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Accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
Taking stock of the European Neighbourhood Policy (ENP)**

*Implementation of the European Neighbourhood Policy in 2009:
Progress Report Georgia*

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1. BACKGROUND AND OVERALL ASSESSMENT

Georgia and the EU first established contractual relations in 1996 through a Partnership and Cooperation Agreement which entered into force in 1999. On this basis, the EU-Georgia ENP Action Plan was approved in November 2006 for a period of five years.

EU–Georgia meetings took place at the level of the Cooperation Council, the Cooperation Committee and subcommittees on trade, economic and related legal issues and on justice, liberty and security issues as well as the two rounds of the EU-Georgia dialogue on Human Rights initiated in 2009.

This document reports on progress made on the implementation of the EU – Georgia ENP Action Plan between 1 January and 31 December 2009, although developments outside this period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Georgia. In addition, for information on regional and multilateral sector processes, please refer to the sectoral report.

The EU and Georgia agreed to move forward with deepening and broadening of the EU-Georgia relations. In parallel and within the Eastern Partnership framework the EU started preparations for upgrading contractual relations with Georgia. Negotiating directives for an Association Agreement were adopted by the EU in May 2010. In the framework of the future Association Agreement, negotiations on a deep and comprehensive free trade area (DCFTA) will start once the necessary conditions have been met.

Overall, Georgia made progress in the implementation of the ENP Action Plan priorities throughout 2009, especially in the areas of rule of law, reform of the justice system, fight against petty corruption, trade facilitation and improvement of business climate. The Government increased its efforts for reforming the justice sector. The new criminal procedure code which was pending since 2007 has been adopted by the Government and will enter into force in 2010. Continuous and effective implementation of related legislation will be the key in ensuring the long-term success of the reforms, thus meeting ENP Action Plan commitments. Also, Georgia will need to continue its democratic reform efforts and consolidation of democratic institutions, especially political pluralism and media freedom. Other major future challenges include poverty reduction, employment and social policies, agricultural development including sanitary and phyto-sanitary issues and civil service reform.

The year 2009 in Georgia was marked by mass demonstrations organised by the extra-parliamentary political opposition between April and July. The authorities kept a low profile and did not attempt to break these demonstrations by force, marking progress from similar events in 2007. The implementation of the ‘second wave of democratic reforms’, announced by the President in 2008, continued throughout 2009. The ‘second wave of democratic reforms’ includes a stronger role for Parliament vis-à-vis the executive through constitutional changes, broader involvement of the opposition in decision-making processes, amendment of the election code, improved judicial independence and greater media freedom.

The opposition was granted more power in Parliament. Some representatives of the extra-parliamentary opposition accepted to participate in a few enlarged sessions of the National Security Council, but some of them subsequently withdrew, describing the ‘second wave’ of reforms as mere window-dressing. Polarisation of political life in Georgia continues to be a

serious obstacle to genuine political reform and inclusiveness. In this context, the effective impact of the ongoing reform process remains to be seen.

On the economic side, the effects of the August 2008 war combined with the international economic downturn increased pressure on the Government to address long-standing socio-economic challenges. In the first half of 2009, domestic demand declined and remittances and foreign direct investment levels fell. Signs of economic recovery were observed in the third quarter of 2009 and inflation remained low in 2009. For the year 2009, a contraction of 3.9% of real GDP was forecasted.

In the second half of 2009 Georgia showed determination to fulfil key EU's recommendations linked to its preparedness for starting DCFTA negotiations. As a result, some progress was achieved, notably the preparation of the first drafts of the necessary strategic reform plans. By deploying additional efforts in particular in order to properly complete, adopt and make progress in implementing the agreed reform plans, Georgia would become ready to start DCFTA negotiations.

The Georgian authorities and civil society representatives participated actively and had a constructive input to the multilateral framework of the **Eastern Partnership**, in particular through open dialogue and their contribution to the working programmes for the four thematic platforms. Together with the bilateral elements of the Eastern Partnership, this contributed to the overall strengthening of EU-Georgia relations and reinforcement of the follow-up on the priorities of the ENP Action Plan.

2. POLITICAL DIALOGUE AND REFORM

Democracy and rule of law

Following the OSCE/OIDHR reports in 2008, which outlined several irregularities in the conduct of **elections**, the Government embarked on reforming the election code. The parliamentary and some extra-parliamentary opposition members joined the Working Group on Election Code, but the parties failed to agree on the threshold for the direct election of the mayor of Tbilisi. The threshold for victory in the first round was set at 30%, which was considered by most opposition parties as too low. The election code was also amended to include changes in the procedure for electing the Chairman of the Central Election Commission, but the amended code does not adequately address potential abuse of administrative resources during elections. The conduct of the May 2010 local elections will be an important indicator of progress on the election code reform and implementation of international recommendations.

In order to draft a new **constitution**, as outlined under the 'second wave of democratic reforms', a State Constitutional Commission was established, in which representatives of non-governmental organisations and opposition parties, as well as legal experts are also actively participating. The aim of the Constitutional Commission is to prepare a new constitution which would ensure further clear separation of powers, an improved system of checks and balances, a more independent court system and better protection of human rights. A first draft of the constitution is now expected by autumn 2010.

Following the period of demonstrations by the opposition parties, the amendments to the Law on Assembly and Manifestations and the Law on Police adopted in July 2009 raised concerns as they limited the right to assembly and did not specify how the law enforcement agencies

could use non-lethal force to disperse demonstrators. Furthermore, the Public Defender and local non-governmental organisations reported cases of threats and beatings of opposition supporters during the demonstrations. These acts of violence against the opposition were not thoroughly investigated by the Government and no perpetrators were identified or brought to justice. During the demonstrations some political opponents were arrested and sentenced on alleged politically motivated charges. Thorough investigation of all these alleged crimes and charges would be a solid indicator of the improved independence of the judiciary.

There was progress in 2009 on the reform of the criminal **justice** system as the new Criminal Procedure Code that had been pending for two years was adopted in October 2009. The Code should come into force in October 2010, introducing a number of substantial changes to the current system of criminal proceedings in Georgia, notably the introduction of jury trials in criminal cases. The new Code provides for a major change in the system of administration of justice in criminal matters, which will present a challenge in implementation and will require continued and amplified training to judges, court personnel and parties to criminal proceedings.

On strengthening the independence of the **judiciary**, lifetime appointment of judges by the Higher Council of Justice has not been ensured, as it requires a constitutional amendment and is part of the development of the new constitution. The judicial vacancies in district and appeal courts are gradually being filled under a new procedure for the appointment of judges, which requires judges to enrol in the 18-month training at the High School of Justice.

Regarding **access to justice**, the free legal aid service of the new Ministry of Corrections and Legal Assistance continues to provide legal aid to citizens throughout the country, including to vulnerable groups, on criminal cases and legal counsel on civil and administrative issues. In 2009 two new offices were established and as of May 2009 the Service had access to 123 private lawyers in addition to its core staff of up to 180. The bi-lingual website in Georgian and English became operational in January 2009 offering the possibility of on-line consultation. The Legal Aid Service also printed information brochures in Russian, Armenian and Azeri and distributed them in all offices of the Service that serve the regions where minority communities live.

Civil service reform was at a standstill in 2009. The Public Service Council, responsible for piloting reforms in this area, has not met since 2007 and the Public Service Bureau activities has been confined to designing and maintaining an on-line system of civil servants' declarations of assets. The Parliament made an attempt to improve the situation by preparing a new Civil Service code. Presented in a public seminar in November 2009, the draft text was strongly criticized and was eventually not proposed for parliamentary approval.

