

Georgia Country Strategy

2021-2026

Approved by the Board of Directors on 8 December 2021



European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Bank Investment	IFI	International Financial Institutions
ADB	Asian Development Bank	IFRS	International Financial Reporting Standards
ASB	Advice for Small Businesses	ILO	International Labour Organisation
CNG	Compressed Natural Gas	IMF	International Monetary Fund
CPI	Consumer Price Index	LCY	Local currency
DCFTA	Deep and Comprehensive Free Trade Areas	LSE	London Stock Exchange
E&S	Environmental and Social	M&S	Manufacturing and Services
EBRD	European Bank for Reconstruction and Development	NBG	National Bank of Georgia
EEC	Easter Europe and Caucasus	NDC	Nationally Determined Contributions
ESG	Environmental, Social and Governance	ODA	Official Development Assistance
ESP	Environmental and Social Policy	PFI	Partner Financial Institution
ETI	Expected Transition Impact	PPP	Public Private Partnership
EU	European Union	PTI	Portfolio Transition Impact
FDI	Foreign Direct Investment	SME	Small and Medium sized Enterprise
FI	Financial Institution	SOE	State Owned Enterprise
GDP	Gross Domestic Product	TC	Technical Cooperation
GEFF	Green Economy Financing Facility	TCFD	Task Force on Climate related Financial Disclosure
GEL	Georgian Lari	TFP	Trade Facilitation Programme
GET	Green Economy Transition	TIBR	Tbilisi Interbank Rate
GHG	Greenhouse gas	TPES	Total primary energy supply
GMTN	Global Medium Term Note Programme	WDI	World Development Indicators
H&S	Health and Safety	WEF	World Economic Forum
HPP	Hydro Power Plant	WEO	World Economic Outlook
ICA	Industry, Commerce and Agribusiness	WiB	Women in Business programme
ICT	Information and communications technology		
IEA	International Energy Agency		

Georgia has, over the previous Country Strategy period, remained committed to application of the political principles as stated in Article 1 of the Agreement Establishing the Bank. However, tackling political polarisation, implementing electoral reform, strengthening the rule of law and ensuring the independence and accountability of the judiciary remained, according to relevant international organisations, important challenges.

Georgia has strong European aspirations. Its development has been affected by a challenging geopolitical environment, domestic political polarisation, and remaining rule of law challenges. While wide-ranging political and economic reforms implemented in the past two decades have transformed the economy, acceleration of reforms implementation is required to bring tangible results. The COVID-19 crisis was a significant blow to the economy as the hospitality sector, the main driver of robust economic growth in recent years, became a key source of vulnerability. The pandemic also emphasised the need to reinvigorate the structural reform agenda to address private sector constraints and advance on the path of economic convergence with advanced economies. Improving the business environment, including via addressing governance challenges such as weaknesses in the judicial system and developing labour force skills to match the evolving needs of businesses, would enhance country's productivity levels and competitiveness. Advancing the inclusion agenda and improving regional connectivity would promote equal opportunities and support sustainable recovery across the economy. Accelerating green transition would bring significant economic gains and help to meet the country's climate change commitments.

EBRD activities in Georgia cover all sectors, including energy, infrastructure, financial sector, corporates and SMEs, reaching €4.3 billion in 268 projects since the start of operations. The Bank has focused on supporting Georgia's energy security, defining and implementing Green City programmes in Tbilisi and Batumi, supporting EU approximation under DCFTA, energy efficiency credit lines to financial institutions, improvement and standardisation of skills, promoting mining sector reform, and developing private enterprises and agribusiness. ASB is popular among Georgian SMEs, supporting e.g. enhanced standards, improved marketing, and lately also digitalisation. Donor co-financing and strong cooperation with other IFIs are key to successful engagement in the country. The Bank's policy dialogue includes the flagship Investors Council, a platform for private public dialogue on investment climate, combined with development of local money, derivatives and capital markets, EU approximation support, energy security, and infrastructure upgrades, including commercialization of SOEs.

Georgia has benefitted from the Bank's Solidarity and VISP programmes, across the sustainable infrastructure, FI, SME and ICA sectors, to assist the country during the COVID-19 crisis. Crisis response to help with the recovery will continue to be an important part of Bank's activities during the next country strategy period.

The Bank is well placed to support Georgia in its European ambitions, the implementation of its alignment with the Paris Agreement, as well as FDI attraction, subject to continued and reinforced structural reforms. Balanced territorial economic growth and connectivity are of essence, and this requires focus on infrastructure and energy security, as well as access to finance and advisory support for SMEs across sectors, including value chain integration. Green, inclusive and digital dimensions are at the core of the activities in all sectors of the Bank's operations during the post-COVID-19 era, which offer an opportunity to reinforce delivery of the country's economic reform programme.

The Bank will pursue the following strategic priorities in Georgia in 2021-2026:

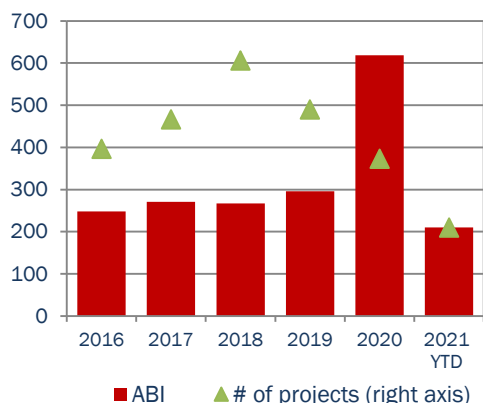
- i. *Improve productivity and resilience of the economy through enhanced competitiveness and access to finance*
- ii. *Promote equal opportunities through better inclusion and balanced territorial development*
- iii. *Accelerate Green Transition through increased investments and better governance*

Georgia - EBRD Snapshot

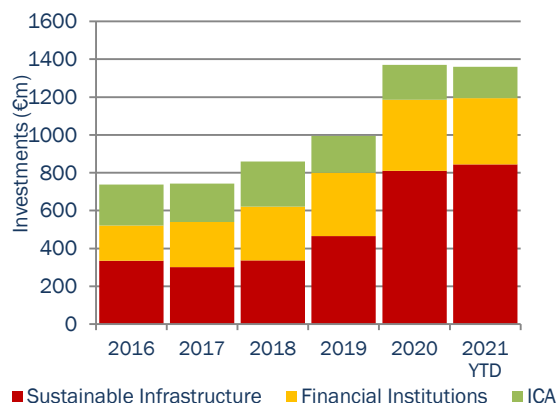
EBRD Investment Activities in Georgia (as of October 2021)

Portfolio	€1,360m	Active projects	89
Equity share	2%	Operating assets	€1,032m
Private sector share ¹	79%	Net cum. investment	€4,333m

