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**Implementation of the European Neighbourhood Policy in Georgia
Progress in 2012 and recommendations for action**

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

European Neighbourhood Policy: Working towards a Stronger Partnership

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on progress made in implementing of the EU-Georgia European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2012. Developments outside this period are also considered when relevant. It is not intended to be a general review of the political and economic situation in Georgia. For information on regional and multilateral sector processes, please refer to the Eastern Partnership implementation report.

There was intense political dialogue with the Georgian Government in 2012, including a number of high-level meetings: Prime Minister Ivanishvili chose Brussels for his first foreign visit in November, President Saakashvili visited Brussels on several occasions, and a number of high-level EU visits to Georgia took place. These included visits by President of the European Council Herman Van Rompuy in July, Commissioner Štefan Füle in October and High Representative Foreign Affairs and Security Policy/Vice-President (HR/VP) Catherine Ashton in November. Finally, the Second Informal Eastern Partnership Dialogue was held in Tbilisi on 12-13 February 2013.

The October parliamentary elections marked the first democratic transfer of power in the country's history. The elections were widely recognised by election observation organisations as the most free and fair ever in Georgia. Their outcome brought with it the challenge new to Georgia of cohabitation between the new parliamentary majority and the Government it supports on the one hand and the President on the other. So far, cohabitation has been particularly tense and no agreement has been found yet between the majority and the opposition in the Parliament on basic constitutional changes or partial amnesty for former officials proposed by the former. The elections themselves were held against the backdrop of a very tense, polarised pre-electoral environment with some instances of violence. Complaints were made during the campaign about the illegal use of government administrative resources and private financial assets. The complaints tended to overshadow discussion on political platforms and programmes. These shortcomings need to be addressed before the presidential elections of 2013.

The EU remained committed to and continued to fully support Georgia's territorial integrity and sovereignty and the peaceful resolution of the conflicts in Georgia through the work of the EU's Special Representative (EUSR) for the South Caucasus and the Crisis in Georgia, and the EU Monitoring Mission (EUMM) in Georgia. Georgia continued to implement its strategy for engagement without, however, reviewing restrictive aspects of the law on occupied territories. Following the change of government, there are some encouraging signs of possibly more effective engagement with the breakaway territories, and a more relaxed implementation of the Law on Occupied Territories.

Negotiations on an EU-Georgia Association Agreement, including a Deep and Comprehensive Free Trade Area (DCFTA), made significant headway during the year. As a result of progress on reforms for deep democracy and respect of human rights, Georgia benefitted from an additional allocation of EUR 22 million under the Eastern Partnership Integration and Cooperation Programme (EaPIC) in 2012. In December, the EU and Georgia launched negotiations on a protocol to the Partnership and Cooperation Agreement on the general principles for the participation of Georgia in EU programmes.

Georgia also made significant progress in implementing the visa facilitation and readmission agreements, and continued to implement reforms in the areas related to mobility in a secure environment. The EU launched a visa dialogue with Georgia in June, and started preparing a Visa Liberalisation Action Plan, which was formally handed over to Georgia by Commissioner Malmström on 25 February 2013.

While Georgia continued to make progress in fighting corruption, more still needs to be done to prevent, detect and tackle elite corruption. There was an improvement in terms of the freedom of association and assembly, with a step back when protesters assaulted opposition lawmakers on 8 February 2013 outside the venue for the President's annual address to the Parliament. Media access was improved under "must-carry/must offer" provisions during the pre-election period, although media sector continued to suffer from undue political interference.

The executive remained the dominant governing force. Parliamentary oversight remained weak and concerns persisted about insufficient independence of the judiciary, though the new government has voiced the intention to improve the institutional checks and balances as a priority. The security and law enforcement system came under intense criticism following the release in September of videos showing prison inmates being tortured and humiliated. The national preventive mechanism under the Optional Protocol to the UN Convention against Torture should be further strengthened. Previous cases of the excessive use of force by law enforcement agencies were not brought to court. Although the large prison population started to decrease by the end of the year¹, the excessive use of administrative detention and plea bargaining remained a concern. After the change in government, a number of initiatives were launched to address these issues.

Georgia's economic growth was strong in the first three quarters of 2012, benefiting from a generally favourable investment climate, improving consumer confidence and an expanding tourist sector. Growing foreign exchange reserves, donor financing and an IMF precautionary programme should mitigate some external risks. The level of economic growth contrasts with high structural unemployment however.

Georgia acted on most of the key recommendations in the last year's ENP progress report. It ensured broadly free and fair parliamentary elections. It also strengthened the freedom of expression and opinion; continued to reform the justice system and advanced sectoral reforms and regulatory approximation to the EU acquis. It actively participated in the Geneva discussions and took measures to improve the living conditions of internally displaced persons (IDPs), with the support of the EU; it also renewed its commitment to a genuine engagement with the breakaway regions. Progress also needs to be made on the remaining key recommendations. On the basis of this year's report and with a view to sustained implementation of the ENP Action Plan in 2013², Georgia is invited to:

- Address shortcomings in the electoral law as identified by the OSCE Office for Democratic Institutions and Human Rights (ODIHR) ahead of the 2013 Presidential election and 2014 local elections.
- Ensure respect for the roles of the Prime Minister and President under the constitution; ensure that constitutional amendments, if contemplated, are subject to comprehensive

¹ A decrease of over 15% from December 2011 to December 2012.

² The Action Plan should be replaced by the Association Agenda in the course of 2013.

consultation domestically and with the Council of Europe's Venice Commission to ensure that they stand the test of time.

