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JOINT STAFF WORKING PAPER

**Implementation of the European Neighbourhood Policy in 2010
Country report: Georgia**

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Implementation of the European Neighbourhood Policy in 2010 Country report: Georgia

1. OVERALL ASSESSMENT

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

In 2010, the EU and Georgia held meetings of the Cooperation Council, the Cooperation Committee, and subcommittees on trade, economic and related legal issues and on justice, liberty and security issues, plus one round of the EU-Georgia dialogue on Human Rights.

This document reports on progress made in the implementation of the EU-Georgia ENP Action Plan between 1 January and 31 December 2010 although developments outside this period are also taken into consideration where relevant. It is not a general review of the political and economic situation in Georgia. For information on regional and multilateral sector processes, please refer to the sectoral report.

The EU and Georgia agreed to move forward with deepening and broadening EU-Georgia relations within the Eastern Partnership (EaP) framework. Negotiations on an EU-Georgia Association Agreement (AA) were launched in July 2010. The negotiations progressed at a good pace in the second half of 2010.

This Agreement is conceived by both Parties as illustrating the most advance and ambitious approach to the Eastern Partnership vision of association, including a Deep and Comprehensive Free Trade Area (DCFTA) and a comprehensive programme of approximation to EU acquis. Negotiations on a DCFTA will start, in the same framework, once the necessary conditions have been met. Georgia made progress in implementing key recommendations in areas of technical barriers to trade, food safety, competition and intellectual property rights. Georgia also initiated work to build the necessary institutional capacity for the trade negotiation process.

Overall, Georgia made progress in the implementation of the ENP AP priorities throughout 2010, especially in reforming the justice system, improving the conduct of elections, increasing women's rights, carrying out constitutional reform, reforms in trade and business related areas, and regional development, as well as substantially curbing administrative corruption. One of the major achievements was the entry into force of the new criminal procedure code in October 2010. Georgian authorities worked intensively to ensure the new code was successfully implemented. Continuing these efforts and effectively implementing the legislation will be key to ensuring its long-term success.

At the same time, Georgia needs to accelerate its efforts to consolidate democracy, especially as regards political and media pluralism. The rights and integration of minorities and corruption among high-ranking officials remain areas where more efforts are needed. Other

major challenges include freedom of association, labour rights, employment and social policies, poverty reduction and agricultural development. In the field of labour rights and core labour standards, ILO expressed concerns with the lack of compliance, by Georgia, with core labour conventions. If unaddressed, these concerns put at risk Georgia's continuing inclusion in the EU's General System of Preferences (GSP+) which allows Georgia to benefit from trade preferences from the EU.

After the double shock of military conflict with Russia in August 2008 and the global economic crisis, in 2010 the Georgian economy showed signs of recovery. In line with its commitments in the ENP AP and with the International Monetary Fund (IMF) Stand-By Arrangement, the country preserved a prudent fiscal and monetary policy stance and made progress in increasing exchange rate flexibility. Limited recovery in Foreign Direct Investment (FDI) inflows, however, meant Georgia's external position remained vulnerable given the need to finance the large current account deficit. The country is still dependent on external official financing.

The EU continued to lend full support to Georgia's territorial integrity and sovereignty and to a peaceful resolution of the existing conflicts. The EU continued to fully implement its post-war assistance pledge of up to EUR 500 million as announced in the October 2008 donors' conference. The *Geneva International Discussion* continued as the single forum for structured dialogue between the parties to the conflict. The EU Monitoring Mission (EUMM), as the only agreed international presence on the ground, continued its efforts in support of a stabilisation of the security situation. However, it was unable to carry out its mandate in the whole territory of Georgia given that it was prevented from getting access to the breakaway regions of Abkhazia and South Ossetia. The start of the implementation of the Government of Georgia's "State Strategy on Occupied Territories: Engagement through Cooperation" did not lead to a fundamental change of the situation. Throughout 2010 the EU continued to remind Russia of its commitments under the EU-mediated ceasefire agreement with Georgia on 12 August 2008 and the implementation plan of 8 September, which have not yet been fulfilled.

2. POLITICAL DIALOGUE AND REFORM

Democracy and the Rule of Law, Human Rights and Fundamental Freedoms

Local **elections**, in which the Tbilisi Mayor was directly elected for the first time, took place in May 2010 in a calm atmosphere. The Election Code was amended in advance of the local elections, including changes in the procedure for electing the Chairman of the Central Election Commission. International observers reported that the elections marked evident progress towards meeting international standards; however, shortcomings continued to be observed in the pre-election and post-election periods, mainly with regard to abuse of administrative resources and the functioning of the complaints resolution mechanism. The Election Code Working Group resumed its work in November 2010, in order to further amend the code by autumn 2011, to allow a full year of implementation before the next scheduled elections.

Amendments to the Georgian **constitution** were drafted by the Constitutional Commission and adopted by the parliament in October 2010. Most amendments will enter into force in 2013, after the presidential elections. The constitutional reform aimed at ensuring a more balanced separation of powers, reducing the powers of the president so as to strengthen the

parliament's role, improving the system of checks and balances and reinforcing the independence of the judiciary. However, the new amendments do not guarantee parliament's oversight function as they make it very difficult for parliament to mount a vote of no confidence in the government. The process and pace of the constitutional reform were also criticised, as the constitution was adopted by the parliament on the same day that the final opinion of the Council of Europe (CoE) Venice Commission was published.

There was continued progress in 2010 on the reform of the criminal **justice** system. The new Criminal Procedure Code entered into force in October 2010, introducing a number of substantial changes to the current system of criminal proceedings in Georgia, notably the introduction of jury trials in criminal cases. Throughout 2010, Georgian authorities worked intensively to ensure the successful implementation of the new code through various training programmes for justice sector professionals, public awareness campaign and the introduction of the new Integrated Criminal Case Management System.

Progress was also noted on strengthening the **independence of the judiciary**, as the new constitution provides for judges to be appointed for life. However, the CoE Venice Commission and the civil society expressed concern over the long probation periods before appointment. Judges on probation are more exposed to political influence. The 'Law on Rules of Communication with Judges in Common Courts' was amended in February 2010. It does not prohibit correspondence with a judge, but increases the fine for all illegal correspondence and extends the law to officials serving in political positions. Amendments were also made to the 'Law on Disciplinary Responsibility and Disciplinary Proceedings of Judges', changing the procedure for the election of the chairman of the disciplinary board, in order to minimise the possibility of political influence over disciplinary procedures against judges.

As for **access to justice**, the free Legal Aid Service of the Ministry of Corrections and Legal Assistance continues to provide legal assistance to citizens throughout the country, including to vulnerable groups. However, a set-back was reported in 2010. The Government of Georgia decided that the Legal Aid Service will start providing legal representation to citizens in civil and administrative cases in January 2013, and not as initially planned for January 2011, due to the lack of capacity within the service.

