Georgia’s Progress Report on Implementation of the ENP Action Plan

(January-June 2008)
1. Introduction

The Context of Progress Report

The EU-Georgia European Neighborhood Policy Action Plan (ENP AP) was jointly endorsed by the Government of Georgia and the European Commission (EC) on November 14, 2006. The AP lays out strategic objectives of cooperation between the sides going beyond the Partnership and Cooperation Agreement. The Government of Georgia started assessments of Georgia’s progress in 2007: semi-annual progress report was issued in July; it was followed by the Government’s comprehensive Annual National Progress Report in January 2008, which also served as contribution to EC’s Progress Report. The reports are intended for the EC, the EU member states, and various other interested parties, such as different international organisations and the public at large.

The present Progress Report describes the main achievements and ongoing developments in the framework of the AP priorities during the first half of 2008. The document recounts the most important developments.

The EC published its 2007 Progress Report on Georgia on April 3, 2008 highlighting the assessment on Georgia’s reform progress and challenges. However, it did not fully reflect the achievements reported by the Georgian Government and is currently debated by the Georgian side.

The Government of Georgia elaborated and discussed the AP implementation plan for 2008 in the Government Commission on European integration on March 7, 2008. The endorsed AP implementation plan is used for monitoring implementation of the related activities planned for 2008.

The AP related issues were further discussed and agreed in the number of joint high level meetings organized between the EU and Georgia, among them semi-annual conferences on ENP AP implementation – “Georgia’s European Way”.

The AP implementation plan for 2008 was presented during the seventh meeting of the EC – Georgia sub-committee on Trade, Economic and related legal issues organized in Tbilisi on March 12, 2008 that also discussed the macro-economic developments, trade, investment, approximation of legislation and progress made with the Partnership Cooperation Agreement and the AP implementation. The Sub-committee welcomed the Georgia’s progress achieved in ENP implementation during 2007.

The EU Council concluded on February 25, 2008 to formally establish the EU-Georgia Cooperation Sub-committee on Justice, Freedom and Security issues. The first meeting of the Sub-committee was held in Brussels on April 30, 2008. The parties discussed a wide range of issues, including issues related to management of legal and illegal migration and border management, the prospects of the EU-Georgia cooperation on visa facilitation. The Sub-committee positively assessed accomplished work and stressed out active efforts of the Government of Georgia in JLS related reforms.
2. Implementation of Obligations under the AP: Main Developments

2.1. Democracy and the rule of law, human rights and fundamental freedoms

The Presidential and Parliamentary elections

Presidential election (5, January 2008): January’s presidential election, the most competitive in the country’s history according to international assessments, began to restore international confidence in the integrity of Georgian democracy. Over a thousand international monitors observed the process and, despite problems, deemed the poll to be “in essence consistent with most international standards for democratic elections”. The final figures had Mr Saakashvili’s winning re-election with 53.47% of the vote. Exit Polls and two Parallel Vote Tabulations taken the same day predicted similar results.

Parliamentary elections (21, May 2008): Following January’s poll, the government focused its efforts to address the challenges identified by international monitors and to respond to concerns articulated by the opposition. One of the and enhance the public’s trust in the election process.

The Parliamentary elections were closely observed by international society, as the polls were considered another crucial test of Georgia’s democratic maturity. Over 15,000 domestic and international observers evaluated the elections; Observers noted that although some shortcomings persist, the elections demonstrated clear progress and were a step forward for Georgia. The EU Council adopted the conclusion in Brussels on 26 – 27 May 2008 where stated that “The Council examined the situation in Georgia following the parliamentary elections held on 21 May 2008 which were an important test for democracy. The Council congratulated the people of Georgia on the peaceful conduct of the elections, welcomed the efforts made by Georgian authorities since the last elections and urged them to take all necessary steps to address the shortcomings and problems identified by the OSCE-led International Election Observation Mission”.

The most important actions undertaken since January focus on the following areas:

Increasing the Effectiveness of Election Commissions: To ensure the transparency and inclusiveness in election commissions, opposition parties were significantly greater representation on the district electoral commissions; therefore, at all levels, the electoral commissions were composed of one member of the United National Movement, 6 opposition members, and 6 neutral members.

The CEC drafted and implemented an ambitious reform strategy, to ensure the capacity building of election administrations at central, district and local levels and increase the public awareness of the entire election process.

CEC organized dozens of “cascade” training sessions for officials on effective administration and complaints processing, with the support of the UNDP, the Council of Europe, IFES, and other international organizations. The CEC also simplified reporting procedures from electoral precincts to the CEC to minimize the risk of fraud or error. In addition, restrictions on domestic observer organizations were eliminated, so that these groups could monitor any precinct at any time on election day.
The CEC organized seminars for representatives of election blocs and parties, as well as for the media. The seminars focused on election procedures and the process for filing complaints and appeals. In addition, several seminars were organized around the country to instruct over 120 judges adjudicate on adjudication of election-related complaints co-sponsored by the Venice Commission of the Council of Europe.

**Establishing Conditions for Greater Political Pluralism:** The threshold for a political party to enter Parliament was reduced from seven percent of the national vote to five percent, in line with Council of Europe recommendations. At the same time, the number of signatures required to register a political party was lowered from 50,000 to 30,000—which represents less than one percent of the voting population and is in line with international standards. Also, 30 percent threshold was instituted for election in majoritarian Parliament seats.

**Improving Voter Lists:** After an exhaustive analysis of election-day registrations from the January presidential poll, as well as registrations prompted by a national voter awareness campaign, the CEC added over 66,000 new voters to the Unified Voters List and corrected the entries of roughly 40,000 more.

**Limiting the Misuse of Administrative Resources:** The electoral code was revised to limit opportunities for the misuse of administrative resources in the context of a political campaign. The door-to-door campaigns of social welfare programs were suspended until elections, to prevent the blurring of state and party activities.

**Increasing Public Awareness:** In order to promote public awareness of election procedures, as well as of their voting rights, the Central Election Committee (CEC) implemented a wide-ranging public-information campaign in broadcast, print, and outdoor media.

**Maintaining Balance in Media Coverage:** One result of the government-opposition dialogues was that the opposition has been given an equal say in appointing the governing board of the Georgian Public Broadcaster. There thus has been a complete renewal of the board, which elected a new director-general.

According to the pre-electoral media monitoring report, conducted by a private company “Prime-Time” the media in general offered free and equal access to all candidates; was generally balanced; and offered viewers a comprehensive sense of the political platforms of the Parliamentary candidates—thus enabling voters to make an informed choice. The media monitoring of „Gorbi“ and „Transparency International“ – Georgia noted, that 97% of the TV coverage was neutral in tone.

**Ensuring an Effective Response to Complaints:** The law governing the procedures for filing election-related complaints was substantially clarified and simplified after the January election. The defined three-step appeals process; was introduced; ambiguity over jurisdiction that previously existed—whether a complaint should fall under the purview of the courts or the election administration—was eliminated. Perhaps most importantly, the law was changed so that no complaint could be rejected on technical grounds without reasonable time being granted for revisions. Furthermore, all decisions on complaints now must be thoroughly documented and substantiated.

As a result the absolute majority of the complaints were examined on merits. Overall, 41 precincts were annulled following the May 21 voting; by comparison, only 12 were annulled.
after the presidential election in January. Similarly, the courts satisfied 27 percent of complaints after the May 21 election, compared to 7 percent in January.

Civil Service Reform

Optimization of the number of public servants: As a result of the implemented institutional changes number of public servants was further optimized. Budgetary revenues increased through the reforms and structural changes caused saving of significant budgetary funds. Thus it allowed further raising salaries of public servants.

Improvement of producing country’s development policy documents: Within the public service reform Government’s medium-term strategy document was produced based on the analysis of country’s development policy documents.