Only few concrete achievements were noted as far as **decentralization** is concerned. The related draft strategy is maintained at a technical level. Some amendments to the legislation applicable to self-government were proposed at the very end of 2009, tackling such issues as internal organisation of self-governments and rules applicable to municipal property. These changes are related to the prospect of approval of the regional development strategy, expected in March 2010. The crucial issue of fiscal decentralization was not tackled at all, with most self-governments still depending on the central Government for about 90% of their expenditures.

In the area of **fight against corruption** Georgia made significant efforts to comply with Council of Europe's GRECO recommendations, through legislative changes and reforms. The

amendments to the Criminal Code included the criminal liability of legal persons; the law on the Chamber of Control was adopted in January 2009; and the Law on Conflicts of Interest and Corruption in Public Service was amended. The effective implementation of these amended laws will be crucial in consolidating the reform process.

Human rights and fundamental freedoms

Georgia is party to the main international and regional **human rights** instruments, and to most of their optional protocols. In July 2009, the country signed the UN Convention on the Rights of Persons with Disabilities as well as its Optional Protocol. Georgia has been party to the Rome Statute of the International Criminal Court since 2003. The country is currently late in submitting a total of four mandatory periodic reports to UN treaty bodies. No progress was made on issuing a standing invitation to UN special procedures. The EU-Georgia dialogue on Human Rights, initiated in 2009, focused on issues such as detentions.

A new Public Defender (**Ombudsman**) was appointed in September 2009. The Office of the Public Defender is being strengthened in order to assume the new function of the National Preventive Mechanism (NPM) and in spite of severe budgetary constraints, financial allocations from the Government were slightly increased in the 2010 budget. The Parliament took careful note of the Ombudsman's reports in 2009, but the real impact indicator of the Public Defender's Office will be the actual implementation of the Ombudsman's recommendations by the relevant Government bodies. Development of regional offices is ongoing.

To meet the obligations under the Optional Protocol to the UN Convention against **Torture** (OPCAT), the Public Defender's Office was designated as the NPM in July 2009 and the recruitment of the necessary human resources to the Public Defender's office is in progress. The Georgian Interagency Coordination Council against Torture, Inhuman and Degrading Treatment presented a new action plan for 2008-2009 which takes into account a number of recommendations of the Committee for Prevention of Torture (CPT). The report on the implementation of the action plan from January 2008 to July 2009 was released in September 2009, but the mandate of the Inter-Agency Coordination Council expired in December 2009. To date, the anti-torture action plan has not been renewed or the Coordination Council reactivated.

However, **detention conditions** and overcrowding in prisons remain areas of concern, as well as inhuman and degrading conditions often caused by overcrowding. The use of parole or alternatives to imprisonment is still inadequate, in contradiction with Council of Europe standards. The Code of Administrative Violations of July 2009 was amended, prolonging the length of administrative imprisonment from 30 to 90 days, which is not fully in compliance with international human rights standards. The European Court of Human Rights and the Public Defender of Georgia underlined the systemic problems in administering adequate medical care to prisoners. A new Ministry of Corrections and Legal Assistance was formed in 2009, following the merger of the Prosecution Service with the Ministry of Justice. This new Ministry is in charge of developing systematic actions to address problems in detention conditions, which made limited progress so far.

The 'second wave of democratic reforms' outlined measures to encourage **media pluralism** in Georgia. The granting of nation-wide satellite broadcasting to all TV channels only had a limited impact, since the high prices of satellite licences constitute a problem for opposition-minded TV channels which struggle for funding and revenues from advertisements. The

Georgian Public Broadcaster's (GPB) board of trustees has been enlarged and now includes independent media experts. However, the broadcast media remain an issue of major concern in Georgia, where the television environment is reported to be highly polarised and biased. The GPB's news coverage and political programmes are criticised for lacking the impartiality required of a public broadcaster and being biased in favour of the ruling party. Transparency of ownership is considered crucial in ensuring media pluralism, but the availability of information and documentation relating to the owners of media outlets and broadcasting licences still remains problematic in Georgia. The European Union organised a 'Civil Society Human Rights Seminar on Media Freedom' in November 2009 with the aim of increasing awareness on media freedom, identifying problems and facilitating the formulation of solutions. A number of actions were taken by the Government to improve prison infrastructure and capacity in 2009, including through the construction of new prisons.

Integration and the rights of **minorities** in Georgia remains an area of concern. The Government elaborated a "National Integration Strategy: National Concept for Tolerance and Civic Integration", which was adopted in May 2009. The concept and the action plan, covering the period of 2009-2014, foresee the improvement of infrastructure in remote minority regions and development of classes in Georgian as state language. The Council of Europe Framework Convention on Protection of National Minorities is not fully transposed into domestic legislation and the European Charter for Regional and Minority Languages is still not signed by Georgia. On the repatriation and integration of the Meskhetian population to Georgia the period for applications to return was, once again, extended an additional six months to cover the period until the end of 2009. The capacity of the Ministry for Refugees and Accommodation to deal efficiently with the applications is a subject of concern and no specific action plan to effectively ensure the repatriation of Meskhetians has yet been developed.

As regards **women's rights**, the package of amendments to Georgian legislation, envisaged by the action plan 2009-2010 for elimination of domestic violence and protection of victims of domestic violence, was adopted in December 2009. The inter-institutional Council on the elimination of domestic violence is operational. During the reporting period, the Ministry of Health, Labour and Social Affairs took the decision to open shelters for victims of domestic violence and identified two premises for this purpose, which are going through rehabilitation to meet the minimum standards already identified. The draft law on gender equality was elaborated with the participation of local NGOs, international organisations and government bodies, and is expected to be adopted in spring 2010. Women still suffer from a gender pay gap: the average monthly salary of formally employed women was 43% less than men in the first quarter of 2009.

The Government launched the reform of the **juvenile justice** system, together with international partners. As a result, the strategy for Juvenile Justice System Reform and its action plan were adopted in September 2009. This strategy foresees to reverse the amendments adopted in 2007 for lowering the minimum age of criminal responsibility from 14 to 12, a reversal recommended by the UN. Progress was also reported in the development of rehabilitation and education activities in detention centres for juvenile offenders.

Cooperation on Foreign and Security Policy, conflict prevention and crisis management

Since June 2007, Georgia has been invited to align with **CFSP declarations** on a case by case basis. In 2009, Georgia aligned with 97 out of 137 CFSP declarations to which it was invited to join. There was good political dialogue with the Georgia in 2009, including through two

Political and Security Committee Troika meetings in February and December 2009, and an EU Foreign Ministers' Troika visit to Georgia in July 2009.

Strengthening regional cooperation

The Southern Caucasus Integrated Border Management (SCIBM) promoted by the EU among Georgia, Armenia and Azerbaijan was to start in January 2009 but was delayed to address issues raised by Azerbaijan. The conditions for implementation have now been accepted by all three countries and implementation started in March 2010 (*see chapter 5 on cooperation on justice, freedom and security.*)

The South Caucasus Anti-Drugs Programme (SCAD V) came to an end in 2009. Discussions continue on how best to bring forward the results of the action and pursue regional efforts in the fights against illegal drugs.

The new management (a Troika consisting of Armenian, Azerbaijani and Georgian executive directors) of the Regional Environmental Centre for Caucasus (REC) took office in January 2009. It consolidated the REC both financially and in terms of internal organisation. The REC carried out regional activities in 2009 notably in the fields of information and public participation, environmental policy and local environmental action plans, the protection and sustainable development of mountain regions. It is an important tool to promote regional cooperation and stability for the future of the South Caucasus.

