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Association Implementation Report on Georgia

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1. Summary

In line with the revised European Neighbourhood Policy, this report sets out the state of play of Georgia's commitments under the EU-Georgia Association Agreement since the meeting of the EU-Georgia Association Council of 2 December 2016 and ahead of its next meeting of 8 December 2017.

The European Union and Georgia have further intensified their relations in 2017. The entry into application on 28 of March 2017 of visa free travel to the Schengen Area for short stays was an important milestone in this regard. The EU-Georgia Visa Liberalisation Dialogue proved an effective tool for advancing wide-ranging reforms. Georgia continued in 2017 to implement its Migration Strategy and Action Plan as well as to put in place the Unified Migration Analysis System. The accession of Georgia to the Energy Community Treaty as a full contracting party in July 2017 was another milestone bringing EU and Georgia closer.

With its sustained reform efforts and ambition to develop further its relations with the EU, Georgia has consolidated its position of a key and strategic partner in the region.

Georgia's aspiration of political association and economic integration with the European Union, embodied by the Association Agreement, continues to attract broad support from across the Georgian society. The legislative elections of October 2016 confirmed the country's orientation towards political association and economic integration with the EU.

Overall, the implementation of commitments stemming from the Association Agreement, including its Deep and Comprehensive Free Trade Area (DCFTA), have continued in keeping with agreed timelines. The revised Association Agenda is to be adopted in early November.

The new Single Support Framework contributes to the implementation of the Association Agreement and to supporting key structural and institutional reforms, in particular in the field of the economic and business environment. This is in line with Georgian reform agenda and will help Georgia to maximise the benefits provided by the DCFTA. The strong collaboration developed with International Financing Institutions active in Georgia around the same objectives also allows for a better support for the reform processes driven by the Government of Georgia.

With the progressive approximation of technical regulations and standards with those of the EU, Georgia has been increasingly able to strengthen its participation in international value chains. In 2016, the EU was the largest trade partner of Georgia with 30% share in its overall trade (27% in total export and 31% imports)¹. Preliminary data for 2017 suggest a continuation of this trend. In this context, Georgia's admission to the pan-Euro-Mediterranean Convention on Rules of Origin as well as the opening of the EU market to new animal-origin products from Georgia, such as fish, were important milestones.

On 12 April 2017, Georgia and the International Monetary Fund (IMF) agreed a three-year (2017-2020) extended arrangement under the Extended Fund Facility to support economic reform. In June 2017, the Government of Georgia also requested new Macro-Financial

¹ Eurostat.

Assistance (MFA) from the EU. On 29 September 2017, the European Commission proposed a new MFA programme to Georgia of up to EUR 45 million (up to EUR 10 million in the form of grants and up to EUR 35 million in loans). The proposed MFA, which requires adoption by the European Parliament and the Council before it can enter into force and disbursements can be made, would help Georgia cover part of its external financing needs over the coming years.

On security, the fight against terrorism and transnational organised crime, Georgia continues to be an important partner of the EU. In April 2017, Georgia and Europol concluded a Strategic and Operational Agreement.

Georgia has continued to contribute actively to the European Neighbourhood Policy Review implementation, as reflected in the EU Report adopted in May 2017², and to the Eastern Partnership (EaP) including through its contribution to the preparation of the upcoming Eastern Partnership Summit scheduled for 24 November in Brussels. Georgia engaged in developing concrete proposals for the period up to 2020, with some milestones to be already achieved for this year's Summit, captured in the revised Joint Staff Working Document "Eastern Partnership - 20 Deliverables for 2020". Georgia also continued to actively engage in the activities of the EaP through the multilateral Platforms and Panels.

Financial assistance to Georgia continues to focus on the implementation of the Association Agreement, also in line with the Government four-point reform agenda. The 2017 Annual Action Programme (EUR 115 million), still in its finalisation stage in October 2017, focuses on key structural and institutional reforms such as developing human capital and skills, supporting economic and business development, modernising financial infrastructure and enhancing business sophistication by, amongst others, providing direct support to clusters and value chain development.

In addition, the new European External Investment Plan, which entered into force on 28 September 2017, should play a prominent role in fostering economic growth and employment generation in the country. It has been conceived to scale up the assistance provided through fund "blending", by setting up a new Guarantee Scheme while reinforcing the policy dialogue with partner countries to improve the business environment and investment climate.

2. Political dialogue, good governance and strengthening institutions

2.1. Democracy, human rights and good governance

In 2017, Georgia embarked on a fundamental reform of the Constitution, completing the transition from a mixed to a parliamentary system. The reform, which was overall assessed positively by the Venice Commission, aims to consolidate the country's constitutional order, based on the principles of democracy, rule of law and protection of fundamental rights. The draft adopted by the Parliament did not receive the support of the opposition mainly because of the majority decision to postpone the introduction of a fully proportional electoral system until 2024. Civil Society Organisations and opposition parties claimed that the process was not inclusive and too hasty. New features of the new Constitution include: a move from direct to indirect Presidential election, a simplified no-confidence procedure led by parliament, further

² Joint Report on the implementation of the European Neighbourhood Policy Review (JOIN(2017) 18 final).

guarantees for freedom of media and the definition of marriage as the union of a man and a woman. The Constitution was adopted by Parliament on 13 October 2017, overruling a Presidential veto, but further amendments are expected following the final opinion of the Venice Commission.

The first round of **local elections** took place on 21 October 2017. According to the preliminary report of the OSCE/ODIHR Election Observation Mission, fundamental freedoms were generally respected, and candidates were able to campaign freely, although some irregularities were noticed in some polling stations. The full investigation and follow-up of 2016 cases of (pre)-electoral violence has not been finalised.