Strategy is a “living” document, updated annually. On the basis of Government’s medium-term strategy, medium-term action plans of the ministries were developed. Ministries have identified priorities to be implemented in the area in a medium term (3-5 priorities) and set the tasks for fulfilment of the priorities.

At present ministries have the medium-term policy documents already well-weighed and formatted.

Public Service Code: The draft of public service code was developed. At present the principles and measures provided for under the Code are being discussed.

Fight Against Corruption

One of the key tasks of public service reform vision is to reduce as much as possible opportunities for corrupt bargains within the public service for which series of measures were taken. In order to make the implemented reforms consistent and raise the possibility of effective fulfilment of the task set, Georgia’s national anti-corruption strategy is implemented through the specially elaborated action plan. The plan is a living document, updated annually in accordance with the progress report of anti-corruption plan and analyses of respective period.

The Action Plan on the Implementation of the National Anticorruption Strategy of Georgia was adopted on March 28, 2007 under the Presidential Directive № 155. On July 2, 2007, the Action Plan was amended and the updated version of the Action Plan was approved by the President on the basis of the Directive №363 which determines actions to be taken by Government Agencies at the national and institutional level.

The updated Action Plan consists of the following parts:

Efficient and corruption-free public sector – Introduction of electronic signature; improvement of budget and treasury system; improvement of the level of transparency within public sector and better financial control.

In 2008 (March) the GoG approved the Amendments to the Law of Georgia on “Corruption and Conflict of Interests in Public Sector” (adopted in 1997). The amendments introduce more clear regulations and interpretation of conflict of interests, gifts as well as clear criteria of recruitment and promotion of public servants. The draft law on amendments also contains the general rules of code of conduct of public servants. Among others the rules determine obligations of public servants concerning the corruption related transgressions and conflict of
interests, ensuring accessibility and use of public information. The amendments envisage broadening the sphere of regulation of the Law that will cover all public officials and special amendment are made according to recommendations of GRECO. The amendments are submitted to the Parliament.

**Education System** – education finance system is restructured, the voucher system and equal access to budget funds regardless whether school/university is public or private. In 2008 reform of remuneration and social benefits of public school teachers was performed: salaries are increased and other benefits are introduced with the aim to provide with adequate remuneration of employed in the system and decrease likelihood of corruption related transgressions.

**Competitive and corruption-free private sector** – this part covers the measures aiming at the improvement of customs and taxation systems, etc.

**Simplified trade regime procedures**: less export/import paper work – reduced by more than half; slashed time requirements. In 2008 by-laws have been approved that made further improvements in clarification of customs procedures are foreseen and modern Risk Management System is being gradually adopted in all customs units within all Regional Service Centers since. Post-clearance controls will be launched at the end of 2008.

As result detailed procedures of customs control have been developed, relevant responsibilities assigned and documents standardized and risk assessment based checking system was introduced, which shortened time required for the process, simplified the customs clearance procedures and reduced likelihood of corruption.

In order to ensure more transparency and quick response to corrupt transgressions at customs, special "hotline" service operates since 2007, which also serves for providing access to information and consultations on import and export rules and procedures.

**Simplified Tax Regulation**: in 2008 the Income Tax (12%) and Social Tax (20%) were merged into Income Tax and decreased in total up to 25%, so only 6 taxes are left; Income tax from 25% stepwise to 15% 2009/2004; no income tax for capital market incomes; any income received by the resident individuals from non-domestic sources exempted from personal tax.

Transformation of territorial units of the Revenue Service has been competed on the regional level and well equipped Regional Service Centers were established with the aim of optimization of old institutional structure and provision of better services to tax-payers in the most transparent manner.

With further reduction of tax rates, simplification of taxation procedures institutional development the GoG supported to decrease of likelihood of corruption in the system.

**Simplified procedures for business registration**: amendments to the Law “On Entrepreneurs” has been approved (March 14, 2008), according to which business registration is done at the moment of submission of application, special regulation of minimal paid in capital, as well as requirement of having official seal and notarization of documents and others are eliminated. Simple registration process serves as a precondition for complete elimination of corruption during the business registration process.
**Licenses and permits:** The number of licenses and permits are dramatically reduced (almost 85% reduction), ‘One – stop shop’ licensing principle is active and the strict rules for ‘silence-is-consent’ principle works in practice; tradable and dividable rights for natural resources are auctioned. Construction regulations are simplified.

**Healthcare and Health Insurance** – From state owned hospitals which were heavily underutilized with 17 500 hospital beds, Georgian people will have 100 new and modern private hospitals. 90% of our population will be within 30 minutes in hospitals. The reduction of healthcare facility licenses, from previous 40 to 4, has created effective and corruption free environment of hospital sector regulation the budget of healthcare system is deeper integrated with healthcare system and efficient health insurance coverage system is created instead of previous plain and unfair system.

**Energy Sector** – the GoG has introduced less burdensome regulation in the spheres of electricity and natural gas that eliminated existing limitations on maturity of contracts, tariffs and others. As a result of the introduced legislative amendments, long-term contracts are allowed, new energy capacities are deregulated and vertical integration is allowed in electricity sector, price regulation of wholesale tariffs and new gas network is eliminated in natural gas sectors. These actions ensured more freedom of entrepreneurs and decreased regulatory burden and discretion of regulators and officials.

**Improvement of the performance of judiciary and law enforcement systems** – improvement of the structure and performance of the law enforcement agencies with a view to increasing their efficiency; improvement of judicial system; improvement of the penitentiary system; development of mechanism of protection of witnesses and accusers, etc.

**Improvement of legislation in terms of fighting corruption** – fulfillment of the country’s international commitments (e.g. the ratification of the United Nations Convention on Corruption, etc.), implementation of applicable standards and guidelines, etc. Currently the Anti-Corruption Strategy is being revised by the government.

**Georgia has signed the European Criminal Convention on Corruption** as early as in January 1999. In December 2006 Georgia has finally ratified the Convention. At the moment relevant Georgian authorities are working on the designation of the body responsible for the implementation of international legal instrument at issue. After the completion of the aforementioned procedure the instrument of ratification will be submitted to the depositary. However, it is important to mention that all relevant legislative amendments have been taken to ensure compatibility of Georgian legislation with the Convention standards.

GoG cooperates with the Council of Europe within the framework of the Project “Support to the National Anti-corruption Strategy”, which envisages support to the GoG in enhancing the legislation and streamlining and implementation of the National Anti-corruption Plan, support to increase of awareness of public servants in related issues and others.

**Georgia acceded to the Group of States against Corruption (GRECO)** on September 16, 1999. In 2001, Georgia was evaluated by the GRECO, which adopted 25 recommendations to the Georgian authorities (1 Evaluation Round). At the 34th Plenary Meeting, which was held in Strasbourg on October 16-19, 2007, the Final Overall Assessment Report was discussed by which the First Evaluation Report is concluded. Report outlines that civil society had been adequately involved in the process of monitoring the Anti-Corruption Strategy and related
Action Plan. It is said that: ‘Georgian authorities have made laudable efforts over the last few years to come to grips with corruption and to design sound anti-corruption policies.

The II Evaluation Report of Georgia was adopted at the 31\textsuperscript{st} Plenary Meeting of GRECO on December 4-8, 2006. The GoG prepares the Overall Assessment of this report which is planned to be issued by the end of June, 2008. Further evaluations will be conducted after the conclusion of the Second Round Compliance procedure of Georgia.

With a view to ensuring compatibility of the Georgian legislation with the international standards of corruption and introduction of criminal liability of legal entities for corruption the Parliament of Georgia ratified the European Criminal Convention on Corruption in December 2006. The legislative amendments were initiated with a view to ensuring compatibility of the legislation in force with the Convention in 2007.

