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Association Implementation Report on Georgia

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1. Summary

In line with the revised European Neighbourhood Policy, this report sets out the state of play of Georgia's commitments under the EU-Georgia Association Agreement (AA) since the meeting of the EU-Georgia Association Council of 5 February 2018 and ahead of its next meeting of 5 March 2019.

The European Union and Georgia have further intensified their relations. Georgia continued consolidating its position as a key partner in the region with its reform efforts and the ambition to further develop its relations with the EU, as highlighted by Georgia's 5-point reform programme.

Georgian society continues to show support for Georgia's aspiration of political association and economic integration with the European Union, embodied by the AA.

Overall, the implementation of commitments stemming from the AA including its Deep and Comprehensive Free Trade Area (DCFTA) has continued within agreed timelines. The revised Association Agenda (2017-2020) sets jointly agreed priorities towards further implementation of the AA.

The Single Support Framework 2017-2020¹ indicating priorities for EU financial support contributes to the implementation of the AA and key structural and institutional reforms, in particular in the fields of education and the economic and business environment. Collaboration with International Financial Institutions (IFIs) active in Georgia allows for a better support to the reform processes driven by the Government of Georgia.

New EU assistance programmes (EUR 134 million in grants) will focus on public financial management, security and the rule of law, while providing further support for the implementation of the AA. Blending operations will support local currency lending as well as energy efficiency, solid waste management and water supply and sanitation.

The EU is also providing a new Macro-Financial Assistance (MFA) programme to Georgia of up to EUR 45 million (up to EUR 10 million in grants and up to EUR 35 million in loans). The MFA will help Georgia cover part of its external financing needs over the coming years.

Due to the progressive approximation of technical regulations and standards with those of the EU, Georgia continues strengthening its participation in international value chains. In 2017, the EU was an important trade partner of Georgia with 27% share in its overall trade. Preliminary data for 2018 also confirm the importance of the EU as a trade partner for the country. In this context, the opening of the EU market to new animal-origin products from Georgia was an important milestone.

Georgia has made modest progress in reforming the justice sector and important challenges still remain to consolidate the progress achieved and safeguard the rule of law. Concerns have been raised by civil society on potential political interference on the judiciary and on media pluralism. Effective implementation of human rights and anti-discrimination legislation continues to be a challenge.

Georgia has benefitted from short-term visa-free travel since March 2017. Between 28 March and 1 September 2018 around 300 000 Georgian citizens enjoyed short-term visa-free travel to the Schengen area. The country has continued implementing the visa benchmarks and taking measures, in particular to tackle the issues regarding irregular migration by its

¹ https://eeas.europa.eu/sites/eeas/files/georgia_2017-2020_ssf_final.pdf

nationals. Nonetheless, there was still an increase of unfounded asylum requests in a number of EU Member States.

Georgia is an important partner for the EU as regards security, the fight against terrorism and transnational organised crime, as highlighted during the second EU-Georgia Security Dialogue of 23 October 2018. The reforms regarding intelligence-led policing and the creation of a unified crime analyses system continued to be implemented.

Georgia actively contributes to the implementation of the revised European Neighbourhood Policy and its regional dimension, the Eastern Partnership (EaP) including through the follow-up of the 5th EaP Summit of 24 November 2017, the “20 deliverables for 2020²” and its active participation in EaP Platforms and Panels.

A High Level meeting between Members of the European Commission and of the Georgian Government took place on 21 November 2018. Priority actions for future cooperation - in line with the priorities of the Association Agenda³ and the 20 Deliverables for 2020 - were agreed.

2. Political dialogue, good governance and strengthening institutions

2.1. Democracy, human rights and good governance

The political landscape in Georgia evolved throughout 2018.

On 23 March 2018 the Georgian Parliament approved the remaining amendments to the **Constitution**, thus completing the constitutional reform process. The revised Constitution includes new provisions on gender equality, anti-discrimination and children’s rights. It introduced a fully proportional election system as of 2024 and abolished direct presidential elections.

In May 2018 former Prime Minister and businessman Bidzina Ivanishvili was unanimously elected as the Chair of the Georgian Dream party. Prime Minister Kvirikashvili resigned on 13 June 2018. He was succeeded by former Minister of Finance Mamuka Bakhtadze, who streamlined the Government to 11 cabinet positions.

The last **presidential elections** by popular vote took place in October and November 2018. Independent candidate, backed by the ruling majority, Salomé Zourabichvili was elected in the second round. According to the preliminary report of the Organization for Security and Co-operation in Europe / Office for Democratic Institutions and Human Rights (OSCE/ODIHR) Election Observation Mission⁴, elections were held in an overall competitive environment and professionally administered. The report highlighted however that the process was undermined by the undue advantage enjoyed by one side and the negative character of the campaign on both sides. Instances of misuse of administrative resources were noticed.

During May-June 2018 Georgia experienced two waves of mass protests. The first followed an anti-drug operation in Tbilisi night clubs, when thousands of people protested against excessive use of power in May 2018. The second set of demonstrations and protests targeted alleged shortcomings of the justice system (prosecution and the courts). The protests started after a controversial court decision concerning the killing of two school boys in December 2017 and forced the Chief Prosecutor to resign on 31 May 2018.

² https://eeas.europa.eu/sites/eeas/files/20_deliverables_for_2020.pdf

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22017D2445>

⁴ <https://www.osce.org/odihr/elections/georgia/399611?download=true>

Following the lawsuit of several NGOs, in July 2018 the Constitutional Court declared unconstitutional those provisions of the Tax Code and the Law on State Property which granted privileges to the Georgian Orthodox Church including exemptions from value-added tax and receiving state property free of charge.

The media landscape is dynamic and pluralistic, but also polarised. Legal battles over the ownership of TV channels continue to fuel political controversy about potential political interference in media pluralism and the judiciary. The European Court of Human Rights is still reviewing the Rustavi TV case⁵. In the 2018 World **Press Freedom** Index⁶, Georgia improved by three places, ranking now 61 (compared with 64 in 2017) out of 180 countries. The Freedom House rating remained stable⁷.

The Bertelsmann Stiftung's Transformation Index 2018 Georgia Country Report⁸ states that overall **civil society** remains weak in terms of membership and grant dependence, but nevertheless plays a decisive role in policy formulation as well as Government oversight.

When it comes to **preventing and fighting corruption**, Georgia continued to implement the Anti-Corruption Strategy and its action plan in line with the Association Agenda's commitments. The results were reflected in international ratings but some concerns of high-level corruption persist. In the 2017 Transparency International corruption perception index⁹, Georgia scored 56/100 (57/100 in 2016), higher than any other country within the European Neighbourhood Policy. The 2018 World Bank Control of Corruption indicator improved, reaching 77/100 in 2017 (74 in 2016 and 75 in 2015)¹⁰. Asset declarations submitted by public officials are effectively monitored since 2017 (per law 5% of the total declarations are checked)¹¹. A Code of Ethics in the Civil service has been in place since 2017. Georgia designated the Unit of European Integration and Cooperation with International Organisations of the Chief Prosecutor's Office as its national Asset Recovery Office in July 2018.