In May 2017, Georgia ratified the Council of Europe (Istanbul) Convention on Preventing and Combating Violence against **Women and Domestic Violence**. The recording of domestic violence cases to the police has increased, following awareness campaigns and a significant shift in public attitudes. A high incidence of violence against women persists. An Inter-agency Commission on Gender Equality, Violence against Women and Domestic Violence was established in June 2017.

Despite efforts to strengthen legislation and raise awareness, **gender inequality** remains high. Georgia is ranked 76th out of 188 countries in the Gender Inequality Index (GII) and 90th out of 144 countries in the Global Gender Gap Index (GGGI). Women are underrepresented in politics (15.33% in Parliament and 11.6 % in local governments) and in the labour market (activity rate at 58% against 78% for men).

In relation to **equal treatment**, Georgia's Equality and Integration Strategy and its annual Action Plans aimed at integrating ethnic minorities are being implemented. The Law on State Language provide for the use of non-state languages can be used in municipalities densely populated by national minorities; however the current implementation is unknown due to the lack of a monitoring mechanism. The Public Defender's proposed amendments to the Law on Elimination of All Forms of **Discrimination**, aimed at enhancing the effectiveness of the enforcement mechanism under the Law, are pending since 2015. Incidents of discrimination against LGBTI (lesbian, gay, bisexual, transgender and intersex) persons in labour, health, social and economic areas have been reported. The Prosecutor's Office has introduced guidelines on investigating hate crimes in 2016. The widely reported case of allegedly unlawful abduction of an Azerbaijani citizen on Georgian territory and his irregular transfer to Azerbaijan is being investigated. There have not been significant developments related to issues of concern of religious minorities with regard, inter alia, to taxation, property issues, education or the mandate of the State Agency on Religious Affairs.

With regard to **ill-treatment**, an Action Plan on Fighting Torture, Inhuman and Degrading Treatment or Punishment (for 2017-2018) was adopted. Cases of ill-treatment in the penitentiary system have diminished and occurred less frequently than cases of ill-treatment by police officers. A draft law on the establishment of an independent investigation mechanism was put forward by the Ministry of Justice but its adoption was postponed due to diverging views from various stakeholders. The Istanbul Protocol (Manual on the Effective Investigation and Documentation of Torture and Other cruel, Inhuman or Degrading Treatment or Punishment) came into force in January 2017. Gradually, police stations and detention centres are being equipped with outside and inside surveillance as a preventive measure against ill-treatment.

With regard to *children's rights*, child poverty remains widespread. As of 2017, child marriages are illegal. The Law on Adoption and Foster Care was adopted, prohibiting direct adoption and providing for mandatory preparation training for adoptive and foster parents as well as inter-country adoption procedures in line with the Hague Convention on Inter-Country Adoption. An inter-ministerial Council on Implementation of the Convention on the Rights of the Child was established in December 2016. Deinstitutionalisation of child-care has not been completed; two large institutions for children with disabilities remain still operational. A number of unregulated institutions financed and run by local municipalities, the Georgian Orthodox Church and Muslim communities operate without proper monitoring.

In the 2017 World *Press Freedom* Index, Georgia remained at the 64th place out of 180 countries. The media landscape is dynamic and pluralistic, even if polarised. Legal battles over the ownership of TV channels continue to fuel political controversy about potential political interference on media pluralism and the judiciary. The Rustavi TV case is currently under revision by the European Court of Human Rights.

Georgia has taken further steps in relation to *public administration reform* in line with the EU Principles of Public Administration. The 2015 Public Administration Reform Roadmap and the 2015 Policy Planning System Reform Strategy are being implemented. The application of the Civil Service Law, envisaging a career-based professional civil service, started with a six-month delay in mid-2017.

As concerns the *prevention and fight against corruption*, in the 2016 Transparency International corruption perception index Georgia appeared at 44th position among 176 countries (Georgia was 48th in 2015). Georgia continued to implement the Anti-Corruption Strategy and its Action Plan in line with the Association Agenda's commitments. The results of this policy are reflected in consistently high scores in international ratings. A revised National Anti-Corruption Strategy and a new Anti-Corruption Action Plan for 2017-2018 were adopted by the Government on 26 September 2017. As of January 2017, Georgia introduced a monitoring system for asset declarations submitted by public officials.

2.2. Foreign and security policy

During the reporting period, Georgia aligned itself with 11 out of 22 EU Declarations and Council decisions (50%) on which it was invited to do so, marking a slight decrease from the previous reporting period. Georgia continued to participate in civil and military crisis management operations under the *Common Security and Defence Policy* (CSDP). It joined the EU Military Training Mission (EUTM) in the Central African Republic in February 2017 and has continued to provide one officer to EUTM Mali.

Regarding the *fight against terrorism*, Georgia has continued supporting the Global Coalition to Defeat ISIS and co-sponsored UN General Assembly Resolution 71/248, establishing an International Mechanism of Accountability for crimes committed since 2011 in Syria. In the area of *fight against the proliferation of weapons of mass destruction and illegal arms exports*, an amendment to the Criminal Code, which would transpose the Chemical Weapons Convention, is pending. Following its accession to the Arms Trade Treaty in 2016, Georgia presented its first report in August 2017. 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 countries in the neighbourhood, as well as further afield.

Regarding *peaceful conflict resolution*, the EU continues to fully support Georgia's sovereignty and territorial integrity within its internationally recognised borders. The EU actively supports conflict resolution efforts through the work of the EU Special Representative for the South Caucasus and the Crisis in Georgia, the EU Monitoring Mission (EUMM) and through the Instrument contributing to Stability and Peace. Georgia has remained committed to the Geneva International Discussions. Incident Prevention Mechanisms (IPRM), created in 2009 to discuss risk and security issues affecting communities in the Abkhaz and South Ossetian breakaway regions respectively, and the EUMM hotline have continued to work efficiently as essential tools to address local security issues and promote continued confidence-building between the security actors.

