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Implementation of the European Neighbourhood Policy in 2008

Progress Report Georgia

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1. BACKGROUND AND OVERALL ASSESSMENT

Georgia and the EU first established contractual relations in 1996 under a Partnership and Cooperation Agreement which entered into force in 1999. On this basis, the EU-Georgia ENP Action Plan was adopted in November 2006 for a period of five years. Since then, its implementation has been guided and monitored on the basis of annual implementation tools, which set out comprehensive yearly sets of priorities and timelines, based on the priorities agreed jointly by the EU and Georgia. A first progress report was adopted in April 2008.

In addition, institutional co-operation through the EU-Georgia Cooperation Council, the EU-Georgia Cooperation Committee, the Parliamentary Cooperation Committee and subcommittees on trade, economic and related legal issues and on justice, liberty and security issues, has enabled both sides to move forward and follow the implementation of the ENP Action Plan closely.

This document reports on the overall progress made on the implementation of the EU-Georgia ENP Action Plan between 1 January and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Georgia.

The year 2008 was marked by a number of extraordinary events and a slow-down in the implementation of the ENP Action Plan. Early presidential and legislative elections, held in a very polarised political environment, resulted in a long parliamentary recess and several Cabinet reshuffles. In the course of 2008, Russia took a number of steps to strengthen its relations with the separatist authorities in South Ossetia and Abkhazia, including the un-coordinated lifting of CIS economic sanctions. A sequence of military incidents and provocations culminated in August 2008 in the outbreak of an armed conflict with Russia over the control of South Ossetia's territory. The hostilities resulted in several hundred fatalities and the displacement of around 192 000 persons, of which an estimated 30 000 will not be able to return to their homes in the foreseeable future, serious environmental damage and left 7000 Russian troops stationed on Georgian territory. A ceasefire agreement and a more detailed implementation agreement were concluded with EU support.

With EU and international support, the Georgian government reacted promptly and effectively to this emergency, in particular by providing accommodation to new Internally Displaced Persons (IDPs) before the winter season. The ensuing recognition of the self-declared independence of Abkhazia and South Ossetia by Russia and the build-up of Russian military presence in the two separatist regions against the will of the Georgian government violated Georgia's sovereignty and complicated a peaceful and sustainable settlement of these conflicts. A ceasefire agreement was concluded with EU help, and the extraordinary European Council of 1 September 2008 expressed firm support for Georgia's territorial integrity and decided to provide substantial political, financial and practical support to Georgia, in order to stabilize the security and humanitarian situation. This included the dispatching of an EU civilian monitoring mission (EUMM), the organisation of an international donors' conference, the appointment of an EU special representative for the crisis in Georgia, the launch of the Geneva international discussions, the establishment of an international mission of inquiry into the causes of the conflict and the overall strengthening of EU-Georgia bilateral relations.

Despite this difficult context, Georgia managed to advance the implementation of the ENP Action Plan. Major achievements in the reporting period were the pursuit of the fight against

corruption, reforms in the rule of law area, especially in facilitating access to justice, improving detention conditions in the penitentiary system and efforts to combat torture and inhumane and degrading treatment. Increased political cooperation with the EU was underpinned by Georgia's alignment with 117 of the 154 CFSP declarations to which Georgia was invited to join. Steps were undertaken to improve the business and investment climate. A national reform strategy for the agricultural sector, covering the period 2009-12, was adopted. Georgia continued its cooperation with the EU on trade-related issues and achieved some progress in this area. Good cooperation was established with Georgia on justice, liberty and security (JLS) matters, through the establishment of a new JLS subcommittee, and in visa dialogue, with a view to launching EU-Georgia negotiations on visa facilitation and readmission agreements. Progress was also made in the fields of education and vocational training.

Georgia made less progress in the implementation of some other key objectives of the ENP Action Plan. Media freedom and pluralism remain areas of concern. Injecting new momentum into political reforms, economic recovery, the effective implementation of a comprehensive national IDP strategy and more consistent alignment with the EU regulatory system as well as advancing sectoral reforms, will continue to be key challenges in 2009. The negative influence of the August 2008 war on the Georgian economy in combination with the global economic crisis has heightened the urgency of addressing long-standing socio-economic challenges.

2. POLITICAL DIALOGUE AND REFORM

Objectives in this area include: Strengthening democratic institutions and respect for human rights and fundamental freedoms in compliance with Georgia's international commitments; strengthening the rule of law especially through reform of the judicial system, including the penitentiary system, and through rebuilding state institutions; continuing the fight against corruption.

Democracy and Rule of Law

Presidential **elections** took place in January 2008 in a very polarised political environment, following the civic unrest of November 2007 and the subsequent declaration of the state of emergency. President Saakashvili was reconfirmed for a second term with a narrow margin of 53.47%. Although international observers found that these elections were "in essence consistent with most international standards for democratic elections", they noted a number of serious shortcomings, including the misuse of state administrative resources for campaigning, unbalanced media exposure of candidates, reported acts of voters' intimidation, lack of clarity in election-day procedures, and irregularities in counting and tabulation, as described in last year's report. The political opposition rejected the result, judging the electoral process to be rigged and containing irregularities and fraud.

Some of the reported faults were partially addressed before the legislative and administrative elections in May 2008, including through EU-financed electoral assistance. The threshold for parties to enter Parliament was reduced from 7% to 5%, the electoral list was significantly revised, opposition parties achieved a better level of representation in electoral commissions and procedures for filing electoral complaints were clarified and simplified. Negotiations between the parliamentary majority and the coalition of opposition parties on additional amendments to the electoral code failed, contributing to an increasingly confrontational political environment. In spite of the improvements introduced in the electoral system, further shortcomings were observed by international monitors in the May 2008 legislative elections,

including intimidation of opposition candidates and state employees, lack of transparency and consistency in the tabulation process, and unclear distinctions between State and party with an apparent bias in favour of the ruling United National Movement Party. Further problems were noted in the treatment and investigation of complaints and reports of irregularities.

The May 2008 elections gave an overwhelming constitutional majority to the ruling National Movement Party. Most of the elected opposition members decided to boycott parliamentary participation in protest against the reported electoral irregularities and the new electoral rules which they claim gave an unfair advantage for the incumbent majority. Following the lowering of the minimal number of seats required for constituting a political group, the opposition Christian Democratic Party eventually entered Parliament. The parliamentary and extra-parliamentary opposition remains very critical of several substantial aspects of the present electoral code and asks a new process of revision.

The Georgian President recognised in September 2008 that the "rose revolution" had only partially delivered on democratic reforms and announced a 'new wave of democratic reforms', including the strengthening of Parliament's control over the executive, enforcing the inviolability of private property, improving freedom of the media, increasing the independence of the judiciary, and resuming the financing of opposition parties which decided to boycott parliamentary work.