No progress was noted on **civil service reform** in 2010. There are no laws or legal provisions regulating salaries or training of civil servants in Georgia. A new Civil Service Code was drafted, but is not in line with the principles and standards outlined by the OECD (SIGMA). The Civil Service Bureau (CSB) mainly concentrates on fighting petty corruption in the public service and not on its overall reform. In line with this, an online system of asset declaration for civil servants was established by the CSB.

Limited progress was made in 2010 regarding **decentralisation** and development of a national strategy for local self-government reform. The Action Plan on Regional Development, adopted in November 2010, provides for a new 'Law on Regional Development' to be drafted in 2011, which will include various legislative steps to increase local self-governments' competences. The new Constitution also contains a chapter on local self-government, but the provisions remain vague and in need for clarification with regard to the definition and organisation of local powers.

In the field of **Regional Policy dialogue** the city of Tbilisi organised a seminar together with TAIEX to which representatives of the European Commission and of a number of European Regions were invited. Following the meeting, the Georgian minister of regional development

and infrastructure with a group of officials was invited to the 2010 REGIO Open Days-European Week of Cities and Regions in Brussels, during which discussions were held with Commissioner for Regional Policy J. Hahn. As a result a joint declaration on Regional Policy Dialogue was signed in February 2011 and an agreed work programme is being implemented.

Since the 'Rose Revolution', Georgia was relatively successful in curbing administrative **corruption**. Progress was noted in criminalising corruption, avoiding conflicts of interest and protecting whistleblowers. A new Anti-Corruption Strategy and Action Plan drafted by the Anti-corruption Interagency Coordinating Council was adopted in 2010. There were a number of corruption-related investigations and charges brought against public officials. However, concerns remain on corruption at political level, not least because of weak control over political party financing, the lack of transparency in procurement and privatisation processes, weak accountability of high-ranking officials for reserve funds, insufficient protection of property rights and a lack of transparency in media financing and ownership.

Human rights and fundamental freedoms

Georgia is party to the main international and regional **human rights** instruments, and to most of their optional protocols. Georgia has been party to the Rome Statute of the International Criminal Court since 2003. A meeting of the Human Rights Dialogue between the EU and Georgia was held in 2010. It provided for a good general exchange of views on human rights and fundamental freedoms in Georgia.

The Public Defender (**Ombudsman**) continues his independent monitoring of human rights violations in Georgia. The powers of the Public Defender were increased in 2010. The government supported the role of the Public Defender's Office (PDO), through increased budgetary allocations, inviting it to participate in the EU-Georgia human rights dialogue and by including the Office as a beneficiary of the Comprehensive Institution Building Programme.

Throughout 2010, the PDO carried out its first year of monitoring as National Preventive Mechanism under the Optional Protocol of the UN Convention against **Torture** (OPCAT). In September 2010, the Council of Europe Committee for the Prevention of Torture (CPT) issued its report on a visit to Georgia in February 2010. It reported several prisoners' complaints of ill-treatment and abuse of authority by prison staff, which have not been thoroughly investigated by the Georgian authorities.

Inhuman and degrading **detention conditions**, often caused by overcrowding in prisons, remain a major area of concern, together with inadequate healthcare in prisons, as was also reported by the CPT. The treatment and situation of psychiatric patients is also of concern. Limited progress was noted in the improvement of material conditions in prisons and in police detention establishments, and in the provision of legal aid to persons in police custody. Amendments made to the Criminal Code of Georgia in February and July 2010 represented a positive step towards the liberalisation of criminal policies in Georgia. The implementation of these amendments and a more substantial revision of the criminal legislation and sentencing policies are important to address the problems caused by increasing prison population.

The lack of transparency of **media** ownership and the difficulty of access to public information continues to pose serious problems for the independent media in Georgia. The Parliament is scheduled to discuss a package of measures to guarantee transparency of media ownership, by amending all related legislation, including the Law on Broadcasting. The

Georgian Public Broadcaster's coverage of the period before and during the local elections of May 2010 was reported to be more balanced compared to previous election periods, albeit still polarised.

There has been no progress reported on the integration and the rights of ethnic, religious and sexual **minorities** in Georgia. The 'National Integration Strategy: National Concept for Tolerance and Civic Integration' was adopted in May 2009 but there is no follow-up report on the state of the implementation of the action plan for 2010. The CoE Framework Convention for the Protection of National Minorities has not been fully transposed into domestic legislation and the European Charter for Regional and Minority Languages has still not been signed by Georgia. On the repatriation and integration of the Meskhetian population to Georgia, the period for applications to return ended at the end of 2009 with more than 6000 people seeking repatriation. The Georgian government set up a database for these applications and started assessing them, but the process has been very slow. A specific action plan to effectively ensure the repatriation, resettlement and integration of Meskhetians has still not been developed and the government's capacity to deal efficiently with the applications remains a subject of concern.

In March 2010, parliament adopted the Law on **Gender Equality** drafted in consultation with local NGOs, international organisations and government bodies. The Advisory Council on Gender Equality Issues in the parliamentary Speaker's office is active on women's rights, gender equality and domestic violence and contributed to the adoption of the new law. The law provides for the strengthening of women's political participation and gender-responsive planning and budgeting by the government. Women continue to suffer from a gender pay gap: the average monthly salary of formally employed women remained, on average, 43 % less than men in the third quarter of 2010.

Progress was noted in the reform of the **juvenile justice** system where the amendments to the Criminal Code lifting the age of criminal responsibility from 12 to 14 years of age entered into force in February 2010. The amendments also granted the prosecutor discretionary power to divert juveniles from criminal prosecution in order to encourage alternatives to criminal prosecution. Progress was also made on the specialisation of staff within the criminal justice system and in setting up a separate juvenile parole board to consider applications for early conditional release.

Cooperation on Foreign and Security Policy

Since June 2007, Georgia has been invited to align with CFSP declarations on a case by case basis. In 2010, Georgia aligned with 28 out of 44 CFSP declarations which they were invited to support. There was intense political dialogue with the Georgia in 2010, including through two Political and Security Committee Political Dialogues in June and September 2010, and visits by the Commissioner for Enlargement and Neighbourhood Policy and the High Representative of the European Union for Foreign Affairs and Security Policy to Georgia in April and July 2010 respectively.

Strengthening regional cooperation

Southern Caucasus Integrated Border Management (SCIBM), promoted by the EU between Georgia, Armenia and Azerbaijan, started in March 2010 (see chapter on cooperation on justice, freedom and security). The Regional Environmental Centre (REC) for the Caucasus

worked on information and public participation, environmental policy and local environmental action plans (see chapter 6, part on environment).