Georgia successfully implemented 21 CRECO recommendations and moved forward to the second round. According to GRECO Evaluation Report on Georgia 2006 “In the area of Public Administration commendable efforts have been made to combat institutionalized corruption in the most affected parts of public sector”.

Transparency International’s Corruption Perception Index raised from 1.8 in 2003 to 3.4 in 2007 (Georgia jumped ahead over 30 places in the rating to compare with 2006)

In accordance with the independent study done by reputable institution – International Republican Institute (IRI) in February 2008, fight against corruption is acknowledged by the Georgian population as one of the most significant achievements of the Government of Georgia. It should be mentioned that according to the assessments of the Council of Europe Group of States against Corruption (GRECO) and Anti-Corruption Network of Transitional Countries (ACN/OECD), criminal code of Georgia is compatible with the best international practices (in terms of fighting corruption).

In June 2008 special plenary session of OECD’s Anti-Corruption Network (ACN) was held in Tbilisi where achievements of the anti-corruption policy of Georgia implemented since 2004 on which the anti-corruption measures taken were assessed positively and treated as successful.

New Parliament of Georgia plans to ratify the UN Convention Against Corruption before summer brake this year. At this stage comprehensive compatibility study of Georgian legislation with the Convention is completed at the Ministry of Justice and the relevant legislative amendments will be submitted to the Parliament at the Fall Session.

Local governance:

The Decentralization Strategy: The draft Decentralization Strategy has been elaborated and presented to the State Commission on Effective Governance System and Territorial Arrangement Reform and the State Minister for Regional Issues by the Centre for Effective Governance System and Territorial Arrangement Reform in April 2008. The document is defining basic directions of the reform to be implemented in the field of local self-governance by Georgian authorities. The draft Decentralization Strategy will become subject of discussion of the State Commission for Effective Governance System and Territorial Arrangement Reform in July 2008.
The establishment of new State Minister’s office: The new State Minister’s office has been established within the Government of Georgia in January 2008. The State Minister for Regional Issues is assigned to ensure better coordination of governmental activities with regard to implementation of local self-governance and regional governance reforms.

Institutional arrangement: The draft “Organic Law on Amendments and Supplements to the Organic Law on Local Self-government” has been elaborated in January-February 2008. Basically, the draft aims to provide improved institutional arrangement of local self-governments. According to the draft Law the position of the Mayor will be introduced who will chair the local council and implement executive authorities of the local self-governing unit at the same time. The draft law was prepared by the Centre for Effective Governance System and Territorial Arrangement Reform in active cooperation with the Council of Europe. According to the estimation of the Council of Europe experts, after adoption of the final version of the aforementioned draft law the Organic Law on Local Self-government will be in essential compliance with requirements set by the European Charter of Local Self-governance. The draft has been submitted to the Parliament of Georgia in February 2008. The aforementioned version of the draft law shall be adopted at the first session of the newly elected Parliament.

Sectoral legislation: At the request of the State Minister on Regional Governance Issues the Centre for Effective Governance System and Territorial Arrangement Reform has prepared a list of 80 sectoral legislative acts, which need to be harmonized with the Organic Law on Local Self-government.

Judicial system

One of the principal aims of the judicial system reform is to ensure institutional reorganization, continuation of modernization and intense introduction of the uniform court practice and promote prompt legal proceedings. The Supreme Court of Georgia carried out a research and studied study over 6,000 cases from December 2007 to March 1 2008. The study aimed to identify the possibilities to fasten the average terms of case consideration trials by the courts of different instances and levels. The study has demonstrated that the average terms of case trials at the courts of all three instances of Georgia are as follows: 18,3 months for civil cases, 15,9 months for administrative cases and 12,6 months for criminal cases.

Introduction of a special system of technical fixation of a legal procedure at all courts of Georgia is ongoing. The system allowing digital synchronous recording of court sessions is already in use at the Supreme Court of Georgia and it has been used at Rustavi City Court since February 2008. The courts will be equipped by 100 more record sets by 2009.

Stage-by-stage filling of judges’ vacancies was further undergoing. A qualification exam was held and five judges were appointed in April considering the criteria established by the High Council of Justice of Georgia. 11 candidates in April 2008 started a 14-month-long curriculum at the High School of Justice.

15 seminars were organized for active judges and court system personnel at the High School of Justice and 70 persons were trained. The School has introduced the planning mechanism for the training in collaboration with foreign partners, who actively support the court reform, including United National Developmental Program (UNDP), US Agency for International Development
(USAID), American Bar Association (ABA), Organization for Security and Cooperation in Europe (OSCE), German Agency for Technical Cooperation (GTZ), Norwegian Mission of Law Supremacy (NORLAG) and Council of Europe (CE).

Reform in Penitentiary

During last years, the fight against criminality has become very efficient and the level of corruption among law enforcement officers has been decreased significantly. Effectively functioning law enforcement institutions had contributed to the growth of prison population.

In order to address the above-said problems, Georgian Government has taken two sets of measures:

- First, the reconstruction of the existing prisons and the building of the new ones;
- Second, promotion of non-custudial sentences.¹

The ongoing reforms to tackle the problems in the penitentiary system are very obvious. However, seen from the objective perspective, it is extremely difficult to bring the prison conditions in line with international standards in a limited period of time, since many of the existing problems have their generating roots in the long past. That is why the substantial progress made last 6 months and the ongoing reforms should be seen in the overall context of prison reform. Namely:

- The recent and ongoing reconstructions and rehabilitations of prison infrastructure allow the Government to demolish the most notorious prison No.5 in Tbilisi. Prison No.5 has been built in the early 20th century and did not meet modern international standards. At this stage, inmates from the Prison NO.5 have been allocated in newly constructed Gldani Prison No.8 and the Geguti Prison.

- Tbilisi Prison №8 (Gldani Prison) – the construction of new and the most recent prison in Gldani District (Tbilisi) was completed and the new prison officially opened on 10 December 2007. The construction of prison started in 2006 and GEL 44 million (about 20 million EURO) was allocated from the budget. Experts from Council of Europe were taking part in the planning and construction of the prison. Systems of ventilation, heating and lightning meeting the international standards are installed in every cell. Shower facilities and laundry, as well as rooms for visitors, lawyers, library and kitchen equipped with all modern facilities are ensured in prison. The prison hosts around 4,000 inmates. Noteworthy is that the Gldani Prison broke a new ground for Georgian penitentiary in terms of security as well as equipment and facilities.

Nevertheless, reformation of the penitentiary system of Georgia, construction/renovation of the penitentiary institutions represents an imminent process. In line with refurbishment and construction of several penitentiary institutions during the last years, the following penitentiary institutions have been constructed and renovated in the last 6 months of 2008:

¹ Application of bail as a restraint measure has increased to 54, 5% in 2008; almost 50% of court decisions on conviction provides suspended sentence instead of imprisonment.
i. In March, 2008 renovation works of 4 buildings were completed in Geguti #8 institution. Resulting from this number of places increased from 917 up to 2000.

ii. Construction of a new, four-floor building (regime institution) for 1000 inmates is under way and will be completed in Geguti #8, in August, 2008.

iii. In August, 2008 the construction of new penitentiary building in Rustavi #2 for 1000 inmates will be completed.

Moreover, in Laituri, Guria Region, the construction of new penitentiary establishment, in line with international standards, has been started which will accommodate 3 000 prisoners.

Allocation of Budgetary Resources

The expenditures for capital costs, salary of the Prison Department stuff as well as the total budget of the Prison Department has been increasing, sometimes doubling or even tripling in comparison with previous years.

Sufficient funding of penitentiary system contributes to the eradication of corruption and improvement of both security and service in the system.