Some of these reforms were initiated and partially enacted by the end of 2008. The role of the Parliamentary opposition was strengthened through increased representation in parliamentary committees (including the chair of the parliamentary commission on the August war), inclusion in the constitutional reform process, in the High Council of Justice, and in the parliamentary supervision over defence and security matters. Public funding of all eligible political parties was reinstated. A new law establishing a Chamber of Control (Court of Auditors) on the basis of EU and international standards was adopted in December 2008, although the implementation of certain important elements is staggered over a longer period.

In December 2008 the President initiated amendments to the Constitution aimed at limiting President's powers to dissolve Parliament and simplifying the process by which Parliament can express a lack of confidence in the government. While the aims of these amendments are welcome, the proposed amendments alone do not ensure a more balanced share between parliamentary and presidential powers.

The controversial political developments of 2008 highlighted the need to rapidly advance democratic reforms and the consolidation of democratic institutions. A specific commitment by the Government to inject new momentum in democratic reforms was included in a package of political conditionality linked to increased EU post-conflict assistance which was discussed by the European Commission and Georgia in 2008, and eventually agreed in January 2009.

A series of new measures aimed at advancing the reform of the criminal **justice** system was proposed in September 2008. Independence of the judiciary should be improved by the proposed lifetime appointment of lower court judges by the Higher Council of Justice - once the relevant constitutional amendments are adopted by the Parliament - and through the introduction of jury trials. A competition for judicial vacancies in district and appeal courts was announced in September 2008. Vacancies in district and appeals courts are being gradually filled and expected to be completed by 2010. The Council of Europe provided assistance in the elaboration of disciplinary proceedings against judges. Reform of judicial districts is on-going and a specific department for enforcement of court decisions was

established in October 2008. Training of judges, including on judicial ethics, has improved through the establishment of the High School of Justice. A systematic *ex officio* investigation and prosecution of politically motivated alleged crimes still remains an objective. The new Criminal Procedure Code, identified as a priority in the 2007 Implementation Strategy, has still not been adopted.

In December 2008, the President established a Criminal Justice Reform Inter-Agency Coordinating Council to revise the reform strategy for the Criminal Justice System developed with the assistance of EUJUST Themis and adopted in 2005.

Regarding **access to justice,** the new free legal aid service established in 2007 continues to provide legal aid to citizens throughout the country, including to vulnerable groups, with regard to criminal cases and legal counsel on civil and administrative issues. However, the outsourcing of legal aid services by public tender may risk creating imbalances in terms of uniform service delivery.

A coherent approach and a strategy on **civil service reform** still remain to be developed. There is an urgent need to address capacity building in the public administration. The adoption of the new civil service code, prepared in 2007, remains stalled (see last year's report).

Georgia ratified the Council of Europe's Criminal Law Convention on **Corruption** in January 2008, which entered into force in May 2008; and acceded to the United Nations Convention on Corruption in November 2008. In March 2008, the Government amended the Law on Corruption and Conflict of Interest in Public Sector, which includes a code of conduct for public servants and prosecutors. This was complemented by a training session by the Council of Europe. The Anti-Corruption Interagency Coordinating Council was established under the responsibility of the Ministry of Justice. The customs code was simplified and clarified to tackle corruption in the areas of valuation, post-clearance audit and warehouse approvals. However, there is still a need to simplify public procurement procedures as foreseen in the National Anti-Corruption Strategy Action Plan. The practice of sole source procurement over open tendering appears to contradict the Government's commitment to address corruption within the public sector. Interaction and regular dialogue with civil society organizations and with the wider public in monitoring the National Anti-Corruption Strategy remains a priority.

On **local governance,** a new Ministry for Regional Development Issues, which is assigned to ensure better coordination of governmental activities with regard to implementation of local and regional governance reforms, was established in January 2008,.

Human rights and Fundamental freedoms

There is still scope for strengthening of the Office of the Public Defender **(Ombudsman)**. The budgetary allocations from the Government remain insufficient and the office relies mainly on international donors. Relations between the Public Defender and the executive seriously soured as a result of the former's criticism of the Government and President Saakashvili.

Limited progress was reported in the implementation of the legal framework for criminalising **torture and ill treatment** in Georgia. A National Preventive Mechanism (NPM) provided for by the Optional Protocol to the UN Convention against Torture (OPCAT), ratified by Georgia in 2006, has not yet been established. In December 2008, it was announced that the Public

Defender would be designated as NPM and amendments to the Law on Public Defender are under preparation. The Georgian Interagency Coordination Council for Actions against Torture, Inhuman and Degrading Treatment presented a new Action Plan for 2008-2009, which was welcomed by civil society as a good first step and was approved by the President in June 2008. The action plan takes into account a number of recommendations from the European Committee for the Prevention of Torture (CPT) and addresses concerns on excessive use of force. Inhuman and degrading conditions in prisons, expressed in a 2007 CPT report, remain a concern. The European Commission is supporting progress in this area as a priority action under the European Instrument for Democracy and Human Rights.

Regarding **detention conditions**, several prisons were demolished, reconstructed or refurbished in the course of 2008, contributing to the improvement of conditions for inmates. However, Georgian prisons still remain overcrowded and limited progress was reported in the development of systematic actions to address this problem. The limited use of parole or other alternatives to imprisonment is in contradiction with Council of Europe standards. Plans to form a new Ministry of Penitentiary and Probation were announced in late 2008, following the merger of the General Prosecutor's Office (GPO) with the Justice Ministry.

Media freedom and pluralism in Georgia remains an area of concern, notably following the disruption of the operations of Imedi TV, the only independent TV-station with a national coverage in 2007. The broadcasting licence of Maestro cable TV, operating mostly in the Tbilisi area, was repealed as it aired opposition-oriented political discussions without permission from the authorities. This decision was later reversed by the National Communication Commission, as the President announced new measures to allow more air time to opposition groups. As a part of these measures the Parliament adopted a new law requiring the public Channel 1 to air twice-weekly broadcasts reflecting diverse viewpoints. This started in October 2008.

Some progress can be reported, as was the case last year, on the improvement of **minorities'** living conditions and their civic integration, in particular through the improvement of transport infrastructures in peripheral regions where these minorities live, and pro-active education policies. A draft National Concept for Tolerance and Civic Integration has been elaborated. However, isolated incidents of increased religious intolerance have been reported. Since last year, there has been no progress on a consistent minorities' civic integration policy, however. The European Charter for Regional and Minority Languages is still not signed. On the repatriation and integration of the Meskhetian population to Georgia, there was no progress reported by end 2008 and the period for applications to return has been extended by six months until July 2009.

As regards **women's rights**, some progress was observed in the end of 2008 in implementing the Action Plan 2007-2008 on domestic violence. The National Referral Mechanism on implementation of the legislation on domestic violence was established and an inter-institutional Council on elimination of domestic violence was created at the end of December 2008. Georgia is also working on a draft law on gender equality.

On **juvenile justice,** the amendments adopted in 2007 for lowering the minimum age of criminal responsibility from 14 to 12 entered into force in July 2008. The Georgian Parliament's Human Rights and Civil Integration Committee unsuccessfully tried to postpone the entry into force of these amendments which contradict UN recommendations. The number of convicted juveniles increased in 2008, according to UNICEF. Limited progress was

reported on the development of rehabilitation and education activities in places for pre-detention for juvenile offenders.

