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Association Implementation Report on Georgia

ASSOCIATION IMPLEMENTATION REPORT – GEORGIA

1. Summary

In line with the EU's revised neighbourhood policy, this report sets out the state of play on Georgia's implementation of its commitments under the EU-Georgia Association Agreement (AA) since the EU-Georgia Association Council meeting on 5 March 2019 and ahead of the next meeting in 2020. It serves as the basis for a review of the Association Agenda.

Georgia's strong commitment to political association and economic integration with the EU remained a priority, supported by 78% of the population¹. The EU regards Georgia as a key partner in the region and continues fully to support its sovereignty and territorial integrity within its internationally recognised borders. Georgia continues to be fully committed to and actively participates in the Eastern Partnership multilateral architecture. In the context of the structured consultations on the future of the Eastern Partnership launched by President Juncker on the occasion of the 10th anniversary celebrations, Georgia has provided a contribution outlining their expectations for the future policy framework. A dedicated consultation event took place in Tbilisi on 16 and 17 September 2019.

Major political activity took place in 2019, with by-elections for one parliamentary seat and five mayoral posts, mass public protests since the summer and a busy parliamentary session in the autumn to adopt key legislation relating to democratic consolidation².

The media landscape changed considerably after a European Court of Human Rights (ECHR) ruling on the Rustavi 2 TV channel case in July. New media channels were set up and the Prosecutor's Office launched investigations into cases involving the owners/managers of some media outlets.

Civil society remained very active in holding public institutions accountable and monitoring the implementation of the AA, including the Deep and Comprehensive Free Trade Agreement (DCFTA). Tensions persisted between certain civil society organisations (CSOs) and state institutions. The use of force against demonstrators in June 2019 is under investigation.

A visa-free regime is in place for Georgian citizens to visit Schengen and Schengen-associated countries and almost 900.000 visits have been made by Georgian citizens since its entry into force. However, the number of asylum requests made by Georgians in EU/Schengen countries remained high in 2019, exceeding the overall number of asylum requests in 2018 and 2017, ranking Georgian nationals amongst the top nationalities requesting international protection in the EU. Georgia has continued to pro-actively address the challenge of increased unfounded asylum applications.

¹ https://www.ndi.org/sites/default/files/NDI%20July%202019%20poll-Issues_ENG_For%20distribution_VF.pdf

² Appointment of Supreme Court judges, fourth wave of judicial reforms, aborted constitutional reform to introduce a proportional election system in 2020, electoral reform to address OSCE/ODIHR recommendations.

The macroeconomic outlook remains stable, with some downward risks. The economy continued to grow (by more than 4.5% year-on-year in the first ten months of 2019) but it remains vulnerable to domestic political risks and spill-over effects from external developments, including growing global trade tensions, the economic performance of key trade partners (e.g. Turkey) and financial market volatility.

Georgia is doing well in international business environment rankings. However, challenges remain with regard to the independence and accountability of the judiciary, legal certainty and ongoing investigations involving major businesses (including TBC Bank).

In the first ten months of 2019, trade turnover between the EU and Georgia amounted to EUR 1.3 billion, down by 4% compared for the same period in 2018. EU exports to Georgia remained stable at EUR 1.7 billion (0.7% lower than in the first ten months of 2018) and EU imports from Georgia fell by 15 % to EUR 475 million.

In January, the European Commission published an indicative trans-European transport network (TEN-T) investment action plan, which identifies 18 priority projects for Georgia for a total value of EUR 3.4 billion.

Implementation of the 2018 bilateral allocation (EUR 134 million) has started. EU support will continue to focus on AA implementation, including greater participation by Georgia in Erasmus+ and action on strategic communication. A new economic governance and fiscal accountability programme will bring Georgia closer to the EU model of economic governance, while a holistic programme on security, accountability and the fight against crime will strengthen good governance, the rule of law and the security of Georgian citizens. In addition, the 2019 bilateral allocation (EUR 127 million) has been adopted.

2. Political dialogue, good governance and strengthening institutions

2.1. Democracy, human rights and good governance

The reporting period saw major domestic developments. By-elections for one parliamentary seat and five mayoral posts took place in May. Following an intense campaign, the ruling Georgian Dream party won all six. Georgian Dream maintained its strong majority in Parliament, although the loss of a number of MPs left it without a constitutional majority for the first time since 2016.

On 20 June, a Russian State Duma member, chair of the Orthodox Inter-Parliamentary Assembly, took the Georgian Speaker's seat during a meeting in the Georgian Parliament. He was present at the invitation of members of the Georgian Dream party. The event triggered major anti-Government protests. These were dispersed by the police, but their use of tear gas and rubber bullets caused serious injuries and led to further demonstrations during the following months. Two investigations were launched – one into the demonstrators' use of 'group violence'; the other into excessive use of force by the police.

In response to the protests, the Speaker of Parliament resigned and Georgian Dream tabled a constitutional amendment to introduce fully proportional elections in 2020, rather than 2024

as provided for in the Constitution. Prime Minister Bakhtadze also resigned on 2 September and Giorgi Gakharia, the former Minister of Internal Affairs, succeeded him. Georgian Dream proposed the introduction for 2020 of a zero threshold (*de facto* a 0.67% threshold of the votes) to be represented in Parliament, instead of the current 3%. The failure of the Parliament on 14 November to pass the constitutional amendments led to further political instability and street protests. The process of election reform halted. Political dialogue meetings took place in order to find a solution to the stalemate and agree on the way forward ahead of the elections.

