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Implementation of the European Neighbourhood Policy in Georgia Progress in 2013 and recommendations for action

Accompanying the document

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

Neighbourhood at the Crossroads: Implementation of the European Neighbourhood Policy in 2013

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on progress made in implementing the EU-Georgia European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2013. Developments outside this period are also considered when relevant. It is not intended to be a general review of the political and economic situation in Georgia. For information on regional and multilateral sector processes, please refer to the Eastern Partnership (EaP) implementation report.

Political dialogue between the EU and the Georgian government was intensive in 2013, and included a number of high-level meetings: Prime Minister Bidzina Ivanishvili chose Brussels for his first foreign visit in November 2012, President Mikheil Saakashvili visited Brussels on several occasions, and a number of high-level EU visits to Georgia took place. These included visits by the High Representative for Foreign Affairs and Security Policy/Vice President of the Commission Catherine Ashton in November 2012, Commissioner Cecilia Malmström in February, and Commissioner Štefan Füle in July. Additionally, the second informal EaP dialogue was held in Tbilisi on 12 and 13 February 2013 with the presence of Commissioners Štefan Füle and Androulla Vassiliou. The Georgian Prime Minister Garibashvili visited Brussels for the first time on 3-4 February 2014.

The October presidential elections marked a second step in the democratic transition of power in Georgia after the 2012 parliamentary elections and were widely assessed as the best in Georgia's post-independence history by the election observation mission of the Office for Democratic Institutions and Human Rights (OSCE/ODIHR). The pre-electoral environment was less tense and polarised than it had been before the parliamentary elections and voters were able to express their choice freely. The victory of the Georgian Dream (GD) candidate, Giorgi Margvelashvili, marked the end of an uneasy but functioning period of cohabitation that served as a rehearsal for the new constitutional system, and Mikheil Saakashvili's two terms as President came to a close. Autumn 2013 marked the beginning of a threefold transition in Georgia. The new President was inaugurated on 17 November, on the same day that a new constitution entered into force, changing Georgia from a presidential to a parliamentary system. Prime Minister Ivanishvili stepped down on 24 November and handed over the post of Prime Minister to the former Interior Minister, Irakli Garibashvili. In 2013 and first few months of 2014 Georgia navigated successfully complex and unprecedented transition with two landmark elections in which power has changed hands peacefully, two changes of Prime Minister, change of President, a functioning cohabitation and constitutional shift in the political system, moving away from one party dominated state and at the same time tackling the legacies of past abuse –while it continued to deliver on a busy reform and approximation agenda in the framework of the Association Agreement, including the Deep and Comprehensive Free Trade Area (AA/DCFTA) and Visa Liberalisation Action Plan (VLAP).

The EU and Georgia completed the negotiation of an AA/DCFTA in July, an achievement which marks Georgia's continuing commitment to a European path. The Association Agreement, including the DCFTA, was initialled on 29 November at the EaP Summit in Vilnius, Lithuania which marks a historic moment in EU-Georgia relations.

The draft of the Association Agenda, the instrument that will supersede the current ENP Action Plan, was presented in November 2013. Negotiations of the Association Agenda are well underway with the text close to completion.

The EU remains committed to Georgia's territorial integrity and sovereignty, and to the peaceful resolution of the conflicts in Georgia, providing continued support through the work of the EU Special Representative (EUSR) for the South Caucasus and the Crisis in Georgia and the EU Monitoring Mission (EUMM) in Georgia. Following the change of government there have been many positive signs and some cautious steps towards a more open and effective engagement with the breakaway regions, while more decisive steps such as substantively reviewing restrictive aspects of the law on occupied territories are still pending. Georgia-Russia relations improved in 2013 with the continuation of the bilateral dialogue launched in late 2012. This dialogue has yielded results, mainly in the form of Russian concessions on increased trade, transport and cultural exchanges. However, both sides' positions remain unchanged on the fundamental issues of Georgia's European orientation, Russia's role in the 2008 war, and the recognition of South Ossetia and Abkhazia. The ongoing erection of fences and other obstacles on the administrative boundary lines between Tbilisi-administered territory and the breakaway regions of South Ossetia and Abkhazia was of growing concern to Georgia during 2013. This concern was shared by the EU, as expressed in statements and in the EU's bilateral contacts with the Russian Federation.

As a result of progress made in 2012 on reforms promoting deep democracy and respect for human rights, Georgia benefited from an additional allocation of EUR 27 million under the Eastern Partnership Integration and Cooperation Programme (EaPIC) in 2013. On 12 December 2013, the EU and Georgia signed a protocol to the Partnership and Cooperation Agreement on a framework agreement on the general principles for the participation of Georgia in EU programmes.

Georgia also made significant progress in implementing visa facilitation and readmission agreements, and continued to implement reforms in areas related to mobility in a secure environment. The VLAP was formally handed over to Georgia by Commissioner Malmström on 25 February 2013. The first progress report on the implementation of the VLAP was published on 15 November 2013 which concluded that Georgia had made very good progress.

While Georgia continued to make progress in fighting corruption, more needs to be done to prevent, detect and tackle high-level corruption.

Georgia reinforced the independence of the judiciary through new rules that increase transparency and diminish the opportunity for political interference; further reforms of the criminal justice system are under preparation. The prison population halved and healthcare in prisons improved. Tackling Georgia's legacy of abuse remained a challenge for the government with more than 20 000 complaints filed by citizens relating to alleged abuses committed in recent years.

Thirty-five officials who had served under the previous government were charged with criminal offences, including the former Prime Minister and Secretary-General of the opposition United National Movement, Vano Merabishvili. The latter was on 20

February 2014 sentenced to five years in prison on two charges. Allegations of undue pressure placed on Mr Merabishvili by prosecutors need to be properly investigated.

The Georgian Parliament played a constructive role throughout the period of cohabitation between the President and Prime Minister, reinforcing its position in Georgia's political system. The constitutional amendments which came into effect in November 2013 further reinforce the role of parliament; it will be up to Georgia to put in place effective checks and balances so that one branch of the government cannot dominate the others as was the case in the past. Implementation of the recommendations of Thomas Hammarberg, appointed in February 2013 as the EU's Special Adviser on Constitutional and Legal Reform and Human Rights in Georgia, would be helpful in this regard. The recommendations deeply informed the National Human Rights Strategy/Action Plan and Hammarberg's presence was widely accepted and appreciated across the political spectrum.