Cooperation on Foreign and Security Policy

Objectives: Strengthen political dialogue and cooperation on foreign and security matters, and efforts and cooperation in the fight against terrorism. Further develop co-operation in addressing common security threats, including non-proliferation of weapons of mass destruction and illegal arms exports

Since June 2007, Georgia has been invited to align with **CFSP declarations** on a case-by-case basis. In 2008, Georgia aligned with 117 out of the 154 CFSP declarations to which they were invited to join. There was good political dialogue with the Georgian government in 2008, including through a Troika meeting organised by the EU Presidency in July 2008.

Regional Cooperation

Georgia participates in a programme on i**ntegrated border management** in the Southern Caucasus (SCIBM), see section 5.

Georgia is participating in the **South Caucasus Anti-Drugs Programme** (SCAD V) with the overall objective "to encourage the gradual approximation of drug policy legislation, norms and standards between Georgia, Azerbaijan and Armenia and between these countries and the EU", see section 5.

The Regional Environmental Centre for the Caucasus (REC-Caucasus) became fully operational under its new charter with the approval of national representatives of the three Caucasus countries for the new executive body in December 2008. Georgia supported the establishment of its new management structure. The REC is an important tool to promote regional cooperation and stability for the future of South Caucasus.

Cooperation for the settlement of Georgia's internal conflicts

Objective: Promote sustained efforts towards the peaceful resolution of the conflict in Tskhinvali region / South Ossetia, Georgia and in Abkhazia, Georgia

In the first half of 2008, the EU agreed with Georgia to step up the implementation of confidence-building measures between Georgia and the two separatist regions of Abkhazia and South Ossetia. The new measures were aimed at supporting renewed peace efforts in the framework of the UN Secretary General's Group of Friends for Abkhazia and to create the conditions for reviving peace talks under the Joint Control Commission on South Ossetia, as well encouraging inter-ethnic cooperation and improving living standards of concerned populations. However, in the light of the August 2008 events they had to be temporarily put on hold.

In the course of 2008, Russia took a number of steps aimed at strengthening its relations with the separatist authorities in Abkhazia and South Ossetia, including the unilateral lifting of CIS sanctions. Russia's new policy towards the separatist entities undermined Georgia's territorial integrity. Following a series of military incidents and provocations, armed hostilities between the Russian Federation and Georgia over the control of South Ossetia broke out on 7 August 2008 and were suspended after five days as a result of a ceasefire agreement (Six-Point Plan) concluded under the auspices of the EU French Presidency on 12 August. A more detailed

implementation agreement was concluded on 8 September 2008 following the visit of Presidents Barroso and Sarkozy to Tbilisi and Moscow. The hostilities caused several hundred victims and the displacement of around 192,000 persons, of which an estimated 30,000 will not be able to return to their place of residence in the foreseeable future, and serious environmental damage. The six-point agreement has only partially been honoured by Russia, as many substantial aspects remain unfulfilled. Russia strengthened its military presence in Abkhazia and South Ossetia against the will of the Georgian government, denied access to international monitors and humanitarian organisations and not prevented violations of IDPs' human rights in the territories under its control. The separatist authorities in South Ossetia do not allow yet free access for humanitarian agencies from the South. The conclusions of the extraordinary European Council of 1 October 2008 strongly condemned Russia's unilateral decision to recognize the self-declared independence of Abkhazia and South Ossetia.

From the onset of the crisis, the EU provided substantial political, financial and practical post-conflict support to Georgia. The EU has firmly expressed its support for Georgia's sovereignty and territorial integrity and continued to condemn in the strongest terms the decision of Russia to maintain a military and diplomatic presence in the territories. The European Commission provided EUR 8 million of immediate humanitarian aid through the DG for Humanitarian Aid (ECHO) for the internally displaced persons (IDPs) and organised an international donors' conference with the World Bank in Brussels in October 2008, where the EU pledged a package of up to EUR 500 million for the period 2008-10 and mobilized a total pledge by international donors of EUR 3.44 billion. Another substantial EU contribution for stability was the rapid deployment of an EU civilian monitoring mission (EUMM) with a mandate for monitoring the effective implementation of the ceasefire agreement in all the territory of Georgia, including the separatist regions. An international commission of inquiry, led by Ambassador Tagliavini, has been tasked by the EU to investigate the circumstances that led to the outbreak of the conflict.

International talks for consolidating the EU-sponsored ceasefire were launched in Geneva in October 2008, under the co-chairmanship of the EU, UN and OSCE. The talks are aimed at discussing security issues as well as the dignified and safe return, or resettlement, of IDPs, with all involved parties. The EU co-chair is led by the new EU special representative Pierre Morel, especially appointed for dealing with the consequences of the August 2008 conflict. The European Commission and the UNHCR act as co-moderators of the Working Group dealing with humanitarian and IDP issues. In spite of the difficulties linked to status issues and to the opposed positions of the sides involved, the Geneva discussions have allowed a number of concrete measures to advance that could contribute to defusing tensions and creating a better confidence climate.

In autumn 2008 the Government of Georgia adopted a new "Law on the Occupied Territories" regulating access, economic activities and assistance to South Ossetia and Abkhazia, Georgia. The European Commission and the international donor community have expressed serious concerns about the negative impact that the implementation arrangements drafted by the Government in December 2008 could have on the delivery of humanitarian and rehabilitation assistance to the two breakaway regions. In the Joint Statement on political conditionality linked to increased EC assistance, the Georgian government took the commitment to further discuss the implementing rules with the European Commission.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

Brisk foreign direct investment and private credit growth supported economic activity in the first half of 2008 when real GDP growth reached 9%. In the aftermath of the August 2008 war, the Georgian economy contracted by 3.6% in the third quarter. Although the financial system weathered this first blow on confidence thanks to prompt action of the National Bank of Georgia (NBG), the subsequent impact of the global financial crisis continues to put the financial stability and the real economy under pressure. As a result the real GDP growth measured over the whole of 2008 was 2.1%.

In September 2008, Georgia drew the first tranche of USD 250 million (EUR 195 million) from the IMF under an 18-month stand-by arrangement to replenish international reserves of the NBG. At the end of the year the reserves were still at a relatively low level covering no more than about two months of imports. The IMF-supported economic programme includes measures to improve the functioning of the newly established Financial Supervisory Agency (FSA) which needs to assess carefully the asset quality in the banking system and conduct contingency planning for bank resolution. The share of non-performing loans started to increase rapidly in late 2008 (14% as of November). The NBG on the other hand has developed its liquidity management system.