The criminal investigation of the two co-founders of TBC Bank continued, with the Prosecutor's Office charging Mamuka Khazaradze and Badri Japaridze over the summer in connection with an alleged money laundering case dating from eleven years ago. Charges relating to the same transactions were also brought against Vakhtang Tsereteli, the father of the owner of the Pirveli TV channel. In September, Khazaradze and Japaridze launched a civic movement, Lelo, which became a political party in December.

The media landscape remained polarised and underwent substantial changes following the ECHR verdict in the Rustavi 2 case, which was published in July³. The ECHR lifted the suspension on the 2017 verdict of Georgia's Supreme Court and the channel was restored to its previous owner. This led to wide-ranging changes of management and staff. By September, several journalists had left to work for the Main Channel, a new channel owned by Rustavi 2's former director, Nika Gvaramia. In December the ECHR's Grand Chamber rejected the appeal on the ruling, effectively ending the legal dispute with the confirmed change of ownership of the channel. Euronews Georgia was launched in September (projected to be on air before summer 2020) and Formula TV started broadcasting in October. In the 2019 World Press Freedom Index⁴, Georgia moved up one place and now ranks 60th out of 180 countries. Its Freedom House rating remained stable, with an aggregate 'freedom score' of 63/100⁵.

Civil society remained very active and involved in monitoring the implementation of the AA, including the DCFTA. However, although it plays an important role in policy formulation and government oversight, including to some extent at local level, there are no formal mechanisms governing its liaison with Government and Parliament. Also, trust needs to be rebuilt following the 2018 falling-out between certain CSOs and state institutions.

The Public Defender's Office continued to play an active oversight role.

The growing awareness and understanding of women's rights have led to more instances of gender-based violence being reported to the police, particularly by younger women. The number of restraining orders in favour of victims of domestic violence and violence against women had already increased by 75% from 2017 to 2018, and the number of convictions had

³ [https://hudoc.echr.coe.int/eng-press#{"itemid":\["003-6464450-8514363"\]}](https://hudoc.echr.coe.int/eng-press#{)

⁴ <https://rsf.org/en/ranking>

⁵ <https://freedomhouse.org/report/freedom-world/2018/georgia>

also risen, by 65%, in the same period. Previously, victims of domestic violence needed a court decision in order to be accepted in a shelter, but that requirement was lifted in 2019.

As regards *gender equality*, Georgia's 2018 Global Gender Gap score stood at 68%, just below the world average, putting it 99th out of 149 countries⁶. It ranked 119th (also of 149 countries) for women's political empowerment. The number of female MPs has been rising in the last few years, but women still hold only 15% of seats in the Parliament (2019). Women are also under-represented in local government and executive branches of government. Georgia ranked 85th for women's economic participation and opportunity in 2018. Women's average monthly wage was only 64% of men's⁷, according to GEOSTAT.

In May, the Labour Code and a number of other laws were amended, with sexual harassment being defined as a form of unlawful discrimination in the workplace and administrative penalties introduced for sexual harassment in public spaces. The Public Defender is mandated to examine allegations of sexual harassment in the workplace and refer them to the court if its recommendations are not followed. The Government made an effort to raise awareness and build capacity in state bodies as regards gender mainstreaming in national policies. However, the key Government body, the Inter-Agency Commission on Gender Equality, received no additional staff to ensure adequate administrative support. Its Chair resigned in April 2019 and the position remains vacant.

Amendments to improve enforcement of the Law on the Elimination of all Forms of *Discrimination* were adopted in May. Nevertheless, there are still incidents of discrimination against lesbian, gay, bisexual, transgender and intersex (LGBTI+) persons in the fields of employment and healthcare, and on social and economic issues. A small, symbolic Pride march took place in front of the Ministry of Internal Affairs on 8 July after the organisers failed to reach an agreement with the authorities on holding it elsewhere. Far-right groups had called for a 'hunt' to arrest Pride participants; investigations against the instigators have yet to yield results.

In September, Georgia adopted a **Child Rights' Code** which will fully enter into force on 1 June 2020. This umbrella document introduces legal grounds, safeguards, and guarantees for the realisation of overarching principles, rights and freedoms of the child. Furthermore, it provides legal guarantees for empowering the child in independently exercising and protecting his/her rights.

Infant (and maternal) mortality rates remain high. There are significant variations in the nutritional status of children from different socio-economic groups. Child poverty also remains high – every fifth child lives in a household in which their basic needs are unmet. As from January 2019, the Government increased the monthly child benefit from GEL 10 to GEL 50 and it has been testing food vouchers for children. Overall, around one in four

⁶ http://www3.weforum.org/docs/WEF_GGGR_2018.pdf

⁷ GEOSTAT; <https://www.geostat.ge/en/modules/categories/39/wages>

children does not attend pre-primary school; the rate is particularly high among children belonging to disadvantaged and marginalised groups⁸.

Childcare has still not been fully de-institutionalised. Two large state-run institutions continue to operate, housing about 80 children with severe and multiple disabilities. Over 900 children live in 38 unregulated institutions, mainly boarding schools financed and run by local municipalities, the Georgian Orthodox Church and Muslim communities. In 2019, the Government started to extend state regulations and standards to these institutions. In response to a strike by public social service workers in March, the Government agreed to increase investment in social services capacity and quality case management, and launched an inter-institutional approach to violence against children.