- Reform the justice system to ensure the full independence of the judiciary, bringing criminal justice policies and practices into line with Council of Europe standards; revise rules on administrative detention in compliance with fair trial norms; and take the recommendations of the Public Defender's Office into account in policy-making.
- Ensure that criminal prosecutions are conducted in a transparent and impartial manner, free of political motivation, in order to avoid any perception of selective justice.
- Increase the accountability and democratic oversight of law enforcement agencies.
- Conduct a thorough, transparent, independent investigation into the use of torture and ill treatment in the penitentiary system; implement structural reforms to prevent future abuse; ensure effective internal and external monitoring of the penitentiary system for the early detection and prevention of abuse and ill-treatment.
- Maintain and improve Georgia's constructive participation in the Geneva International Discussions.
- Enhance Georgia's engagement policy towards the breakaway regions and improve reconciliation/conflict resolution by finding ways to cooperate with the *de facto* authorities providing financial resources for engagement; take pragmatic and constructive steps (less focused on form and more on content) to encourage trade, travel and investment across the administrative boundary line; review the law on occupied territories.
- Continue to strengthen media pluralism and independence, and the freedom of expression and opinion; implement the law on transparency of media ownership; formally extend the duration of the 'must-carry/must-offer' principle.
- Continue and intensify dialogue and partnership with the International Labour Organisation (ILO), and build on specific co-operation with the ILO, the business community and trade unions in preparing amendments to the labour code, leading to improvements in labour rights and enhanced social dialogue.
- Adopt comprehensive anti-discrimination legislation; ensure that the rights of minorities, including religious minorities, are respected.
- Continue to advance sectoral reforms and ensure good quality approximation to the EU *acquis communautaire* in order to pave the way for finalisation of the Association Agreement, including the DCFTA.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

A new **election** code was adopted in January, incorporating a number of recommendations made by the OSCE/ODIHR and the Council of Europe Venice Commission. In June, further amendments were made reflecting changes to constitution regarding citizenship requirements

for electoral participation, as well as reductions in age limits for candidates. These amendments also included 'must-carry/must-offer' provisions that gave at least an additional 180,000 households, or almost one million people more, extended access to news. While generally welcomed as an important step in providing greater access to different points of view, the amendment attracted criticism for not extending the provision beyond the election period.

In March, the law on political unions of citizens, or party financing was amended. The amendments reduced the number of entities affected by the law, and the amount of potential fines. However, between March and July, a large number of fines were imposed on the main opposition parties, giving rise to criticism for selectivity, for the perceived lack of proportionality in the size of the fines and for the lack of due process, from the Public Defender in May.

The EU helped bolster the electoral process for the parliamentary elections with three specific capacity-building projects for the electoral authority and for civil society. The ODIHR International Election Observation Mission including the representatives of the European Parliament, considered that the elections were competitive with active citizen participation; and that freedoms of association, assembly and expression were respected overall. Nevertheless, it observed that certain key issues remain to be addressed, including the polarised pre-electoral environment with some instances of violence; the use of administrative resources and private financial assets in the campaign; the inequality of the vote; ambiguities, disproportionate sanctions and the biased application of the party financing law; the potential for post-election disqualifications; pressure on district election commissions as they tallied votes, and insufficient independence of the judiciary.

While there have been some improvements due to the implementation of legislation on media transparency, the **media sector** still suffers from political and economic interference, pressure on journalists and self-censorship. Throughout the year, the Georgian authorities have faced criticism from media rights organisations for not doing enough to protect journalists from violence and obstruction. The main priorities in improving the media environment are better access to public information and strengthened media pluralism, improved financial transparency and de-monopolisation of the advertising market.

The situation improved with regard to the **freedom of association and the freedom of assembly**. This was partly due to amendments to the law on assembly and demonstrations. Most demonstrations took place in an orderly atmosphere, including very large demonstrations during the tense and polarised election campaign. Unfortunately, on 8 February 2013, when the President was to deliver an address to the Parliament, protesters verbally and physically assaulted opposition lawmakers and politicians in front of the National Library, forcing the speech to be delivered from the presidential palace instead.

Judicial independence remains a problem. The strongly hierarchical structure of the judiciary; the potential for inappropriate influence by the executive; the prosecution service's lack of independence, combined with insufficient judicial control over its activities; insufficient transparency in the justice system: all these hamper the effective administration of justice. The Government is tackling these problems with proposed legislative amendments. The main problem is the high conviction rate, despite an increase in the number of acquittals compared with 2011. The high likelihood of being convicted if a case goes to trial has led to the excessive use of plea bargaining. In the first nine months of 2012, 88% of all criminal cases were resolved through plea bargaining. Severe punishments for petty crimes and

consecutive sentencing are other reasons for the frequent use of plea bargaining. Polls show that the public sees plea bargaining as an unjust way of getting additional money for the budget. This is an area in which the new Government is likely to implement reforms

Shortly after the parliamentary elections, a number of local electoral commissions came under pressure from supporters of the winning party. A number of local assemblies around the country have since bowed to pressure to elect new heads of city councils and local government and to change the composition of local administrations. The new Government also began to implement its campaign promise to “restore justice” by launching a number of criminal prosecutions targeting members and officials of the previous Government.