The chart below demonstrates that the capital expenditure, which includes costs for contraction and renovation works, buying new equipment etc, has been increasing from 200 thousand GEL to more than 58 million GEL including the year 2008.²

² As the practice shows, the budget of penitentiary institutions is subject to changes, so that in the end of the year, the amount of actual expenditures is normally higher than in the initial version of the budget.
Improvement of Living Conditions

As mentioned, the Government of Georgia is fully committed to bringing conditions in Georgia’s prisons to accepted international standards. For that end, ongoing reforms regulate the problematic issues in successive steps.

i. Nutrition

Monthly food expenditure for prisoners has increased within the recent years in successive steps, namely: in 2006 monthly expenditure for prisoner’s nutrition made 23,5 GEL, throughout 2007 this amount increased by 213% and amounted 50 GEL. Since 2008 analogical nutrition ration (80 GEL, approx 37 EUR) has been established in all penitentiary institutions without any exceptions.

Outsourcing of nutrition has already produced tangible results. It on the one hand improved the ratio of the inmates and on the other reduced number of parcels delivered from the families. Moreover, it allows the penitentiary department to provide adequate nutrition to those prisoners who need special diet due to the health condition.

ii. Healthcare

In October 2007 Penitentiary Department of the Ministry of Justice of Georgia concluded a contract with “Aldagi - BCI” insurance company that has been providing medical services to the prisoners since November 2007. Transition to the insurance system has entailed increase of the both service standard and trust towards the treatment quality from the prisoners’ and their relatives’ sides.

In order to improve health service in the penitentiary, it is critical to renovate and bring the existing medical establishments in line with modern international standards. Currently existing Prison Hospital, that can accommodate about 200 patients, fails to meet the demand. Therefore, new moder medical establishment was built in Gldani. The process of equipment is started and the existing Prison Hospital will soon be replaced by modern medical establishment for 400 patients.

Despite introducing the insurance system, the Government does not find itself released from responsibility of ensuring adequate medical treatment to every prisoner. On the contrary, the Government carries out all necessary measures in order to sustain relevant medical service by means of monitoring of the insurance company’s activities by Prison Department of the Ministry of Justice.

For that end, Human Rights Unit and Medical Supervision Unit were created at the General Inspections Department of the Ministry of Justice in March, 2008. The said is particularly important since the supervision of the human rights situation in the penitentiary, including the standard of medical service provided to the prisoner will be conducted by the General Inspections that directly reports to the Minister of Justice of Georgia.

The Ministry of Justice pays particular attention to improving the system of release of prisoners or postponing the sentence due to the health conditions. The court, based on the motion of the Prison Department, postponed the sentence of 22 prisoners in 2008. This process is not a
spontaneous one, but the MOJ is working in order to create transparent and efficient mechanism for release for health conditions. At this stage about 10 similar motions are pending in court.

### iii. Education

Throughout the recent period various employment and education programs have been gradually activated within the penitentiary system (computer learning courses, shoes micro production facility, icon-painting learning courses, sports activities and etc).

The Ministry of Justice of Georgia in association with The Ministry of Education and Science of Georgia and with the assistance of the reform group has elaborated the concept of medium, professional and higher education for prisoners. From September, 2008 secondary education shall be provided in Juvenile Colony in Avchala. Implementation of the education process and evaluation of outcomes (confirmation of grade/stage passing) shall be implemented separately.

With the purpose of prisoners’ education, the libraries of almost all penitentiary institutions have been refurbished and supplied with around 10 000 books of modern literature in the last 6 months of 2008.

### Probation System

The Georgian Government is committed to improve the probation system. Although in about 50% cased non-custodial sentences are applied by the Court, the Government believes that the tendency should continue. For this end, efficient probation service is of critical importance for the rehabilitation and support of the probationers. Accordingly, the Georgian Government, in particular the Ministry of Justice of Georgia set forth the main goals and activities in order to increase the efficiency of the Probation System:

- With Support of International Experts draft Probation Reform Strategy is being elaborated. Under the EC assistance an Estonian expert has been appointed for carrying out individual assessment which proved to be extremely beneficial since Estonia has undergone the same way of development as Georgia. The abovementioned assessment and further trainings contributed to elaboration of appropriate Probation reform strategy.
- Agreement between the Ministry of Justice of Georgia and the Autocephalous Orthodox Church of Georgia. The draft of the agreement has already been elaborated. The subject of cooperation constitutes the collaboration between the Church and relevant services of the Ministry for provision of carrying out the socially useful labor as punishment. This will be additional mechanism to facilitate transfer of people from prisons to probation.
- With the support of the United Nations Children’s Fund and organization “Penal Reform International” has been launched a pilot project in Batumi and Rustavi, which is focused on the juveniles under supervision of probation service, particularly, on their rehabilitation. In order to support Juveniles to reduce their risk of re-offending the following services will be delivered to juvenile probationers: individual and group work with children in-house; direct work with families in-house; educational support; psychological support service; referral to other services in the community.
- With the support of the United Nations Children’s Fund draft Directions document for Juvenile Justice System Reform has been elaborated that implies, *inter alia*, strengthening the probation system – application of imprisonment as a last resort of
punishment and acceleration of application for the alternative mechanisms, including probation system.

- With EC Financial Support it is planned to implement 2 year project “Reform Options for the Penitentiary and Probation System for Convicted Child Offenders in Georgia” which has been elaborated by UNICEF in cooperation with the Ministry of Justice of Georgia. The action concentrates on a penitentiary and probations systems that are mutually re-enforcing through ‘individual reintegration planning’ and ‘reintegration programs’ thus ensuring child offenders who are conditionally released from detention or conditionally sentenced after detention move smoothly from penitentiary to probation system. The project will contribute to the implementation of a comprehensive juvenile justice system and especially the improvement reintegration focused penitentiary and probations systems for convicted child offenders.

**Supervision over Penitentiary system and strengthening the fight against torture**

In 2005, the parliament of Georgia ratified the Optional Protocol to the Convention against Torture, Inhuman and Degrading Treatment or Punishment (OPCAT). Under the OPCAT the Georgian government took responsibility for the elaboration of National Mechanism and carry out relevant steps to strengthen the fight against torture, inhuman and degrading treatment within the detention facilities.

**Adoption of Torture Action Plan**

On 20 June 2007, the Interagency Coordination Council established by the Presidential Decree elaborated the Draft Action Plan on Fight against Torture, Inhuman and Degrading Treatment or Punishment. In order to facilitate the activities under the Optional Protocol to the UN Convention Against Torture (CAT), Council, composed of representatives of the government of Georgia as well as of local and international and local NGOs and representatives of international organizations, elaborated Action Plan for Combating and preventing Torture, which has been recently approved by the President of Georgia (June 12, 2008). The abovementioned Action Plan has been elaborated based on the recommendations of international organizations and human rights monitoring bodies, *inter alia* CPT, CAT, CRC and envisages implementation of a number of activities in this field. Realization Implementation of the aforesaid measures will significantly intensify the fight against torture and provide protection of human rights and freedoms.

**National Preventive Mechanism**

As regards the implementation of the Optional Protocol to the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (OPCAT) and creation of National Preventive Mechanism (NPM), the Interagency Coordination Council against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment is working to elaborate the model for NPM and at this stage it has made public that the Office of the Public Defender should be designated as National Preventive Mechanism. For that end legislative amendments to the Organic Law on Public Defender is to be made.
Court Decisions Enforcement System

Development of the legislative base

A number of activities have been carried out by the Enforcement Department along with other departments of the Ministry of Justice during the current year. Among them elaboration of the legislative package on “Amendments and Supplements to the Law of Georgia on Enforcement Proceedings” aimed at development of the Enforcement Department is particularly important.

The package has already been presented to the Parliament of Georgia as a Governmental initiative. The legislative package includes the draft on the amendments and supplements to the Law of Georgia on “Enforcement proceedings” as well as drafts on amendments to 21 different laws.