In the area of higher education, universities from Armenia, Azerbaijan and Georgia cooperated together on a distance and e-learning project. This is the first time that such regional cooperation emerged under the Tempus programme.

Cooperation for the settlement of Georgia's internal conflicts

The EU remains committed to respecting Georgia's territorial integrity and sovereignty and to the peaceful resolution of the conflicts in Georgia. Following the August 2008 war, the EU provided substantial political, financial and practical post-conflict support to Georgia, including a post-conflict assistance package of up to EUR 500 million from the EU budget for 2008-2010. The projects have been aiming at improving the living conditions of people affected by the conflict, notably the needs of internally displaced persons (IDPs), both from 1992 and 2008, and where possible, the local population living inside the conflict affected areas. The confidence building measures which continue to be supported by the EU aim at creating conditions for the return of IDPs and facilitating progress in a constructive dialogue between opposing social groups (*see chapter 8 on financial cooperation*). The EUSR for the South Caucasus and the EUSR for the crisis in Georgia have also been actively engaged in the conflict resolution efforts.

In May 2009, an action plan was adopted for implementation of the State Strategy on Internally Displaced Persons (IDPs) for 2009-2012, covering all IDPs, as requested by the EU. The action plan allowed the set-up of proper coordination mechanisms on IDP issues but does not outline the link between the actions foreseen with the funds available and the total population of IDPs whose situation still need to be addressed. There is also lack of clarity on the selection criteria for those IDPs who will receive housing during the process of privatisation of collective centres. An updated and more concrete version of the Action Plan is to be adopted through a Government decree in April 2010. An information strategy launched by the Government aims at overcoming the lack of awareness among internally displaced persons on their rights and status.

The EU has also been taking an active role as a co-chair, together with the UN and the OSCE, of the “**Geneva talks**”, set up in 2008 as a forum for dialogue and the only platform allowing for an on-going political conflict resolution process. In the course of 2009, five rounds of “Geneva talks” took place and some results were achieved; notably, the establishment of the Incident Prevention and Reporting Mechanism, restoring water and gas supply to the South Ossetian region, and discussions on a comprehensive set of Agreed Undertakings focusing on humanitarian issues related to conflicts, which show that the process is beneficial, albeit slow. Throughout 2009, the EU continued to remind Russia of its commitments under the EU-mediated ceasefire agreements with Georgia of August and September 2008, which are not yet completely fulfilled. In December 2009, the EU also developed its non-recognition and engagement policy towards the breakaway regions of Abkhazia and South Ossetia.

An EU civilian monitoring mission (**EUMM**) with 340 observers was set up in 2008 to monitor and analyse the stabilisation process. In September 2009, the EUMM’s mandate was extended for another year, until 2010. However, refusal of access to the breakaway regions for the EUMM results in asymmetrical implementation of the Mission’s mandate.

The independent international fact finding mission on the conflict in Georgia released its report in September 2009 on the events that led to the August 2008 war between Russia and Georgia, outlining that the war was avoidable. The report made an assessment of the responsibilities of both Georgia and Russia in the conflict, as well as on the role of the international community.

The **Law on Occupied Territories** (*see last progress report SEC(2009) 513*) raises serious concerns about the possibility of delivering humanitarian and rehabilitation assistance to the two breakaway regions. In January 2009 the Government and the European Commission issued a joint statement on political conditionality linked to increased EU budget assistance, accompanied by a series of commitments by the Georgian Government, which included the aim of finding mutually acceptable implementing rules for the Law on Occupied Territories. The Council of Europe Venice Commission was consulted and expressed a number of serious concerns.

After the reporting period, in January 2010, the Government adopted the new “State strategy on Occupied Territories: Engagement through Cooperation”. This strategy envisages a policy of engagement to complement the Government’s efforts towards the peaceful resolution of conflicts. This is generally in line with the EU’s non-recognition and engagement policy and Confidence Building approach and was welcomed by the international community as a positive development. In line with the aims of this strategy and the Venice Commission’s opinion, the authorities announced their intention to amend the Law on Occupied Territories in the course of 2010.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

The global financial and economic crisis strongly affected Georgia and thus further exacerbated the economic downturn caused by the August 2008 war. The economic contraction was driven by the decline in domestic demand caused by a tightening in bank credit, a fall in remittances and in foreign direct investment inflows which subsequently led to a decline in output and consumption. The economic sectors that were especially hit were

manufacturing and construction. First signs of economic recovery appeared in the third quarter of 2009. For the year 2009 as a whole a contraction of 3.9% of real GDP is forecasted. As a result of the economic slowdown inflation was low, at 1.7% on average for 2009, while at the end of 2009 the Consumer Price Index (CPI) was expected to increase somewhat to 3.5%.

2009 was characterised by strong adjustments in trade and capital flows. The current account deficit decreased from 23% of GDP in 2008 to 12% in 2009. This rebalancing was driven by the trade balance adjustment: exports and imports of goods and services declined by 16% and 30% respectively, thus reducing the trade deficit from 30% of GDP to 23%. 2009 was also marked by a strong decline of capital inflows: in comparison to 2008, worker remittances declined by more than 20%, while FDI inflows more than halved (from EUR 1.5 billion to EUR 0.8 billion).

Due to the economic contraction the fiscal position of Georgia deteriorated. The budget deficit during the first three quarters reached 6.7% of GDP. For the year 2009 as a whole, the budget deficit reached 9.2% of GDP. The deficit was financed by external assistance from the International Financial Institutions (IFIs), bilateral partners and by issuance of domestic Treasury bills. The external public debt increased from 21% of GDP in 2008 to 32% of GDP in 2009. Higher external borrowing provided funding for public infrastructure projects which were intended to support growth in the post-conflict period.

An 18-month Stand-By Arrangement (SBA) for EUR 535.7 million approved by the International Monetary Fund (IMF) in September 2008 enabled Georgia to draw EUR 471.4 million from the Fund, most of it in 2009, to strengthen its balance of payments and improve its macro-economic policy framework. During the third review approved by the IMF Board in August 2009, the SBA was extended until June 2011 and the financing package was increased by about EUR 302.9 million, bringing the whole programme to EUR 835.7 million. In addition the European Commission provided a grant of EUR 46 million of Macro Financial Assistance to Georgia (*more on this in chapter 8*).

To limit the depreciation of the *lari* the National Bank adopted a more interventionist exchange policy. However, depreciation pressures were high and following the autumn 2008 depreciation against the US dollar by around 17%, since spring 2009 the authorities allowed for greater exchange rate flexibility. During 2009 the GEL exchange rate against the "hard" currencies remained stable with the *lari* experiencing only a small depreciation of 2% against the USD and 4% against the euro in the course of 2009. The National Bank performs regular auctions of foreign currency in order to avoid too strong fluctuations of the exchange rate but the practice of almost daily interventions was abandoned. In terms of monetary policy tools, an important phenomenon of the Georgian economy is its high level of dollarization: in September 2009 around 73% of deposits were in USD. Due to this high level of dollarization rather than the National Bank's refinancing rate, it is the domestic interest rate on the USD that influenced the economic activity. Consequently, in 2009, it was the high domestic lending rate in USD of around 23% on an annual basis which hampered the economic recovery.