Cooperation on settling conflicts within Georgia's internationally recognised borders

Georgia continued to implement the internally displaced persons (IDPs) Action Plan, which was reviewed in May 2010. In tandem with the review, a new 'IDP Housing Strategy and Working Plan' was drafted. The latter outlines the remaining needs and challenges in providing durable housing solutions for all remaining IDP families due to limited availability of funding. From June to August 2010 and in January 2011, thousands of IDPs illegally occupying idle buildings in Tbilisi were forcefully evicted. Although, according to the Georgian government, most of the evicted people had already received durable housing or were not in need of them, many were offered relocation to far-away rural areas, with limited prospects of earning a living. Many international human rights associations, the international donor community in Georgia and local NGOs criticised the process and the manner in which these evictions were carried out. With the support of UNHCR and other donors, the Government developed Standard Operating Procedures for evictions. However, implementation of these procedures is inconsistent, which often creates unmet expectations in IDPs. Also, more efforts are needed to help with socio-economic reintegration and to give IDPs a means of earning a living. A number of projects exist, including some financed by the EU, but a comprehensive socio-economic State strategy for IDPs is not in place.

The EU remains committed to respect for Georgia's territorial integrity and sovereignty and peaceful conflict resolution. The EU continues to fully implement its post-war assistance pledge of up to EUR500 million as announced in the October 2008 donors' conference. Through this support, tens of thousands of IDPs have received durable housing and some limited efforts were made to integrate them socially and economically in the host communities. Other conflict-affected people have also received assistance, and a constructive dialogue between communities living across the conflict divide has been fostered through civil society. (*See chapter on financial cooperation.*)

The EU has been taking an active role as a co-chair, together with the UN and the OSCE, of the '**Geneva International Discussions**', set up in 2008 as a forum for dialogue and the only platform allowing an ongoing political conflict resolution process. In the course of 2010, six rounds of 'Geneva Discussions' took place.

Throughout 2010, the EU continued to remind Russia of its commitments under the EU-mediated **ceasefire agreement** with Georgia of 12 August 2008, which have not yet been fulfilled. In October 2010, Russia pulled out of Perevi village adjacent to the administrative boundary line with the Georgian region of South Ossetia.

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

In July 2010, the Government of Georgia approved an Action Plan to implement the '**Strategy on Occupied Territories: Engagement through Cooperation**'. The Action Plan is to provide a 'human-centred approach' designed to 'reduce isolation and improve welfare' for people living in Abkhazia and the South Ossetia regions of Georgia. The 'Modalities for Engagement of Organisations Conducting Activities in the Occupied Territories of Georgia',

which are the implementing modalities for the Action Plan and the Law on Occupied Territories, were adopted in October 2010. These regulate the actions of donors and their implementing partners in carrying out international assistance projects in the breakaway regions. The international community has expressed concerns about these regulations and the restrictions imposed, recommending changes; however, only a few of these changes were accepted by the Georgian government. Successful implementation of the Georgian Strategy and Action Plan, and the continuation of international assistance projects for peaceful conflict resolution, will depend on the implementation of the ‘modalities’ in a practical and enabling manner.

On 23 November 2010, President Saakashvili made a unilateral ‘**non-use of force**’ pledge at the European Parliament, stating that Georgia would only use peaceful means to restore control over Abkhazia and South Ossetia.

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3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

In the aftermath of the double shock of the military conflict with Russia of August 2008 and the global crisis, the Georgian economy is showing signs of recovery. Following two years of low or negative growth, 2010 saw a revival of economic activity. After a contraction of activity by 3.8% in 2009, in 2010 real GDP grew by 6.3%.

On the back of the economic recovery, the government decided to tighten its budgetary and monetary policies. In line with its commitment under the IMF Stand-By Arrangement, the fiscal deficit was reduced from 9.2% of GDP in 2009 to 6.6% in 2010. Expenditure containment was the main strategy behind this fiscal consolidation, although recovering tax revenues were also an important factor. Tax revenue increased by almost 10% in comparison to 2009 and thus more than compensated the falls from the previous year caused by the global crisis. The tightening of monetary policy began in the summer, with the key policy interest rate being moderately increased, to keep inflation under control. However, while CPI inflation in 2010 was 7.1% on average, it picked up at the end of the year, reaching 10.2%. In late 2010, to bring down inflation pressures, the monetary authorities further increased the base

interest rate and introduced higher reserve requirements acting in line with their commitment to macro-economic stability under the ENP AP and the IMF Stand-By Arrangement. The authorities also reviewed agricultural policy, announcing greater political commitment to promoting growth and jobs in the agricultural sector.

While the economic recovery seems to be taking hold, the external economic situation remains vulnerable as the financing of the large current account deficit remains uncertain. By weakening domestic demand, the crisis contributed to a halving of the current account deficit in 2009. However, the deficit remains very large, at 9.9 % of GDP in 2010, and it is expected to increase further in 2011. The trade deficit, which reached 22.2 % of GDP in 2010, has been the main driver of the large current account deficit. Georgia's exports continue to suffer from the trade embargo imposed by Russia in 2006 and extended in 2008. Georgia's exports to the EU countries have remained low and the opportunities offered by the GSP+ remain under-exploited. While a certain shift in trade and changes in its export profile have recently taken place, Georgia's exports continue to need diversification. Overall, the Georgian export performance remains far below its potential.

FDI inflows were adversely affected by the crisis and declined to USD 550 million (ar. EUR 415 million) in 2010 in thus remaining significantly below their 2009 level when they reached USD 750 million (EUR 566 million). This disappointing performance puts at risk the financing of the current account and the build up of international currency reserves and shows that foreign investor confidence, which was hard hit by the conflict with Russia in 2008, has still not returned. It also reflects the loss of steam of the privatisation process, as many of the most attractive state companies and assets have already been sold.

Consistent with the monetary authorities' commitment within the IMF Stand-By Arrangement to increasing exchange rate flexibility, the National Bank of Georgia (NBG) continued its less interventionist exchange rate policy. The depreciation against the USD during the first half of the year reversed in June 2010, with the appreciation allowing a slight recovery in foreign reserves. However, although gross international reserves have recovered from a trough of USD 1.5 billion (EUR 1.13 billion) reached during the crisis to USD 2.3 billion (EUR 1.73 billion) at the end of 2010, net international reserves remained low, at USD 825 million (EUR 622 Million). A further vulnerability in the balance of payments relates to the fast increasing external public debt, up from 16.8 % of GDP in 2007 to 34.1 % of GDP in 2010, and a significant need for a debt roll-over in the next few years.

In September 2008, the IMF approved an 18-month Stand-By Arrangement for Georgia, worth USD 750 million (EUR 566 million). During the third programme review, approved by the IMF Executive Board in August 2009, the Stand-By Arrangement was extended until 14 June 2011 and the financing package increased, bringing total access to IMF resources under the arrangement to USD 1.17 billion (EUR 883 million). On 12 January 2011, the IMF Board completed the 7th and the 8th reviews, concluding that performance under the programme has been broadly satisfactory. However, the authorities indicated that they did not intend to draw on the instalment of around USD 153 million (EUR 115 million) that became available.