Reform of the criminal justice system continued- though slowed down in an electoral year-, with substantial EU financial support, covering the liberalisation of criminal policies, the promotion of non-custodial measures and the rehabilitation of offenders, particularly juveniles. In March, the parliament adopted legislative amendments addressing the temporary assignment of judges, disciplinary procedures, and the transparency of disciplinary proceedings. 2012 saw a positive evolution in the relief of prison congestion. This was considerably boosted by the Amnesty bill passed in January 2013 which led to the release of around 10,000 inmates, and significant reductions of prison terms for most of the rest. January 2013 also saw the release of 190 individuals following their controversial recognition as political prisoners.

Georgia continued to make progress in fighting **corruption**. The EU has been supporting anti-corruption measures in Georgia for many years, including through an ongoing programme to reform public finance management. Transparency International ranked Georgia 51st of 176 countries on its corruption index in 2012. A 2012 crime, security and corruption survey put Georgia at the same level as the Nordic countries. However, measures to prevent, detect and address elite corruption still need to be taken.

Other human rights and fundamental freedoms

The security and law enforcement system came under intense criticism following the release of videos in September showing prison inmates including juveniles being tortured. The videos triggered mass demonstrations and had an immediate and possibly decisive impact on the parliamentary elections. Prison abuse had been documented by the Public Defender and the issue raised by international organisations and the EU over an extended period, without a substantial official response. After the prisoner abuse scandal, the previous Government acted swiftly: the Corrections and Interior Ministers resigned, the Public Defender was appointed new Minister of Corrections, members of prison staff were dismissed and 19 people were prosecuted. A thorough, transparent, independent and effective investigation and long- term structural reforms including a sound mechanism for internally and externally monitoring of prisons, are still needed, to ensure that ill treatment is fully eradicated. It is encouraging that the new Government has expressed its readiness to tackle this as a priority.

In November, the parliament launched a process of identifying political prisoners in Georgia. A draft amnesty law, including a list of political prisoners, was adopted on 21 December and was subsequently vetoed by the President. The President’s veto was overturned by parliament and, on 13 January 2013, 190 individuals were released having been identified as political prisoners. This process suffered from a number of flaws: the parliament did not involve the judiciary, which might normally have been entrusted with the role of establishing whether the individuals concerned were political prisoners according to objective criteria and international

norms. In addition, the Council of Europe's Venice Commission was not consulted prior to the adoption of the amnesty law, despite its opinion being sought by the Parliamentary Assembly of the Council of Europe. The Venice Commission's opinion states that the amnesty law failed to comply with certain fundamental principles of the rule of law, namely legality (including transparency), the prohibition of arbitrariness, non-discrimination and equality before the law.

Concerns remain over the excessive use of **administrative detention** of up to 90 days for minor breaches of the law, such as defying police orders. Legal guarantees for administrative detainees are lower than for pre-trial detainees under criminal charges.

After a law giving political parties financial incentives to improve their gender balance was brought in, the number of **women** on party lists increased in 2012. Women remain generally under-represented in public life. With the exception of some activities that benefitted from the support of international organizations, the State Anti-Domestic Violence Council has not delivered significant results in 2012.

The **Children's** Action Plan (2012-15) is being implemented, with the mandatory licensing of child-care institutions and with child-care standards being revised with UNICEF support. The reduction of the number of children in institutions over the last five years, and the increase of the number in foster care, is an important achievement for Georgia. The pace of child-care reforms should be maintained. Significant gaps remain in the state's identification and proper monitoring of child abuse cases, although the EU is supporting a pilot project in this area. More attention should also be paid to early childhood development. Since September 2012, all children up to the age of five benefit from a state medical insurance scheme that gives them better access to affordable healthcare.

Labour rights have been identified as one of the principal challenges faced by the new Government. Previous reports have noted the absence of substantive social dialogue, and the perception that the authorities were obstructing the activities of trade unions and putting pressure on trade unionists. In December 2011, the Supreme Court had ruled that trade union activists are not protected by the current labour code. Despite this, amendments to labour laws in June 2012 did not address this issue, nor did they address the right to collective bargaining. Following the change of power, numerous work-related conflicts across the country erupted into strikes. However, the new Government has made a commitment to bringing labour legislation into line with international and European standards and to working closely with the ILO and other partners to this end. ILO was closely involved in preparing revisions of the labour code, which is a significant positive development. Amendments on individual and collective labour relationships, and dispute settlement are being prepared with a view to their adoption in Parliament during the spring 2013 session. The quality of social dialogue has also been enhanced; in December 2012, the Parliament adopted a law institutionalising the Tripartite Social Commission under the chairmanship of the Prime Minister.

All major political actors acknowledge the importance of civic integration in Georgia. Minority **religious** groups benefitted from amendments to the civil code allowing them to register as legal entities of public law. Some cases of religious intolerance were reported after the change of government.

Ethnic minorities remain under-represented in state administration. Georgia has not yet signed the European Charter for Regional or Minority Languages and the abolition of

linguistically-segregated schools is progressing slowly. Some progress was made on the development of infrastructure in minority populated areas.

Some progress was made concerning **discrimination on the basis of sexual orientation**. The criminal code was amended to make homophobic motives for violent crimes an aggravating circumstance. The Constitutional Court ruled that the constitutional ban on discrimination covers discrimination based on gender identity. However, social acceptance remains limited. The lesbian, gay, bisexual and transgender (LGBT) demonstration on May 17 was physically attacked by a far larger counter-demonstration.