Georgia's economy grew more slowly in 2013, due in part to uncertainties arising from political transition. The final figure for GDP growth in 2013 is expected to be 3.1%, declining from 6.1% in 2012. Georgia's 2013 budget provided for increased social spending to protect the most vulnerable groups. Since July, universal health insurance has been made available under a new programme.

Georgia acted on most of the key recommendations issued in last year's ENP progress report. It delivered presidential elections in line with international standards. It continued to reform the justice system and advanced sectoral reforms and regulatory approximation to the EU *acquis*. It actively participated in the Geneva discussions and took measures to improve the living conditions of internally displaced persons (IDPs), with the support of the EU; it also renewed its commitment to a genuine engagement with the breakaway regions. On the basis of this year's report and with a view to sustained implementation of the ENP Action Plan in 2014, Georgia is invited to:

- ensure adequate separation of powers and checks and balances between executive, legislative and the judicial powers as Georgia undergoes transition from a semi-presidential to a parliamentary system along with its new constitution. In this context ensure that constitutional amendments, if contemplated, are subject to comprehensive consultation domestically and with the European Commission for Democracy through Law of the Council of Europe (Venice Commission - VC) to warrant their sustainability;
- address any remaining shortcomings in the legislative framework and election administration as identified by the OSCE Office for Democratic Institutions and Human Rights (ODIHR), including in view of 2014 local elections;
- reform the justice system to ensure the full independence of the judiciary, bringing criminal justice policies and practices into line with Council of Europe (CoE) standards; develop a judicial reform strategy and action plan with clear benchmarks;
- ensure that criminal prosecutions are conducted in a transparent and impartial manner, free of political motivation, in order to avoid any perception of politically motivated justice;

- ensure that prosecution activities are performed according to the highest standards of independence, transparency and avoidance of political bias, including through effective oversight of the Prosecutor's Office;
- ensure that pre-trial detention is used only as an exceptional measure, in line with the law, in order to safeguard, inter alia, the principle of the presumption of innocence. Revise rules on administrative detention in compliance with fair trial norms;
- increase the accountability and democratic oversight of law enforcement agencies. Consider establishing a fully fledged independent and effective complaints mechanism. Investigate abuses and implement structural reforms and effective monitoring of the prison system;
- participate constructively in the Geneva International Discussions. Enhance Georgia's engagement policy towards the breakaway regions and take pragmatic steps to open channels of communication and to encourage trade, education, travel and investment across the administrative boundary line; review the law on occupied territories and continue close cooperation with EUMM;
- strengthen media pluralism and independence, as well as freedom of expression and opinion; implement the law on transparency of media ownership. Improve protection of privacy rights, tackle illegal surveillance and investigate abuses;
- adopt comprehensive anti-discrimination legislation; ensure that the rights of people belonging to minorities, including religious minorities, are respected. Condemn instances of hate speech, attacks and violence against persons belonging to minorities; send clear messages of zero tolerance towards such behaviour;
- continue to advance sectoral reforms and ensure a high standard of approximation to the EU *acquis* in order to pave the way for successful implementation of the Association Agreement, including the DCFTA. Raise public awareness and visibility of the Association Agreement and merits of political association and economic integration with the EU.

2. POLITICAL DIALOGUE AND REFORM

Deep and sustainable democracy

Genuine **elections** took place in Georgia in 2013, confirming last year's positive trend, and were considered to have been the best elections held to date. Electoral reform continued to be discussed by the generally inclusive Inter-Faction Working Group set up in parliament for this purpose. Amendments to the law on political party financing strengthened political pluralism in practice, increasing the number of parties eligible for public funding and allowing legal entities to donate to political parties again. Although changes so close to an election should generally be avoided, in substance these changes were positive.

The Inter-Agency Task Force on Free and Fair Elections, which reacts to complaints and makes recommendations on the election environment, continued to issue timely recommendations. The Ministry of Justice took over its chairmanship from the National Security Council. However, its recommendations were not always implemented and it was also criticised for undermining the system that is currently in place to deal with electoral complaints. The Central Election Commission continued to function effectively

and professionally, despite the unexpected resignation of its chairman in August, testifying to the strength of the institution.

The presidential election campaign was conducted in an environment largely free of the tensions that were present before the 2012 election. However, there were incidents where demonstrators violently attacked opposition events and were given negligible fines, raising questions about efficient deterrence. Civil society organisations also reported abuse of administrative resources by the majority candidate. Voters had sufficient access to information about the candidates' programmes, with balanced reporting by media according to the EU's media monitoring project. The election itself led to Georgia's second peaceful democratic transition of power after the previous year's parliamentary election. The election was assessed as being in line with international standards by the OSCE/ODIHR international election observation mission.

In addition, by-elections to fill three parliamentary seats were organised in an orderly manner in April 2013.

Progress towards **freedom of association and freedom of assembly** was mixed. Throughout 2013, there were violent examples of islamophobia and homophobia. On 8 February the authorities failed to prevent the disruption of a speech given by the Head of State. On the International Day against Homophobia, 17 May, the police failed to prevent around 30000 violent counter-demonstrators from attacking about 50 peaceful LGBTI (lesbian, gay, bisexual, transgender and intersex) activists. The failure of the prosecution and judiciary to bring the attackers to justice in a credible way raises questions about impunity. In contrast to 2012, trade unionists did not make complaints of harassment or dismissal.

Overall the **media** environment improved and became more diverse, but it remained politically polarised. The 'must-carry/must-offer' principle remained in place thanks to its voluntary application by media companies. However, the situation at the Georgian Public Broadcaster deteriorated; board members resigned under what they claimed to be pressure from the government. Due to these resignations, the board ceased to function and the process of appointing a new one has begun with a new government-proposed bill passed at first reading in the parliament and opposed by the UNM parliamentary minority. Journalistic ethics concerning the dissemination of private footage covering defamation or hate speech were addressed in revised legislation. Harassment of journalists diminished after the parliamentary elections. However, three journalists were attacked by violent counter-demonstrators enticed by the Orthodox Church on 17 May, and a journalist suffered from the disclosure of illegal footage of his private life by a Deputy Interior Minister, who was subsequently charged and dismissed. The Ministry of Internal Affairs initiated amendments to the code of administrative offences to ban insults against religion, but this effort did not prosper, thanks to the opposing efforts of NGOs, minority religious groups, the Ombudsman and the international community including the EU.