Annual consumer price inflation decelerated to 5.5% in December 2008, in line with the slowdown in economic activity and a decline in commodity prices (11% at end-2007). To ensure a low and stable inflation rate, the NBG plans to adopt an inflation-targeting regime, possibly already in 2009. The NBG is adhering to exchange rate flexibility following a temporary *de facto* peg of the national currency to the US dollar to provide stability after the outbreak of the armed conflict. In November 2008, a one-off devaluation became necessary to counter the market nervousness stemming from the deteriorating global economic outlook.

The recovery of private inflows is subject to high uncertainty but some foreign direct investment is underway, notably to the transport and energy sectors where Georgia has potential for transit and exports. Remittances continued to grow in 2008, including those from Russia which accounts for some 60% of all remittances to Georgia. The current account deficit started to narrow in the second half of the year given slower growth in imports which to a large extent is related to the pace of foreign direct investment. The current account deficit is estimated at around 17% of GDP.

The public finances were characterised by continued growth in expenditure thanks to larger-than-projected revenues (tax revenues about 25% of GDP). Privatisation was also pursued successfully in the first half of2008. The fiscal space was used primarily to increase defence spending which accounted for 24% of total expenditure in 2008. The government deficit increased from 2007 to about 6% of GDP. The Government accessed the international capital market in April 2008 tapping USD 500 million (EUR 390 million) from Georgia's first-ever sovereign Eurobond when the market conditions were still relatively favourable.

The grants and concessional loans pledged at the international donors' conference in October 2008 are being used to finance the Government's economic recovery plans, and refinancing to the banking sector is also forthcoming from IFIs. These public transfers to Georgia provide significant help in financing the current account deficit in the short-term as private capital flows are particularly low. This does not, however, obliterate the need to broaden the exports

potential for Georgia to achieve a sustainable external position and maintain robust economic growth.

Employment and social policy

In January 2008, Georgia adopted a programme "Georgia without poverty" for the years 2008-2012, aimed at reducing **poverty** by developing more efficient social safety nets through a reformed pension system and improving access to health care. In 2008, 23.6% of the Georgian population was living under the poverty line. Georgia estimated in October 2008 the need to create 250 000 jobs to alleviate poverty.

As regards **employment,** the Government launched a "Vocational Training and Retraining" programme to enhance professional skills and help the unemployed to meet the changing requirements of the labour market. About 113 800 job-seekers and more than 1 400 enterprises reportedly participated, 65% of whom were women. A programme for stimulating job creation in rural areas was initiated in February 2008. Launched during the election campaign period for Presidential and Parliamentary elections, the effectiveness and efficiency of these programmes are under question as they were not included in an overall medium-term comprehensive job creation strategy. The unemployment rate, officially at 13,3% but probably underestimated as the rural population is considered self-employed, remains high.

As regards **labour law, rights at work** and **social dialogue**, Georgia declared its willingness to intensify dialogue with social partners, but it has not yet taken any concrete measures to this end. While no change to the Labour Code took place in the reporting period, the agreement on a joint statement in October 2008 between representatives of the Government, the Trade Unions and the International Labour Organisation (ILO), allowed Georgia to extend until 2011 its status of beneficiary under the special EU unilateral trade preferential regime aimed at partner countries engaged in sustainable development and good governance (GSP+). The joint statement focuses on the promotion of tripartite consultations and decent work under the ILO auspices. A work plan was established in December 2008 in order to implement the joint statement as a matter of priority. Georgia submitted an updated report on the application of the revised European Social Charter to the Council of Europe in July 2008, on issues dealing with employment, training and equal opportunities.

One third of the 2008 State budget was allocated to **social programmes** which cover a substantial part of the unemployed population. Old-age minimum pensions were doubled during the reporting period. The Government also provided a number of one-off cash and in-kind benefits, including winter fuel subsidies for certain categories, 50 kilograms of flour per rural household and the 'good start programme', which provides 1000 GEL (approximately EUR 380) to newborns in families which are eligible for targeted social assistance. Such assistance aims at identifying families below the poverty line, evaluating the socio-economic situation and creating a relevant data base. The number of people eligible to benefit of free public health insurance vouchers increased from 650 000 to 750 000. However the services covered by this scheme are limited (e.g. provisions of pharmaceuticals are not included).

In March 2008, the Ministry of Labour, Health and Social Affairs approved "The Social Rehabilitation State Programme of disabled, elderly people and homeless children". The programme foresees several kinds of social services, including rehabilitation of disabled children.

The Child Action Plan 2008-2011 adopted in December 2008 is a strategic document which reflects a change of policy from “de-institutionalisation’, (i.e. decreasing the number of deprived children in orphanages and other child-care institutes) to the development of a sustainable and modern community-based child welfare system.

The dedicated **sustainable development** strategy as required by the decisions contained in the Economic Development and Poverty Reduction Strategy was still not developed. The work on it was on put on halt due to the difficult political situation in the country in 2008. Progress was achieved on implementing commitments on **agriculture** contained in the ENP Action Plan. A Strategy for the Agricultural Development of Georgia covering the period 2009-12 was elaborated and backed by comprehensive programmes for implementations. Several workshops aimed at exchanging experience on best practices and use of international and EU standards in the area of agriculture were organised with EU support. A state programme “Cheap Credit” was launched in 2008 with the aim of fostering job creation in rural areas, and notably in agricultural farms, agricultural processing enterprises, handicraft and export oriented enterprises. Georgia also launched a national programme to allow entrepreneurs to purchase state owned agricultural land at concessional price. In July 2008, the Ministry of Agriculture approved an order listing the materials allowed for the production of organic agricultural products and cooperation is on-going with a non-governmental body to certify organic agricultural production.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Georgia’s main trading partner (31.14 % share in Georgia's overall external trade in 2007). Total **trade** growth was steady in 2007 and significantly increased in 2008, in particular as regards Georgia's exports (+ 62.7%). However, the bilateral trade and notably Georgia's exports remain low. Furthermore, as in previous years, in 2008 Georgian exports were concentrated in a few commodities with low value added and would need further diversification. Under the EU GSP Regulation for 2006-2008 Georgia benefited from the special incentive arrangement for sustainable development and good governance, the so-called GSP+, and qualified for these enhanced preferences also under the new Regulation for 2009-2011.

On the possibility of a future establishment of a **deep and comprehensive free trade agreement** (DCFTA) between the EU and Georgia, the European Commission tendered an independent feasibility study in 2007, which was finalised in May 2008. The study concluded that Georgia would benefit from such an agreement, but that the country was not yet ready for such a far-reaching liberalisation. Following the results of the study a preparatory process aiming at creating the necessary conditions for a DCFTA in Georgia was launched and it was further accelerated following the extraordinary European Council of 1 September 2008, which concluded that "the EU should step up relations with Georgia, including the possible establishment of a full and comprehensive free trade area as soon as the conditions are met". In particular, the European Commission carried out a fact-finding mission to Georgia in October 2008 in order to assess Georgia’s current state of preparedness for a DCFTA and established recommendations on further reforms to be taken, notably key priority steps to achieve the necessary level of preparedness for the DCFTA negotiating process. In the reporting period Georgia overall achieved some progress in its preparations for a possible future DCFTA, but it still needs to make additional progress in several areas.