A multidisciplinary cooperation mechanism involving inter alia prosecutors, police officers, lawyers, social workers and psychologists was set up at central and regional levels to support the implementation of the *Juvenile Justice Code*. However, the judiciary has yet fully to adopt a child-sensitive approach.

With regard to *ill treatment*, a 2019-2020 action plan on fighting torture, inhuman and degrading treatment or punishment was adopted in May. The transfer of independent powers of investigation to the State Inspectorate, planned for January, took place on 1 November, due to insufficient budget allocation. The new powers cover data protection and the investigation of crimes committed by law enforcement officials. An investigation into the widely reported abduction of an Azerbaijani human rights defender on Georgian territory in May 2017 and his irregular transfer to Azerbaijan is still ongoing.

A periodic assessment by the Council of Europe's Prevention of Torture Committee (CPT) was satisfactory overall, but highlighted shortcomings as regards mental health facilities, the existence of an informal hierarchy among prisoners in certain prisons and a lack of meaningful out-of-cell activities⁹.

In June, the Government adopted a 2019-2020 action plan to implement the *public administration reform* roadmap for 2020. Secondary legislation implementing the Civil Service Law was adopted in the course of the year. New classification and remuneration systems now apply to all civil servants and a new performance appraisal approach being piloted in key ministries will be extended to all institutions. While most of the legal and institutional conditions are in place, implementation is still incomplete in some ministries.

2.2. Foreign and security policy

Georgia was invited to align itself with 55 EU declarations and Council decisions and did so in 37 cases (61%, marking an increase from 56% the year before). It continued to participate in civil and military crisis management operations under the *common security and defence policy* (CSDP) and to provide 32 troops to the EU military training mission (EUTM) in the Central African Republic and one officer to EUTM Mali.

⁸ Country gender assessment – Georgia (ADB, 2018).

⁹ CPT report of September 2018 visit (May 2019); <https://rm.coe.int/1680945eca>

A law establishing the new National Security Council, an advisory body to the Prime Minister, entered into force on 8 April.

On 25 October, Georgia and the EU held their third high-level informal strategic security dialogue meeting, where they confirmed their shared strong interest in closer cooperation on foreign and security policy, in line with the AA.

As of 27 November, Georgia is chairing for the first time and for a period of 6 months the Council of Europe's Committee of Ministers.

In the ***fight against terrorism***, Georgia continued to support the global coalition to defeat ISIS. In January, it adopted its national counterterrorism strategy for 2019-2021. Countering violent extremism is a pillar of the strategy and one of the top priorities identified. Georgia 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 countries, as well as further afield.

On ***peaceful conflict resolution***, the situation on the ground deteriorated throughout 2019. Georgia witnessed increased 'borderisation' activities by the *de facto* authorities of the breakaway region of South Ossetia, with the support of Russian border guards, and repeated closures of the controlled crossing points between the administrative boundary line and Tbilisi-administered territory. This caused additional hardship for people, as well as incidents, including detentions and deaths due to lack of access to hospital care. Furthermore, since August 2019, serious security challenges emerged in the Chorchana-Tsnelisi area on the Administrative Boundary Line (ABL) with the breakaway region of South Ossetia.

The EU continues to firmly support Georgia's sovereignty and territorial integrity within its internationally recognised borders. It also continues to actively support conflict resolution efforts financially and through the work of the EU Special Representative for the South Caucasus and the Crisis in Georgia, and the EU monitoring mission (EUMM). Georgia has remained committed to the Geneva International Discussions.

Of the incident prevention and response mechanisms (IPRMs)¹⁰, only the Ergneti IPRM met in 2019. It continued to act as an important forum to defuse tension, particularly in August/September during the escalation of tension in the breakaway region of South Ossetia. There were no meetings of the Gali IPRM.

The Government started to implement its 'A step to a better future' initiative to promote peace and opportunities for people in the breakaway regions of South Ossetia and of Abkhazia, inter alia by creating a fund to support the initiative. EU assistance on skills development (informal learning, vocational education and training) was further extended to Abkhazia.

¹⁰ The IPRMs and the EUMM hotline are essential tools for addressing local security issues and promoting continued confidence-building between security actors.

Georgia continued to cooperate with the *International Criminal Court* on the ongoing investigation into allegations of crimes against humanity and war crimes by all armed forces deployed in and around South Ossetia between 1 July and 10 October 2008.

2.3. Justice, freedom and security

Efforts to *reform the judiciary* focused on the appointment of new Supreme Court judges and the formulation of a fourth wave of reforms. In March, Parliament approved amendments to the Law on Common Courts that established the necessary selection criteria, but these only partly reflected Venice Commission recommendations. The shortcomings were exacerbated in the nomination process led by the High Council of Justice (HCoJ), as also reported by the OSCE/ODIHR. On 12 December, Parliament appointed 14 candidates for life tenures to the Supreme Court. The overall process failed to ensure the necessary transparency and meritocracy.

Amendments relating to the fourth wave of judicial reform were finalised and adopted by Parliament in December. They make important improvements in three areas: disciplinary violations, regulation of the functioning of the HCoJ and HCoJ reform. Of particular importance is the obligation on the HCoJ to justify all its decisions. The Ministry of Justice has finalised amendments to the Criminal Code, but their adoption is pending.