Important steps towards increased independence of the **judiciary** were taken with the May adoption of the law on common courts and the selection of the members of the High Council of Justice under new rules that increase transparency and lessen the scope for

political interference. The judiciary have become more independent in relation to the Prosecutor's Office. In spring 2013 the relevant law was amended to limit the power of the executive to interfere in criminal investigations. The Chief Prosecutor resigned in November, citing differences over the pace of reforms with incoming and outgoing Prime Ministers and only one of the three Deputy Chief Prosecutors kept their post. The new Chief Prosecutor stepped down on 30 December, amid allegations of hiding a criminal record abroad and less than six weeks after taking office. Many prosecutors were forcefully dismissed since 2012, some of them denounced by citizens in their complaints. In October 2013 the parliament approved a bill establishing a three-year probation period for all judges before their appointment for life; however, this was vetoed by the outgoing President. Media access to the courts has been granted.

Nevertheless, 35 former officials of the previous government had been charged with criminal offences at the time of writing. Accusations range from embezzlement to abuse of power and torture. Fourteen are in pre-trial detention, 14 have been released on bail, one was released without restrictive measures, one has been pardoned by the President after conviction and five have left the country. Dozens of other former civil servants suspected of sympathising with the opposition UNM party have also been charged or convicted. In this context, the EU has voiced the need to ensure fair, transparent and evidence-based due process, free from political interference.

Dealing with over **20 000 complaints** filed by citizens and inmates with the Prosecutor's Office in connection to perceived injustices of past administration, including 4 000 cases of alleged **torture or ill-treatment**, presents a challenge. The European Commission for Democracy through Law (Venice Commission) of the Council of Europe was consulted on a planned *Temporary State Commission on Miscarriage of Justice*. It has recommended that parallel systems of justice be avoided. The government suspended the setting up of such a Commission, citing financial implications and the scope of the mechanism.

The government pursued reforms to liberalise criminal policies by facilitating genuine adversarial proceedings and decreasing custodial measures. The practice of cumulative sentencing ended in April. However, the amendment to the Penal Procedure Code on witnesses reinforcing the adversarial principle was in December again postponed by two more years. In July, the Prosecutor announced that pre-trial detention should be avoided in white collar crime cases. Plans to set up independent legal aid and a separate juvenile justice system, as well as to revise plea bargaining — misused in the past — are welcome. The regulation of administrative imprisonment remains a problem. The abolition of the right of the defence to present late evidence, which enters into force on 1 September 2014, is being challenged by the Georgian Bar Association.

Prison reforms were implemented with positive results. The **prison population** was halved, with fewer than 10 000 inmates remaining in the system after an amnesty in January, legal changes and presidential pardons. The parliament however adopted a controversial amnesty law for political prisoners; the procedure was criticised by the Venice Commission, by other international observers, and by domestic NGOs. The prison budget doubled. The National Preventive Mechanism under the Public Defender's Office continued its independent monitoring of prison conditions and reinforced its roster of

experts but suffered from the dismissal of its head and her deputy by the Public Defender's Office, which weakens the office monitoring capacities of prisons and other closed institutions. The Anti-Torture Action Plan 2012-2013 is currently under review and a new strategy will be drawn up (with support of EU/CoE project). The mortality rate in prisons went down considerably and prison healthcare was overhauled. Reforms moved towards a rehabilitative rather than a punitive approach and radical changes were introduced in prison management policies. There are, however, concerns that this may lead to the renewed empowerment of informal power structures among inmates, including the *Thieves-in-Law* mafia. At least one inmate was beaten to death by his peers.

Criminal justice reforms were strongly supported by the EU, including through comprehensive financial assistance, and were reinforced with the appointment of the EU Special Adviser on Constitutional and Legal Reform and Human Rights in Georgia.

An ad hoc commission was set up to handle 24000 illegal surveillance files found in the Ministry of Internal Affairs. Those files, which contained compromising footage, were destroyed in August. An inspector on **personal data protection** has been appointed.

Transparency International ranked Georgia 55th out of 177 countries on its **corruption** index in 2013, which represented a slight setback (with a score of 49 against 52 in 2012). The government reconvened the Anti-Corruption Inter-Agency Council in January, with an extended membership, particularly for NGOs, and began working on a new action plan for 2014-2016. Acknowledging past progress in the fight against corruption, the government made a commitment to reinforce mechanisms to fight alleged high-level corruption, but effective reforms towards these ends are yet to be implemented.

Other human rights and fundamental freedoms

The separation of the Prosecutor's Office from the Ministry of Justice, while welcomed, needs to be accompanied by oversight mechanisms, increased transparency and accountability to restore damaged public trust in prosecutors' work. New policies and steps have been taken to de-politicise the Ministry of Internal Affairs, including the abolition of the Constitutional Security and Special Operative Departments. In October 2013 the parliament adopted the new law on police and the law on international cooperation in law enforcement. Planned amendments to increase police powers need to be closely scrutinised. Some individual cases raised questions regarding violations of the presumption of innocence, abuse of pre-trial detention and use of intimidation during questioning. Some operations conducted by the fiscal police under the Ministry of Finance have been heavily criticised as unprofessional and unnecessarily brutal. The EU and CoE are strongly recommending the creation of an independent investigation mechanism.

During 2013, the **Public Defender's Office** continued monitoring human rights violations. The Prime Minister appointed an adviser on human rights and gender, and the government finalised in February 2014 a National Human Rights Strategy and Action Plan using a report by the EU Special Adviser on Constitutional and Legal Reform and Human Rights in Georgia as a baseline.

While fiscal consolidation continued, 2013 saw an increase in **social** spending with raised pensions, a universal health care programme, support given to education and agricultural development. A new **Labour Code** in line with ILO standards was adopted. This had been a longstanding EU request but implementing it properly is still remains problematic. The unreadiness of the state-owned Georgian State Railroad company's management to conduct a dialogue with an independent trade union caused a strike on 14 November 2013. The Tripartite Commission is yet to convene since the change of government. The focus now needs to shift to enacting the necessary secondary legislation, improving social dialogue, ensuring safety at work, and establishing a dispute resolution mechanism.

