject to non-ad valorem duties, which may take the form of specific or special duties. The applied most-favored-nation (MFN) tariff remains stable at a modest 2%. Notably, the average tariff for non-agricultural goods has decreased from 0.8% in 2015 to 0.7% in

Liberalization of
foreign trade



2021 (including ad valorem equivalents), while the tariff for agricultural products has inched up from 6.7% to 6.8%, as defined by the WTO. Georgia does not employ seasonal tariffs or tariff-rate quotas, whether on an MFN basis or under preferential agreements.

Georgia stands out as the sole country in the region to maintain a free trade regime with both the European Union and China. A free trade agreement with the UK entered into force in January 2021. Within the framework of the DCFTA, Georgia has made strides in overcoming technical trade barriers by enhancing its national quality infrastructure. An impressive 16,000 standards have been adopted, including 8,000 European standards. The database of standards is synchronized with the EU's, and Georgia's Market Surveillance Agency enforces these technical regulations in line with the relevant EU acquis.

Georgia has experienced consistent growth in merchandise exports, which have expanded by approximately 50% since 2015. In contrast, imports have registered a more modest growth rate of 10% over the same period. Nevertheless, Georgia's export structure remains heavily reliant on primary commodities, leaving the country vulnerable to fluctuations in these sectors. Furthermore, Georgia's import composition leans heavily toward manufactured goods, whereas its exports predominantly comprise primary products like food and minerals. This trend of dependence on primary exports has intensified over time.

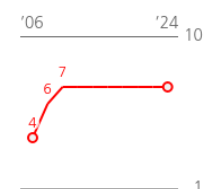
Due to its strategic geographic location and well-connected transport infrastructure, Georgia serves as a vital transit corridor. Consequently, the figures for merchandise trade are inflated by significant re-exports.

In terms of trade partners, Russia, the European Union (EU), and the Commonwealth of Independent States (CIS) are the primary destinations for Georgia's exports. Conversely, the CIS, the EU, and Türkiye are the primary sources of Georgia's merchandise imports.

Banking remains one of the fastest-growing sectors in the Georgian economy. As of March 1, 2022, Georgia's banking sector comprises 14 commercial banks, with 13 of them under foreign control. In March 2022, Georgian commercial banks collectively held GEL 61.7 billion, roughly equivalent to \$19.6 billion, in total assets. Notably, the credit-to-GDP ratio for the private sector has reached 78%, marking one of the highest ratios among its regional peers. Additionally, as of early 2022, there were 18 insurance companies and 38 microfinance (MFI) organizations operating in Georgia, with MFIs possessing a total of GEL 1.6 billion (approximately \$528 million) in assets as of January 1, 2022. The two largest Georgian banks, TBC Bank (listed in 2014) and the Bank of Georgia (established in 2006), are both listed on the London Stock Exchange.

Banking system

7



Despite its strength in the region, the Georgian banking system experienced challenges stemming from the COVID-19 pandemic, particularly in the form of increasing losses in loan provisions. These losses resulted in a \$0.5 billion sector loss in the first quarter of 2020, primarily due to the underdevelopment of capital markets. Amidst elevated inflation rates, the central bank continued its efforts to de-dollarize the economy. In 2021, the bank capital-to-assets ratio reached 13% (compared to 10.3% in 2020), and the share of nonperforming loans stood at 1.9% (compared to 2.3% in 2020).

In December 2022, the government unexpectedly announced a hike in the banking sector's profit tax, raising it from 15% to 20%. This change caught the banks off guard, as it was implemented swiftly following alterations in the tax code.

The imposition of sanctions on the Russian financial system by the United States, the United Kingdom, the European Union and other nations due to Russia's conflict with Ukraine had a notable impact on Georgia's financial sector. These sanctions also affected "VTB Bank Georgia," a subsidiary of the Russian state bank "VTB." VTB Georgia had been on the U.S. Treasury's list of sanctioned entities since February 2022 and reported losses of 72.6 million GEL during the first 11 months of 2022. The bank also experienced a significant reduction in its assets, particularly in loans and deposits. To mitigate the impact on the bank's customers, deposits and loans of individuals at VTB were transferred to BASIS Bank, while deposits and a portion of loans for small and medium-sized businesses were assumed by Liberty Bank.

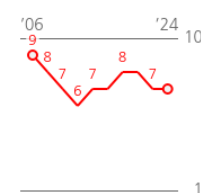
8 | Monetary and fiscal stability

Following a pandemic-driven contraction of GDP by 6.8% in 2020, Georgia's GDP fully recovered in 2021 with a growth rate of 10.4%. From 2020 to 2021, the Georgian lari (GEL) remained volatile, which is typical for a highly dollarized economy. However, in 2022, Georgia witnessed a surge in economic activity due to an influx of wealthy Russian migrants seeking refuge following Russia's attack on Ukraine. This influx of migrants resulted in a significant increase in capital inflows, with Russia accounting for a remarkable 59.6% of Georgia's foreign capital inflows in October 2022 alone. Total volumes rose by an impressive 725% year-on-year.

Price stability is the sole mandate of the National Bank. Addressing unemployment and fostering economic growth are not its primary objectives. However, the bank has struggled to achieve its long-term target of 3% consumer inflation over the past five years. In 2017, the inflation rate exceeded the target, reaching 6%. It then decreased to 2.6% in 2018, rose to 4.9% in 2019, and further increased to 5.2% in 2020. In 2021, the impact of the COVID-19 pandemic led to a nearly doubled inflation rate of 9.6%, primarily driven by heightened aggregate demand. Among the countries in the region, Georgia ranks second in terms of inflation, with only Türkiye (17%) experiencing a higher rate. It's worth noting that Türkiye's exchange rate depreciated by 23% against the U.S. dollar during the same period, while Georgia's depreciated by only 4%. The real effective exchange rate index for 2020 and 2021 was 89.1 and 89.3, respectively, marking a continuous decrease since 2011 (when it stood at 108.4).

Monetary stability

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Before the onset of the COVID-19 pandemic, Georgia's government had been gradually reducing its fiscal deficit through consolidation efforts and economic growth. In 2017, the deficit stood at -3.9% of GDP, and by 2018, it had improved to -3.3% of GDP. However, due to the costly measures taken to mitigate the pandemic's impact, including increased health care spending, business support and decreased revenues, the fiscal deficit ballooned to 8.4% of GDP after a budget revision in June 2020. This was a significant increase from the 2019 deficit, which was -2.0% of GDP. The government's anti-pandemic plan accounted for 7.2% of the expected GDP in 2020 and was entirely funded by new debt. Consequently, the debt-to-GDP ratio slightly exceeded 60% in 2020, reaching the limit set by Georgia's Economic Liberty Act. However, in 2021, it decreased to 49.5%, thanks to a faster economic recovery characterized by robust revenues and a significantly smaller-than-expected fiscal deficit.