The main focus of *prosecutorial reforms* in 2019 has been the separation of functions between investigators and prosecutors, in order to move away from significant previous overlaps on both the legislative and practical level. In March, the Venice Commission issued an opinion that included a number of recommendations for the careful preparation of the transfer of powers from prosecutors to investigators.

The Ministry of Justice presented the first comprehensive crime prevention and *penitentiary* strategy in February.

On *legal cooperation in civil and criminal matters*, the entry into force of the Eurojust-Georgia cooperation agreement in July will enable the swift and safe exchange of information and evidence. Georgia has strengthened international law enforcement cooperation with Europol as well as the network of Georgian police attachés in the EU Member States in order to expand cooperation to combat serious and organised cross-border criminal activities.

On *preventing and fighting corruption*, Georgia continued implementing the anti-corruption strategy and action plan, in line with association agenda commitments. In July, the Anti-Corruption Council adopted a new anti-corruption strategy and action plan for 2019-2020 in July. The results are reflected in international ratings, but some concerns of high-level corruption persist¹¹. In the 2018 Transparency International corruption perception index, Georgia scored 58/100 (up from 56/100 in 2017). Its World Bank control of corruption indicator also improved, reaching 77/100 in 2017 (74 in 2016). Asset declarations submitted by public officials have been monitored since 2017 (the law requires that 5% of all

¹¹ Georgian CSOs' address to the international community in September 2019 on eventual state capture; https://idfi.ge/en/georgian_civil_society_organization_address_to_the_international_community

declarations be checked). In the first half of 2019, the Prosecutor's Office and the Ministry of Internal Affairs registered 365 cases of official misconduct, of which only 3.8% were resolved (GEOSTAT crime statistics).

In May, the Inter-Agency Coordinating Council on Drug Abuse adopted a strategy against drug use, which includes the establishment of a national monitoring centre. A legislative package for the liberalisation of drug policies is still pending in Parliament for further deliberation.

On 2 August, the Constitutional Court declared that it was unconstitutional to impose administrative detention and criminal imprisonment for the production, purchase and storage of drugs that are for private use and do not lead to fast addiction and/or aggressive behaviour, on the basis that such activity does not pose a threat to public order or security.

Georgia continued to implement its *migration* strategy and action plan and started discussions on the strategy and action plan beyond 2020. It finalised its migration profile for 2019 and made further progress on its unified migration analytical system, which is partly operational.

The visa-free regime is in place since March 2017. The first and second Visa Suspension Mechanism Report identified a constant increase of asylum applications. The number of unfounded asylum requests made by Georgian nationals in EU/Schengen countries increased in 2019. Despite a dip in the summer, the overall number of asylum applications was higher than in 2018, ranking Georgian nationals amongst top nationals requesting international protection in the EU. Georgia has continued to pro-actively address the challenge of increased asylum applications. In view of this, the Commission, the Justice and Home Affairs Agencies, the EU Member States and the Georgian authorities work together on a set of operational measures to decrease irregular migration and crime-related challenges linked to the visa-free travel of Georgian citizens to the EU, in line with the recommendations of the visa suspension mechanism report. Georgia adopted in April amendments to the Criminal Code, which foresees the criminalisation of the facilitation of illegal stay of Georgian nationals abroad

Georgia maintained its efforts to strengthen *border management* stepping up cooperation with the European Border and Coast Guard Agency. "Joint Operation Coordination Points 2019 Air and Joint Operation Focal Points 2019 Air" were launched in the beginning of 2019 to address irregular migration and to improve pre-departure checks. The security and surveillance infrastructure of the Border Police was further expanded. The capacities of training institutions (academies of the Ministry of Internal Affairs and Ministry of Finance) were strengthened, and the training curricula upgraded. There was extensive capacity-building for border management staff.

Police reform continued in line with priorities set out by the Minister of Internal Affairs in early 2019, including: separation of roles between prosecutors and investigators, as well as between operational and investigative functions of different police officers, expansion of

community-based and intelligence-led policing, enhancing centralised analytical work, stepping up the fight against cybercrime, and closer international cooperation.

A rise in complaints to the data protection authority shows greater public awareness of *data protection* issues. The Personal Data Protection Inspectorate was merged into the new State Inspectorate in May. While the number of covert investigative activities has increased significantly, they are mostly carried out on the basis of a court ruling.

3. Economic development and market opportunities

3.1. Economic development

The *macroeconomic* outlook remains stable, with some downward risks. The economy continued to grow (by more than 5 % year-on-year in the first ten months of 2019), but remains vulnerable to domestic political risks and spill-over effects from external developments, including geopolitical and global trade tensions, the economic performance of key trade partners (e.g. Turkey) and financial market volatility.

Inflation gradually accelerated, to 7% in November 2019 (above the 3% target). Due to higher headline inflation and inflationary expectations, the National Bank of Georgia (NBG) raised the refinancing rate from 6.5% in August and 9% in December. In 2019 the Georgian lari (GEL) faced depreciation in the first half of 2019 and remained volatile in the second half of the year, losing altogether 5% of its value against the euro and 9% against the US dollar, losing 10% of its value. This exchange rate volatility, coupled with the still-high rate of dollarisation (62% of deposits and 56% of loans were denominated in foreign currency) and external debt (109% of GDP), makes Georgia's financial sector vulnerable to exchange rate risk.

The authorities are seeking to reduce the fiscal deficit to 2.6% of GDP (from 2.9% in 2019), with the expectation that the spending mix will change to reflect new priorities, including implementation of education reform and a rise in capital spending.