Employment and social policy

The labour market has benefited only marginally from the economic recovery, with the unemployment rate decreasing only moderately from its 2009 height of almost 17 % to around 15 %. There is a need to thoroughly address the mismatch between skills and labour market needs, but Georgia has no specific **employment** strategy in place and no employment

implementing agency. More generally, there is no overall social sector strategy, although there are several medium-term action plans to address particular policy areas, covering social exclusion and protection issues for children at risk, the disabled, those with learning difficulties, IDP families, and trafficking.

In the field of **labour rights and core labour standards**, the March 2010 report of the ILO Committee on Freedom of Association repeats the ILO's concern on the implementation of two key conventions, on Freedom of Association and Protection of the Right to Organise, and on Right to Organise and Collective Bargaining. The Labour Code and the Law on Trade Unions need to be amended in order to comply with core labour standards, notably regarding the criteria for establishing trade unions, protection against anti-union discrimination, the right to strike. In addition, the Committee re-stated ILO continued concerns as regards the implementation of the Conventions on Equal Remuneration, on Discrimination, and on Holidays with Pay.

In the area of **social dialogue**, the tripartite constituents reached an agreement, in May 2010, on the minimum changes to be introduced to the labour code, particularly with regard to anti-union discrimination. However, these changes have not yet been introduced. Moreover, the Georgian Trade Union Conference has made allegations of anti-union discrimination and government interference in the check-off system, which suggests persisting interference by the government in social dialogue. As regards **social assistance**, the government continued to implement the 2009 Children Action Plan and in November 2010 approved an action plan for the Major Areas of Child Care System Reform for 2011-12. The child welfare reform process continued in the reporting period. The government supports the development of children's homes for small groups and plans to close down all the 31 big institutions by the end of 2013.

In June 2010, the system of means testing for targeted social assistance was revised and new criteria adopted to define households whose socio-economic conditions are below the poverty line. The government also adopted rules on setting up a unified database of socially vulnerable families, evaluation of their social-economic conditions and their registration.

In 2010, **agricultural** production continued to decline. All the major constraints (e.g. lack of consistent sector strategy, weak public services, fragmented supply chains, limited access to credit, outdated production techniques, etc.) remain so far unaddressed. In particular, the government has not taken any significant measure to improve access to credit facilities for farmers yet. However, some positive signals came in 2010 from the ministry of agriculture, which has drafted a comprehensive national strategy for the sector, for approval beyond the reference period. Limited availability of funding reduced the ministry's ability to implement traditional support measures such as funding for mechanisation programmes, free distribution of fertilisers and subsidies for grape production.

In February 2010 the government created the Georgian Agriculture Corporation, a state-owned company aiming to become the operational arm of the ministry of agriculture. The process of privatisation of state-owned land continued steadily during the year.

Overall, most of the public efforts in the sector follow top-down approaches, with limited engagement of civil society and with a focus on attracting big investors, rather than on promoting rural initiatives that could benefit farmers more directly.

In the reporting period there was no progress regarding **sustainable development**. The ministry of environment and management of natural resources has not yet started to draft the

relevant strategy.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

After a decline in 2009, **bilateral trade** grew during the reporting period; EU exports to Georgia increased by 31.6% compared to the previous year, while exports of Georgian products to the EU increased by 7.1%. However, there is a need for further diversification of Georgian exports, which remain concentrated in a few commodities of low value added (in particular, mineral products formed 71.8% of Georgia's exports to the EU in 2010).

Georgia continued to benefit from the special incentive arrangement for sustainable development and good governance — the GSP+ — within the EU Generalised System of Preferences (GSP). These enhanced preferences should help to diversify Georgia's export structure and improve its export performance. However, the above-mentioned, if unaddressed, put at risk Georgia's inclusion in the GSP+ given that it is conditional on the country's compliance with the core ILO and UN conventions.

At the beginning of 2010, Georgia increased above the rates bound in its WTO schedules the customs duties applied to imports of some industrial and agricultural products. In March 2010 Georgia ended this breach of WTO rules. In the course of 2010, Georgia rectified other breaches in WTO rules: it lowered the tariff rates applied to imports of spirits to the levels bound in its WTO schedules and it equalised excise taxes on imported and domestically produced tobacco products.

Intensive dialogue was held on preparations for the start of negotiations on a DCFTA with the EU based on the EU key recommendations. Good progress was made in drafting and adopting strategies and preparing the necessary legislation in the key regulatory areas as reported below in the sections on sanitary and phytosanitary measures, free movement of goods and technical regulations, intellectual property rights and competition. However, in order to become ready for DCFTA negotiations, Georgia will need to accomplish additional work, in particular as regards practical implementation of reforms in the key regulatory areas and building adequate institutional structures and administrative capacity for the negotiating process.

In January 2010, the Georgian National Investment Agency (GNIA) established an Export Promotion Department. The GNIA launched in September 2010 a new export web portal focussing on the needs and interests of Georgian exporters, including facilitating partner searches for foreign companies. In 2010, the GNIA also held events to promote export and to ensure the trade community was regularly consulted on and informed of export procedures.

In July 2010, the EU and Georgia concluded negotiations on a bilateral agreement for the protection of their respective 'geographical indications'. The agreement, which is the first of this kind with an ENP partner, will foster trade in agricultural products and foodstuffs originating in the territories of both Georgia and the EU.

Georgia made progress on revenue management. The Revenue Service, the agency responsible for **customs** and taxation issues under the ministry of finance, was transformed into a legal entity under public law from April 2010 with a view to making it more business oriented. In September 2010, Parliament approved a new Tax Code which entered into force in January 2011. The existing Customs Code provisions were reduced from 250 articles to 36 articles and included in the new Tax Code. The impact of these changes will have to be

evaluated in the light of the implementing regulations, which have yet to be adopted. The Georgian customs continued upgrading its risk-analysis system. It set up an Operational Management Division in the Customs Control Department, which operates as a central unit with specially trained officials. Mobile x-ray screening systems are used to control vehicles and a database is now in place. A tracking system for vehicles in transit is also operational and scanned images are attached to the transit documents via the Automated System of Customs Data (ASYCUDA). The Georgian customs drafted standard procedural manuals for customs officials on customs infringement, definition of sanctions and border customs procedures in Tbilisi International Airport, Poti Sea Port and the Kutaisi Free Industrial Zone. Concerning ethics and human resources, the ministry of finance adopted two orders which regulate recruitment and training of probationers in the Customs Service. A comprehensive human resources strategy is being drafted. Georgia now applies the updated version of the Harmonised Commodity Description and Coding System (HS 2007). The ministry of finance prepared a draft amendment to the Law on Customs Fees aiming to abolish customs administrative fees. Georgia amended the Valuation chapter of the Customs Code and enacted the relevant implementing provisions with a view to clearly defining procedures for determining the customs value according to WTO principles. Georgia should continue to ensure that measures are taken to align the policy on customs administrative fees, to simplify and coordinate post clearance controls, to improve the uniformity of customs controls and decisions across the administration and to upgrade customs capacity for checking cross-border movement of counterfeit and pirated products. Additional acts, for example on integrated tariff and advance customs rulings (BTI and BOI), need to be adopted.