On **women's rights**, Georgia is progressing towards gender equality, although more needs to be achieved. The maternal mortality rate remains very high, particularly among certain minorities. Domestic violence and sexual harassment are recurrent problems. The Istanbul Convention on preventing and combating violence against women and domestic violence was ratified. The new Labour Code improved the protection of pregnant employees, and maternity leave duration was being discussed in parliament at the time of writing. However, shortcomings in the implementation of the rights of single mothers to receive social benefits from the government were seen.

The indices for **child** poverty and mortality below the age of five are a cause for concern. Child-care reforms benefited from increased state funding, improved inter-sectoral cooperation, and state monitoring, compared to 2012. The state de-institutionalisation process is at its final stage, with all large institutions closed. The government, with support from the EU and UNICEF, is extending the care and referral system to children living or working on the streets, the number of which has increased. Legislative changes on the subject of violations against children and women are being discussed in parliament, and targeted social assistance is being revisited. A policy to prevent child separation from parents is in place. Preventive measures and an early intervention mechanism for children with disabilities have been strengthened. Georgia ratified the UN Convention on Disabilities on 27 December.

There have been several cases of violent protest to prevent representatives of people belonging to religious **minorities** and LGBTI activists from exerting their constitutional rights of self-expression and freedom of religion. Serious incidents involving predominantly Christian communities preventing Muslims from praying peaked in August with the removal by police of a minaret on questionable legal grounds. The minaret has since been rebuilt after the local council gave approval in November. The authorities have not done enough to prevent violent outbreaks of islamophobia and homophobia. A law on anti-discrimination drafted by the Ministry of Justice, incorporating the multi-discrimination approach that includes 'gender identity' and 'sexual orientation', will be submitted with some delay to the parliament and further amendments by the Cabinet. The adoption of such a law envisaged for late March 2014 is expected to prove controversial.

Other governance issues

The first civil service reform donor coordination meeting took place in May. The goal of such a reform is to de-politicise the civil service by clearly separating bureaucratic and political positions.

Since the 2012 parliamentary elections, power in most municipal assemblies and executives has shifted to members of the ruling Georgian Dream coalition by non-electoral means. There are widespread reports of pressure on members of municipal assemblies and executives to resign or switch loyalties to the ruling coalition. Transparency International Georgia reports that thousands of employees in ministries, government agencies and municipal administrations have been fired since the latest parliamentary elections. The ambitious plan to reform **local governance** announced in late 2012 started its passage through parliament at the end of the year. Parliament passed in December in the first reading the local self-governance law. The bill, inter alia, envisages direct election of mayors in twelve self-governing cities as well as of heads of municipalities (Gamgebelis). On 19 February 2014 Parliament passed with its first reading election-related package of bills to put the electoral system in line with new local self-governance law in view of the June 2014 local elections.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management

In 2013 Georgia aligned itself with 15 out of 32 Common Foreign and Security Policy (CFSP) declarations the country was invited to support (35 out of 62 in 2012). The EU and Georgia took an important step forward on Common Security and Defence Policy (CSDP) cooperation with the signature of the Framework Participation Agreement on 29 November 2013 at the Eastern Partnership Summit in Vilnius.

The EU remained committed to fully supporting Georgia's territorial integrity and sovereignty and achieving peaceful resolution of the conflicts. The EUSR for the South Caucasus and the Crisis in Georgia co-chaired the Geneva Discussions and took the lead in other conflict resolution and confidence-building efforts. The EUMM continued to play a role in stabilising the situation along the administrative boundary line for the conflict-affected communities during a period when Russian security forces and *de facto* authorities in Abkhazia and South Ossetia have continued to install fences and other obstacles along the administrative boundary line between the territory administered by the government in Tbilisi and the breakaway regions at an accelerated pace. These physical obstacles have negatively affected the lives of the local population and their livelihood activities. They limit freedom of movement, including people-to-people contacts across the administrative boundary lines, and have the potential to destabilise the security situation on the ground. The government of Georgia and various citizens' groups have reacted strongly to the activities carried out along the boundary lines by Russian security forces, receiving support from the international community, including statements by the EU, US and NATO.

Incident Prevention and Response Mechanism (IPRM) meetings for South Ossetia continued to take place regularly, although positions were entrenched on 'erecting of fences and other obstacles' and hence the meetings often resulted in stalemate. The IPRM

meetings in Gali did not resume. Both IPRMs, however difficult, are essential tools for addressing security issues on the ground and to ensure continued confidence-building between the security actors.

The EU welcomes the government's more open approach towards conflict resolution and confidence-building. Announcements and initial cautious steps that have been taken are positive and should be reinforced. The adoption in March of a parliament resolution on basic directions of Georgia's foreign policy, confirming Georgia's commitment to the non-use of force, was a first positive signal, reconfirming steps taken by the former government and putting them on a bipartisan footing. Following the end of the transitional period, measures announced by the new government since October 2012 need to materialise, and one positive development is the renaming of the State Ministry for Reintegration to State Ministry for Reconciliation and Civic Equality as from 1 January 2014, which could make it more acceptable to the de facto authorities in Abkhazia and South Ossetia. A substantial review of the law on the occupied territories remains necessary to maximise the benefits of the AA/DCFTA.

The provision of EU financial assistance to projects supporting conflict resolution and confidence-building continued in Abkhazia as well as through the OSCE-implemented rehabilitation of water infrastructure in South Ossetia. Most of these projects are currently being implemented in the Gali district, and efforts are underway to broaden engagement on the EU side. The EU is currently providing assistance to the Office of the State Minister for Reconciliation and Civic Equality to enhance public outreach.

The government acknowledged that existing legislation on internally displaced persons did not extend benefits to all IDPs as defined in international law and practice, and prepared a new draft law to address this. The new legislation is more in line with international standards and gives IDP status to those displaced for fear of threat to life from adjacent, officially Tbilisi-controlled-territory thus respecting the 2011 Constitutional Court decision, but falls short of comprehensive reform. After inter-ministerial consultation, the draft law went through its first hearing in the parliament on 24 December.

