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**Implementation of the European Neighbourhood Policy in Georgia
Progress in 2011 and recommendations for action**

Accompanying the document

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

Delivering on a new European Neighbourhood Policy

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on progress made in the implementation of the EU-Georgia ENP Action Plan between 1 January and 31 December 2011. Developments outside this period are also considered when deemed relevant. It is not intended to be a general review of the political and economic situation in Georgia. For information on regional and multilateral sector processes, please refer to the Eastern Partnership report.

The EU-Georgia ENP Action Plan (ENP AP) expired on 31 December 2011. The EU and Georgia jointly agreed at the Cooperation Council on 1 December an extension to the ENP AP until the negotiations on an Association Agreement are sufficiently advanced.

The EU and Georgia made progress in deepening and broadening EU-Georgia relations within the Eastern Partnership framework. Negotiations on the Association Agreement were constructive and made significant headway during the year.

Georgia made sufficient progress in fulfilling the key recommendations necessary for launching negotiations on a Deep and Comprehensive Free Trade Area (DCFTA), as an integral part of the future Association Agreement. On that basis the EU agreed, in December, to launch the DCFTA negotiations. The first round has taken place.

Georgia made good progress in implementing the Visa Facilitation and Readmission agreements, which entered into force in March 2011. It showed great interest in launching a visa dialogue as the next step in the process of visa liberalisation.

Georgia continued to make progress in the fight against corruption. It continued to implement political reforms. It passed several amendments to key laws in the political and justice, freedom and security domains. At the same time, questions remained about the fairness of the election environment, including the difference in the number of votes required to elect a deputy in each electoral district, ambiguities in the electoral dispute mechanisms, equal access to the media and insufficiently regulated use by the ruling party of state resources for political purposes.

Georgia's governance also continued to be characterised by a dominant executive branch, weak parliamentary oversight and an insufficient degree of independence of the judiciary. The performance and the accountability of Georgian law enforcement agencies came under scrutiny after the violent dispersal of protests in May. Cases of excessive use of force by law enforcement agencies were not brought to justice. The reform and further liberalisation of the criminal justice sector continued in accordance with the plans and programmes agreed between the government and the EU, while the large prison population remained a concern.

The EU remained committed to and continued to fully support Georgia's territorial integrity and sovereignty and the peaceful resolution of the conflicts in Georgia; the EU Special Representative (EUSR) for the South Caucasus and the Crisis in Georgia co-chaired the Geneva Discussions and took the lead in other conflict resolution efforts, and the EU Monitoring Mission played a key role in stabilising the situation along the Administrative Boundary Line (ABL). For its part, the government of

Georgia took important steps in implementing its strategy for engagement towards the breakaway territories.

Georgia took important steps towards ensuring freedom of religion. Respect for labour rights and in particular Georgia's non-compliance with certain provisions of international labour rights conventions continued to be of concern. There were increasing concerns that property rights were not sufficiently respected.

Georgia consolidated its economic recovery in 2011 and broadly maintained macroeconomic stability. Its external position remained fragile, however, and growth projections were negatively impacted by the worsening global environment. By accelerating the fiscal consolidation process and continuing reforms to improve the economic and business environment, Georgia made further progress towards achieving the priorities of the Action Plan in this area.

On the basis of this year's report, and with a view to sustained implementation of the ENP Action Plan in 2012, Georgia is invited to:

- Ensure free and fair parliamentary elections, in line with internationally recognised democratic standards; address identified shortcomings in the electoral legislative framework, in a consultative and inclusive manner, in good time before the elections.
- Enhance its engagement policy towards breakaway regions and reconciliation/conflict resolution through pragmatic cooperation with *de facto* authorities and the provision of financial resources for engagement; take pragmatic and constructive steps to encourage trade, travel and investment across the ABL; review the law on Occupied Territories; 'Status Neutral Travel Documents', a welcome step towards the de-isolation of inhabitants of Abkhazia and South Ossetia, should not be the only means of travel for these populations until they are more widely accepted by them. The provision of health care and other social services to inhabitants of the breakaway regions is also an important step towards reconciliation: it should be extended without preconditions, such as acceptance of Georgian ID documents.
- Maintain and enhance Georgia's constructive engagement in the Geneva International Discussions, notably, working together towards sustainable security arrangements; in this respect, a clear commitment by Russia on the non-use of force would be necessary.
- Continue to improve the living conditions of all groups of internally displaced persons (IDPs) and enhance efforts to provide livelihood options and conditions to enable any IDPs who choose to stay in Tbilisi administered territory to integrate fully into society.
- Continue to strengthen freedom of expression and opinion; implement the law on Transparency of Media Ownership; ensure balanced media coverage and equal access to the media and advertising in the run-up to the elections.
- Continue the reform of the justice system and strengthen the independence and efficiency of the judiciary; ensure further liberalisation of criminal justice policies and practice in line with Council of Europe standards; revise

regulations on administrative detention in compliance with fair trial norms; reflect the recommendations of the Public Defender's Office in policy making.