In November 2009 amendments to the Constitution of Georgia and the draft organic "law on economic freedom, opportunity and dignity" were published as a Presidential initiative. The proposed law will legislatively and constitutionally (two thirds' majority is required in the parliament) determine the macroeconomic indicators to be adhered to by the Government. It will also restrict increasing of rates of current taxes through the referendum. Furthermore, it

will impose restrictions on the establishment of new regulatory bodies or new types of licences. The intention of the proposed law is to re-build investor confidence which was damaged after the August 2008 war. This initiative is a continuation of the Government's policy which limits state intervention in social and economic life.

Employment and social policy

Poverty remains high in the country, affecting an estimated 27.8% of the population in 2009, and it is aggravated by the impact of the crisis on employment and incomes. Measures to address poverty included a doubling of old-age pensions, one-off cash assistance and in-kind benefits (including fuel and basic food products). The implementation of the 2008 programme “Georgia without Poverty” was hampered by the global crisis and its focus was shifted from addressing poverty to facilitating job creation and improving social assistance.

As regards **employment**, Georgia has no specific employment strategy in place and no employment implementing agency (therefore, no employment promotion policy exists in the country). There is a need to thoroughly address the mismatch between skills and labour market needs.

Further to the October 2008 joint statement by the International Labour Organisation (ILO) and Georgia, a number of consultations were held during the reporting period between representatives of the Government, the trade unions and the Association of Employers, to review the provisions of the Labour Code which were not in line with the ILO Conventions on **core labour standards**.

The **social dialogue** of October 2009 led to the issuing in November 2009 of a Decree institutionalising the tripartite National social dialogue commission. A working group was created to review and analyze the legislation's conformity with ILO core conventions and to draft the charter of the newly established social dialogue commission. The commission's charter defines its role, functioning and objectives, remains to be finalised. Georgia's commitment to promote social dialogue and implement ILO Conventions will be assessed by the ILO. Georgia submitted in November 2009 its report on the implementation of the European Social Charter.

As regards **social assistance**, the Government elaborated in February 2009 the Medical insurance programme for those in the population below the poverty line. It targets families that are registered in the united database of socially unprotected families and displaced persons.

The State Programme of disabled, elderly people and homeless children rehabilitation was approved in February 2009. It provides several kinds of social services to persons with disabilities, elderly people and homeless children (GEL 13.7 million, approximately EUR 5.8 million, in 2010). There are no allowances or any kind of social assistance for unemployed persons.

Since January 2009, child care is under the responsibility of the Ministry of Labour, Health and Social Affairs. The Child Care programme was approved in March 2009. It aims at supporting homeless, socially unprotected, disabled children, and children who became victims of violence. It also aims to support deinstitutionalization and prevent abandonment of children. The decrease of the number of children in residential care continued over the

reporting period. The Children Action Plan was revised in July 2009 to include the specific targets and activities to be implemented in the period 2009-2011.

The **agriculture** sector remained neglected and performed poorly during 2009. The Strategy for the Agricultural Development of Georgia 2009-2012, prepared by the Ministry of Agriculture in 2008, was not endorsed. In the meantime the main programming tool for the MoA is the Midterm Action Plan, which was approved in 2009 and will run until 2013. Public investment to the agriculture sector was low, only 1.5% of the budget allocation in 2009. Supply of tractors to farmers, providing financial assistance to wine producers and one-time assistance continued to be the main form of support to the farmers by the Government. The Ministry of Agriculture established nation-wide product-oriented associations which will represent the common interest of their members and develop common marketing strategies.

In the reporting period there was no progress regarding **sustainable development**. The Ministry of Environment and Management of Natural Resources has still not started drafting the relevant strategy.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

As regards **bilateral trade**, in 2009, as a result of the global slow-down of the economic activity due to the financial crisis, EU exports to Georgia declined by 27.9% compared to the previous year, while exports of Georgian products to the EU decreased by 34.8%. Georgia's exports to the EU remain very low, with a low value added and non-diversified – in 2009, almost three quarters (71.6%) of them consisted of mineral products and almost one tenth of respectively agricultural and food products (9.4%) and chemicals (9.0%).

Under the new EU Regulation providing for the Generalized System of Preferences (GSP) for the years 2009-2011, Georgia continued to benefit from the special incentive arrangement for sustainable development and good governance - GSP+. These enhanced preferences should contribute to diversifying of Georgia's export structure and improving its export performance.

In March 2009 Georgia endorsed the assessment of the European Commission (in the form of key recommendations) on its preparedness for the start of negotiations on a deep and comprehensive free trade area (DCFTA). Following this endorsement, in the second half of 2009 the Georgian authorities prepared the first drafts of the strategic plans aiming at implementing the necessary reforms recommended by the EU. Intensive dialogue took place between both sides on these issues. By deploying additional efforts in particular in order to properly complete, adopt and make progress in implementing these agreed legislative and administrative capacity-building plans, Georgia would become ready to start DCFTA negotiations.

The negotiations between the EU and Georgia regarding the agreement on protection of geographical indications of agricultural products and other foodstuffs continued positively during the reporting period. Georgia is expected to improve the institutional control system to ensure the effective protection of geographical indications.

In the area of **customs**, some progress was achieved, in particular in the area of simplification and trade facilitation. There were improvements in the post clearance control system and “on the spot audits” started in September 2009. A new regulation on risk management came into effect in January 2009 to implement the risk management changes to the Customs Code and a

special Risk Analysis Department and a Risk Management Committee were set up within the Revenue Service. Since the first quarter of 2009 risk-based cargo selectivity is applied also to exports and customs warehouses and the Revenue Service is working on the introduction of a “green corridor” and a “blue corridor”, which are currently available only to authorized operators within the Golden List programme. From January 2009, new provisions on dispute resolution and on customs penalties entered into force. A first step to involve customs in this process of issuance and verification of preferential certificates of origin was initiated by means of an amendment to the Customs Code which specifies that the criteria and rules to determine origin and to issue certificates of origin. Continued efforts are needed in particular with regard to security, safety controls and combating customs fraud. Georgia should bring customs valuation practice in line with the WTO standards, as well as abolish customs administrative fees. The implementing provisions to the Customs code remain to be adopted.

On **free movement of goods and technical regulations**, some progress was made. In May 2009, the Working Group on Standardisation, Accreditation, Technical Regulations and Metrology was created in the context of the DCFTA preparations. In September 2009, Georgia presented a draft strategy in standardisation, accreditation, conformity assessment, technical regulation and metrology and a draft programme on legislative reform and adoption of technical regulations. These documents provided the basis for a further technical dialogue. Georgia adopts European standards directly as its own legislation in particular since the country became a member of CEN in 2008. The upgrading of the quality infrastructure and capacity building efforts are also on-going. The Georgian National Centre of Accreditation signed a cooperation agreement with the European Accreditation (EA) in November 2009.

Regarding **sanitary and phytosanitary (SPS)** issues, progress was limited. Georgia drafted a first version of a food safety strategy, which was discussed in a technical dialogue. Georgia also prepared draft laws on hygiene, registration of food establishments and labelling of food products. Implementing legislation was adopted (for example on phytosanitary certificates) or prepared. The aim is approximation to EU rules. It continued the upgrading of laboratories and training of experts. In June 2009, Georgia and the European Union signed a memorandum on participation in the EU’s Rapid Alert System for Food and Feed. In 2009, Georgia decided to start implementation of the Law on food safety in several stages from 2010 until 2018. Georgia will start with the progressive registration of food establishments, but it suspended again the implementation of key provisions on controls and traceability, until 2011. During 2009, some (voluntary) controls took place and some establishments applied strengthened hygiene rules.