Progress was achieved in the **customs** area in line with the Business Strategy of the Georgian Customs aiming at further approximating customs legislation and practices with the EU and international standards. Georgian customs continued upgrading its risk management system and risk analysis based on profiles integrated into the ASYCUDA World Customs Declaration processing IT system, thus reducing the number of physical controls. The transfer of clearance of goods to inland clearance customs offices and the rolling out of the ASYCUDA system significantly reduced customs clearance times. Although a post clearance control system does not exist in practice, a special group was set up and training is on-going with external assistance. Concerning legislation there were several major amendments to the code this year covering issues such as valuation, post clearance audit, simplified customs procedures for authorised operators, binding tariff and origin information and warehouses. However, as a consequence of the amendments to the customs valuation provisions of the Customs Code, the legislation concerning customs valuation is no longer in line with the WTO and EC principles. Moreover the secondary legislation in the area of customs, necessary for the correct implementation of the Customs Code, is still not finalized. Georgia is preparing its accession to the Harmonized Commodity Description and Coding Systems (HS) Convention and already applies the HS 2002. Following last year's establishment of the State Revenue Service (SRS), its new structure of the SRS was completed by merging the existing tax and **customs** territorial units in eight regional centres.

On **free movement of goods** and **technical regulations**, Georgia made some progress in the implementation of the reform of technical regulation system. Two independent agencies are now in operation, namely the National Agency of Standards, Technical Regulations and Metrology (GEOSTM) and a Unified National Centre for Accreditation. A legislative reform is underway to review the functions of the State Inspection for Technical Supervision in order to clearly separate registration of products, surveillance, and investigation of accidents from inspection by accredited bodies. GEOSTM is a member of ISO and an affiliate member of CEN. Concerning imports, Georgia acknowledges the standards of some 40 countries, including the OECD countries, which means that their products may enter the Georgian market without any further conformity assessment and acceptance or legalisation procedures. More progress in approximation to the EU legislation will be needed in selected sectors, such as construction standards, to consider opening of negotiations of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) in a long-term perspective.

As regards **sanitary and phytosanitary** matters Georgia confirmed the postponement of the key elements of the recent reform, including controls, until the end of 2009. There is limited administrative capacity and serious difficulties for establishments to comply with the rules. Georgia continued the preparation of implementing legislation with a view to bringing food safety practice closer to the EU standards. The preparation of a new veterinary law has been abandoned. Georgia took steps towards its integration with the EU's Rapid Alert System for Food and Feed including by establishing, in April 2008, a working group advancing this integration. Georgia finalised an action plan for risk analysis for food and feed. In order to fulfil the objectives of the Action Plan and to be able to increase exports to the EU, Georgia will have to make considerable progress in the sector. Georgia participated in workshops under the European Commission's "Better training for safer food" programme.

Despite the initial loss of investor confidence after the August 2008 armed conflict, the **business climate** is generally considered to be conducive to foreign investments, however concerns remain related to the enforcement of the protection of property rights.

In the area of **establishment and company law,** the Georgian National Investment Agency is a 'one-stop shop' for foreign direct investment (FDI) and local investors. The law on entrepreneurs was amended in March 2008 with a view to further simplifying the registration procedures. It now takes only about three days and three procedures to start business. State and tax registration of companies is now carried out by tax inspectorates under one single procedure. The revised law also provides for more transparency and public accessibility to companies' information. However, the legislation is not yet in line with EC requirements as regards transparency issues, disclosure requirements, grounds for nullity and certain rules on publicity of registers. Moreover the amended Law is not fully in compliance with other EU standards in respect of the formation of public limited liability companies and the maintenance and alteration of their capital. No Corporate Governance Code has yet been adopted.

Georgia made some good progress in the field of **financial services**. The regulatory framework now includes the National Bank of Georgia and the Financial Supervision Agency (FSA), created since May 2008, which merges all supervisory bodies for banking, insurance and securities markets. Its creation was stipulated in the Global Competitiveness of the Financial Services Sector Act, adopted in March 2008. The FSA is an independent body which is in charge of regular monitoring and reporting, and on-site inspections. Elaboration of a new Financial Code is underway. The Code would further liberalise and unify the approach to financial markets by giving equal access to local and foreign investors. Banks still follow Basel I core principles for effective banking supervision. More efforts are required in improving consumer protection in the financial sector.

As regards **capital movement,** there are no restrictions on foreign currencies, and the Georgian Lari is the only national currency adopted for internal transactions.

Other key areas

Georgia continued efforts to improve legislation and operations in the area of taxation by implementing the Corporate Strategy for 2007-2011 of the Ministry of Finance and the "Revenue Service Strategy 2008", with a political will to combat corruption and to reform the tax administration. The Georgian **Tax** Code was amended in 2008: the amendments included among others the reduction of the applicable rate for income tax on dividends, measures to simplify and accelerate VAT refunds as well as measures related to the improvement of tax collection and the right of appeal. The main differences between the EU and Georgian tax legislation still concern tax exemptions, energy taxation, differences in application of excised duty and arrangements for monitoring the movement of excisable products. An agreement on avoidance of double taxation with Finland entered into force in June 2008. The agreement with Luxembourg was ratified by the Parliament in February and the agreement with Ireland was signed in December. Negotiations are on-going with Slovenia and Hungary.

With regard to **competition policy**, progress remains limited. The 2005 Competition Law concerns state aid more than anti-trust. However, there are some sector-specific anti-monopoly regulations which are enforced through independent national regulatory commissions and agencies in the key sectors (e.g. energy, water supply, communication, transport and financial sectors). The Free Trade and Competition Agency is still a structural unit of the Ministry of Economic Development with only an advisory role and there are no legal mechanisms assuring the enforcement of the agency's decisions. A high-level dialogue with the European Commission services on the competition policy is on-going.

In the area of **intellectual property rights (IPR)**, Georgia continued to further align its legislative framework with international standards. The new patent law as well as the new law on industrial designs, prepared in cooperation with World Intellectual Property Organization (WIPO), remain to be adopted. Georgia is well advanced in the conclusion of an agreement on geographical indications with the EU. Finally, Georgia is a member of the UPOV Convention for the protection of new varieties of plants since November 2008. Georgia's legislation is not in line with EC requirements on non reliance on data protection of pharmaceuticals and agro-chemicals and on supplementary protection certificate. Further efforts are needed to effectively enforce IP rights at court level. There is no dedicated IPR unit in the police. Georgia has not yet conducted the anti-piracy and counterfeiting study foreseen in the Action Plan. In connection of IPR-infringements, the scope of *ex officio* powers should be extended to the police and Customs.

As regards **public procurement,** there were minor amendments to the Law on state procurement in 2008. Foreign and local companies have equal access to the Georgian procurement market. Guidelines and manuals are only available in Georgian. Georgia is working on the introduction of electronic procurement with the assistance of the World Bank and the law on electronic signature entered into force in March 2008. The State Procurement Agency (SPA) is no longer under the auspices of the Ministry of Economy but is now accountable to the Prime Minister.