- Increase accountability and democratic oversight of law enforcement agencies; combat impunity and investigate fully any accusations of human rights violations by law enforcement agencies.
- Improve labour rights; fully implement ILO core conventions No 87 *Freedom of Association and the right to Organize* and No 98 *Right to Organize and Collective Bargaining* and recommendations issued by ILO in this respect to Georgia in 2010; support the creation of a fair and transparent institutionalised labour conflict regulation mechanism to prevent the escalation of local labour conflicts.
- Continue to advance sectoral reforms and regulatory approximation to the EU *acquis* in trade and trade-related areas, based on the ENP AP and all recommendations identified in this respect in the preparation for the DCFTA.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

Throughout the year there were consultations between the ruling party and opposition parties, involving civil society, on **electoral reform**, with a view to improving the electoral framework for parliamentary elections in 2012 and presidential elections in 2013. At the beginning, this process was inclusive and transparent, but by the end of the year it became politically charged, and raised some suspicions that changes to the legal framework for the elections were politically motivated. Certain changes to legal acts were introduced at a late stage in the parliament, with unclear consequences for the political system in Georgia.

Georgia adopted a new Election Code in December 2011, taking on board a number of the recommendations of the Council of Europe Venice Commission and of the OSCE Office for Democratic Institutions and Human Rights. They included making it possible for independent candidates to stand in elections, reducing residency requirements to stand as a candidate and enabling certain categories of prisoners to vote. However, the electoral code fails to address some key recommendations, in particular the different number of votes required to elect a deputy in different electoral districts, and it does not address ambiguities in the electoral dispute mechanisms. In June, the new Commission for the Creation of Voters' Lists was set up. It is composed of all parties and of civil society organisations on a parity basis. Some leading civil society organisations have refused to participate on the grounds that the Commission has excessive powers for a non-partisan body.

The December 2011 amendments to the organic law on Political Unions of Citizens restrict the way business and legal entities are allowed to finance political parties and provide for more transparency and accountability of party financing. Civil society has raised concerns that a number of ambiguities in the law might make it harder for civil society to be active on political issues and that funding restrictions will disproportionately affect the opposition parties, which have less access to public resources. These concerns are currently being addressed.

As regards **media freedom**, concerns remain about equitable access to distribution networks. This may limit the expected positive effects of the law on Transparency of Media Ownership (which entered into force on January 2012). The process leading to the new law has been praised by civil society as a good example of collaborative consultation between the government and civil society organisations.

In January 2011 the break-up of a peaceful protest of war veterans and the subsequent violent dispersal of protesters in May raised concerns about the **freedom of assembly**. Although legally grounded, police intervention involved the excessive use of force and unjustified attacks on accredited journalists covering the events. In the aftermath, there were abuses of the rights of detainees. The Ministry of Interior blamed some law enforcement agents, who were later dismissed on disciplinary grounds, without proper legal proceedings. The law on Assembly and Demonstrations of July 2011 was praised by the Council of Europe Venice Commission as a significant improvement in the possibility to exercise of the freedom of assembly in Georgia.

Despite marked progress in a number of areas in the **justice** sector some challenges remain, in particular in ensuring citizen's **right to a fair trial**. The main problem relates to the strong position of the prosecutor and the lack of independence of the judiciary. This is evidenced by very high conviction rates (98%), though the number of acquittals did increase slightly compared to 2010. The high conviction rates, coupled with severe punishments, result in the frequent use of plea bargaining (in 87.5% of cases), and the resulting fines are channelled into the state budget. The amendments to the Criminal Procedure Code, which entered into force in November 2011, enhance judicial control over plea bargaining by explicitly requiring judges to assess not only the legality, but also the fairness of agreements between the prosecution and the defendant.