On 25 July 2017, Georgia signed a cooperation agreement with the Registrar of the *International Criminal Court*, which sets out Georgia's obligations in the framework of the ongoing investigation of crimes against humanity and war crimes allegedly committed by all armed forces deployed in and around South Ossetia, Georgia, between 1 July and 10 October 2008.

2.3 Justice, Freedom and Security

According to the latest survey by the World Economic Forum of businesses' perceptions³, the perceived level of judicial independence in Georgia is above average while decreasing.

In December 2016, a package of legislative amendments on the 3rd wave of *judiciary reform* was adopted. The amendments brought changes, in particular with regard to the publication of all rulings, progressive introduction of electronic random allocation of cases, selection of judicial candidates and disciplinary procedures (establishing the institution of investigating inspector). The amendments did not address other longstanding issues, including the application of the probation period.

A first comprehensive Judiciary Strategy and its five-year Action Plan were adopted by the High Council of Justice in May 2017. They provide for a vision and specific measures and indicators under chapters on Independence, Accountability, Quality and Efficiency, and Access to Justice. In relation to *access to justice*, procedures put in place by the High Council of Justice (HCoJ) for the appointment of judges and presidents of courts, as well as disciplinary procedures, lack full transparency and accountability. The new Constitution introduced the appointment of judges of the Supreme Court by Parliament upon nomination by the High Council of Justice as well as life tenure for Supreme Court judges. In January 2017, jury trials, introduced at the Tbilisi City Court in 2010, were rolled out to other regions of Georgia and for more types of crimes.

The implementation of the 2016 *Juvenile Justice* Code has continued, though some legislative gaps are to be further addressed, inter alia to ensuring free legal aid for child witnesses. In 2016, for the first time ever, the number of diverted children exceeded the number of prosecuted ones.

³ The WEF Global Competitive Report 2016-2017 ranks Georgia in the 63rd place among 138 countries.

Both the number of children in pre-trial detention and the number of convicted children steadily decreased as a result of wider use of alternative measures.

The **imprisonment** rate (257 per 100 000 inhabitants) is high. The educational and employment opportunities remain limited for prisoners in nearly all establishments. In March 2017, the parliament passed in the first reading a package of laws that envisage a number of changes to improve the situation of inmates, e.g. establishment of a new institution for preparing prisoners for release; more use of home arrest and higher education possibilities for low risk and to-be-released prisoners.

In early 2017, the **prosecutorial** strategy, the new ethics code and an appraisal system for prosecutors were adopted. Related action plans and management and monitoring tools are now to be drafted. An appraisal system for the majority of prosecutors is being developed. The drafting of a transparent system of merits-based rewards (promotion, salary increase etc.) is pending. The constitutional amendments should further increase the independence of the Prosecutors Office from the Ministry of Justice.

The Ministry of Justice started to work on establishing specialised commercial chambers to face growing numbers of commercial cases and pressures from the business community. A draft of a new company law was elaborated. While ranking high (16th place) in the 2017 Doing Business Index, Georgia's legislation still does not include fully-fledged insolvency proceedings (106th place for this particular indicator in 2017).

In the area of **migration**, Georgia achieved visa free travel to the Schengen Area for short stays on 28 March 2017 (see more under point 5). Georgia continued to implement its Migration Strategy and Action Plan as well as to put in place the Unified Migration Analysis System. In the area of **asylum**, on 1 December 2016 Georgia adopted a new Law on International Protection, substituting previous law on refugee and humanitarian status, following recommendations issued in the process of implementation of Visa Liberalisation Action Plan. In the reporting period, the number of asylum applications rejected on national security grounds increased (26% of all rejections in 2017 compared to 5% in 2016).

Border management was further strengthened by rehabilitating four border sectors in the green border area with Turkey, expanding security and surveillance infrastructure, as well as upgrading the capacity of four border sectors in the green border area with Azerbaijan (under the 2014-2018 Strategy of the State Border Management and the five-year Unification, Modernisation and Standardisation Plan of the Border Police).

Regarding fight against **organised crime and other illegal activities**, on 5 May 2017 a new National Strategy on Combating Organised Crime of 2017-2020 and its 2017-2018 Action Plan were adopted. They focus on combating "thieves in law", the transit of narcotic drugs, and cybercrime, introducing analysis based policing and community policing. In December 2016, a new Action Plan for 2017-2018 was adopted to fight against trafficking in human being. Regarding fight against illicit **drugs**, a new National Action Plan was adopted in December 2016 and new amendments to the Criminal Code, the Code of Administrative offenses and the Law on Drugs were adopted by the Parliament on 26 July 2017.

As regards the legislation against *money laundering* and financing of terrorism, the Georgian authorities prepared amendments and guidelines to supervisory authorities on sectoral implementation and oversight.

In respect of *International Police cooperation*, an Agreement on Operational and Strategic Cooperation between Georgia and the European Police Office (Europol) entered into force in July 2017. An agreement between Georgia and Sweden on law enforcement cooperation entered into force in February 2017 and an agreement on cooperation in the fight against crime was signed with Greece in June 2017.

Regarding *data protection*, the Independent Data Protection Supervisory Authority continues to function effectively. A revised law on surveillance entered into force in April 2017 with a view to bring surveillance regulations in line with the Constitutional Court's decision of 2016. The law is being challenged in the Constitutional Court.