In the course of 2018 Georgia upgraded its domestic legislation to fight **violence against women and domestic violence** in order to bring it closer to Council of Europe standards (Istanbul Convention). The referral of domestic violence cases to the police has further increased following awareness campaigns, a significant shift in public attitudes and the introduction of a Human Rights Protection Department in January 2018 by the Ministry of Internal Affairs. The Department works to enhance the capacity to investigate domestic violence and hate crimes. A high incidence of violence against women nonetheless persists.

Despite efforts to strengthen legislation and raise awareness **gender inequality** remains high. Georgia is ranked 76 out of 188 countries in the Gender Inequality Index and 94 out of 144 countries in the Global Gender Gap Index¹². Women are underrepresented in politics and in the labour market¹³.

⁵ Dispute over ownership of shares in the Rustavi 2 television broadcasting company. https://www.echr.coe.int/Documents/CLIN_2018_01_214_ENG.pdf

⁶ <https://rsf.org/en/ranking>

⁷ <https://freedomhouse.org/report/freedom-world/2018/georgia>

⁸ <https://www.bti-project.org/en/reports/country-reports/detail/itc/geo/>

⁹ <https://www.transparency.org/country/GEO>

¹⁰ World Bank Governance Indicators (WBGI): <http://info.worldbank.org/governance/wgi/#reports>

¹¹ In 2017 80% of the monitored assets led to either administrative fines (224 out of the 287 declarations) or to further investigations by Prosecution (in the case of 7 declarations).

¹² http://www3.weforum.org/docs/WEF_GGGR_2017.pdf

¹³ Women representation is 15.33% in Parliament, 13.46 % in local representative bodies and only 1 (1.56%) out of 64 elected mayors. Women activity rate is at 50.8% compared to 63.4% for men http://www.geostat.ge/?action=page&p_id=145&lang=geo

In relation to minorities, Georgia's Equality and Integration Strategy and its annual Action Plans aimed at integrating ethnic minorities continued to be implemented. As for the implementation of the Law on State Language (providing for the use of non-state languages in municipalities populated by national minorities), a relevant department under the Prime Minister was established. New bodies of public advisory councils were set up in two municipalities, aimed at increasing participation of national minorities at local level.

The 2015 Public Defender's proposed amendments to the Law on Elimination of all Forms of ***Discrimination***, aimed at enhancing the effectiveness of the enforcement mechanism under the Law, are still pending. Incidents of discrimination against LGBTI (lesbian, gay, bisexual, transgender and intersex) persons in labour, health, social and economic areas were reported. In May 2018 the demonstration commemorating the International Day Against Homophobia was heavily protected by the police, also in view of a far right nationalistic group demonstration organised at the same time.

With regard to ***children's rights***, infant (and maternal) mortality rates remain high as compared to European rates, due to low quality ante, perinatal and post-partum services amongst other factors. Child poverty remains high. The number of children living in poor households increased to 31.6% from 26.8%. Every fifth child lives in a household in which basic needs are not met. New advanced child protection referral procedures and a state coordination mechanism to identify, refer and respond to cases of violence against children have started to be implemented. Child-care has still not been fully deinstitutionalised and two large institutions for children with disabilities remain operational. A number of unregulated institutions financed and run by local municipalities, the Georgian Orthodox Church and Muslim communities continue to operate without proper monitoring.

With regard to ***ill-treatment***, the Action Plan on Fighting Torture, Inhuman and Degrading Treatment or Punishment covering 2017-2018 is in place. Cases of ill-treatment in the penitentiary system have diminished in contrast to cases of ill-treatment by police officers. As of September 2018, the Public Defender's office received 149 complaints of ill-treatment by prison staff or police and petitioned the Chief Prosecutor of Georgia to investigate eight cases. None has resulted in criminal prosecution.

The Law on the State Inspectorate Service, which will establish the ***independent investigation mechanism***, was adopted in July 2018 and will enter into force in 2019. The new body will incorporate functions of the existing Personal Data Protection Inspector and a new investigative agency for crimes committed by law enforcement officials. Few cases were reported under the Istanbul Protocol¹⁴, in force since January 2017. Police stations and detention centres are gradually being equipped with surveillance as a preventive measure against ill-treatment. The investigation into the widely reported case of abduction of an Azerbaijani citizen and human rights defender on the Georgian territory and his irregular transfer to Azerbaijan has not been concluded.

Georgia remains committed to ***public administration reform*** in line with the EU Principles of Public Administration. The 2018 SIGMA (Support for Improvement in Governance and Management) baseline assessment on policy development showed the need to further strengthen policy planning, coordination, monitoring and reporting¹⁵. The Government is updating its 2015-2017 National Policy Planning System Reform Strategy and Action Plan. Secondary legislation allowing for the implementation of the Law on Civil Service was adopted in 2016, 2017 and 2018. The new classification and remuneration systems are applied

¹⁴ <https://www.ohchr.org/Documents/Publications/training8Rev1en.pdf>

¹⁵ <http://www.sigmaproject.org/publications/Baseline-Measurement-Report-2018-Georgia.pdf>

to all civil servants; the new performance appraisal approach is being piloted in key Ministries and will be extended to all institutions.

2.2. Foreign and security policy

In 2018, Georgia aligned itself with 31 out of 58 EU Declarations and Council Decisions (53%) on which it was invited to do so, marking a decrease from the 56% in the previous year. Georgia continued to participate in civil and military crisis management operations under the **Common Security and Defence Policy**. It continued to provide personnel to the EU Military Training Mission (EUTM) in the Central African Republic and one officer to EUTM Mali.

Regarding the **fight against terrorism**, Georgia has continued supporting the Global Coalition to Defeat Da'esh. In the **fight against the proliferation of weapons of mass destruction and illegal arms exports**, Georgia amended the Criminal Code in order to bring it fully in line with the Chemical Weapons Convention. The country continues to host one of the EU's eight Chemical, Biological, Radiological and Nuclear (CBRN) Risk Mitigation Centres of Excellence, allowing the EU to make a crucial investment in the CBRN preparedness of neighbouring partners, as well as further afield.

On **peaceful conflict resolution**, 2018 marked the 10 year anniversary of the conflict between Russia and Georgia. The EU continues to fully support Georgia's sovereignty and territorial integrity within its internationally recognised borders and actively supports conflict resolution efforts through the work of the EU Special Representative for the South Caucasus and the Crisis in Georgia, the EU Monitoring Mission (EUMM) and through financial support. Georgia has remained committed to the Geneva International Discussions.

In June 2018 the Georgian Parliament adopted the "Tatunashvili - Otkhozoria list"¹⁶ including the names of people considered responsible for human rights violations in the breakaway regions. The Incident Prevention and Response Mechanism (IPRM)¹⁷ meetings, created in 2009 to discuss risk and security issues affecting communities in the Abkhaz and South Ossetian breakaway regions, have been suspended since summer 2018.

In June 2018 the Parliament adopted the legislative package "A Step to a Better Future" to promote peace and opportunities for the people in Abkhazia and South Ossetia. It entails options for trade and education and promises access to Georgia's EU integration benefits. EU assistance is further extended to Abkhazia.