Notable achievements have been made in the area of Juvenile Justice and with regard to more liberal approaches in the criminal justice sector. The EU supports the Ministry of Justice for reforms in the sector through two consecutive Criminal Justice Support Programmes for a total budget of more than EUR 34 million since 2010. The Ministry of Justice has been placing the emphasis on promoting restorative justice, alternatives to imprisonment and mediation. This is expected to cut the prison population in Georgia, which is one of the highest prison populations per capita in the world.

The results of the nationwide Georgian crime survey carried out in 2011, using international standards and methodology, show that public safety in the country has improved significantly in recent years. The survey also confirms a gradual growth in public trust towards justice sector institutions.

Georgia has also made substantial progress in addressing **corruption**. According to the Transparency International Corruption Perception Index of December 2011 Georgia ranks 64th out of the 182 countries, with a score of 4.1 out of 10 (the highest in the Eastern Partnership region).

Further progress is needed to increase the performance and accountability of **law enforcement agencies**. Concern over the use of excessive force during apprehension and detention, mistreatment by prison staff, and doubts over the uniformity of the

application of the law remain. The Committee for the Prevention of Torture (CPT) and Public Defender Office (PDO) have criticised protracted investigations, insufficient disciplinary measures, and incorrect qualification of facts leading to less severe punishments, and has recommended that the authorities deliver a strong message of 'zero tolerance against ill-treatment'. The lack of democratic oversight on the part of the Constitutional Protection Department of the Ministry of the Interior is also a concern.

Conflict prevention and confidence building

The Government of Georgia took several steps to implement its strategy of de-isolation and engagement with the breakaway territories, including stepping up efforts to provide health services to inhabitants of the breakaway regions. Specifically the provision of healthcare services has been a welcome constructive step towards reconciliation; it is important that it continues without preconditions, such as an insistence on the acceptance of Georgian-issued ID documents by the beneficiaries of medical assistance. Georgia also introduced '*Status Neutral Travel Documents*' for travel by inhabitants of the breakaway territories outside Georgia. These documents constitute an important step forward in Georgia's engagement strategy; but given the strong rejection of the documents by the Abkhaz and South Ossetian de facto authorities thus far, it is important that they exist as an de-isolation option, not as an exclusive means for travel of Abkhaz and Ossetians, so that confidence building and dialogue initiatives are not hindered. The continued application of the 'law on Occupied Territories' remained a concern for the effectiveness of the engagement strategy.

In 2011, *de facto* presidential elections were held in Abkhazia and South Ossetia. The EU did not recognise the constitutional and legal framework within which these elections took place.

The EU remains committed to respecting Georgia's territorial integrity and sovereignty and to the peaceful conflict resolution of the conflicts in Georgia. The situation around the Administrative Boundary Lines with the breakaway regions of Abkhazia and South Ossetia remained relatively stable, but serious incidents were regularly reported. The EU Monitoring Mission (EUMM) remained the only international presence along the Administrative Boundary Lines. Following a strategic review, the mandate of the EUMM was extended in September 2011 for another year. The review concluded that the EUMM had performed its stabilisation and confidence building tasks well, but that the lack of access to breakaway regions still remained a challenge for the full implementation of its mandate.

Regarding Internally Displaced Persons (IDPs) several major issues still remain to be addressed. The government's practice of IDP "resettlements" has remained problematic, although a steady improvement has nevertheless been observed. Ongoing concerns include; the notice and information provided to IDPs on upcoming evictions; inconsistent offers for alternative housing; and lack of consideration for particular vulnerabilities. The EU continued to provide support to IDPs through budget support and technical assistance which amounted to EUR 43.5 million in the period under review. As a result, 860 IDP families received new housing.

There has also been progress in addressing the overall concerns of IDPs. After a hotline for IDPs was set up and Tbilisi's IDP reception centre upgraded into a comprehensive service centre, four more regional service centres have been recently set up and have significantly improved the quality and efficiency of services provided to IDPs. However, structural and human resource shortcomings within the Ministry of Reintegration remain. Georgia has, to a large degree, respected the principles laid down in 2010 to work toward a durable solution to housing problems.

Other human rights and governance-related issues

On Human Rights, the work of the **Ombudsman** (Public Defender's Office - PDO) continued to enjoy high levels of credibility and public trust. Parliamentary and specific monitoring reports by the PDO have stirred public debates and stimulated concrete changes in government policies. One example is the complete overhaul of the penitentiary healthcare strategy in the wake of 2011 PDO reports. Despite budgetary constraints, the government's allocations to the PDO were increased in the 2011 budget. The PDO is one of the key Georgian institutions receiving support under the EU Comprehensive Institution Building (CIB) programme.