3. Economic Development and Market Opportunities

3.1 Trade and Trade-Related Matters

Regarding external *trade*, in 2016 the EU was the largest trade partner of Georgia with 30% share in its overall trade (27% in total export and 31% imports). Preliminary data on 2017 suggest a continuation of this trend, with the structure of bilateral trade remaining stable. For the year 2016, total bilateral trade amounted to EU 2.52 billion. There was a decrease by 2.3% year-on-year compared to 2015, due to a decrease in value of EU imports from Georgia (fall in world commodity prices which affected Georgian export prices). The 1st semester of 2017 compared to the 1st semester of 2016 saw an increase in EU imports from Georgia by 56%, and an increase of EU exports to Georgia by 2%. Despite the back-loading of the DCFTA timeline in certain areas (certain veterinary measures, plant protection, food safety and technical barriers to trade), the process of approximation of Georgian legislation in trade-related areas has intensified in 2017. In May 2017, Georgia signed a free trade agreement with China, which is expected to facilitate access to an increasingly important market for Georgian commodities.

In the area of *technical barriers to trade*, there have been a number of actions aimed at improving the national quality infrastructure, in particular in the field of: a) *metrology*, so as to ensure proper traceability; b) *accreditation*, where the Georgian Accreditation Centre (GAC) became signatory to the European Accreditation Bilateral Agreement allowing for its international recognition; c) *market surveillance*, where the Government of Georgia committed to identify legislative and institutional changes necessary for achieving effective an market surveillance system. Market surveillance will be strengthened as of late 2017 with the support of a twinning project between UK and Lithuanian partners at the Technical and Construction Supervision Agency (TCSA).

As regards *sanitary and phytosanitary standards (SPS)* the National Food Agency (NFA) has continued its institutional development process under the new NFA Institutional Development and Reform Plan. The training of staff has continued to be delivered extensively and the legal approximation process has proceeded as planned. The level of public awareness of the NFA and its functions has been improving although it remains relatively low. In 2016, the NFA became a member of the European and Mediterranean Plant Protection Organisation (EPPO) leading to

improvements of the NFA phytosanitary control programme for 2017. In June 2017, the European Commission listed Georgian origin Black Sea fishery products as eligible for export to the EU market, following honey and raw wool. Under the DCFTA, the SPS annex (Annex XI-B) was adopted by the SPS sub-committee in March 2017. This jointly agreed SPS roadmap is to serve as a reference document for the implementation of the SPS Chapter of the DCFTA.

As regards *Customs and trade facilitation*, a revised draft of the new Customs Code is currently undergoing consultations with the European Commission and stakeholders. Georgia was also admitted to the pan-Euro-Mediterranean Convention on Rules of Origin as a Contracting Party, paving the way for the enactment of cumulative origin rules in the framework of the DCFTA. Georgia is implementing the relevant legal, administrative and technical reforms with a view to acceding to the EU's Convention on a common transit procedure and Convention on the simplification of formalities in trade in goods. This effort will be supported by a dedicated EU twinning project. New legislation on border measures related to intellectual property, in line with EU rules, is currently under preparation. Georgia, having ratified the Protocol of Amendment to insert the Trade Facilitation Agreement (TFA) into Annex 1A of the World Trade Organisation (WTO) in January 2016, is now a member of this WTO agreement.

With reference to *services*, Georgia has committed to gradually (in four to eight years) approximate its legislation with EU law in four services sectors: (1) postal and courier services, (2) telecommunications, (3) financial services, and (4) international maritime transport. Shorter periods for legal approximation have been committed to two EU Directives on money laundering (two years) and telecommunication services (three years). Georgia is proceeding with the adoption of legislation on postal services. Its main aims are to establish a regulatory framework and to fund the provision of universal services so as to meet the needs of postal users in Georgia. The proposed law envisages that universal services would be funded for a period of five years through the creation of a monopoly (for the incumbent operator) on certain services.

On the *digital economy and society*, the Government continued to pursue gradual integration with the EU Digital Single Market in order to promote economic and business opportunities. In April 2017, the parliament adopted a law on Electronic Document and Electronic Trust Services in compliance with the EU regulation on electronic identification and trust services for electronic transactions (eIDAS).

As regards *public procurement*, the roadmap developed by the Government and State Procurement Agency provides for the alignment of the legislation in this area in five phases, until 2022. The EU is still discussing this roadmap with the Georgian authorities. The State Procurement Agency, having introduced the open tender without reverse auction and the two-stage tenders, using the MEAT (Most Economically Advantageous Tender) criteria, in March 2016, is now working on the development of an e-catalogue in their e-procurement system. In the first half of 2017, over 600 civil servants received training in public procurement. In order to increase participation in public procurement procedures, regular meetings were organised with business representatives. In the framework of the planned large-scale infrastructure projects, a new legislation on public-private partnerships (PPPs) is in preparation.

Regarding *intellectual property rights (IPR)*, the National Intellectual Property Centre of Georgia, Sakpatenti, carried out consultations on the package of draft amendments in the

Georgian IPR legislation, prepared with the aim of approximating to EU standards required under the DCFTA. Georgia and the EU updated in late 2016 the list of Georgian geographical indications (GIs) included in the DCFTA, whereby 12 cheeses and one spirit drink were added to the already existing 18 GIs for wine.

Regarding *Trade and Sustainable Development* (TSD), the current system of labour inspections does not yet allow for effective implementation of the ILO fundamental conventions on labour rights.

With the support of EU Technical Assistance, Georgia continues to progress with the approximation to the provisions of the DCFTA on *competition*, focusing on law enforcement, cooperation between the Competition Agency and the sector regulators and on the promotion of a public competition culture.