Cooperation on Foreign and Security Policy, conflict prevention and confidence building

In 2012, Georgia aligned itself with 35 out of 62 EU CFSP declarations it was invited to support (42 out of 82 in 2011). The EU remained committed to and continued to fully support Georgia's territorial integrity and sovereignty and the peaceful resolution of the conflicts there. The EUSR for the South Caucasus and the Crisis in Georgia co-chaired the Geneva Discussions and took the lead in other conflict resolution and confidence-building efforts. The EUMM played a key role in stabilising the situation along the administrative boundary line for the conflict-affected communities during the tense pre-electoral period and the Kavkaz 2012 military exercises.

Since April 2012, the Incident Prevention and Response Mechanism (**IPRM**) for Abkhazia has been blocked, after the Abkhaz *de facto* authorities declared the Head of the EUMM to be *persona non-grata*. Following the change of government, there are some encouraging signs that the new authorities might do more to engage with the breakaway territories. Several EU projects promote conflict prevention and confidence-building measures, especially in Abkhazia.

The number of countries that accept the **Status-Neutral Travel Documents (SNTD)** continues to increase, although only very few from Abkhazia and South Ossetia have shown interest in these documents. Some of them are also willing to admit persons residing in the breakaway regions of Abkhazia and South Ossetia travelling on any other legal travel document.

In a surprise move of which the international community only learned some months later, on 23 December 2011, the parliament adopted amendments to the law on internally displaced persons (**IDP**) law. A recent report by the UN Secretary-General welcomed certain changes but levelled a criticism that terminology and definitions were introduced with the amendments which are governed by political considerations, and as a result, not all internally displaced persons as defined in international law and practice can enjoy benefits".

On 13 June 2012, the Government formally adopted the 2012-14 IDP Action Plan for implementing the state strategy on internally displaced persons. The plan received continued support from an EU-financed reform programme. The Action Plan was brought into line with donors' suggestions, with timing and costing introduced. Nonetheless, a more strategic approach, more national ownership and more financing will be needed, if the Georgian Government is to effectively tackle the persisting problem of socio-economic integration and the development of IDP communities.

The reporting period saw the rapid resettlement of IDP families in new durable housing solutions (DUSO) and a dramatic upsurge in handing over private ownership of DUSO to IDPs. While international standards were generally adhered to during resettlements, more forward planning and the transparent selection of beneficiaries would increase efficiency and legitimacy.

3. ECONOMIC AND SOCIAL REFORM

*Macroeconomic framework and functioning market economy*³

Georgia retained its strong economic performance in 2012 despite the worsening global environment. **GDP growth was at preliminary 6.1%**, moderating from a 7.0% expansion in 2011. Economic performance in 2012 was supported by surging investment and growing domestic demand, rising remittances and robust credit activity as well as a booming tourist sector. However, activity weakened significantly in the final quarter of 2012 due to uncertainties associated with the political transition following the October elections that weighed on investments and consumer spending. The worsening global economic environment also contributed to the moderation.

In contrast with the high inflation in the previous two years, there was a slowdown in 2012, mainly due to lower global food prices, but due to the of appreciation of the local currency in the first half of the year. As a result, the annual consumer prices fell by 0.9% in the year. In the absence of inflation pressures, the central bank continued gradually softening its monetary stance throughout the year, lowering the key policy rate, to 5.25%. However, the effectiveness of domestic monetary policy remains limited by the high – albeit declining – dollarization ratio. The intention of the new government to seek the replacement of the Governor of the National Bank of Georgia well ahead of the expiration of his mandate raises concerns about the **central bank's independence**.

The sound economic performance in 2012 keeps the 3.5%-of-GDP **budget deficit** target for the year within reach. This will be only a slight improvement from the 3.6% deficit in 2011 as the strong fiscal consolidation of the last two years came to a halt ahead of the October elections. The high **current account deficit** remains a source of vulnerability at 11.8% of GDP in the first three quarters due to growing imports of investment goods. Net FDI declined by a third in the period, but this was offset by rising debt capital inflows to several big local entities. Growing foreign exchange reserves, donor financing and an IMF precautionary programme agreed in April mitigate external risks in the short term.

Social situation, employment and poverty reduction

The improvement of labour indicators in 2011 continued in 2012, with a decrease in the **unemployment** rate to 14.4% expected for 2012. However, the Georgian labour market continues to experience a number of difficulties: high structural unemployment, a high urban unemployment rate, a high youth unemployment rate, and a rising unemployment rate among the population with higher education suggesting serious mismatches between the labour supply and demand.

³ Figures on GDP, inflation, trade and employment are generally from Eurostat based on data supplied by the national statistical offices; or IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

In this context a State Ministry of Employment was established in July, with a six-point plan including the creation of an employment data-base and the introduction of the 'legal status of unemployed'. The new Government announced plans to integrate the State Ministry of Employment into the Ministry of Labour, Health and Social Affairs.

In December the Parliament adopted a law institutionalising the Tripartite Social Commission under the chairmanship of the Prime Minister.