The **Gender Action** Plan was implemented consistently. Significant problems in domestic violence remain, and the State Coordination Mechanism, which was established to promote policies addressing this issue, proved to be dysfunctional. Women continue to be under-represented in public office.

On **freedom of religion**, one major achievement was the adoption of the amendments to the Civil Code, allowing congregations to register as Legal Entities of Public Law, paving the way for the ownership of properties to be used for worship and religious ceremonies. The property rights and restitution of churches confiscated during Soviet times, however, has still not been resolved. **Ethnic minorities** remain poorly represented in state administration, and Georgia has not signed the European Charter for Regional or Minority Languages. Discrimination on the grounds of **sexual orientation** remains an issue in Georgian society. Marginalisation of persons with **disabilities** persists, and Georgia is not yet a signatory of the relevant UN Convention.

There is an increasing concern that **property rights** are not being fully respected in Georgia. Recently, a significant number of disputes surrounding land development have arisen from the lack of or the lack of clarity of legal titles to land traditionally used by local populations. These disputes are compounded by a lack of consultation with the population and inadequate public information on local development plans affecting people's lives. Another problem concerns cases of the opaque procedures associated with the privatisation of state-owned assets.

Cooperation on Foreign and Security Policy

In 2011, Georgia aligned with 42 out of 82 CFSP declarations which it was invited to support. There was intense political dialogue with Georgia in 2011, including the Political and Security Committee Political Dialogues in June, and visits by the Commissioner for Enlargement and Neighbourhood Policy in July and of the High

Representative of the European Union for Foreign Affairs and Security Policy in November.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

After a strong recovery in 2010 (real GDP growth of 6.3%), economic **growth** is estimated at 6.8% in 2011. Inflation (7.1 % in 2010) accelerated in 2011 due to increased international prices for food and gas and reached 8.5%. The fiscal deficit was reduced from 6.6% of GDP in 2010 to about 3.6% of GDP in 2011. A 2012 budget entailing a deficit of 3.5% of GDP was approved in December 2011.

Georgia's external economic situation remains fragile due to a large – and widening – current account deficit: it reached 12.7% of GDP in 2011, against 9.6% of GDP in 2010. The trade deficit, at 22.9% of GDP in 2010, increased further in 2011 to around 28.7% of GDP. Georgia's exports continue to suffer from the trade embargo imposed by Russia in 2006. The high trade deficit was partly offset by growing tourism revenues and current transfers (remittances). Recovering FDI and official assistance also helped finance the current account deficit. In 2011 FDI was estimated to reach EUR 650 million (around 6.3% of GDP), against EUR 440 million (5% of GDP) in 2010.

Official reserves increased from USD 2.3 billion (EUR 1.75 billion) at end 2010, to USD 2.8 billion (EUR 2.25 Billion) at end 2011 (around 5 months of imports). The external debt remained relatively high in 2011 (62% of GDP). A peak in the public debt roll-over in the coming years represents a concern. Substantial external debt repayment obligations become due in 2013-15, reflecting the repayment of the Eurobond of USD 500 million issued in 2008 and large repurchases under the IMF's Stand-By Arrangement.

Georgia is well advanced towards becoming a functioning market economy, with an impressive improvement in the business climate. The country is about to adopt a new strategy for its future economic development.

Employment and Social Policy

Accurate **poverty** figures are not available, but Social Service Agency figures indicate just over a third of the population is below the poverty line.

The **unemployment** rate, despite the economic recovery, remains the highest in the region and is almost unchanged in relation to 2010 levels (16.5% in 2011, 16.3% in 2010). In 2010 the unemployment rate for women (14.5%) was slightly lower than for men (17.9%), though this may reflect lower female participation in the job market.

The government announced in October 2011 a 10-point strategic of socio-economic policy plan to address modernisation and **employment**, including refining social policies. As part of the package, limited tax exemptions for companies employing people aged 45-60 were offered to increase employment in this age category.

In July, the Ministry of Education and the employers' and trade unions' sides signed an Agreement on Social Partnership Policy in Vocational Education and Training to improve the process of matching skills with the demands of the labour market.

On **social protection**, according to the Georgian Insurance Association, the number of insured persons funded by the State decreased by almost 16% since May 2010 (857,142 people).

The issue of **labour rights** continues to be a serious concern, including the insufficient implementation of core ILO conventions, in particular No 87 on *Freedom of association and protection of the right to organise* and No 98 *Right to organise and collective bargaining*. The government has continued a dialogue with ILO, but has not yet given clear indications of steps made regarding necessary legislative amendments that were recommended by ILO in 2010.