On 23 October 2018, at the second high-level EU–Georgia Strategic Security Dialogue held in Brussels, both sides reconfirmed the strong interest in closer cooperation in foreign and security policy, in line with the AA.

Georgia has been cooperating with the **International Criminal Court** in the framework of the on-going investigation of crimes against humanity and war crimes allegedly committed by all armed forces deployed in and around South Ossetia, between 1 July and 10 October 2008.

¹⁶ This blacklist is named after named after Archil Tatunashvili and Giga Otkhozoria, two Georgian citizens who were killed in the Abkhaz and South Ossetian breakaway regions.

¹⁷ The IPRMs and the EUMM hotline are essential tools to address local security issues and to promote continued confidence-building between the security actors.

2.3. Justice, Freedom and Security

According to the latest survey by the World Economic Forum, the perceived level of judicial independence in Georgia by businesses is above average but on a downward trend¹⁸.

The *4th wave of legislative reforms* was initiated upon the establishment of the Parliament-led platform for judiciary reforms. In early 2018 it resulted in amendments to address the backlog of petty loan disputes through simplifying procedures. In July 2018 specific grounds for disciplinary procedures against judges were defined in the Law on Common Courts; the draft law is pending in the Parliament. The High School of Justice and the regulations of work of the High Council of Justice are also being reformed. The constitutional reform abolished the probation period for judges as of 2025 and increased the number of nominations of Supreme Court judges by the High Council of Justice.

The High Council of Justice presented the first implementation report of the *judiciary* Strategy and Action Plan in July 2018. Public criticism of the Council remains strong, in particular when it comes to appointments of certain judges for life tenures.

The implementation of the *Juvenile Justice* Code continued. The number of diverted children continued to be high without a large increase of recidivism rates (around 9%). Both the number of children in pre-trial detention and the number of convicted children remained low as a result of diversion and wider use of alternative measures.

In the field of support for *victims of crime*, the role of Witness and Victims Coordinators, existing since 2012 under the Chief Prosecutor for Georgia, whose tasks are to provide victims of crime with procedural and psychological assistance in criminal trials, has been formally recognised in the Juvenile Justice Code of Georgia as amended in 2018¹⁹.

Regarding *access to justice and the right to fair trial*, Georgia's Legal Aid Service renovated its premises in Tbilisi and launched a new webpage to provide better services to over 30 000 legal aid beneficiaries and lawyers who seek annually the Service's assistance, both in the capital and in 19 other offices around the country²⁰.

Important progress was achieved in the penitentiary and probation areas, in particular as regards healthcare or human rights situation. However, despite being more than halved since 2012, the *imprisonment* rate (257 per 100 000 inhabitants) remains very high. The educational and employment opportunities are still limited for prisoners in nearly all establishments. Challenges remain in terms of implementation of house arrests for adults (in place as of January 2018). The merger of the Ministry of Corrections into the Ministry of Justice in August 2018 brought about new reform plans with an emphasis on resocialisation.

After adoption of the *prosecutorial* strategy in 2017, the new ethics code and an appraisal system for prosecutors are also in place. The recruitment, promotion and disciplinary procedures are being further developed.

The Ministry of Justice is finalising the work on establishing *commercial* chambers to face growing numbers of commercial cases from the business community. Georgia was previously ranked very low in insolvency proceedings in the World Bank's Ease of Doing Business Index. The 2019 ranking saw significant improvement in this dimension²¹.

¹⁸ http://reports.weforum.org/pdf/ig-2017/WEF_Inclusive_Growth_2017_Profile_GEO.pdf

¹⁹ <https://matsne.gov.ge/en/document/view/2877281?publication=11>

²⁰ <http://www.legalaid.ge/en>

²¹ http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

Regarding ***judicial cooperation in criminal matters***, the negotiations of the Cooperation Agreement with Eurojust have been finalised and the EU interinstitutional procedures are ongoing to allow for the signature and entry into force in 2019.

In the area of ***migration***, Georgia continued implementing its Migration Strategy and Action Plan as well as putting in place the Unified Migration Analytical System and preparing new Migration Profiles.

In the area of ***asylum***, Georgia continued the implementation of the 2016 Law on International Protection. According to the information provided by the United Nations High Commissioner for Refugees, between January and August 2018, 35 asylum seekers were granted refugee or humanitarian status, whereas 409 were rejected. An increasing number of applications are rejected on the basis of national security considerations²². Georgia has introduced legislative changes to address the issue of increased asylum applications by Georgian nationals in the Schengen+ area²³.

Border management continues to be strengthened and security and surveillance infrastructure is being further expanded. Eight new border sectors were opened and four more are being constructed and will be opened by the beginning of 2019. All renovated border sectors were equipped with modern interdiction capabilities. In 2018, the Patrol Police Department went through institutional reforms²⁴.

Regarding the fight against ***organised crime and other illegal activities***, Georgia continued to implement the National Strategy on Combating Organised Crime for 2017-2020 and its 2017-2018 Action Plan²⁵. Regarding the fight against illicit ***drugs***, in accordance with the Memorandum of Understanding signed with the European Monitoring Centre for Drugs and Drug Addiction, in March 2018 Georgia set up the National Drug Situation Monitoring Centre, though it is not yet fully functional. In March 2018 the Constitutional Court abolished criminal sanctions for cannabis use and in July 2018 administrative penalties. The Parliament adopted on 30 November 2018 a legislative package to comply with the Constitutional Court's decisions, while at the same time restricting the use of cannabis. In parallel, the Government proposed a bill to allow for the production of cannabis for medical purposes, but this bill provoked controversy and was blocked in the Parliament.

As regards the legislation against ***money laundering*** and financing of terrorism, the Organic Law on the National Bank was amended in January 2018. It widened the powers of the Central Bank in the field of bank licensing and made the regulations for other financial institutions to enter the financial market more stringent. The changes in the legislation also increased the fines for violation of obligations envisaged by the anti-money laundering legislation. A new law, implementing the EU Anti-Money Laundering Directive and Council of Europe standards, was submitted to the Government in November 2018.

²² 156 applications for international protection were rejected based on national security consideration until August 2018. Data for 2017 available here: <http://mra.gov.ge/res/docs/2018030216100235786.pdf>

²³ An important step was the amendment of the Law of Georgia on Civil Acts, through which restricted terms and conditions of changing the last name were adopted by the Georgian Parliament in April 2018.

The Schengen+ area consists of 26 EU Member States that apply Regulation (EU) 2018/1806 and the four Schengen Associated Countries.

²⁴ As a result, the Main Division for Border Management and Coordination was established, uniting the Border Management Unit and all Border-Crossing Points.

²⁵ The policy and measures shall be revised with assistance from a new EU project on support to the fight against organized crime, launched in September 2018, and reinforced through the implementation of the agreement with Europol.

As regards *international police cooperation*, the Ministry of Internal Affairs of Georgia concluded 21 international agreements and 2 cooperation memoranda with Europol in order to implement the 2017 Cooperation Agreement. The Memorandum of Understanding on the Secure Communication Line entered into force on 20 June 2018.