The Georgian government continues to implement the strategy and action plan on internally displaced persons, assisted by a comprehensive EU support programme. It has adjusted its approach of relocating IDPs to remote areas and is now striving to offer more housing solutions in urban centres and focusing on more needs-driven selection of beneficiaries. However, durable housing solutions continue to remain limited and overly donor-dependent. Similarly, the government has developed a draft IDP livelihood strategy and action plan in an inclusive manner, yet continues to rely on donor support for implementation.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy¹

Georgia's economic activity weakened in 2013, following a trend that started after parliamentary elections in October 2012. GDP is estimated to have grown by 3.1 in 2013, down from 6.1% in 2012. The economic slowdown was partly triggered by political tensions due to cohabitation between the President and the Prime Minister that increased business uncertainty and hindered private investment. Also, lower government spending depressed domestic demand and led to a sharp contraction in construction activity, one of the vital sectors of the economy.

The deflationary trends that appeared in early 2012 due to the economic slowdown and lagged effects of exchange rate appreciation continued in 2013. Subdued domestic demand and declining administered energy prices contributed to a fall in the average consumer prices by 0.5% in 2013. In response, the central bank raised liquidity requirements for banks with high fractions of non-resident deposits, increased its foreign currency purchases and reduced the key policy rate to its record-low 3.75% in August 2013. Nevertheless, the monetary policy transmission mechanism remained constrained by the high dollarisation ratio.

In 2013, the budget deficit is expected to exceed the 2.8% of GDP deficit target as a result of lower-than-expected growth. In fact, lower revenues were only partly offset by lower government spending caused by procedural delays in public infrastructure projects. The current account deficit was expected to decrease to 6.5% of GDP in 2013 as a result of a narrowed trade deficit. This was mainly the effect of weaker import demand and resumption of exports to Russia, as well as of a thriving activity in the tourist sector. Financing of the external deficit was ensured by a rise in debt creating capital inflows and a slight increase in net foreign direct investment (FDI). A growing reliance on debt financing increased the external debt to an estimated 81.8% of GDP at the end of 2013. Short-term external vulnerability was mitigated by an increase in international reserves, donor financing and an International Monetary Fund (IMF) precautionary programme approved in 2012.

The main goals for the Georgian economy remained ensuring the external sustainability and achieving equitable growth. In order to improve competitiveness, the government was relying more on structural reforms than on nominal exchange rate depreciation. The government also began increasing pensions, social assistance allowances and education spending. Notwithstanding reforms, the government remained committed to fiscal consolidation.

Social situation, employment and poverty reduction

The IMF have estimated the unemployment rate in 2013 at 16.7 %, amongst the highest in the region. Over 50% of the unemployed have secondary education and 40% are university graduates. The situation of young people (age 15-24) is also problematic as

¹ Figures are from the national statistical office, the central bank, the IMF or Commission staff estimates, as indicated in the Statistical Annex. Any other data sources used are indicated.

evidenced by the fact that about 30% are not in education, training or employment. Geostat data also show wide gender disparities, with the activity rate for women estimated at 54% (20 points less than men) and the employment rate at 48% (15 points less).

Georgia's budget for 2013 provided for increased social spending to protect the most vulnerable groups, while continuing on the path of fiscal consolidation. Starting from 1 April, minimum monthly **pensions** were increased to GEL 125 for those under the age of 67. Subsequently, starting from 1 September the minimum monthly pension for all pensioners was increased to GEL 150. The government announced plans to introduce in the 2014 budget a system for retirement savings which would include all citizens.

It also allocated GEL 163 million for a **universal health insurance** programme. In February, state medical insurance was introduced for all groups not already covered by other forms of state insurance. This package covered urgent hospital and outpatient services, and was expanded in July to cover inpatient services and to increase the number of diagnostic tests to which subsidies are applicable.

In June the parliament adopted amendments to the **Labour Code** at the third and final reading, which entered into force in July. All International Labour Organization (ILO) standards-related provisions were properly adopted, which means that the Labour Code is now complying with ILO Conventions 87 and 98 in relation to collective bargaining and anti-discrimination. Provisions regarding fixed-term contracts were improved. A new statute for the Tripartite Commission — to be chaired by the Prime Minister — was adopted on 7 October 2013 but this Commission has not started its operations yet.

The Ministry of Labour, Health and Social Affairs is working on the practical implementation of the amended Code and on a new law on health and safety, providing for the establishment of labour inspection in the country. An interim labour market strategy and an associated action plan (2013-2014) were adopted in August 2013, with five key measures: improve the legal base; enhance the range and quality of services available to job-seekers; improve labour market information; ensure greater synergy between the needs of the labour market and education; and support legal, temporary migration. Work also started on a longer-term strategy and action plan.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Total **bilateral trade** between the EU and Georgia in value terms continued to grow and increased by over EUR 400 million from 2011, amounting to EUR 2.65 billion in 2012.² Strong growth was noted with regard to EU exports to Georgia, which increased by 29.5% in 2012, to EUR 2 billion. By contrast, imports from Georgia slightly decreased, by 5%, to EUR 584 million in 2012. With a 28.5% share in Georgia's trade, the EU is its principal trading partner. The structure of trade remains stable: two thirds of EU imports from Georgia are mineral fuels and mining products, followed by food products,

² Data for 2013 was not available at the time of writing.

chemicals and textiles. EU exports to Georgia centre on machinery and transport equipment, followed by mineral products, chemicals and agricultural products.

Georgia continued to benefit from the special incentive arrangement for sustainable development and good governance under the EU scheme of generalised tariff preferences (GSP+). In 2012, Georgia further improved its use of the scheme to access the EU market, from 81 % to 90 %, by increasing its use of the preference for products of plant origin and chemicals as well as for processed food and clothing. In 2013, Georgia submitted an application, and was included among the countries entitled to benefit from the GSP+ scheme under the new GSP Regulation as of January 2014. Conclusions of the relevant monitoring bodies on Georgia's compliance with relevant international conventions in the area of environment and labour standards, as well as human rights and good governance, remained the primary basis and source of information for the EU's assessment of Georgia's application. In this regard, the amendments to the Labour Code responded to ILO recommendations.