Tripartite **social dialogue** meetings took place at regular intervals, and the work of the Tripartite Commission resumed in December. The process has yet to deliver in practice a functioning and mutually agreed mediation mechanism between employers (including the government as employer) and trade unions.

In the area of **agriculture**, the EU and Georgia signed, in July 2011, an agreement on the protection of Geographical Indications. The Ministry of Agriculture prepared, with EU support, a long term sector strategy which was approved by the Georgian government in March 2012. An Agriculture Support Programme with a total budget of EUR 40 million is planned for 2012.

In the area of **fisheries**, Georgia needs to strengthen the public control over its fishing fleet as some of the vessels operating under its national flag are involved in illegal, unreported and unregulated fishing activities.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Bilateral trade continued to improve in 2011 at a steady pace year-on-year but has not yet fully recovered for both imports and exports. Total bilateral trade amounted to EUR 2.2 billion in 2011, indicating a more dynamic recovery of EU exports to Georgia as compared to imports from Georgia. Accordingly, EU exports to Georgia increased by 36.9%, while EU imports from Georgia increased by 8.2%. However, Georgian exports to the EU are still concentrated in a few commodities of low value added (in particular, primary products such as fuels and mining products formed 69.1% of imports from Georgia).

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 preferences aim to assist in diversifying Georgia's export structure and improving its export performance. However, benefitting from the above-mentioned is conditional on the country's compliance with the international conventions on human and labour rights, environmental protection and good governance. Whereas in 2011 progress was made in the dialogue of Georgia with the ILO and certain recommendations issued by ILO in 2010 were taken on

board, Georgia is still expected to address several of them, notably with regard to legislative amendments to the Law on Trade Unions and the Labour Code.

Georgia persevered with implementing the remaining 'key recommendations' which set out the necessary reforms, based on the ENP AP, in the key trade-related regulatory areas prior to the negotiations for a Deep and Comprehensive Free Trade Area (DCFTA). In December 2011, the EU concluded that the progress made by Georgia was sufficient to launch DCFTA negotiations. However, the reforms undertaken in the trade-related areas are far from complete and Georgia will need to continue them if it is to benefit fully from the future DCFTA, notably by diversifying its export base and attracting foreign direct investment. Support to key trade-related institutions in the fields of standards, metrology, accreditation and food safety will be provided through the EU programme on Comprehensive Institution Building.

A unified Tax Code, with a reduced number of **customs** code provisions, entered into force in January 2011. The power of issuing certificates of origin should be transferred to customs. A twinning project (EUR 1.800.000), covering customs and SPS, started in September. It aims at strengthening the Ministry of Finance's Revenue Service.

In July 2011, the government submitted to parliament a Code on Safety and **free movement of goods** and informed the Commission about plans for a domestic market surveillance system. Georgia organised, for its regulatory bodies, an institutional gap assessment that resulted in an Institutional Reform Plan in July 2011. Georgia became an associate member in the European Co-operation in Accreditation scheme in November 2011. The Government adopted technical regulations for the safety of lifts (July 2011) and cableways (August 2011) as first priority sectors, with the help of an EU twinning project. However, accepting that imports from certain OECD countries comply with the originating countries' standards is not compatible with EU law.

Regarding **sanitary and phyto-sanitary** (SPS) issues, Georgia started implementation of its food safety strategy. SPS legislation including a framework law (Food Safety Code) is in preparation. Georgia adopted the Food Safety Agency's statute and trained, with EU support, its Agency staff. A twinning project on SPS capacity building at borders was launched. SPS border controls are now being done.

In the area of **business climate and establishment**, Georgia's ranking in the World Bank's 'Doing Business 2012' annual report improved from 17th in 2010 to 16th in 2011. It made progress in particular in registering property, following the amendments to the law on Licences and Permits of October 2011. The simplified taxation regime for SMEs (see below) contributed to the favourable business climate. Although corruption decreased, companies still perceive it as an impediment to business.

In the area of **company law**, the law on Securities Market was amended in March 2011 to secure the rights of minority shareholders and regulate conflicts of interests. No significant developments can be reported in the area of **audit**.

The independence of the National Bank of Georgia (NBG), the sole regulator of **financial services**, was established constitutionally as of 1 January 2011. The NBG tightened the reserve requirements from 10 to 15% of foreign currency held by the bank in February and enacted rules on service information to customers in June 2011.