3.2 Economic development⁴

Georgia's *macro-economic* situation has remained resilient despite the external shock experienced since end-2014. The continued implementation of structural reforms by the government is expected to create favourable conditions for private investment, productivity growth and improved export competitiveness. In 2017, GDP growth is projected to accelerate gradually to 3.5-4%⁵ from 2.7% in 2016, supported by consumption, investment and a pick-up in regional and global economic growth. However, this outlook is subject to downside risks relating to the ongoing fiscal consolidation, which could weaken domestic demand and increase political instability, protectionism and volatility in the financial markets. The large and growing current account deficit (12.4% of GDP in 2016 and projected 12.9% of GDP in 2017) remains a major source of vulnerability. The same is true for Georgia's international reserves which are currently below the level estimated by the IMF to be adequate. Foreign direct investment is expected to decrease slightly from 11% of GDP in 2016 to 10.3% of GDP in 2017. Georgia's external debt, which hovered around 80% of GDP in 2008-2014, has increased to 111.8% of GDP at the end of 2016 and is projected to increase further. As most foreign debt is denominated in US dollar, the national currency depreciation – 22% against the US dollar in 2014-2016 – has played an important role in this increase. The period-average inflation (consumer price index) is projected to increase to 5.7% in 2017. In 2017, the fiscal situation, which had been deteriorating during 2014-2016, stabilised as a consequence of increased excise rates and tightened spending, with a projected budget deficit of 4.1% of GDP in 2017. In April 2017, the IMF approved a three year USD 285 million Extended Fund Facility (EFF), which replaced the 2014 Stand-by Arrangement. Georgia also requested new Macro-Financial Assistance from the EU in June 2017. On 29 September 2017, the European Commission proposed such a programme to Georgia of up to EUR 45 million (up to EUR 10 million in the form of grants and up to EUR 35 million in loans).

Georgia continues to rank high in international indicators of *business environment*. Measures to improve the tax regime, business governance and access to financing and innovative technologies have been taken in order to sustain a business-friendly framework. As part of EU support to key structural and institutional reforms, a new programme is being designed to

⁴ Data from National Statistics Office of Georgia (GEOSTAT).

⁵ On 9 October 2017, the IMF has revised its 2017 growth projections for Georgia upwards to 4.3% from 3.5%.

improve commercial justice, strengthen insolvency procedures, modernise financial infrastructure, development of clusters and value chains and support for incubators.

On **agriculture**, the Agricultural Extension Strategy is expected to be finalised by the end of September 2017. On 1 June 2017, the Parliament adopted the Seed Law. This complies with international standards and sets the basis for a well-regulated seed sector, in order to incentivise seed producers to produce and sell seed in Georgia and safeguard the interests of both farmers and seed producers. The trade deficit in agricultural food products fell by 25% in 2016, following significant growth in the value of exports of agricultural products and a small decrease in the value of food product imports. Georgia continues to diversify its export markets in view of the new trade opportunities offered by the DCFTA. Cooperative development has continued.

In December 2016, Georgia approved its first ever **Rural Development** Strategy 2017-2020, which aims at ensuring the improvement of the quality of life and social conditions of the rural population, based on a combination of increased economic opportunities, more accessible social benefits, environmental protection and the sustainable management of natural resources. After adoption of the Rural Development Action Plan for 2017, the Government is finalising the extension of the plan for 2018-2020 which is to be approved by the end of 2017. The implementation of the plan is overseen by the Interagency Coordination Council on rural development led by the Ministry of Agriculture.

On **regional development**, Georgia has continued implementation of its first multi-sectoral Regional Development Programme for the period 2015-2017. The Ministry of Regional Development and Infrastructure is working on an updated draft Disparities Report, in order to identify major needs and potentials, as well as organising consultations of relevant stakeholders, as part of its preparations for a successor programme.

As regards **Public Financial Management (PFM)** and **external scrutiny and audit**, as a result of a robust policy dialogue and cooperation with the EU, the government prepared a fiscal sustainability analysis for the first in 2017. The Ministry of Finance continued to prepare the Citizen's Guide to the budget, to better explain government policies and revenue and expenditure allocations. Line ministries continued to implement the Financial Management and Control measures envisaged by the government strategy: eight ministries revised the organisational structure and conducted training of the relevant staff. The Parliamentary Budget and Finance Committee has improved the timeliness, regularity and accountability for responding to the State Audit Office (SAO) reports. The SAO has strengthened its capacity to deliver performance audits and to report publicly on efficiency and effectiveness of government programmes, thus contributing to improved transparency of public management and accountability.

Regarding **taxation**, in January 2017 a new regime of corporate income tax entered into force, under which only distributed profits remain subject to taxation, while reinvested or retained profits are exempted. A number of indirect taxes and excises were increased to offset the cost of the reform, estimated at 1.5% of GDP. Additional changes to the Tax Code were approved by the Parliament in May-June 2017. Some of the amendments are linked to approximation with respective EU Directives. The Georgian Revenue Service is finalising the Strategic Plan for 2017-2020 based on the IMF's Tax Administration Diagnostic Assessment Tool (TADAT) and 2017 Public Expenditure and Financial Accountability (PEFA) findings.

On *statistics*, the National Statistics Office of Georgia (GEOSTAT) has continued to provide user-friendly and updated statistics to a wide range of users. As of December 2016, GEOSTAT has an updated website including a map, which encompasses the detailed statistical data reflecting the specific regions of Georgia. In 2017, GEOSTAT has moved on from including the labour force survey as part of the integrated household survey and made it a separate survey in line with EU standards in methodology in labour force statistics. In March 2017, in line with the EUROSTAT recommendations included in the Sector Review on business statistics, a new methodology was introduced, determining the classification of enterprises according to their size, in compliance with the EU standards. Documentation on quality has also been improved quite significantly.

