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**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

GEORGIA

**COUNTRY STRATEGY PAPER
2007-2013**

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Abbreviations

BDD	Georgia Government "Basic Data and Directions 2007-10"
BSEC	Black Sea Economic Cooperation
BTC	Baku-Tbilisi-Ceyhan oil pipeline
BTE	Baku-Tbilisi-Erzurum gas pipeline
CBC	cross-border cooperation
CFSP	Common Foreign and Security Policy
CoE	Council of Europe
CPT	Committee for the Prevention of Torture
CSP	Country Strategy Paper
DAC	OECD Development Assistance Committee
DFID	UK Department for International Development
ECHO	EC Humanitarian Office
EDPRP	Economic Development and Poverty Reduction Programme
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENP AP	ENP Action Plan
ENPI	European Neighbourhood and Partnership Instrument
ESDP	European Security and Defence Policy
EUSR	EU Special Representative
FSP	Food Security Programme
GDP	Gross Domestic Product
GRECO	
GRENA	Georgian National Research and Education Network
GSP+	EC Generalised System of Preference Plus
IDPs	Internally Displaced Persons
IFIs	International Financial Institutions
IMF	International Monetary Fund
INOGATE	Interstate Oil and Gas Transit to Europe
IPAP	NATO's "Individual Partnership Action Plan"
IPSAS	Public Sector Accounting Standards
JAA	Joint Aviation Authority
JCC	Joint Control Commission for South Ossetia
JHA	Justice and Home Affairs
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
MFA	Macro-financial Assistance
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTEF	Medium-term Expenditure Framework
NIP	National Indicative Programme
NL	Netherlands
NPP	Neighbourhood and Partnership Programmes
PACE	Parliamentary Assembly of the CoE
PCA	Partnership and Cooperation Agreement
REC	Caucasus Regional Environmental Centre

RRM	Rapid Reaction Mechanism
SCAD	South Caucasus Anti-Drug Programme
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
SPS	sanitary and phyto-sanitary
TA	Technical Assistance
TACIS	Technical Assistance to the CIS
TRACECA	Transport Corridor Europe Caucasus Asia
UNECE	UN Economic Commission for Europe
USAID	US Agency for International Development
VET	Vocational Education Training
WB	World Bank
WCO	World Customs Organisation
WHO	World Health Organisation
WTO	World Trade Organisation

Executive Summary

This Country Strategy Paper (CSP) covers EC financial assistance to Georgia for the period 2007-2013. During this period, Georgia will be primarily eligible for the new European Neighbourhood and Partnership Instrument (ENPI)¹, set up as part of the revision of EC external instruments with two main objectives: (i) to consolidate and rationalise several existing different EC assistance budget lines and (ii) to enlarge the scope of EC financial assistance to neighbouring countries from the technical assistance (TA) approach of the previous TACIS instrument to a fully fledged cooperation instrument providing for a wider spectrum of modes of intervention. The overarching objective of the European Neighbourhood Policy (ENP) and of the ENPI is to promote the development of an area of prosperity and good neighbourliness between the European Union and the partner countries covered by the ENP.

Following the events which led to the “Rose revolution” at the end of 2003 and to new presidential and legislative elections in early 2004, the Georgian government is pursuing an agenda of ambitious reforms aimed at fighting endemic corruption and promoting democracy, the rule of law, good governance and a market economy. The Government's reform programme, begun in 2004, is now entering the consolidation stage, amidst high expectations within Georgian society of a rapid improvement in living standards. At the same time, and against the backdrop of worsening political and trade relations with Russia, Georgia is striving to achieve full territorial integrity through the settlement of internal conflicts in Abkhazia and South Ossetia. Bringing Georgia closer to EU and NATO membership in the short term are among the country's top external relations priorities.

The main recent development in EC-Georgia bilateral relations has been the establishment of an ENP Action Plan (ENP AP), which was endorsed by the EU-Georgia Cooperation Council on 14 November 2006. The ENP AP aims at bringing about an increasingly close bilateral relationship going beyond past cooperation under the 1999 Partnership and Cooperation Agreement (PCA). By agreeing an ENP Action Plan, Georgia and the EU have committed themselves to developing deeper economic integration and to strengthening bilateral political cooperation, including on foreign and security policy.

The expected intensification of bilateral relations under the ENP AP needs to be considered in the context of the difficult economic and social challenges that Georgia, as a low middle income country, is still facing in spite of the impressive economic growth of the past three years. A drastic reduction of poverty levels - especially in rural areas - and, more generally, working toward achieving the Millennium Development Goals (MDGs) is therefore an urgent priority for Georgia.

EC assistance over the period covered by this CSP will mostly focus on supporting Georgia in fulfilling its commitments under the ENP AP and contributing to the attainment of the MDGs. Priorities for EC assistance under the CSP have been broadly based on the seven headings of the EC-Georgia ENP AP. They will be implemented mainly through bilateral ENPI financial assistance, but also through other relevant EC external instruments available to Georgia.

¹ Regulation 1638/2006 of 26th October 2006. Georgia will also benefit from EC assistance under other EC financial instruments as relevant and appropriate.

The attached ENPI National Indicative Programme (NIP), covering the period 2007-2010, provides for EC assistance for the first four years of this strategy focused on four priority areas:

Priority Area 1: Support for democratic development, the rule of law and governance

Priority Area 2: Support for economic development and ENP AP implementation

Priority Area 3: Support for poverty reduction and social reforms

Priority Area 4: Support for peaceful settlement of Georgia's internal conflicts.

This CSP has been developed in close consultation with the Georgian authorities and fully reflects Georgia's national priorities. Member States, other donors and civil society organisations were consulted during the drafting process. Annex 1 provides details of the outcome of this consultation process.

1. OBJECTIVES OF EU/EC COOPERATION WITH GEORGIA

1.1 Overall external policy goals of the EU

The EU promotes its values and interests by operating as a global economic and political player, using various external policy instruments, including the Common Foreign and Security Policy (CFSP), financial assistance and preferential trade arrangements, as well as through the external dimension of the EU's internal policies. In particular, the EU strives to promote prosperity, solidarity, security and sustainable development worldwide.

This CSP has been drafted with a view to identifying the most appropriate "policy mix" for Georgia, which implies ensuring coherence between all available EC external instruments in dealing with Georgia, in the light of the EU's strategic external relations objectives.

1.2 Strategic objectives of EU/EC cooperation with Georgia

Both global strategic objectives and regional and country-specific objectives shape the EU/EC approach to cooperation with Georgia:

- *A mutually beneficial partnership promoting Georgia's transition*

The 1999 PCA remains the legal basis for bilateral relations between the EU and Georgia. In that Agreement, the EU and Georgia committed themselves to establishing a partnership which provides for close political and mutually beneficial trade and investment relations together with economic, social, financial, civil scientific, technological and cultural cooperation. The partnership is intended, in particular, to promote Georgia's transition to a fully fledged democracy and market economy.

- *Implementing the ENP and the EU-Georgia ENP Action Plan*

The objective of the ENP, launched in the context of the 2004 enlargement round, is to share the EU's stability, security and prosperity with neighbouring countries, including Georgia, in a way that is distinct from EU membership. The ENP is aimed at preventing the emergence of new dividing lines in Europe by offering neighbouring countries closer political, security, economic and cultural cooperation. It also addresses one of the European Union's strategic objectives, set out in

the European Security Strategy of December 2003, namely to bolster security in the EU neighbourhood. ENP partners expect to gain closer cooperation with the EU, the chance to participate in EU programmes and a stake in the EU's internal market, lending strong support to their own political and economic reforms. In the case of Georgia, specific objectives for strengthening bilateral relations under the ENP have been established in the ENP AP.

- *Security challenges*

In the European Security Strategy of 12 December 2003, the EU acknowledged that, as a Union of 25 states with over 450 million people producing a quarter of the world's gross domestic product (GDP), it is inevitably a global player. One of the key policy implications of the European Security Strategy is the need for the EU to "promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations". In addition to this, the Strategy clearly acknowledges the importance of promoting an international order based on effective multilateralism. In this context, the EU attaches great importance to the resolution of conflicts in Georgia's two breakaway regions of Abkhazia and South Ossetia and is actively involved in ongoing efforts to achieve a peaceful settlement, partly through the offices of the EUSR for the Southern Caucasus and through providing financial assistance for reconstruction and rehabilitation projects in Georgia's conflict zones. The EU is also assisting Georgia in improving its border management capacity with a view to increasing security at Georgia's external borders.

- *Security and diversification of energy supply*

The European Security Strategy and the ongoing EU energy debate in connection with the Commission's Green Paper refer to the EU's energy security challenges. Georgia is increasingly an important transit country for oil and gas from the Caspian basins, which also benefits the EU. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline, connecting the Caspian basin with Turkey through Georgia, will progressively become a strategic alternative energy corridor.

- *Development policy objectives*

The EU's development policy as expressed in the European Consensus for Development is driven by the primary objective of poverty reduction, with the complementary aims of promoting good governance and greater respect for human rights in a bid to ensure the stability and security of the countries in the regional context. At the same time, it emphasises the need for a differentiated approach according to the context and the particular needs of individual states. These objectives also apply to Georgia, in order to promote the achievement of the MDGs.

With an estimated GDP per capita of USD 1350², Georgia is classified as a lower middle income country in the OECD's Development Assistance Committee (DAC) list of aid recipients. Despite solid economic growth in the past three years, overall poverty has remained high, with an estimated one third of the population still living under the poverty line. In defining EC cooperation objectives with Georgia, full account must be taken of development policy objectives and, in particular, of supporting Georgia in achieving the MDGs.

² World Bank estimate 2005, current USD, Atlas method.

2. AN OUTLINE OF GEORGIA'S POLICY AGENDA

2.1 General aspects

Following the events which led to the “Rose revolution” at the end of 2003, and the rise to power of President Saakashvili, Georgia is pursuing an agenda of ambitious political and economic reforms in order to fight endemic corruption and build a modern state based on democracy, the rule of law, good governance and market economy principles.

In the past three years, Georgia has made substantial progress toward achieving these ambitious objectives. Wide-ranging reforms have been introduced, including trade liberalization, the privatization of SMEs, banking reform, the elimination of most subsidies and price controls, land privatization and the adoption of laws aimed at fostering investment and improving the business climate. These reforms are now entering the consolidation stage.

The government has put the recovery of its territorial integrity high on its political agenda, by means of the solution of conflicts in Abkhazia and South Ossetia, and has intensified efforts to accelerate Georgia’s integration in EU and Euro-Atlantic structures.

Contacts with Council of Europe (CoE) and Venice Commission have intensified with a view of signing and/or ratifying a number of international instruments that will bring Georgia into line with European democracy, rule of law and human rights standards. In its resolution of January 2006, the Parliamentary Assembly of the CoE (PACE) acknowledged the Georgian authorities’ resolve to build a stable and modern European democracy and to better integrate the country into European and Euro-Atlantic structures. PACE noted, however, that most reforms are only just beginning and major challenges still lie ahead. The ambitious work which has been undertaken to bring legislation into line with European standards has yet to produce concrete results in most areas.

In July 2003, the government adopted an Economic Development and Poverty Reduction Program (EDPRP) for the period 2003-2006. Georgia’s EDPRP has two goals: (i) rapid and sustainable economic development, with a target of 5-8% growth per year; and (ii) a reduction in extreme poverty, with a target decline from 14% to 4-5% by 2015 and a reduction in overall poverty from 52% to 20-25% by the same date. The EDPRP is in line with the MDGs and its time-span and objectives are consistent with MDGs objectives.

In the last three years, under the pressure of coping with collapsing and bankrupted State structures, the Georgian government developed a “Programme for Building a United and Mighty Country through Economic Growth, Long-Term Stability and European Integration, 2004-2009”, which included overall reform objectives. Linkages have been established between the reform programme goals and financial perspectives.