In accordance with the mentioned legislative amendments the Enforcement Department will be transformed to a legal entity under the Ministry of Justice of Georgia that will increase the quality of its independence. The system will have its own source of income - the tax paid to the State budget, which amounts to about 1 million GEL per year as well as income obtained by implementation of different services. As a result it will become possible to make major changes to the structure of the system and due to optimization of the central apparatus increase the number of court enforces at the regional bureaus.

Improvement of the material-technical base

During the last 6 months the provision of enforcement system with the material-technical base has been considerably improved. At present the Samegrelo-Zemo Svaneti, Racha-Lechkhumi, Kvemo Svaneti, Shida Kartli, Kvemo Kartli, Samtskhe-Djavakheti and Kakheti bureaus are provided with offices. Imereti bureau has also been provided with a new office within the framework of the project –“The Justice House”.

In accordance with the mentioned legislative amendments the Enforcement Department will be transformed to a legal entity under the Ministry of Justice of Georgia. Independence of the system will be increased and it will be capable to have its own financial resources.

Significant increase of the enforced decisions rendered against State

The achieved success in eliminating the budgetary debts is a major step forward. 890 decisions rendered against the budgetary organizations have been enforced by 1 June 2008. The total sum of 3 995 756, 24 GEL have been paid to creditors that is an absolute majority of the existing debt. Priority is given to individual creditors rather than companies. The dept to individual creditors will be fully paid in the year 2008, and accordingly it will be possible to start paying the debts to the Legal Persons.

Access to Justice

Today, attorneys of 10 legal aid bureaus in Georgia provide legal aid throughout the country in criminal case. The legal aid is provided on the preliminary investigation as well as on the court hearing stages. From the year 2009 the indigent persons will be provided with legal aid on civil and administrative cases as well. Apart from this every citizen has a possibility to refer to the
consulting centers of the bureaus and get qualified legal aid on different legal issues not limited to criminal law.

From January - May 1, 2008 the legal aid bureaus provided 1200 suspects, defendants, convicts and aggrieved parties with qualified legal aid in criminal law cases. Only in January-May of 2008, 4 108 new criminal cases were submitted and 1 794 legal consultations were carried out by the legal aid service. By 1 June 2008 the number of pending cases amounted to 1 595.

Further activities carried out within the period of 6 months:

- Opening of the Consulting Centers in Zugdidi and Ambrolauri
- Increase of the number of personnel. Number of the central administration personnel of legal aid increased from 4 to 15.
- Trainings – During the last 6 months with the aim of raising the qualification of the attorneys of the bureaus were held a number of trainings.

In April 2008 a Division of Public Relations was established at the service. The division elaborated a media strategy of the Legal Aid Service, in which the target groups and the methods of provision of information to them is described in details. Human Resources, Informative Technologies, Monitoring and Analysis Divisions were also established at the service.

**The Office of the Prosecutor General:** The capacity of the Office was further strengthened through the specialized trainings on the specificities of the investigation of financial and corruption offences in June 2008. In cooperation with the Council of Europe a joint training on the European Convention of Human Rights for the prosecutors was organized in April 2008.

To facilitate the active cooperation of law-enforcement agencies and the Financial Monitoring Service (FMS) and the improvement of information exchange, the draft of the Memorandum of Understanding between the Office of the Prosecutor General, Ministry of Internal Affairs and the FMS of Georgia has been prepared.

New Criminal Procedure Code of Georgia has passed two plenary hearings in the Parliament of Georgia.

Second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters was submitted to the relevant governmental institutions for its evaluation and issuance of the reports on the protocol. The intention is to determine the compatibility of the domestic legislation with the provisions embodied therein, gaps in the legislation and possible legislative changes that might become necessary after the accession to the Convention.

### 2.2 Cooperation on foreign and security policy

Since June 1, 2007 Georgia has been aligning to almost all the EU CFSP declarations, except those relating to Georgia or its internal conflicts. Georgia has joined 198 out of 279 EU declarations, alignments, statements and resolutions that were made during the period from September 2007 to June 19, 2008.
Regional development: Further activities were undertaken to enhance the bilateral and multilateral cooperation in the Black Sea region and between the Black Sea, Baltic Sea and Caspian Sea regions. A meeting of Foreign Ministers of the EU Member States and the countries of the Black Sea region was held in Kiev on February 14, 2008. The main topic of the meeting was the prospects of further development of the EC elaborated initiative “Black Sea Synergy”. The regional international organisations, such as Black Sea Economic Cooperation (BSEC) and GUAM play an important role in strengthening the Black Sea regional cooperation. Georgia supports the transformation of the BSEC into the project-oriented organisation. In this context, we hope for the practical realisation of the two major BSEC projects: Coordinated Development of the Black Sea Ring Highway and Development of Motorways of the Sea in the BSEC Region.

The regional projects such as Baku-Tbilisi-Ceyhan (BTC), Baku-Tbilisi-Supsa (BTS) and Baku-Tbilisi-Erzerum (BTE), as well as Baku-Tbilisi-Kars railway project are clear demonstration of the productive regional cooperation. The development of the trans-Caspian pipelines and implementation of the Nabucco project will greatly increase the energy security of the Black Sea as well as whole European continent. In this view, it is noteworthy, that the EU has already included the Nabucco project among the four top-priority energy projects. Construction of the Odessa-Brody-Plock-Gdansk pipeline is of particular importance for ensuring undisrupted oil supply to the European states.

A memorandum foreseeing the electricity exchange between Georgia, Azerbaijan and Turkey was signed.

With the aim of developing several segments of the Black Sea Region Transport corridor, a number of concrete projects are discussed in the framework of GUAM: Baku-Poti, Odessa-Chisinau, Odessa-Kyiv, providing shortest ways to connect the region with the European states. Special attention is paid to the development of multimodal (road-railway-ferry) line taking less time than the Batumi-Poti-Ilichovsk ferry communication (26 hours against 40 hours).

2.3 Cooperation for the settlement of Georgia’s internal conflicts

The issue of territorial integrity of Georgia and settlement of Georgia’s internal conflicts have become a subject in the EU-Russia political dialogue meetings. The Georgian side is in intensive dialogue with the EU institutions, as well as each EU Member State to ensure their political and economic support. In this context, the recent EU’s increased attention towards Georgia and its supportive declarations may be considered as a success: EU declarations of April 18, 2008 and May 2, 2008 on tense relationship between Georgia and Russian Federation; EU Council Conclusions of May 26, 2008 on Georgia; the EU Troika visits at different levels (February 4-5, 2008 – Troika visit headed by the Slovenian Foreign Minister representing the EU Presidency, May 8, 2008 – at the level of political directors, July 2, 2008 – EU Political and Security Committee Troika-Georgia meeting in Brussels); The EU Council COEST visit to Georgia on May 5-6, 2008; the visit of the Foreign Ministers of the EU 5 Member States to Georgia on May 12, 2008; the visit of Mr. Javier Solana, Secretary General of the EU Council/High Representative for the Common Foreign and Security Policy (CFSP) to Georgia on June 5-6, 2008; the discussion of the issue of Georgia at the EU-Russia summit on June 26, 2008.
In February 2008 the Office of the State Minister for Reintegration provided the Head of OSCE Mission to Georgia with the vision of Georgian Government and State Minister about changing the peace process format (2+2+2 format) in Tskhinvali Region. This document was submitted to diplomatic corps accredited in Georgia.

On April 8, 2008 the Georgian government published the initiative about peaceful resolution of South Ossetian conflict. This document is available on the official websites of the President of Georgia and Office of the State Minister of Georgia for Reintegration. Through respective diplomatic and informal channels this document was sent to the diplomatic corps accredited in Georgia and representatives of Tskhinvali’s de facto government.