Georgia's balance-of-payments position remains vulnerable, due to a relatively large current account deficit (despite a decline to 4.6% of GDP in the first half of 2019) and high external debt. Inflows of foreign direct investment declined in the first half of 2019, to around 6% of GDP, mainly due to the completion of some large investment projects. Georgia's international reserves have slightly increased in the course of the year, to USD 3.3 billion at end November (over 4 months of imports), but are still below the level suggested as adequate by the International Monetary Fund (IMF).

Georgia's structural reform agenda, as supported by the IMF programme and the conditionality of the EU's macro-financial assistance, focuses on improving the business environment, education and public administration, and investing in infrastructure.

Disbursement of the second tranche of EU *macro-financial assistance* (EUR 25 million from a total of EUR 45 million) is subject to satisfactory compliance with the agreed policy conditions.

Georgia is doing well in international rankings as regards the **business environment**, e.g. it now ranks 6th out of 190 countries in the World Bank's 'ease of doing business' index. It is in the world's top 10 countries as regards: starting a business (2nd); protecting minority investors (2nd); registering property (4th); and enforcing contracts (8th). On the other hand, it is ranked much lower on resolving insolvency (60th), trading across borders (43rd) and accessing electricity (39th). Moreover, challenges remain with regard to the independence of the judiciary, legal certainty and ongoing investigations of certain major businesses.

As regards **agriculture**, the 2015-2020 strategy for the agricultural development of Georgia (SADG) and the 2017-2020 rural development strategy are under implementation. A new 2021-2027 agricultural and rural development strategy and its Action Plan for 2021-2023 have been approved on 18 December 2019. In June, the Parliament adopted the new Organic Law on Agricultural Land, which *inter alia* regulates exceptions from the ban (under the new constitution) on foreigners owning agricultural land in Georgia.

The institutional reform of the Ministry of Environmental Protection and Agriculture (MEPA) was completed in 2019, with the establishment of a new **Agriculture and Rural Development Agency**, as a step towards the formation of a single paying agency. The external mid-term review of the SADG gave a positive assessment of the implementation of the related action plan. The programmes supported by MEPA with state and donor funds continued to assist medium-sized farms and agribusinesses. The role of private certifiers in sensitive areas such as laboratories, phytosanitary issues and animal vaccination remains to be clarified.

On the basis of broad **regional development** objectives for 2018-2021, a pilot integrated regional development programme has been prepared for the EU focal regions (Kakheti, Imereti, Guria, Racha-Lechkhumi and Kvemo Svaneti). It identifies the following priorities for investment: 1) urban renewal – integrated actions in urban areas; 2) unique tourism potential; 3) entrepreneurship, competitiveness and innovation of local SMEs; 4) integrated local development; and 5) efficient local administration and partners for development (technical assistance).

The Government developed a decentralisation strategy for 2019-2025, with the intention of devolving more functions and financial resources to local authorities. The strategy's three dimensions, all aimed at enhancing public welfare, the role of citizens and community groups, and the delivery of public services to address increasing demands from the population, are as follows: i) increasing the powers of local authorities; ii) fiscal decentralisation; and iii) citizens' involvement and transparency.

A smart specialisation framework for strengthening innovation potential of the regions under the leadership of Ministry of Regional Development and Infrastructure is being established. A pilot action was launched in the region of Imereti.

The **reform of public internal financial control** saw limited activity in 2019. A functional internal audit system has been established in all ministries and a new internal auditor

certification programme will get under way in Spring 2020. Draft amendments to the State Audit Law would provide for the external auditing of the revenue side of the budget.

On **taxation**, the fight against fraud and the smuggling of excisable products continued, as did work on legislative approximation in the area of indirect taxation (excluding taxation of energy products). In the autumn, the Ministry of Finance submitted a timeline for raising excise duties on all tobacco products listed in the AA, apart from cigarettes.

The national **statistics** system (NSS) improved its compliance with European and international standards in a number of statistical domains, including commitment to quality, statistical confidentiality, impartiality and objectivity, relevance, accessibility and clarity. Recommendations have been developed in the area of methodology, adequacy of resources, NSS coordination and sectoral statistics (e.g. on the environment, innovation and energy).

As regards **industrial and enterprise policy**, the Government continued to implement the SME strategy. By August, a total of 521 businesses had been supported under the ‘Produce in Georgia’ programme¹², with a total of over GEL 1.186 billion invested and more than 18 270 new jobs created. Analysis was carried out to identify products and services in relation to which Georgia could develop further export potential and thus make full use of the DCFTA. As a result, the Government decided to study three value chains in greater depth and develop export promotion action plans for clothing, furniture and IT. It also worked to set up a credit guarantee scheme and develop alternative financing tools. Since March, regulatory impact assessments (RIAs) have been compulsory for all new business-related legislation and a methodology is being developed for SME-specific RIA tests.

As regards **fisheries and aquaculture**, Georgia has asked for full membership of the General Fisheries Commission for the Mediterranean (GFCM), upgrading the cooperating non-contracting party status it has held since 2015. It continues to cooperate under the Sofia Ministerial Declaration. It also continues to participate in the Black Sea joint control and inspection plan and is involved in the GFCM BlackSea4Fish project. Georgia has been working closely with the EU on revising regional management measures for iconic Black Sea fish stocks.