On *industrial and enterprise policy*, under the header "Produce in Georgia", in April 2017 the Government launched a number of actions aimed at streamlining governmental advisory and support services for SMEs, particularly in relation to the businesses opportunities offered by the DCFTA. The Government also plans to set up a "Business House", functioning as a one-stop shop. Meanwhile the newly launched website⁶, covers all DCFTA-related matters and is also designed as a platform for the exchange of practical, legal, and other relevant information for entrepreneurs and the general public in Georgian and English languages. This initiative is complemented by the Enterprise Europe Network⁷, which supports efforts of entrepreneurs and SMEs to internationalise in partnership with Georgia's Innovation and Technology Agency (GITA) and Enterprise Georgia. DCFTA Info Centres also exist in Tbilisi and in four regions of Georgia. With the assistance of the EU and other donors, a revised Action Plan for the SME Strategy, which includes output and outcome indicators, is under preparation.

On *consumer policy*, the Parliament has continued to examine a draft law on Consumers Protection, which was initiated in 2015, without visible progress.

Regarding *maritime affairs*, in January 2017 an inter-agency working group was established to deal with coordination of maritime issues, with the objective of improving maritime management affairs in the country and aligning Georgia to the EU's integrated maritime policy. Amendments have also been drafted for the Law on Maritime Space by the Water Resources Management Service. In line with the 2016 National Action Plan of the Association Agreement, a Maritime Strategy is set to be elaborated once the above-mentioned amendments are adopted and on the basis of a revised law.

As a 'Cooperating non-contracting party' of the General *Fisheries* Commission for the Mediterranean (GFCM), Georgia continues active cooperation with GFCM, , in particular with respect to the implementation of the GFCM 2017-2020 multi-annual strategy, the implementation of GFCM management measures, the participation to the GFCM BlackSea4Fish project and the fight against illegal, unreported and unregulated fishing. The introduction of an electronic monitoring system of fishing vessels is being considered, in line with EU requirements. Georgia also signed the 2016 Bucharest Declaration towards enhanced cooperation on Black Sea Fisheries and Aquaculture. The 4th annual high-level stakeholder conference on *blue economy* in the Black Sea, jointly organised by Georgia and the European Commission, took place in Batumi on 15 September 2017.

⁶ www.dcfta.gov.ge

⁷ <http://een-georgia.ge/>

Tourism continues to be a fast-growing sector, projected to account for 7% of GDP in 2017. Much as throughout the past decade, the number of international arrivals in Georgia is increasing steadily year by year. 2017 is projected to be another record-breaking year in terms of the number of international visitors. The National Tourism Administration plans to carry out a number of marketing and informational activities involving foreign media outlets to support the fast-growing trend of the sector. Investments in tourism infrastructures are underway.

Regarding **company law**, a Regulatory Impact Assessment (RIA) on a draft law has been carried out, addressing issues such as the analysis of compatibility with the EU directives and economic impact on stakeholders. The Government also plans to launch a RIA on a new law on insolvency, which would fill a gap in the regulatory framework for corporate activities in Georgia.

Regarding **financial services**, the National Bank of Georgia (NBG) is currently strengthening the banking regulatory and supervisory frameworks. It is in the process of introducing macro-prudential instruments to address currency mismatches, real estate risk and systemically important banks. At the same time, de-dollarisation measures have been initiated by the NBG. On 17 May 2017 the Parliament passed the law introducing a deposit guarantee scheme. Under this law, bank deposits will be insured up to a threshold to be established by the Deposit Insurance Agency (DIA). The Agency will manage a Deposit Insurance Fund which will receive mandatory contributions by commercial banks, under a scheme that will come into force in January 2018.

As regards **employment and social policies**, unemployment in Georgia remains high (11.8% in 2016), even if it continues on a downward trend (16.9% in 2009), and notably among young people (30.5% in 2016). Employment creation remains low. Overall poverty is however on a declining trend. The Tripartite Social Partnership Commission (TSPC) meets through its plenary session as well as Working group level meetings, however the former continue to be held with irregular frequency and the trade-union member left it. In February 2017, the TSPC approved the list of mediators for collective labour disputes. The first sectoral agreement between the Teacher's Union and the Government of Georgia was signed in March 2017. A draft framework law on occupational safety and health (OSH) was prepared and adoption by the Parliament was delayed. The law would make the adoption of specific regulations transposing EU directives in the field of Occupational Health and Safety possible and would establish a legal basis for labour inspections in this area, which is more in line with international and EU standards. The system of labour inspections continues on a voluntary basis, covering occupational health and safety and forced labour but not other labour standards rights, nor general working conditions or employment relations. The piloting of a new model of public employment services continues in the selected regions.

In 2016, Georgia drafted the concept for the overarching National Strategy on **Public Health**, with a detailed Strategy expected to be drawn up in the course of 2018. The universal healthcare programme led to a major expansion in population entitlement to publicly financed health services, with the Universal Health Insurance now covering over 80% of the population. Work has started on a new, innovative electronic healthcare system E-prescription and Electronic Medical Record (EMR). The government is also working to implement the National Strategy on tuberculosis control for 2016-2020 as well as the hepatitis C elimination programme and the National Strategy on HIV-AIDS prevention and control for 2016-2018. Georgia is an active

participant in the European Centre for Disease Prevention and Control (ECDC) activities and the MediPIET training programme in field epidemiology. However, there is modest progress in the implementation of comprehensive tobacco control policies and in the ratification of the Protocol to Eliminate Illicit Trade in Tobacco Products.