In April 2008, President of Georgia announced the initiatives regarding regulation of conflict issues of Abkhazia and South Ossetia and reintegration process of these regions in Georgia. The Office of State Minister of Georgia for Reintegration sent this document (non paper) to diplomatic corps accredited in Georgia and representatives of OSCE through a diplomatic note.

In May 2008 the State Minister of Georgia for Reintegration informed the EU Troika ambassadors about Georgian Government’s vision on the joint Georgian-Abkhazian police mission mandate (operating under the auspices of OSCE and EU) and principles of its functioning. Troika ambassadors were requested to support the proposal on putting the joint police mission into operation.

In June 2008 the Georgian side shared the document describing Georgian Government’s vision on putting the Georgian-Abkhazian joint police mission into operation with the EU High Representative for Common Foreign and Security Policy, Javier Solana visiting Georgia.

**Direct Dialogue:** In order to launch the result-oriented direct dialogue between the central government and Sokhumi, Tskhinvali de facto governments’ representatives for comprehensive resolution of conflict and defining their final status in the united Georgia: Georgian Government’s proposals announced on April 8, 2008 were sent to the representatives of Tskhinvali de facto government; initiatives announced by the Georgian President was submitted to the representatives of Sokhumi de facto government in April 2008; Georgia’s permanent representative in UN was visiting Sokhumi where he held negotiations with Sokhumi de facto government on security issues on May 12, 2008. These issues are necessary and integral components for running the peaceful negotiation process.

**Return of refugees and IDPs:** After the adoption of UN S/RES/1808(2008) Resolution, the Georgian Government has reactivated the attempt toward consolidation of international commonwealth for ensuring fundamental rights of refugees and IDPs. UN Resolution adopted by UN General Assembly on 12 May 2008 reconfirmed the natural right of refugees and IDPs on their return and property ownership. Georgian government’s attempt toward speeding up the return process has become the victim of inability of tough position of Sokhumi de facto government on security issues on May 12, 2008. These issues are necessary and integral components for running the peaceful negotiation process.

**Ensuring safety and human rights protection of the population living on the territories controlled by Sokhumi and Tskhinvali de facto regimes:** Office of the State Minister of Georgia for Reintegration was actively involved in the negotiations on the release of the Head of Zugdidi Bureau of TV Company “Mze”, Malkhaz Basilaia. The journalist was illegally detained by the representatives of Gali de facto administration on the premises of No 201 guardhouse of CIS Collective Peacekeeping Forces.
On 10 May 2008, Memorandum on supporting the Government of Georgia on the rights of ethnic minorities and civil integration policy was signed between the Office of the State Minister of Georgia for Reintegration and Office of the State Minister of Latvia for Integration.

**Humanitarian and social-economic rehabilitation programs:** Number of actions aimed at creation of special economic zones, supporting the implementation of humanitarian, social-economic rehabilitation programs, including encouragement of small business and employment programs, restoration of social infrastructure were undertaken. (See Annex 1)

**Implementation of the EU Special Representative’s recommendations:**

Government of Georgia reconfirms its readiness to closely cooperate with the EU special representative for South Caucasus. Office of the State Minister of Georgia for Reintegration also expresses its readiness, within the scope of the Office, to facilitate EU representative and its supporting team.

The EU has appointed Police Liaison Officers in the conflict zones. Georgian side has already voiced its readiness to fully cooperate with them (the Ministry of Internal Affairs has been identified as the direct beneficiary of the project). The EU is conducting a feasibility study for the establishment of the EU Information Centres in several parts of Georgia, including the conflict regions. The Georgian side proposed the establishment of special mechanism in order to secure the regular exchange of information between the EU and Georgia during the implementation of agreed confidence-building measures.

### 2.4. Cooperation on Justice, Freedom and Security

The first working meeting of the Sub-Committee on Justice, Freedom and Security has been held in Brussels on April 30, 2008. The parties discussed a wide range of issues falling within the frames of the Sub-committee, including the prospects of the EU-Georgia cooperation on visa issues. Among wide variety of topics dealt with on the meeting, the European side shared its plans to the Georgian delegation related to fight against illegal migration and encouraging the legal migration during the first meeting of the Sub-committee. On its part, the Georgian side informed the European side on the current situation in Georgia, as well as on existing and planned legislative and administrative activities in this area.

**Migration issues (Legal, illegal, readmission, visa and asylum):**

**Exchange of information on visa issues**

Considerable attention was paid to this issue at the EU-Georgia Cooperation Sub-committee on Justice, Freedom and Security on April 30, 2008.

The European side shared its plans to the Georgian delegation related to fight against illegal migration and encouraging the legal migration. On its part, the Georgian side informed the European side on the current situation in Georgia, as well as on existing and planned legislative and administrative activities in this area.

The Sub-committee will be further used as an effective mechanism for information exchange in migration area.
Dialogue on movement of persons, including exchange of information on readmission and visa

Current situation regarding conclusion and negotiation of readmission agreements: the readmission agreements are signed with Italy (the Georgian side is conducting the intra-state procedures necessary for the ratification of the agreement), Bulgaria (in force since March 14, 2003) and Germany (in force since January 1, 2008). Negotiations on the conclusion of readmission agreements are in progress with the following EU Member States: Benelux countries (consultations underway on the text of the agreement), Czech Republic (the draft text of the agreement is ready and is discussed within the respective Georgian agencies), Slovenia (the draft text of the agreement was under discussion by the Georgian side in 2004, but the process was suspended until the approval of the ENP. Since then the negotiations has never been resumed. Should there be interest between the parties, it is expedient to draft a new text of the agreement), Lithuania (the draft text of the agreement is ready; in parallel, the parties agreed on visa free regime for diplomatic and service passport holders), Estonia (the draft text of the agreement is distributed among respective Georgian agencies for comments), Latvia (the draft texts of the agreements on readmission and visa free travel for diplomatic and service passport holders were sent to the Latvian side). The intra-state procedures foreseen by the Georgian legislation are underway regarding the texts of the agreements with France, Sweden and Austria. Moreover, the Ministry of Foreign Affairs of Georgia has prepared the draft texts of the agreements with Romania, Denmark, Finland, Greece, the United Kingdom, Spain, Ireland, Cyprus and Poland. The texts are yet being discussed at the Ministry.

Current situation regarding the cooperation on visa issues: negotiations are underway with Bulgaria on introducing amendments to 2002 bilateral agreement on “Mutual Travel” (Bulgarian side is against introducing the visa free travel for Georgian service passport holders); on November 30, 2007 agreement was signed between the Government of Georgia and the Government of the Republic of Cyprus on visa free travel for diplomatic and service passport holders (Georgian sides awaits the finalisation of the ratification procedure by the Cypriot side); draft agreement has been elaborated between the Government of Georgia and the Government of the Republic of Estonia on visa free travel for diplomatic and service passport holders (Estonian side introduced a visa free travel for 90 days for Georgian diplomatic passport holders beginning from November 20, 2006. Accordingly, working on the draft agreement has been suspended); draft agreements on visa free travel for diplomatic and service passport holders with Lithuania and Latvia has been agreed (signature of these agreements are scheduled simultaneously with the readmission agreements); draft agreement between the Government of Georgia and the Government of Poland on visa free travel for diplomatic and service passport holders (the Polish side has submitted a new draft text of the agreement, which should first undergo intra-state procedures foreseen by the Georgian legislation, after that the Georgian side will respectively communicate its position to the Polish side).

To accelerate the process and effective policy decision-making on JLS issues the high level interagency commission has been assigned under the direct supervision of the Prime-Minister of Georgia.