In July 2013, the EU and Georgia concluded the negotiations on a Deep and Comprehensive Free Trade Area (DCFTA), whose text, as part of the ambitious bilateral Association Agreement, was initialled on 29 November 2013 at the Vilnius Summit of the Eastern Partnership. The DCFTA will contribute to boosting Georgia's effective access to the EU market, notably through reforms which will enhance the export capacity of Georgia. Successful completion of the reforms, in line with the established schedule, will play a key role in delivering on this objective and thus strengthening Georgia's economy. The EU and Georgia aim to sign this Agreement and apply it as soon as possible.

In the **customs** area, the Revenue Service continued working on procedures and manuals for border crossing points. A number of training courses on customs issues were organised, some with EU support. Reconstruction of the customs infrastructure at border crossing points was also ongoing with EU support.

In the area of **free movement of goods** and **technical regulations**, Georgia approximated in June to three EU New Approach Directives: on pressure equipment, on hot-water boilers fired with liquid or gaseous fuels, and on simple pressure vessels. The EU continued delivering financial assistance in the field of technical regulations through the Comprehensive Institution Building programme.

Georgia's implementation of its food safety, **sanitary** and **phyto-sanitary** (SPS) strategy was well on track. The number of food inspections in food establishments doubled compared to the previous year. Work continued on amending the Food Safety Code in order to ensure its approximation with EU legislation. Georgia began to formulate its priorities with regard to secondary legislation in the SPS area. EU support in this area is provided through the CIB project, which assists directly the National Food Agency, as well as through the European Neighbourhood Programme on Agriculture and Rural Development (ENPARD) which supports reforms in the agricultural sector at large.

Georgia continued improving its **business climate** and moved up to eighth place (out of 189 economies) in the ease of doing business ranking in the World Bank's 'Doing

Business 2014' annual report. Georgia moved up to 72nd place (out of 148) in the World Economic Forum 'Global Competitiveness Report 2013-2014', with macroeconomic environment, financial market development and goods market efficiency as major contributors. Property rights, IPR protection, access to financing, effectiveness of anti-monopoly policy, transparency of tax enforcement and impartial judiciary, however, remain areas where further improvement is needed. The creation of a healthy and competitive business environment, without unnecessary state intervention, remains one of the priorities of the government. A clear communication effort and unambiguous message to investors about the government's policies and timeline for implementation of related reforms is strongly recommended.

The **financial services** sector continued to expand. The banking sector was sufficiently liquid and with significant capital buffers, although credit activity diminished along with the overall economic slowdown and weaker demand. The softening of monetary policy and the expansion of the collateral base for the Central Bank's operations had a positive impact on the reduction of commercial banks' interest rates and encouraged borrowing activities. However, interest rates on credit remained high, especially on long-term loans. The capital market reform was initiated in June, aiming to better integrate Georgia into European securities markets.

No substantial regulatory changes occurred in the areas of **establishment, company law, movement of capital** and **current payments**.

Other key areas

Georgia initialled a double **taxation** avoidance agreement with Brazil. Georgia also initialled tax information exchange agreements (TIEA) with nine countries. The Ministry of Finance updated the tax legislation and limited the scope of tax audit to three years, down from seven, although the regulation will be enacted as from 2017 only. From September, excise tax on tobacco products increased by GEL 0.1. In addition, the import tax exemption on imported tobacco products was prolonged until 2015.

A new version of the **competition** law of Georgia was under examination. The draft contains a framework necessary for establishing a competition policy in Georgia. Additionally, it gives independent status to the Competition Agency, together with broad powers, to ensure enforcement of competition and provides legal support for its application. However, well-designed secondary legislation will be crucial to ensure effective enforcement of the law.

Effective protection of **intellectual property rights** remained a key challenge in Georgia. The EU provided support to increase the capacity of the Georgian Copyright Association (collective management society). However, inter-agency cooperation is still lacking.

In the area of **public procurement**, Georgia continued to implement and improve the functioning of the procurement system. Among the main developments, Georgia introduced simplified application procedures, registration of new procurement entities and increased accountability standards.

Georgia continued to pursue its mid-term strategy, adopted in December 2011, for the development and improvement of national **statistics**. The National Statistical Office (GEOSTAT) continued to be supported by a twinning project. The report on a Global Assessment of the National Statistical System was published and an inter-agency working group was created to implement the recommendations from the assessment, with the recommendations on the revision of the statistical law being the most pertinent ones. Georgia will conduct a population census, with an agricultural component, in November 2014.

The Central Harmonization Unit (CHU) started drafting an annual report on progress in respect of **public internal financial control** implementation. CHU also piloted two audits in the Ministry of Education and in the Ministry of Agriculture. The EU supported Georgia in creating a modern financial management control (FMC) environment through completion of an assessment of FMC in key ministries, elaboration of a strategic plan for the introduction of FMC, drafting an outline of the FMC methodology, providing training and developing a Pilot Risk Implementation Management Manual. Internal audit units were operational in 12 out of 16 line ministries. Three remaining ministries (Justice, Defence, Penitentiary and Probation) will establish Internal Audit units in 2014, while the deadline for the Interior Ministry was postponed until 31 December 2015. Based on the manual on financial audit, which complies with international standards in this area, the State Audit Office initiated audits in the Ministry of Education and Science, Ministry of Labour, Ministry of Health and Social Affairs, Central Election Commission, Public Broadcaster and Ministry of Culture.

In the area of **enterprise policy**, Georgia still lacks a comprehensive strategy for small and medium-sized enterprises (SMEs), which would require a supportive institutional framework to be established. On a positive note, Georgia has implemented an online registration system for businesses through the electronic portal for government services (www.my.gov.ge). As regards access to finance for SMEs, an Agricultural Development Fund was established in order to provide financial resources to small farmers. The creation of a Competitiveness Council under the Prime Minister was under discussion. The Ministry of Economy and Sustainable Development supported the establishment of an ‘arbitration court’ within the Georgian Chamber of Commerce and Industry, to help businesses in resolving commercial disputes.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Inter-agency cooperation in the area of **integrated border management** progressed with the signing in July of a Memorandum of Understanding between the Patrol Police, Border Police of the Ministry of Internal Affairs (MIA) and the Revenue Service of the Ministry of Finance. In August, a Presidential Order on establishing a Joint Maritime Operations Centre (JMOC) was approved; the main tasks and responsibilities of the JMOC will include preventing, detecting and fighting against illegal activities, maritime incidents and grave violations of the maritime space of Georgia. In August, with the help of experts from Latvia, the EU facilitated a bilateral meeting of the Georgian and Armenian border authorities to negotiate a protocol on information exchange. Border management and migration received EU support through a comprehensive EU support programme.