Georgia made some progress on the **free movement of goods and technical regulations**. Government adopted a Strategy on Standardisation, Accreditation, Conformity Assessment, Technical Regulation and Metrology together with a Programme on Legislative Reform and Adoption of Technical Regulations in respectively July and August 2010. The drafting of a Code on Safety and Free Movement of Products started and is to be finalised and adopted in 2011. A new single agency in charge of market surveillance - Technical and Construction Inspection Agency - was set up through merging of the two existing agencies in this field and development of a market surveillance strategy is planned for 2011.

In the area of **sanitary and phytosanitary (SPS)** issues, in December 2010 Georgia adopted a food safety strategy aiming at aligning this sector with EU and international standards. Georgia plans the approximation with key EU 'horizontal' legislation by 2014. In 2010, Georgia drafted and adopted several implementing acts such as the hygiene rules for food and feed business operators, including simplified rules for smaller operators. It also adopted rules on inspections and traceability. Georgia prepared draft laws on food safety, hygiene, registration of food establishments and labelling of food products. In 2010, Georgia started implementing food safety provisions that had been suspended since 2006. As a result, registration of food business operators started in February 2010. Georgia also initiated compulsory inspections of traceability requirements, however only for food business operators exporting to the EU, in July 2010. The Food Safety Law was amended to extend inspections and traceability to all food and feed operators starting January 2011. In September 2010, Georgia adopted the Annual State Control Programme of Food Business Operators. In December 2010, the Government adopted the General Plan for Food and Feed Crisis Management. Georgia further upgraded laboratories and opened new slaughterhouses. Georgia developed an SPS training programme and worked on training of experts. The National Service for food safety, veterinary and plant protection prepared an institutional gap assessment. In October 2010, the European Commission's Food and Veterinary Office carried

out a mission to Georgia on the control of fishery products and a follow-up process is ongoing to help Georgia to meet the requirements for exporting these goods to the EU. Georgia continued to monitor animal diseases such as African swine fever and foot and mouth disease. Overall, nevertheless, Georgia will need to make further significant progress in the SPS sector in order to align it with the EU and international standards. In particular, legislation including its implementation and enforcement, institutional development and animal disease surveillance need continued attention.

In the area of **business climate, establishment and company law**, Georgia implemented a very efficient registration system for new enterprises through one-stop offices, whereby a company can be registered and necessary permits be given in half a day. It rose to 12th place overall in the 2011 World Bank 'Doing Business' study, in particular thanks to improvements in access to credit and investor protection. Changes made to the Law on Entrepreneurs in April 2010 reaffirmed the requirement to register a company charter in the Registry, specifying the minimum content of the charter. This minimum content includes information on the shareholders, the director(s), the managing bodies of the company and the decision making rules, restrictions on the representation power of director(s), and information on any insolvency, bankruptcy or rehabilitation of the company. The further amendments made in October 2010 set a time limit of four months for the liquidation of a company.

2010 was also the first full year when the new provisions on **audit** applied to the following entities: (a) accountable companies (as defined by the Law on Securities Market), the securities which are admitted to the stock exchange, (b) companies licensed by the National Bank of Georgia (such as banks, insurance companies, brokerage companies, etc.); and (c) companies with more than 100 shareholders. Audits are to be conducted by an auditor who is legally and economically independent from the company, its directors and shareholders.

On **financial services**, since December 2009 the NBG has acted as the single regulator of financial services, including supervision of commercial banks, insurance companies and the securities market. In 2010, it focused on a gradual transition towards a risk based supervision system. The banking sector's high levels of capital and provisioning provided adequate buffers against adverse shocks, but continued close supervision of banks remains critical. In 2010, the NBG introduced new measures and policy instruments designed to increase the effectiveness of monetary policy.

Other key areas

In September 2010, Parliament approved a new **Tax Code** which entered into force in January 2011. The new code introduced the concept of 'micro' and 'small' businesses. A different tax regime will be applied to individuals and companies involved in small businesses. Under the new code, companies will submit tax declarations on a quarterly basis. The new tax code also reduces the duration of legal proceedings for tax appeals from a maximum of 125 days to 65 days. The Revenue Service introduced e-filing of tax-returns, that enables taxpayers to file declarations electronically, directly or through their representatives. Negotiations on avoidance of double taxation are still ongoing with Spain, Cyprus, Slovenia, Hungary, Slovakia and Sweden. Georgia continues to apply an excise tax on the export of scrap metals.

With regard to **competition policy**, progress was made. The Comprehensive Strategy in Competition Policy was adopted in December 2010. In line with the Strategy, the Georgian Government is currently drafting a general framework competition law (covering antitrust, including abuse of dominant position, merger control and state aid rules). The Presidential

Resolution issued in February 2010 set up an Agency for Free Trade and Competition, which is an independent entity under public law, no longer under the ministry of economic and sustainable development. The Agency is in the process of recruiting new staff. It still needs to be given adequate powers and resources.

Georgia continued in 2010 to align its legislative framework on **intellectual property rights** with EU standards, which is of particular importance in the DCFTA process. In this context, 3 TAIEX-funded study missions to MS IP Offices took place.

A new Law on Design (separate from the Patent Law) was drafted and subsequently adopted in June 2010. The amended Patent Law introducing the supplementary protection certificate entered into force in June 2010. A Government decree was adopted in July 2010 to bring the system of fees into compliance with international requirements (the Trade-Related Aspects of Intellectual Property Rights — TRIPS — agreement). Under this Decree, IPR registration fees are now equal for local and foreign persons, and so comply with the WTO requirement on non-discrimination. The Trademark Law was amended, introducing an accelerated procedure for trademark registration (at the applicant's request, subject to an additional charge).

The criminal procedural code that entered into force in October 2010 authorises the prosecutor to act *ex officio* in cases involving IPR. According to an independent expert organisation, Georgia has the highest prevalence of pirated software (95 %) of any country. Overall, IPR protection and enforcement will require additional efforts.

The new law on **statistics** entered into force in February 2010. The new set up increased the independence of the National Statistical Office, formerly a department of the ministry of economic and sustainable development, and now a legal entity under public law ('Geostat'). However, the Geostat budget is still set by the ministry and is not sufficient to improve the quality of statistics.

On **enterprise policy**, some progress was made. The Bank of Georgia promoted access to finance through a 'Small and Medium Enterprise (SME) Lending' credit line, approved in July 2010. It allows the Bank to develop its lending programmes countrywide in the relevant business segments, providing essential support for longer-term financing of micro, small and medium sized enterprises.

With regard to the management of **public finances**, the ministry of finance continued to implement its reform plan 2009-2011 including measures improving oversight and regulation of public procurement. Reform of public finance management, consistent with the objectives of the Action Plan, is one of the conditions of EU macro-financial assistance.