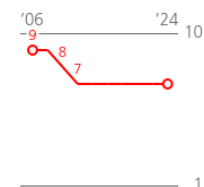
Tax revenues have experienced steady growth, primarily attributed to the high inflation rate of the past two years. Despite the economy growing by only 3% during this period, tax collections increased by 17% year over year (YoY), reaching GEL 9.5 billion in the first three quarters of 2021. Notably, income taxes and VAT receipts were the primary contributors, reflecting strong economic activity, inflation, and an unusually high collection of corporate income tax (CIT).

The major threats to fiscal stability are twofold: First, there is a risk associated with the failure to reallocate resources from non-productive sectors to productive ones. Secondly, the government's size continues to expand. The public sector currently employs 352,000 people, encompassing the central and regional government, state LEPLs (legal entities of public law), NNLEs (non-commercial, non-profit legal entities), and enterprises. Labor remuneration costs in the consolidated budget amount to GEL 3.3 billion, marking a 17% increase compared to 2022 and a 34% increase compared to 2021. This represents roughly 7% of the expected real GDP and 18% of total expenses in 2023. The public sector employs 9.5% of Georgia's population (according to Geostat's 2021 data) or 28.9% of the employed population.

The current account balance for 2021 showed a slight decrease, reaching -\$1,937,420,764.8, compared to -\$1,980,622,816.6 in 2020. This deficit will be financed through ongoing capital inflows, primarily driven by Russian businesses relocating to Georgia due to the conflict in Ukraine. Additionally, the deficit will be offset by higher levels of grants and concessional loans pledged by international partners, including the European Union, IMF and World Bank.

Fiscal stability

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9 | Private Property

In general, property rights are respected in Georgia. On March 21, 2020, Decree No. 1 issued by the president of Georgia, along with other decrees, allowed for the restriction of property rights in accordance with Georgia's constitution during the state of emergency. This measure was implemented without significant public opposition.

The government's approach to returning property that was nationalized during the Soviet period to religious organizations has been inconsistent. The Georgian Orthodox Church has received preferential treatment, being granted exclusive rights to state property, mainly forests, located near churches and monasteries. In contrast, Muslim and other Christian denominations have encountered obstacles in their efforts to regain their property rights.

The interference in judicial independence and a perceived lack of impartiality in the Georgian judicial system have been noted by the U.S. State Department. Disputes over property rights have, at times, raised doubts about the impartiality of the system, with political interests sometimes having a significant impact (e.g., the case of Rustavi 2 TV).

As a result of these issues, Georgia's score on the International Property Rights Index has declined, and the country ranks 72nd out of 129 countries. Its ranking in the Legal and Political subindex, which encompasses factors like judicial independence, rule of law, political stability and control of corruption, has also fallen. Georgia's score on the Physical Property Rights subindices has also deteriorated, particularly with regard to the registration procedures for the physical property indicator, which has fallen to a low of 4.3. The Intellectual Property Rights subindices remain at a low level of 3.9, positioning Georgia at 112 out of 129 countries on this indicator. These challenges pose a significant hurdle to the country's prospects of EU membership.

In August 2021, the government-drafted law "On Entrepreneurs" was finally adopted by the parliament. This new law is designed to regulate corporate relations among business parties and company partners while aligning Georgian legislation with EU directives and regulations, representing a significant step toward corporate law reform. However, some of the amendments introduced by this law have made the process of business registration more challenging than it was before. In the context of neoliberal policies, private businesses are seen as crucial for driving economic development. Nevertheless, it's a common occurrence for companies associated with those in positions of power to receive preferential treatment, particularly in areas like public procurement and the privatization of state assets.

This trend is also reflected in the 2022 Index of Economic Freedom, where Georgia ranks 26th out of 177 countries, placing it among the "mostly free" economies and above both the global and regional averages. However, with 71.8 points, Georgia's position deteriorated in almost all indicators besides tax burden and open markets.

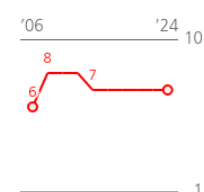
Property rights

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Private enterprise

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This decline resulted in a 5.4-point drop compared to previous years (2021: 77.2, 2020: 77.1). While Georgia remains among the top 10 countries globally for starting a business, registering property and protecting investors, it has faced challenges in other areas. During the review period, legal reforms were delayed, including those related to the Law on Rehabilitation and Collective Satisfaction of Creditors, the Enforcement Law and Mandatory Third Party Liability Insurance. The independence of the judiciary, legal uncertainty and ongoing investigations into certain major businesses have also had a negative impact on the business environment.

10 | Welfare Regime

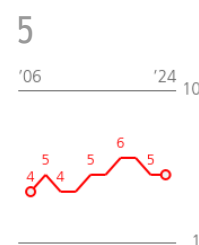
Georgia is a society marked by divisions that have been exacerbated by political polarization. Its approach to welfare, rooted in neoliberal principles, has struggled to strike a balance between fostering development opportunities for both urban and rural areas, as well as bridging the gap between traditional and modern economies.

Since 2012, the GD government has implemented a basic public health system and increased social assistance, but these measures have largely left out the rural population in terms of access to social services, skill development and political participation. This lack of inclusion left the country ill-prepared to effectively respond to the COVID-19 pandemic, allowing political elites to advance policies that were often aligned with their interests. For example, the visa liberalization regime with the European Union was abused for illegal labor migration.

As an additional measure, the existing universal basic pension was raised before the July 2020 parliamentary elections to GEL 250 for pensioners above the age of 70, even though the subsistence minimum for a working male was GEL 195.6 as of January 2021. This increase was linked to the much-debated mandatory accumulative public pension scheme introduced in January 2019. Under this scheme, only employees accumulate retirement security by directing 2% of their salary to a pension fund, with an additional 2% contribution from employers and 2% from the state. However, given that 55.6% of employment in Georgia is informal (according to ILO 2020) and the official unemployment rate stood at 20.6% during the pandemic in 2021 (falling to 15.6% in the third quarter of 2022, from a high of 26.4% in 2013), a significant portion of the population remains uncovered. An Employment Service Agency, which separates social from employment services, was established at the beginning of 2020.

The World Bank's "Georgia Human Capital Review" emphasized the importance of establishing robust delivery systems capable of supporting individuals during crises and preventing human capital losses. For example, the absence of an unemployment insurance program forced the government to implement a less effective temporary unemployment assistance scheme for formally employed individuals during the pandemic.

Social safety nets



The COVID-19 pandemic exacerbated general poverty rates and social hardships in Georgia. According to the WHO Global Health Expenditure database, public expenditure on health steadily decreased from 9.8% of GDP in 2009 to 7.1% in 2018. To cope with economic challenges, more families turned to borrowing from banks, microfinance institutions and pawn shops, often at high interest rates. Children in rural areas were particularly affected by poverty, facing limited access to educational resources and fewer years of schooling. As of 2020, the life expectancy in Georgia stood at 72.8 years.