In December, parliament amended the law on the NBS giving the Bank the right to acquire any necessary information (including confidential) from the financial sector that it supervises.

Other key areas

The new **Tax Code** introduced simplified and business-friendly tax procedures as of January 2011, including different tax regimes for 'micro' (turnover < 30 000 Georgian Lari) and 'small' (< 100 000 Georgian Lari) businesses. Tax on dividends was reduced from 10% to 5%, and the duration of proceedings for tax appeals from a maximum of 125 days to 65 days. VAT reporting was simplified, and electronic filing and payment was introduced. A Tax Ombudsman was appointed to examine violations of taxpayers' rights and to advise administration. Georgia continues to apply an excise tax on the export of scrap metals. Double Taxation Avoidance Agreements with Spain, and amendments to such Agreements with the UK and Estonia entered into force. In April 2011 Georgia joined the Global Forum on Transparency and Exchange of Information for Tax Purposes.

In July 2011, the government tabled a draft law on Free Trade and **Competition**, introducing rules for antitrust, merger control and **state aid**. The Commission has expressed its reservations to the government concerning some of the exceptions provided for in the law and the need for legal certainty to be provided to companies in the event of ex-post merger control. The Commission also stressed the importance of institutional and administrative capacity building to make it possible to enforce the law.

With respect to **intellectual property rights (IPR)**, Georgia started acting on the recommendations of the 2010 study on piracy and counterfeiting, notably by establishing, in July, an Inter-Agency Coordinating Council on Copyright Protection including stakeholders and the EU. Georgia has been working on the establishment of a police High-Tech Crime Unit and has started to collect statistical information on border seizures of counterfeit goods. The Georgian Copyright Association (collective management society) changed its constitution and is now also in charge of neighbouring rights.

Georgia developed a mid-term strategy for the development of the national **statistical** system in 2011 and implemented the Specialised Data Dissemination Standard. The statistical law was also amended to increase the alignment with international standards. Georgia needs to increase its efforts to build up the statistical system by allocating sufficient resources to statistics. A population census should be implemented and appropriate resources allocated for this large operation.

The high cost of finance or/and collateral requirements remains the major constraint on the development of SMEs and one of the main challenges in terms of **enterprise policy**. The government broadened the range of assets eligible as collateral. A new portal was launched to increase export potential and trade relations with foreign companies/investors, and both the Georgian National Investment Agency and Batumi Investment Agency offer a one-stop-shop service to potential investors. Privatisation sales continue and electronic auctions were introduced in 2011.

The electronic **public procurement** system was made bilingual (Georgian/English) as of September 2011. The State Procurement Agency (SPA) reports considerable savings after the introduction of e-procurement (15-20%).

The Ministry of Finance persevered with the reform of **public finance management**, consistent with the Action Plan, a condition of ongoing EU macro-financial assistance. Given the importance of this reform for all other sectors, the EU has provided support to the Ministry of Finance since 2007 through budget support and technical assistance. Under the Public Finance Management Programme which was launched in January 2011 for a total budget of EUR 11 million, Georgia adopted a new law on **public internal financial control** in December 2011. The Internal Audit Council (with the functions of the Central Harmonization Unit) became operational during the second half of 2011, although its capacity remained limited.

The Chamber of Control (CCG) acquired resources for the 2010 capacity development plan for external audit, recruiting over half of the 78 additional staff needed and purchasing 40% of the required IT equipment. The CCG issued a Financial Audit methodology and prepared a policy document for quality assurance. It conducted pilot audits in several ministries and developed a performance audit manual.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Georgia's updated Integrated **Border Management** (IBM) Strategy was submitted to the President for signature in December 2011. Cooperation on border management with Armenia progressed through agreement reached in February 2011 on the joint operation of border crossing points. The project on enhancement of the border management capabilities at the border between Georgia and Armenia at Ninotsminda-Bavra – under the Eastern Partnership IBM Flagship Initiative – will start implementation in October 2012.

Following the creation of the State Commission on Migration in 2010, Georgia launched work to enhance **migration** management, addressing in particular the development of a comprehensive migration strategy (a first draft of which has been prepared and will be discussed soon in the State Commission) and the creation of a central database. The **law on Refugee and Humanitarian Status** was adopted in December 2011.