Georgia has also been actively working to follow-up on the shortcomings identified in relation to the fight against **illegal, unreported and unregulated** (IUU) fishing. The country made efforts to set up a Vessel Monitoring System (VMS) and currently implements an Automatic Identification System (AIS) on a pilot basis.

In the **maritime** sector, Georgia has implemented most of the directives and regulations referred to in the AA. The Maritime Transport Agency is currently working on the transposition of two more of the directives. A maritime transport strategy is being developed and alignment with the maritime safety *acquis* continues in line with AA commitments. In May 2019, Georgia endorsed at Ministerial level the Common Maritime Agenda for the Black Sea, a sea basin initiative for sustainable blue economy.

¹² Source: Enterprise Georgia.

Tourism is a growing and increasingly important industry in Georgia, accounting for 7.7% of GDP in the first two quarters of 2019. The second quarter saw a record 1 896 104 international visitor trips, which represents growth of 13% in comparison to the second quarter of 2018¹³. The third quarter of 2019 also saw a record number (2 753 207), but growth had slowed to 4% in comparison to the third quarter of 2018, primarily as a result of restrictions on tourism imposed by Russia from July.

A completely new **Company Law** has been drafted to regulate corporate relations by default and to approximate the legislation to the EU directives referred to in the AA.

As regards **financial services**, the NBG is strengthening the regulatory and supervisory frameworks for banking, non-banking, payments, and capital and securities markets, by: developing a responsible lending framework; protecting consumers; and improving financial literacy.

The NBG continued to implement de-dollarisation measures and improve financial market infrastructure. The Insurance State Supervision Service of Georgia has advanced legislation on compulsory third-party liability for vehicles.

Georgia is gradually aligning its **accounting and auditing** practices with EU and international practices in order to improve the investment climate and the competitiveness of local businesses. In 2019, financial reporting requirements under the Law on Accounting, Reporting and Auditing became compulsory for companies of all types (other than non-profit making) and sizes.

As regards **employment**, unemployment remains high, at 11.1% (2nd quarter). With more than 40% of self-employed people in subsistence farming, unemployment (together with wide regional disparities and a big skills mismatch) remains a major challenge. It remains higher among women than among men. The Employment Service Agency was established in October separating employment services from social services. The Ministry of Internally Displaced Persons from Occupied Territories, Labour, Health and Social Affairs (MoIDPLHSA) has drawn up a new labour market strategy for 2019-2023. The Tripartite Social Partnership Commission continued to meet at its annual plenary session and in the framework of working groups.

The amended Law on **Occupational Health and Safety** (OHS) entered into force in September, allowing the Labour Inspectorate to perform unannounced checks and charge fines in all sectors. However, the Inspectorate's mandate remains unchanged and does not cover working conditions outside OHS. There was a new wave of protests against dangerous working conditions and poor social protection throughout 2019.

MoIDPLHSA is drafting an overarching national **public health** strategy. Work is progressing on the electronic healthcare system, improving the quality of care and reducing inequalities in the health system. The maternal mortality ratio was 27.4 per 1 000 births in 2018. There were 55 deaths caused by AIDS in 2018 and 30 in the first 6 months of 2019. Georgia continued to

¹³ Source: Georgian National Tourism Administration.

work on blood safety, tissue transplantation, the tracking of environmental health and tobacco control in line with the AA.

3.2. Trade and trade-related matters

In the first ten months of 2019, trade turnover between the EU and Georgia amounted to EUR 1.3 billion, down by 4% compared to the same period in 2018. EU exports to Georgia remained stable, at EUR 1.7 billion (0.7% lower than in the first ten months of 2018) and EU imports from Georgia fell by 15 %, to EUR 475 million.

On *technical barriers to trade*, Georgia has continued to improve the national quality infrastructure, in particular in the fields of: *standards and metrology*, where the laboratory of small volumes has undergone a peer review to obtain international recognition as a valid reference laboratory; *accreditation*, where the Georgian Accreditation Centre is preparing for conformity assessment of approximated ‘new and global approach’ directives (e.g. explosives for civil use, medical devices, appliances burning gaseous fuels, personal protective equipment); and *market surveillance*, where the Technical and Construction Supervision Agency is progressing with the provision of market surveillance services for a range of industrial and consumer products, in particular as regards toy safety.

On *food safety and sanitary and phytosanitary (SPS) standards*, Georgia has been working since 2010 to approximate and implement 272 EU agri-food legal instruments by 2027. To date, it has approximated 101 veterinary, phytosanitary and food safety regulations on the basis of an institutional and policy development process guided by the National Food Agency’s 2017-2019 institutional development and reform plan. Implementation of SPS standards remains a challenge for farmers and food business operators.

In 2019, Georgia drafted a national phytosanitary strategy (focus on plant protection), which MEPA has not yet formally approved, and a national food safety strategy, expected to be approved in Spring 2020. This will complement the 2016-2020 national animal health programme which is already in place.

The new *Customs Code* entered into force in September. It has three main principles: modern customs infrastructure, simple and fair procedures, and digital customs, i.e. electronic provision of all customs services to businesses. On 1 May, the Government established a National *Trade Facilitation* Committee to oversee obligations under the Trade Facilitation Agreement and issues relating to the establishment of the authorised economic operator system. As regards *rules of origin*, further efforts are needed on traceability and the reliability of proofs of origin in order for products to be able to benefit from preferential treatment.