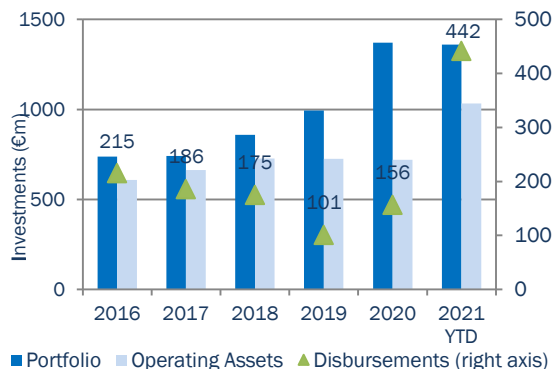
ABI and Operations



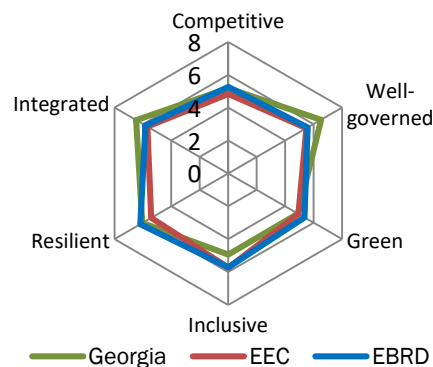
Portfolio Composition



Portfolio Dynamics



Transition Gaps ²



Georgia Context Figures

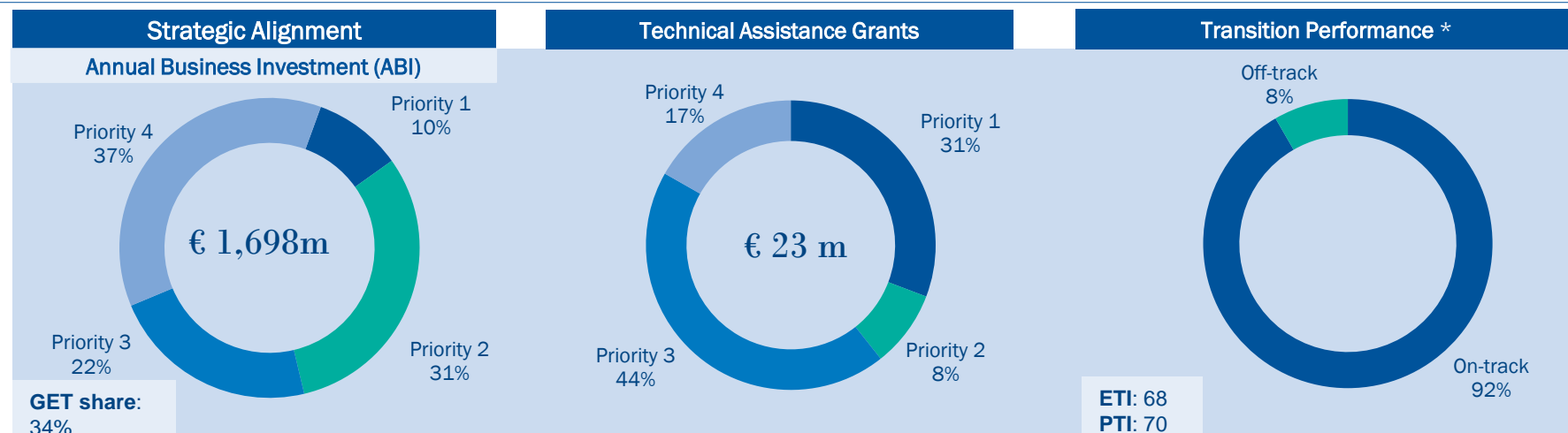
	Georgia	Comparators
Population (million), 2020 ³	3.7	3.0 (Armenia) 2.6 (Moldova)
GDP per capita (PPP, US\$), 2020 ³	14,849	13,329 (Armenia) 12,935 (Moldova)
Global Competitiveness Index (WEF), 2019	74th Out of 141	69th (Armenia) 86th (Moldova)
Unemployment (%), 2020 ⁴	18.5	18.2 (Armenia) 3.8 (Moldova)
Youth unemployment (% ILO est.), 2019 ⁵	29.93	33.51 (Armenia) 10.51 (Moldova)
Female labour force participation (% ILO est.), 2019 ⁵	55.24	42.91 (Armenia) 38.22 (Moldova)
Energy intensity (TPES/GDP, toe/thousand 2015 US\$), 2018 ⁶	0.31	0.26 (Armenia) 0.46 (Moldova)
Emission intensity/GDP (kgCO2/2015 US\$, PPP), 2020 ⁶	0.17	0.19 (Armenia) 0.35 (Moldova)

1. Implementation of Previous Strategy (2016-2021)

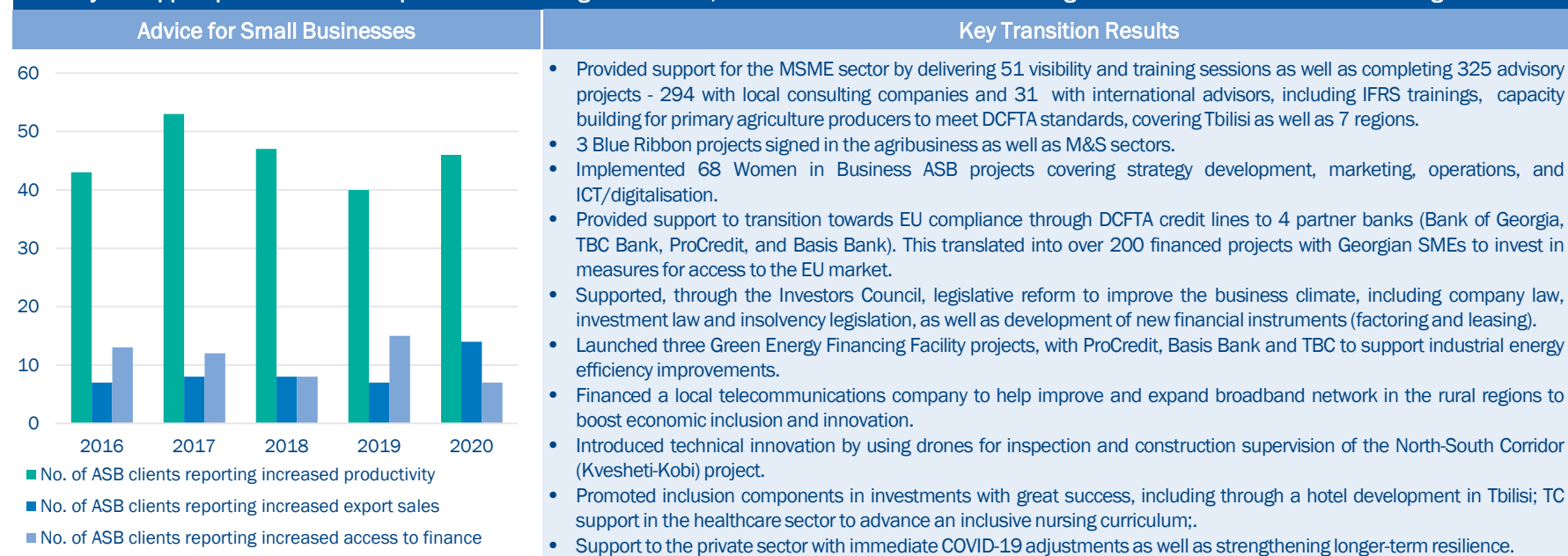


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1.1. Key Transition Results



Priority 1: Support private sector competitiveness through innovation, enhanced value added and convergence with DCFTA standards and obligations



* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

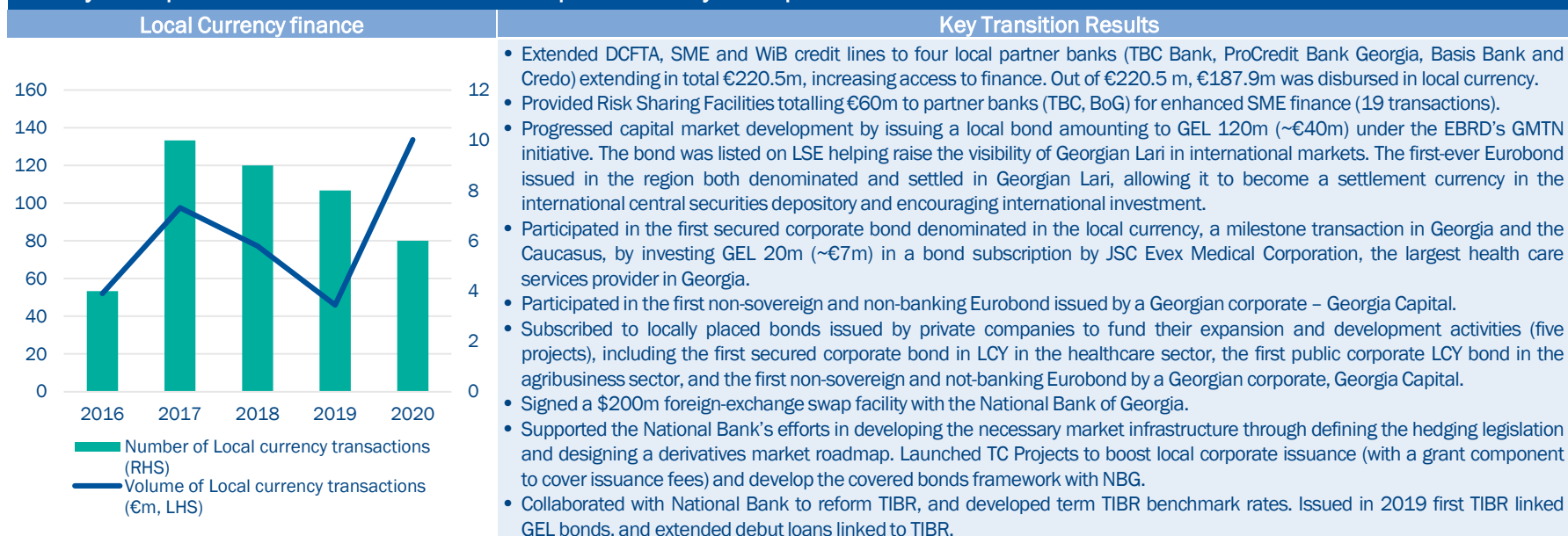
1. Implementation of Previous Strategy (2016-2021)



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1.1. Key Transition Results

Priority 2: Deepen financial intermediation and develop local currency and capital markets to enable access to finance



Priority 3: Expand markets through inter-regional connectivity



1. Implementation of Previous Strategy (2016-2021)

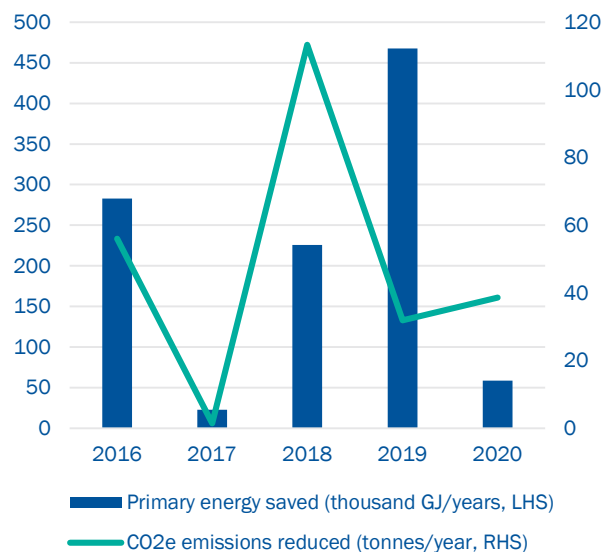


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1.1. Key Transition Results

Priority 4: Support renewable energy, resource efficiency, and climate change adaptation to enhance competitiveness and resilience of the economy

Green Economy Transition



Key Transition Results

- Supported the Regulatory Impact Assessment of deregulation in the energy sector and initiated support to authorities in the development of renewables auctions. Worked with the Government to facilitate and diversify the sources of renewable energy generation, by leading a preparatory work to auction the solar capacity of up to 50 MW.
- The Bank supported the Gori windfarm, the first windfarm in the Caucasus, which was privatised shortly after commissioning (CO2 savings of 24,000 tonnes/ year based on the assumption of an average load factor of 40%).
- Invested in grid enhancement to improve the absorption of new renewable energy generation.
- Developed the First Energy Efficiency Action Plan (EEAP) adopted by the government in 2019, and continued policy advisory on residential building regulations.
- Rolled out the Bank's Green City Framework to the Municipalities of Tbilisi and Batumi, following intensive policy dialogue. Under the framework, EBRD has supported Tbilisi in implementing e.g., transport network improvements, and the preparation of a solid waste strategy, including a public awareness campaign.
- In Batumi, the Bank supported the municipal fleet to acquire new low-floor electric buses. This was the first project by the Bank to introduce electric buses in a municipal bus fleet.
- Supported 3 transactions (TBC Bank, ProCredit Bank, Basis Bank) amounting to €40m under GEFF credit lines. To date, 22 sub-borrowers have benefitted from GEFF finance in the amount of €11.3m.
- Signed a €217m loan to GOGC, Georgia's main electricity supplier and critical infrastructure provider, as crisis support with a strong "tilt to green", including TC support for green hydrogen development, as well as improvements in climate change corporate governance, including reporting in line with TCFD recommendations.
- Supported development of the new Mining Policy, which was approved by the Government of Georgia and is currently being drafted into new Georgian Mining Code.