During the first half of 2012, **poverty** reduction and pressing social issues, mainly employment and social assistance, was a focus of the parliamentary elections. All political parties made affordable free health care, a pension increase and other social support for vulnerable groups central to their major statements and programmes. Besides targeted social assistance, the authorities declared vocational education and training for improved employability a priority, although a coherent programme or strategy is not in place yet. It is hoped that the improved atmosphere of social dialogue will contribute to progress in these areas.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Georgia's main trading partner accounting for 26.8% of its trade volume in 2011⁴. **Bilateral trade** flows increased and during the first eleven months of 2012 amounted to EUR 2.4 billion. However, the growth of total trade reflects dynamics of EU exports to Georgia which increased to EUR 1.85 billion during the same period. EU exports consisted mainly of mineral fuels and related materials, machinery, mechanical appliances and transport equipment, chemicals, pharmaceutical products and other manufactured goods. EU imports from Georgia slightly decreased to EUR 558 million during the first eleven months of 2012. EU imported from Georgia mainly crude materials and mineral/mining products, chemical products (fertilisers), food products (edible fruit and nuts), and mineral water and wine. The structure of Georgia's export portfolio has not changed in the past year, and continues to be dominated by base products and displays limited diversification.

Georgia continued to benefit from the GSP+ unilateral preferences for processed goods (mainly agricultural) to enter the EU market. It remains bound by the GSP+ obligation to respect and implement a number of international conventions related to social, environmental, human rights and good governance issues. Georgia made some modest progress by amending its Labour Code to address limitations on duration of strike and the minimum threshold for the composition of trade unions. The Government also somewhat improved its dialogue with social partners. Other important recommendations reiterated by the ILO Committee of Experts in its 2012 report remain to be acted on as a matter of priority. The new Government, following the October parliamentary elections, pledged to enhance its cooperation with ILO and social partners and to address recommendations issued to Georgia by ILO in this area. Implementation of these commitments continues to be vital for Georgia's GSP+ beneficiary status.

The bilateral Agreement on the protection of geographical indications entered into force in April. A comprehensive EU-financed reform programme on agriculture and rural development also provides support in this regard. Following the progress made in preparatory reforms, the EU launched negotiations on a DCFTA with Georgia in February. The DCFTA

⁴ Data for 2012 was not available at the time of writing.

will provide a framework for improving trade and the trade-related environment in Georgia and further attracting investment to the country to strengthen its economic competitiveness and diversify its export base. It is essential that Georgia continues to implement reforms in all trade-related areas in parallel to the DCFTA negotiations. Diversifying the economy and trade remains key to boosting Georgia's trade flows, not only with the EU but also with its partners in the region.

Georgia continued to approximate with EU **sanitary and phyto-sanitary** (SPS) standards. In May, it adopted a new Food Safety, Veterinary and Plant Protection Code; the EU communicated to Georgia the shortcomings in this code that remain to be addressed in preparing for the future free trade area. The National Food Agency (NFA) continued to carry out food safety inspections in establishments. For the first time ever an animal registration programme is being introduced and state-funded vaccination campaigns on foot and mouth disease and anthrax have been run. In July, the EU and the NFA agreed to support capacity building of the agency through the Comprehensive Institution Building programme. With EU twinning support, Georgia progressed in developing secondary SPS legislation and in building capacity on SPS border controls carried out by the Revenue service. In parallel to the DCFTA negotiations, Georgia should continue to implement SPS related reforms on the basis of its food safety strategy. Particular attention is needed to ensure quality of legislation and consultations with stakeholders during the legislative process.

Georgia continued to implement a modern **customs** policy and further capacity-building measures (i.e. to create the right conditions for livestock in transit, veterinary border inspections) in this regard. Since the implementation of tax and customs reforms, clearance times and costs have decreased. The overall level of satisfaction with customs procedures among domestic stakeholders remained very high.

In the area of the **free movement of goods** and **technical regulations**, Georgia adopted a Code on product safety and free movement of goods in May. It aims to approximate Georgian law to two EU directives (Consumer Product Safety Directive and the Defective Products Liability Directive) with regard to horizontal rules on the marketing of industrial products. The Georgian Accreditation Center (GAC) became an associated member of the European Cooperation for Accreditation (ECA). The EU continued to provide technical assistance in this sector through the Comprehensive Institution Building programme. Two twinning projects, one on standardisation and metrology and one on accreditation, continued to support the GAC and Georgian National Agency for Standards and Metrology. A Technical and Construction Inspection Agency became a legal entity of public law under the Ministry of Economy and Sustainable development in September. This agency may play a market surveillance role, but more details on its envisaged role and strategy are not available at present.

Georgia continued to improve its **business climate** and moved up to 9th place (out of 185) in the ease of doing business ranking in the World Bank's 'Doing Business 2013' annual report. Despite major improvements so far, aimed mostly at reducing red tape and accelerating administrative procedures for businesses, some barriers remain. More needs to be done, especially in areas closely linked to law enforcement: the protection of property rights, access to the courts, the impartiality of judiciary authorities, appeal procedures, the protection of creditors and taxation issues.

The **financial services** sector continued to expand. Capitalisation in the banking sector remained high, with the capital adequacy ratio exceeding the minimum Basel requirements. A

significant feature of the financial system is the high dollarisation level, which hinders the effectiveness of monetary policy. In the non-banking sector, the National Bank of Georgia focused on continuing to improve its legal and regulatory framework, including strengthening of the securities market. The Parliament amended the Law on Activities of Commercial Banks, authorising them to engage in additional types of banking activities, namely providing payment services, operating payment systems and acting as a settlement agent.

A new Law on Payment Systems and Payment Services entered into force in July. Its purpose is to facilitate the functioning of the **payment system**, including securities clearing and settlement systems. The law also introduced the concept of financial collateral, entitling a creditor to preferential satisfaction of his claim before other secured and unsecured creditors.

No development is noted in the area of **company law**.