As regards the ENP AP, throughout the consultation process started in November 2005, Georgia has proven to have acquired a deeper awareness of the importance that implementing the ENP AP could have for supporting the reform programme and for anchoring Georgia solidly within the European political, economic and regulatory framework.

2.2 Internal policy

Georgia's current internal policy objectives under the Government's strategic planning and most relevant to the implementation of EC assistance strategy can be summarised as follows:

Resolution of internal conflicts: achieving full territorial integrity through the settlement of conflicts in Abkhazia and South Ossetia remains at the top of the Government's internal political agenda. Peace plans have been submitted and diplomatic efforts deployed with a view to accelerating the process of conflict resolution. However, a negative regional and international context has not allowed significant progress to be made yet and the political/security situation remains very tense. The December 2005 OSCE Ljubljana ministerial declaration on Georgia endorsed a Peace Plan initiated by Georgia. However, existing peace mechanisms, in particular the Joint Control Commission for South Ossetia, which Georgia considers biased against its interests, have not achieved any substantial result in 2006. At the September 2006 UN General Assembly, President Saakashvili reiterated Georgia's request to replace CIS (mostly Russian) peace-keeping forces in conflict areas and confirmed Georgia's intentions to re-establish its territorial integrity through peaceful means.

Consolidating democracy, the protection of human rights and fundamental freedoms: by acceding to relevant international and CoE instruments, Georgia has clearly committed itself to strengthening the stability and effectiveness of institutions guaranteeing democracy, the protection of human rights and fundamental freedoms, as a basis for more generally consolidating the rule of law.

Strengthening the judiciary: the government is firmly committed to radical reform of the criminal justice sector. Through the assistance of an high profile EUJUST THEMIS programme, a strategy was developed in 2005 for comprehensive reform of the judicial system with a view to guaranteeing the independence of the judiciary, strengthening its administrative capacity, ensuring the impartiality and effectiveness of the prosecution, and raising the penitentiary system to internationally accepted standards. This strategy was formally approved by President Saakashvili on 13 July 2005. An inter-ministerial commission for the implementation of this strategy, headed by Prime Minister Nogaideli, was set up and a detailed Action Plan drafted in May 2006, including target dates and estimated costs linked with the Government's Medium Term Expenditure Framework (MTEF).

Macro-economic policy: in the period 2006-10, the government aims at achieving annual average GDP growth of 5-7%, keeping inflation at around 5% and maintaining a stable exchange rate. Unemployment should go down by 3 percentage points from its present levels of 13.8% or 16% (depending on the assessment criterion used). According to IMF forecasts, tax revenues as a percentage of GDP will increase to 20.2% by the end of 2006. The ongoing political and economic crisis with Russia, with an expected steep increase in energy prices and a fall of 17% in Georgia's total exports plus rising inflation levels, will make it a difficult challenge to achieve these macro-economic goals.

Effective fight against crime and corruption: from the outset, the new Georgian administration has declared the fight against corruption a top priority. The anti-corruption programme, which has already scored significant results, especially in the law enforcement sector, is also being pursued through a drastic decrease in the government's role in Georgian citizens' and businesses' lives. Independent observers have noted strong ownership of anti-corruption efforts at the highest level of government. The new Government of Georgia inherited a GRECO first evaluation round compliance procedure, expected to be concluded by the end of 2003, with only two recommendations fulfilled out of twenty-five. This delay resulted in a non-compliance procedure being initiated. According to GRECO's

September 2006 Final Overall Assessment, Georgia has now totally or partially fulfilled the remaining recommendations. GRECO has consequently closed the non-compliance procedure, but it nevertheless urged the Georgian authorities to pursue their anti-corruption efforts vigorously and, above all, to implement their Anti-Corruption Strategy and related Action Plan. GRECO also stresses the need for the active involvement of civil society in this process. Georgia has now begun the procedure for drafting a second evaluation report.

Public sector reform: the government has declared its intention to promote comprehensive public sector reform, including both administrative reform and the regulatory reforms necessary to improve public governance.

Poverty reduction: in 2006, with the support of the World Bank (WB), the methodology for measuring poverty was changed. According to recalculated data³, the Department of Statistics estimates that in 2004-05 the poverty level increased from 35.7 to 39.4%, but decreased to 33.6% in the first quarter of 2006, both in urban and in rural areas. The poverty indicators were lower in both urban and rural areas.

In line with the relevant WB Joint Staff Advisory Note recommendations, the EDPRP is gradually being incorporated into the government's strategic planning instruments, such as the MTEF and the Basic Data and Direction 2007-10 (BDD), on the assumption that the poverty reduction strategy would be better tackled if embedded in more general strategic planning. Priorities related to poverty reduction included in these planning instruments will be reviewed on an annual basis taking into consideration progress achieved and overall the socio-economic situation. This new approach represents a move toward a more comprehensive policy on eradicating poverty and improving the living standards of the most vulnerable social groups.

Improved budgetary and policy planning: with the cooperation of the international donor community, Georgia has recently multiplied efforts to improve strategic planning capacity in order to give a stronger sense of direction to the government's reform programme. The three-year action plan presented in the 2005 EDPRP progress report, the gradual development of sectoral strategies, and the adoption of the MTEF and of the BDD constitute significant steps in the right direction.

The BDD is gradually becoming the government's reference planning document, identifying the main political goals of the reform agenda, and at the same time providing targets for macro-economic policy, for budget revenue and expenditure, for the deficit and for public debt. The BDD determines the main directions of social and economic policy of the country, while the MTEF converts those directions into sector budgets. Full integration and institutionalization of the MTEF into the budgetary process is planned for the forthcoming years.

Improving the investment climate: actively addressing the broad range of issues affecting the investment climate with a view to strengthening investors' confidence is a key component of the government's approach to further economic growth. Some positive results have already been achieved. The International Finance Corporation's "*Doing Business in 2007*" ranked Georgia first for the intensity of reforms and improvement in business environment, moving from 112th to 37th position in the general classification among 170 countries rated. The planned reform of the judiciary is also expected to have a positive impact on the business climate.

³ IMF October 2006 Georgia: Poverty Reduction Strategy Progress Report.

2.3 External policy

EU integration is a top priority in the Georgian government's foreign policy agenda. Throughout the consultations on the ENP AP, Georgia has stressed its European choice and aspirations. Georgia acknowledges that the EU is not ready at present to open up the perspective of possible future EU membership and has adopted a pragmatic approach toward making full use of the ENP AP in order to achieve greater economic and regulatory integration and further enhance its bilateral trade and economic relations with the EU. As regards the long-term perspectives for bilateral relations, the ENP AP provides that when the EU-Georgia PCA reaches the end of its initial ten-year term in 2009, consideration may be given to a new enhanced agreement reflecting the overall evolution of bilateral relations as a result of ENP AP implementation.

NATO accession: NATO membership, an objective shared by a large section of Georgian public opinion, is a top foreign and security priority of the Georgian government. In 2004 Georgia was the first country to start an Individual Partnership Action Plan (IPAP) with NATO. Significant progress in implementing reforms required under IPAP led NATO to upgrading Georgia's IPAP into an Intensified Dialogue on Membership issues. This represents a qualitatively new stage in the NATO integration process, aimed at preparing Georgia for a NATO Membership Action Plan.

Relations with Russia, which have been constantly deteriorating since the first Putin-Saakashvili of early 2004, are currently at their lowest, following the breakdown imposed by Russia of all trade, communication and diplomatic links with Georgia and the expulsion of hundreds of Georgian citizens living in Russia. Georgia claims that the root cause for the deterioration of bilateral relations lies with Russian objections to Georgia European and Euro-Atlantic aspirations. Georgia blames Russia for providing economic and political support for the breakaway regimes in Abkhazia and South Ossetia and has called for replacing with an international presence the mostly Russian peacekeeping forces in conflict zones. Links made by Russia between Kosovo final status and secessionist aspirations in the two breakaway regions have also contributed to increased tensions between Tbilisi and Moscow. The increase of Russian gas and oil prices in 2005, followed by severe supply disruptions of energy supplies from Russia in January 2006, and a total import ban of Georgian exports (mainly wine and agricultural products) imposed by Russia in early 2006 have highlighted the need for diversifying energy supplies and for finding alternative markets for exports. Against this difficult backdrop Georgia has called for dialogue and for normalising relations.

The US became involved in Georgia in the '90s as part of its regional energy interests. After the events of 11 September 2001 and the war in Iraq, Georgia's geopolitical location became an additional interest. Georgia is one of the biggest per-capita providers of allied troops for the Iraqi war. The US has made available substantial military aid and advice to the Georgian government and given solid political backing for Georgia's territorial integrity and NATO aspirations. US support to Georgia is also underpinned by several meetings between President Saakashvili and US President George Bush, and by the inclusion of Georgia in the Millennium Challenge Account programme, with a budget of USD 295m for the period 2006-10. Georgia is perceived by the US as strategically important for some of NATO's future challenges and as an important transit country for security and diversification of energy supplies.

Turkey has economic interests in Georgia related to developing alternative channels for hydrocarbons coming from the Caspian basin. It is also Georgia's second-largest trade partner, after the EU. Georgia

is actively seeking to improve its market access to Turkey following the imposition of import restrictions by Russia.

External trade: Georgia is a member of the WTO and benefits from the EU Generalised System of Preferences Plus (GSP+) scheme. In order to diversify its export markets, notably following the import ban recently imposed by Russia on all Georgian products, Georgia and the EU will jointly explore options under the ENP Action Plan for further enhancing bilateral trade relations, including the possible establishment of a free trade agreement. In this context the Commission will undertake a feasibility study which will also look at the regional trade and economic integration aspects. Georgia has a strong wish to establish a free trade agreement with Turkey.

Regional role: Georgia has been active in promoting regional cooperation in and beyond the Southern Caucasus region, in particular in the framework of the Black Sea, GUAM⁴ and the Caspian basin. Areas of regional cooperation include the environment, education, border management, transport, energy, transport, science and technological development, and parliamentary cooperation.

3. THE POLITICAL, ECONOMIC AND SOCIAL SITUATION⁵

3.1 Political developments since the November 2003 'Rose Revolution'

Georgia was among the first republics of the former Soviet Union to declare independence in 1991. Before independence, the country had a relatively strong economy, with a prosperous agricultural sector, and specialized in the export of agricultural products (almost exclusively to the other Soviet Republics), and energy-intensive industrial products. A number of armed internal conflicts broke out after independence precipitated by secessionist movements in South Ossetia and Abkhazia. The economy collapsed under the impact of the open combats and the loss of both preferential access to the markets of the former Soviet Union and large budget transfers from Moscow. The conflicts abated by the end of 1993, when a cease-fire came into effect. Nevertheless, conflicts between the Tbilisi-based government and the two breakaway regions persist today.

Protests against the fraudulent parliamentary elections in November 2003 led to the resignation of President Shevardnadze. Presidential elections on 4 January were won by Mikheil Saakashvili, who had led the November protests, with a resounding 96.27% of the votes on an 80% turnout. Constitutional amendments were rushed through Parliament in February strengthening the powers of the President at the expense of the legislative. The late Zurab Zhvania, the second of the triumvirate of opposition leaders, was appointed as Prime Minister. The third member of the triumvirate, Nino Burjanadze, the interim President, became Speaker of Parliament.

On 28 March 2004, legislative elections were re-run for the 150 seats in the 235-seat parliament elected by proportional representation (the other 85 being elected on a majority system.) As a result of this ballot, the electoral bloc of the National Movement (comprising the parties of Saakashvili, Zhvania and Burjanadze) now holds a strong majority (153 out of 235), with the Rightist Opposition Coalition the only other party to cross the 7% threshold. The Parliamentary opposition in Georgia is fragmented and has in the past months boycotted Parliamentary work, objecting to alleged abuses by the ruling majority.