Regarding *data protection*, a downwards trend in citizens' complaints of violations of public institutions has been noted by the Data Protection Inspector²⁶. The Law on Surveillance of April 2017 is still being challenged in the Constitutional Court²⁷.

3. Economic Development and Market Opportunities

3.1. Trade and Trade-Related Matters

Regarding external *trade*, the EU continued to be an important partner of Georgia, with a 27% share in the country's overall trade in 2017. The total EU-Georgia bilateral trade in 2017 amounted to EUR 2.66 billion. In the first nine months of 2018, total EU-Georgia trade increased by 5% in comparison to the same period of the previous year. Imports from Georgia to the EU decreased by 0.4% and exports to Georgia from the EU increased by 7%. The process of approximation of Georgia's legislation in trade-related areas advanced in 2018. In addition, in 2018 Georgia continued to negotiate and conclude various free trade agreements²⁸. Georgia is also in the process of finalising internal procedures for the creation of the National Committee on Trade Facilitation to comply with the World Trade Organization (WTO) Trade Facilitation Agreement.

When it comes to *technical barriers to trade*, Georgia has continued to improve the national quality infrastructure, in particular in the field of: a) *standards and metrology*, where the laboratory of humidity has undergone a peer review to obtain international recognition as a valid reference laboratory; b) *accreditation*, where the Georgian Accreditation Centre is preparing for the implementation of EU standards, including in the areas of information security management and occupational health and safety; c) *market surveillance*, where the Technical and Construction Supervision Agency is progressing in the provision of market surveillance services for a range of industrial as well as consumer products.

As regards *sanitary and phytosanitary standards* the National Food Agency (NFA) has continued its institutional development process under the NFA Institutional Development and Reform Plan and has started preparatory activities for the development of its Quality Management System. Staff has continued to be trained extensively and legal approximation has proceeded as planned. Based on consumer surveys conducted in 2018, the level of public awareness of the NFA and its functions has continued to improve although it still remains relatively low. In 2017, the NFA was heavily involved in addressing the Brown Marmorated Stink Bug outbreak, which caused significant losses in agricultural production, particularly for hazelnuts²⁹ and citrus. The efforts deployed for monitoring and controlling this pest in 2018 are yielding positive results and preliminary forecasts suggest that losses were less severe in 2018.

On *customs and trade facilitation*, the Law on Border Measures Related to Intellectual Property Rights (IPR) entered into force in February 2018. The Regional Convention on pan-

²⁶ https://personaldatas.ge/manage/res/docs/Annual%20report_2017_ENG.pdf

²⁷ The law is challenged by the Ombudsperson and 326 citizens for contradicting the 2016 decision of Constitutional Court.

²⁸ Trade agreements with China and the European Free Trade Association (EFTA) entered into force on 1 January 2018 and on 1 May 2018 respectively. On 28 June 2018 Georgia signed a free trade agreement with Hong Kong. Georgia is in the process of launching negotiations for FTAs with India and Israel.

²⁹ Substantial decreases in hazelnut exports were observed in 2017 and could in part be linked to this outbreak.

Euro-Mediterranean preferential rules of origin applies since June 2018. A draft of the new Customs Code is currently undergoing final revision. Georgia is implementing relevant legal, administrative and technical reforms with a view to acceding to the EU's Convention on a Common Transit Procedure and the Convention on the Simplification of Formalities in Trade in Goods. Georgia is also in the process of setting up its National Trade Facilitation Committee in compliance with the WTO Trade Facilitation Agreement.

With reference to **services**, Georgia is proceeding with the drafting and adoption of new legislation on postal services, the "Law of Georgia on the Post".

Georgia continued its efforts in the area of **digital economy and society** to promote economic and business opportunities, strengthen digital competences and develop e-trade. Commitment to promote information and communications technology (ICT) and to develop telecommunications infrastructure throughout the country is a declared priority in the Social-economic Development Strategy of Georgia "Georgia 2020", as well as in the Government's economic programme for 2018-2020. The country is currently developing a National Broadband Development Strategy and related Action Plan. A draft Law on e-Commerce of Georgia in compliance with the EU e-Commerce Directive³⁰ is still under consultation. The Georgian legislation (Law on Electronic Document and Electronic Trust Services) was aligned with eIDAS Regulation³¹ in July 2018.

As regards **public procurement**, the roadmap developed in 2016 by the Government and State Procurement Agency (SPA) continues to provide for the alignment of the legislation in this area in five phases, until 2022. This roadmap has still not been adopted by the Association Committee in Trade Configuration despite being required by the AA. In accordance with the AA, the SPA has elaborated legislative changes and ensured the establishment of a body tasked with the review of decisions taken by contracting authorities. The amendments were passed by the Parliament of Georgia on 23 December 2017. According to the changes, the new review body was created with representatives of different governmental and non-governmental entities. However, this solution does not comply with the requirements to set up an independent and impartial review body as set out in the DCFTA.

In the framework of planned large-scale infrastructure projects, new legislation on **public-private partnerships (PPPs)** was enacted by the Parliament on 24 May 2018, defining general objectives, principles and criteria for partnerships. It also sets a threshold value above Georgian lari (GEL) 5 million (approx. EUR 1.76 million) for projects to be considered PPP. However, this new legal framework is not yet in compliance with the relevant EU legislation in the field³².

Regarding **IPR**, the National Intellectual Property Centre of Georgia, Sakpatenti, prepared the package of draft amendments in the Georgian IPR legislation, approved by the Parliament at the end of 2017 with the aim of approximating to EU standards required under the DCFTA. The lists of geographical indications protected under the DCFTA were adjusted in March 2018³³ with four new Georgian geographical indications added and EU wines list updated.

Georgia continues to make progress with the provisions of the DCFTA on **competition**, focusing on capacity building of the Georgian Competition Agency (GCA), on cooperation between the GCA and the sector regulators, and on promotion of a public competition culture.

³⁰ Directive 2000/31/EC on electronic commerce.

³¹ Regulation (EU) N°910/2014 on electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation).

³² Directive 2014/23/EU on the award of concession contracts.

³³ Decision 1/2018 of the Geographical Indications Sub-Committee.

3.2. Economic development

Regarding the **macro-economic** situation, Georgia has experienced a solid recovery from the slowdown of 2015-2016. In the first nine months of 2018, Georgia's real Gross Domestic Product (GDP) increased by 4.9% year-on-year, driven by both domestic and external demand. This positive trend builds on a broad-based recovery in 2017, following two years of deceleration due to external shocks. Consumer price inflation has decreased from 6% in 2017 to below 3% in the first ten months of 2018, allowing the Central Bank to reduce the refinancing rate to 7% in July 2018. The Georgian lari remains relatively volatile in relation to the US dollar, a risk for the economy where dollarisation is at a high level, even if gradually decreasing. The fiscal deficit is on track to be reduced from 3.9% GDP in 2017 to 3.3% GDP in 2018, on the back of economic growth and consolidation efforts. Economic growth has also allowed Georgia to slightly reduce its public debt in 2018. At the same time, Georgia faces risks due to external imbalances in the form of a large current account deficit and high external debt³⁴. Georgia's international reserves have been increasing in recent years, totalling EUR 2.7 billion at end-October 2018 (more than 3 months of imports), but remain below the level estimated by the International Monetary Fund (IMF) to be adequate. These risks are amplified by external factors such as tightening of financing conditions for emerging markets and the currency crisis in Turkey.