Other key areas

The alternative **tax** audits introduced in 2011 allowed the recruitment of private auditors for tax audits. However, Ministry of Finance is considering repealing this modality in 2013 in line with the position of the IMF. Georgia made it easier to pay taxes by improving the use of electronic systems and providing more services to taxpayers. The Mediation Council handled an increasing number of disputes between taxpayers and the relevant departments of the Revenue Service.

In line with its **Competition** Strategy, Georgia adopted in May a framework-law on Free Trade and Competition. The law addresses the core principles of antitrust and **state aid**. Georgia continued to strengthen the capacity of the Agency for Free Trade and Competition, which since January 2012, is merged with the State Procurement Agency. This single Agency is receiving EU support.

The effective protection of **intellectual property rights** remains a key issue in Georgia. A law on border measures related to intellectual property rights enforcement was amended in December 2011. Since 2012, a single registration at Sakpatenti is enough to obtain border protection without having to also register at the Revenue Service. The EU provided support through TAIEX instrument and ad hoc assistance in order to increase the capacity building of the Georgian Copyright Association (collective management society).

The State **Procurement** Agency was merged with the Free Trade and Competition Agency in January. The facility for framework agreements was introduced in the electronic procurement system. It still lacks support for other modes that are obligatory under the EU acquis, such as the restricted procedure and the negotiated procedure.

Georgia continued to implement its mid-term strategy (adopted in December 2011) to develop and improve national **statistics**. New methodologies were applied in the computation of the Consumer Price Index. Major changes concerned the revision of weights, including the use of national accounts data, and the composition of the consumption basket. The methodology for the Producer Price Index was changed to focus on products. In April Geostat submitted the plan for implementing the population census to the Government Working Group. Georgia is encouraged to conduct its population census in 2014 at the latest and to follow international recommendations in this regard. Georgia developed an online data collection system for businesses that will reduce the response burden and improve the quality of the data. A global Assessment of the Georgian statistical system was carried out.

Georgia's **enterprise policy** aims to create favourable conditions for all enterprises and the business climate was steadily improved. There is no specific policy for small and medium-sized enterprises (SMEs) and they have little role in policy-making, (as opposed to larger companies) although there are signs of emerging dialogue and co-operation with the SME. Economic initiatives are taken in the context of regional development, a reform area which receives continued EU support. The State Strategy for Regional Development encourages entrepreneurship and innovation, emphasizing competitiveness. The Partnership Fund, set up in mid 2011 with the aim to contribute to the financing of private sector projects, continues to be operational under the new government and focuses on filling the gap for long-term capital in the country.

The Parliament amended the "Law on **Public Internal Financial Control**" in December 2011. It requires that Internal Audit Units, to be set up in all Ministries and other State bodies, function according to internal audit standards. The Heads of the Internal Audit Unit are authorised to determine the type of audit, scope of activities, their frequency and the number of internal auditors. The requirements of the law are met by most of the line ministries; law enforcement ministries have to establish internal audit units from 2013.

In the area of **external audit**, the State Audit Office (SAO) conducted financial audits according to the new Financial Audit Manual, in the ministries of Finance, Energy, Culture and Education and Science. A comprehensive EU-financed programme supports these public finance reforms. The Quality Control department, created during 2012, conducted quality control of already conducted financial audits and issued a report according to ISSAI 1220 standard. However, since January the SAO monitors political party financing and has the right to investigate and to impose fines on political parties and affiliated groups. Types of cases treated by SAO and the methods used have raised numerous questions among NGOs and opposition parties.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The EU-Georgia **Mobility Partnership** continued to be implemented smoothly.

Georgia prepared a draft 2013-15 **Migration** Strategy that should soon be approved by the Government. The draft, which takes account of national interests and international practice, deals with legal migration; combating illegal migration; asylum policy and humanitarian status; the return and reintegration of Georgian citizens, and migration and development.

The EU-Georgia **visa facilitation and readmission agreements** that entered into force in March 2011 were satisfactorily implemented. The EU therefore started a dialogue on **visa liberalisation** with Georgia in June 2012, with the aim to discuss the conditions for visa-free travel to the EU for Georgian citizens. It agreed the terms of reference of the visa dialogue with Georgia in August and preparations for a Visa Liberalisation Action Plan (VLAP) were subsequently made. The VLAP was formally handed to Georgia on 25 February 2013 by Commissioner Malmström.

A Border Police Order was issued in April on establishing competent persons for carrying out the investigation of crimes in the maritime space of Georgia under the jurisdiction of MIA border police. Georgia updated its **border management** strategy and the associated Action Plan. It signed and implemented bilateral agreements on border police cooperation with Turkey, Latvia, Moldova, Estonia, Bulgaria and Germany.

The 2010-12 cooperation plan between the Ministry of Internal Affairs (MIA) and FRONTEX continued to be implemented. The MIA participated with observer status in joint FRONTEX operations at the land, sea and air borders. A joint statement of cooperation between the MIA and the European Union Border Assistance Mission was drafted. Under the EU-funded South Caucasus Integrated Border Management Programme (SCIBM), the MIA and the State Border Guard Service of Azerbaijan prepared an agreement on the activities of border representatives.

To facilitate the flow of people at border-crossing points, Georgia installed e-gates for Georgian biometric passport holders at Tbilisi and Batumi international airports. The Sadakhlo and Red Bridge border-crossing points were re-build and refurbished.

Georgia continued drafting an **anti-drug** strategy. In the context of the international border police conference, a meeting was held in April on cooperation between border and other relevant units in the fight against drugs smuggling. The MIA concluded bilateral international agreements on drugs cooperation with Bulgaria, Estonia, the Slovak Republic and Turkey. An EU dialogue on drugs with Azerbaijan, Georgia, Moldova and Ukraine was held in Brussels in April.