⁴ GUAM is a regional organisation comprising Georgia, Ukraine, Azerbaijan and Moldova.

⁵ See Annex 2 for a detailed description of the environmental situation in Georgia (Country Environment Profile).

In February 2005, following the tragic death of the Prime Minister Mr Zurab Zhvania, the former Finance Minister Mr Zurab Nogaideli was appointed to be his successor.

Local government elections, recognized by international observers to have been overall fair, were held for the first time on 5 October 2006. New presidential and legislative elections are planned to take place in 2008.

Political and economic reforms undertaken by President Saakashvili's administration have laid the foundations that should allow Georgia to become a fully fledged democracy and a market-oriented economy. Success in the fight against widespread corruption, the good performance of the economy since 2004, the improvement of Georgia's international rating, a more favourable investment climate, and the intensification of external relations with the EU and US all bear witness to a drastic, positive change of direction as compared with the previous administration.

Georgia is, however, still in the process of consolidating the good results achieved so far. Georgia's democratic institutions are in place, but further efforts need to be made to ensure that a democratic and human right culture takes root in Georgian society. Developing a functioning parliamentary opposition, adopting an effective system of institutional checks and balances, allowing a participatory civil society to develop, and encouraging local governance through the newly established local authorities are important challenges that Georgia still faces to complete the transition from a post-revolutionary country to a modern, democratic, market-oriented state.

3.2 Human rights situation

In the aftermath of the Rose Revolution, the Georgian government has taken steps to align Georgian observance of human rights with European standards. The law on freedom of speech and expression was adopted in June 2004 and the state television service has already been transformed into a public service broadcaster.

However, Georgian and international NGOs, Georgia's Ombudsman and the international community have often voiced concern on issues relating to torture and maltreatment in the penitentiary and law enforcement system. Prison overcrowding, excessive numbers of pre-trial detainees, and very poor living conditions in Georgia's detention facilities have been documented for many years by local NGOs, the Council of Europe, the Committee for the Prevention of Torture (CPT), and the United Nations Committee against Torture. Cases of torture, of inhuman and humiliating treatment, especially by law enforcement bodies, and of impunity for the perpetrators are regularly reported by human rights watchdog organizations.

At the EU-Georgia Cooperation Committee meeting of 24 October 2006, the Georgian government, while acknowledging the difficulty of the challenge of fully complying with human rights commitments in the penitentiary system, reported that important steps to eradicate torture and inhuman treatment and to improve health care and food supplies for detainees had recently been taken by the Ministry of the Interior's Department for Human Rights Protection and Monitoring.

Georgia is a multi-ethnic society faced with the challenge of fully integrating its minorities into the mainstream of Georgian political, economic and cultural life. The government has committed itself to developing a civic integration strategy and the authorities are working with the OSCE High Commissioner for National Minorities to implement a Conflict Prevention and Integration Programme

in Samtskhe-Javakheti, a region mostly inhabited by Georgia's Armenian-speaking community. Georgia also needs to comply with the commitment made on acceding to the Council of Europe to ensure the repatriation and integration of the Meskhetian population which was deported to Central Asia from Georgia during the Stalin era.

The persistence of frozen conflicts in Abkhazia and South Ossetia also involves issues of ethnic-motivated human rights violations.

3.3 Economic outlook⁶

According to preliminary estimates, real GDP growth accelerated to 9.3% in 2005 compared to a revised real GDP growth rate of 5.9% for 2004. Construction and manufacturing performed particularly strongly (22.3% and 14.3% growth respectively) while the agricultural sector (accounting for about 15% of GDP) also recovered after the harsh weather conditions of 2004 (12% growth). Large oil and gas pipeline projects continued to have spillover effects in the services sector, which nevertheless remains relatively small. Financial intermediation is currently growing at a rapid pace, starting from a very low base.

Growth is driven by domestic demand (mainly private consumption but increasingly also investment) while net exports remain negative. In spite of being a WTO member since 2000 and benefiting from the GSP+, Georgia's external trade, and notably exports, remain very limited and non-diversified and improvements in this regard should be pursued as a matter of priority.

The EU is Georgia's main trade partner, accounting for 28.4% of Georgia's total external trade, 25.7% of its exports and 29.8% of its imports. EU-Georgia trade has been growing over the last three years, but similarly to Georgia's trade with the world in general, it remains insignificant and non-diversified, notably concerning Georgian exports to the EU. In 2005, total turnover of EU-Georgia bilateral trade stood at EUR 757 million, EU exports at EUR 493 million and EU imports at EUR 264 million. Georgian exports were dominated by mineral fuels (around 40% of total exports to the EU) and agricultural products (almost 30%).

Despite relatively strong economic growth, unemployment increased to 13.8% (January-September 2005) from 12.7% in the corresponding period of 2004 (ILO methodology), largely because of the downsizing of the public sector, linked to the Government's policy of a drastic reduction of the State's role as a means of fighting corruption. According to official estimates nearly 30% of economic activities remain in the shadow economy.

The authorities eased their fiscal stance in 2005 against a backdrop of continued strong performance in tax revenue collection and the projected windfall of privatisation revenues. Tax revenues as a percentage of GDP continued to increase, to about 19.7%, despite the lower tax rates introduced in the new tax code which took effect in January 2005.

Corruption. Georgia's score in the Transparency International 2005 Corruption Perception Index improved slightly, from 2.0 to 2.3 (compared with a score of 9.5-9.7 for the best performing countries). Other recent indicators, for instance the EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS 2005), show Georgia as having achieved the largest reduction of corruption in 2002-2005 among transition countries.

⁶ Based on European Commission (ECFIN) Economic Outlook for Georgia, June 2006.

Public institutions and public finance management. In the Treasury reform process, an important target was reached in January 2006 when a fully functioning single treasury account became operational. An accounting reform strategy has been prepared in order to transform the old Soviet accounting system into a cash-based system compliant with International Public Sector Accounting Standards (IPSAS). While tax revenues have increased rapidly over two years, from 14.5% of GDP to nearly 20%, the government took steps in 2005 to put in place a MTEF instrument to improve the allocation of resources on the basis of sector expenditure strategies. A reform process for the external and internal audit functions has also been initiated.

3.4 Analysis of social developments

In spite of sustained economic growth, high poverty levels still represent a serious challenge, with about one third of Georgia's population living below the poverty line. There are also wide regional differences in living standards. The capital city of Tbilisi fares better than other regions, while the highest overall incidence of poverty is in secondary cities.

Reasons for continued widespread poverty, despite economic growth, include limited job creation and stagnant agricultural production. Underemployment, labour shedding in public and privatized entities, and lack of access to land and livestock are also significant factors in increasing poverty risk. Key growth sectors have generated limited employment and areas with the greatest potential job creation have stagnated. Social transfers have also been at very low levels up to now and inadequate to meet basic needs. Moreover, the previous Government regularly failed to meet social transfer obligations and pay public sector salaries, which exacerbated the poverty situation.

The methods for calculating poverty levels have recently been changed in order to reflect a more realistic picture of poverty and to conform to accepted international standards. Three indicators of poverty are employed by the Georgian Department of Statistics:

- Poverty level: equals the percentage of the total population below the poverty line.
- Poverty depth: In addition to the number of poor people, this indicates how remote the welfare indicator of a person is from the poverty line, on average.
- Poverty severity: is an indicator which awards more attention to poorer people, when considering the remoteness of the poor from the poverty line: a change in this indicator suggests that the life of the poorest has improved or worsened.

Poverty levels 2004-2005 – % of total population

	Poverty level	Poverty Depth	Poverty Severity
	2004		
City	34.3	10.9	5.0
Rural community	37.1	13.5	7.1
Country	35.7	12.2	6.1
	2005		
City	37.1	12.1	5.7
Rural community	41.7	14.8	7.5
Country	39.4	13.5	6.6

Source: IMF Georgia: Poverty Reduction Strategy Progress Report Oct. 2006

According to the official national statistics based on the new methodology, the poverty level increased from 2004 to 2005. This indicator rose by 3.7 percentage points in the city and by 4.6 percentage points in rural community. In the first quarter of 2006 however, the poverty level in Georgia was estimated at 33.6 %, which is 6.1 percentage points lower than the respective indicator for the first quarter of 2005 (39.7 %). The poverty indicators fell in both urban and rural areas.

This situation is expected to further improve in the near future, with recent initiatives that have doubled pension levels, cleared a significant proportion of arrears, ensured timely payment of social transfers, and plans to introduce a cash family poverty benefit targeted at the extreme poor.

4. AN OVERVIEW OF PAST AND ONGOING EC ASSISTANCE

4.1 EC assistance to Georgia 1991-2005

In the period 1992-2005 the EU gave Georgia EUR 505 million in grants, as summarized in Annex 3. Assistance was provided via a broad range of instruments, the most important being TACIS, the Food Security Programme (FSP), EC Humanitarian Office (ECHO), European Initiative for Democracy and Human Rights (EIDHR), Rehabilitation and Macro-financial Assistance (MFA). A more complete description of past EC assistance is provided in Annex 4.

In the light of increasing governance problems and the worsening of the security situation in the country, a revised CSP/IP for 2004-2006 was approved in September 2003.

After the Rose Revolution in November 2003, Rapid Reaction Mechanism (RRM) funds were made available to assist in the preparation of the presidential and parliamentary elections following the Rose Revolution. The FSP disbursed funds to support the government during the winter months of early 2004.

In June 2004, the European Commission co-chaired a donors' conference with the World Bank, at which a total of EUR 850 million was pledged for the period 2004-2006. The EC, for its part, pledged a

total of EUR 125 million, doubling total EC assistance to Georgia for the period 2004-2006 compared with the previous period.

4.2 Key lessons learnt for the new programming cycle

The revision of EC financial assistance to Georgia in 2004, following the events in 2003 and the change of leadership in Georgia, was an opportunity for incorporating the lessons learned in the pre-2003 period into the revised TACIS CSP 2004-2006. Most of these 'lessons learned' remain applicable to this new strategy document.

The effectiveness of EC assistance had been hampered in the past by institutional and political instability, widespread corruption, severe budget constraints due to low tax collection and poor public finance management, and by a severe deterioration of governance. These negative factors added to weak public administration and a lack of motivation in the civil service, dramatically limiting Georgia's absorption capacity.

The situation has, however, improved since 2004, as a result of the strong commitment of the new Government to building democratic institutions, fighting corruption and promoting the rule of law. These developments are bound to have a positive effect on absorption capacity. The recent political and trade crisis with Russia has highlighted the importance for Georgia of achieving greater economic integration with the EU with a view to getting a stake in the EC Single Market, thus adding another incentive for better use of EC assistance.

The best results have been achieved when there was full convergence on EU-Georgia priorities and strong ownership by the Government. The ENP AP is expected to give a new impetus to the reform process and provide guidelines for future EC cooperation with Georgia. At the same time, the gradual adoption by the Government of sound public finance management and planning practices such as the MTEF and more systematic sectoral planning should ensure a higher degree of ownership and facilitate effective donor coordination.

According to one of the general conclusions of the 2005 TACIS evaluation report⁷, the efficiency of past TACIS interventions has been limited by inadequate delivery mechanisms, and focused more on stand-alone projects rather than programmes. In Georgia, experience has shown that effectiveness and visibility of EC assistance have increased when the EC has combined different aid instruments so as to implement a broader programme under a more strategic approach. That was the case, for instance, of the combination of instruments like TACIS, RRM, the European Security and Defence Policy (ESDP) and the EIDHR for the establishment of the criminal justice reform strategy. Moreover, support to institutional, legal and administrative reforms should be firmly anchored in Georgia's reform strategies and associated with ENP AP implementation and the achievement of the MDGs⁸.