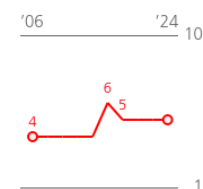
From a legal perspective, Georgia has established mechanisms to prevent discrimination in all its forms, as outlined in the Law of Georgia on the Elimination of All Forms of Discrimination. However, in practice, Georgia remains a society deeply divided along ethnic, gender and urban-rural lines. Socioeconomic status in Georgia is often determined by one's circumstances at birth. The years 2021 and 2022 proved particularly challenging for vulnerable groups and minorities. Unfortunately, these groups' needs and their protection have largely been absent from the election programs and campaign agendas of political parties. While a party quota for women was introduced as part of the 2020 electoral reform, it was not met by leading parties. Furthermore, incidents of domestic violence against women have persisted and even increased, especially during the COVID-19 pandemic.

While there is no legal discrimination against ethnic minorities, their representation in state institutions, parliament and the media is disproportionately low. Younger citizens of Georgia from minority backgrounds have the opportunity to participate in a free one-year integration program at universities. However, sexual minorities continue to face serious stigmatization and discrimination in Georgia. Although there has been some progress in the situation of people with disabilities, Georgia still lacks a comprehensive approach from both the state and society to create a more disability-friendly environment. For instance, there is room for improvement in making electronic government resources more accessible to people with disabilities.

Educational statistics in Georgia show promising results compared to other post-Soviet countries. The literacy rate stands at 99.6%, with 99.5% for females and 99.7% for males as of 2019. Gender parity in education, measured by the gender parity index (GPI), is at 1.0 for primary and secondary education and 1.1 for tertiary education. In 2021, the gross enrollment ratio was 99.4 for primary education, 102.6 for secondary education, and 66.4 for tertiary education. Additionally, women constituted 46.3% of the labor force in 2021.

Equal opportunity

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11 | Economic Performance

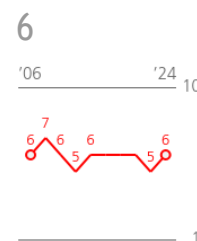
Georgia's output rebounded swiftly from the downturn caused by the COVID-19 pandemic in 2021. Its GDP surpassed its pre-pandemic level, reaching \$18.7 billion (compared to \$17.5 billion in 2019 and \$15.8 billion in 2020). Likewise, GDP per capita (PPP) experienced rapid growth, reaching \$16,997 in 2021 (compared to \$14,731 in 2020 and \$15,637 in 2019). This impressive recovery translated into a remarkable GDP per capita growth rate of 10.8% in 2021, following a contraction of 6.8% in 2020. However, the annual inflation rate has quadrupled since 2018, with a rate of 9.6% in 2021 (compared to 5.5% in 2020, 4.9% in 2019, and 2.6% in 2018), primarily affecting the working poor. The official unemployment rate decreased from 18.5% in 2020 to 10.7% in 2021 (compared to 11.6% in 2019).

Foreign Direct Investment (FDI) experienced a significant drop during the pandemic year of 2020, falling to 3.4% of GDP (compared to 11.7% in 2017 and 7.8% in 2019). It almost doubled again to 6.3% in 2021. The influx of Russian business and capital in 2022 continued this trend, but it also increased Georgia's reliance on Russia, which is reflected in trade patterns.

The state budget deficit increased from 3.4% of GDP in 2019 to 9.4% in 2020 but decreased to 7.4% in 2021. The public debt, which remained around 40% of GDP between 2016 and 2019 (with figures like 42.2% in 2016 and 42.6% in 2019), has increased by 10% since 2012, when the GD government came to power, and is expected to surpass 60% of GDP by 2021. Tax revenues have consistently hovered around 22% of GDP (21.7% in 2018).

In summary, Georgia's economic performance is generally positive but falls short of significantly raising income per capita and improving overall well-being. The government faces challenges in responding flexibly to changing economic conditions and frequently makes politically motivated decisions, hindering long-term economic development. There is room for the government to be more proactive in attracting foreign direct investment (FDI) and enhancing the investment climate.

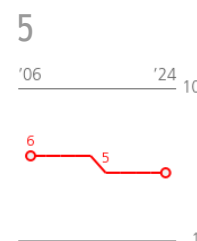
Output strength



12 | Sustainability

Georgia boasts a diverse range of biodiversity, microclimates and cultural landscapes. However, it is highly susceptible to economic exploitation, which poses significant challenges to its environment. Although a legal framework for environmental protection was established in the 1990s, it has proven ineffective and has witnessed excessive deregulation since 2004, coinciding with economic liberalization. Consequently, Georgia faces pressing environmental issues, including land and forest degradation, pollution and waste management. These issues, coupled with the global impact of climate change, contribute to a decline in biodiversity.

Environmental policy



As of the latest Environmental Performance Index in 2022, Georgia is ranked 103rd out of 180 countries. While efforts have been made to align Georgia's legislation with EU regulations and directives, such as the Law on Ambient Quality Protection (focusing on air quality), a new Forest Code, and the Law on Environmental Liability introducing Extended Producer Responsibility, enforcement often remains lacking. In practice, environmental management in Georgia continues to prioritize the one-sided attraction of foreign direct investment (FDI) and short-term economic interests, with decision-makers frequently neglecting inclusive approaches to sustainable and environmentally sensitive planning.

In 2021, Georgia adopted the 2030 Climate Strategy and Action Plan for 2021 to 2023, aimed at reducing greenhouse gas emissions by 15% in the transport sector and promoting low-carbon development in building, industry, agriculture and waste management. This will involve the promotion of energy-efficient technologies and services aligned with climate goals. Currently, a long-term low emission development strategy and national energy and climate plan are being finalized. However, the country still lacks comprehensive legal regulations for crucial climate change-related matters.

Notably, local protests effectively halted the construction of hydropower plants, like the West Georgian Namakhvani project, which had government support. Unfortunately, checks to ensure compliance with the 2014 Environmental and Social Policy were inadequate, and public consultations were initiated only after a significant delay.

Since 2004, Georgia's education sector has seen numerous reforms, often accompanied by ambitious announcements but with questionable impacts, particularly in terms of the quality of school education. While the U.N. Education Index rates Georgia relatively high, scoring 0.860 for 2020/21, the actual quality of education remains subpar. In fact, according to 2019 data from the OECD's international student assessment, Georgia ranked among the bottom eight out of 79 countries assessed.

Public expenditure on education did increase to 3.9% of GDP in 2020. However, the government's ambitious goal of reaching 6% by 2022, as outlined in its Unified Strategy for Education and Science for 2017 to 2021, seems unlikely to be realized, especially in the wake of the COVID-19 pandemic.

