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Lilly Family School of Philanthropy

The 2022 Global Philanthropy Environment Index Georgia

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QUICK FACTS

Legal forms of philanthropic organizations included in the law: Non-Profit (Non-Commercial) Legal Entity

Five main social issues addressed by these organizations: Environment, Health and Medical Research, Human Rights, Youth and Family, Good Governance

Average time established by law to register a philanthropic organization: 0-30 days

Average cost for registering a philanthropic organization: USD 31-62 (decrease due to inflation)

Government levels primarily regulating the incorporation of philanthropic organizations: Central/Federal Government

Philanthropic Environment Scores:

Year	Ease of Operating a PO	Tax Incentives	Cross-Border Philanthropic Flows	Political Environment	Economic Environment	Socio-Cultural Environment	Overall Score
2022 GPEI	4.50	4.00	4.00	3.80	3.00	3.00	3.72
2018 GPEI	4.50	4.00	4.00	3.80	N.A.	3.00	3.86

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

Key Findings

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.

Question One: To what extent can individuals form and incorporate the organizations defined?

Score: 5.0

No changes have been introduced since 2018. For detailed information, please refer to the 2018 Georgia Country Report at <https://scholarworks.iupui.edu/handle/1805/15988>

Question Two: To what extent are POs free to operate without excessive government interference?

Score: 5.0

No changes have been introduced since 2018. For detailed information, please refer to the 2018 Georgia Country Report at <https://scholarworks.iupui.edu/handle/1805/15988>

Question Three: To what extent is there government discretion in shutting down POs?

Score: 3.5

There have been no changes with regard to legislation. A nonprofit legal entity maintains the right to liquidate/terminate operation at its own discretion. However, there is a commonly held view that liquidation/termination procedures for nonprofit (non-commercial) entities are, in fact, rather complicated and therefore organizations often choose to shun official liquidation procedures and simply stop their activities, instead. For this reason, there is a huge number of nonfunctional organizations. For instance, according to various sources, approximately 1,500 nonprofit legal entities are considered functional out of 27,500 registered in Georgia.

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question Four: To what extent is the tax system favorable to making charitable donations?

Score: 4.0

No changes have been introduced since 2018. For detailed information, please refer to the 2018 Georgia Country Report at <https://scholarworks.iupui.edu/handle/1805/15988>

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

Score: 4.0

From 2018 to 2020 (inclusive), VAT refund/offset procedures were simplified for both for-profit and nonprofit legal entities regarding technical aspects and timeframes for the processing of information. In 2019 significant changes were made to the rules for profit taxation. Income received through non-commercial activities (grants, donations, membership fees) is exempt from profit tax both under the former and current legal frameworks. In addition, according to a new framework (changes in the Tax Code of Georgia) effective since January 1, 2019, profit received by a nonprofit legal entity through an economic activity shall be exempt from profit tax provided that these revenues will be used for economic activities, meeting other purposes set by the organization, charity work or activities stipulated by a grant agreement. Since the regulation has been recently implemented, it requires further observation in order to identify possible gaps in its practical application.

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

Score: 4.0

With the purpose of preventing money laundering and financing of terrorist activities, the Georgian legislation defines a wire transfer monitoring mechanism that is applicable to all entities, including nonprofit legal entities. The mechanism obliges banks to notify state authorities mandated with monitoring wire transfers on certain occasions. The mechanism, however, does not stipulate obtaining a permit or consent from state agencies prior to wire transferring money. The mechanism, which had been introduced before, went through certain changes in 2018–2020 with regard to the status of state bodies with a monitoring mandate and the volume of financial transactions subject to monitoring. Pursuant to the existing legislation, the oversight falls within the powers of LEPL Financial Monitoring Service of Georgia, a body accountable to the Government of Georgia (formerly a legal entity under public law at the National Bank of Georgia). Rules prescribed to financial monitoring are defined by the Law of Georgia on Facilitating the Prevention of Money Laundering and Terrorism Financing and a statute of the Financial Monitoring Service. Banks are responsible for detecting suspicious transactions and providing relevant information to the Financial Monitoring Service on such cases. In addition, banks are obliged to provide information to the Financial Monitoring Service about transactions to high-risk countries with the amount of transaction exceeding GEL 50,000 (approximately USD 15,000) or countries located within suspicious zones with transactions greater than GEL 150,000 (approximately USD 45,000). Lists of high-risk countries and suspicious zones are defined by the legislation of Georgia. Information must also be provided to the Financial Monitoring Services when transactions originate from abroad (for cases defined by the law).