1. Implementation of Previous Strategy (2016-2021)



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1.2. Implementation Challenges and Key Lessons

Context for Implementation

Georgia exhibits stronger transition performance in Competitive, Well-governed, Resilient and Integrated qualities than the region. Despite volatile political landscape, the past strategic period was characterised by government commitment to the implementation of the DCFTA requirements and EU Association Agreement, as well as advancement of reforms under the IMF programme. Economic growth remained strong throughout the period, even in light of regional distress. Economic activity contracted due to the external shock of the COVID-19 crisis and even with a comprehensive support package applied by the government, the economy entered a recession in 2020. Since the start of operations, the EBRD has invested over €4bn in 262 private and public sector projects. The committed business and donor community created a favourable environment for delivery of the country strategy. The Bank delivered high transition impact through supporting private sector competitiveness, deepening financial intermediation and local capital markets, expanding markets through greater connectivity and promoting renewable energy and energy efficiency.

Implementation Challenges

- Difficulty to pursue and promote structural reforms due to political turbulence
- Exchange rate volatility, limited access to local currency
- Limited sovereign fiscal space, especially for infrastructure development

Key Lessons & Way Forward

- Open dialogue with authorities, IFIs and donors. Emphasis on promoting sound business and investment.
- Ongoing policy engagement activities including via the Investors Council and Law in Transition team, helping the Government implement key reforms.
- Engage further in developing the local money, derivatives and capital markets, in particular by supporting the issuance of local securities by Georgian companies (incl. through EU grants to cover issuance costs), increasing the use of the local interest rate benchmark (TIBR) in financial instruments and by local market participants through issuing first TIBR linked GEL bonds and extending loans indexed to TIBR, conducting first Overnight Index Swaps indexed to TIBR, and expanding the product range including through covered bond reform.
- Collaboration with the EU, including for grant funding for SMEs, DCFTA compliance and guarantee facilities.
- Support SOE commercialisation, PPPs and access to financial markets.
- Continued close IFI coordination, including the EU, and grant co-financing to address affordability constraints.

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period



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Georgia - Main macroeconomic indicators

	2016	2017	2018	2019	2020
GDP growth (% y-o-y)	2.9	4.8	4.8	5.0	-6.8
CPI inflation (% avg.)	2.1	6.0	2.6	4.9	5.2
Government balance (% GDP, GFSM 2001)	-1.5	-0.5	-0.8	-1.8	-9.3
Current account balance (% GDP)	-12.5	-8.0	-6.8	-5.5	-12.4
Net FDI (% of GDP)	-8.2	-10.5	-5.65	-6.0	-3.5
External debt (% GDP)	105	107	101	107	130
Gross reserves (% GDP)	18.2	18.7	18.7	20.1	24.7
General gov't gross debt (% GDP)	40.3	39.4	38.9	40.4	60.2
Unemployment (%)	21.7	21.6	19.2	17.6	18.5
Nominal GDP (US\$ bn)	15.1	16.2	17.6	17.5	15.8

- **While still reaping the benefits of wide-ranging reforms implemented in the past two decades, continued strong growth rates are needed to speed-up the economic convergence.** Reforms, more recently as a result of efforts to align Georgia with EU standards, have been transforming the Georgian economy and lifting its potential growth rate, in particular given the low development level at the start of the transition. With GDP per capita still significantly below that of the EU members, strong economic expansion remains paramount to improving the standard of living.
- **The pandemic emphasised the need to advance structural reforms.** Buoyant hospitality sector and exports, some of the main drivers of growth, exposed the country to external shocks. Containment measures weighed on domestic demand and many small service providers. Prompt and comprehensive package of measures implemented by the government supported the economy, in particular the most vulnerable groups, but significantly increased the public debt burden. Advancing the structural reform agenda is needed to sustain recovery and revert to sustainable growth path.
- **Prudent macroeconomic policies support economic performance.** Traditionally large current account deficit, while mostly covered by FDI inflows supporting relatively high investment rate, contributes to currency volatility. Given the elevated dollarization rate, external shocks and political volatility test the resilience of Georgian economy. Prudent monetary policy anchored by the flexible exchange rate regime, regular access to official funding, fiscal policy discipline and robust banking sector help balance out the pressures.
- **Georgia enjoys close relationship with development partners.** Most recently, this has proved beneficial as the authorities promptly obtained significant foreign financing at the onset of the pandemic, including under the augmented IMF programme, used to cover the budget and external gaps and uphold the international reserves.

2. Economic Context

2.2 . Key Transition Challenges



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Competitive (5.18)

- Among the best in the world according to the **regulatory ease to do business**.
- Public **governance challenges** and political economy considerations weaken the business environment.
- Implementation of new **insolvency** law is a priority; regulatory framework, institutions and enforcement of **competition** law could be improved.
- **Labour force skills** do not match evolving needs of businesses.
- Resources are locked in **low-productivity activities** and exports are dominated by **low complexity** products and services.
- **Integration into global value chains** is limited.
- **Infrastructure barriers** increase the costs of trade, restrict access to markets and decrease attractiveness for productivity-enhancing foreign investments.
- **Access to finance** for **SMEs** could be improved.

Well-Governed (6.53)

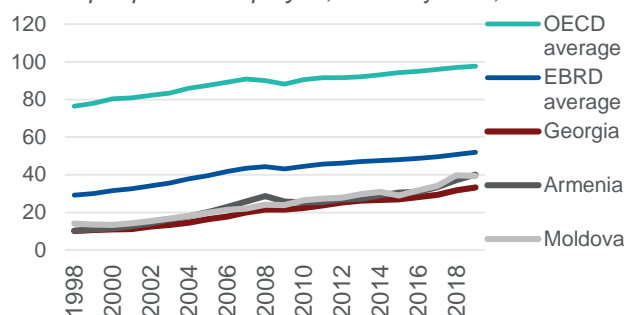
- Despite commendable progress, **challenges in public governance** remain as Georgia continues to lag behind the EU in most areas.
- **Reduced political volatility, increased predictability and strong orientation** on long-term development priorities will have significant implications for the private sector investment decisions.
- Best ranking country in the region on **corruption perception**, however challenges still remain, in particular with regards to the **independence of the judiciary**.
- Strengthening independence, transparency and accountability of **judiciary** and reducing inefficiencies within the **court system** remain a priority.
- **Corporate governance standards** are in need of improvement.
- The need to improve the **governance of state-owned enterprises (SOEs)** is becoming evident.

Green (4.9)

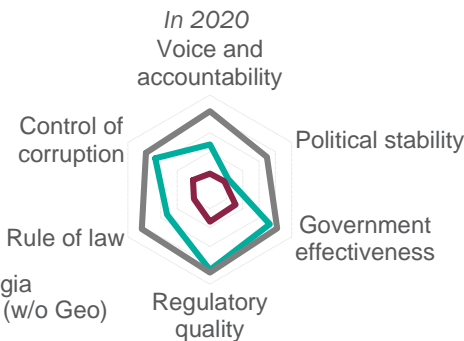
- Implementation of **energy efficiency** measures would bring significant gains as Georgia's energy intensity is higher than EU.
- **GHG emissions** in the energy sector, accounting for large majority of overall emissions, have been on the rise largely due to fuel combustion activities.
- Vast **renewable energy potential** outside of hydro remains largely untapped. A single wind farm is the only non-hydro renewable energy source in the electricity generation.
- **Waste management** needs significant improvements as large majority of waste, more than double the EU average, is estimated to end up in landfill sites which are not adequately protected.
- Georgia is facing severe negative **consequences of climate change** which could also affect hydro sources.