Implementation of the EU-Georgia **Mobility Partnership** continued and specific EU support was granted to activities targeting circular migration and diaspora mobilisation. In September, the Office of the State Minister on Diaspora Issues and the Georgian Young Lawyers' Association signed a Memorandum of Cooperation to facilitate activities aimed at Georgian diaspora within the EU.

Implementation of the **Visa Facilitation** and **Readmission Agreements** continued in a satisfactory way, having an overall positive impact. More multiple-entry visas were issued and Georgia decided favourably on approximately 90% of readmission requests. Joint Visa Facilitation and Readmission Committees met in February. The Visa Liberalisation Action Plan (VLAP) was handed over to Georgia on 25 February. The first EU expert mission to assess the legislative phase of the VLAP took place in October. The first European Commission progress report on the implementation of the VLAP by Georgia was published on 15 November. The report concluded that Georgia had made very good progress in the implementation of the first phase VLAP benchmarks. The legislative and policy frameworks required by benchmarks on document security and integrated border management were already at an advanced stage of fulfilment. Georgia also progressed well in the implementation of the first phase benchmarks relating to migration management, asylum, public order and security, as well as external relations and fundamental rights.

The draft amended law on the legal status of aliens and stateless persons was submitted for public consultation in July. Due process and effective remedy in the event of refusal of residence permits for reasons of national or public interest are problematic issues; civil society and international organisations made recommendations in this regard. The newly drafted law on citizenship of Georgia raises similar concerns; it also puts forward rules for acquisition of Georgian nationality by refugees.

The Georgian Interior Ministry developed instructions and a code of conduct for officials working at the borders. In October, the government adopted a national strategy on combating **organised crime** for 2013-2014, together with a corresponding action plan in November.

The 2014-2015 **Drug** Strategy and its accompanying Action Plan were adopted by the Anti-Drug Interagency Coordination Council in December.

With regard to **fighting terrorism**, the EU and the US hosted a government outreach symposium in September to discuss the newly revised export control draft legislation, drawn up with EU support. This is the result of a four-year multinational effort to help move Georgia towards meeting international standards on non-proliferation legislation.

Georgia ratified the 2001 Additional Protocol to the Council of Europe Data Protection Convention in July, which will enter into force in May 2014. In June a **Data Protection Inspector** was appointed which started being provided with human and financial resources.

As regards **judicial cooperation** in civil matters, a number of conventions of the Hague Conference on Private International Law in the field of international legal cooperation

and litigation, as well as the protection of children, remained unratified. As regards judicial cooperation in criminal matters, the Second Protocol to the Council of Europe Convention on Mutual Legal Assistance in Criminal Matters was ratified in January 2014.

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

In the field of **transport**, Georgia continued to align its legislation with that of the EU. In June, Georgian Railways presented short and long-term strategies for bringing its **railways** closer to EU standards. The implementation of the 'Common **Aviation** Area Agreement between the EU and its Member States and Georgia' continued to be monitored by the European Aviation Safety Agency (EASA). Georgia also signed with EASA a Working Arrangement on the Safety Assessment of Foreign Aircraft (SAFA) programme. Georgia implemented comprehensive reforms in the **maritime** sector; however, its flag continued to be on the blacklist of the Paris Memorandum of Understanding. Amendments to the Maritime Code of Georgia concerning state registration of ships entered into force and, as a result, 300 vessels were removed from the state ship registry. Georgia brought its system into line with the international standards on training and certification of seafarers set by the Standards of Training, Certification and Watchkeeping (STCW) Convention. As a consequence, in December the EU restarted recognising certificates of seafarers issued by Georgia.

Georgia began implementing the Action Plan in respect of the European Agreement concerning the work of crews of vehicles engaged in international **road** transport (AETR), signed in 2011. TRACECA corridor development remained a transport policy priority of Georgia.

The Ministry of **Energy** and Natural Resources transferred its Natural Resources Department to the Ministry of Environment. The remainder was renamed as Ministry of Energy, and a working group started drafting an energy strategy. The Ministry also signed a Memorandum of Understanding on energy statistics, which represented another step towards integration with European energy policy.

In January 2013, Georgia and Turkey signed a cross-border agreement on electricity trade across new interconnections between them. Projects to expand electrical connections between Georgia and its neighbours and to strengthen the Georgian transmission grid received support from the EU-funded Black Sea Regional Transmission Network: a new 400kV Georgia-Turkey interconnection was completed and inaugurated in December. The EU's support for investment in Georgia's energy interconnections also included the approval in 2013 of an EUR 8 million contribution from the Neighbourhood Investment Facility towards a EUR 71 million investment in the Jvari-Khorga transmission line and substation.

In June, the Shah Deniz II (SD II) shareholders' consortium selected the Trans-Adriatic Pipeline as the European supply route for SD II gas. In September, long-term gas sales agreements were signed with nine European companies to supply 10 bcm/year of SD II

gas to Italy, Greece and Bulgaria. The signature of these agreements marked an important step towards the Final Investment Decision, which was concluded in December at a ceremony attended by Commissioner Oettinger and several heads of state and government.

Protest rallies were held and 26 NGOs issued a statement concerning the Khudoni hydroelectric power project. The Energy Minister issued a statement insisting that the project would continue as planned.

In February 2014, negotiations to become a full member of the Energy Community were launched in Tbilisi in the presence of the prime minister and Commissioner Oettinger.

New EU **climate change** projects to assist Georgia were launched in 2013, including Clima East and Climate Forum East.

The Ministry of **Environment** and Natural Resources of Georgia (MENR) underwent a major reorganisation which included the transfer back to it of policy responsibilities from other Ministries and the doubling of its budget and number of staff. Capacity-building to strengthen environmental governance in the country is provided by technical assistance through the Twinning instrument and through EU regional programmes and initiatives which cover adaptation to climate change, trans-boundary river management, water, environment information systems, forest law enforcement and air quality.