The draft law on **statistics**, aiming to strengthen the independence of the State Department for Statistics (SDS), which is currently under the Ministry of Economic Development, remains to be adopted. The weak administrative capacity of the SDS, as well as the staff shortage and turnover, is an issue of concern. A task force was therefore created in December 2008 to develop a concept for the reform of the Georgian statistics system. Modern IT equipment, funded and delivered by the European Commission, has started to be installed.

Further efforts are needed in the field of **auditing and accounting** to meet, as agreed in the Action Plan, EU standards on statutory audit and control mechanisms. The new law on auditing and accounting is to be adopted.

With regard to the management of **public finances**, the Ministry of Finance conducted training and information seminars in regions and municipalities in preparation for adoption of GFSM -2001 methodology while an E-Treasury pilot project was proposed for six regions to better manage information collation. A new law on external audit was adopted in December 2008. Some developments were noted with regard to the adoption of a strategy or legislative framework for **public internal financial control.** A working group to this effect was established in the last quarter of 2008**.** The effectiveness of existing general inspectorates within line Ministries are limited by the absence of common standards and procedures as well as frequent staff turnover.

On **enterprise policy**, the Government launched the "Cheap Credit" programme, as reported in section 3. The 'Invest in Georgia' business forum event took place in June 2008. It gave an opportunity to exchange views about the enterprise and industrial policies and to stimulate competitiveness.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In the area of **border management**, the National Strategy 2008-2012 was endorsed by the President in February 2008 and its corresponding action plan was due for adoption in June 2008 At the end of 2008, Patrol Police was tasked to carry out operation and control of the border entry points, including the delegated authority from the Ministry of Foreign Affairs to issue visas at border crossing points. Georgia participates in the Southern Caucasus Integrated Border Management (SCIBM) regional programme, agreed between Georgia, Armenia and Azerbaijan already in October 2007. The programme aims to enhance inter-agency cooperation while strengthening the capacity of customs and border guard services in line with agreed regional standards and EU norms. The implementing consortium, led by United Nations Development Programme (UNDP) was selected by year end to start implementation in early 2009. However, lack of progress on delimitation and demarcation of borders with neighbours other than with Turkey remains a cause of concern. In addition, Georgia does not have a bilateral border agreement with Armenia. Further efforts to improve institutional capacity in this area are still needed. Regional cooperation in this area through SCIBM needs on-going policy attention and resource investment.

The early completion and reform of a functioning **civil register** was a noteworthy indication of progress. The Civil Registry Agency is currently implementing preparatory actions for working on introduction of biometric passports. There was no progress with regard to elaboration of data protection legislation.

In June, the Council invited the European Commission to open a dialogue with Georgia with a view to launching a Mobility Partnership. In November 2008, the European Commission obtained negotiating directives from the Council to negotiate visa facilitation and readmission agreements with Georgia.

In the area **of migration**, a second draft of the Migration Policy document was elaborated and awaits approval. To this end an inter-ministerial working group was created to work on migration policy. The Civil Registry Agency of the Ministry of Justice was tasked with developing a general migration management system. No database for the management of migration flows has been created yet. To date Georgia has not approved policies or passed legislation regulating labour migration. There is no law on data protection adopted so far. Georgia is however a signatory to Council of Europe conventions regulating aspects of data protection, such as the Convention on the Protection of the Individual with Regard to the Processing of Data.

With regard to the **fight against organised crime**, Georgia did not sign or ratify the Third Protocol to the United Nations Convention against Transnational Organized Crime, on the illicit manufacturing of and trafficking in firearms.

With regard to the fight against **trafficking in human beings,** the National Action Plan for 2007-8 was fully implemented. Successful cooperation among state agencies in the fight against human trafficking led to better protection of victims and very active investigation and prosecution. The implementation of the National Plan and Strategy on the Fight against Trafficking in Persons continues with specific measures focussing on rehabilitation and reintegration of victims of trafficking.

The National **Drugs** Strategy focusing on prevention, criminalisation of drug trafficking and the protection of youth, awaits adoption. The Code of Criminal Procedure includes provisions

for the confiscation of the assets of drug traffickers while the Code of Civil Procedure foresees graduated, dissuasive sanctions for first-time drugs offences e.g. confiscation of driver's licence. Georgia participates in the SCAD V regional programme through which operational bilateral contacts with its neighbours are emerging. The capacity of law enforcement agencies to deal with the drugs issue requires on-going attention. However, it has not yet designated a national focal point for the programme.

With regard to **money laundering**, Georgia introduced amendments to the Criminal Code in July 2007 in line with the Council of Europe Moneyval Group and Financial Action Task Force (FATF) recommendations, to include the confiscation and freezing of assets and property derived from money laundering with distinctions drawn between 'illegal' and 'undocumented' transactions. The scope of the Law on Money Laundering was extended in March 2008 to include legal reporting obligations on tax advisors, charities/non-profit organizations, estate agents and cash couriers in line with FATF recommendations.

Georgia is reviewing its legislation with a view to the signature and ratification of the Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS 198). Further efforts are also needed to improve inter-agency cooperation and coordination.

Georgia is a member of Moneyval and has an observer status within the Eurasia FATF group. Further efforts are also needed to improve inter-agency cooperation and coordination**.**

With regard to international and regional **judicial cooperation**, the Council of Europe's 1959 Convention on Mutual Legal Assistance and its 1978 Additional Protocol and the 1957 European Convention on Extradition along with the 1993 Minsk Convention on Legal Assistance and Legal Relations in Civil, Family and Criminal matters constitute Georgia's cooperation framework. No short-term extradition procedure is provided under the Criminal Procedure Code. Further attention is needed in relation to recognition of financial penalties and confiscation orders to enhance future cooperation.

Georgia participates in the Hague Conference on Private International Law, intending to proceed with the ratification of all attendant Conventions. It also cooperates with CIS countries within the framework of the 1993 Minsk Convention on Legal Assistance and Legal Relations in Civil, Family and Criminal matters. 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. An independent national data protection supervisory authority was not established as required for the signature and ratification of the 2001 Additional Protocol to the Council of Europe Convention for the Protection of Individual with regard to the Automatic Processing of Personal Data. Further improvements are also required to secure the automatic processing of personal data of individuals in line with the relevant Council of Europe Convention, ratified by Georgia in April 2006.

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

Following the restructuring of the administration and regulatory bodies in the **transport** sector (into the Unified Transport Administration functioning as sub-departmental bodies of

the Ministry of Economy), there is still a need to strengthen the administrative capacity of the various regulatory transport bodies in particular to ensure efficient safety oversight.

In the road sector, the upgrading of the central part of Georgia's East-West corridor is on-going. At the same time the capacity of the Road Department of the Ministry of Economic Development is being strengthened to develop and implement a traffic safety programme.