Labour productivity

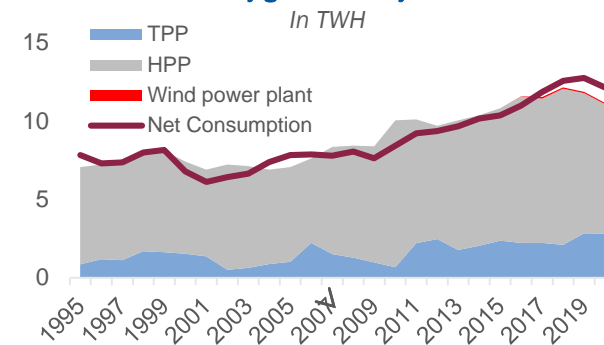
GDP per person employed, PPP adjusted, thousand US\$



Worldwide Governance Indicators



Electricity generation by sources



Source: The Conference Board Total Economy Database

Source: World Bank (2020) Worldwide Governance Indicators, EBRD calculations

Source: ESCO, EBRD calculations

2. Economic Context

2.2 . Key Transition Challenges

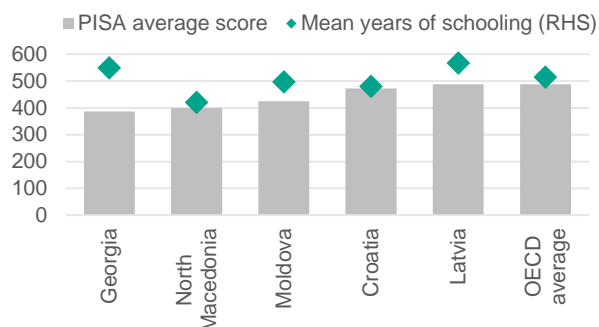


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Inclusive (4.94)

- **Skills mismatches** lead to poor employment outcomes and inactivity for young women and men.
- **Poor quality of Georgia's education system** affects learning outcomes despite high educational attainment.
- **Lingering skills shortages** include the high unmet demand for technical skills.
- **Gender gaps persist** – particularly in terms of labour force participation and care economy roles.
- **Gender pay gap remains large** despite women's strong presence in high-skill occupations.
- **Access to finance remains a key barrier** to economic empowerment for women, young people and population outside the capital.
- There are considerable regional disparities in availability of economic opportunities, employment and access to public services.

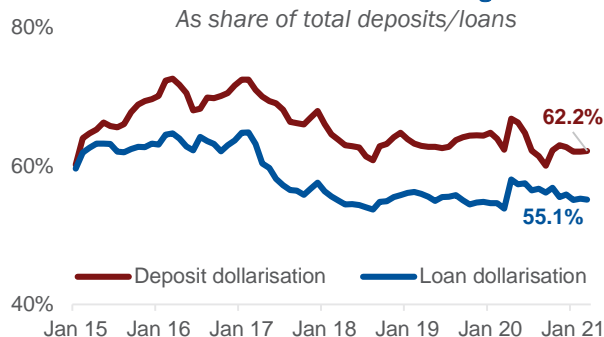
Education outcomes



Resilient (6.04)

- The **banking sector** has demonstrated resilience to adversities. It is fully private and mostly foreign owned.
- **Concentration risk** as two banks dominate the system is mitigated by stellar performance.
- The **financial system** has weathered the crisis well, supported by forbearance measures of the regulator.
- **Dollarisation** is a perennial concern. A significant portion of banks' medium to long term funding is sourced in foreign currency.
- **Domestic capital markets** are underdeveloped and lack capacity to cater for local currency wholesale funding needs of corporates.
- **Lack of proper Treasury management IT systems** in the banking sector impedes development of local currency derivatives and capital markets.
- **Net energy importer** due to lack of fossil fuels.
- **Electricity generation** is dominated by hydro power plants while other renewable sources are severely underutilized.
- Gas subsidies have a **distortive effect** on the power market and are at odds with the ongoing **harmonisation with EU regulations**.

Dollarisation levels in the banking sector

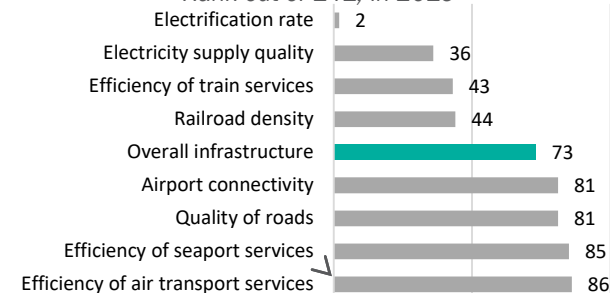


Integrated (6.47)

- **Exports and imports of goods and services** as share of GDP are above the EBRD average, but are driven by the tourism sector.
- **Low average tariffs** and the **DCFTA** agreement with the EU present trade opportunities which are yet to be fully realized.
- Georgia's **openness to FDI inflows** is above EEC average, however the composition recently shifted toward reinvested earnings.
- The **quality of infrastructure** is in need of improvement both to boost external integration and enable more efficient internal connectivity.
- The **logistics competence** is in need of significant improvement.
- **Quality of electricity supply**, power transmission, 3G coverage, **broadband access** are above regional and EBRD averages.

Global Competitiveness Index

Rank out of 141, in 2019



Source: OECD (2018) PISA, WEF (2019) Global Competitiveness Index, EBRD calculations

Source: National Bank of Georgia, EBRD calculations

Source: WEF (2019) Global Competitiveness Index

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3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

The key goal of the ‘**Government Program 2021-2024 – Toward Building a European State**’ is to overcome the pandemic-related crisis, ensure rapid economic recovery and development, and put in place stable and safe environment for every citizen.

Economic development – Focus on encouraging economic growth, promoting rapid post-crisis business recovery. The state will use every available tool of economic policy to promote the creation of additional stimuli for economic development and further improve the entrepreneurial and investment environments.

Social policy and human capital development – Support the empowerment of human capital as an important factor in economic development, also fostering the development of a decent system of social security, the further advancement of the healthcare system; and, putting in place a quality, accessible system of education.

State governance – Promote strong state institutions, and qualified and honest public servants. Special importance is attached to effective state governance and result-oriented governmental work that must be visible and tangible for every citizen.

EU integration – Continue active work towards the effective implementation of the Association Agreement, and tap into the opportunities offered by it, including the DCFTA component.

Infrastructure development – Strengthen Georgia’s potential as a regional hub, by developing key infrastructure, including: the construction and renovation of national and international roads; provision of stable water supply; development of energy independence and security; recovery of the aviation and logistics industries.

ICT – Develop Georgia’s digital economy and information society through: supporting the development of broadband infrastructure, creating a digital transit hub connecting Eurasia via Georgia, development of digital services in the public and private sectors, enhance digital literacy.

Tourism – This industry has been the hardest hit by the pandemic. The new strategy for tourism development will be based on diversification and qualitative improvement. Support for business in terms of offering quality services will be taken into account, which will contribute to attracting higher-end tourists into the country.

Agriculture – Increase agricultural product export and reduce import dependence, by enhancing competitiveness in the sector, maintaining stable production growth, promoting food safety, and supporting rural areas.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Continue to promote local currency and capital markets development through investment and policy engagement in close coordination with the National Bank. Support the introduction of new, sophisticated and green financial products.
- Enhance inclusive access to finance of SMEs and domestic corporates, including among marginalised groups and rural regions.
- Continue to support private sector growth through investment and advisory, promote economic integration and competitiveness through DCFTA alignment of domestic corporates.
- Pursue SOE reform and commercialisation in close coordination with the authorities and other IFIs.
- Explore opportunities to integrate activities supporting education and vocational training in the Bank’s projects.
- Improve the quality and connectivity of infrastructure for efficient economic interactions, including through working with Georgian cities.
- Diversify the energy mix and accelerate the transition to renewable electricity generation through investment and policy engagement.
- Continue to pursue energy and resource efficiency improvements through projects with municipalities and the private sector.

3.3. Key Messages from Civil Society to EBRD

- CSOs pointed to the focus on sustainability and education (formal, informal, vocational) to be of utmost importance for Georgia. CSOs’ questions concerned the necessity to increase activities and interventions in the field of education and infrastructure expenditures.
- CSOs expressed their concerns regarding rising household debts, limited access to finance and donor funds for new small businesses. They stressed the importance of the promotion of inclusion for marginal groups, elimination of poverty, and the Economic Empowerment of Women.
- CSOs noted that in the current economic environment renewable energy seems to be deprioritised, and energy efficiency improvements are only slowly progressing as a part of adopted legislations. CSOs further expressed the position that hydropower plants should not be considered sustainable due to their substantial negative impact on the environment and society.