Significant time lags between project identification and the actual beginning of implementation has often limited TACIS capacity to respond adequately to the changing needs of beneficiaries. On the other hand, the 'policy advice facility' has proved to be a flexible tool which has allowed the EC to respond promptly to specific requests from the Government. Its use could also be further explored in the justice, freedom and security area. In several cases, small-scale policy advice projects had a bigger

⁷ TACIS Evaluation Synthesis report October 2005

⁸ Ref: Conclusions and Recommendations included in the TACIS Evaluation Synthesis report, Volume 1, 28 October 2005

impact on policy reform development than much larger service contracts funded under normal TACIS procedures. It is therefore recommended that the move toward increased budgetary support is accompanied by maintaining the availability of a flexible policy advice instrument.

The positive experience of the FSP and MFA has shown that Georgia fully qualifies for a budgetary support operation. The system is well understood by the Government and budgetary support has proved to be a powerful tool for increasing ownership, ensuring timely disbursement of planned resources and limiting administrative costs attached to the programmes. Georgia is therefore ready to extend this form of intervention to other areas, in particular where specific reform strategies, backed by sustained political support, have been established. Another lesson learned is that “earmarked” budget support (i.e. additional to already planned sectoral expenditure) should be avoided in order to preserve the integrity of government expenditure planning through the MTEF.

In spite of some recent improvements, weak administrative capacity, excessive turnover in senior positions in ministries, and an underpaid civil service will continue to be a risk factor for the next programming cycle of EC assistance. In this context, the success of the public administration and civil service reforms will be key to achieving long lasting and far reaching results through assistance, regardless of the instruments used (twinning, budgetary support, or TA).

As recommended by the 2005 TACIS evaluation report⁸, in supporting capacity building systematic efforts should be made to consult and engage partners at all levels or embed interventions within existing relevant national programmes. Moreover, implementation of this Ec financial assistance strategy should focus on building institutional partnerships for medium-term sectoral or thematic joint action, by involving a variety of actors such as civil society organisations, professional associations, private sector organisations and so on, provided they show demand and commitment.

As regards TACIS Regional projects, they have been identified and implemented in a centralised, top-down approach, with a very negative impact on beneficiary country ownership. Coherence with national policies and complementarity with national indicative programmes should be strengthened in the 2007-13 assistance period.

4.3 Complementarity and coordination with other donors

Besides the EC, main international donors in Georgia include the US Government, WB, the EBRD, International Monetary Fund (IMF), Germany, Netherlands, UK, Swedish Government and UN Agencies. Donors’ activities in Georgia are primarily focused on issues related to governance, economic reform and development and poverty reduction. Details on individual donors' assistance are given in Annex 5.

Despite donors' active involvement in nearly all the sectors, formal government-led donor coordination in Georgia has been traditionally weak. Efforts have however been deployed to improve the situation. According to a Cabinet decision of Feb. 2005, the Ministry of Finance (MoF) has been given full responsibility to coordinate activities of the government of Georgia with donor community.

Inclusion of investment portfolio, budget support operations, grants and loans from international donors and IFIs in Georgia’s annual budget is rather comprehensive. MoF leads all intergovernmental negotiations with International Financial Institutions (IFIs) related to sovereign loans. Significant effort is made to reflect in the budget, to the fullest extent feasible, in-kind support provided in the form of grants, consultancy, training, etc. MoF runs comprehensive professional databases (DMFAS

and DM-NAT) that contain detailed information on a significant portion of donor-sponsored projects in Georgia. The databases also keep detailed record of the humanitarian aid and technical assistance inflows into Georgia, also of grants provided directly to Georgia's public entities.

The European Commission hosts regular meetings for the Member States embassies to ensure coordination and information sharing on their activities in Georgia. At sectoral level, good coordination among donors is generally in place. In the agriculture sector the EC Delegation is chairing donors coordination meetings which are organised quarterly. In the health sector, the main donors (WB, DFID, and EC) signed a Memorandum of Understanding (MoU) in 2003 with the Ministry of Labour, Health and Social Affairs to ensure cooperation and coordination in supporting the health reform. This MoU will be opened in 2006 also to US Agency for International Development (USAID) and World Health Organisation (WHO). Good coordination is also experienced in other sectors like rule of law, customs, and border management.

In the field of public finance management, the European Commission will coordinate closely with others donors involved in this field, mainly WB, DFID, NL and Swedish International Development Agency (SIDA) which are implementing jointly a "Public Sector Financial Management Reform Support project". The EC is planning to link even closer to this scheme by the use of cross-conditionality in the context of future budget support operations. At the same time, the EC intends to complement activities in the fields of financial management and control, internal audit, external audit, financial decentralisation and public procurement.

4.4 Consistency of EC cooperation policy with other core policies of the EU ("policy mix")

Relations with Georgia are affected by a number of other Community policies – in particular, the CFSP, Justice and Home Affairs (JHA) issues, trade, energy, transport and environment protection. Information and communication technology issues are also highly relevant. It is therefore important to identify the most efficient "policy mix" that allows EC external instruments to match Georgia's specific challenges, taking into account other international donors' contributions. See Annex 6 for a more detailed overview of "policy mix" considerations.

5 THE EC RESPONSE STRATEGY

5.1 Main Objectives

EC assistance priorities for the 2007-10 programming cycle have been identified on the basis of the strategic general objectives set out in Chapter 1 of this document as well as on the following considerations and requirements, which also apply to the subsequent National Indicative Programmes established under this CSP.

Priorities for future EC assistance to Georgia should:

- support PCA implementation;
- support the achievement of the ENP AP's objectives. While other donors' assistance programmes in Georgia cover several aspects of development, the jointly agreed process for closer EU-

Georgia economic and social integration under the ENP is a distinctive EU external policy and support for its implementation should therefore constitute the main focus of EC assistance;

- be coherent with the Government's own reform strategy;
- contribute to the achievement of the MDGs for Georgia;
- be compatible with available EC resources (i.e. for instance exclude capital-intensive investments);
- allow concentration of limited EC resources on a reduced number of key priorities;
- facilitate as much as possible the transition from technical assistance to budgetary support;
- where appropriate, be complementary with other donors' and IFIs' interventions.

As the EU-Georgia ENP AP constitutes a blueprint for future strengthened EU-Georgia relations, the future EC priorities for assistance to Georgia, for the purposes of this Strategy Paper, are presented under the seven chapter headings of the Action Plan. The EC assistance priorities apply to all EC assistance instruments and programmes which will or might be available for Georgia. Gender equality, as a cross-cutting issue, will be integrated to the fullest possible extent into programmes for all the priorities outlined below.

5.2 EC assistance priorities

Political dialogue and reform (ENP AP Chapter 4.1)

- EC assistance in this area will focus on strengthening democracy and good governance, the rule of law, human rights and fundamental freedoms. This also covers the fight against crime and corruption and fostering the development of civil society, including in the social and economic sphere.
- In the field of enhanced cooperation on foreign and security policy, particular attention will be paid to issues related to the fight against terrorism, WMD non-proliferation and disarmament, including conventional disarmament, and to conflict prevention and crisis management.
- The EC will also encourage the development of new areas of regional cooperation in the Black Sea and in the Southern Caucasus (e.g. in the area of science and research)

Cooperation for the settlement of Georgia's internal conflicts (ENP AP Chapter 4.2)

- The EC will continue its engagement in support of a peaceful settlement of conflicts in Abkhazia and South Ossetia and the restoration of Georgia's territorial integrity.
- To complement the diplomatic and political activity of the EU Special Representative (EUSR), the EU will provide support for rehabilitation and reconstruction in conflict zones as a means of improving the climate of confidence between the parties to the conflict and of improving the living conditions of the affected populations and of Internally Displaced Persons (IDPs).
- Depending on developments regarding the peace processes in the two conflicts, further EU assistance could be considered in support of all aspects of conflict settlement and settlement consolidation including the elimination of the excessive accumulation of conventional weapons such as illicit SALW (small arms and light weapons) and ERW (explosive remnants of war).

Cooperation on justice, freedom and security (ENP AP Chapter 4.3)

In line with the priorities of the EU-Georgia Action Plan, assistance in this area will focus on:

- judicial reform, including the implementation of the strategy for the criminal justice system and the penitentiary system developed in 2005 with the assistance of a EUJUST-Themis mission;
- border management, including continuation of training and support for the implementation of the upcoming integrated border management system strategy and the reform of the ministries/agencies concerned;
- migration issues (including readmission, visa, document security/biometrics and asylum);
- fight against organised crime, including trafficking in human beings, drugs, money laundering and corruption;
- police and judicial cooperation.

Economic and social reform, poverty reduction and sustainable development (ENP AP Chapter 4.4)

EC assistance will address the key issues of poverty reduction, economic growth, job creation and the reduction of social inequality, aiming in particular to support:

- continued reform of the social security system, notably social protection, child care, and health care;
- Prevention and control of communicable diseases, in particular through facilitating the implementation of international treaties in the area of public health
- implementation of the agriculture development strategy 2006-09, in particular privatisation of agricultural land, diversification of rural activity and rural tourism;
- encouragement of quality promotion and protection for agricultural products;
- improvement of the capacity of local public authorities;
- improvement of the business and investment climate;
- the establishment of a strategy for sustainable development.

Trade-related issues, market and regulatory reforms (ENP AP Chapter 4.5)

EC assistance will in general be aimed at reinforcing administrative capacity to draft and implement sectoral strategies and policies which are closer to relevant EU policies and legislation, as well as market and regulatory reform, so as to enable Georgia to comply with its obligations under the PCA and the WTO and to support the implementation of relevant provisions of the ENP Action Plan.

The assistance provided for in this section also reflects recommendations made by the WB in its 2003 detailed Integrated Trade Development Study for Georgia.

The assistance will cover support to regulatory approximation in a broad range of areas including *inter alia*:

- Reforms of the customs system and legislation in order to: facilitate trade⁹, strengthening customs controls on imports, exports and good in transit and develop integrated border management strategies;
- technical regulations, standards and conformity assessment;
- sanitary and phyto-sanitary issues (SPS);
- right of establishment and company law, financial services and markets;
- reform of the tax system and legislation in accordance with international and EU standards;
- competition policy;
- creating a favourable environment for the development of SMEs;
- protection of intellectual and industrial property rights;
- public procurement;
- statistics;
- public finance management.

At the same time, support will be provided for administrative capacity building in all the areas above, notably for trade and economic ministries and customs and tax authorities.

EC assistance will also address specific trade and customs issues arising from the implementation of the GSP+, of which Georgia is a beneficiary as well as from other possible future arrangements in the EU-Georgia bilateral trade relations.

Cooperation in specific sectors: transport, energy, environment, Information Society and Media, R&D (ENP AP Chapter 4.6)

In the field of transport, assistance will be aimed at:

- the process of approximation of legislative and regulatory framework with European and international standards;
- developing a transport infrastructure strategy;
- cooperation in satellite navigation;
- improvement of road safety and road transport regulations;
- restructuring of the port sector and assistance in the implementation of relevant IMO conventions.

Support will be also available for priority measures in line with:

- the recommendations of the High Level Group on the extension of the major trans-European transport axes to neighbouring countries and regions
- the priorities identified within the framework of the Baku Working Groups and adopted during the Baku Ministerial Transport Conference of May 2006 in Sofia as well as under the TRACECA strategy.

Georgia should ratify the UN Economic Commission for Europe (UNECE) Agreement on Work of Crews in International Road Transport (AETR), following which support should be given to its implementation, especially concerning the digital tachograph. The Commission has also adopted in March 2005 a Communication proposing the creation of a wider European Common Aviation Area

⁹ On the basis of EU (customs blueprints) and international standards (WCO Framework of standards).

including the neighboring countries of the EU by 2010. Therefore, assistance should also be envisaged with respect to the aviation sector as Georgia is a member of the European Aviation Conference and is expected to become member of the JAA (Joint Aviation Authority).