Following their entry into force in March 2011, implementation of the EU-Georgia Visa Facilitation and Readmission Agreements started smoothly, as assessed by the first two meetings, in June and November 2011, of the Joint Committees. Additional support to implement the Readmission Agreement was provided through new projects on readmission management and capacity-building on processing of readmission requests under the EU-Georgia Mobility Partnership. A Mobility Centre and the local Mobility Cooperation Platform were also created in the framework of the EU-Georgia Mobility Partnership.

On the basis of a new 2011-2012 National Action Plan for Combating Trafficking in Human Beings, Georgia effectively addressed the **fight against trafficking in human beings**, including through a broad range of training events for law enforcement

agencies and judiciary staff, as well as awareness-raising and prevention programmes in schools. Several exchange visits with Turkey and Azerbaijan took place in this field in December.

In the area of **organised crime**, Georgia has not yet ratified several important Conventions, such as the Third Protocol on the Illicit Manufacturing of and Trafficking in Firearms, Their Parts, and Components and Ammunition, as well as the 2007 Council of Europe Convention on the protection of Children against Sexual Exploitation and Sexual Abuse and the European Convention on Cybercrime.

The first EU-Georgia Dialogue on **drugs** took place in September. Some progress was registered on prevention and rehabilitation, notably through the creation of a National Centre on mental health and drug addiction. However, Georgia still lacks a comprehensive national anti-drug control strategy and action plan.

The Academy of the Ministry of Interior and the European Police College (**CEPOL**) signed in December an agreement as an important step forward in the field of **police cooperation**. Relevant international conventions in the areas of judicial and law enforcement cooperation remained unsigned.

The parliament adopted the law on Data protection in December 2011. Effective protection of personal data forms a fundamental prerequisite in promoting cooperation with EUROJUST, EUROPOL and EU member states.

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).

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

In the area of road **transport**, Georgia continued the alignment with the international regulatory framework by starting an accession process to the Agreement Concerning the Work of Crews of Vehicles Engaged in the International Transport and to the Convention on International Carriage of Dangerous Goods by Road. In the aviation sector, Georgia should implement the safety roadmap established by the European Aviation Safety Agency. In the maritime sector, the law on the Education and Certification of Seafarers aligning with Standards of Training, Certification and Watchkeeping convention entered into force in January 2012. This should help Georgia to regain the EU recognition of certificates from Georgian seafarers that was revoked in late 2010. Georgia continued to implement its strengthened Flag State Inspection Policy. The number of vessels flying the Georgian detained in ports to correct safety problems in 2011 decreased to 6 % from 28% in 2009. While the Georgian flag remains on the black list of the Paris Memorandum of Understanding on Port State Control, it was removed from the 'High Risk' category of this black list.

Georgia remained, also for the EU, a reliable **energy** transit country for Caspian resources. It reconfirmed its full support for developing the Southern Gas Corridor. A feasibility study was launched regarding the Azerbaijan-Georgia-Romania Interconnection project, aiming to export liquefied natural gas through the Black Sea. Georgia, Azerbaijan, Lithuania, Poland and Ukraine further worked towards a Euro-Asian Oil Transportation Corridor. The rehabilitation of gas networks continued. Georgia completed a feasibility study on underground gas storage; it intends to use the storage to increase the country's and the region's energy security. Georgia remained active observer of the Energy Community. In order to step up the use of and trade of electricity from renewables, Georgia continued the construction of (hydro) generation capacity and the development of the Black Sea Electricity Transmission Line (Azerbaijan-Georgia-Turkey). Electricity interconnections with Armenia and Turkey are being built. More efforts are needed on energy efficiency.

In the field of **climate change**, a third climate week took place, aiming to encourage public debate on climate issues and improve awareness. No new Clean Development Mechanism projects were registered at the UN level, leaving the number of registered projects at two. Georgia is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the UNFCCC COP 17. Georgia is also encouraged to fully implement the Cancun and Durban agreement and in particular devise a low carbon development strategy including update information on target or actions that it will implement.

The adoption of the second National **Environmental** Action Plan for 2012–2016 is still pending as well as the publication of the new State of the Environment Report. Georgia drafted a new Water Management law and adopted a national action plan on persistent organic pollutants. Georgia amended legislation on environmental impact assessment providing for the exemption of projects of state interest. A website on a pilot pollutant release and transfer register was created, as a tool to provide information to the general public about substances of concern. The Ministry of Environment and Natural Resources became the Ministry of Environment Protection. Some of its previous responsibilities were transferred to other ministries. There were no significant developments with regard to Georgia's ratification of, or accession to, environment related conventions and protocols of the UN Economic Commission for Europe.