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

On *transport*, in December 2016 the Government adopted the 2017 Action Plan for the National Road Safety Strategy. The Action Plan envisages relevant legislative and policy measures, including investment in road safety and periodic roadworthiness tests for vehicles.

Regarding *energy*, Georgia became a Contracting Party to the Energy Community on 1 July 2017. The related protocol of accession provides a timeframe for the implementation of key energy market reforms agreed under the Association Agreement, including in the areas of electricity and gas markets, energy efficiency, renewable energy and energy-related environment. The EU4Energy programme and the Secretariat of the Energy Community are supporting the Government in these endeavours, notably in relation to energy efficiency, electricity and gas. The expansion of the South Caucasus pipeline, part of the Southern Gas Corridor passing through Georgia, is nearing completion. Although Georgia still lacks an energy efficiency policy framework, several donor-led actions have been implemented in cooperation with the Government to boost energy efficiency, including drafting of the first National Energy Efficiency Action Plan. The Government continues to promote the construction of new hydro power infrastructure; in addition, the first wind park in the region supported by Neighbourhood Investment Fund will expand Georgia's renewable energy mix. An electricity transmission grid-strengthening project is underway to facilitate the development of a wholesale power exchange and export.

In March 2017, Georgia approved the Paris Agreement on *climate change* which entered into force in June, 30 days after conclusion of the formal ratification procedure. Georgia has not yet updated its intended nationally determined contribution to curb global carbon emissions upon ratification, but has taken the first steps in this process. Despite its low level of emissions per capita, Georgia still lacks a legal framework on climate change, defining institutional mandates and coordination, to implement the commitments under the various strategies and plans currently in preparation.

On *environment*, Georgia is progressing in the legal approximation process under the Association Agreement. Following the adoption of the Waste Management Strategy and related by-laws, including on import and export of dangerous chemicals, the implementation of the National Strategy is on track in particular on commitments to invest in new landfills respecting EU standards, including for hazardous waste management, and on the finalisation of Municipal Waste Management plans. In June 2017, Georgia adopted a new Environmental Assessment Code to regulate project procedures by means of Environmental Impact and Strategic Environmental Assessments (EIA and SEA), which will ensure public access to environmental information and public participation. Furthermore, Georgia has also developed a new water law and a by-law on air quality standards, for which adoption is also foreseen in 2017.

In the area of *civil protection*, Georgia is progressing on the approximation with the EU Floods Directive. Georgia is developing a national Disaster Loss Data system whose initial progress was presented at the 9th European Loss Data Workshop and took the decision to develop a

stand-alone national Disaster Risk Assessment methodology. Georgia twice activated the EU Civil Protection Mechanism in August 2017 for forest fires, using the required reporting procedures to the European Emergency Response Coordination Centre and accepting regional assistance provided by other Partner Countries, as a follow-up of capacity-building activities implemented under the regional programme. Initiatives to strengthen cooperation with the EU Civil protection Mechanism have been enhanced, including participation in training and exercises.

5. Mobility and People to People Contacts

Visa liberalisation for Georgian citizens entered into force on 28 March 2017. Since then, Georgians, holders of biometric passports, can travel (short stays) to the Schengen Area without a visa⁸. Sustained implementation of the Visa Liberalisation Benchmarks remains an obligation for Georgia and it is in this context that a fully-fledged monitoring system of passengers travelling to the Schengen Area was established and information campaigns on the rules of visa free travel have been regularly conducted. A meeting of the Local Cooperation Platform under the EU-Georgia Mobility Partnership took place on 9 June 2017. During the meeting, the modalities of further cooperation under the Mobility Partnership were discussed. The priority areas addressed by the Partnerships' projects are: legal migration and mobility; fighting irregular migration and reintegration and asylum.

On **education**, the European Commission and the Government are working together to establish the European Eastern Partnership School in Georgia and support related European Summer Camps in 2017 and 2018. In 2017 the European Commission and the Government have started negotiations of the new programme "Skills Development and Matching for Labour Market Needs". The new programme will contribute to sustainable and inclusive growth and resilience by developing human capital and skills sets and strengthening coordination between the education system and labour market. Georgia is successfully progressing in Erasmus+ participation in both Capacity Building for Higher Education (CBHE) and International Credit Mobility (ICM). Georgia represents 31% of all funded projects in the first call for proposals for the EU4Youth component implemented as a dedicated budgetary window under Erasmus+. Projects will address entrepreneurship and leadership competences of young people in the country.

In 2017, the Government approved the **Culture Strategy 2025** and respective Action Plan 2017-2018. The Strategy was developed with the support of the EU Eastern Partnership Culture Programme. In the framework of the same programme, the Ministry of Culture and Monument Protection of Georgia started work on the UNESCO's Culture for Development Indicators (CDIS). Georgia has increased its participation in the Creative Europe programme, with nine successful projects.

With the EU's support, Georgia has continued to fulfil its obligations under the Association Agreement and approximate legislation, to achieve full compliance with the EU Directive on **Audiovisual Media Services**.

The Ministry of **Sport and Youth Affairs** of Georgia prepared draft laws on Physical Education and Sports and Youth Work and Volunteerism. The Ministry has also developed an Anti-

⁸ All EU Member States (except Ireland and the UK) as well as the four Schengen-associated countries Iceland, Lichtenstein, Norway and Switzerland.

Doping Strategy of Georgia 2016-2020, which includes measures necessary to implement obligations of the Council of Europe's Anti-Doping Convention.

In the area of cooperation in *research, technological development and innovation*, Georgia became an associated member of the Horizon 2020 (H2020) programme in April 2016. Inter alia, it has benefited from access to the H2020 Policy Support Facility, which provides peer reviews and mutual learning exercises. In 2017, a specific support action was launched under this Facility to provide a set of concrete recommendations on how to tackle the key challenges outlined in the 2015 "Policy Mix Peer Review of the Georgian STI system".