Based on the October 2010 amendments to the Law on State **Procurement**, in December 2010 Georgia introduced a new, electronic procurement system for all types of contract, irrespective of size and nature. There is no other public procurement system in Europe that would allow such extensive use of e-auctions. For the first time, all procurement records and data will be stored electronically, and, according to the State Procurement Agency (SPA), much of this information will be accessible to the public. Price will be used as the main criterion to determine the winner of a contract and a technical evaluation and qualification compliance check is done with the winning tenderer only. Georgia has applied the Common Procurement Vocabulary since 2010. To prepare for the implementation of the new legislation, the SPA has adopted an E-procurement Implementation Action Plan that provides for training in the new procedures for procuring entities and bidders, as well as the purchase

of IT equipment and software for the E-platform. The SPA also intends to conduct awareness raising campaigns for the wider public.

A newly established council that includes representatives of the State Procurement Agency and several representatives of NGOs will address complaints of irregularities and shortcomings in the procurement process.

In terms of **public internal financial control**, in March 2010 parliament approved the law on State Internal Financial Control and Audit, which will gradually establish internal audit units within all ministries. The law is not in line with international standards on managerial accountability and separation of audit from inspection. The ministry of finance decision to abolish its Central Harmonisation Unit for financial management and control in September 2010 and to dismiss its staff raises questions about the overall commitment to reform in terms of investment of staff resources and internal enforcement.

In the area of **external audit**, the Chamber of Control adopted its 2010–2011 Capacity Development Plan and in November 2010 updated the ‘Strategic Development Plan for 2010–2012’. The documents provide for the approval of compliance audit manuals, the introduction of a quality control system, staff recruitment and targeted training.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The third meeting of the EU-Georgia Subcommittee on Justice, Freedom and Security took place in Tbilisi in July 2010.

In the area of **border management**, Georgia continued to implement the Action Plan on integrated border management adopted in 2009 while participating actively in the Southern Caucasus Integrated Border Management (SCIBM) regional programme, which was launched in March 2010. Border crossing points with Azerbaijan were fully equipped and refurbished with state funds.

In addition, in October 2010 the ministry of internal affairs signed a two-year Operational Agreement with FRONTEX on cooperation to counter irregular migration and cross-border crime and on strengthening working relations with EU member states. In August, the ministry also drafted Joint Standard Operational Procedures with the Revenue Service of the ministry of finance, with the support of the Border Support Team of the EU Special Representative.

In the field of **migration**, the EU and Georgia signed visa facilitation and readmission agreements, which entered into force in March 2011. The EU-Georgia Mobility Partnership entered the implementation phase, with the start of a three-year project on the reintegration of returning migrants and a number of bilateral activities with EU member states. Georgia started issuing only biometric passports as of April 2010.

On the **fight against organised crime**, the ministry of internal affairs continued to prepare for accession to the Third Protocol to the UN Convention on Transnational Organised Crime on the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition. Georgia ratified the European Convention on Cybercrime in October 2010. It did not ratify the 2007 CoE Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse, which it signed in 2009.

With regard to the **fight against trafficking in human beings**, the ministry of internal affairs continued to implement the National Anti-Trafficking Action Plan 2009–10 while drafting the successor plan in October 2010 for the period 2011–12 in consultation with civil society organisations. Moreover, Georgia hosted regional cooperation meetings with law enforcement agencies (police, border guards, and judiciary) from the Republic of Moldova and Turkey in July and September 2010 respectively, with a focus on experience-sharing and improving cooperation.

Regarding the **fight against drugs**, Georgia has not yet adopted a National Drugs Strategy incorporating both demand and supply reduction actions. However, the substance of international legal instruments on prevention and enforcement is incorporated into national legislation. The ministry of health hosts the National Focal Point since 2009 but, as yet, the latter has no drugs monitoring system. There are various reports on the drug situation and drug treatment projects are implemented in cooperation with civil society. However, the negative social attitude towards drug addicts does act as an obstacle.

In the field of **money laundering**, Georgia actively continued cooperation in the context of the Egmont and Eurasian FATF groups and Moneyval. The 2005 CoE Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Financing of Terrorism remains unsigned. The 2003 Additional Protocol to the CoE Criminal Law on Corruption aiming to protect arbitrators and jurors from bribery also remains unsigned.

A draft law on **data protection** was presented to Parliament in September with a view to signature of the Additional Protocol to the 1981 CoE Convention for the Protection of Individual with regard to the Automatic Processing of Personal Data regarding supervisory authorities and trans-border data flows. To give the former practical effect, an independent national data protection supervisory authority needs to be set up.

In the area of international and regional **judicial cooperation**, in November 2010, CEPOL (External Working Group) approved a proposal for conclusion of a cooperation agreement with the Georgian Police Academy and the ministry of internal affairs. Georgia did not sign the Second Additional Protocol to the CoE Convention on Mutual Assistance in Criminal Matters to protect individual rights in the processing of personal data. As pointed out in 2009, a solid system for the protection of personal data is essential to advance cooperation with the EU member states, with Europol and with EUROJUST. Georgia also did not sign the European Convention on the Transfer of Proceedings in Criminal Matters. With regard to judicial cooperation in civil matters, Georgia has not yet acceded to important conventions in the framework of the Hague Conference on Private International Law, e. g. **conventions on judicial assistance** (1965 Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters and 1970 Convention on the Taking of Evidence Abroad in Civil or Commercial Matters) and on **child protection** (1996 Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Co-operation in respect of Parental Responsibility and Measures for the Protection of Children). The implementation in Georgia of the 1980 Hague Convention on International Child Abduction is also a matter of interest for the EU

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

In July 2010 the United **Transport** Administration, established in 2009, came under the umbrella of the ministry of economy and sustainable development. In the road sector, Georgia adopted a detailed action plan in 2010 to implement the 2009 Road Safety Strategy. Georgia intends to introduce road worthiness testing for all vehicles only in 2013. During the reporting period, Georgia pursued investment in the railway sector, which included preparing for the Tbilisi railway bypass.

In December 2010 the EU and Georgia signed a comprehensive air services agreement. The agreement will allow Georgia to become a full partner of the EU in aviation and will open the respective markets and integrate Georgia into a wider European Common Aviation Area. As a result of the agreement, Georgia will harmonise its legislation with European standards and implement EU aviation rules in areas such as aviation safety, security, the environment, consumer protection, air traffic management, economic regulation, competition issues and social matters.

In the field of maritime transport, Georgia is committed to regaining the EU recognition of certificates from Georgian sea farers that was revoked in late 2010. Georgia started work on a new Flag State Annual Inspection Policy, underlining its will to remove its flag from the 'High Risk' category on the black list of the Paris Memorandum of Understanding on port state control.