Georgia is ranking high in international indicators of **business environment**³⁵ and continues taking measures to improve the tax regime, business governance and access to financing and innovative technologies to sustain a business-friendly framework. In July 2018 the turnover tax for small business was significantly reduced (from 5% to 1% of revenues).

As regards **agriculture**, implementation of the Strategy for Agricultural Development of Georgia 2015-2020 and of the Rural Development Strategy of Georgia 2017-2020 is ongoing. An important milestone was the adoption of the Agricultural Extension Strategy in December 2017. The implementation of this Strategy started in 2018.

Progress has also been made in the development of value chains and of ICT tools such as an improved version of the market information system, available online since December 2017³⁶. In order to align the production with market trends, data for agricultural surveys have started to be collected electronically since the beginning of 2018. This is expected to lead to improvements in the quality and regularity of agricultural statistics.

In March 2018 the Ministry of Agriculture was merged with the Ministry of Environmental Protection, resulting in the current Ministry of Environmental Protection and Agriculture (MEPA). In December 2018 the Constitutional Court declared unconstitutional the provision of the “Law of Georgia On Agricultural Land Ownership”, which barred foreign nationals to own agricultural land until the changes to the Constitution take effect.

A number of reforms³⁷ are expected to increase the sustainability and profitability of the wine sector leading to greater competitiveness of Georgian wine on the global market. Agricultural cooperatives continue to be supported through specific Government programmes. Certification for wheat and barley has advanced following the adoption of the seed law in 2017.

³⁴ Account deficit: 8.9% GDP in 2017 and 9.2% GDP at end-June 2018. External debt: 109% GDP at end-June 2018.

³⁵ Georgia ranks 6 out of 190 countries in the World Bank's Ease of Doing Business Index 2019.

³⁶ This version of the market information system allows farmers to monitor food prices for up to one hundred agricultural and food products in markets throughout the country.

³⁷ A Georgian Wine Strategy was prepared and awaits formal adoption and a proposal was developed for the restructuring of the National Wine Agency into a Public Private Partnership.

A costed **Rural Development** Action Plan for 2018-2020 was adopted in December 2017. This includes an exhaustive list of Government programmes supporting rural development by means of agricultural competitiveness, increased economic opportunities through rural diversification, more accessible social benefits, environmental protection and the sustainable management of natural resources. So far, 47 programmes are being implemented by the Government, out of which 86% of planned activities were completed amounting to nearly GEL 550 million (approx. EUR 188 million) in 2017³⁸.

On **regional development**, in June 2018 Georgia has approved its second multi-sectoral Regional Development Programme for the period 2018-2021. It has a more territorial focus (identifying four pilot regions, two of them coinciding with the focal regions jointly identified by the EU and Georgia³⁹) and outlines target outcome indicators for 2021. The Ministry of Regional Development and Infrastructure, together with regional/local authorities and local stakeholders, is also preparing region-specific territorial development plans to create new centres of economic development and growth outside Tbilisi and Batumi.

As regards **Public Financial Management (PFM)** and **external scrutiny and audit**, following consultations with national and international stakeholders, the 2018-2021 PFM strategy has been finalised. It summarises the results achieved so far⁴⁰ and deepens the PFM and economic governance reforms. Quantitative progress also includes Fiscal Risk and Debt Sustainability analyses regularly prepared by the Ministry of Finance and annexed to the budget, an updated methodology for costed medium-term strategies and the establishment of a system for the selection and execution of capital projects. A basic FMC (Internal Financial Management and Control) system has also been established in 15 line Ministries. The State Treasury also advanced in its implementation of International Public Sector Accounting Standards. The State Audit Office (SAO) has strengthened its performance audit capacities in identifying the efficiency and effectiveness of Government programmes and organisations which support the improvement of management and accountability⁴¹. The progress in public finance management and accountability is also demonstrated by the Open Budget Index (OBI) of January 2018⁴².

Regarding **taxation**, Georgia continues to harmonise its legislation to relevant EU directives⁴³. Goods imported by passengers travelling from third countries are now exempted from VAT and excise taxes. The structure of the excise tax on alcohol is aligned with EU practice. The excise tax on tobacco, on the other hand, still needs to be harmonised. The amendments to the Tax Code also reflect recommendations related to VAT application on advance payments, reverse charges and interrelated persons.

On **statistics**, the National Statistics Office of Georgia (GEOSTAT) is working on the fulfilment and implementation of the requirements under the AA and steady approximation of

³⁸ Implementation of the plan is overseen by the Interagency Coordination Council on rural development led by the MEPA. A dedicated monitoring & evaluation system is being put in place and will be important for accountable and credible reporting on performance.

³⁹ The four focal regions are: Kakheti, Imereti, Guria and Racha-Lechkhumi and Kvemo Svaneti.

⁴⁰ As evidenced by the 2017 Public Expenditure and Financial Accountability (PEFA) and other assessments of international organisations and business ranking agencies.

⁴¹ The SAO's web-based portal "Budget Monitor" providing public access to information on public finances and SAO reports and work was one of the UN World Summit Award Winners 2017 for Government & Citizen Engagement.

⁴² OBI ranks Georgia as number 5 amongst all the assessed countries and demonstrates an increase of 14 points compared to the 2015 OBI score. In particular, Georgia makes all key budget documents (including the Citizen's Guide to the Budget) publicly available online in a timeframe consistent with international standards. <https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/>

⁴³ 2007/74/EC; 85/560/EEC; 92/83/EEC; 2008/118/EC

the relevant Georgian legislation to achieve compliance with European statistical standards⁴⁴. GEOSTAT is already generally producing high quality statistics, following European and other international standards. However it still lacks resources and requires better access to migration data, both within the country and across countries. A global assessment of the Georgia's statistical system is in progress; a final report is expected in the second part of 2019.

As regards ***industrial and enterprise policy***, the Government continues to work on a number of actions aimed at streamlining governmental advisory and support services for small and medium-sized enterprises (SMEs), particularly in relation to the businesses opportunities offered by the DCFTA. As of September 2018, according to information from Enterprise Georgia, the "Produce in Georgia" programme has provided support to 406 businesses, with a total investment value amounting to GEL 991 million (approx. EUR 330 million), creating more than 15 500 new jobs. An analytical tool to develop exports and a national apparel development strategy are currently being elaborated. The web portal covering DCFTA-related matters was extended⁴⁵. In the first year of their operation, the DCFTA Info Centres with offices in four regions reached out to 1500 SMEs. A revised Action Plan for the SME Strategy was adopted in 2018. Three business clusters were established (furniture/interior, film production and ICT) and continue to be supported with tailor-made interventions by Government agencies.

On ***consumer policy***, the Parliament has continued working on a draft Law on Consumer Protection, which was initiated in 2015 and is still awaiting adoption.