In order to implement the Action Plan and prepare for a deep and comprehensive free trade area with the EU, Georgia would need to progress considerably in the sector. Issues such as the enactment and implementation of legislation, the functioning of institutions and increased animal disease surveillance need specific attention. For example, despite some progress, enhanced coordination is necessary between the National Service on Food Safety, Veterinary, and Plant Protection (under the Ministry of Agriculture) and the Revenue Service (under the Ministry of Finance) which is responsible for certain SPS controls at the border. Georgia took initial steps towards authorisation for export to the EU of fishery products.

Some progress can be reported on **business climate, establishment and company law**. The Law on Entrepreneurs, which was amended in November 2009, reintroduced the requirement of submission of the company’s charter for registration purposes. It also defined the minimum mandatory content of the charter. However, additional efforts are needed to meet the Union’s requirements on transparency issues, disclosure requirements, grounds for nullity and certain

rules on publicity of registers. Online assistance (legal consultation) for registration of companies became available, while the registration itself is still not available. A Corporate Governance Code with a special focus on banks is being drafted within the frameworks of a non-governmental initiative, but with support of the Government. However, further efforts are needed to align with Union standards in respect of the formation of public limited liability companies, the maintenance and alteration of capital, grounds for nullity and certain rules on publicity of registers.

Georgia continued to make some progress in the field of **financial services**. A new law on the National Bank of Georgia was adopted in September 2009, and entered into force in December 2009. The Law aims at expanding and strengthening the functions of the National Bank of Georgia, which should contribute to the stability and transparency of the financial system, and perform other functions. The most significant risk for Georgian banks remains their indirect foreign currency exposure. The Financial Supervision Agency (FSA), the unified supervision body for banking, insurance and securities markets, continued its regulatory activities.

Other key areas

The process of upgrading the structures and the operational capacities of the State Revenue Service (SRS) following the merger of the **tax** and customs administrations was continued, with major reductions of employment and structural modifications. Despite the entry into force of the measures to facilitate VAT deduction, the VAT invoices system needs to be further improved. The Financial Police (Investigative Service of the Finance Minister) was re-established in 2009 with the aim to improve the compliance with the tax and customs law. However, no effective appeal mechanism was set up. It is important to ensure that the new institution does not create unjustified pressure on legitimate trade/business. Agreements on avoidance of double taxation with France, Ireland, Luxembourg and Malta await ratification. The agreement with Spain is still to be signed, while negotiations are ongoing with Cyprus, Hungary, Slovakia, Slovenia, and Sweden.

With regard to **competition policy**, limited progress was made. Georgia prepared a draft Comprehensive Strategy in Competition Policy (CSCP) in September 2009. It provided the basis for a technical dialogue with the European Commission services on competition policy. The Strategy should foresee drafting of a comprehensive Law on Competition and setting up of a reinforced Agency for Competition in the near future. This includes provisions for state aid. The 2005 Competition Law, currently in force, does not regulate anti-trust and the Free Trade and Competition Agency lacks independence and has only an advisory role.

In the area of **Intellectual Property Rights (IPR)**, Georgia adopted in October 2009 the amended Law on Drugs and Pharmaceutical activities dealing with data exclusivity and non-reliance whereby IP right holders enjoy the right to control, on their own initiative, parallel import and to regulate this issue by distribution agreements or according to the exhaustion of rights clause. However, the draft laws on industrial designs and the revised Patent law including new provisions on supplementary protection certificate remain to be adopted. Both legal drafts are in the process of governmental approval procedure, before submission to the Parliament. Georgia also worked on the text of the draft agreement of mutual legal protection of geographical indications with CIS countries.

In autumn 2009, Georgia launched a study on piracy and counterfeiting aiming at identifying measures for improvement of IPR enforcement. The study is expected to be completed in

Spring 2010. However, additional substantial efforts are needed to improve IPR enforcement in line with EU standards, in particular to adopt measures aiming at strengthening powers and capacities of the institutions in charge (e.g. give *ex officio* power to the police and prosecutors). Very few court cases or raids were carried out in the reporting period. No progress can be reported as regards the establishment of IPR units in courts or an IPR unit in the police.

The new law on **statistics**, which is in line with Union requirements, was adopted by the Parliament in December 2009. It provides in particular for the creation, organisation and functioning of the new Statistical Agency (Sakstat) which entered into force after the reporting period, in February 2010. The staff of the statistics department needs to be trained to ensure effective implementation of the new legislation and the reliability of the statistics produced.

On **enterprise policy**, the Entrepreneur Service Centre was established in the Ministry of Economic Development of Georgia in 2009 in order to promote a ‘one-stop shop principle’. Furthermore, a Department on Export Promotion in the same ministry was established. With the aim of enhancing cooperation between Georgian and foreign businesses, the Georgian National Investment Agency organised several business forums in different European countries. There were also many projects which support Small and Medium Sized Enterprises (SMEs) and business development. A public discussion on SME development in Georgia was held in July 2009 and a ‘Wider Small Business Forum’ in September 2009. Also, a draft law on supporting SME development in Georgia was forwarded to the Parliament. Also, in October 2009, an Inter-organisational Small Business Committee was established.

With regard to **public finance** management, as a response to the Public Expenditure and Financial Accountability (PEFA) findings, the Ministry of Finance revised the Public Finance Management Reform Strategy and issued a new Policy Vision paper, which replaced the 2007 PFM Strategy reform. The current Policy Vision focuses only on the areas which are under the mandate of the Ministry of Finance: Budget preparation, resource management, internal control and accounting & reporting. While there may be some discussion as the appropriateness of the level of details of the vision, Ministry considers it a realistic reflection of what can be done with the existing capacity.

The PFM Vision also includes a plan of actions, implementation of which is spread across 2009 to 2013, and a more detailed list of activities for 2009. The Minister of Finance presented the most recent status of the reform implementation during a meeting in October 2009, underscoring the achievements in various PFM areas, e.g. drafting of the new Budget Code, implementation of programme and capital budgeting, enhanced transparency of budget execution, extensive development of sub-legislation, establishment of simplified Customs procedures for selected entrusted traders, establishment of risk based selection procedures for tax auditing and introduction of e-services, including filing of returns and enquiries, now available for taxpayers.

In terms of public internal financial control, the Ministry presented a policy paper and action plan in March which led to the submission of a draft law on Internal Audit in October 2009 to the Parliament. Enactment of the law will enable the progressive development of additional control functions. However, secondary legislation remains to be enacted alongside further development of auditing tools and administrative capacity. The effectiveness of this reform will in part hinge upon the success of measures to implement common standards and procedures and to limit staff turnover.

The Chamber of Control has developed its own strategy to implement the new law which was approved in January 2009. The activities envisaged for upcoming years are: the establishment of a sustainable training system for auditors; development of a methodology for all kinds of audits according to INTOSAI standards; improvement of the relations/communication with the Parliament, Ministry of Finance and the broader public.

The amended Law on State **Procurement** was adopted by the Parliament in November 2009 and entered into force in December. It provides for the introduction of electronic tenders in March 2010 leading to the abolition of paper-based procedures in September 2010. It also foresees the establishment of a complaint review mechanism comprising the representatives of State Procurement Agency and non-governmental organisations in March 2010. Further efforts are needed to ensure full transparency throughout the procurement process.