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

Score: 4.0

Georgian legislation prescribes a monitoring mechanism for financial transactions both to and from Georgia. Therefore, the procedures described under Question Six also cover the transactions made from abroad to Georgia (within the amount set by the Georgian legislation for the transactions that are made from high-risk jurisdictions and suspicious zones. See Question Six.)

Moreover, there is an additional requirement for nonprofit organizations. Commercial banks have an obligation to submit the information to the Financial Monitoring Service regarding transactions made to nonprofit organizations from abroad (regardless of the jurisdiction that the transaction was made from). Namely, a bank has an obligation to submit information to the Financial Monitoring Service about any transaction made from abroad if the transaction exceeds GEL 50,000 (approximately USD 15,000) and for charity organizations GEL 10,000 (approximately USD 3,000).

IV. Political Environment

The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.

Question Eight: To what extent is the political environment favorable for philanthropy?

Score: 3.8

The period from 2018 to 2020 was marked with fluctuations in the social-political setting of the country further exacerbated by the COVID-19 pandemic, constitutional changes, parliamentary elections and waves of mass protest. Georgian civil society organizations and interest groups voiced their attitudes toward the dire challenges faced by the country. This hit close to home for the ruling party and authorities who responded with harsh statements and attempts to discredit the country's civil society organizations (USAID, 2019). In spite of the confrontational environment, the reporting period saw certain steps made toward institutionalizing cooperation between state and non-state actors. In 2020, the Open Governance Partnership was institutionalized, and its management was transferred from the Ministry of Justice to the Administration of the Government of Georgia, which spearheaded the establishment of an interagency coordination council, an advisory body comprising representatives of state agencies as well as civil society organizations. In 2019, the Government of Georgia approved the Rule for Developing, Monitoring and Evaluating Policy Documents which, inter alia, contains the requirement to ensure the participation of stakeholders, including civil society organizations in the process of developing/approving policy documents by state agencies. Even though the document does not specify detailed procedures and timeframes for public consultations, it nevertheless recognizes the urgency for the engagement of stakeholders. In 2020, the Government of Georgia issued a resolution on Approving the Methodology for the Impact Assessment of Regulation, which obliges the Government of Georgia and the ministries to submit an impact assessment report prior to initiating certain laws.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

Score: 3.8

With regard to the development of philanthropic activities, there have been no significant changes since the previous reporting period. However, the period between 2018 and 2020 saw certain efforts aiming to improve the environment conducive to the development of public organizations. In 2019, the Civil Society Institute spearheaded the process of initiating a draft ‘state concept for supporting the development of public organizations,’ which, as of today, is being reviewed by the Parliament of Georgia. The concept lays down the principles for the cooperation between state institutions and civil society organizations and covers aspects relating to the participation of civil society organizations in reviews of policy documents and discussions of pressing issues, as well as the development of volunteering and sustainability of civil society organizations. Financial sustainability has been recognized as one of the pressing issues faced by the country’s civil society organizations. Even though public organizations are eligible to receive grants from state institutions, this process is not covered by overarching legal standards ensuring accountability. In addition, grant issuing powers are not extended to municipalities. As a result of an effort orchestrated by the Civil Society Institute, ensuring legal regulation of transparency standards with regard to state funding, and grant issuing power to be vested in local authorities, were included as the state’s responsibility in the 2018–2019 Open Governance action plan approved by the Government of Georgia. It should be noted that this responsibility has not yet been fulfilled due to the changes in the Government of Georgia as well as the Covid-19–induced crisis in 2020. In 2018, the Center for the Strategic Research and Development of Georgia authored and submitted a draft legislation about social entrepreneurship to the Parliament of Georgia. However, the new parliament elected in 2020 chose not to review the draft.