In 2018, the draft of the new ***company law*** was finalised, including approximation of the directives on consumers' rights. A Regulatory Impact Assessment (RIA)⁴⁶ confirmed compliance of the draft law with EU directives (as revised) referred to in the AA and noted the overall good prospects in terms of potential impact. The draft law has not been submitted to the Parliament yet. Concerning approximation, the RIA states that amendments introduce additional corporate consents and approvals, minimum capital requirements for joint stock companies, and need to maintain reserve capital, among others.

Regarding ***maritime affairs***, the Law on Maritime Space was amended, including the adoption of a National Strategy and Action Plan for the Protection of the Black Sea. The Maritime Strategy is being prepared. In May 2018, Georgia endorsed the Burgas Ministerial Declaration, which is a milestone for setting up structured cooperation on maritime affairs in the Black Sea in 2019. Currently Georgia is in the process of acceding to a number of International Conventions and Protocols⁴⁷. The country is also in the process of initiating the ratification of the Maritime Labour Convention 2006 (MLC 2006) and adopting a Law on the Employment of Seafarers, which transposes the requirements of the MLC 2006.

⁴⁴ GEOSTAT started to work on the alignment of the Business Statistics Methodology with EU standards and business statistics, which is oriented on the future data requirements; it has also introduced quality reporting for most of the statistical surveys. GEOSTAT is also completing the introduction of the System of National Accounts SNA 2008, modernising data collection, and production and dissemination methods.

⁴⁵ The site "dcfta.gov.ge" now includes video instructions on rules and procedures that Georgian producers have to comply with to be able to export to the EU.

⁴⁶ The RIA was produced by external experts co-funded under EU-GIZ project on development of civil and administrative law in Georgia. According to the RIA, Directive 2012/30/EU, covering the formation of public limited liability companies and rules on maintaining and altering their capital, is expected to have the most significant impact on the design of the draft law and its implementation.

⁴⁷ These include: 2001 International Convention on Civil Liability for Bunker Oil Pollution Damage; 2002 Athens Convention on Carriage of Passengers and their Luggage by Sea; 2001 International Convention on the Control of Harmful Anti-fouling Systems in Ships (AFS Convention); 1988 Protocol to the International Convention on Load Lines.

Georgia is actively cooperating with the General Fisheries Commission for the Mediterranean (GFCM) as a 'Cooperating non-contracting party'. Cooperation concerns both the implementation of the GFCM 2017-2020 multi-annual strategy and of GFCM management measures⁴⁸. The country also continues to participate in the GFCM BlackSea4Fish project. In June 2018, Georgia signed the Sofia Declaration on the sustainability of fisheries and aquaculture in the Black Sea and is committed to continuing cooperation with the EU on fishery matters, including the fight against illegal, unreported and unregulated fishing activities.

Tourism continues to be a fast-growing sector. In 2017, the National Tourism Administration (GNTA) reported 7.9 million international arrivals (an increase of 18 % as compared to 2016), of which 4.1 million were tourist trips (overnight) - an increase of 23 % as compared to 2016. This generated EUR 2.4 EUR billion in foreign exchange income which amounted to approximately 6.9% of GDP. 2018 was projected to be another record-breaking year in terms of the number of international visitors⁴⁹. Marketing and informational activities of the GNTA contributed to the growth of the sector. Foreign investments have supported the construction of hotels throughout the country. The Government has been specifically promoting the seaside areas of Anaklia and Kobuleti and the mountainous town of Mestia by building necessary infrastructure and offering concessionary terms to potential investors.

Regarding **financial services**, the Central Bank is advancing in strengthening the regulatory and supervisory frameworks for banking, payments, and capital and securities' markets. The Central Bank is also finalising the introduction of macro-prudential instruments to address currency mismatches, real estate risk and systemically important banks. Non-performing loans declined to 2.9% of total loans (January 2018), from 3.8% a year ago. Profitability remained strong, with return on equity and assets close to 20 % and 3% respectively. At the same time, de-dollarisation measures have been introduced. The Central Bank is also taking steps to develop a responsible lending framework, protect consumers, and improve financial literacy⁵⁰. The Insurance State Supervision Service of Georgia has advanced the legislation on compulsory third party liability of vehicles⁵¹.

As regards **employment and social policies**, unemployment in Georgia remains high (13.9% in 2017 according to GEOSTAT data), even if it continues on an overall downward trend⁵², notably among young people⁵³. Overall, employment creation remains low and poverty remains an issue with 21.9% of the population under the absolute poverty line in 2017. The Tripartite Social Partnership Commission continues to meet at its annual plenary session as well as at working group level; however the former continues to be held with irregular frequency. In November 2017 Georgia ratified the International Labour Organization (ILO) Priority Convention 144 on Tripartite Social Dialogue. Upon its entry into force, in May 2019, Georgia will participate in the mandatory reporting cycle concerning its implementation

⁴⁸ These include the first ever in the Black Sea multi-annual management plan for turbot fisheries and the pilot international inspection scheme for turbot fisheries.

⁴⁹ In 2018 GNTA expect more than 8 million international travellers and more than USD 3 billion in income from tourism.

⁵⁰ These steps include: Amended regulations on product disclosure requirements and effective interest rates calculations; Ongoing programs to enhance financial education and sensitize households on risks associated with financial imprudence, over-indebtedness, and foreign currency borrowing; Insurance - under the law of deposit guarantee - of bank deposits up to the 5000 GEL threshold established by the Deposit Insurance Agency (DIA). The DIA manages the Deposit Insurance Fund which receives mandatory contributions by commercial banks, under a scheme that came into force in January 2018.

⁵¹ The law concerning foreign cars has been adopted while the law concerning domestic cars is in preparation.

⁵² 17.9% in 2008, 17.3% in 2011, and 14.6% in 2014

⁵³ 27.1% of age 15-19, 29.6% of age group 20-24, and 20.8% of age group 25-29 in 2017

and in practice will be subjected to review by the ILO supervisory mechanisms. The current system of labour inspections requires further adjustments to be an effective mechanism for implementation of the ILO fundamental conventions on labour rights.

The Law on Occupational Health and Safety entered into force in August 2018 allowing the labour inspectorate to perform unannounced checks and apply fines. However, its application is restricted to economic activities defined by the Government which involve increased risk, heavy, hazardous and dangerous working conditions. A draft organic Law on Safety at Work has been approved by the Parliament on 31 October 2018⁵⁴. There was no progress towards approval of the Employment Service Law, while the piloting of a new model of public employment services continues slowly in the selected regions. Further amendments to the Labour Code are expected in order to meet European and international standards⁵⁵. A corresponding legislative package is being examined by the Parliament. A new pension system raised a lot of criticism from domestic and international experts.

As regards **public health**, the Ministry of Labour, Health and Social Affairs of Georgia, which since July 2018 is also in charge of Internally Displaced Persons, started drafting the overarching human health rights based National Public Health Strategy. Preparatory work was also undertaken for the elaboration of a Primary Health Care System Development Strategy and Mental Health System Development Action Plan. Work is progressing on an electronic healthcare system, on improving the quality of care and on reducing inequalities within the health system⁵⁶. In July 2018 the Country Coordination Mechanism has endorsed National Strategic Plans for HIV/AIDS and Tuberculosis for 2019-2022. Georgia is an active participant in the European Centre for Disease Prevention and Control activities and the MediPIET training programme in field epidemiology. Georgia has also been working on blood safety, tissue transplantation as well as tracking environmental health in line with the AA. Tobacco remains a concern, as there are attempts by the gambling industry and duty free sales companies to hinder the proper execution of the existing tobacco control legislation, and progress in ratification of the Protocol to Eliminate Illicit Trade in Tobacco Products continues to be modest.