4. Defining EBRD Country Strategy Priorities



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What needs to change ? (Country Diagnostic)	Can it be changed ? (Political Economy)	What can the Bank do ? (Institutional Capabilities)	Strategic Priorities (2021-2026)	What We Want to see (Key Objectives)
<ul style="list-style-type: none"> State footprint remains significant in some sectors, increasing fiscal risks and limiting effectiveness. Low share of export-oriented firms, particularly towards richer markets. Access to finance is among top two constraints for SMEs. Corporates suffer from shallow capital markets; high lending rates preclude long term Capex investments in LCY and perpetuate dollarisation. 	<ul style="list-style-type: none"> SMEs aggregate demand for loans in Georgia remains high. Government is preparing comprehensive SOE governance reform. The legal and regulatory framework for capital markets has been strengthened by recent reforms. NBG measures have improved access to lari liquidity. DCFTA facilitates access to the EU market. 	<ul style="list-style-type: none"> Focus on supporting the private sector through financial investment, including LCY, climate finance, policy engagement, and technical assistance. Small Business Initiative to provide dedicated SMEs support. Investment Climate and Governance Initiative support for business environment improvements. 	<p>Improve productivity and resilience of the economy through enhanced competitiveness and access to finance</p>	<ul style="list-style-type: none"> Expansion of competitive companies, supporting business environment conducive to the private sector Improved business skills, standards and business sophistication; Strengthened role of SMEs in the economy Increased variety and sophistication of financial products and services (local currency); Developed local capital market
<ul style="list-style-type: none"> Large share of employment is still focused in low-productivity sectors. Increasing share of Georgian firms report poor skills of the workforce as top constraint, affecting youth in particular. Women are also significantly less active in the labour market. Access to finance is one of the main obstacles. Georgia is ranked low in infrastructure and logistics quality and connectivity. 	<ul style="list-style-type: none"> The authorities are working on a comprehensive reform of the education system including effective vocational training and adult learning. Women are very active in high-skill occupations in Georgia. Advancing infrastructure and logistics could generate new and inclusive growth opportunities. A strong government focus on building good road network. 	<ul style="list-style-type: none"> Increased focus on access to employment opportunities and skills, including new products. Mainstreaming gender equality and women's economic empowerment. Gender-responsive instruments and tools. Strengthened capacity to promote equality of opportunity. Wide range of products for infrastructure investments, including digital infrastructure . 	<p>Promote equal opportunities through better inclusion and balanced territorial development</p>	<ul style="list-style-type: none"> Increased access to skills development opportunities contributing to reduction of skill mismatch (gender, age, regions) Increased access to finance and services (gender, youth, regions) Improved quality and connectivity of sustainable infrastructure for efficient economic interactions
<ul style="list-style-type: none"> Investments into generation capacity are needed to match demand increase. Import dependence, high energy intensity, seasonality and high climate risk of HPP dominated power generation leads to the need for improving energy resilience and accelerating green transition. Preferential conditions in the gas sector distort the market for other sources of electricity. 	<ul style="list-style-type: none"> Committed to reducing 50-57% of GHG emissions, compared to 1990, by 2030. Georgia is successfully progressing on its commitment to transform the energy sector in compliance with EU's third energy package, including gradually transitioning to fully competitive market. Changing government support mechanism for renewable technologies for enhanced fiscal sustainability. 	<ul style="list-style-type: none"> Implemented systemic approach to a green, low-carbon economy transition under new GET Approach 2021-2025. Support for the development and implementation of NDC and other national and local climate related action plans. Comprehensive Green Cities programme and wide range of energy and resource efficiency products. 	<p>Accelerate Green Transition through increased investments and better governance</p>	<ul style="list-style-type: none"> Increased renewable energy generation Increased energy and resource efficiency; Reduction of GHG emissions Strengthened governance practices supporting green transition

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5. Activities and Results Framework



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Priority 1: Improve productivity and resilience of the economy through enhanced competitiveness and access to finance

Key Objectives	Activities	Tracking Indicators (Outcomes)
Expansion of competitive companies, supporting business environment conducive to the private sector	<ul style="list-style-type: none"> Support local corporates and SMEs through direct and indirect finance, including enhancing export potential through support for DCFTA and assistance with logistics, distribution, marketing and introducing modern technologies. Focus on COVID-19 recovery investments across the economy. Promote business climate improvements in cooperation with the EU and other donors, including through continued support to the Investors Council and policy engagement on regulatory and legal reform. Explore support for value chain deepening and greening, including through supply chain financing and advisory, and particularly in the tourism sector, agribusiness and M&S. Support trade expansion through trade facilitation. Support government reforms in the area of economic resilience and COVID-19 recovery, including assistance to the Georgia National Tourism Administration, together with UN World Tourism Organisation. Promote the development of digital platforms in support of an entrepreneurial ecosystem. Encourage early stage companies adopting digital practices including through advisory. Support commercialisation of State Owned Enterprises, including improvements in their corporate governance and enhanced digitalisation. Continue supporting mining sector reform, focusing on environmental and safety issues. Support public procurement through policy advisory, including for e-procurement solutions. 	<ul style="list-style-type: none"> Number of corporate and SME clients financed Legal and regulatory reform (including new mining legislation, and further legal and regulatory improvements to the business environment) Total number/volume of TFP transactions supported by the Bank Number of interventions/TCs to improve SOE performance
Improved business skills, standards and business sophistication; Strengthened role of SMEs in the economy	<ul style="list-style-type: none"> Deploy credit lines and risk sharing facilities with local banks and non-bank financial institutions, in coordination with relevant state support programs, for increased access to finance for SMEs. Provide advisory services to improve business standards and corporate governance and help with digitalisation, export competitiveness, green transition, inclusion and skills, and ESG. Support foreign investment in Georgia to expand international linkages, strengthen the production base and increase economic diversification. 	<ul style="list-style-type: none"> Total number/volume of outstanding loans of partner financial institutions for SMEs Number of ASB reporting increased exports and/or productivity
Increased variety and sophistication of financial products and services (local currency); Developed local capital market	<ul style="list-style-type: none"> Promote expansion of local currency instruments, including through policy engagement with the National Bank of Georgia Expand use of DCFTA instruments Support introduction of factoring, including policy engagement on factoring and leasing legislation, and expansion of leasing and other non-bank financial products. Continue to develop local money, derivatives and capital markets and facilitate equity and quasi-equity investments, including through policy engagement and initial investment to expand corporate securities market and introduce new financial instruments e.g. green products. 	<ul style="list-style-type: none"> Number of transactions in local currency Legal, institutional or regulatory framework for factoring improved



5. Activities and Results Framework

Priority 2: Promote equal opportunities through better inclusion and balanced territorial development

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased access to skills development opportunities contributing to reduction of skill mismatches	<ul style="list-style-type: none"> Support a diverse range of economic inclusion products and activities targeting unequal opportunities via client-oriented advisory activities, and promote inclusive procurement and relevant policy engagement. Enhance financial literacy and skills related to digitalisation and financial instruments, particularly among women, people living in underserved regions and other disadvantaged groups (e.g. strengthening IT skills in the tourism sector). Continue technical assistance linked to EBRD transactions and engage with the full range of public and private stakeholders, including civil society, to help address skills mismatches and reduce gender imbalances in the workforce (e.g. support curriculum and skills development for vocational training and higher education). 	<ul style="list-style-type: none"> Number of individuals in target group enhancing their skills as a result of training Number of clients improving equal opportunity practices
Increased access to finance and services (gender, youth, regions)	<ul style="list-style-type: none"> Provide investments and engage in policy dialogue to upgrade public services including utilities. Facilitate economic inclusion of women, young people and other target groups through supporting territorially balanced access to finance, expanding inclusive infrastructure services and exploring the introduction of new target group focused credit lines and other financial instruments. Support the roll out and strengthening of digital infrastructure (broadband, 5G) to enable the growth of digital services including in rural areas. Policy engagement to strengthen companies with innovation and digital services (including smart cities). 	<ul style="list-style-type: none"> Number of individuals with improved access to services (e.g. IT, transport and municipal services)
Improved quality and connectivity of sustainable infrastructure for efficient economic interactions	<ul style="list-style-type: none"> Investments in transport infrastructure and logistics focusing inter alia on enhancing national and cross-border connectivity, promoting inclusion and gender and building climate resilience. Explore urban regeneration and regional development under the Cultural Heritage Framework. Finance tourism enabling sustainable infrastructure. Finance upgrades of municipal infrastructure and expansion of water, wastewater, energy networks and digital connectivity through digitalisation, including within the remit of the Green Cities programme. Explore opportunities to develop PPPs in combination with capacity building and policy engagement for relevant authorities. 	<ul style="list-style-type: none"> Number of people benefitting from new/better municipal infrastructure

5. Activities and Results Framework



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Priority 3: Accelerate Green Transition through increased investments and better governance

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased renewable energy generation	<ul style="list-style-type: none"> Support expansion and diversification of the energy sector through the development of new renewable energy sources and related networks. Explore opportunities to promote competition in the energy market and support harmonisation with EU regulation. Promote decentralised renewable energy generation and use. Pursue policy engagement on renewable energy legislation and regulation, including renewable energy auctions and tariff methodology. Support additional flexible solutions in the energy system along a Paris Aligned low carbon path, including through policy engagement. Seek gender and inclusion components across power and energy operations. 	<ul style="list-style-type: none"> CO2e emissions reduced / avoided (tonnes/yr) Renewable energy capacity installed (MW) Legal, institutional or regulatory framework for renewables improved (including launch and successful operation of a competitive energy market).
Increased energy and resource efficiency; Reduction of GHG emissions	<ul style="list-style-type: none"> Support Georgia's NDC implementation through investments in energy and resource efficiency improvements in the private sector. Finance product and process innovation of private companies for energy efficiency measures and the adoption of green technologies. Continue with GEFFs and support development of other instruments to finance green transition (e.g. green residential credit lines, green bonds). Pursue investments and policy engagement to improve energy efficiency in public buildings and housing. Support green transition through Green Cities programme. Support investments in municipal solid waste management together with policy engagement. Finance investments in industrial waste minimisation. Continue providing energy audits and energy efficiency advisory. Support efficiency improvements, climate resilience and adaptation enhancements in energy generation, transmission and distribution infrastructure. 	<ul style="list-style-type: none"> Primary energy saved (GJ/yr) Solid waste disposed at landfills (tonnes/yr) Number/Volume of GEFF/SEFF loans extended by partner financial institution supported by EBRD finance
Strengthened governance practices supporting green transition	<ul style="list-style-type: none"> Support sustainable municipal investments through financing and policy engagement encompassing, among other things, municipal best practices around gender and inclusive design, smart and green solutions. Promote the Green Cities Programme where applicable. Encourage greening of state owned enterprises including municipal companies and infrastructure operators. Support separate collection, reuse and recycle of waste, as well as a circular economy approach to waste management. Support development and implementation of Green Cities Action Plans. Support enhanced climate corporate governance. 	<ul style="list-style-type: none"> Number of Environmental and Social Action Plans or Green Cities Action Plans implemented as targeted

Impact Indicator: Electricity production from renewable sources (% of total, World Bank) **PUBLIC**
Government effectiveness (Worldwide Governance Indicators)

Green



Well-Governed



6. Mapping of International Partners' Complementarity in EBRD Business Areas



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EBRD BUSINESS AREAS														
		Sectors								Cross-cutting Themes				
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative average annual investments/ grants (€m, 2016-2020)		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank Financial Institutions	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
ADB *	308	€P					€P	€P	€			€P	P	
EIB	270	€					€	€	€					€
AFD **	203						€P					€P		€P
KfW	188						€P	€P				€P		
World Bank	123	€P		€P	€P			€			€	€P		
EU	120	€	€					€			€	€	€	€
USAID	47	€						€				€	P	€P
IFC	47		€				P		€	€	€			€
AIIB	45						€	€	€					€
BSTDB	32						€		€					€
EBRD	300	€	€P	€P	€	€	€	€	€	€	€	€	€P	€P
<div><div>€ Area of significant investments</div><div>P Area of significant policy engagement</div><div>€ Focus mostly on private sector</div><div>○ Focus mostly on public sector</div></div>														

Potential Areas of Cooperation



Competitive

- Cooperation with the EU on supporting digitalisation, including for SMEs through the RE4RM programme.
- Continued support for the Investors Council along with other donors and IFIs to improve the investment climate in Georgia.