V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

Score: 3.0

In general, the country’s legal framework with regard to the establishment, free operation and property rights of profit and nonprofit entities is quite developed. However, existing socio-economic challenges, political environment, high-level corruption risks and the urgency to reform the justice sector in the country have shaped the current economic standing. The COVID-19 pandemic striking in 2020 and the restrictions that ensued, have further exacerbated the country’s economic performance. According to data provided by the National Statistics Office of Georgia, the actual growth of GDP constituted 4.8 percent in 2018 and 5 percent in 2019. However, due to the pandemic, the growth dwindled significantly in 2020, hitting as low as -6.2 percent. Notably, the GDP per capita in 2019 was estimated at USD 4,696 and in 2020 it was USD 4,274. (National Statistics Office of Georgia (2019, 2020), National Accounts Portal, <https://bit.ly/3kd8uCz>). In the 2020 report on Corruption Perception Index (CPI) published by the Secretariat of Transparency International covering 180 countries, Georgia ranks 45th with 56 points, which remained unchanged as compared to the previous year (in the ranking, 100 points represents the lowest perception of corruption while 0 points suggests the highest level of perceived corruption). Georgia’s ranking in the index has not changed much for the past few years. “The country has reached certain progress in combating petty

corruption; however, problems related to high-level corruption remain unresolved, a trend highlighted in the 2019 and 2018 reports.” (Transparency International Georgia, 2020)

VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

Score: 3.0

Traditions of philanthropy and the relevant social-cultural environment have not changed considerably for the past three years. At the same time, due to the COVID-19 pandemic, the importance of social responsibility and resources to further nurture the culture of philanthropy among the wider public has once again come to the fore. Challenges of the pandemic sparked a series of volunteering and philanthropic activities. For instance, in response to the pandemic, the Government of Georgia orchestrated the effort to set up a special account/foundation allowing any individual, group or organization to donate money. According to the latest data from stopcov.de, the amount of donation made by natural and legal entities totaled GEL 140 million (USD 42.8 million).

VII. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country, as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

Georgia enjoys a rather developed civil sector that has played an important role in the country’s democratic development in various critical directions. The regulatory framework with regard to the operation of civil society organizations (CSOs) can be evaluated as positive. However, there have been certain attempts by representatives of the ruling party and the state authorities to discredit civil society organizations, which, in turn, affects the image of public organizations. Recent years have seen positive changes made to the framework relating to taxes chargeable to economic activities of CSOs, including profit tax.

Ensuring financial sustainability and lack of diversification of revenues for civil society organizations remain a challenge with grants received from foreign donor organizations constituting the major source of income for such organizations. While the Georgian legislation stipulates certain tax benefits for charity work, these benefits fail to positively influence the general situation with regard to philanthropic activities. The past few years have seen the introduction of institutional mechanisms ensuring public participation in the policy development processes, including various venues harboring dialogues between civil society organizations and state institutions. However, it should be noted that such engagement platforms are mostly of a formal nature with limited capacity to influence decision-making processes.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. Formal initiation of the draft of the State Concept for CSO Development in the Parliament of Georgia. The draft concept was developed and presented by the Civil Society Institute in cooperation with the initiative group. Among other priorities, the Concept aims to advance Georgia's legal environment to support volunteerism, philanthropy, and corporate social responsibility (CSR), as well as CSO economic activities and social enterprise. The concept also envisages increased government funding for CSOs, including legal reforms that would allow local governments to issue grants to local CSOs (USAID, 2014, p. 94). Notably, the concept has not yet been approved by the Parliament.
2. Pursuant to changes brought to the Tax Code of Georgia concerning taxation of profits reported by CSOs, profit received by nonprofit legal entities shall be exempt from the profit tax provided that such profit will be used for organizational purposes. At the same time, practical application of this arrangement requires further observation in order to identify potential gaps and discrepancies.
3. State authorities have recognized the need to reform the state financing system applicable to nonprofit legal entities by including such need in the 2018–2020 Action Plan for Open Government Partnership Georgia. On the one hand, the reform proposes to enhance transparency of the state grant-issuing system, and to give local authorities the power to issue grants to CSOs, on the other. These commitments require respective legal changes. The possibility for local authorities to issue grants is also dealt with in the country's decentralization strategy for 2020–2025. Delivering on these commitments by the state will contribute to greater financial sustainability of public organizations.

Future development trends in the philanthropic landscape

Expected trends in the philanthropic landscape will be: a) CSOs continue to establish themselves as development actors; b) CSOs utilize participatory approaches and more deeply reflect public needs; c) CSOs resist pressure from the government and other conservative or pro-Russian political forces; d) CSOs broaden efforts to improve their public image; e) CSOs continue to negotiate with government for a better philanthropic environment to increase their effectiveness; f) CSOs improve their capacity to better engage in policy dialogue with the government; g) Work is underway to ensure support for the financial sustainability of CSOs through creating an enabling environment for the diversification of sources of funding for the sector and regulating social entrepreneurship.