While the population of Georgia is almost fully literate, with a literacy rate of 99.6% in 2019, the shortage of a well-educated modern workforce negatively impacts the country's competitiveness. Efforts to reform vocational education and training (VET) have continued, with the adoption of a new VET law and accompanying regulations. The government plans to expand the VET sector throughout the country and into higher education, including short-cycle technical education and training programs. However, the success of these initiatives hinges on the quality of schoolteachers, who currently face non-competitive salaries and a lack of social esteem for their profession. Teaching in public schools remains an unattractive career option for young people.

Education policy /
R&D

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Another area of concern is research and development (R&D). Since 2015, Georgia has allocated a mere 0.3% of its GDP annually to R&D, significantly below the OECD and EU-27 averages of 2.3% and 1.9% of GDP, respectively. The Shota Rustaveli National Science Foundation has established various cooperation programs to internationalize Georgian academia and disseminate research findings abroad. The HORIZON 2020 Policy Support Facility has recommended several measures, including simplifying and unifying Georgia's grant scheme, restructuring its R&D Innovation Council, creating a systematic R&D database, identifying relevant research fields, and promoting collaborative R&D. Despite these challenges, Georgia's participation in the European Union's HORIZON 2020 program remains strong, with Georgian entities being involved in grants 53 times and receiving €6.5 million in direct EU contributions.

Governance

I. Level of Difficulty

After experiencing economic decline, violent conflict and political crises in the 1990s, Georgia suffered a loss of many skilled and creative citizens. It wasn't until 2004, when a group of young reformers, led by Saakashvili, came to power that the situation began to improve. Despite their initial success in building the state, they ultimately failed to establish democratic rule in Georgia's neo-patrimonial society. This trend continued with the GD party, which, despite promising change in 2011, followed a similar trajectory. The political elites engaged in an ongoing power struggle for control of the state and its resources, a situation commonly referred to as "polarization." This left the general population to grapple with their fundamental problems and hindered the development of independent state institutions.

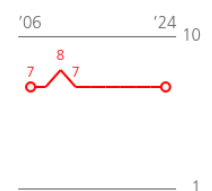
Qualitative changes are difficult to achieve in a political culture that prioritizes personal loyalty, tactical maneuvering and confrontation over compromise for the greater good of the state. While Saakashvili managed to reduce endemic corruption within the state bureaucracy, law enforcement and especially the judiciary, the reliance on informal networks persisted. Political actors continued to rely on these networks as either safeguards or entry points for their careers. Whether formally or informally, billionaire Bidzina Ivanishvili remained the most influential figure in Georgia, contributing to a decline in institution-building since 2016.

The EU-Georgia Association Agreement outlines substantial internal reforms to move away from the outdated Soviet governance style. However, the desire for EU membership among political elites has often overshadowed the implementation of EU regulations and standards into national legislation. The lack of dedicated professionals and concrete proposals to bridge this implementation gap is evident, with a tendency to prioritize appearances over meaningful action.

With the Russian war in Ukraine, Georgia's strategic importance as a transport and transit corridor between the Black and Caspian Seas has become evident. Positioned between Russia to the north and Türkiye and Iran to the south, Georgia's role in regional affairs is hindered by its unresolved territorial disputes over Abkhazia and South Ossetia. The primary motivation for Georgia's pro-Western orientation is the pursuit of security vis-à-vis Russia. However, Georgia maintains relatively positive and pragmatic relations with its immediate neighbors, Armenia and Azerbaijan.

Structural
constraints

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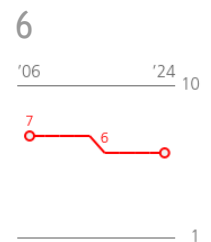
Surprisingly, Georgia has managed to recover well from the severe social and economic consequences of the pandemic. The economy has started to grow again, partly due to investments from Russia. As of February 13, 2023, Worldometer recorded a total of 1.8 million COVID-19 infections and 16,940 deaths in Georgia. Nevertheless, Georgia faces significant challenges related to social cohesion and public debt, which will limit the government's ability to cope effectively.

The enduring gap between Georgia's political elite and the broader public, a legacy of the Soviet era, remains unbridged. A civil society that mirrors Western-style governance only emerged in the 1990s and has made limited progress in addressing the pervasive lack of trust in public institutions. There is a noticeable absence of participatory approaches that encourage political dialogue, and civil society organizations have not significantly expanded their outreach to encompass the entire Georgian population. This is partly due to a lack of resources and motivation on the part of the public to actively engage in certain issues or specific interests.

While sporadic mass actions, such as election campaigns and protests against election fraud in 2003 and 2012, oppositional street protests in 2007, 2019 and 2020 or protests against hydropower constructions in mountainous regions like Namakhvani in 2020/21, have injected energy into the political landscape, the country lacks strong membership-based voluntary associations or interest groups. Moreover, there is a dearth of public debates necessary to reach consensus. For Georgian civil society to flourish, it must be firmly rooted in the social reality that extends beyond the capital city. Unfortunately, Georgian intellectuals, political figures, and civil society activists in the capital often overlook a significant portion of the population living in poverty, primarily adhering to collective and illiberal forms of identity and belief, for various reasons. Non-governmental organizations (NGOs) rely heavily on Western support for funding, consultation and the promotion of individual freedom, all of which face growing challenges from pro-Russian actors.

The liberalization of Soviet autocracy during perestroika in the late 1980s did not give rise to a "strategic civil society" but rather to NGOs supported by Western donors. This limited civil sector failed to effectively convey the function and role of a democracy. Consequently, democratic institutions, lacking robust support from civil society, became tools in the hands of political elites. For example, the GD party repeatedly alleged that NGOs were part of the opposition or corrupt due to their Western funding, aiming to neutralize their criticism and delegitimize them. As a result, civil society organizations, one of the few entities serving as checks on those in power in Georgia, currently find themselves under considerable pressure.

Civil society
traditions



In a country lacking a tradition of consensus-building, ongoing social, ethnic and religious divisions have resulted in increased confrontations over personalized issues. For example, the “Free Misha” (referring to Saakashvili) campaign led by the UNM opposition has exacerbated these divisions. While the memory of extreme violence in the early 1990s, when paramilitary groups seized control, has instilled caution regarding the escalation of conflicts into violence, instances of renewed violence have occurred. These include the Russo-Georgian war in August 2008, violent police responses to mass protests in 2007, 2010, 2019 and 2021, as well as the routine use of torture in prisons during the Saakashvili regime. However, the underlying causes of this violence have not been critically examined in public.