In the energy sector, assistance will be provided in support of :

- encouraging the development of diversified infrastructure connected to the development of Caspian energy resources and their transit;
- implementation of a long-term national energy policy;
- promoting high levels of safety and security of the energy infrastructure;
- improving energy efficiency and energy savings, as well as promoting new or renewable energy in particular at local level;
- harmonizing the energy-related legal/regulatory framework, plus technical norms and standards, with those of the EU.

When necessary, support will be provided for the implementation at national level of the recommendations of the working groups established during the Baku Energy Ministerial Conferences.

With regard to the environment, particular attention will be paid to supporting:

- the development of legislation and basic procedures for ensuring the adoption of adequate standards for air and water quality, waste management and nature protection;
- the implementation of multilateral environmental agreements, in particular the UN Framework Convention on Climate Change and its Kyoto Protocol, and the UN-ECE conventions;
- activities linked to the EU Water Initiative and other regional initiatives intended to protect the Black Sea;
- the development of civil society, information, monitoring and assessment.

As far as the information society is concerned, support will be provided for adopting a national policy on development of the electronic communications sector and to introduce a comprehensive regulatory framework, including the progressive approximation with the EU framework; this support will also cover the strengthening of the National Communications Commission's capacity. The use of online services by the private sector, the administration and the citizens will be promoted in areas such as e-Business, e-Government, e-Health and e-Education

Support for R&D cooperation will be an important contribution to the sustainable and equitable economic development of Georgia and to increasing its participation in research-related activities such as the 7th Framework Programme, joint research projects, the Marie-Curie international mobility scheme for scientists and practical training at the seven institutes of the Joint Research Centre DG (DG JRC). An adequate participation in the 7th Framework Programme could be ensured by a linking of the Georgian National Research and Education Network (GRENA) to the European backbone GÉANT2.

A regional approach to scientific cooperation in the Black Sea region will be systematically encouraged through, inter alia, the Black Sea Economic Cooperation (BSEC).

People-to-people contacts (ENP AP Chapter 4.7)

Assistance for reforming and upgrading the education system with a view to convergence with EU standards and practices will be essential to strengthen social stability and encourage economic growth. This priority will include:

- increased participation in programmes such as Tempus and Youth in Action;
- greater opportunities for Georgian nationals to participate in exchange programmes such as Erasmus Mundus;
- support for the reform of the education system, including vocational training;
- support for the full implementation of the Bologna process for the higher education sector;
- promotion of European Integration studies
- investigating the scope for cooperation in the framework of EU programmes in the field of culture.

5.3 Instruments and means

From 2007 on, EC assistance will be provided through a set of new instruments. While the ENPI, including not only its national but also its transnational/regional, cross-border and thematic components, will be the principal new tool for providing assistance to Georgia, certain measures, in particular in the area of conflict prevention and crisis management and resolution, may also be supported under the Stability Instrument.

The introduction of these new external assistance instruments will substantially increase flexibility. Technical assistance will no longer be the predominant channel for the Commission's external assistance programmes to Georgia. Other types of assistance such as: twinning, TAIEX, budgetary support – including in the context of sector-wide approaches (SWAPs); infrastructure and equipment funding; and pool funding will be available and used wherever appropriate.

As appropriate, Georgia will receive support for participation in Community programmes, agencies and networks, insofar as these are open to the country. The clearer framework provided by the ENP Action Plan will contribute to ensuring the consistency of EU assistance within specific sectors.

Additional support for investment in transport and energy infrastructure and in the environment will be provided primarily through EIB lending, conditional upon the extension of the Bank's mandate to the South Caucasus region from the year 2007.

Interest rate subsidies and other ways of blending grants and loans can leverage investments by international financial institutions in the fields of environment, energy and transport. Where interest rate subsidies are considered, their relevance must be assessed on a case-by-case basis and care should be taken to avoid significant market distortions. As regards the environment, relevant sectors include water management, waste management and industrial pollution. For energy, possible areas include renewable energy resources, energy efficiency and energy saving. Energy infrastructure/network investments should in principle be commercial operations given their financial return. In exceptional circumstances, though, where specific EU interests are involved (notably, security of energy supply) and it appears difficult to get a project started, targeted interest rate subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest rate subsidies or other blending schemes would focus on catalysing funds for critical

infrastructure of strategic importance, such as cross-border measures on priority axes or missing links necessary for their completion.

The following sections outline the specific instruments that will be made available to Georgia under the present CSP:

ENPI national allocation for Georgia

Assistance provided under the national ENPI envelope for Georgia will focus on the following four priority areas.

Priority Area 1: Support for democratic development, the rule of law and governance

Sub-priority 1.1: Democracy, human rights, civil society development

Sub-priority 1.2: Rule of law and judicial reform

Sub-priority 1.3: Good governance, public finance reform and administrative capacity building

Priority Area 2: Support for economic development and ENP AP implementation;

Sub-priority 2.1: Promoting external trade and improving the investment climate;

Sub-priority 2.2: Supporting PCA/ENP AP implementation and regulatory reforms

Sub-Priority 2.3: Education, including vocational education, science, and people-to-people contacts/exchanges

Priority Area 3: Support for poverty reduction and social reforms

Sub-priority 3.1: Strengthening social reforms in health and social protection

Sub-priority 3.2: Rural and regional development

Priority Area 4: Support for peaceful settlement of Georgia's internal conflicts.

ENPI Eastern trans-national/regional programme¹⁰

The regional ENPI component will contribute to the achievement of the objectives outlined in this strategy by addressing a limited number of priorities relevant to Georgia but with a genuine regional dimension both in terms of joint implementation and impact.

At sectoral level, this relates in particular to transport (the recommendations of the Baku working groups adopted during the last Baku Transport Ministerial Conference as well as the TRACECA Strategy adopted during the TRACECA Ministerial Conference in May 2006 at Sofia), energy (covering, in the context of the follow-up to the Energy Ministerial Conference in Baku on 13 November 2004, all regional elements in this domain, in particular in relation to harmonising energy markets, the transit of oil and gas, electricity, energy efficiency, energy saving and renewables and facilitating investment in energy projects of common interest) and the environment (targeting *inter alia* the regional dimension of the EU Water Initiative and regional aspects of protection and sustainable

¹⁰ Details are provided in the separate ENPI Eastern Regional Strategy 2007-13 and Regional Indicative Programme 2007-10.

management of forests, regional cooperation concerning regional seas, and compliance with multilateral agreements).

Beyond that, certain aspects of border and migration management, the fight against trans-national organised crime, and customs can also be addressed more effectively at regional level where action at regional level complements action at national level. This could include action on customs and border management, integrated border management, the fight against trans-national organised crime and migration and asylum management. Finally, there will be scope for regional activities regarding SME cooperation and civil society cooperation.

ENPI Inter Regional programme¹¹

The ENPI Inter Regional programme will include activities that for reasons of coherence, visibility and administrative efficiency are best implemented in the same way for all the neighbouring countries. Examples are TAIEX, TEMPUS and the new Scholarship Programme.

ENPI cross-border cooperation (CBC)/Neighbourhood and Partnership Programmes (NPP)¹²

NPPs will be based on two types of programmes: bilateral programmes (typically involving two countries sharing a border) and multilateral programmes (e.g. for the Black Sea). As it does not have physical borders with the future enlarged EU, Georgia will only be involved in multilateral cooperation around the Black Sea.

ENPI thematic programmes¹³

A total of five thematic programmes will be available under the new instruments. Out of these, "Migration and asylum", "Investing in people", "Food Security" and "Environment and sustainable management of natural resources including energy" are potentially relevant for Georgia. As these issues will also be addressed under the national/regional ENPI envelopes, additional thematic activities will be launched only if they provide clear added value.

Stability Instrument

The main goal of the Stability Instrument is to provide an effective, timely, flexible and integrated response to crises, emerging crises or continued political instability.

In the case of Georgia this is particularly relevant to the conflicts in Abkhazia and South Ossetia, which continue to call into question Georgia's territorial integrity and challenge Georgia's security. In spite of persisting tensions and incidents, peace plans have been tabled in 2005 and 2006 by all parties to the conflicts, showing a substantial convergence on the intermediary stages but a predictable disagreement on the final status. Future support for the implementation of peace plans for the resolution of Georgia's conflicts may be provided under the Stability Instrument.

¹¹ Details will be elaborated in a separate strategy paper for the ENPI Inter Regional Programme.

¹² Details will be given in a separate CBC Strategy Paper/Indicative Programme.

¹³ Financial resources allocated to each thematic programme will be programmed on the basis of a single strategy document. When establishing the policy mix, CSPs/RSPs should identify opportunities for adding value to the NIPs/RIPs by using thematic programmes.

Equally important for Georgia may be measures to address the effects on the civilian population of anti-personnel mines, unexploded ordnance ammunition, surplus firearms or other explosive devices. Such measures may, where appropriate, be addressed under the Stability Instrument and under the national and regional envelopes of the ENPI.

EIDHR II Instrument

Georgia is a potential beneficiary of the EIDHR II instrument, in addition to human rights/democracy-related assistance to be provided under the ENPI national programme.

Participation of Georgia in Community programmes

As appropriate, Georgia will receive support for participation in Community programmes, agencies and networks, insofar as these will be open to the country. The clearer framework provided by the ENP Action Plan will contribute to ensuring the consistency of EU assistance within specific sectors.

6 ANNEXES

6.1 ANNEX 1: CSP CONSULTATION PROCESS

20/21 June 2006: First programming mission - Tbilisi.

Ministries contacted:

Ministry of Foreign Affairs

Finance

European and Euro-Atlantic Integration

Economic Development

Justice

Interior

Energy

Science & Education

Agriculture

Health

Conflict Resolution

National Coordination Unit's Director .

Georgian Parliament: Head of Parliamentary Committee for EU integration

IFIs and other donors: World Bank, IMF, USAID, Millennium Challenge Corporation.

Round Table with local NGOs

Meeting of assistance officers in local Member States representation.

September 2006

Presentation of draft CSP/NIP to NCU and national authorities by Commission Delegation in Tbilisi

3-5 October 2006:

Submission to Ministries of Foreign Affairs and Euro-Atlantic integration of draft CSP/NIP for comments

24 October 2006

Georgia submitted extensive amendments and comments on draft CSP/NIP

3 November 2006

Transmission by the Commission of second revision of NIP to Georgian authorities

14 November 2006

Further submission of comments by Georgia on revised CSP and NIP

6.2 ANNEX 2: GEORGIA'S COUNTRY ENVIRONMENT PROFILE

State of the environment

The key environment issues in Georgia relate to air quality, water quality, waste management, land use, coastal and marine pollution, chemicals and nature protection.

Air pollution, in particular from road traffic, followed by the energy sector and industry, is becoming an important issue. Georgia has about 3,000 stationary sources of air pollution, of which not many work at full capacity. The annual inventory of national emissions of air pollutants is limited to three sectors: energy, industry and transport.

With regard to **water quality**, infrastructure is mostly not sufficient and also outdated. Georgia has nevertheless considerable water resources, but their distribution is uneven due to varying geographic conditions. Data on surface and ground waters is limited. Drinking water quality is of concern, as shortages in infrastructure and contamination from waste water cause problems.

Waste management is a serious challenge, including with regard to prevention, collection, treatment, recovery and final disposal. Stocks of obsolete pesticides constitute an important challenge. There is no overall government strategy on waste management.

As regards **nature protection**, land degradation and desertification are becoming serious issues. Due to fallen living standards and shortages in controls, illegal logging has increased.