The Ministry of Finance Revenue Service made progress in joining the Common Transit Convention (CTC) and launching the new computerised transit system. Activities included developing a set of transit procedures, setting the requirements of future IT design and the design and implementation of training programmes and modules.

Georgia maintained its efforts in the area of *digital economy and society* to promote economic and business opportunities, strengthen digital competences and develop e-trade. The new broadband development strategy will *inter alia* seek to narrow the digital divide between rural and urban areas. The promotion of ICT and development of telecommunications infrastructure throughout the country are priorities under the Georgia 2020 socio-economic development strategy. Draft laws on e-commerce and electronic communication in line with the relevant EU directives are under consultation.

Georgia continues to implement the DCFTA provisions on *competition*, focusing on amending the Competition Law in order to increase the investigative powers of the Competition Agency, adopt antitrust procedures and introduce a two-phase merger procedure. In addition, these amendments aim at ensuring coherence in the application of competition law in the regulated sectors (communication, energy and finance) and other sectors of industry, and to make structural changes to make investigations more efficient. Further capacity-building of the Georgian Competition Agency, which is now also in charge of consumer protection, is ongoing.

As regards the *transparency* of DCFTA implementation, a number of roundtables were held for local entrepreneurs and media representatives in the format of a trade advisory group. The parties identified relevant activities on labour protection and the environment, including climate action.

Georgia continues to approximate its *public procurement* legislation to the EU *acquis*. Amendments have been prepared to establish an independent and impartial Dispute Resolution Council, to which all legal and physical persons will be entitled to appeal in connection with tendering procedures. The amendments are expected to grant sufficient powers to the Review Body to assess direct procurement.

With regard to *intellectual property* protection and the enforcement system, Georgia has advanced its reforms in order to bring Georgian IP laws into line with the Agreement. Further amendments to IPR laws and in particular on the trademark law are expected to be made in cooperation with the EU Intellectual Property Office. The national exhaustion regime concerning trademarks does not currently comply with provisions of the agreement.

4. Connectivity, energy, climate action, environment and civil protection

In January, the Commission published an indicative trans-European transport network (TEN-T) investment action plan, which identifies 18 priority projects for Georgia for a value of EUR 3.4 billion. The indicative core TEN-T network was formally extended to Georgia in March.

As regards *environmental protection*, the Government adopted and sent to Parliament a new Forest Code in February. Parliament adopted it at first reading on 18 October. The Waste Management Code introduced the concept of extended producer responsibility for specific waste streams, which is expected to be enacted from December. The construction of the first EU-standard waste landfill in the Imereti region was postponed in response to local

demonstrations. The production, use and import of plastic bags has been banned since 1 April. MEPA launched an air quality portal in January.

The Ministry of Economy and Sustainable Development continued to draft *energy* sector legislation. The first key deadlines for implementation of energy acquis under the Association Agreement and the Energy Community Treaty have been missed. In November 2019, the Energy Community Secretariat estimated Georgia's overall level of implementation of the energy acquis at 25%¹⁴. The Energy and Water Supply Law and the Renewable Energy Law were adopted by the Parliament on 13 December 2019.

The Government is focused on promoting the construction of new hydropower plants and expanding the electricity transmission network to improve security of supply and facilitate the development of wholesale power exchange and export.

Regarding *civil protection*, Georgia continues its effort to cooperate more closely with the Union Civil Protection Mechanism. The Emergency Management Service returned under the helm of the Ministry of Internal Affairs as a state subordinated entity, with its own budgeting, resources and human resources system as of 1 January 2019.

5. Mobility and 'people to people'

MoIDPLHSA established a dedicated unit to deal with labour (circular) migration. Georgia has continued bilateral consultations with EU Member States on cooperation in the framework of the *mobility partnership*.

In March, the Government announced a new *education* programme, with a declared increase of state funding to 6% of GDP by 2022. State funding of the Ministry of Education, Science, Culture and Sport increased by 14% over the year (reaching 2.8% of GDP, i.e. a 0.05% increase compared to 2018). The 2017-2021 overarching strategy for education and science is being reviewed in the light of the new wave of education reform. A new VET Law, which created new life-long learning opportunities for young people and adults, was adopted in April. Georgia is making progress in aligning its quality assurance mechanism with the AA. The National Centre for Educational Quality Enhancement became a member of the European Association for Quality Assurance in Higher Education and was included in the European Higher Education Quality Assurance Register. Georgia continues its successful Erasmus+ participation in the areas of higher education and youth. It is one of the most successful countries as regards international credit mobility scholarships, ranking 6th of 141 participating countries. The European School in Georgia (a fully-fledged secondary school) was officially launched in September, with the aim of bringing together students from across the Eastern Partnership region and offering a unique curriculum inspired by European and international values of multiculturalism, peace and tolerance.

In the field of *culture*, in April Georgia launched a large-scale campaign (Georgia, Europe), which aims to raise awareness of the EU in Georgia and *vice versa*. It is preparing to participate as a 'guest country' at Europalia and the Paris Book Fair in 2021.

¹⁴ <https://www.energy-community.org/implementation/IR2019.html>

Georgia has continued to fulfil its AA obligations and is approximating its legislation to achieve full compliance with the EU Directive on **audio-visual media services**. In line with national legislation, the Georgian National Communications Commission was charged with promoting, developing and monitoring media literacy. It is implementing legislation aligned with the latest EU Directive on radio equipment¹⁵EUR.