Border Police of the Ministry of Internal Affairs

Border Management Strategy and Action Plan
Following the major institutional reforms in the border security, efforts are taken to sustain the achieved progress via adequate legal and policy framework. The Integrated Border Management Strategy has been approved by the Presidential Decree #59 of February 4, 2008. The Strategy has been elaborated by the temporary Interagency Commission with the involvement of all the relevant agencies. The Strategy envisages wide range of activities to be implemented for effective management of state borders. The Working Group has been established with the aim of elaboration of the Detailed Action Plan for implementation of the Integrated Border Management (IBM) Strategy. The EU Special Representative’s team in Georgia is actively involved in this process. The Working Group meets on weekly basis and discusses draft Action Plan in accordance with relevant chapters of the IBM Strategy.

**Inter-Agency and International Cooperation**

Despite the fact that elaboration of the IBM implementation Action Plan is at initial stage, Border Police has already started carrying out specific steps envisaged by the Strategy. In order to facilitate exchange of information and identification of persons on border crossing points, Memorandum of Understanding between the Civil Registry Agency of the Ministry of Justice and the Border Police of Georgia on sharing of databases has been signed. Work is ongoing on the Draft of Joint Special Operative Procedures with the Customs Department of the Revenue Service of the Ministry of Finance.

Drafts of memorandums on cooperation between Coast Guard, Border Aviation, Navy and MoD aviation Unit have been already created. Presidential Decree on “Establishment of Joint Maritime Operations Command Centre with the Agencies Responsible for Border Defense” has been elaborated and is under governmental procedures. The "Joint Action Plan on Detection of Nuclear and Radioactive Materials” (State Agencies’ cooperation plan) has been created and is also undergoing governmental procedures.

IBM Strategy envisages enhancing cooperation among state bodies as well as border agencies of neighboring countries. Border Police of Georgia signed Declarations on Cooperation with the border agencies of Latvia and Switzerland. Action Plan on Bilateral Cooperation for the year 2008 between the Armed Forces of the Republic of Turkey and Border Police of Georgia has been elaborated and approved by the parties. Border Police is negotiating following instruments with relevant agencies of neighboring countries:

- Draft of International Agreement between the Government of Georgia and the Government of The Republic of Turkey on opening the Border Check Point (“Krnati”) at Georgian-Turkish State Border segment.” The draft document is undergoing internal state procedures;
- Drafts of Agreements on Check Points with Azerbaijan, Armenia and Russian Federation;
- Draft of “Cooperation Agreement on Border Issues between the Border Police of Georgia and the National Security Service of the Republic of Armenia.” Signature of the agreement is expected by the end of 2008;
- The Plan of Activities for 2009 between the Border Agencies of GUAM Member States has been signed on July 1st, 2008.

**Human Resources**
The MoIA Border Police continues capacity building through training and re-training of staff and building-up required capacities. With material support of EC, Border Police finalizes special project on development of modern HR management system, started in 2007. The manual for the implementation of the project covering the overall training and career development policy and system for the whole personnel of the GBP, including the basic officer training curriculum has been elaborated. As part of ongoing Human Resource management system reform, additional social guarantees in the form of life and health insurance have been introduced for the personnel. From 2008, salaries at MoIA have been increased by 10%; minimum salary reaching 450 GEL. Also, this year

Project on Development of Data Collection, Communication and Statistical Analyses in the framework of „Twinning“ program, has been approved. The program will be implemented in cooperation with Greek and Slovenian experts.

This year the OSCE has started its 4th project on “Transitional Institutional Support Programme”. The project covers joint trainings for the representatives of different local and foreign agencies involved in border security. All trainings are concentrated on the facilities of Border Police (regional offices and training center.) US Department of Energy continues trainings of GBP personnel in detection of radiation materials.

**Infrastructure and Technology**

Fast exchange of information among border crossing points plays important role for prevention of illegal activities on the state border. With the Objective to ensure exchange and verification of respective data in real time regime, Border Police has started improvement of communication system. The special plan for establishment of fiber-optic connection and high speed telecommunication (wireless) network between the Regional Offices, Radar Stations, Border Check Points and Central Command Center was created. Border Police has identified and signed the contract with the high speed wireless telecommunication network provider. Connection has already been established with the main Regional Offices and Central Command Center. Full implementation of the plan is anticipated by the end of 2008.

Border police has been integrated into Maritime Safety and Security Information System (MSSIS). The system will enable fast exchange of information between relevant agencies and will facilitate better coordination of those.

The implementation of the Personal Identification Registration System (PIRS) on the ports of entry has been concluded. At the same time, Border Police started the implementation of the new project in cooperation with IOM and the Memorandum of Understanding in this regard was signed. IOM undertook to support the Implementation of the project for Development of PIRS Analytical System.

Significant budgetary funds have been allocated to the development of infrastructure and equipment of the Border Police this year. Since the beginning of 2008, Border Police has finalized construction of new office Building of the Border Aviation Unit, Administrative building of the Coast Guard Operations (Poti), Air fields in Mestia, third sea radar station (Chakvi), as well as of one Border Crossing Point, a Border Sector, and a Regional Office. At the same time 13 border Sectors, 5 border crossing points, and a regional office are under construction. Refurbishment of the Border Police Training Centre building has been co-financed by EC. Renovation of the building is underway. Apart from infrastructure
development, efforts are undertaken to ensure provision of sufficient transportation means. Border Police has purchased high capacity cars and different type of border control equipment. In order to effectively control black sea littoral and Georgian Territorial waters one modern fast patrol boat equipped with modern navigation, communication and technical systems in line with the NATO standards was purchased. One patrol vessel has been renovated, refurbishment of another is planned.

Civil Service Registry

**Biometric Passports:** In the framework of the prospects of the EU-Georgia cooperation on visa issues, the Civil Service Registry is working on the system to be ready by the end of 2008 to start working on project of adoption of biometric passports. The Civil Registry Agency is in active process of elaborating the biometric passport of new generation and the identification document (ID cards) standards.

Elaboration of the centralized printing system is actively underway. The interim version of system was implemented at the Civil Registry services in March 2008, and its final version will be ready in October 2008 designed to provide for the adoption of biometric passports.

Implementation of the centralized printing system is an essential prerequisite for realization of the project on adoption of biometric passports. Therefore the work on enhancement of electronic database and tracking inaccuracies and errors in the database and correcting them has been completed.

The Civil Registry Agency is in the process of establishing the database with photos. The compilation of the data is realized through scanning the existing photos in the cars index, as well as by photos obtained while printing identification cards and passports. The database will be finally established by October 2008.

According to the Civil Registry Action Plan implementation of photo-research system is envisaged for September 2008, which will be preceded by announcement of tender, which will supposedly be held in second quarter of 2008. The expenditures for implementation of the system are envisaged by the EU funded project “Support to the Reform of the Ministry of Justice of Georgia”.

**New offices in the regions:** More than 10 territorial Civil Service Registry bureaus have been refurbished and opened. The bureaus were technically equipped in line with the international standards. Legislative amendments were made to the Law of Georgia on “State Tax” and the Law of Georgia on “Civil Registry Service Duty”. The above amendments facilitated simplification and shortening of procedure for issuing identity cards and passports of Georgian citizens in case of inconsistency between the submitted documents.

**Development of the database:** With the aim of development of the database the information technologies service elaborated a new program of digitalization taking into consideration the existing deficiencies. The process of establishing the database with photos through scanning of the photos attached to the submitted documents in line with the International Civil Aviation standards (ICAO) is underway.
Fight against Criminality

The Government of Georgia declared fight with organized crime in its every manifestation as one of the priorities for the country. Considering that organized crime goes beyond national borders, it constitutes threat not only to a single state, but to the international community (see a. International Cooperation). The Government of Georgia adopted coherent, coordinated and wide-ranging strategy for fight with organized crime. As a result of reforms undertaken at the Ministry of Internal Affairs, eradication of corruption and establishment of effective police system, criminality has started to decrease since 2007. Decrease is especially evident in the number serious crimes: in 2007, 13158 serious crimes have been registered, which is less by 55% compared to 29249 cases registered in 2006. At current stage cases of armed robberies, car thefts, racketeering (extortion) decreased by 30-50%. Nowadays, no organized criminal group operates on the territory of Georgia. The result is due to the zero tolerance policy against criminality, introduction and implementation of efficient investigative techniques, including witness protection guarantees, complete absence of corruption and skill development and training of police personnel.