With regard to **coastal and marine pollution**, sources include a number of industrial hotspots, pipelines as well as oil spills from oil transport.

With regard to **land use**, administrative structures to ensure effective spatial planning system and management of the environment require particular attention.

Industrial pollution is mainly caused by metallurgy, oil refining, coal mining and the chemical industry, entailing severe pollution.

Current **trans-boundary environment issues** include the use and protection of shared waters – in particular the Kura-Araks river basin and the Black Sea. The Kura-Araks river basin is an essential source of fresh water for the region and existing problems in the Kura river basin are related to both quantity and quality of water. Water quality is affected by discharges of municipal and industrial wastewaters and return flow from agriculture. The Black Sea is subject to similar problems, the most serious of which are discharge of wastewater, oil pollution in the coastal areas, and a loss of biodiversity, including fish stocks.

As regards **global environment issues** and climate change in particular, Georgia acceded to the Kyoto Protocol in 1999, and therefore needs to implement the relevant provisions and, where appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy and heavy industry sectors.

Environment policy

First National Environmental Action Plan (NEAP) was adopted in 2000 and had 5-year time span. Its six priorities included: rehabilitation and improvement of water supply and sewage systems; increase in

the share of municipal transport and monitoring of fuel quality; prevention of pollution by encouraging the introduction of best available techniques (BAT) and cleaner production methods; improvement of waste management through the application of economic instruments; introduction of integrated coastal zone management to address the environmental problems of the Black Sea; and preservation of biodiversity, including that of forest ecosystems. However, only a lesser part of the first NEAP recommendations was implemented, mainly due to shortage of adequate resources.

A second NEAP is currently under preparation. Local environmental action plans are also under elaboration in selected municipalities.

Environment legislation and implementation

The Constitution of Georgia establishes basic rules on environment protection and natural resource use. It also grants the right to everyone to have access to complete, objective and timely information on his or her working and living conditions.

The law on environmental protection was adopted in 1996. It establishes the general legal framework and covers a wide range of issues, including environmental standard setting, licensing of activities connected with natural resource use, environmental permitting, keeping State registers of environmental information, and monitoring. Provision is also made for establishing tax privileges to those who use best available techniques and low-waste technologies or produce environmentally sound products. The law also lists citizens' environmental right as well as outlines general environmental requirements for the production of goods and the generation of waste, and establishes basis for the State ecological expertise of projects, on which another piece of legislation was adopted also in 1996.

A law on environmental permits was adopted in 1996, covering the issue of environmental impact assessments.

In the field of air quality, Georgia adopted legislation on ambient air protection in 1999, which makes use of several EU requirements. As regards waste management, a law was adopted in 1995 on transit and import of hazardous waste. Currently a new law covering the classification, collection, transport, recycling and re-use as well as disposal of municipal and hazardous waste, is under consideration. In the field of water quality, key piece of legislation is the law on water in force since 1997 and last amended in 2000. Regarding nature protection, legislation is quite extensive (such as the law on soil protection (1994), the law on protected area system (1996), the law on wildlife (1996), the forest code (1999) and the law on endangered species (2003)).

Other legislation includes the law on mineral resources (1996), the law on nuclear and radiation safety (1998), the law on hazardous chemical substances (1998), the law on the sea (1998), the law on fees for natural resources (2004), and the law on licenses and permits (2005).

Georgia has published a summary reports on the state of the environment in the country.

Overall, environment legislation is therefore in place in several areas, but still needs further development, in particular with regard to implementing legislation. Georgia faces difficulties with implementation and enforcement of environment legislation due to limited administrative capacities and financial resources, especially at regional and local levels.

Administrative capacity

The Ministry of the Environment and Natural Resources was established in 1991. As a result of an institutional reform carried out in 2004 the Ministry was reorganized and is now called the Ministry of Environment Protection and Natural Resources. It is the national body responsible for establishing, promoting and implementing the policies and strategies for environment protection, including nature protection and forest management.

In 2005, following recommendations of domestic and international experts, Environmental Inspectorate was created under the Ministry to improve enforcement of environmental laws and regulations.

In order to enhance strategic planning, implementation and enforcement of environment legislation, major challenge facing Georgia is to strengthen administrative capacity in particular at regional and local levels, including with regard to coordination between the relevant authorities.

Participation in regional and international processes

Georgia has ratified the relevant **international and regional conventions** to which it is signatory, with the exception of the Strategic Environmental Assessment Protocol of the UN-ECE Convention on Environmental Impact Assessment in a Transboundary Context. Georgia has not signed the UN-ECE Convention on the Protection and Use of Transboundary Watercourses and International Lakes.

Georgia is a member of the Commission **on the Protection of the Black Sea Against Pollution** (the Black Sea Commission), which is the body implementing the Convention on the Protection of the Black Sea Against Pollution and the Black Sea Strategic Action Plan. The Commission aims at combating pollution from land-based sources, maritime transport, rivers, etc. achieving sustainable management of marine living resources and pursuing sustainable human development.

Georgia is furthermore member of the **Danube-Black (DABLAS) Sea Task Force**, which provides a platform for cooperation between IFIs, donors and beneficiaries for water protection and water-related issues of the Danube and the Black Sea. The main aim is to encourage a strategic focus to the use of financing, and to ensure coordinated action between all financial instruments operating in this region.

Georgia participates in the **“Environment for Europe” process**, which is a multilateral framework created in 1989 to steer the process of invigorating environmental awareness in the countries of Central and Eastern Europe, emerging from the old regimes and moving closer to the EU. The core activities of this process are undertaken by a Task Force co-chaired by the Commission and an NIS environment minister.

Georgia is participating in the **Eastern Europe, Caucasus and Central Asia component of the EU Water Initiative, a regional component of the EU Water Initiative** as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders.

Georgia also participates in the **Europe and the North Asia Forest Law Enforcement Governance (FLEG) process** concerning forest governance and the protection and sustainable management of forests in the region.

Georgia is a co-founder (together with Armenia, Azerbaijan and the European Commission), as well as host country, of the **Caucasus Regional Environmental Centre (REC)**. The REC Caucasus, with headquarters in Tbilisi, aims to address environment issues in the Southern Caucasus through the

promotion of regional co-operation between various stakeholders at all levels, involving actors of civil society, governmental bodies, local communities and the business sector. The REC Caucasus also aims to promote public participation in environmental decision making.

Key areas where action is required

Georgia faces significant challenges to promote environment protection. Key areas include air quality, water quality, waste management, land use, coastal and marine pollution, chemicals and nature protection.

As regards climate change, Georgia needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change. Georgia has significant possibilities to use flexible mechanisms under this Protocol.

The institutional and administrative capacity needs strengthening, in particular as regards strategic planning, implementation and enforcement. A fully operational REC could help to promote environmental awareness and protection by providing a forum for cooperation between various stakeholders.

The key environment areas where action is required are identified in the environment section of the EU - Georgia Action Plan, established in the framework of the European Neighbourhood Policy. It defines a set of priorities for action with regard to environmental governance, issue-specific activities as well as on international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to fulfilling the objectives of the Partnership and Cooperation Agreement.

6.3 ANNEX 3: TOTAL EU GRANTS TO GEORGIA 1992-2006

Total EC grants to Georgia 1992-2006 (in addition to the figures below, Georgia benefits from grants under the TACIS Regional Programme – Traceca, Inogate, Natural Resources)

	1992 1993	1994 1995	1996 1997	1998 1999	2000 2001	2002 2003	2004	2005	2006	1992 2006
TACIS (*)	13	10	16	16	15	14	25	0	20	129
ECHO	12	45	16	13	4	4.2	4	2	2	102.2
Food Aid (from DG AGRI funds)	-	41	22	-	-	-	-	-		63
Exceptional humanitarian assistance	6	-	-	-	-	-	-	-	0	6
Food Security Programme	-	-	34	12	13		12	10	10	91
Rehabilitation in conflict zones	-	-	8	4	5	-	2	2	2	23
Macro-financial assistance	-	-	-	19	6	-	7		33	65
Aid to mitigate the effects of the Russian financial crisis	-	-	-	4	-	-	-			4
CFSP and RRM (**)	-	-	-	-	2	2	5			9
European Initiative for Democracy & Human Rights	-	-	-	-	-	2	2	2	2	8
Other (DC, PVD-NGO,)							2	1	2	5
TOTAL	31	96	96	68	45	22.2	59	17	71	505.2

* 2-year allocations

** The CFSP budget of the EC is also used to finance the activities of the EU Special Representative for the South Caucasus and the rule of law mission in Georgia - EUJUST Themis

6.4 ANNEX 4: PAST EC ASSISTANCE TO GEORGIA

TACIS national programme. Since independence, the TACIS programme has contributed to the transition towards a market economy and building democratic institutions, notably by providing assistance in the field of legal and regulatory reforms and the approximation of Georgian legislation to that of the EU. The main priority areas covered by the revised TACIS NIP 2004/2006 were:

1. Support for institutional, legal and administrative reform mainly in the fields of the rule of law, PCA implementation and institutional capacity building in the tax and customs administration (EUR 24.5 million)
2. Support for addressing the social consequences of transition, with a focus on primary health care, social assistance and child welfare reform (EUR 17 million)

Food Security Programme. Since 1996 the European Commission has committed EUR 91 million to Georgia through the EC FSP, disbursing EUR 78.3 million between 1997 and 2005. The programme has been successful overall and has played an active role in promoting policies intended to align Georgian practices and legislation more with international and EU standards. The assistance has been provided through a foreign currency facility with the counter-value funds channelled into the national state budget, with the objective of providing an impetus to key reforms in sectors that directly impact on food security, poverty reduction and public expenditure management, such as agriculture and the social sector, together with related areas such as statistics and public finance.

ECHO. During the period 1993-2006 Georgia received EUR 102.2 million through ECHO mainly in immediate emergency relief to overcome the effects of the civil war and the consequences of the collapse of the Soviet Union. During the years, the focus has shifted from food aid to food security and income generating activities, increasingly targeting population groups affected by the conflict. In the period 2004-2006 ECHO has supported an aid package worth a total of EUR 6 million for internally displaced persons in Georgia, and vulnerable groups in Abkhazia and Western Georgia. The income-generation activities that were initiated under ECHO to replace food assistance and which will continue in 2007 under the EUR 2 million 2006 budget are envisaged to be gradually transferred to the economic rehabilitation programme as part of the policy of linking relief to rehabilitation and development (LRRD).

EU support to rehabilitation and confidence building activities in conflict zones. The EC is the largest donor in Georgia's conflict zones, having allocated EUR 25 million of assistance to Abkhazia and almost EUR 8 million to South Ossetia since 1997.

The EC rehabilitation programme in Georgia is supporting comprehensive programmes of social and economic rehabilitation in the conflict areas of South Ossetia (EUR 7.5 million since 1997) Abkhazia (EUR 2 million since 2005). A further allocation of EUR 4 million has been allocated to continue rehabilitation activities in Abkhazia and South Ossetia in 2004-2006. In addition, the EC has granted EUR 9.5 million to Georgia for urgent repairs at the Enguri Hydro Power Plant (HPP). The projects have been successfully completed. The new generator will add a maximum capacity of 260Mw to Enguri HPP, which would provide for 10% of Georgia's entire electricity supply.

The rehabilitation programmes served to raise the profile of the EU significantly in the confidence building process and since 2001 the EC has participated in the JCC (Joint Control Commission for South Ossetia). The Enguri project has also demonstrated that economic rehabilitation can be effective in bringing the two parties closer.

The rehabilitation programme has been complemented by a mix of policy instruments including humanitarian assistance, decentralised cooperation and EIDHR projects implemented by international and local NGOs. The Delegation and ECHO have put great emphasis on ensuring a coherent policy to link relief to rehabilitation and development (LRRD) for the region using the various instruments available. This approach should be continued under the ENPI and upcoming thematic programmes from 2007 onwards.