Progress in many areas of Public Finance Management continued; however, further reform is required and envisaged, notably in MTEF/budgeting, due to, *inter alia*, limited administrative capacity and lack of institutionalised sector consultation and procedure manuals.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In the area of **border management**, the action plan for the implementation of integrated border management, foreseen under the National Strategy, was adopted in December 2009. The EUSR for the South Caucasus Border Support Team helped finalise the action plan, supported inter-agency coordination and provided further technical assistance to the Border Police.

Georgia continued participating in the Southern Caucasus Integrated Border Management (SCIBM) regional programme, formally agreed between Georgia, Armenia and Azerbaijan, in October 2007. The programme aimed at enhancing inter-agency cooperation, training and capacity of customs and border guard services in line with agreed regional standards and EU norms. Despite the regional character of this programme, Azerbaijan chose to pursue cooperation only through its bi-lateral component with Georgia, which delayed the start of implementation until March 2010. Nevertheless, in the framework of SCIBM, Georgia's customs and border guard services participated in preparatory training sessions in Austria, Croatia, Italy and Slovenia alongside representatives from Armenia and Azerbaijan.

Further training was provided for border and patrol police including cross-border seminars with border officials from both Armenia and Azerbaijan in cooperation with OSCE. Similar training cooperation continued with Turkey as well as Germany, Poland and Romania in areas such as border surveillance, vessel security, and operative investigation. As was the case in 2008, progress on delimitation and demarcation of borders with neighbours other than with Turkey stills remains a cause for concern. Developing comprehensive education and training strategies for this sector as well as improvements to institutional capacity to effectively manage border crossing checkpoints requires ongoing attention and investment.

The issuance of biometric passports to the citizens of Georgia did not start in 2009 as planned, although the Civil Registry took a number of preparatory steps to this end. Travel documents for refugees were issued in 2009 in line with the 2008 Law on Refugees.

In November 2009, the EU and Georgia adopted a **Mobility Partnership**. Sixteen EU Member States participate in the Partnership, offering various initiatives in three main areas

of cooperation: promotion of legal migration, fight against illegal migration and migration's contribution to development.

The negotiations on **visa facilitation and readmission agreements** were technically concluded in November 2009 and signature is expected in 2010.

Georgia has not yet developed a database for the management of **migration** nor approved policies or passed legislation regulating labour migration. On **asylum**, Georgia has acquired buildings and is reconstructing a temporary reception centre for asylum seekers, with financial support, notably from the EU. The issuance of refugee travel documents begun and naturalization of refugees was made easier, with the period of required uninterrupted stay in Georgia reduced from 10 to 5 years.

With regard to the **fight against organised crime**, Georgia began preparatory measures leading to signature and ratification of the Third Protocol to the United Nations Convention on Transnational Organised Crime on the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition. In order to support implementation of the European Convention on Cybercrime signed by Georgia in 2008, the Ministries of Internal Affairs and Justice launched a one year project in June 2009 with the support of the EU and the Council of Europe.

On the fight against **trafficking in human beings**, the Ministry of Internal Affairs continued implementation of the National Anti-Trafficking Action Plan including training for police officers and enhanced cooperation with civil society on rehabilitation and reintegration of victims and measures to combat child trafficking. Awareness-raising was given particular attention by the launch of a specific police website. Moreover, Georgia continued cooperation with law enforcement agencies in Turkey and Kazakhstan, resulting in successful investigations and prosecutions.

With regard to the **fight against drugs**, Georgia pursued its participation in the SCAD V regional programme, but failed to designate a national focal point for the programme.

With regard to **money laundering**, Georgia actively pursued cooperation in the context of the Egmont and Eurasian FATF groups and Moneyval. The staff of the Financial Monitoring Service (FMS), the Chief Prosecutor's Office (CPO) and the Ministry of Internal Affairs participated in international training seminars covering both money laundering and measures to combat the financing of terrorism. Moreover, inter-agency cooperation was enhanced through the signature of a Memorandum of Understanding between the FMS, the CPO and the Ministry of Justice. To enhance exchange of information, additional Memoranda were signed with the Financial Intelligence Units of Cyprus and Latvia. However, restrictions on the freedom of association of non-profit and civil society organisations must be avoided while implementing national policies and international commitments. The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism remains to be signed and ratified.

With regard to international and regional **judicial cooperation**, Georgia submitted draft agreements on legal mutual assistance in civil matters to third countries in May 2009, but there was no progress since.

No developments took place on the exchange of best practice information on judicial cooperation with EU Member States or with regard to the establishment of a network of

judicial and law enforcement agencies. A draft law on **Personal Data Protection** awaits adoption pending a review of its provisions by international experts. A solid system for the protection of personal data in terms of legislation and administrative capacity is essential to advance cooperation with the EU Member States as well as with Europol and EUROJUST. The 2005 Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds of Crime and the Financing of Terrorism remains unsigned. An independent data exchange agency was established under the authority of the Ministry of Justice in January 2010, as part of preparations for the signature and ratification of the Additional Protocol to the 1981 Council of Europe Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

Although the recently established Unified **Transport** Administration took in the various transport modes and took significant steps to ensure safety oversight, there is still a need to strengthen administrative capacity.

In the road sector, Georgia continued to focus on improving road safety, among others by aligning its road worthiness rules with international standards. With a view to strengthening multi-modal transport connections, Georgia paid particular attention to the development of a multimodal (road-railway-ferry) line taking less time than the Batumi-Poti-Ilichovsk ferry communication.

With regard to aviation safety, Georgia made substantial progress in 2009 since the release of the International Civil Aviation Organisation (ICAO) safety audit report. A follow-up visit performed by ICAO in April 2009 showed that issues of immediate serious safety concerns had been effectively addressed by the authorities. The Civil aviation authorities deserve stronger political and administrative support to increase staff in some specific areas and to be in a position to recruit highly qualified personnel. Negotiations on a Common Aviation Area Agreement between the EU and Georgia started in October 2009 and significant progress was made in a second round of these negotiations in December. Through the agreement, Georgia will gradually take over EU standards in the field of aviation. A working arrangement with the European Aviation Safety Agency (EASA), signed in 2009, provides for a mechanism to strengthen cooperation. Further efforts are needed to strengthen the Georgian aviation authorities after the frequent restructurings in recent years, including with regard to safety oversight. Georgia is yet to ratify the Montreal Convention for the unification of certain rules for international carriage by air.

In the maritime sector, Georgia started to strengthen flag state implementation and align with international standards by adopting a number of technical rules among others on “Recognition of the Classification Society”, “Minimal acceptable personnel of the crew necessary to provide safety on the ship flying the flag of Georgia” and “Official Investigation of Maritime Incidents”. However, maritime safety remains an issue of great concern. The Georgian flag still figures in the ‘High Risk’ category of the black lists both of the Paris and Tokyo Memoranda of Understanding on port state control.

Georgia re-confirmed its wish to play a role in enhancing the EU’s **energy** security as a transit country for the Caspian energy resources. Both the EU and Georgia have an interest to develop a regulatory framework, in line with the EU energy *acquis*, to ensure a transparent

hydrocarbons transport to the EU. Hydrocarbons transit through the Baku-Tbilisi-Ceyhan (Turkey) oil pipeline and the Baku-Tbilisi-Erzurum (Turkey) gas pipeline remain of key importance. Georgia continued to support the development of the Southern gas corridor including Nabucco and the trans-Caspian transportation project. In May 2009 it participated in the Prague Summit on the Southern Corridor.