6. Financial Assistance

Since the introduction of new European Neighbourhood Instrument (ENI) in 2014, the European Union has committed EUR 471.5 million in financial support to Georgia through bilateral cooperation programmes. This included EUR 60.5 million allocated following the substantial progress made in implementing reforms (ENI Umbrella Programme, known as "more for more" programmes). The 2016 Annual Action Plan was focused on rural development, including job creation in rural areas and the implementation of the association agreement and participation of Georgia in EU programmes Horizon 2020 and Creative Europe. The 2017 Annual Action Programme of EUR 115 million, still being finalised in October 2017, will focus on (1) developing human capital and skills to better match the education system and the labour market and (2) supporting economic and business development by improving commercial justice, modernising financial infrastructure and enhancing business sophistication and value chain development.

The new Single Support Framework for 2017–2020, in alignment with the Association Agreement, the necessary structural and institutional reforms and the Government's 4-four-points reform agenda, will focus on four main areas, namely, Economic Development and Market Opportunities, Strengthening Institutions and Good Governance, Connectivity, Energy, Environment and Climate Change, Mobility and People-to-People contacts.

The European Union has contributed to finance several initiatives in Georgia, covering different economic and social sectors as well as main infrastructures, under the framework of the Neighbourhood Investment Facility. In the same verge, the new European External Investment Plan (entered into force on 28 September 2017) which has been conceived to scale up the assistance provided through "blending" by setting up a new Guarantee Scheme while reinforcing the policy dialogue with partner countries to improve their business environment and investment climate, should play a prominent role in fostering employment generation and economic growth in the country.

In addition, Georgia also benefits from regional programmes supporting Small and Medium Sized Enterprises (SME), energy, transport, environment, access to finance, growth and the development of the business environment. In Georgia, the EU4Business initiative amounts to more than across several bilateral and regional projects supporting business environment, business support organisations, SME development, access to finance and skills. The EU also contributed EUR 10 million to the E5P (Eastern Europe Energy Efficiency and Environment partnership), which supported Georgia in rehabilitating schools and modernising buses in Tbilisi and in Batumi. In December 2016, Georgia signed the Financing Agreement necessary

for its participation in the European Neighbourhood Instrument Cross Border Cooperation (CBC) Black Sea Programme.

In May 2017, the EUR 46 million EU MFA programme, approved in 2013, was completed with the disbursement of its last tranche. In June 2017, Georgia also requested a new MFA programme, and in September 2017 the European Commission proposed such a programme of up to EUR 45 million. Georgia has also benefitted from EUR 55 million under the EU Instrument contributing to Stability and Peace since 2008 in support of confidence building measures.

Since January 2017, eight Twinning projects have been implemented in Georgia covering agriculture, environment, justice, telecommunications, trade and industry sectors. TAIEX (EU Technical Assistance and Information Exchange Instrument) contributed to Georgia's overall reform process in the areas of public administration reform, fight against organised crime and implementation of the Association Agreement.

In 2017, Georgian authorities and the European Anti-Fraud Office (OLAF) have stepped up cooperation in the fight against fraud affecting the EU's financial interests.

7. Concluding remarks and future outlook

The EU and Georgia have further intensified their relations in 2017. The beginning of visa free travel to the Schengen Area for short stays from 28 March 2017 was an important milestone in this regard. Its first months of implementation have been overall successful. The EU-Georgia Visa Liberalisation Dialogue proved to be an effective tool for advancing wide-ranging reforms. Georgia continued in 2017 to implement its Migration Strategy and Action Plan as well as to put in place the Unified Migration Analysis System. The accession of Georgia to the Energy Community Treaty as a full contracting party in July 2017 was another milestone bringing the EU and Georgia closer.

Georgia is continuing to implement its commitments under the Association Agreement. As new legislation is adopted and with institutions in place, renewed political will and strengthened administrative capacity will be needed to continue ensuring successful implementation. This will also require an inclusive process and strong involvement of relevant stakeholders (e.g. civil society, social partners and businesses). EU financial assistance to Georgia will be framed under the new 2017-2020 multi-annual programme to support key structural and institutional reforms as well as the implementation of the Association Agreement and its different priorities.

Significant achievements have been made in the area of phytosanitary policy and legislation. Additional efforts are required in view of further enhancing the food safety in the country but also of supporting effective access to the EU market for agricultural products.

Support for sustainable, inclusive and smart economic growth has now emerged as the crucial issue in Georgia. Sustainable management of natural resources, sustainable production and consumption, environmental resilience and circular economy are among the challenges to be tackled in the coming years. Actions in these areas will cross dividing lines, and confidence-building components will need to be encouraged. An effective state and justice apparatus is crucial not only to fulfil Georgia's reform aspirations, but also to further gain the confidence of citizens and investors.

Georgia has made the reform of its education system one of its central government priorities for the coming years. Establishing a greater link between the education system, labour market and the economy is a priority and EU will provide financial assistance in this area in 2017 and beyond. EU financial support will also help to further improve economic development in Georgia through the strengthening of commercial justice, modernisation of financial infrastructure and support for SME and business development. In addition, support will be provided to the EU-Georgia Mobility Partnership and the sustained implementation of all benchmarks of the Visa Liberalisation Action Plan. Specific efforts will be made to foster enhanced communication with citizens, sustainable independent media and civil society.

The European Union and Georgia have agreed to broaden their bilateral relationship to include further issues of common interest including in the area of security. Georgia is a pilot country as part of the EU strategy for Security Sector Reform. An EU-Georgia Informal Strategic Dialogue took place in October 2017.