Macro-financial Assistance (MFA). MFA contributes to supporting Georgia's economic reforms and improving its debt repayment strategy. In July 1998, Georgia settled the remaining amount of its arrears to the EU (EUR 131 million). The country subsequently benefited from an assistance package (1998-2004) consisting of a loan of EUR 110 million and a total grant amount of EUR 65 million. In January 2006, the Council adopted a decision to make available a new package of macro-financial assistance in the form of a grant facility of EUR 33.5 million. The objective of this assistance is to support economic reforms and help Georgia improve debt sustainability. This assistance is complementary to the resources provided to Georgia by IFIs and bilateral institutions in support of the authorities' economic stabilisation and reform programme.

European Initiative for Democracy and Human Rights Georgia was selected in 2002 as one of the 29 focus countries eligible under the EIDHR programme. Since then, it has received an annual budget of approximately EUR 2 million. Prior to this, the EC contributed to democratisation activities through its support to civil society under TACIS' small-scale LIEN programme. In recent years the EIDHR has contributed significantly to strengthening the civil society in Georgia, by advocating for the protection of human rights, for the fight against torture and for combating discrimination against ethnic minorities.

Cooperation in the field of education and science. In the period 1995-2005, about EUR 6 million was allocated from TACIS National Programmes in Georgia to fund twenty TEMPUS projects (pre-Joint European Projects, Joint European Projects and Individual Mobility Grants), involving the participation of 16 Georgian universities. Those projects aimed at supporting the modernisation and reform of higher education system in Georgia. In addition, TACIS supported a policy advice project on vocational education and training (VET) reform with the aim of assisting the Ministry of Education in Georgia with drafting both a long-term strategy and a VET law (August 2005-April 2006). The long-term strategy and the draft VET law are currently (July 2006) still under discussion within the Government.

The European Commission focused more strongly on higher education reform after Georgia joined the Bologna process in Bergen in May 2005. The EC decided to support the Tbilisi State University with a separate TACIS project for the "Establishment of a Centre for European Studies" (EUR 1m plus EUR 300 000 for equipment and works). The project started in April 2006. In addition, a Georgian Bologna Supporters Group was established in December 2005 (<http://www.bologna-supporters.ge/index.htm>).

As for the 6th Framework Programme for Research and Development, the Georgian National Research and Education Network (GRENA) participates in a project for the provision of services for Internet offerings to

Research and Education Networks in the Caucasus and Central Asia (OCCASION, budget 1,3 M €, 2005 – 2007).

TACIS Regional programmes. The European Commission's assistance in the field of transport is delivered through the TACIS regional programme, the "Transport Corridor Europe Caucasus Asia" (TRACECA). It aims to promote trade and investment in the TACIS region through connecting existing transport networks in the region with each other and European transport networks. The programme INOGATE "Interstate Oil and Gas Transit to Europe", funded under the TACIS Regional programme, aims to increase the safety and security of energy transport to Europe, and promote IFI and private investment in energy transit. INOGATE fits in well with the goals of Georgian energy policy, which is geared to increasing Georgia's energy security and its transit potential. In Georgia, INOGATE has supported the construction of a gas metering station by supplying equipment and delivering a mobile workshop and a mobile analytical laboratory.

In the field of justice and home affairs, the European Commission is working through its regional programme addressing issues such as integrated border management, migration and asylum and combating organised crime and asylum. In Georgia, the JHA component of the TACIS regional programme addresses drug trafficking through the South Caucasus Anti-Drug Programme (SCAD). SCAD is has been running since 2001 and aims to reduce the demand for and the supply of drugs along the drug trade route from Afghanistan to Europe. Under the CSFP, the EU Special Representative (EUSR) has a border team stationed in Georgia, with the aim of assisting the Georgian government in establishing an integrated border management strategy. The Commission is also supporting the internal reform of the Ministry of Justice and the Ministry of the Interior.

6.5 ANNEX 5: INTERNATIONAL DONORS ACTIVITY IN GEORGIA

Georgia joined the **World Bank** in 1993 and since then its commitments to the country total approximately USD 816 million for 40 loan operations. In 2005 the WB approved a new USD 143m Country Partnership Strategy (CPS) for Georgia covering the period 2006-2009. The CPS focuses on economic development and poverty reduction, and on emerging Government strategic thinking on the development framework. A key component of the CPS is a series of annual budgetary support Poverty Reduction Support Operations (PRSOs), complemented by a Public Sector Reform Support Programme. These operations underpin and complement the World Bank's investments in infrastructure and social sectors. The PRSO's first disbursement in 2006 (USD 20 million) is linked to four groups of conditionality: strengthening public sector accountability, efficiency and transparency; improving electricity and gas sector services; improving the environment for private sector development; and improving social protection, education and health care services.

Under an innovative donor pooling arrangement, the **World Bank** has contributed a USD 3 million grant for the Public Sector Financial Management Reform Support Project, in cooperation with **DFID** (USD 4.5m), the **Netherlands Ministry for Development Cooperation** (EUR 1.8m) and **SIDA** (USD 4.5m). The resources will be channelled into assisting the Georgian Government in implementing key reform actions identified in its Strategic Vision for Public Finance Management Reform. The project aims to provide technical assistance and investments for: (1) strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources, MTEF, establishment of a Personnel Management Information System, modernisation of the Treasury System; and (2) improving accountability in the use of public resources.

US Government assistance in 2006 has gone down to USD66m from USD86m in 2005, of which USD43m was provided by USAID for projects mainly targeting economic growth, energy and environment, democracy and governance, health and social development, and support for civil society.

In addition, the US Government is providing a five-year USD 295.3 million grant through the **Millennium Challenge Corporation (MCC)**. The programme includes complementary actions for rehabilitating regional infrastructure and promoting local enterprise development. The ongoing USD 211.7 million ('Compact') includes Samtskhe-Javakheti Road Rehabilitation, Energy Rehabilitation and Regional Infrastructure Development Facility. The Enterprise Development Project of the Compact totals USD 47.5 million and includes Georgia Regional Development Fund and Agribusiness Development Assistance.

In March 2006, the **International Monetary Fund (IMF)** Executive Board completed the third review of Georgia's Poverty Reduction and Growth Facility (PRGF) arrangement and approved a USD 20.2 million disbursement, bringing total disbursements under the arrangement to about USD 80.7 million. The IMF has the leading role in assisting Georgia in improving macroeconomic stability and pursuing fiscal reforms and designing monetary policy. The IMF focuses on Treasury Reform within the Ministry of Finance. In partnership with the World Bank, the IMF contributes to the development of the financial sector, public expenditure management and civil service reform in Georgia.

Georgia is part of the **EBRD** "Early Transition Countries" (ETC) initiative which aims to increase investments in the Bank's seven poorest countries. Through this initiative, the EBRD focuses its efforts on private sector business development and selected public sector interventions. As of the end of 2005, the EBRD had signed 49 investment loans in Georgia with cumulative commitments totalling USD 401.3 million. The current portfolio includes 33 private sector projects (of which five are regional).

The German Federal Government has over the years developed a solid bilateral cooperation programme with Georgia. Since Georgian independence in 1992, Germany has made in excess of EUR 240 m available for development cooperation and is a major bilateral donor, with assistance currently focusing on promoting democratisation and municipal development, economic reforms and market economy and development in the energy sector.

Netherlands. The overall objective of the development cooperation programme in Georgia is poverty reduction. In 2005, delegated funds amounted to EUR 4.9m, mostly focusing on poverty reduction, promoting good economic governance, public sector development, democratisation and rule of law, human rights and peace building efforts, plus further transition towards a functioning market economy. In addition, the Dutch Embassy has allocated EUR 80 000 for funding civil society initiatives.

In the last two years, the Swedish International Development Cooperation Agency (**SIDA**) has intensified its operation in Georgia, with grants amounting in 2005 to about EUR 4.5m, focusing primarily on democratic governance and agriculture development. Sweden plans to double the volume of assistance to Georgia under its 2006-09 cooperation strategy.

With its programmes in Georgia, the **UK Department for International Development** aims to contribute to the Millennium Development Goals and the elimination of poverty. DFID funds technical assistance programs in health and welfare, sustainable livelihood, good governance and EU integration.

France. France is especially active in the education and cultural field. Scholarship have been provided for Georgian students to study in France. France has also seconded a consultant to the Prime Minister's office to advise on ENP-related issues. French regional and municipal administrations provide assistance at local level, such as the Yonne/Kakheti partnership in the field of oenology and the Nantes/Tbilisi and Lion/Kutaisi partnerships in education and in rehabilitation of small infrastructure.

Lithuania has provided technical assistance to Georgia on European integration since 2005, mainly in support of the office of the State Minister for European and Euro-Atlantic integration. In addition assistance was provided as humanitarian aid, training of Georgian officials and promotion of Lithuanian-Georgian parliamentary cooperation.

Poland has earmarked in 2006 the equivalent of EUR 750.000 for the financing of various projects including the transfer of Polish experience on development of local government, reform of the penitentiary, reintegration of former soldiers in the civil society, assistance to the national police. In 2004-05 Poland has financed a number of project involving Georgian civil society.

Starting from 2007, **Romania** plans to include Georgia among the main beneficiaries of its development aid. Assisted sectors should include good governance, strengthening democracy and the rule of law, economic development, education, health, infrastructure development and environment protection.

The UNDP arrived in Georgia in 1993 following Georgia's formal entry into the United Nations. The UNDP is providing targeted assistance in the areas of democratic governance, environmental conservation and governance, poverty reduction, crisis prevention and recovery. The UNDP is involved in the public administration reforms through its assistance to the Public Service Bureau. UNDP institutional capacity building assistance was also provided to individual institutions and agencies (the Georgian Parliament, Public Defender's Office, Chamber of Control, Constitutional Court, Ministry of Justice, Ministry of Finance, etc.). The UNDP focuses strongly on promotion of economic growth and poverty reduction and has assisted the Georgian government with planning its Economic Development and Poverty Reduction Programme.

6.6 ANNEX 6: “POLICY MIX” CONSIDERATIONS IN THE GEORGIA CSP

CFSP - Conflict resolution. The EU contribution to peaceful resolution of conflicts in Abkhazia and South Ossetia is implemented through Joint Actions under the Common Foreign and Security Policy (CFSP):

- on February 2006 the EU appointed a new EUSR with a mandate to contribute (as compared to the 'assist' of the previous mandate) to peaceful settlements of conflicts in South Caucasus;
- the EU is contributing to the functioning of the South Ossetia Joint Control Commission, a quadripartite peace mechanism including Georgia, Russia, and South and North Ossetia, with the EC and OSCE as observers;
- in coordination with the OSCE, the EU will also continue to provide assistance to Georgia with consolidating the reform of the Georgian Border Guards, an important aspect of the overall improvement of Georgia's border management.

Under the ENP Action Plan, the EU has committed itself to contributing further to confidence building and economic assistance in the light of progress in the peace settlement process. Depending on developments, a specific priority under this CSP will provide specific assistance related to all aspects of conflict settlement and settlement consolidation.