Green

- Co-finance green projects with E5P and the Green Climate Fund, including in green transport.
- Work with the EU and KfW on energy efficiency.



Integrated

- Cooperation with EU, EIB, AIIB and ADB on infrastructure and energy investments.
- Collaboration with the EU to support trade and closer economic integration under the DCFTA.



Resilient

- Aligned COVID-19 response measures with other locally active IFIs.















Well-Governed

- Support to SOE reform in cooperation with IMF, WB, ADB and KfW.

Note: IFI mapping based on publicly available data (excluding budget support), with significant IFI investment defined as exceeding 5% of investments signed between 2016-2020. * 2016-2019 volume sovereign projects only due to data disclosure limitations. ** 2017-2018 projects only

7. Implementation Risks, Environmental and Social Implications

Risks to Strategy Implementation	Probability	Effect
• Slow recovery from the COVID-19 crisis (especially in the tourism sector) threatening private sector sustainability		
• Public debt affordability and stability may be threatened if a lack of sustained economic growth or currency instability prevails.		
• Article 1 challenges impeding the reform momentum and constraining the business environment		
• Domestic political polarisation and volatile regional security situation putting at risk political stability		
• Limited public fiscal space and/or limited private interest to finance infrastructure investments		
• Insufficient grant funding and long-term local currency financing on competitive terms		

Environmental and Social Implications

- **Assessment and Management of E&S Impacts:** Ensure that direct, indirect, cumulative and transboundary E&S impacts of projects and associated facilities are appropriately assessed and mitigated. Ensure the identification of groups (including ethnic minority groups) and vulnerable people, as well as the assessment and mitigation of impacts on their lands, cultural heritage and livelihoods follow the requirements of EBRD's ESP. Consider capacity building in both project and strategic E&S assessments, ESMS and contractor management. TC funds to support these activities may be needed
- **Labour and Working Conditions:** Ensure that clients' HR policies and labour practices comply with EBRD requirements, particularly in respect to labour terms and conditions; contractor management and supply chains. Gender based violence and harassment and capacity building of the labour inspectorate for consistent application of the labour laws may require TC support
- **Resource Efficiency and Pollution Prevention and Control:** Ensure that alternatives are considered to identify investments that support transition to a low carbon and resource efficient economy, strengthen resilience to climate change and promote circular economy.
- **Health and Safety:** Improve H&S standards across all sectors. Construction, road and services safety are priority issues and engagement with clients and other stakeholders may be required. TC funds to support these activities may be needed.
- **Land Acquisition, Involuntary Resettlement and Economic Displacement:** Ensure that any projects requiring acquisition of land comply with compensation and livelihood restoration requirements of the Bank, with special attention on informal land users, vulnerable groups and monitoring provisions.
- **Biodiversity Conservation and Sustainable Management of Living Natural Resources:** Ensure robust biodiversity assessments of projects in sensitive areas, are carried out to minimise impacts to valuable biodiversity and maintain integrity of protected areas. TC funds to support these activities may be needed
- **Cultural Heritage:** Ensure that clients have adequate capacity to manage cultural heritage of local, national, and international significance as per PR8 ; support sovereign clients to meet their obligations under international conventions via TC projects; build client's capacity to manage intangible cultural heritage.
- **Financial Intermediaries:** Ensure that FI partners have adequate E&S capacity and risk management procedures in place.
- **Stakeholder Engagement:** Support clients in developing and implementing stakeholder engagement plans to ensure meaningful public disclosure and consultation through the project lifecycle.
- **Monitoring and supervision:** Work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio.

8. Donor Co-Financing Assessment

8.1. Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including for:

- Small business advisory services to enhance competitiveness and strengthen international linkages.
- Concessional finance to promote cross-border connectivity, transport linkages, tourism and upgrade digital infrastructure.
- Risk participation and capacity building advisory support to enable access to finance for underserved segments (e.g. gender, youth, local SMEs).
- Technical assistance on equal opportunities, skills development, and reducing gender imbalances in the workforce and for policy dialogue to strengthen governance towards green transition.
- Regulatory and legal reforms to improve business climate, continue developing capital markets, and support economic resilience and COVID-19 recovery.
- Concessional finance to support green transition, renewable energy capacity, quality infrastructure (e.g. water, waste water, energy).

Selected Affordability Indicators

	EBRD regional percentile rank ¹	
GDP per capita (PPP, current, US\$) ²	15,656	46th
ODA Country ³	Yes	N/A
ODA as share of Gross National Income (%) ²	2.9	68th
ODA per capita (US\$ - current prices) ²	134	76th

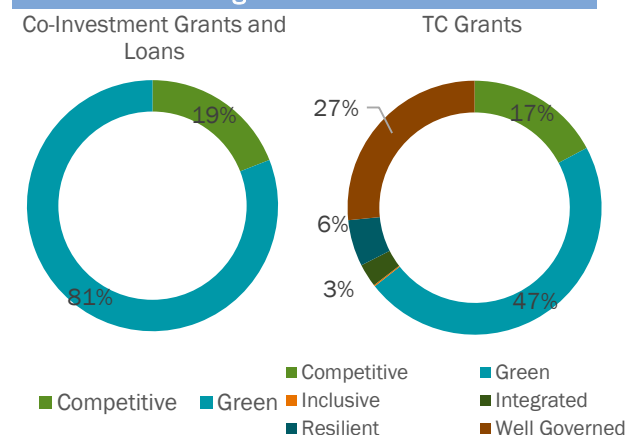
Donor finance during last strategy (€m)⁴



8.2. Potential Sources of Donor Funds

- **EU funding** for the jointly prioritised areas such as balanced territorial development, green and health. Potential funding opportunities at a regional level can be explored in areas such as access to finance, digital, and green.
- As part of the **Green Cities Programme** supported by the **Green Climate Fund (GCF)**, funding can be provided to support technical assistance and investments in municipal infrastructure, transport, buildings, industries, energy, water, solid waste, and land use.
- Additional support from **Multi-Donor Accounts** will also be explored. Potential funding sources include the **Early Transition Countries (ETC) Fund** and the **Small Business Impact Fund (SBIF)** for supporting SME development and growth. The **E5P (Eastern Europe Energy Efficiency and Environment Partnership)** is another potential source of grant funding for sustainable infrastructure projects in Georgia.
- Support from **bilateral donors** will continue to be sought.
- The **EBRD Shareholder Special Fund (SSF)** supports the EBRD's priorities in Georgia, as set out in the country strategy. The SSF focuses on supporting the delivery of the EBRD's Strategic and Capital Framework, including its cross cutting thematic areas.

Use of grants in 2018-20⁵



1. Simple percentile rank reported as the share of EBRD economies that are represented below Georgia.
2. Source: WDI (2019)
3. Source: OECD (2020)
4. 2016-2020 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client public.
5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2018, 2019, and 2020.

Annexes



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PUBLIC

Georgia has, over the previous Country Strategy period, remained committed to application of the political principles as stated in Article 1 of the Agreement Establishing the Bank. However, tackling political polarisation, implementing electoral reform, strengthening the rule of law and ensuring the independence and accountability of the judiciary remained, according to relevant international organisations, important challenges.

2021 marks the 30th anniversary of Georgia's independence. Following constitutional amendments in 2017-2018, the country's political system evolved towards a parliamentary model. However, deepening political polarisation threatened to negatively impact parliamentary pluralism. The ruling Georgian Dream party won the last parliamentary elections in October-November 2020 and became the first political party in Georgia to secure its third term in office and to extend its one-party government. The eight opposition parties that surpassed the required threshold challenged the election results and refused to enter the new parliament, calling for fresh elections. The six-month-long political stalemate risked undermining the country's democracy and stability.¹

Following several rounds of negotiations, mediated by the EU with support of the U.S., a compromise agreement "A way ahead for Georgia" was reached between the sides on 19 April 2021. If implemented fully and in good spirit, the agreement could provide the foundation for overcoming gradually the political polarisation and for progressing further on the path of becoming a modern, democratic European state. The deal anticipates the introduction of power-sharing in the legislature and outlines an agreed and inclusive way forward for the democratic reform agenda, in particular for strengthening the rule of law, making judiciary transparent and accountable, and levelling the electorate playing field, which all are key tasks and challenges. However, the ruling Georgian Dream party has declared it "annulled" only three months after signing it, citing the refusal of the opposition United National Movement to join the agreement (UNM has later signed it). Although certain provisions of the political agreement have been implemented, the withdrawal from it and persistent political polarisation, deepened further after the local elections in October 2021, have raised questions about Georgia's commitment to the agreed upon inclusive way forward on reforms, reigniting political tensions, and a political crisis which could endanger the country's democratic future.