4. Connectivity, Energy Efficiency, Climate Action, Environment and Civil Protection

The alignment to the EU acquis in the **transport** sector is on track and within the set deadlines. The state of play of implementation will be discussed at the first EU-Georgia High-Level Transport Dialogue which took place on 29 January 2019 in Tbilisi. In July 2018 Georgia signed the High Level Understanding on the extension of the EU's Trans-European Transport network to Eastern partners. Georgia is further improving transport infrastructure by attracting donor and IFI financing.

Regarding **energy**, Georgia became a Contracting Party to the Energy Community⁵⁷ on 1 July 2017. The related protocol of accession provides a timeframe for the implementation of key

⁵⁴ The draft envisages expanded application to all economic sectors and further alignment to the relevant EU acquis

⁵⁵ In relation to situation allowing for strikes, equal remuneration for equal work or discrimination based on gender issues (pregnancy related, sexual harassment, etc.).

⁵⁶ Ongoing work includes: E-prescriptions and Electronic Medical Records Since May 2017, implementation of a "social justice" approach and of a criteria for differentiation of beneficiaries according to revenue for provision of more needs-based services; Piloting of selective purchasing in maternity care (started in 2017). It is expected that this will be applied to other medical treatments offered by the UHC in the course of 2018, with a focus on costly areas of purchasing

⁵⁷ The Energy Community is an international organisation which brings together the European Union and its neighbours to create an integrated pan-European energy market. <https://www.energy-community.org/>

energy market reforms agreed under the AA, including in the areas of electricity and gas markets, energy efficiency, renewable energy and energy-related environment. In September 2018, the Energy Community Secretariat estimated Georgia's overall level of implementation of the energy *acquis* at 23%. The expansion of the South Caucasus pipeline, part of the Southern Gas Corridor passing through Georgia, has been completed. Although Georgia still lacks an energy efficiency policy framework, several donor-led actions have been implemented in cooperation with the Government, including the drafting of the first National Energy Efficiency Action Plan. Building the legal and institutional framework enabling energy efficiency investments in the country is of outmost importance for implementing and promoting energy efficiency in the building sector, which is one of Georgia's commitments within the AA and the Energy Community Treaty accession protocol. The Government continues to promote the construction of new hydro power infrastructure and the first wind park in the region has expanded Georgia's renewable energy mix. A project is underway aimed at strengthening the electricity transmission grid by integrating new hydro power plants and facilitating the development of a wholesale power exchange and export.

Georgia is in the process of updating its nationally determined contribution to curb global carbon emissions upon ratification of the Paris Agreement on *climate change*. The degree of new commitments will largely depend on the availability of external financial support. Despite its low level of emissions per capita, Georgia still lacks a legal framework on climate change, defining institutional mandates and coordination and implementing the commitments under the various strategies and plans currently in preparation.

On *environment*, Georgia adopted its 3rd National Environment Action Programme (2017-2021) in May 2018, which represents the country's main strategic document in the field of environment and natural resources protection and defines the long-term priorities and plans for the sector. Georgia is progressing in the legal approximation process for environment and climate action under the AA. Among the most advanced sectors, waste management continues to receive adequate resources for expansion and modernisation of services as well as technical assistance for the implementation of municipal plans and preparation of strategies for the adoption of Extended Producer Responsibility and Recycling regulations. Water supply and waste water treatment infrastructure continues being slowly improved. Following the adoption of the new Environmental Assessment Code in June 2017, the Government is in the process of improving resources and capacities for enforcement, including the need to adopt a new Law on Environmental Liability. Furthermore, Georgia has also developed a new Forest Code, still to be adopted, and a new regulation on plastic bags.

To deepen cooperation with the EU *Civil Protection* Mechanism, on 13 July 2018 the Georgian Emergency Management Service (EMS) signed an Administrative Arrangement on disaster risk management with the European Commission (Directorate-General for Civil Protection and Humanitarian Aid Operations). The EMS was established based on the lessons learnt from the August 2017 wildfires and by merging the Emergency Management Agency and the State Material Reserves Department. The draft Law establishing the EMS was reviewed by EU and NATO experts and adopted by the Parliament in June 2018⁵⁸.

5. Mobility and People to People Contacts

As regards *visa liberalisation* for Georgian citizens holding biometric passports, information campaigns on the rights and obligation of visa-free travel have continued, especially in rural

⁵⁸ The new legislation introduces some important developments such as: types of emergencies reduced from four (man-made, natural, social and military) to two (man-made and natural); two levels of emergency management system introduced and provisions related to the host nation support were incorporated in the new law.

areas. Sustained implementation of the Visa Liberalisation Benchmarks remains an obligation for Georgia, and Georgia has taken a number of actions to continue to address the challenge of unfounded asylum applications and to increase operational cooperation with Member States most affected by irregular migration from the country. Georgia for instance introduced an amendment of the Law on Civil Acts (which restricted terms and conditions for changing the last name) in April 2018, made progress in implementing the 2016-2020 Migration Strategy and its Action Plan and engaged in awareness-raising activities. Georgia's cooperation on readmission and return is functioning well, as concluded by the EU Member States during the June 2018 meeting of the EU-Georgia Joint Readmission Committee.

As regards **education**, the European School was launched in Tbilisi on 4 September 2018⁵⁹. The EU and the Georgian Government are working together on the second phase of the school. The Government adopted the Unified Strategy for Education and Science for 2017-2021 at the end of 2017. The Strategic Document on Inclusive Education and its Action Plan were approved at the beginning of 2018. The Ministry of Education and Science initiated the programme "Study in Georgia" with the objective to turn Georgia into an internationally recognised educational hub. An inadequately educated workforce continues to bear negatively on Georgia's competitiveness⁶⁰. The adoption of a new Vocational Education and Training Law will open wider Life-Long Learning opportunities for youth and adults. Georgia is successfully progressing in Erasmus+ participation in both higher education and youth areas.

In July 2018, the Ministry of **Culture** and Sports was merged with the Ministry of Education and Science. The Ministry has developed short-term action plans for the implementation of the Culture Strategy 2025. Various interagency Action Plans were also developed on cultural heritage. The National Agency for Cultural Heritage Preservation of Georgia developed the geographic information system (GIS) for Georgia's cultural heritage data management and GIS portal. Georgia increased participation in the Creative Europe programme from nine to twenty-two successful projects by the end of 2018.

Georgia has continued to fulfil its obligations under the AA and approximate legislation, to achieve full compliance with the EU Directive on **Audiovisual Media Services**⁶¹. In this regard, a number of amendments were approved by the Parliament in December 2017. Pursuant to Georgian legislation, the Georgian National Communications Commission (GNCC) was attributed with the function to promote, develop and monitor media literacy. Transposition of the latest EU directive on radio equipment⁶² is being implemented by GNCC.