Three key recommendations to improve the environment for philanthropy

- It is paramount that the Parliament of Georgia adopt the State Concept for the Support of the Development of Public Organizations. The concept covers important aspects pertaining to an improved environment for the operation of civil society organizations, including in the area of philanthropy. If adopted, the concept will represent the state's vision with regard to the development of the sector, which in turn will lay the foundation for the implementation of necessary legal changes and measures for further development of the CSO environment.
- Lack of opportunities to ensure financial sustainability remains a dire challenge for the country's civil society organizations relying mostly on funding provided by foreign donor institutions. Financial stability is likely to shrink further should foreign organizations cut down

funding. Therefore, it is critical that a funding base for local CSOs be diversified with state financing being considered to have a key role. In Georgia, state institutions award grants to CSOs; however, there are no overarching legal standards that would ensure the transparency of this practice. Nor do local municipalities have the power to issue grants to local organizations in order to finance local initiatives. Therefore, it is of utmost importance to continue making efforts to establish unified legal standards applicable to state financing, and to legally empower local municipalities to allocate grants. It is equally important to keep up with efforts to create a favorable legal framework conducive to the development of social entrepreneurship in the country.

- Volunteers constitute an important resource for civil society organizations. In 2016 the country introduced a legal framework pertaining to volunteer work. However, the legislation does not promote mechanisms stimulating volunteering, which restricts opportunities for the development of a volunteer culture in the country. Therefore, it is important to continue making efforts to support volunteering and to introduce relevant legal mechanisms.

VIII. Philanthropic Response to COVID-19

These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

A state of emergency announced by the state authorities from March to May 2019 in response to the pandemic led to the restriction of a series of constitutional rights (the right to movement, assembly, liberty to undertake economic activities, etc.). After the end of the state of emergency, certain restrictions were not lifted, a decision that further exacerbated poor social and economic conditions in the country. In response to pressing challenges brought about by the pandemic, civil society organizations had planned and implemented volunteer activities aimed at supporting high-risk groups, senior citizens and socially vulnerable families. Due to the severe epidemiological situation, pressing economic challenges and pending restrictions on movement, volunteers mobilized by civil society organizations provided support to various vulnerable groups by delivering hygienic necessities and basic consumption items. In addition to organizations spearheading this process, citizens and various legal entities had also contributed in-kind or monetary donations. Due to restrictions on economic activities, many legal entities had to lay off their staff. In response, many of the country's human rights organizations offered legal counseling to individuals losing their jobs.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

In response to challenges of the pandemic, many civil society organizations resorted to enlisting help from volunteers. Lead organizations with large volunteer bases implemented a series of initiatives. Some of the most prominent examples include:

- a) The Georgia Red Cross developed a module to remotely train groups of volunteers in responding to Covid-19 challenges. Trained volunteers would then be engaged in the process of delivering assistance to high-risk groups. In addition, consumers in big supermarkets and shops were given an opportunity to purchase basic consumption goods for vulnerable groups of the population that would then be distributed through the help of volunteers.

- b) A digital volunteering portal created by the nonprofit organization Helping Hand allowed volunteers to get registered and be part of various activities undertaken in support of people in need. The Government of Georgia set up a designated fund/account for any individual or group to make contributions. Based on the latest data, the amount accumulated in the account totaled GEL 140 million (USD 42.8 million).

Impact of COVID-19 on the philanthropic environment

Similar to other countries, the COVID-19 pandemic has significantly influenced the operation of many of the country's civil society organizations. In the first half of 2020, the CSO environment was affected by national preventative regulations. The state of emergency effective from March to May 2020 in the country resulted in the restriction of certain rights and freedoms for many entities, including CSOs, especially with regard to such rights as civil participation in decision-making processes, right to assembly, access to information, freedom of movement, and implementation of certain economic activities. Some of these restrictions were left unchanged even after the state of emergency had been cancelled, affecting social enterprises and nonprofit legal entities undertaking economic activities. Unsurprisingly, these circumstances further curbed their financial sustainability.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

In 2021 restrictions introduced in the wake of the outbreak of the COVID-19 pandemic were lifted, which has enabled many CSOs to get back to their normal operations. At the same time, there is a looming risk for the comeback of the pandemic restrictions, which will inevitably affect the sector's normal operations, while a grave economic situation is highly likely to further challenge the prospect of the development of philanthropy.

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