With regard to **judicial cooperation** in civil matters, a number of international conventions on legal cooperation and family law drawn up by the Hague Conference on Private International Law remain unsigned.

The new Georgian **data protection** law entered into force in May 2012, with provisions related to administrative responsibility for violation of its provisions entering into force in January 2013, and with its part applying to the private sector entering into force in January 2016.

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

Georgia made progress in harmonising its **transport** legislation with that of the EU. Georgia made serious efforts in implementation of the EU-Georgia Common Aviation Area Agreement signed in 2010. The first meeting of the EU-Georgia Joint Committee overseeing the implementation of this agreement took place in September 2012 in Tbilisi. In December, Georgia took another step towards deeper integration with the EU's aviation system by signing the instrument of accession to Eurocontrol. Georgia is encouraged to continue all aviation-related reforms with the same high-level commitment, in particular the implementation of the agreement of 2010. The EU is ready to support this work with technical assistance.

The inspection mission to Georgia to verify compliance with the international maritime training and certification requirements of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers took place in October 2012. Georgia has made considerable efforts to comply with the requirements of the Convention. Depending on the readiness of the Georgian authorities to resolve the remaining issues, the Commission could put forward a positive proposal by the end of 2013 so that certificates of the Georgian seafarers could be recognised again by EU Member States.

Georgia became a Contracting State to the Convention concerning International Carriage by Rail (COTIF) and Member of the Intergovernmental Organisation for International Carriage by Rail (OTIF) in May. This is an important step for its integration with the EU and international rail structures, facilitating the transport of freight by rail. Georgia continued to develop its potential as a transit country by investing in infrastructure. The EU supported this work through a EUR 20 million grant from the Neighbourhood Investment Facility to reconstruct a section of the East-West motorway. The development of the Baku-Tbilisi-Kars railway that will help connect the Central Asian and European markets advanced in 2012.

Georgia remained a reliable **energy** partner for the EU in developing the Southern Corridor. Georgia and Ukraine are working on a new multilateral inter-governmental agreement to develop the Euro-Asian Oil Transportation Corridor (EAOTC). In the electricity sector, work on the Georgian side of the Black Sea Energy Transmission Network (Azerbaijan-Georgia-Turkey) is progressing well. The construction of an electricity interconnection with Azerbaijan and related infrastructure were completed. Renovation of the large Enguri hydro power plant progressed. In January, Georgia and Turkey signed a cross-border agreement on electricity trade across new interconnections between them. Georgia remained an active observer in the Energy Community. In January 2013 it submitted an application to become a full member. Georgia is encouraged to strengthen the energy regulator's independence and capacity and to continue working on gas market reform, including unbundling. It is also encouraged to step up efforts on renewable energy and energy efficiency including by adopting legislation in these areas.

In the field of **climate change**, the draft third National Communication for the implementation of the United Nations Framework Convention on Climate Change (UNFCCC) is focussing on the territory of the Autonomous Republic of Adjara. Georgia participated in preparations for the forthcoming regional EU Clima East Project (EUR 18 million) that will be implemented in the period 2013-2016. The Regional Environmental Centre for the Caucasus (REC-C) continued implementing an EU funded project on adaptation to climate change. Georgia is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the 17th and 18th the sessions of the UNFCCC Conference of the Parties. Georgia is also encouraged to make additional efforts to fully implement the Cancun and Durban agreements and in particular devise a low-carbon development strategy.

In the field of **environment**, Georgia adopted the second National Environmental Action Plan for 2012 to 2016 and made a new report on the state of the environment available. It also adopted a national strategy and 2012-2014 Action plan on environmental education for sustainable development. Following the amendment to the environmental framework law, the revision of the forest code and the facilitation of hunting red list species, Georgia is encouraged to strengthen its environmental legislation and administrative capacity, to apply procedures for environmental impact assessment consistently and to pay particular attention to public participation. Georgia is also encouraged to ratify the Espoo Convention. Georgia committed to implementing a country study on TEEB (The Economics of Ecosystems and Biodiversity) aiming to improve knowledge of and recognize the value of the country's natural capital. Under the new Government, several areas of responsibility transferred to other Ministries will be re-integrated into the renamed Ministry of Environment and Natural Resources which is preparing to strengthen its capacity.

The REC-C continued its activities. Its financial and institutional sustainability still need strengthening.

In the area of **civil protection**, Georgia continued to participate in the EaP flagship programme on prevention, preparedness and response to natural and man-made disasters (PPRD East). As a part of the programme Georgia is contributing to the development of Electronic Regional Risk Atlas. The National Environmental Agency (covering all natural hazards) is involved from the beginning in the establishment of the atlas and the development phase is close to completing in the country. Georgia is encouraged to take advantage of the guiding document on Risk Assessment Policy for the EaP region produced under the PPRD East programme.

Georgia is among the 168 governments that adopted the "Hyogo Framework for Action: Building the Resilience of Nations and Communities to Disasters", but work on Disaster Risk Reduction is still only at the beginning and it will require considerable further effort to develop capacities and processes.