Based on the Western and Central Pacific Fisheries Commission (WCPFC) and the Inter-American Tropical Tuna Commission (IATTC) lists, Georgia has still vessels declared as being involved in illegal, unreported and unregulated (IUU) fishing activities.

New legislation was drafted on water resource management (based on the river-basin approach) and on waste management.

In the area of **civil protection**, Georgia was intensively involved in the regional flagship Programme for Prevention of, Preparedness for, and Response to Natural and Man-Made Disasters (PPRD East). Through the programme the country became better acquainted with the EU Civil Protection Mechanism and improved its connection with the Emergency Response Coordination Centre of the European Commission.

On **information society**, the amendments introduced in September 2013 to the law on broadcasting may undermine independence of the Georgian National Communications Commission (GNCC). In June, the GNCC signed a Cooperation Agreement with the Polish Office of Electronic Communications (UKE) covering topics such as the transition from analogue to digital broadcasting and extension of internet coverage, disputes between operators and between operators and consumers, cooperation in EU-funded projects, legal issues and a web portal for statistical data.

Regarding **audiovisual policy**, a new bill on public broadcasting was adopted. Under the new law, the Georgian Public Broadcaster will be financed in a sustainable manner through a fixed and guaranteed 0.14% of the country's GDP.

In the field of **research and innovation**, cooperation with the EU progressed. Georgia increased its participation in the Seventh Framework Programme (FP7), being involved in 63 projects with a total EU contribution of EUR 5.4 million. Six new FP7 projects (R2I-Research to Innovation) involving Georgian stakeholders were launched with EU funding of around EUR 6 million, aiming at fostering research-industry partnerships, supporting Georgian capacities in the innovation domain and facilitating the commercial exploitation of research results. A new FP7 regional project, the INCONET EaP, involving the Shota Rustaveli National Science Foundation, was launched in September for three years with a view to preparing the transition to Horizon 2020 and promoting the cooperation opportunities this new programme will bring.

A dialogue on **integrated maritime policy** and **fisheries** with Georgia has been initiated with the nomination of national contact points in the Ministry of Transport and the Ministry of Environment and Natural Resources. Georgia participated in the Black Sea Stakeholders conference in Bucharest on 30 January 2014.

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

The de-politicisation of universities represented a challenge. During the first half of 2013, several decisions in the field of higher **education** were hotly debated in public. First, the withdrawal of the authorisation for the privatised Agrarian University, which belongs to a member of the former government, raised allegations of a political motivation behind this move. Secondly, the amendments to the law on higher education, drafted by the Ministry of Education and Science, provoked opposition from state universities as well as some GD parliamentary deputies and the UNM opposition. They saw a threat to the autonomy of universities in allowing the Prime Minister to appoint interim heads of state universities until the election of a new rector. The bill was eventually revised and adopted by the parliament, overturning a presidential veto. The decision to disseminate school textbooks for free to all pupils was a popular move to address social problems in society, but caused impingement on the authors' rights and copyrights of the publishers.

Georgia participated widely in the EU's **Tempus** and **Erasmus Mundus** programmes. Interest in the Tempus programme has been growing during the last few years and more and more Georgian higher education institutions, notably from the regions, have been involved. Since 2008, Georgia has participated in 48 Tempus projects. This includes 19 new projects selected in 2013, of which two coordinated by a Georgian institution. In 2013, students and staff from Georgia received 264 scholarships to study at a European higher education institution under nine new Erasmus Mundus partnerships. In addition, 17 Masters students were awarded scholarships to take part in Erasmus Mundus joint programmes of excellence. These included 17 additional scholarships awarded under a special window for Eastern Partnership countries. Since 2007, 11 institutions and 17 individual researchers have benefited from **Marie Curie** Actions supporting researchers' training, mobility and career development.

Progress was noted in the reform of the **vocational education and training** (VET) sector, with the adoption of a national VET strategy 2013-2020 and a detailed action plan 2013-2017, developed in close consultation with all relevant stakeholders and EU

support. The government began preparing for the shift to a modular approach in VET, which requires planning and reinforced capacity within the system. The Ministry of Education and Science also intensified the dialogue with social partners and the private sector active in VET, but major challenges remain. Inclusion of the private sector in VET forms one of the elements under the national VET strategy. The allocation to VET is planned to increase by 79% between 2014 and 2017. This will be backed by a comprehensive EU budget support programme on employment and VET.

In March, Georgia officially joined the ‘**eTwinning plus**’ action for schools supporting collaboration through the use of information and communication technologies. Altogether, 293 schools and 569 teachers from Georgia are registered and 47 schools are involved in projects so far.

The Ministry of Sport and **Youth Affairs** started to develop an action programme for implementation of the Youth Policy Paper adopted in August 2012. Young people and youth organisations in Georgia continued to participate in the **Youth in Action** programme. In 2013, additional funds were provided to the Youth in Action programme in the form of an ‘Eastern Partnership Youth Window’. In 2013, 568 projects involving 1825 young citizens of Georgia were selected.

Intensive cooperation with Georgia continued in the field of **culture** through different instruments at bilateral and regional level. The new government and the Ministry of Culture reiterated their commitment to preserving the authenticity of Georgian cultural heritage in line with the UNESCO standards on the occasion of the visit of Commissioner Androulla Vassiliou during the first Eastern Partnership Ministerial Conference on Culture hosted by Georgia in June. Participating Ministers and Heads of Delegations agreed upon the so-called ‘Tbilisi Declaration’ conveying a strong message about a shared commitment to supporting culture as a driver of growth and stability in the region. A consultation workshop was organised in Georgia with the involvement of stakeholders from the cultural sector, in the context of the consultation process for the Preparatory Action on Culture in EU External Relations.

A Memorandum of Understanding between the civil society sector and the parliament on the creation of an enabling environment for civil society was signed in December.

The main developments in the **health** sector reform concerned expansion of state medical insurance, adoption of a tobacco control strategy and strengthening of relevant legislation. Improvements were also made in the collection of health statistics, and policy-makers from Georgia participated in a multi-country workshop on the EU *acquis* on prevention and control of communicable diseases.