Despite the recent developments in the country of concern to the EU, Georgia has, over the previous Country Strategy period, remained committed to the implementation of its landmark 2014 Association Agreement with the EU and to aligning with the EU acquis, including in the challenging COVID-19 context. European integration is a strategic priority which enjoys broad public support.

Restoring territorial integrity remains Georgia's key priority and challenge. The country's international partners strongly support the sovereignty and territorial integrity of Georgia within its internationally recognised borders.

Free Elections and Representative Government

Free, fair and competitive elections

The Constitution of Georgia guarantees the free expression of the will of a voter and provides citizens with the right to change their government through periodic elections based on universal suffrage. During the last Country Strategy period, Georgia held both presidential and parliamentary elections.

¹ European External Action Service (EEAS): Statements by the Spokesperson on the latest political developments in Georgia, Brussels, 18 February and 25 February 2021; PACE: Statement by the monitoring co-rapporteurs for Georgia, 24 February 2021.

The presidential election took place in October-November 2018, in two rounds. This was the last direct presidential vote. According to the OSCE/ODIHR-led International Election Observation Mission, “the election was competitive” and “well administered” and “candidates were able to campaign freely,” however “one side enjoyed an undue advantage and the negative character of the campaign on both sides undermined the process.” “The campaign was marred by harsh rhetoric.”²

The last parliamentary elections were held in October-November 2020, amid political tensions and economic and public health challenges resulting from the COVID-19 pandemic. These were the last parliamentary elections held under a mixed electoral system (a fully proportional system will be in place for future elections), which was revised ahead of the elections: 120 members of parliament were proportionally elected nationwide (with a reduced threshold of one percent) and 30 elected in single-mandate constituencies. Due to the extraordinary pandemic circumstances and travel restrictions, the OSCE/ODIHR deployed a Limited Election Observation Mission (LEOM) to observe the first round of elections on 31 October 2020. International observers concluded that the elections “were competitive and, overall, fundamental freedoms were respected.” Nevertheless, the observers established that “pervasive allegations of pressure on voters and blurring of the line between the ruling party and the state reduced public confidence in some aspects of the process.”³

Important local elections took place in two rounds in October 2021. According to the OSCE/ODIHR-led IEOM, the 2nd round “was generally well administered but continued polarisation coupled with escalation of negative rhetoric adversely affected the process.” While noting that the campaign was competitive and candidates “were generally able to campaign freely”, international observers also said that “allegations of intimidation and pressure on voters persisted” and “an undue advantage of incumbency further benefited the ruling party and tilted the playing field.”⁴

Relevant international organisations have stressed the need for further electoral reform through an inclusive dialogue.⁵ In the implementation of provisions of the 19 April political agreement, which inter alia includes an ambitious electoral reform, the Georgian parliament adopted amendments to the Election Code in June 2021. The EU expects that other important provisions, notably the planned constitutional amendment to lower the electoral threshold to 2% for future fully proportional parliamentary elections, remain a roadmap.

The next parliamentary elections are due in autumn 2023.

Separation of powers and effective checks and balances

The Constitution defines Georgia as a legal state and provides for the principle of the separation of powers.

Following the adoption of constitutional amendments in 2017 and 2018, Georgia’s political system was transformed into a parliamentary republic. The powers of the president, who is the head of state and who as of 2024 will be elected for a five-year term by the Electoral College, were diminished, while the status and authority of parliament, as the supreme representative body of the country, and of the government, as the

² OSCE/ODIHR Election Observation Mission (EOM): Georgia, Presidential election, 28 October 2018 and 28 November 2018, Final Report, Warsaw, 28 February 2019, p.2

³ OSCE/ODIHR Limited Election Observation Mission (LEOM): Georgia, Parliamentary elections, 31 October 2020, Final Report, Warsaw, 5 March 2021, p.2

⁴ OSCE/ODIHR IEOM: Georgia – Local elections, Second round, 30 October 2021, Statement of preliminary findings and conclusions, p. 1.

⁵ OSCE/ODIHR LEOM: Parliamentary elections, Final Report, pp. 34-37; EU: Press release on the Association Implementation Report on Georgia, Brussels, 9 February 2021; EU-Georgia Association Council: Joint press release, Brussels, 16 March 2021.

supreme body of executive power, were enhanced. The Venice Commission generally assessed the constitutional reform as a “positive step towards the consolidation and improvement of the country’s constitutional order, including further strengthening the powers of parliament.”⁶

The provision for power-sharing in the legislature in the 19 April 2021 political agreement was meant to offer an additional basis for ensuring vibrant and meaningful functioning of the parliament as the supreme representative body. The president played an important role in helping to achieve the agreement.

Effective power to govern of elected officials

Georgia’s elected officials have effective power to govern without constraints.

The military is under civilian control and does not take part in the country’s political decision-making process. The influence of the Georgian Orthodox Church on society and politics is high, reflecting the special role and status of the Church in the country.

Civil Society, Media and Participation

Scale and independence of civil society

Georgia’s civil society is vibrant, independent and active. It is a strong actor in promoting reforms, democratic development and European integration. Lead civil society organisations (CSOs) have often taken a public stance on key issues, influencing the public narrative. According to official data, there were almost 28,000 CSOs registered in Georgia in 2019, although only around 3,800 of them were active. CSOs generally operate freely: there are no legal or administrative barriers to their activities, although the most vocal of them occasionally complained of harassment and disinformation campaigns.⁷ Weak financial viability has continued to be the biggest problem facing civil society in Georgia, especially for smaller and less experienced organisations. Foreign donor funds have been the main source of funding for local CSOs. The European Parliament was calling for more international and national support, in particular financial, to the activities of civil society.⁸

Independence and pluralism of media operating without censorship

Freedom of opinion and media is protected by the constitution and law, and censorship is prohibited.

Georgia’s media landscape has remained pluralistic and competitive, but also highly polarised along political lines and business interests. According to the OSCE/ODIHR, private broadcasters “were visibly partisan” during the last parliamentary elections. The limited advertising market further increases media dependence on their owners.⁹

⁶ Venice Commission (VC): Opinion on the draft constitutional amendments adopted on 15 December 2017, Strasbourg, 19 March 2018; and Opinion on the draft revised Constitution, Strasbourg, 19 June 2017.

⁷ Transparency International: 2020 Corruption Perceptions Index (CPI), 28 January 2021.

⁸ European Parliament (EP): Resolution on the implementation of the EU Association Agreement with Georgia, Brussels, 16 September 2020, paragraph 10.

⁹ OSCE/ODIHR LEOM: Parliamentary elections, Final Report, p.21; EU: Association Implementation Report, 5 February 2021, p.3.

Television serves as the main source of information for the overwhelming majority of the population. The Venice Commission called on the Georgian parliament to review the recent amendments to the law on electronic communications and the law on broadcasting that are seen as having “far reaching consequences for the right of property and media freedom.”¹⁰

Multiple channels of civic and political participation

Georgian citizens enjoy multiple channels of civic and political participation. CSOs have continued to be very active in monitoring government activities and holding public institutions to account. CSOs’ advocacy efforts have often shaped the public agenda. Formal liaison mechanisms with the government and the parliament could be further strengthened.¹¹ 48 political parties and two election blocs competed in the last parliamentary elections, providing voters with a wide choice.

Freedom to form political parties and existence of organised opposition

Georgia has a multi-party system. The Constitution guarantees the right of citizens of Georgia to form a political party and participate in its activities. The freedom is also implemented in practice. The reduced threshold of one percent for parliamentary representation increased the competitiveness of the pre-election environment in the run-up to the 2020 parliamentary elections, with many new parties entering the political arena. Eight opposition parties, including the largest opposition United National Movement (UNM), surpassed the required threshold to enter the parliament.

Rule of law and Access to Justice

Supremacy of the law

The Constitution is the supreme law of the country. Necessary legislative and institutional safeguards for the supremacy of the law are in place. The constitution and law also prohibit arbitrary arrest and detention. The right to a fair trial is ensured in the legislation, although the remaining need to enhance the independence and accountability of the judiciary and prosecution has remained critical.

Independence of the judiciary

While the Constitution provides for the independence of the judiciary, in practice perceived outside influence and the perception of politicized justice have remained an issue. Ensuring the independence and accountability of the judiciary is therefore a key challenge.¹²

¹⁰ Council of Europe: Joint opinion of the Venice Commission and the Directorate General of Human Rights and Rule of Law on the recent amendments to the law on electronic communications and the law on broadcasting, Strasbourg, 19-20 March 2021.

¹¹ EU: Association Implementation Report, 5 February 2021, p.4; EP: Resolution on the implementation of the EU Association Agreement with Georgia, 16 September 2020, paragraph 10.

¹² EU: Association Implementation Report, 5 February 2021, pp.1 and 7; UN Human Rights Commission (HRC): Compilation on Georgia, Report of the Office of the UN High Commissioner for Human Rights (OHCHR), 12 November 2020, p.4.

Two packages of judicial reforms were adopted in 2017 and 2019, increasing safeguards of independence, accountability and effectiveness of the judiciary.¹³ Nevertheless, further judicial reform is needed, through an inclusive and cross-party process, to improve the judicial system, including transparency and merit-based selections in the appointment of judges, from first instance and appeal courts to the Supreme Court.

