

Georgia 2018



Total: 64.11

Political Freedom

Free and Fair Elections : 6.79

Georgia is a parliamentary democracy with the 150-seat National Assembly. Citizens in Georgia are able to cast their votes in largely free and fair electoral process, although vote frauds and irregularities, intimidation and abuse of public resources have been an integral part of all previous elections. Political parties are free to organize and operate. Several new parties emerged recently, albeit mostly due to the fragmentation of the United National Movement (UNM). During the review period, local elections were held, marked by international observers as free and competitive. The trend of strengthening its position, shown by the ruling party Georgian Dream, continued after their winning of the supermajority in the Georgian unicameral national parliament at the last years' elections. In order to improve the quality of the electoral process, legislative changes were carried in 2017. Changes involved abandoning of a mixed proportional electoral system for the fully party proportional system, while president will be elected in an indirect way, by the local, regional and state level representatives, with his powers further limited. Nevertheless, these changes will enter into effect in 2024, which was criticized as too lengthy.

Absence of Unconstitutional Veto Players : 5.83

Democratically elected officials in Georgia have effective power to govern the country. However, their decision-making is mostly influenced by the founder of the GD, a former prime minister and wealthy businessman Bidzina Ivanishvili. After his party slowly and successfully took full control over the institutions in the country, from prime minister and president to local governments, he officially withdrew from politics but has continued to pull the strings. With supermajority in the parliament, government can hardly be held accountable by the system of checks and balances. President Margvelashvili, previously supported by the GD and Ivanishvili, took more independent role over time and on many occasions tried to veto bills coming from Parliament, however his decisions were overruled by supermajority. As most trusted institution, Georgian Orthodox Church wields significant influence on social and political life of the country.

Freedom of Press : 5

Democratization of the country positively affected media environment in Georgia: ensured freedom of the press, improved quality of journalism and provided diversification of opinions. Deep political polarization in the past made reporting fragmented along political division lines, but more objective approach and coverage of events could be found in the media today. Dispute over ownership of an

opposition leaning Rustavi 2 television channel attracted most of the attention throughout the observed period. Supreme Court of Georgia ruled in favor of the former owner of the outlet, triggering criticism and protests, however this decision was suspended after European Court for Human Rights had intervened. Still, the whole situation reflected negatively on the financial sustainability of the Rustavi 2. In an unclear event, a fugitive Azerbaijani journalist had been deported back to Azerbaijan, where he was later sentenced by the authorities, in the country known for its journalist-hostile environment. Informal power of Bidzina Ivanishvili reaches the media sector in Georgia. Appointment of his close ally on the top of the Georgian Public Broadcaster and change of editorial policy draws concerns over its independence.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 4.25

After considerable improvements during the past few years, there were setbacks regarding independence and neutrality of judiciary. Failure of courts to equally protect foreign citizens (such as abducted and extradited Azerbaijani journalist, or some other foreign political dissidents who were denied further stay in Georgia), or foreign companies (when in litigation with a domestic actor), as well as bias in politically sensitive cases among purely domestic parties, largely contributed to this assessment. Besides, in one case of excessive use of police force which subsequently led to suicide of the defendant, the first instance court failed to address the responsibility of police. In several other cases, including a killing of two youngsters near the school in Tbilisi by still unknown assassin(s) and a death of a young man during the police operation in Pankisi Valley, law enforcement authorities have vastly underperformed. In the former case there were suspicions of a politically motivated cover-up by the prosecutors and/or courts, which was later corroborated by the conclusions of a subsequent parliamentary task force. A new judicial reform launched during 2017 suffered criticism from Venice Commission, EU and local think tanks, in particular for the lack of depoliticizing of the judicial system. Prosecutors' offices have been mostly criticized, whereby, according to a survey quoted by Freedom House, only 13% of citizens maintained a positive opinion on them. Constitutional Court is active and plays an important role in re-shaping the legislation so as to match constitutional requirements.