Conventional weapons disarmament. Georgia faces significant small arms challenges, many of which date back to the separatist conflicts with Abkhazia and South Ossetia in the early 1990s. These conflicts led to the proliferation of small arms that continue to circulate, reducing security and fuelling crime. There are currently few effective measures in place to tackle the small arms problem. Small arms proliferation continues to be an area needing further attention. In 2005, the Government established an Inter-Agency Group to coordinate small arms work

Concerning **energy**, Georgia is an important transit country for oil and gas from the Caspian basins. The BTC oil pipeline and the BTE gas pipelines, connecting the Caspian basin with Turkey, thus bypassing Russia and Iran, will increasingly become a strategic alternative energy corridor. As regards domestic energy consumption, Georgia is almost entirely dependent on imports, in particular from Russia, at prices much lower than normal market prices. In-kind payments of gas and oil as transit fees for the two BTC BTE pipelines should alleviate Georgia's dependency on Russia starting from 2007. Georgia is currently trying to renegotiate its agreement with Azerbaijan as regards in-kind transit payments. The Government has stated that it intends to halve its dependence on Russian oil and gas as early as from 2007. During the period covered by this CSP, the EU will therefore intensify its energy cooperation with Georgia with the double objective of contributing to the EU's own security of supply and avoiding future disruption of energy supply to Georgia that could jeopardize the implementation of the ENP AP's objectives.

JLS cooperation. A fundamental reform of the judiciary and of law enforcement agencies, stronger border management, strengthened police and judiciary cooperation and the development of an asylum system fully in line with European standards are key issues in this area. Because of its location between Europe and Central Asia, Georgia could, without strengthened controls at its borders, become a transit country not only for energy and goods, but also for illegal migration, illegal trafficking and criminal activities. The EC will continue to give high priority to these issues under the future ENPI.

Development cooperation: Georgia is a low middle income country where, in spite of sustained economic growth and improved fiscal revenues in the last two years, more than one third of the population lives below poverty line. General EC development policies therefore apply. The Georgian government adopted an Economic Development and Poverty Reduction Programme in July 2003 and approved a First National Report on the Millennium Development Goals (MDGs) in 2005. Country-specific MDGs have been developed for Georgia. EC external assistance strategy for Georgia therefore has a strong focus on poverty reduction in particular at regional and local community level.

Trade policy: The EU is Georgia's main trade partner and Georgia has qualified for the GSP+ scheme since 1 January 2006. Although Georgia's exports to the EU are not highly diversified, they increased by 50% in 2005. Further regulatory streamlining on several trade-related issues envisaged in the PCA and the ENP Action Plan should help Georgia increase and diversify its exports to the EU and to the rest of the world. In this respect, this CSP provides for assistance with the above trade-related regulatory issues, notably technical regulations, standards and conformity assessment, sanitary and phytosanitary requirements, customs legislation and procedures, taxation, intellectual and industrial property rights, public procurements, etc. Under the ENP AP the EU and Georgia will explore possible options for further enhancing bilateral trade relations, including the possible establishment of a FTA. In this context the Commission will undertake a feasibility study which will also look at regional trade and economic integration aspects.

Transport: In this field Georgia played an active part in the EU-Black Sea-Caspian Basin Ministerial Conference in November 2004 in Baku and continues to play an active role in the follow-up Working Groups. The EC has a strategic interest in providing support for areas identified as important in this context and for priority measures in line with the recommendations of the High Level Group on the extension of the major trans-European transport axes to neighbouring countries and regions. As regards maritime transport, new joint governance initiatives, regarding not only individual maritime sectors but also maritime affairs as a whole, could be considered as the new EC maritime policy develops, with a view to a more coordinated approach to the management of the Black Sea. In March 2005, the Commission adopted a Communication proposing the creation of a wider European Common Aviation Area including the neighbouring countries of the EU by 2010. It also includes the objective of Georgia joining this initiative in the medium term.

Global and trans-boundary environment issues: As regards environment protection, environmental threats such as like climate change affect both Georgia and the EU. Both parties are committed to implementing the Kyoto Protocol and the UN Framework Convention on Climate Change. Trans-boundary environmental threats include the use and protection of shared waters, in particular the Black Sea. The EC is currently providing support in this area under the ENPI Regional Strategy and envisages follow-up measures under future assistance programmes.

Regarding **information technology** support for the research and education sector, Georgia is improving its ICT infrastructure for schools via the Deer Leap project. The Georgian National Research and Education Network (GRENA) is an established organisation, recognised and supported by the relevant ministries. A good linking of GRENA to the European GÉANT2 backbone will not only give the Georgian research and education sector full access to e-Science resources in Europe, but will also allow Europeans to access the Georgian scientific resources.

6.7 ANNEX 7: MDGs FOR GEORGIA



	1990	1995	2001	2002	2003
Click on the indicator to view a definition					
1 Eradicate extreme poverty and hunger					
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	..	..	2.7	..	..
Poverty gap at \$1 a day (%)	..	..	0.9	..	..
Percentage share of income or consumption held by poorest 20%	..	..	6.4	..	..
Prevalence of child malnutrition (% of children under 5)	..	..	..	..	..
Population below minimum level of dietary energy consumption (%)	..	39.0	..	27.0	..
2 Achieve universal primary education					
<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	97.1	..	90.7	88.7	..
Percentage of cohort reaching grade 5 (%)	..	..	..	..	..
Youth literacy rate (% ages 15-24)	..	..	..	..	..
3 Promote gender equality					
<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	98.2	..	100.6	99.7	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..
Share of women employed in the non-agricultural sector (%)	44.9	45.3	48.5	46.5	45.2
Proportion of seats held by women in national parliament (%)	..	..	7.0	7.0	7.0
4 Reduce child mortality					
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	47.0	45.0	..	..	45.0
Infant mortality rate (per 1,000 live births)	43.0	41.0	..	..	41.0
Immunization, measles (% of children under 12 months)	..	61.0	73.0	73.0	73.0
5 Improve maternal health					
<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..	..
Births attended by skilled health staff (% of total)	..	..	..	..	..
6 Combat HIV/AIDS, malaria and other diseases					
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>					
Prevalence of HIV, female (% ages 15-24)	..	..	0.0	..	..
Contraceptive prevalence rate (% of women ages 15-49)	..	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	38.2	54.2	83.7	83.2	82.8
Tuberculosis cases detected under DOTS (%)	..	17.0	51.7	51.0	51.9
7 Ensure environmental sustainability					
<i>2015 target = various (see notes)</i>					
Forest area (% of total land area)	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	2.3
GDP per unit of energy use (PPP \$ per kg oil equivalent)	..	2.1	3.9	4.2	..
CO2 emissions (metric tons per capita)	..	0.5	..	..	..
Access to an improved water source (% of population)	..	..	..	76.0	..
Access to improved sanitation (% of population)	..	..	..	83.0	..
Access to secure tenure (% of population)	..	..	..	..	..
8 Develop a Global Partnership for Development					
<i>2015 target = various (see notes)</i>					
Youth unemployment rate (% of total labour force ages 15-24)	..	..	20.1	..	..
Fixed line and mobile telephones (per 1,000 people)	98.9	102.3	174.9	233.5	239.7
Personal computers (per 1,000 people)	..	..	28.7	31.6	..
General indicators					
Population	5.5 million		5.0 million	4.7 million	4.6 million
Gross national income (\$)	..	2.6 billion	3.1 billion	3.3 billion	3.8 billion
GNI per capita (\$)	..	510.0	660.0	710.0	840.0
Adult literacy rate (% of people ages 15 and over)	..	..	..	..	..
Total fertility rate (births per woman)	2.2	1.4	..	1.1	1.1
Life expectancy at birth (years)	72.3	..	..	73.3	73.5
Aid (% of GNI)	..	8.1	9.5	9.4	5.6
External debt (% of GNI)	..	48.2	54.7	55.1	49.2
Investment (% of GDP)	30.7	4.0	21.9	22.1	24.4
Trade (% of GDP)	85.6	67.8	63.6	69.8	78.2

Source: World Development Indicators database, April 2004

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Achieve Universal Primary Education	1990	1995	2001	2002	2003
Net primary enrolment ratio (% of relevant age group)	97.1	98.1	98.9	99.9	100.0
Percentage of cohort reaching grade 5 (%)	N/A	85.4	95.5	95.0	93.7
Youth literacy rate (% ages 15-24)	98.7	97.4	97.7	99.8	99.9
Ratio of girls to boys in primary and secondary education (%)	98.2	92.8	97.0	99.7	95.7

6.8 ANNEX 8: GEORGIA DATA PROFILE

THE WORLD BANK GROUP

A World Free of Poverty



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Click on the indicator to view a definition	2000	2004	2005		
People					
Population, total	4.7 million	4.5 million	4.5 million		
Population growth (annual %)	-1.1	-1.0	-1.0		
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Life expectancy at birth, total (years)	70.3	70.5	..	..
Fertility rate, total (births per woman)	1.5	1.4	..	..
Mortality rate, infant (per 1,000 live births)	41.0	41.0	..	..
Mortality rate, under-5 (per 1,000)	45.0	45.0	..	..
Births attended by skilled health staff (% of total)	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	..
Immunization, measles (% of children ages 12-23 months)	73.0	73.0	86.0	..	
Prevalence of HIV, total (% of population ages 15-49)	..	..	0.2	..	
Primary completion rate, total (% of relevant age group)	..	101.3	85.6	..	
School enrollment, primary (% gross)	100.1	95.1	..	..
School enrollment, secondary (% gross)	78.9	82.3	..	..
School enrollment, tertiary (% gross)	37.9	41.5	..	..
Ratio of girls to boys in primary and secondary education (%)	..	99.1	99.3	..	
Environment					
Surface area (sq. km)	69,700.0	69,700.0	69,700.0		
Forest area (sq. km)	27,600.0	..	27,600.0		
Agricultural land (% of land area)	43.2	..	..
CO2 emissions (metric tons per capita)	1.2	..	..
Improved water source (% of population with access)	..	82.0	..		
Improved sanitation facilities, urban (% of urban population with access)	..	..	..	96.0	..
Energy use (kg of oil equivalent per capita)	613.3	..	..
Energy imports, net (% of energy use)	54.2	..	..
Electric power consumption (kWh per capita)	1,359.9	..	..
Economy					
GNI, Atlas method (current US\$)	3.3 billion	4.8 billion	6.0 billion		
GNI per capita, Atlas method (current US\$)	700.0	1,060.0	1,350.0		
GDP (current US\$)	3.1 billion	5.1 billion	6.4 billion		
GDP growth (annual %)	1.8	5.9	9.3		
Inflation, GDP deflator (annual %)	4.7	8.4	8.0		
Agriculture, value added (% of GDP)	21.9	17.9	16.7		
Industry, value added (% of GDP)	22.4	26.4	27.4		
Services, etc., value added (% of GDP)	55.7	55.7	55.9		
Exports of goods and services (% of GDP)	23.0	42.8	38.4		
Imports of goods and services (% of GDP)	39.7	53.9	48.7		
Gross capital formation (% of GDP)	21.6	28.3	26.8		
Revenue, excluding grants (% of GDP)	10.8	19.3	..		
Cash surplus/deficit (% of GDP)	-1.6	0.5	..		
States and markets					
Time required to start a business (days)	..	25.0	21.0		
Market capitalization of listed companies (% of GDP)	0.8	4.0	5.5		
Military expenditure (% of GDP)	0.6	1.4	3.1		
Fixed line and mobile phone subscribers (per 1,000 people)	..	149.0	337.3	..	
Internet users (per 1,000 people)	4.9	38.9	..	..
Roads, paved (% of total roads)	..	..	..	..
High-technology exports (% of manufactured exports)	13.2	38.0	..	..
Global links					
Merchandise trade (% of GDP)	32.1	48.7	52.5		
Foreign direct investment, net inflows (BoP, current US\$)	..	131.0 million	499.1 million	..	
Long-term debt (DOD, current US\$)	1.3 billion	1.7 billion	..	..
Present value of debt (% of GNI)	..	36.9	..	..
Total debt service (% of exports of goods, services and income)	..	12.5	11.2	..	
Official development assistance and official aid (current US\$)	..	169.4 million	315.4 million	..	
Workers' remittances and compensation of employees, received (US\$)	..	274.0 million	303.0 million	346.0 million	

Source: World Development Indicators database, April 2006