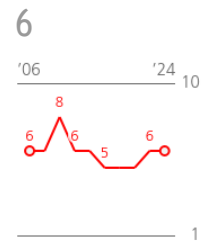
The polarization between the ruling GD party and Saakashvili’s UNM has hindered the progress of democratic institution-building, a stalemate that has persisted since the parliamentary elections of October 2020. The deteriorating health of imprisoned former President Saakashvili in early 2023 could potentially lead to an escalation of violence and impede efforts to reach a consensus on resolving the conflict.

Several incidents of discrimination or violence have been reported against LGBTQ+ activists, as well as tensions between Orthodox Christians and Muslims in mixed communities. Additionally, hate speech has been accompanied by the ultra-nationalist “Georgian March,” positioning itself as a force against all “non-Georgian” minorities, including religious, ethnic, racial and sexual minorities. However, the “Georgian March” did not gain significant electoral support.

On July 5/6, 2021, more than 50 journalists were attacked by hate groups during a counter-rally against the Tbilisi Pride March, resulting in the tragic death of one journalist. The rally was organized by the pro-Russian “Alt Info Movement,” which subsequently registered as a political party. Notably, despite clear evidence, no organizers of the violence have been accused of any crimes.

The true intentions of state authorities to effectively and impartially address such conflicts remain unclear. Currently, Russia, which maintains military bases in the separatist regions of Abkhazia and South Ossetia, is perceived as the primary security threat to Georgia. Russia employs hybrid methods of interference, including pitting the values of “Gayrope” against “traditional family values” that are purportedly at risk.

Conflict intensity



II. Governance Performance

14 | Steering Capability

With the EU-Georgia Association Agreement of July 2016 and the EU's 12 Points outlining Georgia's readiness for EU membership in June 2022, there should be a clear road map for gradually aligning with EU standards as a long-term goal. However, frequent turnover of officeholders at all levels, coupled with voluntarism and unpredictability, often take precedence. The tradition of top-down decision-making by a small circle within the political leadership discourages the involvement of independent experts and open consultations with critical civil society.

Institutionalized channels for exchanges, particularly with civil society actors, face discouragement amid allegations of bias. Past attempts by Prime Minister Bakhtadze and ministers to develop inclusive strategies, such as the Green Economy and Youth and Culture initiatives, were not sustained after their departures. In reality, entrenched business interests and other considerations hold more sway in setting priorities. This was exemplified by GD politicians' claims of a United State conspiracy related to Bidzina Ivanishvili's frozen Credit Suisse bank accounts in 2022.

In 2022, the government began excluding crucial provisions from EU strategies. For instance, LGBTQ+ rights were entirely omitted from the government's human rights strategy for 2022 to 2030. Additionally, in an effort to enforce the EU's 12 priorities, the parliament developed a judicial strategy and action plan that overlooked key demands for judicial independence.

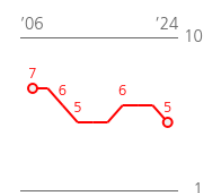
Similarly, the abrupt "reorganization" of independent institutions like the State Inspector's Service in December 2021, as part of a year-long public administration reform, raises doubts about the commitment to genuine administrative institution-building, especially considering the EU's assistance in its establishment. Consequently, significant obstacles persist in policy planning and coordination.

Georgia's administrations have faced persistent challenges in implementing existing plans. Since 1991, three different governments have introduced numerous reforms, including modernizing financial and public institutions, aligning Georgian legislation with EU regulations and combating corruption. However, the "operational gap" in effectively carrying out these reforms, both at the highest levels of government and in grassroots implementation, remains open. Frequent staff turnover, a lack of institutional memory and limited horizontal coordination between state agencies, along with significant deficiencies in evidence-based policy development, have hindered the government's capacity for implementation.

Question
Score

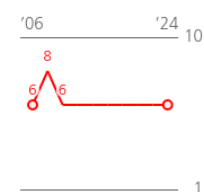
Prioritization

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Implementation

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The EU assesses the implementation of the EU-Georgia Association Agreement annually through its “Association Implementation Report,” providing external oversight. Extensive training programs are planned to ensure the successful execution of ambitious plans with the EU. However, the indicators in the accompanying action plans are often vaguely formulated or difficult to measure. Consequently, short-term public relations or political objectives appear to take precedence within the government.

The civil service in Georgia still lacks adherence to meritocratic principles and remains susceptible to direct political interference. Competitive salaries are not offered, contributing to an underperforming public service that is vulnerable to politicization, especially during election periods, as witnessed in the 2021 municipal elections with the exploitation of “administrative resources.” Public agencies that carry out their official duties against the wishes of political leadership may face dismissals, as seen with the EU-supported State Inspector’s Office in March 2022.

As a result, in December 2022, the Institute for the Development of Freedom of Information reached a discouraging conclusion regarding Georgia’s ten years of membership in the Open Government Partnership: “Since 2013, the Georgian government has not taken significant steps to enhance standards for proactive disclosure of information.”

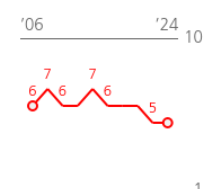
Policy learning has been hindered since independence by ongoing deep divisions in Georgian politics. The relationship between the government and opposition has remained confrontational and counter-productive to state-building and strengthening democratic institutions. Public discourse has often revolved around Ivanishvili’s GD and Saakashvili’s UNM, overshadowing meaningful progress in policy development since October 2018. While there have been rare instances of both political camps bridging their differences, as seen in the April 19, 2021 agreement brokered by Charles Michel, EU Council president, this agreement was short-lived, and both parties eventually withdrew, citing non-fulfillment. Consequently, Georgia’s political leaders have returned to a state of deadlock, paralyzing the country and leaving little room for policy learning.

The previously positive trend of cooperation between the GD-led coalition government and civil society after the 2012 parliamentary elections has also suffered due to this polarization. Leading watchdog NGOs’ criticism of the government’s legal initiatives was met with strong rejection, labeled as politically biased by the authorities. As long as NGO or opposition representatives providing critical feedback are treated as adversaries of the state, substantive policy debates become nearly impossible. The opportunities for collaboration and dialogue between the government and civil society actors have diminished over the past year.

As a result, there is a lack of effective monitoring and evaluation of the impact of various policies. The policy planning process tends to be formalistic, with limited emphasis on thorough situation analysis based on collected evidence or comprehensive risk assessment and mitigation measures. While public consultations

Policy learning

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were made mandatory in the policy planning process by government decree in 2020, only minimal standards have been established. Inadequate policy-planning, monitoring and a lack of policy evaluation have led to a failure to learn from past experiences.

15 | Resource Efficiency

A public administration reform was first initiated in 2015, but its key components were not fully implemented until 2019 and 2020. This reform continues to be one of the four priority areas in the new action plan for the implementation of the National Development Strategy 2023/24. However, following the local elections in October 2021, the government interfered at all levels, leading to reports of staff dismissals on political grounds, particularly in municipalities won by the opposition and in the cultural sector. Despite legislative and practical changes, the civil service has not become more professional, meritocratic, effective or politically neutral. Informal practices, such as nepotism and favoritism in public procurement, as well as the use of “administrative resources,” especially during elections at all levels, remain prevalent.