In the rail sector the upgrading of the railway infrastructure is being pursued. The rehabilitation of the Yerevan-Tbilisi railway line was launched in Tbilisi and in Yerevan in mid-October 2008. No decisions were taken during the reporting period on the announced privatisation of the railway.

Georgia needs to significantly strengthen its aviation authorities after the many transport restructurings. Urgent efforts should be made to improve safety oversight and to gradually harmonise Georgia's legislation with European safety standards. To this effect, a twinning or similar project should be envisaged. Georgia should speed up ratification of the Montreal Convention for the unification of certain rules for international carriage by air. Georgia continues its policy of liberalisation of air traffic in order to promote competition. From 2007 to 2008, the number of flight frequencies from and to Georgia increased from 112 to 148, and the number of foreign airlines from 13 to 19. As relations with the Russian Federation deteriorated, there was a clear shift in aviation connections from Russia to Turkey, Ukraine and EU countries. Passenger and cargo traffic between the EU and Georgia has been increasing significantly since 2004 growing at around 14 percent per year. Outside the reporting period, in February 2009, the European Commission received a mandate to negotiate a bilateral air agreement leading to a Common Aviation Area between EU and Georgia.

Maritime safety remains an issue of great concern. Again, the consistent failure by the authorities to address the lack of port state control and flag state implementation has resulted in the Georgian fleet being classified on the 'High Risk' category of the black list of the Paris Memorandum of Understanding on port state control. The construction of the Kulevi sea port was completed and the port started functioning. The Poti Sea Port was privatised.

Georgia continued to implement its **energy** policy, *inter alia* by rehabilitating and expanding electricity production capacity including the large Enghuri hydro power plant. It confirmed its role as a key transit country for the transport of Caspian energy resources including to EU markets. The Baku-Tbilisi-Ceyhan (Turkey) oil pipeline and the Baku-Tbilisi-Erzurum (Turkey) gas pipeline are key infrastructure in this regard. Furthermore, the Baku-Supsa (Georgia) export oil pipeline was rehabilitated and the Kulevi oil terminal at the Black Sea was made operational. Georgia continued to participate in the "Baku Initiative" for EU-Black Sea/Caspian energy cooperation. It actively participated in the completed European Commission study regarding the feasibility of a Trans-Caspian/Black Sea energy corridor. Georgia launched, together with companies from Azerbaijan, Lithuania, Poland and Ukraine a new study on the extension of the Odessa-Brody oil pipeline to Gdansk in Poland. Georgia pursued the upgrading of gas infrastructure and the assessment of the use of underground gas storage facilities. A Georgian-Azerbaijani agreement on natural gas was signed in 2008. Azerbaijan has thus become the key provider of natural gas to Georgia. Georgia initiated reflections to build up strategic oil reserves.

The energy regulator started to develop a new electricity tariff methodology and measures to promote the use renewable energy sources. Azerbaijan, Georgia and Turkey worked on their

plan to strengthen electricity inter-connections. In order to facilitate regional electricity integration, Georgia benefited from an allocation under the Neighbourhood Investment Facility (under the European Neighbourhood and Partnership Instrument). Preparatory works were carried out on the project of the Black Sea Energy Transmission System which is part of the Turkey-Georgia-Azerbaijan high voltage transmission line. Georgia and Turkey launched a feasibility study for an electricity link. The construction of a Georgia-Armenia electricity interconnection progressed. Georgia participated as observer in meetings of the Energy Community. Georgia further upgraded electricity networks and pursued the installation of electricity meters in cities. In April 2008 the Government adopted the state programme for renewable energy-2008. Preparations started towards a law on energy efficiency and renewable energy. Much more efforts are needed, according to the objectives of the Action Plan, to make progress on energy efficiency and the use of renewable energy sources. Georgia initiated the development of a plan on the detection of nuclear and radioactive materials.

In the field of **climate change,** Georgia continued preparing its climate strategy, adaptation policies and a second national communication on climate change, including vulnerability and adaptation studies. An inventory of greenhouse gas emissions of 2000 – 2006 was completed, and a first report published in September 2008. Georgia took steps to prepare and approve further Clean Development Mechanism (CDM) projects. Only one of the more than 30 Georgian CDM projects has been registered at the UN level. The European Commission continued to support Georgia to implement the Kyoto Protocol. Georgia has not yet adopted a formal position regarding the post-2012 regime.

As regards the **environment**, Georgia's water and waste infrastructure as well as biodiversity were seriously affected by the August 2008 armed conflict. Updating and finalisation of the draft second national programme of environment protection for 2009-2012 is planned. The legislative framework continues to require further development, in particular as regards implementing legislation. However, no new environment legislation was adopted in 2008. Nevertheless, new legislation on water, waste and nature protection as well as on rules to conduct State ecological examination is under preparation. No new strategies or plans were adopted in 2008 either. Efforts are still on-going to develop a policy document on forestry. Water governance reform is on hold. Some steps were taken to address obsolete pesticides. Georgia took steps to enhance its environmental monitoring system and environmental inspectorates. Continued attention is required to implement existing strategies and plans and to further enhance monitoring and enforcement.

The former Environmental and Prognostic Centre was transformed into a National Environmental Agency. An Agency of Protected Areas was created from a former department under the Ministry of Environment and Natural Resources. However, further strengthening of administrative capacity at all levels of the country is still a major challenge. Coordination between authorities requires attention. No significant progress can be recorded in the integration of environmental considerations into other policy sectors. Georgia took steps to prepare a state-of-the-environment report for 2006. Access to information and public participation require particular attention, even if the Aarhus Centre continues to be operational. There were no developments concerning environmental impact assessment (EIA), as public projects continue to be exempted from such assessments. Some steps were undertaken to promote implementation of strategic environmental assessment**.** For the Regional Environmental Centre for the Caucasus, please see section on regional cooperation.

Georgia did not make significant progress in the ratification of the Protocol on Strategic Environmental Assessment Protocol to the UNECE Convention on Environmental Impact

Assessment in a Transboundary Context, nor in signing the UNECE Convention on the Protection and Use of Trans-boundary Watercourses and International Lakes, or becoming party to the UNECE Convention on the Transboundary Effects of Industrial Accidents and to the UNECE Convention on Environmental Impact Assessment in a Trans-boundary Context . 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, where a national policy dialogue was formally launched, and the International Commission on the Protection of the Black Sea against Pollution. Cooperation and information exchange took place between the European Commission and Georgia, including on water, forestry, waste management, environmental data, biodiversity, land management and strengthening the capacity of environmental NGOs. Other topics, such as air quality and civil protection were identified for possible closer cooperation.

The Community Civil Protection Mechanism was mobilised in the aftermath of August 2008 conflict and facilitated the arrival and use of the **civil protection** assistance provided by the EU Member States. Georgia and the European Commission discussed the possibility to negotiate a bilateral administrative arrangement on closer co-operation in the field of civil protection.