Corruption : 5.6

Being 46th among 180 countries surveyed, Georgia equals Malta and leaves behind six EU-members and all Western Balkans EU candidates in curbing corruption, according to the Transparency International's CPI 2017 ranking. No other Black Sea region or Caucasus country is even near. This miracle owes to robust post-2003 economic liberalization which narrowed the power of government, bold measures to clean the remaining public sector of graft and thriving civil society as a watchdog. In as much as petty corruption became a relatively small problem, the high level one is still a serious issue. Among elites, favoritism and nepotism are still common. Strict

laws against graft and conflict of interest are not always applied consistently. Freedom House found out that “public confidence in anticorruption institutions declined slightly in 2017.”

Protection of Human Rights : 5.72

Respect for human rights in Georgia is higher than in most of the ex-USSR, yet considerably lower than in the EU. Freedoms of thought, assembly and association are reasonably well maintained. Civil society is vibrant. Amnesty International objected at impunity of law enforcement officials for human rights abuse. The row over monitoring of citizens` telecommunication connections by the state secret service has intensified since April 2016, while in December 2017 the Constitutional Court provisionally rejected the complaints against the amended legislation on secret surveillance. In another human rights` relevant case at the CC, Georgian Orthodox Church was denied its taxation and property-ownership privileges over other religious organizations. To it, Georgia is heading towards decriminalization of the use and possession of small amounts of cannabis. Police anti-drug raids in youth clubs in Tbilisi in May 2018 (in 2017 also in Batumi), widely discussed and criticized for anti-LGBT and anti-techno bias, have been a catalyst of the change. In July 2017, CC ruled that it was unconstitutional to ban gay people from donating blood. Meanwhile, as AI reported, in the breakaway regions of Abkhazia and South Ossetia Russian troops and local authorities continued to restrict freedom of movement across the “borders”, thus considerably disrupting economic activities of the local population. Furthermore, Russian troops occasionally trespass into Georgian mainland and arrest Georgian citizens for interrogation, in some cases under torture and/or resulting in killing.

Economic Freedom

Security of Property Rights : 6.49

Property rights in Georgia are mostly secured. Although courts are perceived as mostly independent from the government, in important cases political considerations can influence court decisions and lead to favouritism in rulings. Recent introduction of an automated process for case assignment to judges is hoped to increase judicial independence and decrease opportunities for mismanagement. There are no specialized commercial courts, which can often have repercussions on the quality of rulings in these matters. Contract enforcements through courts last up to 10 months on average, but more than half of this time frame is dedicated to enforcement of court rulings. The number of adjournment in court cases is not limited, which may prolong them. Expropriation disputes are not common, but there have been cases of illegal land appropriation in newly created tourist zones, or illegal seizure of property even in Tbilisi at unfairly low prices, connected to Tbilisi Railway Bypass project. In these cases powerful interest groups were able to take advantage of legal loopholes or low land coverage in the cadaster. Insolvency procedures last two years on average, with a recovery rate of 40%. Recent changes improved provisions on treatment of contracts through insolvency and granted creditors greater participation in decision making during the process. The process of registering property is very efficient and inexpensive, done through an electronic registry, but regions outside the capital are mostly not covered with clear land titles - approximately only one quarter of agricultural land has a clear title, which may

lead to insecure property rights. Acquisition and possession of agricultural land is largely restricted for foreign nationals and private entities with foreign capital, to 20 and 200 hectares respectively. The Georgian government does not exert de facto control over the two separatist regions of Abkhazia and South Ossetia, therefore many internally displaced persons and businesses face challenges in asserting their property rights. There are a few industries in which foreign capital is restricted. Government is legally obliged to retain a controlling equity share in air, shipping and rail traffic control, defense and armaments industry and nuclear energy.

Size of Government: Expenditures, Taxes, and Enterprises :