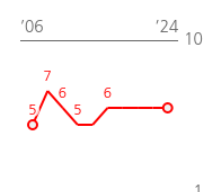
Efficient allocation of budgetary resources faces significant challenges as well. Watchdog organizations have consistently alerted the public to inefficient budget spending and have repeatedly called for improved parliamentary oversight. The COVID-19 pandemic further exacerbated issues with transparent spending of public funds.

The GD government endorsed greater decentralization through the adoption of a Local Self-Government Code in 2014 and a Decentralization Strategy (2020 – 2025) in 2019. Additionally, constitutional changes implemented in 2017 were meant to provide additional guarantees for local self-governance. While introducing important innovations for local authorities, such as legislation enabling municipalities to retain a larger share of tax revenues, substantial powers continue to rest with the central government.

Since assuming power in October 2012, the GD party has faced challenges in coordinating its policies effectively. Following the constitutional reforms of 2013, the prime minister’s office primarily relied on top-down methods to ensure cooperation within the administration. In February 2022, the Georgian government presented updated plans for implementing the National Development Strategy, which encompasses national policy planning and coordination. These plans aimed to align with European standards outlined in the EU-Georgia Association Agreement. Despite technocratic improvements, the government still struggles with effective horizontal communication between state agencies and local authorities. One reason cited for this deficiency is the shortage of competent staff in the regions.

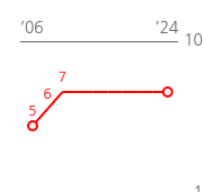
Efficient use of assets

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Policy coordination

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Thus far, it appears that EU procedural norms have had limited impact on the formal and informal governance practices in Georgia. As a requirement imposed by donors from outside, the significance of policy coordination in the daily practices of the Georgian government remains weak. Furthermore, achieving an intrinsic shift toward a more integrative and bipartisan policy-driven approach seems unlikely during times of heightened political confrontation.

Traditionally, Georgia has been a frontrunner among post-Soviet countries in the fight against corruption, particularly in curbing low-level bribery through government efforts. However, instead of addressing the root causes of corruption, the GD government has chosen to vilify Transparency International's Georgia chapter. In recent years, this chapter has exposed and published multiple instances of high-level corruption, raising concerns about the GD's "state capture" of key institutions by billionaire Bidzina Ivanishvili and his influential associates within the party, as well as a regression from previous anti-corruption achievements.

The concentration of power, informal influence over public institutions, and control of the judiciary have clearly hindered proper investigations into suspected cases of high-level corruption involving officials or influential individuals associated with the ruling GD party. During the pandemic, the success rate of companies linked to public officials or GD donors in public procurement raised suspicions.

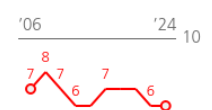
Civil society has questioned the independence and impartiality of the Anti-Corruption Agency, which operates under the State Security Service of Georgia. In 2021, the agency initiated investigations into 53 criminal cases, primarily related to bribery, abuse of official powers, money laundering, fraud and other criminal activities, leading to legal proceedings against 162 individuals.

Previously, the parliamentary Committee on Legal Issues declined to consider a legislative initiative proposed by civil society organizations and several opposition lawmakers. The initiative aimed to establish an independent anti-corruption agency. Instead, in response to the European Commission's 12 recommendations, a new public legal entity called the Anti-Corruption Bureau was created. This bureau will oversee general policies, monitor the financial activities of political parties, and ensure compliance with asset declarations.

Despite this positive step, watchdog organizations have raised concerns about the lack of institutional independence and investigative powers granted to the new agency. Despite moving toward a centralized model, responsibilities to combat the abuse of public office, including anti-corruption efforts, remain divided among several law enforcement agencies, including the state security service, the Office of the Chief Prosecutor and the Investigation Service of the Ministry of Finance.

Anti-corruption policy

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16 | Consensus-Building

The recently intensified polarization among political elites raises concerns about their commitment to democracy, particularly within the ruling GD party. The party frequently conveys troubling messages to its Western partners in response to criticism and often aligns itself with anti-Western groups, the Orthodox clergy and alt-right factions, seeking to contrast national traditions with Western values.

Since the war in Ukraine, the GD has actively propagated anti-Western and populist narratives aimed at undermining democratic values and discrediting Georgia's strategic partners, including the European Union and the United States. These efforts include spreading pro-Russian narratives suggesting that the West intends to open a "second front" in Georgia. The ruling GD party even endorsed a Russian-style draft law concerning so-called "Agents of Foreign Influence." As a result, in 2021/2022, the government postponed major democratic reforms and regressed in some key areas. This places the GD in an ambiguous position, while the fragmented and consistently marginalized opposition does not present a compelling alternative.

However, public opinion polls indicate that 48% strongly agree and 26% somewhat agree that "it is healthy for Georgia's democracy to have multiple parties in power" (IRI, Nov. 2022). A striking 80% agree that their preferred political party should cooperate with all other political parties in parliament, even if some parties hold unacceptable views. While the majority (92%) still considers living in a democratic state important, only 30% believe that Georgia currently meets this criterion, with 62% disagreeing. Notably, Russia's war against Ukraine has led to a significant shift in support for a pro-Western foreign policy, particularly among young citizens and opposition supporters (NDI, Dec. 2022).

While there is a general consensus on the fundamental principles of a market economy, there is limited agreement on the specific details. This lack of consensus largely stems from the negative perception of neoliberal policies among the population. The socioeconomic divide has persisted for many years, leading to increasing dissatisfaction with the ruling GD party since 2018. However, dissenting opinions are more commonly expressed regarding political matters and are rarely focused on economic issues.

A majority of political elites seem to share a consensus on democracy and market freedom, which is an advantage for the country's international orientation toward the United States and the European Union. Advocates of a more socially oriented market economy are marginalized and fragmented. There is a potential risk that public opinion could shift if poverty and unemployment are not effectively addressed in the future. Illiberal and anti-Western alternatives are gradually gaining popularity. For decades, citizens have consistently identified poverty and unemployment as the most significant problems. Addressing these issues will be crucial to preventing a broader shift toward illiberalism.

Consensus on goals

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The most influential entity in Georgia is the Georgian Orthodox Church, which tends to be conservative and lacks transparency. It enjoys high levels of public trust, particularly with regard to Patriarch Ilia II. The GOC has strong connections with the Russian Orthodox clergy and generally resists establishing legal or ecumenical ties with other Christian faiths. However, it has shown a slightly more accommodating stance toward the European Union, as long as Brussels does not diminish its moral authority in Georgian society. Since 2012, the clergy has openly supported the ruling GD party and its candidates. Consequently, the government failed to protect LGBTQ+ activists during a Tbilisi Pride event in June 2021, as it faced violent homophobia inspired by the GOC.