Georgia and the EU stepped up **energy** dialogue, inter alia, through the first ever energy subcommittee, held in Tbilisi in October 2010. In November 2010, the Georgian Prime Minister and the Energy Commissioner co-chaired a Georgia energy investment conference in Brussels. In 2010, Georgia ensured oil and gas transit through the Baku-Tbilisi-Ceyhan and the Baku-Tbilisi-Erzurum pipelines. Georgia puts great emphasis on the development of the Southern Gas Corridor including Nabucco and White Stream (gas pipeline crossing the Black Sea). In September 2010, the Heads of State of Georgia, Azerbaijan and Romania and the Hungarian Prime Minister endorsed the AGRI (Azerbaijan-Georgia-Romania Interconnection) project. This aims to export liquefied natural gas from Azerbaijan, through a Georgian Black Sea terminal, to Romania and beyond. Azerbaijani, Bulgarian and Georgian companies further studied possibilities to develop compressed natural gas supply to the EU across the Black Sea from the Georgian coast. Georgia, Azerbaijan, Lithuania, Poland and Ukraine continued work towards a Euro-Asian Oil Transportation Corridor.

An observer to the Energy Community, Georgia initiated studies on possible membership. Georgia amended the law on electricity and natural gas, with regard to third party access to the grid and reserve capacity rules among other issues. Georgia continued to develop a new electricity tariff methodology; it increased electricity tariffs in July 2010. Georgia implemented its large-scale investment programme for constructing and rehabilitating small and large hydro power plants and gas and electricity networks. It further worked on the construction of the Black Sea Electricity Transmission Line (Azerbaijan-Georgia-Turkey). Georgia and Armenia started constructing an electricity interconnection. In October 2010, Tbilisi hosted a major conference of the EU-supported Covenant of Mayors, aiming at promoting energy efficiency and the use of renewables at local level.

In the field of **climate change**, the second National Environmental Action Plan for 2011–2014, currently under preparation, identifies climate change as a priority issue. A second

Climate Week took place, during which more than 100 climate-related awareness raising events were carried out. Georgia plans to draft an overall climate change strategy, taking into account the findings of the Second National Communication to the UN Framework Convention on Climate Change, submitted in 2009. Two adaptation programmes developed under the Second National Communication are under implementation and preparations for a Nationally Appropriate Mitigation Action strategy have started. Georgia took steps to prepare and approve further Clean Development Mechanism (CDM) projects even if no new projects were registered at the UN level, leaving the overall number of registered projects at two. The EU continued to support Georgia in implementing the Kyoto Protocol. Georgia is also encouraged to fully implement the Cancun agreement and in particular devise a low carbon development strategy including update information on target or actions that it will implement.

With regard to the **environment**, the ministry of environment and natural resources protection continued to draft the second National Environmental Action Plan for 2011–2014, which identifies as priority the following environment sectors: waste management, water resources, air quality, land resources, nuclear and radiation safety, biodiversity, disaster management, mineral resources, forestry and the Black Sea. Limited progress was made in developing the legislative framework including an environmental code and the related implementing legislation. The legislative framework continues to require further development. Continued attention is required to implement existing strategies and plans and to further enhance monitoring and enforcement. Georgia took some steps to promote the integration of environmental considerations into other policy sectors, such as energy and regional development. A state-of-the-environment report was drafted but has not yet been published.

Georgia has not yet ratified the Protocols under the UN Economic Commission for Europe (UNECE) Convention on Long-Range Trans-boundary Air Pollution, nor signed the UNECE Convention on the Protection and Use of Trans-boundary Watercourses and International Lakes. It has not become a party to the UNECE Convention on the Trans-boundary Effects of Industrial Accidents or the UNECE Convention on Environmental Impact Assessment in a Trans-boundary Context. Furthermore, the implementation of several agreements already ratified requires particular attention. Georgia participated in the EU Water Initiative, including a national policy dialogue, and in the Commission on the Protection of the Black Sea against Pollution.

The **REC for the Caucasus** carried out regional activities in 2010 mainly in the fields of information and public participation, environmental policy and local environmental action plans. REC also further improved its internal management, fund-raising and visibility in 2010. Nevertheless, it carries over a deficit from previous years which impedes its activities.

Concerning developments in the field of **civil protection**, there are activities under the EaP framework (*please see the sectoral report*).

In the **information society** sector the Georgian telecoms regulator, the Georgian National Communications Commission (GNCC), is working towards approximation with the EU regulatory framework for electronic communications and ensured greater market opening. In 2010, the GNCC completed the review of both mobile and fixed call termination markets, reducing termination rates by approximately 50 % via the imposition of cost accounting methods.

In March 2010 Georgia decided to introduce fixed and mobile number portability from 2011. Georgia also drafted a new numbering plan to be introduced in 2011, which will rationalise the national numbering space and provide for more efficient management.

In the area of **research** Georgia increased its level of participation in the 7th Framework Programme (FP7). As of November 2010, 24 research groups had successfully applied, receiving some EUR 1.7 million of EU funding. The highest level of successful participation was in the research infrastructure, international cooperation and health parts of the programme. Georgia continued to participate actively in the International Science and Technology Cooperation Network for Eastern European and Central Asian (EECA) countries (FP7 IncoNet EECA project), which aims to support bi-regional EU-EECA dialogue and to increase EECA participation in FP7. A workshop on EU-EECA collaboration in energy research was held in Tbilisi in October 2010, scientific areas of mutual for the EU and EECA interest were identified for potential inclusion in future FP7 calls for research proposals. Georgia is a target country under the new FP7 International Cooperation Network for Central Asia and South Caucasus countries (FP7 IncoNet CA/SC) which was launched in April 2010 and aims to strengthen and deepen the EU S&T cooperation with the CA/SC countries, as well as with the Republic of Moldova.

Georgia is also taking an active part on the Black Sea ERA-NET project, which aims to contribute to the coordination of EU Member States' and partner countries' research programmes targeting the extended Black Sea region.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

In January 2010 the ministry of education and science announced further **education** reforms for 2010–15 including higher and secondary vocational education with a focus on structures, quality assurance and the role of executive institutions. A new law on the Development of Quality Assurance of Education was adopted in September 2010 transferring regulation of accreditation to the National Centre for Quality Enhancement. New rules on admission to higher education institutions based on unified national exams were adopted in July 2010 with amendments to the charter of the Teachers' Professional Development Centre from June 2010. Greater clarity is required on retraining incentives and efficient use of resources if promised school reforms are to be realised. Georgia pursued its approximation and alignment with European standards, benefiting from an ongoing twinning project in support of the Bologna Process.

Concerning **vocational education and training**, in September 2010 parliament adopted substantial amendments to the law on vocational education ensuring a clear link between vocational and higher education, increasing flexibility and aligning provision with lifelong learning principles. However, there was limited consultation by the government on the amendments in the law and over 14 VET centres were closed.. The government adopted a National Qualifications Framework in December 2010 broadly in line with the European Qualifications Framework, covering the whole education and training continuum. The new Centre for Education Quality Enhancement coordinated intensive cooperation with employers on occupational standards and adopted over 100 new standards by the end of 2010. The Adult Education Association developed a National Lifelong Learning Strategy. Through a large programme of voucher-financing, the National Teacher Professional Development Centre oversaw the professional development of some 20 000 primary and secondary education teachers through subject and professional in-service training, an essential premise for

implementation of the new teacher certification process which started in 2010 and which will become mandatory as from 2014.. An assessment of vocational training and education-business cooperation was carried out by the European Training Foundation under the Torino Process.