Georgia supported the ongoing EU study for a Caspian Development Corporation, the central purpose of which is to aggregate gas demand in support of the said Corridor's development. In October 2009, Georgia and Romania agreed to cooperate, *inter alia*, on the development of liquefied natural gas (LNG) facilities in view of the transport of Caspian resources to the EU. In July 2009, energy companies from Georgia, Azerbaijan, Lithuania, Poland and Ukraine completed a study on the Euro-Asian Oil Transportation Corridor Project (EAOTC). After the rehabilitation of the Baku-Supsa oil pipeline (in 2008), Georgia started reflections on building a refinery in Supsa.

The country further implemented its energy policy, *inter alia*, by investing in the rehabilitation of hydro power plants, preparing the construction of new hydro plants and the strengthening of electricity networks. Rehabilitation included the large Enguri hydro power plant. Georgia continued to work towards the preparation of an Azerbaijan-Georgia-Turkey electricity interconnection. It rehabilitated internal gas pipelines and connected, in the context of the 'Gas to every village' programme, new customers to the grid. Georgia completed a pre-feasibility study regarding the use of underground gas storage facilities. Georgia adopted legislation aiming at further, progressive, convergence with EU's internal energy market rules. Georgia pursued the preparation of a new electricity tariff methodology. The country continued to install electricity and gas meters in households, which contributed to improving bill collection rates.

On the basis of the 2008 state programme for renewable energy, Georgia developed small hydro power plants. There was no progress achieved with regard to the draft law on energy efficiency and renewable energy. A draft building code remained at preparatory level. Enhanced efforts are needed to advance, in line with the Action Plan, on energy efficiency and the use of renewable energy sources.

In the field of **climate change**, Georgia submitted its Second National communication to the UN Framework Convention on Climate Change with information on national circumstances and steps planned to implement the Convention. A Climate Week took place in October 2009, providing several large public fora gathering relevant stakeholders.

Georgia identified its strategic priorities with regard to climate change policy for 2010-2012. It plans to prepare an overall climate change strategy, taking into account the findings of the second national communication. Steps were also taken to prepare adaptation action in climate change sensitive regions.

Georgia took steps to prepare and approve further Clean Development Mechanism (CDM) projects. One new such project was registered at UN level, bringing the overall number of registered projects to two. Georgia associated itself with the Copenhagen Accord and provided information on actions that it will implement. The European Commission continued to support Georgia to implement the Kyoto Protocol.

With regard to the **environment**, Georgia started to pay more attention to development of environment policy and legislation than it did a few years ago. The Ministry of Environment

and Natural Resources Protection continued preparing the second National Environmental Action Plan and drafted a strategy setting out the Ministry's basic priorities for 2009-2013. The legislative framework continues to require further development, in particular as regards implementing legislation. A new environment protection code is under preparation, comprising a set of new framework laws on key environmental sectors. A draft convergence plan on water was elaborated.

An integrated coastal zone management strategy was prepared but not yet adopted. A strategy on the management of protected areas was prepared. Efforts are still on-going to develop a policy document on forestry. Some steps were taken to address inventory, collection, packaging and disposal of obsolete pesticides. Continued attention is required to implement existing strategies and plans and to further enhance monitoring and enforcement.

Further strengthening of administrative capacity at all levels of the country remained a major challenge. Coordination between authorities continues to require attention, even if certain measures were taken to promote cooperation between the Ministry of Environment and the Ministry of Health on licensing of medical installations emitting radiation. Some steps were taken to promote the integration of environmental considerations into other policy sectors such as regional development.

A state-of-the-environment report covering the year 2006 was prepared but not formally adopted nor published. However, certain steps were taken to strengthen reporting guidelines with a view to preparing a report covering the years 2006 - 2009. Georgia also continued to carry out some other activities to provide information to the public. (*For the Regional Environmental Centre for the Caucasus, please see section on regional cooperation.*)

There were no developments on environmental impact assessment. Public projects can still be exempted from such assessments. Nevertheless, some steps were taken to promote the implementation of strategic environmental assessments. Procedures and consultation with the public in the context of environmental assessments require particular attention.

Some preparatory steps were taken towards becoming party to the UNECE Convention on the Transboundary Effects of Industrial Accident and ratifying the UNECE Convention on the Protection and Use of Transboundary Watercourses and International Lakes. There were no significant developments with regard to the accession or ratification of remaining UNECE Conventions and Protocols¹. Furthermore, the implementation of several already ratified agreements requires particular attention. Georgia participated in the Danube - Black Sea Task Force (DABLAS), in the EU Water Initiative, including a national policy dialogue, and the International Commission on the Protection of the Black Sea against Pollution.

Cooperation and information exchange took place between the Commission and Georgia, including on water, forestry, waste management, environmental data, nature protection and air quality.

In the field of **civil protection**, the Government adopted its annual risk assessment and launched the state programme for establishment of regional emergency management services and search and rescue teams under the Ministry of Regional Management. Training of staff

¹ The UNECE Convention on Environmental Impact Assessment in a Transboundary Context and its Protocol on Strategic Impact Assessment (the latter signed but not yet ratified), and the Protocols to the UNECE Convention on Long-Range Transboundary Air Pollution.

and supply of equipment started. Thematic emergency response plans on natural and man-made emergencies are in the process of development. Georgia participated in the December 2009 launch event of the Eastern Partnership flagship initiative on prevention on, preparedness of and response to man-made-made and natural hazards.

As regards **Information Society**, the Georgian National Communications Commission (GNCC) regulated tariff bands or caps according to market conditions. However, the Government still exerted prevailing influence over the fixed line incumbent operator responsible for international telephony. Another operator dealt with local and inter-city phone services and continued to dominate the fixed voice market. For Internet service, the alternative operator had approximately 80% of the market. In May 2009 GNCC extended a mobile operator's 1800 MHz GSM licence by 10 years.

The Russian Federation and the *de facto* authorities of Abkhazia signed in September 2009 a memorandum on cooperation in the field of communications. According to information, the Russian Federation assigned to the *de facto* authorities the right to use Russian calling codes for both fixed (wire-line) and cellular (wireless) operators. This contradicts the standards developed by the International Telecommunication Union.

Georgian **audiovisual** legislation still needs to converge with European standards on media regulation and decisive actions in this field should be taken. Georgia still has to ratify the Council of Europe Convention on Transfrontier Television.

In the area of **research**, Georgia increased its level of participation in the 7th Framework Programme (FP7), with 23 research groups being successful in their applications, as of November 2009, receiving some EUR 1.6 million of EU funding.

The Georgian National Science Foundation successfully organised an Information Day event in Tbilisi in June 2009, within the framework of the S&T International Cooperation Network for Eastern European and Central Asian countries (FP7 IncoNet EECA project). This event raised awareness of the scientific communities in Georgia and more broadly the Caucasus region on the scientific partnership opportunities and research cooperation within FP7 in the 'Environment' theme and the 'People' specific programme.

7. PEOPLE-TO PEOPLE CONTACTS, EDUCATION AND HEALTH

Reform of higher **education** continued, as in 2008, with a focus on alignment and approximation to European standards in line with the principles of the Bologna Process. In this respect, a two year twinning project on capacity building for implementing Bologna actions started in June 2009. Moreover, the Law on Higher Education was amended in August 2009 introducing a differentiation between higher education institutions in terms of their research and teaching functions. Two Councils of Rectors, one for state and one for private universities, were established (in June and October 2009) thereby strengthening universities' autonomy and capacity to dialogue with the state. While all higher education actors and universities are familiar with Bologna Process requirements, systemic reform will require structured national coordination and additional consensus-building support actions in order to secure implementation.