In the field of the **Information Society,** the markets for electronic communications have been completely opened to competition, but the local and long-distance services are still dominated by the fixed network operator. The regulatory authority, the Georgian National Communications Commission (GNCC) is preparing regulations for the tariffs of fixed and mobile services as well as for interconnection changes. Additional licenses for GSM frequencies and for WIMAX services have been auctioned and attributed. As Internet services are not yet well developed, the regulatory authority intends to increase broadband deployment.

Georgian **audiovisual** legislation is still not aligned with European standards on media regulation. The current legislation and practice of the National Communication Commission does not allow for an adequate protection of minors and other consumers. Films and programmes not suitable for children are still broadcasted outside adequate times. Georgia has not ratified the Council of Europe Convention on Transfrontier Television.

Research and innovation activities remain modest. The participation of Georgia in the 7th Research Framework Programme (FP7) did not significantly increase in comparison to the FP6. However, the slightly higher success rate suggests that there are improvements in the quality of submitted proposals, in particular in the fields of research infrastructures, international cooperation and health. As a result of the first INCO-NET call, IncoNet EECA (The S&T International Cooperation Network for Eastern European and Central Asian countries) was launched on 1 January 2008 for the duration of four years. To ensure the international character of this project a large consortium of 23 institutes from 21 EU and EECA countries, including Georgia, was formed.

7. PEOPLE-TO PEOPLE CONTACTS, EDUCATION AND HEALTH

Reform of **higher education** progressed with a focus on alignment and approximation to European standards in line with the principles of the Bologna Process. In this respect, the establishment of an institute for European Studies with support from the earlier TACIS instrument provides a model for the application of Bologna standards. In addition, Georgia

hosted a Council of Europe Bologna regional conference on self certification of national qualification frameworks in November 2008 and became a governmental member of European Quality Assurance Register (EQAR) 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. The University programmes are still not responding the labour market demands.

Georgian universities and higher education institutions participated actively in Tempus, benefiting from three projects under the first Call for Proposals of Tempus IV. A total of ten students and one scholar received scholarship under Erasmus Mundus for the academic year 2008-9. A further nine Georgian students received scholarships in European integration studies at masters level for students from the ENP region under a special pilot project for the academic year 2008-9. Student and academic mobility received further impetus through participation in Erasmus Mundus External Cooperation Window. Improved mechanisms for awareness-raising of what EC programmes offer is urgently required in order to offset the tendency to monopolize information about international cooperation opportunities.

In the area of **vocational education and training (VET)**, the National Professional Agency (NPA) started operations in January 2008 in support of sector reform, developing activities in relation to competence-based standards and qualifications, teacher training, career guidance and adapting training to labour market needs. The Ministry of Education and Science held an international conference on financing of VET in December 2008 to contribute to the further elaboration of the VET reform strategy of the Ministry. The sector policy support programme for the VET in 2009 was agreed with the Government. Improved coordination mechanisms were established with the assistance of the ETF as a basis for stakeholder dialogue, and reform-related research. Georgia elaborated its first National Report on Adult Education in the framework of life-long learning with view to its presentation at the 2009 UNESCO world conference on Adult Education. Achieving equity and greater access to vocational education and training particularly for women and the economically vulnerable remain key policy priorities alongside agreed mechanisms to accredit skills and prior learning (APL) to combat structural unemployment. Reform of vocational training and education requires on-going investment, optimum transparency and the involvement of all concerned parties.

Georgia continues to benefit from its participation in the Youth in Action programme providing support to various **youth** projects, including youth exchanges, voluntary service as well as other non-formal education activities. The establishment of a Youth Information Centre and forum for structured dialogue between youth organizations and national Ministries would facilitate future developments in this area.

In the field of **culture**, Georgia ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions in July 2008.

Georgia continued **health** sector reform by focusing *inter alia* on financing, primary healthcare, the privatisation of secondary health care (hospitals) and better access to services for the poor. These efforts are supported by state healthcare programmes, adopted in May 2008. An overall health strategy is lacking. The country also adopted an infectious diseases care programmes that will help to address communicable diseases including tuberculosis. Georgia pursued participation in the EU Network of competent authorities in health information and knowledge. Georgia took measures to tackle the health impact of the August 2008 armed conflict. Among other things, the country developed a rehabilitation plan for damaged infrastructure, strengthened disease surveillance in the affected areas, cared for the

psychosocial traumas of the affected persons and provided health facilities to the internally displaced persons.

8. FINANCIAL COOPERATION – 2008 KEY FACTS AND FIGURES

The ENPI financial 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 ENP Action Plan and pursues four priorities: strengthening good governance and democratic development, supporting regulatory reforms in areas of the ENP Action Plan, supporting economic development and poverty reduction, and peaceful settlement of the conflicts.

The implementation of the measures covered by the 2007 Annual Action Programme is underway. The sector budget support programme for the reform of Public Finance Management is proceeding as planned. Twinning, TAIEX and SIGMA have provided for more flexible interventions specifically geared towards administrative and institutional capacity building with a view to support the implementation of the ENP Action Plan.

In 2008, the European Commission continued to support national reform efforts in Georgia and programmed assistance for a total amount of EUR 28.8 million. The 2008 Annual Action programme, adopted in September 2008 focussed on support for the justice reform and on twinning operations in support of the implementation of the ENP Action Plan.

As a result of the emergency situation due to the conflict with Russia of August 2008, Georgia's assistance needs have dramatically increased. In the international donor conference in October 2008 the EC pledged to contribute up to EUR 500 million towards the country's reconstruction needs for the period 2008-2010[1]. A number of projects are already under implementation such as humanitarian assistance (ECHO - EUR 8 million), support to internally displaced persons (ENPI – EUR 61.5 million and Instrument for Stability – EUR 15 million) and the ESDP mission of EU observers.

Assistance previously provided under the ENPI for the rehabilitation programme in the conflict zones of Abkhazia and South Ossetia, with the overall aim of confidence building and peaceful settlement of conflicts, was stalled after the armed conflict in August. However, the Commission is focused on its principle of peaceful resolution of the conflicts and hence is looking forward to finding workable solutions in order to continue this type of assistance under the ENPI.

Georgia can also benefit from cooperation activities financed under the ENPI multi-country (including the Neighbourhood Investment Facility) and regional programmes and is eligible under the ENPI Cross Border Cooperation component. Under the Neighbourhood Investment Facility (NIF) a contribution for a project in Georgia was approved in 2008[2], committing EUR 8 million in technical assistance, expected to leverage EUR 200 million in loans of European Finance Institutions in the energy sector. Georgia participates in the Black Sea CBC Sea Basin programme (EUR 17,306 million for the whole programme in the period 2007-13) which has been adopted in 2008. Through this programmes the populations of the maritime

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[1] Including both "regular" programmes and "post-crisis" programmes

[2] 'Black Sea Energy Transmission System', for more information see: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

regions bordering the Black Sea will receive funding for joint co-operation projects aimed at fostering sustainable development and enhancing human contacts.

Additionally, EUR 2.65 million was programmed for Georgia in the period 2007-2008 under the thematic programme “Non State Actors and Local Authorities in Development”.