The EU and other international organisations and Georgia's partners have repeatedly expressed concerns over shortcomings in the selection process to the Supreme Court, stressing that this should be an inclusive process, fully in line with the recommendations of the Venice Commission.¹⁴ The political agreement of 19 April 2021 anticipated that all ongoing appointments to the Supreme Court shall be paused until the new legislation in line with European standards have entered into force. Nevertheless, the ruling party's majority in the Georgian parliament unilaterally endorsed six Supreme Court judges in July 2021, claiming it to be in compliance with Georgia's legislation. Georgia's international partners expressed deep concerns, assessing the vote as "a missed opportunity for the Georgian authorities to prove their commitment to a genuine and comprehensive reform of the judiciary" and as carrying "a risk of damaging judicial independence and public trust".¹⁵

Public trust in the High Council of Justice (the supreme oversight body in charge of regulating the judiciary) remains particularly low, and its substantive reform is needed.¹⁶ The EU has criticised the appointment of two members of the HCJ in October 2021 as "hasty, non-transparent and non-competitive" and as another setback in the area of the judiciary.

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law. In practice, however, the main issue is related to the independence of the judiciary.

As to the functioning of prosecution, a new Law on the Prosecution Service has entered into force in December 2018, making improvements to the procedures for the appointment of the Prosecutor General and the recruitment of prosecutors. In its last Compliance report, GRECO concluded that its recommendations on providing for transparent procedures had been satisfactorily implemented.¹⁷ Nevertheless, given the important role of the Prosecutor General, the appointment of the next Prosecutors General in a transparent, merit-based and non-partisan manner and in line with international best practices as well as the separation of functions between investigators and prosecutors should remain in the focus of prosecutorial reforms.¹⁸ Georgia's international partners regretted that the Georgian parliament chose not to vote in September 2021 on a constitutional amendment on the election modalities of the Prosecutor General, in line with the 19 April agreement and the Venice Commission recommendation.

¹³ UN HRC: Georgia, National Report, 14 December 2020.

¹⁴ OSCE/ODIHR: Third report on the nomination and appointment of Supreme Court Judges in Georgia, Warsaw, 9 July 2021; VC: Urgent opinion on the amendments to the organic law on common courts, Strasbourg, 2 July 2021; EEAS: Statement by the Spokesperson on the selection process of Supreme Court judges, Brussels, 7 April 2021; and EU: Association Implementation Report, 5 February 2021, pp.1 and 7.

¹⁵ EEAS: Statement by the spokesperson on the appointments of Supreme Court Judges, Brussels, 14 July 2021; EU: Statement by the European Council president, Tbilisi, 19 July 2021..

¹⁶ EU: Association Implementation Report, 5 February 2021, pp.1 and 7; PACE: Statement by co-rapporteurs for the monitoring of Georgia, Strasbourg, 8 June 2021.

¹⁷ GRECO: Second compliance report on Georgia - Fourth evaluation round, Corruption prevention in respect of members of parliament, judges and prosecutors, Strasbourg, 25 March 2021.

¹⁸ EU: Association Implementation Report, 5 February 2021, p.8.

Annex 1 – Political Assessment in the Context of Article 1

Effective policies and institutions to prevent corruption

Georgia is the best performing country in the region on corruption perception and has over years taken many successful initiatives to develop and establish policies (anti-corruption strategy) and institutions (national Anti-Corruption Council) to prevent and combat corruption. Transparency International (TI) ranked Georgia 45th out of 180 countries on its 2020 Corruption perceptions index: Georgia scored 56/100, unchanged from 2019, but down from 58/100 in 2018. The report also indicates that undue partisan influence over the law enforcement agencies has rendered them effectively incapable of investigating cases of possible high-level corruption.¹⁹ To regain its anti-corruption momentum, Georgia, in TI's view, should establish an independent anti-corruption agency, but no decision has been taken on such agency.²⁰

In its latest compliance report, GRECO concluded that Georgia had implemented satisfactorily seven of the 16 recommendations contained in the Fourth Round Evaluation Report. Of the remaining recommendations seven have been partly implemented and two have not been implemented, namely on the need to limit the immunity of judges and to widen the scope of application of the asset declaration regime.²¹

Civil and Political Rights

A member of the UN, Council of Europe and OSCE and association partner of the EU, Georgia has developed a strong legal basis for the protection of civil and political rights.

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The latest assessment of Georgia's track record in the area of human rights in the framework of the third cycle of the UN Universal Periodic Review (UPR), covering the last five-year period, took place in 2021. Georgia received 285 recommendations and it supported 257 recommendations (an increase of 34.5% with respect to the 2nd cycle). In its national report, Georgia highlighted the adoption of the National Human Rights Strategy (2014-2020) and corresponding Action Plans (2016-2017 and 2018-2020) as well as the work of the Human Rights Inter-Agency Council chaired by the Prime Minister that supervises the implementation of the Action Plans. The last EU-Georgia Association Council welcomed progress made in the implementation of the national strategy and the action plan.

The freedoms of speech, association, assembly and others have mostly been respected. However, on some occasions, in particular during anti-government protests on 20 June 2019, police force was used against protesters, including journalists, causing serious injuries and leading to further demonstrations during the following months.²² On another occasion, authorities failed to protect those exercising their constitutional rights, when civic activists and journalists covering the protests were violently attacked by counter-demonstrators on 5 and 6 July 2021, casting shadow over Georgia's image as a country upholding fundamental rights and freedoms and over Georgia-EU relations.²³

¹⁹ TI: 2020 CPI, 28 January 2021.

²⁰ EU: Association Implementation Report, 5 February 2021, p.8.

²¹ GRECO: Second compliance report on Georgia, 25 March 2021.

²² EU: Association Implementation Report on Georgia, 6 February 2020, p.2; EP: Resolution on the implementation of the EU Association Agreement with Georgia, 16 September 2020, paragraph 15.

²³ EU: Statement by the European Council President on developments in Georgia, 19 July 2021. Letter addressed to the Government of Georgia by EU Heads of Mission on the Pride related events of 5 July and their follow-up, Tbilisi, 15 July 2021.

Political inclusiveness for women, ethnic and other minorities

Women, ethnic and other minorities enjoy full political rights under the Constitution.

In 2018, Georgia elected its first female president. Nevertheless, women remain generally underrepresented in public office, holding four out of 12 ministerial posts in the current cabinet and 31 seats in the current 150-seat parliament. The improvement in the parliamentary representation (21% in the current parliament compared to 14% in the previous one) is due to a mandatory quota for candidate lists, requiring at least every fourth candidate to be of an opposite gender that was introduced in the Electoral Code in July 2020, addressing an OSCE/ODIHR recommendation.²⁴

According to the last (2014) census, 13.2 % of the population are national minorities. Their rights are generally respected, although their representation in public offices is still a challenge. Only six candidates from national minorities were elected during the last parliamentary vote (compared to 11 in the previous parliament).²⁵

The Constitution also prohibits any discrimination on the grounds of race, colour, sex, origin, ethnicity, language, religion, political or other views.

In May 2017, demonstrating the importance the country attaches to upholding its commitments, Georgia became the 23rd member state to ratify the Council of Europe's Convention (the Istanbul Convention) on preventing and combating violence against women and domestic violence. In 2018, the government approved the National Action Plan for 2018-2020 on the Measures to be Implemented for Combating Violence Against Women and Domestic Violence and Protection of Victims/Survivors, and in February 2021, the government adopted an Equality Chapter to the National Human Rights Action Plan.

At the same time, the UN Special Rapporteur on violence against women, its causes and consequences noted that gender stereotypes and patriarchal attitudes remained deeply entrenched and prevalent in society, especially in rural areas.²⁶ On 5 July 2021, participants of the LGBTQ+ Tbilisi Pride march were unable to exercise their rights in the face of imminent threats to their safety when civic activists and journalists covering the event were targeted by violent attacks of the counter-demonstrators. Georgia's international partners condemned the violence and stressed the importance of combatting all forms of discrimination, including based on gender and sexual orientation.²⁷ Following the event, the Georgian government also condemned the violence.

Freedom from harassment, intimidation and torture

The Constitution protects human dignity and prohibits torture, inhuman or degrading treatment and punishment.

²⁴ OSCE/ODIHR LEOM: Parliamentary elections, Final Report, p.4; EU: Association Implementation Report, 5 February 2021, p.4.

²⁵ OSCE/ODIHR LEOM: Parliamentary elections, Final Report, p.28.

²⁶ UN HRC: Compilation on Georgia, Report of the UN OHCHR, 12 November 2020, p.7.

²⁷ EU/Georgia: Joint press release on the annual Human Rights Dialogue, Brussels, 7 July 2021.

Annex 1 – Political Assessment in the Context of Article 1

A new Action Plan on Fight Against Torture was adopted for 2019-2020. The authorities also adopted in 2018 the law on the State Inspector Service and established the Office of the State Inspector. This was assessed by relevant international bodies as a significant step forward, reflecting the will to address the long-standing issue of ineffective investigations into human rights abuses committed by police, the Prosecutor's Office and penitentiary officials.²⁸ The new State Inspector Service started its investigative operations in November 2019 and launched a number of criminal investigations into alleged crimes committed by law enforcement officers, which have led to several prosecutions.²⁹

A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited Georgia in September 2018. In its report on the visit, published in May 2019, the CPT delegation noted progress made by the Georgian authorities to address the previous recommendations of the CPT and stated that it "received hardly any allegations of ill-treatment."³⁰

²⁸ UN HRC: Compilation on Georgia, Report of the UN OHCHR, 12 November 2020, p.7.

²⁹ EU: Association Implementation Report, 5 February 2021, p.5.

³⁰ CPT: Report to the Georgian Government on the visit to Georgia from 10 to 21 September 2018, Strasbourg, 10 May 2019.