As part of its structural reform plan, the Government abolished the **Youth** Policy Management Department of the Ministry of Education, Science, Culture and Sport and two legal entities of public law (LEPLs) – the Children and Youth Development Fund and the Children and Youth National Centre. It replaced these in August with a new Youth Agency LEPL under the Prime Minister’s Office. The Agency took over the youth portfolio and is responsible for organising and implementing programmes and activities for young people.

In the area of cooperation in *research and innovation*, Georgia started the gradual implementation of Horizon 2020 policy support facility recommendations. These focused on: prioritising/identifying promising research fields; promoting science-business links; enhanced cooperation opportunities at institutional level; and measures to encourage the performance-based funding of research entities.

Georgia took steps to internationalise its science sector and in September became a member of the EURAXESS research network. This will contribute to its integration into the European research area.

6. Financial assistance

In line with the AA and Government priorities, the 2017–2020 single support framework focuses on four main areas: economic development and market opportunities; strengthening institutions and good governance; connectivity, energy, environment and climate change; and mobility and ‘people to people’ contacts.

Implementation of the 2018 bilateral allocation (EUR 134 million, including EUR 40 million from the ‘umbrella’ programme) has started. EU support will continue to focus on the implementation of the AA, including Georgia’s increased participation in Erasmus+ and action on strategic communication. A new economic governance and fiscal accountability programme will bring the Georgian system closer to the EU model of economic governance, while a holistic programme on security, accountability and the fight against crime will strengthen good governance, the rule of law and the security of Georgian citizens.

Assistance under the bilateral allocation for 2019 (EUR 127 million, including a EUR 25 million top-up from the ‘umbrella’ programme) will focus on the development and implementation of a new human rights strategy, targeting in particular the rights of the child, domestic violence and the inclusion of members of vulnerable groups/minorities. Through the fourth phase of the European neighbourhood programme for agriculture and rural

¹⁵ Directive 2014/53/EU of the European Parliament and of the Council of 16 April 2014 on the harmonisation of the laws of the Member States relating to the making available on the market of radio equipment and repealing Directive 1999/5/EC (OJ L 153, 22.5.2014, p. 62).

development (ENPARD), the EU will support the implementation of food safety regulations (partly to facilitate an increase in exports to the EU) and further promote rural development. Lastly, the EU4IntegratedTerritorialDevelopment initiative will encourage more balanced territorial development establishing new centres of gravity in the regions of Georgia.

Ongoing bilateral programmes are supporting inclusive economic development, justice and public administration reform, VET and skills matching, policy reform in agriculture and rural development, regional development and transport, energy efficiency and infrastructure development.

Georgia also continues to benefit from regional programmes in the framework of EU4Business, EU4Energy, EU4Environment, EU4ClimateChange, EU4Innovation, EU4Youth and EU4Digital and in the areas of culture and transport. It is also participating actively in the neighbourhood cross-border cooperation Black Sea programme.

The EU has continued to help finance large infrastructure projects and initiatives in various economic and social sectors in the framework of the Neighbourhood Investment Platform. In this regard, blending operations are supporting energy efficiency in public buildings and projects on hydropower plant rehabilitation, road transport along the TEN-T, solid waste, water and sanitation, and local currency-lending.

Georgia also benefits from EU macro-financial assistance (MFA). The latest MFA operation was approved by the European Parliament and the Council in April 2018. The first instalment of EUR 20 million (EUR 5 million in grants and EUR 15 million in loans) was disbursed in December 2018. Further disbursement (last instalment of EUR 25 million) is conditional on Georgia continuing to meet the political conditions (respect for democratic mechanisms, rule of law and human rights); maintaining a good track-record in implementing the current IMF programme (an arrangement under the Extended Fund Facility of USD 285 million, recently extended to April 2021); and satisfying the specific policy conditions in the memorandum of understanding, which support the national reform agenda and the EU association process, and apply to public finance management; the financial sector; social and labour market policies; and the business environment.

The 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

Over the reporting period, Georgia has remained committed to the implementation, obligations and undertakings of the Association Agreement. Alignment to the EU acquis as well as to European standards in the area of human rights has effectively continued.

2020 will be an important year for Georgia to continue to demonstrate its reform commitment, which will be crucial for further advancing on its European path. It will be key to take forward ambitious election reforms, to tackle the increasing political polarisation and to pursue judicial reform.

Looking ahead, the parliamentary elections foreseen for autumn 2020 will be pivotal in confirming Georgia's democratic credentials. Responding to all OSCE/ODIHR recommendations made in the aftermath of the 2018 presidential elections should be the objective of the current electoral reform. At the same time, it will be crucial to find a solution with regard to the set-up of the election system acceptable to all parties. Furthermore, an enabling environment for free and pluralistic media will be another key factor in the run-up to the elections.

As regards judicial reform, implementation of the fourth wave of reforms will be important throughout 2020. Georgia's commitment to uphold the highest standards of ethics and integrity in its judiciary remains critical. Going forward, it is essential that the selection procedure for Supreme Court Judges adheres to all recommendations made by the Venice Commission and be carried out in a transparent manner and in line with a genuinely merit-based nomination process.

As regards the visa-free regime, it will be important for Georgia to continue to pro-actively address the continued increase of asylum applications in close cooperation with the Commission and EU Member States.

Finally, structural reforms are required to make Georgia's economy less vulnerable to external developments and to enhance the investment climate and trade potential. The adoption of energy efficiency laws, in particular given the growing urgency for action on the climate, will equally be essential.