In the area of **vocational education and training**, the national Medium Term Strategy on vocational education and training 2009-2011 was approved in December after extensive

discussions with stakeholders. The National Vocational and Education Council was established in December opening the prospect of improved coordination between stakeholders and strengthened links with social partners. It is particularly important that the training system produce skills that respond more closely to employer requirements (*see chapter 3 on employment and social policy*). Further efforts were developed under the leadership of the Ministry of Education and Science in the areas of teacher training, professional standards and the preparation of a quality assurance policy.

Georgia continued to benefit from its active participation in the Tempus, Erasmus Mundus and Youth in Action programmes. A Tempus Information Day was held in December, but information on Erasmus Mundus grants should be spread to a larger number of potential applicants. Work began on the establishment of a national Youth Information Centre in Tbilisi which should open branches in different regions of Georgia in 2010. One university participated in the Jean Monnet programme. Georgian universities are encouraged to continue submitting high-level applications for Jean Monnet projects. Nine Georgian students and two scholars were awarded scholarships for Erasmus Mundus Masters Courses for the academic year 2009-10 under Erasmus Mundus Action 1 while academic and student mobility was further facilitated under Erasmus Mundus Action 2 through the award of 58 mobility grants. Four projects were selected under the second Call for Proposals of Tempus IV and a Tempus Information Day was held in December. Work began on the establishment of a national Youth Information Centre in Tbilisi which should open branches in different regions of Georgia in 2010. One university participated in the Jean Monnet programme. Georgian universities are encouraged to continue submitting high-level applications for Jean Monnet projects.

In the field of **culture**, the Georgian National Museum and Georgian cultural associations took part in several EU-funded cooperation projects with EU and ENP partners. To advance its regional cooperation in the framework of the Eastern Partnership and the Kyiv Initiative, Georgia is encouraged to sign and ratify the 2000 European Landscape Convention and the 2005 Council of Europe Framework Convention on the Value of Cultural Heritage for Society. Georgian cultural organisations participated in the Call for Proposals of the 2009 ENP Special Action under the Culture Programme.

Georgia continued **health** sector reform, which aims, *inter alia*, at increasing efficiency and ensuring adequate health services to the most vulnerable groups. The reform included further work towards privatisation of primary and secondary health care facilities. In 2009 Georgia launched state programmes on free emergency health care and on medical insurance. The insurance programme should contribute to reducing the considerable out of pocket payments. In November 2009, stakeholders presented a medical reform concept. In November 2009, Georgia conducted a first ever survey on health systems performance assessment. In May 2009, Georgia established an experts group which started working on a national monitoring and evaluation framework for HIV/AIDS. In September 2009, the law on HIV/AIDS was adopted. Georgia took measures to combat influenza A (H1N1) including by the establishment of guidelines and a vaccination strategy. In October 2009, Georgia participated in the newly established EU enlarged health information committee.

8. FINANCIAL COOPERATION – 2009 KEY FACTS AND FIGURES

The European Neighbourhood and Partnership Instrument (ENPI) envelope for Georgia under the National Indicative Programme 2007-2010 is EUR 120.4 million. The programme is

geared towards supporting the achievement of key policy objectives as outlined in the EU-Georgia Action Plan and pursues four priorities: (1) Support for Democratic Development, Rule of Law and Governance; (2) Support for Economic Development and ENP AP implementation; (3) Poverty reduction and social reforms and (4) Support for peaceful settlement of Georgia's internal conflicts.

The implementation of the measures covered by the 2007 and 2008 Annual Action Programmes (AAP) is underway. Under the 2007 AAP a Public Finance Management (PFM) Sector Budget Support programme was financed and the last tranche was released before the end of 2009. Under AAP 2008, a Sector Budget Support on Justice started and its second tranche was released in December 2009, following the major reforms carried out by the Government in many justice-related areas, such as: probation, juvenile justice, protection of human rights.

In 2009, the European Commission programmed assistance for a total amount of EUR 27.4 million under the ENPI 2009 Annual Action Programme. It focuses on Sector Budget Support in Vocational Education and Training (EUR 19 million) and on TA/Twinning component (EUR 8.4 million).

An indicative financial envelope of EUR 180.3 million will be available to support co-operation activities in Georgia in the period 2011-2013, based on a European Commission decision of March 2010.

In addition to the AAP, a Special Measure in support of IDPs was approved in November 2009 by a Commission Decision, therefore another EUR 43.5 million will be used for socio-economic integration of IDPs within the Georgian society and their hosting communities, representing the 3rd Special Measure adopted in favour of Georgia in the aftermath of the August 2008 conflict with Russia. Previously funding was granted to Georgia in the form of two Special Measures in support of Internally Displaced Persons (IDPs). In 2009, EUR 61.5 million was committed and nearly EUR 50 million already disbursed, principally aimed at ensuring decent living conditions and livelihood to all Georgian IDPs. In addition to the ENPI Special Measure, the Instrument for Stability (IfS) has also been mobilised in 2009 and a total amount of EUR 14 million have been allocated to (i) support confidence building measures between the conflict parties, (ii) support the socio-economic integration of IDPs, (iii) contribute to further democratic reforms and (iv) support to civil society capacity building in the Gali district.

Also in the context of the additional post conflict assistance to Georgia, the European Commission provided a grant of EUR 46 million of macro-financial assistance, out of which 50% was already disbursed in 2009. This measure aims at supporting Georgia's domestic efforts towards a sustainable economic recovery, and in this way, alleviating the financial constraints on the implementation of the Government's economic programme.

In addition to the bilateral allocations, Georgia also benefited from cooperation activities financed under the ENPI multi-country and regional programmes, as well as horizontal thematic programmes, such as the European Instrument for Democracy and Human Rights (EIDHR) and the DCI programmes: Non-State Actors and Local Authorities in Development (NSA/LA) and the Food Security. Georgia also participates in the ENPI Cross Border Cooperation (CBC) programme "Black Sea" (ar. EUR 18 million for the whole programme in the period 2007-13). The priorities of this CBC programme are to provide cross border support to partnership for economic development and networking resources and to strengthen

competencies for environmental protection and conservation as well as for establishment of a common cultural environment in the region. In 2009, eight proposals from Georgia were submitted, but the financial decisions have not yet been taken.

Under the Neighbourhood Investment Facility (NIF) contributions, one project in Georgia was approved in 2009¹, committing EUR 8.5 million in grants and technical assistance, expected to leverage EUR 250 million in loans of European Finance Institutions in the transport sector.

The twinning instrument that was introduced in Georgia in 2007 slowly gained momentum in 2009. However, the Georgian authorities seemed to show a certain reluctance to use twinning and the pace of identification and preparation of new twinning projects remained very slow.

The Government's efforts in donor coordination remained weak. Donor coordination rather focused on financial tracking and sector coordination took place only in very few areas. Furthermore, the Government played no significant role in the programming, monitoring and evaluation of external assistance projects. Unlike other donors' funding, European Commission funding was coordinated by the Ministry for European and Euro-Atlantic Integration. However, this Ministry suffered from significant staffing shortfalls, which weakened its supervisory and coordination role.

The EU Delegation to Georgia supported the coordination of assistance activities. The Delegation started collecting information on EU donor activities, setting up specific sectoral working groups to promote better donor coordination at sector level and encouraging the Government to take a stronger role in donor coordination and to adhere to the principles of the Paris Declaration on Aid Effectiveness and the EU Code of Conduct.