With regard to the **information society**, the Georgian telecoms market developed very rapidly over the last few years. Market growth in 2012 was stable in all areas (mobile, broadband, fixed wireless telephony, etc.). Georgia introduced mobile number portability across all four mobile operators. Mobile penetration reached 112% by September. Georgia made progress in developing e-government. The country is a regional leader in this area (ranking 72 out of 190 in the 2012 UNPAN e-government development survey, compared to 100 in 2010). The creation of the data.gov.ge portal made it easier to access public e-services. An EU twinning project, begun in November, aims to further improve the e-government and inter-operability frameworks, strengthen cyber security capacity and contribute to the preparation of an overall e-strategy for the country.

In the area of **audiovisual policy**, Georgia amended its broadcasting law and abolished the license requirement for transit broadcasting in May. With this amendment, transit broadcasters will only need to receive authorisation to provide their service.

Georgia ranked 71 out of 141 countries on the Global Innovation Index in terms of its innovation capabilities and results. Its expenditure for **research** and **innovation** over the last few years remained below 1% of GDP. Besides some light tower initiatives with limited prospects for sustainability, like the Batumi Institute of Technology, internal research funding increased the dependence on external research funding such as EU's Seventh Framework Programme (FP7). Since 2008, Georgia has become increasingly involved in the FP7 through 31 projects covering infrastructural and networking measures and to a lesser degree, pure research, in the areas of health, information technology and communication, the environment, social sciences and humanities. A total EU contribution to these projects amounts to EUR 156 million, more than EUR 3 million of which is given to the 26 Georgian public and private institutions participating in these projects.

7. PEOPLE TO PEOPLE CONTACTS, EDUCATION AND HEALTH

The new Government announced its intention to 'de-politicise' the education and youth sectors and to improve the autonomy of schools and universities and the quality of education. Since the beginning of 2012, Georgia has encouraged the setting up of adult **education** centres in the suburbs of Tbilisi in the context of its 2010 'Adult Education Strategy'. The strategy was developed in close cooperation with the Adult Education Association of Georgia and the European Training Foundation as a way of encouraging a more coherent and structured

approach to life-long learning. Georgia started preparing to participate in the EU's e-twinning programme for secondary schools.

In the area of **higher education**, it made considerable progress in implementing the Bologna principles on legislative and regulatory terms. However, the affordability of university studies for Georgian students remained a problem.

The new Government recognised **vocational education and training (VET)** as a key priority. Work on the VET follow-up strategy for the period after 2012 was accelerated. The new leadership took steps to increase the involvement of social partners in the governance and management of the VET sector and plans to increase financing for this purpose in the revised state budget for 2013. With a substantial increase in the budget for VET student vouchers, better curricula and the resulting better quality of several public VET and community colleges, the number of students admitted more than doubled in 2012. The Ministry of Education and Science and the National Centre for Educational Quality Enhancement started systematically reviewing occupational standards. The development of the national system for the validation of non-formal and informal learning continued with the setting up of an operational mechanism and methodology. These VET reforms receive support from an EU-financed reform programme. They also complement the EU-Georgia Mobility Partnership and policies for the integration of returning migrants willing to have professional skills acquired during their employment abroad formally attested.

Georgia participated in EU **higher education** cooperation programmes. Twelve projects were selected under the **Tempus IV** programme. It benefitted from 12 new scholarships for **Erasmus Mundus** joint Masters Courses and one scholarship for an Erasmus Mundus Joint Doctorate. It was also given another 298 grants for short-term mobility organised within a university consortium. The first ever pre-departure orientation event for Georgia took place in July. The participation of Georgian universities in the **Jean Monnet programme** still needs to be improved. European Studies are currently taught at only two Tbilisi-based universities. The Marie Curie programme still needs to be advertised more among Georgian scholars and higher education institutions. To this end, and to further integrate the Georgian scientific community into the European Research Area, two projects focused on Georgia were selected under the ERA-WIDE initiative of FP7. **Marie Curie** actions to support researchers' training, mobility and career development, funded nine institutions and six individual researchers from Georgia.

Young people and youth organisations continued to benefit from the **Youth in Action** programme. The European Neighbourhood Policy Instrument (ENPI) provides additional funds to the Youth in Action programme for 2012 and 2013 to increase cooperation among young people, youth workers and youth organisations from the European Union and the Eastern Partnership neighbouring countries. In 2012, the setting up of the Eastern Partnership Youth Window within the Youth in Action programme led to a significant increase in the number of young Georgian participants. Their number more than doubled compared to 2011. In 2012 462 projects were selected involving 1439 young Georgians. Georgia also hosted the EU-Council of Europe youth partnership symposium 'Well-Being of Young People in Eastern Europe and Caucasus' on 11-12 June in Tbilisi, in which all Eastern Partnership countries took part.

Cooperation between the EU and Georgia on **culture** as an economic resource for tourism is intensifying. A twinning project supporting the Georgian National Museum was finalised in September and another twinning project with the Georgian National Agency for the

Protection of Cultural Heritage started in November. During the reconstruction of the Bagrat Cathedral in Kutaisi the UNESCO Office issued a warning that it might have to renounce its status of World Cultural Heritage if the work was not carried out according to UNESCO principles. Art historians and civil society activists repeatedly complained about the primacy of economic aspects over securing the authenticity of immovable cultural heritage.

Georgia is implementing its 2011-15 **Healthcare Strategy** by focusing on patient's rights and improving the quality of services, primary healthcare including regional primary healthcare, the development of hospitals and health insurance coverage. The new Government announced an update of the strategy. From September, state medical insurance was extended to all pensioners and people with disabilities. Georgia implements programmes on HIV/AIDS, mental health and the promotion of healthy lifestyles.