In recent years, Georgia has witnessed a significant rise in right-wing extremist groups like the “Georgian March,” alt info or the “Conservatives.” These groups promote anti-Western and pro-Russian “national traditions” in contrast to the liberal values of the European Union. With tacit support from the government, these groups have gained more prominence in the public sphere over the past two years. The ruling party, GD, uses its sovereigntist slogan “Toward Europe in dignity” to discredit reform-oriented factions within the opposition and civil society, labeling them as “enemies of the people.”

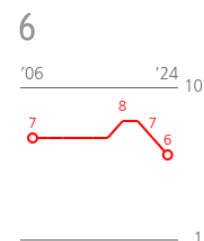
Unlike anti-democratic political “entrepreneurs” who act on behalf of specific interests, including GD MPs and minor opposition parties, marginalized reformers have no effective means to co-opt or neutralize these anti-democratic forces.

The ongoing stalemate between the ruling GD and the opposition UNM serves as a clear indication of the lack of willingness among the political elite to engage in conflict resolution. Political competition is often seen as a zero-sum game, with compromise viewed as a sign of weakness. Temporary dialogues have only been achieved in March 2020 and April 2021, mediated by EU and U.S. diplomats. However, the behavior of both the GD leadership and the arrested ex-president Saakashvili, who illegally returned to Georgia in October 2021 (with his physical condition becoming a major point of political contention), does not contribute to a more policy-oriented resolution of existing conflicts.

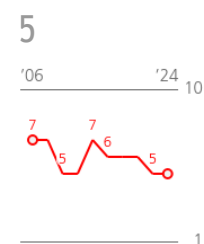
Despite 62% of the population believing that the country is headed in the wrong direction and that socioeconomic conditions are deteriorating, many people remain hesitant to engage in politics. Civil society actors, who have the potential to serve as mediators and, with Western support, oversee the government or facilitate issue-based compromises, are openly targeted by the government. They are often accused of bias in favor of the UNM or criticized for a lack of transparency, rather than being recognized as an alternative to the ineffective political opposition.

The standoff with the separatist regions of Abkhazia and South Ossetia persists. Both statelets are widely perceived as tools of Russian geopolitical manipulation, with ongoing provocations, including arrests of Georgians along the administrative

Anti-democratic actors



Cleavage / conflict management



boundary. Progress in the civic integration of ethnic, religious and sexual minority groups is hindered by the inadequate enforcement of their constitutional rights. Occasional public statements from leading GD politicians underscore the importance of integrating these minority groups into a civic state.

Despite the GD party's promising start in 2012, the relationship between the ruling party and civil society has steadily worsened following the parliamentary elections of 2016 and 2020. At present, the ruling party no longer regards NGOs as partners but as adversaries. In an increasingly polarized climate, the GD consistently dismisses criticism from civil society as politically biased. Populist politicians, often backed by the GD, frequently target NGOs due to their relatively limited societal influence.

On December 29, 2022, "People's Power," an offshoot of the ruling GD party, introduced a draft law proposing the establishment of a registry for "agents of foreign influence" that was inspired by similar laws in Russia and Belarus. While the state does not impose formal restrictions on NGOs, and they can still receive funding from Western donors, there are concerns that this label would be used to stigmatize and thereby limit the impact of civil society and the media on state authorities and the political agenda.

The general population, preoccupied with socioeconomic issues and hoping for tangible results from the government, tends to refrain from civil or political involvement. When public entities do consult civil society, it often appears as a mere formality. Such practices have a detrimental effect on society's trust in the process.

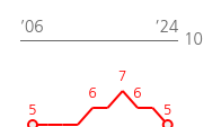
In domestic politics, the GD has never attempted to mediate between the victims and perpetrators of Saakashvili's system. The GD came into power promising to restore justice and hold wrongdoers accountable, which it did by initiating high-profile court cases against ex-president Saakashvili and the director of the oppositional TV channel "Mtavari Arkhi" (Main Channel). Facing a resilient UNM as a contender for power, the prospect of restoring justice was revived by the incumbent GD during election campaigns. While this strategy continues to yield political benefits for the ruling GD, it hinders reconciliation and exacerbates the animosity between major political actors and their constituencies.

Efforts to reconcile with the separatist Abkhazian and South Ossetian authorities have been unsuccessful. These separatist entities have gradually become integrated into the structures of the Russian Federation. Despite Georgia's more conciliatory stance toward Russia, the diplomatic impasse persists. For example, Georgia's offers of free health care to Abkhazians and Ossetians from the breakaway regions have not resulted in progress. There is no direct official dialogue between the conflicting parties, and civil society actors are almost entirely absent from track two activities.

Acknowledging the Soviet past publicly and honoring the few surviving victims of past injustices with more than symbolic compensation is essential. However, the continued admiration for Stalin, who was born in the Georgian city of Gori, in some

Public consultation

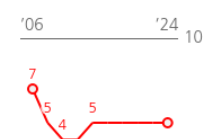
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Reconciliation

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parts of society provides an opening for Russian propaganda. The lack of empathy for human rights violations during the Soviet period reflects the challenge of facilitating reconciliation in the current political crisis. Purposefully ignoring the legacy of the Soviet past aligns with an authoritarian governance style, resembling a monolithic, paternalistic state controlled by a state party that dictates all aspects of governance.

17 | International Cooperation

Georgia's unexpected application for EU membership, triggered by Russia's war against Ukraine, has provided a perspective on EU accession. However, unlike Ukraine and Moldova, Georgia did not immediately receive candidate status. Instead, it was presented with a set of 12 reform demands to be implemented within a year, after which the European Union would make its final decision.

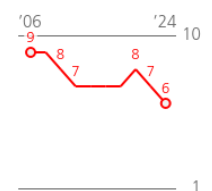
The EU-Georgia Association Agreement, which came into force in July 2016, aims to establish political association and economic integration between the European Union and Georgia. Additionally, the European Union and Georgia have established a Deep and Comprehensive Free Trade Area (DCFTA). The EU stands as Georgia's largest trading partner, providing over €100 million annually in technical and financial assistance for reforms in various sectors, including public administration, agriculture and rural development, and the justice system. It also offers complementary support for capacity-building and civil society. This assistance is contingent on Georgia meeting EU conditionality and undergoing an annual assessment.

However, the GD leadership has indicated its reluctance to accept the European Union's conditionality if it clashes with its own political interests. In August 2021, Prime Minister Garibashvili declined a second €75 million loan from the EU, asserting that it was no longer necessary due to an "economic boom" in Georgia. He also blamed the opposition for politicizing the loan. Nevertheless, since Georgia failed to meet the agreed conditions, the government was not entitled to this loan in the first place. For example, the selection process for judges in the Supreme Court does not align with the principles recommended by the Council of Europe's Venice Commission.