8.02

Government expenditures in Georgia are very low, compared to other European and even post-transition countries, just below 30% of GDP in 2017, in line with one of the legal fiscal rules adopted in 2014. Georgian economy experienced robust growth in 2017, of 4.8%, due to increasing foreign demand that led to a high rise in exports, and due to rising private consumption. Recorded inflation was high, reaching almost 7% in 2017, but it has been since then put under control. The government entered a three year Extended Fund Facility (EFF) program by the International Monetary Fund (IMF) in April 2017, in order to provide backing for the envisaged fiscal austerity program with the aim of diverting resources from current to capital expenditures, which has been successful so far. Current spending has been put under control, while capital spending on infrastructure was significantly increased and tax mix somewhat altered (corporate tax was changed from profit to dividend taxation and these revenues were supplanted by a rise in excise duties). Public debt is at 45% of GDP, which is within the fiscal rule limit of 60%. After the thorough privatization process, major remaining government-owned companies operate mostly in utility services, energy sector and transportation (airports, railways). The most important government companies (railways, oil and gas corporation and electro system) are combined to a Partnership Fund in order to improve public asset management, but some of these companies suffer from inadequate management and incur losses that require budget transfers. Low public expenditures allow for moderate tax rates. Both corporate and personal income taxes are flat, with the rates of 15% and 20% respectively, while VAT is set at 18%. Undistributed corporate income is not taxed. The Economic Freedom Act stipulates that an increase in tax rate or introduction of a new tax must be approved at a national referendum, which significantly restricts additional tax revenues.

Regulation of Credit, Labour, and Business :

7.47

Business environment in Georgia is mostly positively oriented towards entrepreneurial activities. Georgia was twice designated as the Reformer of the Year by the World Bank, and is consistently ranked high in the Doing Business research. However, local government capacities and their decision making process can pose obstacles to entrepreneurial activities. Rule enforcement is not uniform, although low level corruption has mostly been eradicated. Starting a business is quick and inexpensive, conducted in only 2 days and without minimum paid in capital. This process was further streamlined with the recent change that enabled VAT registration at the time of business incorporation. Obtaining a construction permit is also a well streamlined process, with only 7 procedures and low costs stemming from it. On the other hand, getting electricity is considerably expensive due to high fees set by the electrical distribution company. Recently imposed regulatory changes stipulate penalties for utilities whose quality of services, measured by outages index, is worse than in the previous year. Connection fees for new customers were reduced. The online

system for VAT refunds has recently been updated and additional annex for corporate income tax returns was abolished: online procedures are used, but it is still time consuming. Inadequately trained workforce (especially outside the capital Tbilisi) and low access to financing, pose significant burden on businesses. Labour regulation is overall flexible. Severance payments and notice periods are low and do not rise with years in tenure of the workers at hand, and collective bargaining is mostly restricted to public sector employees. The maximum duration of fixed term contracts is 30 months. The minimum wage is very low, and it is not really applied in practice. However, the 18 months mandatory military conscription poses significant burden both on businesses and citizens. The Georgian government launched the program of de-dollarization in 2016 in order to increase the influence of its monetary policy on money supply, but this measure has not yet had a significant impact.

Freedom to Trade Internationally : 8.94

Freedom to trade is well respected in Georgia. Import tariffs are among the lowest in the world, with the applied Most Favoured Nation (MFN) tariff rate of just 1.5%. As in other countries, tariffs are higher for agricultural products than for the manufactured ones. Although regulatory trade barriers in the area of standardization of imported goods have been decreased, they still create problems regarding free flow of goods. Border and documentary compliance are efficient and pose little administrative burden on trade through the use of an electronic system for document processing and an advanced document submission. Georgia has been a member of the World Trade Organization since 2000. It ratified the Trade Facilitation Agreement (TFA) in January 2016, which is expected to further ease custom clearances and border controls, once implemented. The World Trade Organization (WTO) conducted Georgian trade policy review without finding significant problems, confirming Georgia's free trade orientation. The TFA would also benefit Georgia's role as an important transport corridor, which has already been acquired due to its geographical position and political conditions in the Caucasus. Georgia remains as one of the most visa-free countries for foreign nationals to visit, encouraging cultural and economic ties, as well as the booming local tourism industry. Main Georgian trade partners are the EU countries, followed by countries from the region, such as the Russian Federation, Turkey, Ukraine, Azerbaijan and Armenia. Economic relations with the EU are conducted via the Association Agreement and the following Deep and Comprehensive Free Trade Area (DCFTA), signed in 2014. This agreement stipulates a gradual introduction of the EU standards in the economy and increase the rate of standard harmonization in areas such as sanitary standards. A free trade agreement with the European Free Trade Association (Norway, Lichtenstein, Iceland and Switzerland) was signed in 2017, while a free trade agreement with China was completed in 2018.