Youth remains the priority of the Government of Georgia although more concrete steps are needed to support youth empowerment as well as youth policy implementation in the country. The Legal Framework on Youth Work is still not finalised and the draft new Law on Physical Education and Sport is still under consultation. Supporting grass root sports development and good governance in sports was identified as one of the priorities of the former Ministry, but needs further commitment and support.

⁵⁹ This was preceded by the European School Summer Camp which provided preparatory courses for the European School and also provided 8 modules of non-formal education for about 100 students from EaP and EU countries.

⁶⁰ World Economic Forum's Global Competitiveness Report 2017-2018,
<http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%20.pdf>

⁶¹ Directive 2010/13/EC
⁶² Directive 2014/53/EU.

In the area of cooperation in **research and innovation**, Georgia has been associated to Horizon 2020 (H2020) programme since 2016. It has inter alia benefited from access to the H2020 Policy Support Facility, which provides peer reviews and mutual learning exercises. In June 2018 a report with a set of concrete recommendations on the modernisation of Georgia's research and innovation system was officially handed over to the Ministry of Education, Science, Culture and Sport. Under H2020, two 'InnovFin – EU Finance for Innovators' agreements signed between the European Investment Fund and Georgian banks make available a total of EUR 130 million in loans to innovative SMEs and small midcap companies.

6. Financial Assistance

Since the introduction of the European Neighbourhood Instrument (ENI) in 2014, the EU has committed EUR 589.5 million in financial support to Georgia through bilateral cooperation programmes. This included EUR 122 million allocated following the substantial progress made in implementing reforms (ENI Umbrella Programme, known as "more for more" programmes). The Single Support Framework for 2017–2020, in line with the AA and the Georgian Government's priorities, focuses on four main areas, namely 1) Economic Development and Market Opportunities, 2) Strengthening Institutions and Good Governance, 3) Connectivity, Energy, Environment and Climate Change, 4) Mobility and People-to-People Contacts.

The programmes under the 2017 bilateral allocation (EUR 115 million, including EUR 21.5 million from the Umbrella Programme) focus on key structural and institutional reforms including the development of human capital and skills, supporting economic and business development, modernising financial infrastructure and enhancing business sophistication. The implementation has started at the beginning of 2019 following the signature of the Financing Agreements at the High Level Meeting between Members of the European Commission and of the Georgian Government in Brussels on 21 November 2018.

The 2018 bilateral allocation (EUR 134 million, including a EUR 40 million top-up from the Umbrella Programme) was finalised in December 2018. It will support the implementation of the AA, including Georgia's increased participation in Erasmus+ as well as actions on strategic communication. A programme on PFM will reinforce economic governance and democratic accountability in Georgia whilst a holistic programme on security, accountability and fight against crime will strengthen good governance, the rule of law and security of Georgian citizens.

Ongoing bilateral programmes provide support to economic development, justice and public administration reform, vocational education and training and skills matching, policy reform in agriculture and rural development, regional development and transport, energy and infrastructure development. EU support is also instrumental in helping Georgia to align policies and legislation to EU standards and to develop the capacity of selected institutions that play a key role in the implementation of the AA/DCFTA.

Georgia also continues to benefit from regional programmes within the framework of the EU4Business, EU4Energy, EU4Environment, EU4ClimateChange and EU4Youth initiatives as well as in the areas of culture and transport. In Georgia, the EU4Business initiative amounts to a total value of EUR 882 million of loans and EUR 69 million of grants across several bilateral and regional projects supporting business environment, business support organisations, SME development, access to finance and skills. Georgia is also actively participating in the Neighbourhood Cross Border Cooperation Black Sea Programme.

From January 2017 until October 2018 eleven twinning projects have been implemented in Georgia covering economic development and trade, forests, environment, communications, civil service and the judiciary. TAIEX (EU Technical Assistance and Information Exchange Instrument) contributed to Georgia's overall reform process in the areas of public administration reform, support to DCFTA implementation, rule of law, fight against organised crime, health and connectivity.

The EU has also continued contributing to finance several initiatives in Georgia, covering different economic and social sectors as well as main infrastructures, under the framework of the Neighbourhood Investment Platform. In this regard, blending operations will support energy efficiency in public buildings as well as projects on solid waste, water supply in the Adjara region, and local currency lending. The European External Investment Plan is expected to play a prominent role in fostering employment generation and economic growth in the country.

Georgia also benefits from EU MFA. The latest MFA operation approved in April 2018 is on track. A first instalment of EUR 20 million (EUR 15 million in loans and EUR 5 million in grants) was disbursed at the end of 2018 and a second instalment is planned for 2019. These disbursements are conditional on Georgia continuing to meet the political pre-condition (respect for democratic mechanisms, rule of law and human rights), maintaining its good track record in implementing the current IMF programme (a three-year Extended Fund Facility of USD 285 million, agreed in April 2017) and fulfilling the specific policy conditions set in the Memorandum of Understanding. The policy conditions, which will support the national reform agenda and the association process with the EU, fall into the following four areas: (1) public finance management, (2) financial sector, (3) social and labour market policies, and (4) business environment.

Georgian authorities and the European Anti-Fraud Office have stepped up cooperation in the fight against fraud affecting the EU's financial interests.

7. Concluding remarks and future outlook

Georgia is progressing with the implementation of its commitments under the AA and continuing the process of approximating its legislation and institutional structures closer to EU standards and requirements.

The consolidation of democracy and quality of governance is progressing including within the framework of the constitutional reform process. It is important for Georgia to continue fostering an open dialogue with all political actors and civil society in order to further strengthen democratic institutions, consolidate pluralistic democracy, advance reforms and ensure the full and sustainable implementation of newly adopted legislation. The shortcomings noted by the OSCE/ODIHR election observation mission need to be addressed.

Some progress has been made in reforming the justice sector, but important challenges still remain to consolidate progress and safeguard the rule of law. The judiciary reforms should be continued, with special attention to transparency and accountability in the process of appointing judges. Positive changes in national legislation need to be coupled with an effective implementation of human rights protection and anti-discrimination actions as well as additional efforts on preventing and combating violence against women.

Georgia is reaping the benefits of economic integration through the DCFTA implementation which enhanced Georgian trade towards the EU. Nevertheless, further efforts are needed to stimulate exports and improve the trade balance between the EU and Georgia. Further structural reforms related to the improvement of the investment climate in Georgia need to be fully accomplished.

The EU and Georgia continued to intensify their relations, consolidating Georgia's position as important partner of the EU in the region. They have agreed to broaden their bilateral relationship to include further issues of common interest including in the area of security. The implementation of the agreed outcomes of the High-level Meeting between Members of the European Commission and of the Georgian Government of 21 November 2018 will further guide the relationship. During the meeting a number of actions were agreed notably in the areas of economy, connectivity and trade; education, research and culture; and justice and internal security including civil protection.

The EU will continue supporting key reform priority actions as programmed for 2017-2020, with the objective of delivering visible and tangible benefits for citizens, business and consumers of Georgia.