The Regional Environmental Center (REC) for the Caucasus continued its activities in 2011 inter alia in the fields of information and public participation. The REC founders agreed in October 2011 that they want to see it enhance its role in the South Caucasus Region in the years to come. They tried to find a solution to the REC's debt problem and agreed that it could be beneficial to convert the REC into an inter-governmental regional organisation.

Georgia started establishing a **civil protection** service for mountainous regions. Georgia also intensified the cooperation with the countries from the region and the exchange of best practices with the EU in the field of disaster prevention, preparedness and response through its participation in the EU Programme for Prevention of, Preparedness for, and Response to natural and man-made disasters.

In the **information society** sector the regulator continued with regulatory reform. The mobile telephone market continued to grow at moderate pace. The development of the

fixed-line network in Georgia has stalled. The system is still short of 100% digital target.

Broadband internet expanded rapidly and by late 2011 broadband constitutes the vast majority of internet access subscriptions.

Investment in **research and innovation** continued to remain at a relatively low level. Georgia continued to have a good level of participation in the 7th Framework Programme for Research and Technological Development (FP7) with a growing number of successful applications. To date, 36 Georgian research organisations are involved in 26 projects, receiving just over EUR 2.54 million. The highest numbers of projects are in the areas of research infrastructures, the Marie Curie Fellowship actions, health research and the international cooperation actions. Georgia is encouraged to increase participation in the research themes under the Cooperation programme and to nominate a Legal and Financial Contact Point.

As regards Regional Policy, and in the context of the agreement with the Commission on regional policy dialogue, Georgia has expressed interest in building capacity in the field of strategy development. These aspects will be developed in a PRDP which will be integrated into the ongoing large programme on Regional Development.

7. PEOPLE-TO PEOPLE CONTACTS, EDUCATION AND HEALTH

In the area of **education**, a country-wide teacher certification process started in July 2011. Reforms launched in 2010 aimed at modernising the education system in line with the Bologna Process continued to be pursued, reaching the doctoral level. A National Framework for quality standards throughout the whole education sector (involving VET degrees as well as BA and MA degrees) was adopted in 2011. The Twinning project with the Ministry of Education and Science focusing on the higher education sector and the Bologna Process was successfully completed in March 2011.

Higher education reform in Georgia continued to benefit from EU-Georgia cooperation and support via the **Tempus IV** programme, with five additional projects selected in 2011. Projects covered topics such as internationalisation of higher education, the development of university-enterprise partnerships, the modernisation of medical education, migration and skills and the development of regional interdisciplinary post-graduate energy and environmental law studies. Georgia also continued its active participation in exchanges via **Erasmus Mundus** in 2011, with the award of a total of 63 scholarships and mobility grants for students and academics. Regarding **vocational education and training** (VET), Georgia continued the reforms launched in 2010 on the basis of its Medium-Term Strategy 2009-2012. This effort was supported by the EU through a programme (EUR 19 million) which helped to institutionalise the tri-partite dialogue involving all social partners. Georgia progressed particularly in the promotion and quality enhancement, as well as in the rehabilitation of the infrastructure. The European Training Foundation supported four new projects: a migration and skills survey, a Small Business Act assessment, a project on linking VET programmes with labour market needs and a peer learning project on lifelong learning policies.

Preparations began for the participation of Georgia in the eTwinning component of the **Comenius** programme, the EU programme for interconnecting schools, foreseen

for 2012, with the selection of the partner support agency and an assessment of potential beneficiaries/schools.

In April 2011 Georgia hosted a regional seminar on cultural policy in the framework of EaP Platform 4 activities. Seven Georgian cultural organisations participated in six cooperation projects financed under two calls by the Culture Programme in 2009 and 2010 dedicated to the ENP-countries who have ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

In 2011 under the guidance of the Ministry for Sport and Youth a draft document on Youth Policy in Georgia has been elaborated during a consultative process including all major stakeholders in the field of youth. It is scheduled to be adopted by the government of Georgia in spring of 2012. Very positively, the number of young Georgians and Georgian youth workers benefitting from the exchange opportunities of the **Youth in Action** programme increased from 405 in 2010 to 469 in 2011.

Georgia continued **health** sector reform. It developed a health care strategy 2011-2015, which aims to reduce inequalities in access to care; enhance quality of services; protect the patient's rights; prevent diseases and increase preparedness in case of health threats; strengthen management of the sector and increase sector efficiency. Georgia introduced a financing system that improves patient's coverage. In June 2011, it established a centre for mental health and drug addiction with branches in regions.