Another significant donor to Georgia is the United States, whose four long-term objectives are economic growth, energy sector reform, democracy and governance, and social and health service development. These objectives have been targeted through USAID since 1992.

Effective use of support

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The European Parliament adopted the report on the implementation of the EU-Georgia Association Agreement (AA) on December 14, 2022, with 430 votes in favor and 52 against. This underscores the EU's concerns about the democratic regression happening in Georgia. While there is a commitment to achieving sustainable results, the responses of GD leaders to EU criticism on key reform sectors have been ambivalent. Their defense of certain “national traditions” has raised doubts about shared European values. Georgia still has a substantial list of tasks from the Association Agreement that remain unimplemented, and given recent political developments, it has much work to do to convince the European Union and its member states of its commitments.

The crucial test will be how Georgia addresses the 12 Points issued by the European Union in response to Georgia's membership application in March 2022. This list of priorities includes addressing political polarization, ensuring the proper functioning of all state institutions, and the need for “deoligarchization.” In response to Brussels' lukewarm reaction, approximately 160,000 people staged demonstrations in Georgia's capital, Tbilisi, demanding EU membership.

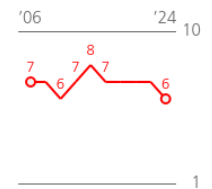
Another factor affecting credibility is the draft law on “foreign agents” introduced by a group of GD members of parliament who defected at the beginning of 2023. This law would stigmatize all civil society organizations and media outlets receiving funding from Western donors. It is worth noting that, due to mass protests and international pressure, the ruling party had to withdraw the bill during the second reading after initially supporting it during the first reading.

Georgia, a small yet strategically significant country, has maintained good relations with most of its neighbors, except for Russia. The country's foreign policy has long been centered on managing the challenge posed by Russia in its separatist regions. However, during the early stages of Russia's war against Ukraine, Georgia witnessed an influx of Russian businesspeople and individuals attempting to evade the military draft. Despite recent efforts by the GD party to improve relations with Russia, these attempts have proved fruitless and involved significant costs. These costs include controversies such as the Gavrilov speech in parliament, ongoing borderization efforts and the imprisonment of Georgian citizens for border violations in South Ossetia.

On the other hand, Georgia primarily engages in regional cooperation through the framework of the EU Neighborhood Policy, as NATO membership prospects are limited. Discussions with Western partners increasingly focus on security issues and resilience. Relations with Ukraine have strained over the past two years due to the imprisonment of Mikheil Saakashvili (who previously held Ukrainian citizenship as governor of Odessa) and Georgia's nuanced stance regarding Russia's aggression in Ukraine. Georgia aims to maintain a delicate balance, condemning the war in the U.N. General Assembly while avoiding provoking Russia and refraining from imposing sanctions.

Credibility

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Regional cooperation

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Although Georgia offered to mediate in the renewed conflict over Nagorno-Karabakh in autumn 2020, its role remained less prominent compared to the dominant actors, Russia and Türkiye.

In light of significant geopolitical shifts, Georgia's significance as a transportation and energy corridor in the region has grown for all parties involved. There is potential for cargo traffic from Türkiye to CIS countries to shift to this new route through Georgia. China, through its Road and Belt program, is increasing its influence in Georgia by investing in infrastructure and production, positioning Georgia as an entry point to the EU market. Furthermore, the European Union has expressed its willingness to provide financial support for the Black Sea Energy project, which would enhance Georgia's and the region's energy independence.

Strategic Outlook

Rather than perpetuating political polarization among its elites, Georgia urgently needs to establish a more inclusive and civic basis for its statehood, especially given its challenging geopolitical context. The country's international standing is closely tied to its commitment to European values such as democracy and the rule of law, values that are now under threat. A significant portion of the population is emigrating, and faith in representative democratic institutions is waning, along with citizens' willingness to engage in politics. According to a December 2022 NDI survey, 62% of Georgians believe their country is moving in the wrong direction. Efforts to enhance social cohesion on civic grounds, beyond Georgia's ethnoreligious identity, are conspicuously absent.

The ruling elite has persisted in its patronage politics, with the GD asserting itself as the sole legitimate representative of state interests while vehemently condemning its political adversaries from the United National Movement. By single-handedly appointing judges, GD has further eroded the independence of the judiciary, aggravating an already skewed political landscape. Meanwhile, GD increasingly employs manipulative rhetoric in defense of "national traditions." Politics continue to be characterized by tactical maneuvering rather than strategic planning, and the focus remains on individuals rather than political agendas. The billionaire Bidzina Ivanishvili retains informal control over the government without being subject to public accountability, although the government frequently speaks on his behalf.

The opposition has coalesced around the imprisoned and seriously ill former president, Mikheil Saakashvili, whose release is their primary demand. There is no indication that the United National Movement (UNM) is critically reassessing its leader's legacy in terms of human rights violations and governance style. The election of a new chairman, Levan Khabeishvili, to replace Nikanor Melia has only exacerbated internal discord within the party. The only unifying factor within UNM appears to be Saakashvili himself, along with the party's fundamental opposition to the Georgian Dream (GD) party, which has led to another boycott of parliamentary proceedings. Other opposition parties remain weak, and liberal forces have limited influence.

Apart from the Public Defender's Office, civil society organizations are the last line of defense against the unchecked power of the ruling GD party. Members of parliament from GD's "People's Power" faction are signaling their intention to tarnish and discredit NGOs through a draft bill titled "On Transparency of Foreign Influence." Despite polls indicating overwhelming support among Georgians for EU integration and rejection of concessions to Russia, this sentiment does not necessarily translate into support for civil society. Given these systemic constraints, the domestic political landscape suggests the likelihood of an illiberal democracy, similar to the Hungarian model at best.

This will undoubtedly impact Georgia's foreign policy, particularly during a period of profound geopolitical uncertainty. Russia's conflict with Ukraine and the influx of approximately 140,000 people from Russia have underscored security risks from the north. However, these developments have also opened the door to EU membership for Georgia and increased the EU's commitment,

including involvement in domestic politics. The Georgian leadership's often dismissive responses to Western criticism have left the country in an ambivalent position. In addition to formal statements, how GD responds to the EU's 12 Points will serve as a crucial test of Georgia's potential EU accession and its dedication to democracy. The massive protests against the adoption of the "Foreign Agents" Law from March 6 to March 8, 2023, led by the younger generation, vividly demonstrated the Georgian population's strong commitment to further democratization and EU integration. Nevertheless, EU accession remains uncertain, and suspicions persist that prospects are dim as long as Ivanishvili continues to exert influence from behind the scenes.