Higher education reform in Georgia continued to benefit from participation in **Tempus**, with five projects selected under the third Call for Proposals for Tempus IV including one led by a Georgian university. Georgia also continued its active participation in **Erasmus Mundus** in the academic year 2010-11 with the expected award of seven scholarships for Erasmus Mundus Master's Courses under Action 1 and a further 56 mobility grants for students and academics under Action 2. Tbilisi State University received continuing support for its Jean Monnet chair in European law.

Georgian young people and **youth** organisations continued to benefit from the Youth in Action Programme through exchanges, voluntary service and youth cooperation activities in non-formal education. A national Youth Information Centre in Tbilisi, with branches in several regions, opened in 2010.

In the field of **culture** Georgian cultural organisations participated in four projects under the 2010 Special Action for ENP countries under the Culture Programme. A first twinning project on cultural heritage conservation started in June 2010 between the Georgian National Museum and the Foundation of Prussian Cultural Heritage (*Stiftung Preussischer Kulturbesitz*). To advance regional cooperation as part of the EaP and the Kyiv Initiative, Georgia is urged to ratify the 2005 CoE Framework Convention on the Value of Cultural Heritage for Society.

Georgia pursued reform of its **health** sector. Household health expenditure remains high and coverage by health insurance low. In February 2010, in the context of last year's influenza A(H1N1) epidemic, the EU and Georgia established communication channels for exchanging epidemiological information in the event of a public health emergency of international concern. In 2010, Georgia adopted a national HIV/AIDS strategic plan for 2011–2016. In October 2010, Georgia published a draft national HIV/AIDS monitoring and evaluation framework.

8. FINANCIAL COOPERATION — 2010 KEY FACTS AND FIGURES

Cooperation framework

The Mid-Term Review of the programming document confirmed that the Country Strategy Paper adopted in 2007 remains a valid framework for cooperation with Georgia. The new National Indicative Programme (NIP) 2011–13 for Georgia was adopted in May 2010 and has a budget of EUR 180.3 million. The programme is geared to supporting the achievement of key policy objectives as outlined in the EU-Georgia ENP AP and pursues four priorities: (1) support for democratic development, the rule of law and governance; (2) support for economic development and ENP AP implementation; (3) poverty reduction and social reforms and (4) support for peaceful settlement of Georgia's internal conflicts.

The NIP 2011–13 includes a specific appropriation to finance new actions under the EaP, notably a Comprehensive Institution Building Programme (CIB) (with a minimum allocation of EUR 30.9 million) and Cohesion Policy (a minimum of EUR 7.4 million). The CIB

Framework Document was signed in October 2010 and identified three areas of key priorities including: support for government structures for coordination of enhanced agreement negotiations; support for trade policy reform; and consolidation of democratic reforms through the strengthening of oversight institutions.

Implementation

Implementation of measures covered by the Annual Action Programmes (AAPs) 2007, 2008 and 2009 is under way. The first Sector Budget Support (SBS) Programme in Public Finance Management (PFM), financed under AAP 2007, has been completed.

Under the AAP 2008, an SBS on Justice has been implemented with major results achieved by the government in areas such as probation, legal aid, juvenile justice and support for Georgia's Public Defender. The AAP 2009 for Georgia focused on Vocational Education and Training and on the implementation of Technical Assistance and Twinning Programmes.

In 2010 a total of EUR 37.2 million was committed to Georgia under the bilateral envelope of the European Neighbourhood and Partnership Instrument (ENPI). The AAP 2010 was approved in June 2010 and includes an SBS for PFM reforms aiming at: improving government capacity to manage, coordinate and monitor the reform of the PFM system; further improving budget preparation, execution and monitoring; enhancing the capacity of the Chamber of Control; and harmonising procurement systems in line with EU best practice. The same AAP earmarked EUR 7.2 million for a Technical Assistance Facility for EU-Georgia ENP AP implementation and a further EUR 19 million for a Sector Policy Support Programme for Regional Development. The latter will contribute to: (a) enhancing the capacity of central and local authorities; (b) streamlining institutional, legislative and territorial arrangements; (c) improving legislation and regulations to reduce local self-government dependency on the central level; (d) improving statistical instruments; and (e) improving civil society participation at local level.

In the aftermath of the August 2008 conflict and after some EUR 8 million were provided in direct humanitarian assistance, the EU has granted some additional funding to Georgia, largely through three Special Measures (adding up to EUR 105 million) in support of IDPs. The first two programmes have already been completed providing decent living conditions (by means of durable housing) and livelihoods to IDPs who lost their homes as a result of the conflict. In 2010, the third programme (EUR 43.5 million) was launched and will provide accommodation and socio-economic integration for all Georgian IDPs (including those from the conflict in the early 1990s) and to their host communities.

In addition to the bilateral allocation, Georgia also benefited from cooperation activities financed under the ENPI cross-border, inter-regional and regional programmes. Georgia takes part in the ENPI Cross-Border Cooperation (CBC) programme Black Sea Basin (EUR 21.3 million for the programme in the period 2007–13; the overall allocation was planned to be increased). The main priorities of this programme are to support cross-border partnerships for economic and social development based on combined resources, to share resources and competencies for environmental protection and conservation, and to support cultural and educational initiatives for the establishment of a common cultural environment in the Basin.

Under the ENPI-financed Neighbourhood Investment Facility (NIF), three projects were approved in the water sector in 2010, committing EUR 15 million in grants, expected to leverage EUR 167 million in loans from European Finance Institutions.

Other EU instruments supplement the ENPI assistance package. Georgia benefited from cooperation activities financed under horizontal instruments such as the European Instrument for Democracy and Human Rights (EIDHR) and the Development Cooperation Instrument (DCI) thematic programmes Non-State Actors and Local Authorities in Development (NSA-LA) and Food Security.

Georgia also continued to benefit from the Instrument for Stability to: (1) support a more balanced coverage of political parties; (2) contribute to the repatriation/integration of the Meskhetians; (3) support confidence building measures along and across the Administrative Boundary Line between Georgia and South Ossetia and Abkhazia, (4) advise Georgia on its policy towards the breakaway regions and (5) introduce the concept of transitional justice.

Moreover, as part of the October 2008 European Union pledge to Georgia, a second instalment of Macro-Financial Assistance has been prepared. It amounts to a maximum of EUR 46 million, half to be made available in the form of grants, the remainder in loans. A first tranche shall be disbursed in 2011.

Donor coordination

The EU Delegation has continued to actively promote coordination of assistance activities in the country, especially among EU donors. The government should play a stronger role in donor coordination in the future.