Fight Against Drugs

Fight against drugs involves multi-sectoral approach: zero tolerance and tightening of sanctions against drug traffickers and dealers is balanced with treatment and rehabilitation needs of drug users. Georgia is characterized by significant number of drug consumers. At the same time, due to efficient control of state borders and fight against organized crime, Georgian territory is not a major transit route for illegal drug trafficking. Nevertheless, specific feature of drug situation in Georgia is that, because of high level of demand, Georgia remains a destination country, as well as the consumer of locally produced drugs, such as “marijuana”.

Acknowledging the seriousness of the situation, Georgian government undertook series of measures for prevention and fight against this crime. Sanctions against drug dealers have become stricter and include monetary and social sanctions, such as confiscation of property and restriction on occupation of certain positions, deprivation of some social rights; Administrative and criminal sanctions are routinely applied against drug users; they are also given opportunity to participate in voluntary treatment programs, which include psycho-social rehabilitation and substitute treatment. Awareness raising campaigns play the important role for crime prevention in general. Same is true for drug offences. Apart from public advertising campaigns through various media resources, the Ministry of Internal Affairs carried out a series of interactive presentations in secondary and higher education institutions of Georgia.

Despite the measures that have been implemented, the problem still remains acute necessitates severe criminal justice response. In the year 2007 registered cases of drug abuse has increase because of the effective system of detection of drug users as well as improvement of statistical data collection. In order to preserve the rights of suspected drug users and, at the same time, to ensure timely detection of drug abuse cases, the Main Forensic Unit of the Ministry of Internal Affairs established fully equipped Drug Labs in every district and city of Georgia, where

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3 In 2007, 54,746 criminal offences have been registered as compared to cases 62,283 in 2006, decreased by more than 12%.
4 Drug detectors have been installed on major border crossing points which could be used for drug transit. Border police officers are trained in use of scanners, as well as other means of detection of cases of drug transportation.
professional doctors with certified knowledge of drug related issues check suspected drug users.

**International Cooperation**

Georgia is party to major international instruments on combating organized crime and they have been successfully implemented into the national legislation. Cooperation in this field is carried out with individual states respectively, as well as in the framework of regional and international organizations. Apart from bilateral cooperation agreements already concluded by the Ministry of Internal Affairs, negotiations for conclusion of agreements on mutual fight against organized crime, drug trafficking and terrorism have started with relevant agencies of Austria, France, Italy and Estonia. Apart from treaty based cooperation, joint operations are carried out in the framework of regional organizations. Operation “NarkoStop” has been realized in the framework of project “NarkoStop” among GUAM member states on April 14-18, 2008. In the course of operation 78 drug offences have been identified. Criminal investigations have started against 8 persons, 43 have been subject to administrative sanctions. Significant amount of narcotic substances have been seized during the operation. Information on drug issues is regularly exchanged with Virtual Law Enforcement Centers of GUAM member states.

On June 27, 2008, 5th phase of SCAD (South Caucasus Anti-Drug Program) has started in Georgia. The program has been co-financed by UN and the EC. The project will focus on enhancing treatment and rehabilitation programs for drug users. Ministry of Health and Social Welfare is the counterpart of the project from Georgian side.

**Trafficking in Persons**

For past two years Georgia has achieved significant progress in the implementation of anti-trafficking measures. As a consequence of coordinated and effective work of bodies involved in anti-trafficking actions, Georgia retains its position as Tier 1 country in the US State Department ranking. The success has to be attributed to effective international cooperation with the main destination countries and international organizations.

The Ministry of Internal Affairs of Georgia continued implementing of its obligations under the National Action Plan for 2007-2008. As a result of effective investigation, revealing and elimination of few organized groups, ensuring protection for witnesses, support and rehabilitation of trafficking victims, effective public awareness campaigns, cases of human trafficking started to decrease. At the same time Georgian government continues to implement protection and compensation measures for victims.

Trafficking is an integral part of police basic training curriculum. Apart from the training at the Police Academy of MoIA, representatives of the Ministry regularly attend events organized by international organizations and NGOs and get familiarized in new trends and methods of crime, modes of action of criminals, and international best practices for the fight and prevention of TiP.

**International Cooperation**

With the purpose to get familiarized with the world best practices on protection of witnesses of trafficking crime, the 3 representatives of the Ministry of Internal Affairs of Georgia attended
training conference in Athens. The event has been organized by the UNODC. On the Conference initiated by the ILO, ICMPD, OSCE and several local NGOs, representatives of relevant state agencies, including MoIA considered National Plan of Action and the methodology of collecting and analyzing trafficking data.

On 17-21 June, Regional Conference on Joint BSEC – UNODC Project for Strengthening the Criminal Justice Response to Trafficking in Persons in the Black Sea Region has been held in Romania. The conference has been devoted to the finalization of BSEC Regional Action Plan against trafficking in Human Beings. At the conference, national mechanisms for prevention and punishment of trafficking crime and regional cooperation opportunities and best practices have been discussed. Experts representing BSEC member states finalized draft of the regional action plan and submitted it for further approval by the Council of Ministers of Foreign Affairs of BSEC Member States.

Operative information on cases of trans-border trafficking as well as experience is exchanged with police and border control agencies of neighboring states. Special format of cooperation has been adopted with Turkey as the main destination country for Georgian trafficking victims. This format includes exchange of operative information, exchange of visits to familiarize with practices and legislation and measures for repatriation of trafficking victims.

**Police Training**

The Ministry of Internal Affairs continues to concentrate its resources on development of main training facility of MoIA – Police Academy. Police academy of Georgia provides basic training of prospective policemen as well as retraining for practicing police officers. Training curriculum is constantly developed to adapt to the demands of ensuring security and new challenges in front of the police. The trainings provided at the academy cover all the main directions of police activities. Special emphasis is put on teaching of human rights aspects of policing. In the first half of 2008 517 policemen have been trained in the framework of trainings held at the Police Academy of MoIA. Apart from regular trainings police academy carries out subject oriented courses to deepen the knowledge of police officers in specific fields. Such courses cover the issues of tactical training and use of coercive measures, use of professional gestures while apprehension, conducting investigative interviews, traffic control, juvenile offenders psychology etc.

**Money laundering**

Georgia has been made tremendous progress in imporving its anti-money laundering system.

*Legislative changes:*

Georgian Authorities have made significant efforts to improve country’s AML/CFT regulation. Georgian AML Law was ammended to include new terms and provisions with respect to AML/CFT issues.

The provision prohibiting the opening of anonymous accounts and accounts in fictitious names was introduced for enhancing the customer due diligence requirements; Legislative amendments also improved the CDD requirements with respect to the identification data which now comprehensively covers the identification and verification process, as provided under the FATF recommendations.
The term beneficial owner was introduced in the Georgian AML Law. Monitoring entities now have the legal obligation to take reasonable measures to determine those natural persons who ultimately own or control the customer or the person on whose behalf transactions or services are provided by the financial institutions.

For the purposes of improving customer due diligence requirements, AML Law now includes the obligation for monitoring entities to regularly update the existing identification data.

The List of monitoring entities is determined National Agency of the Public Registry was added as to the list of monitoring entities to ensure the monitoring of the transactions related to real estate business. List of monitoring entities was further extended to the entities conducting money remittance services.

Significant changes were also made to the record keeping requirement obligations of monitoring entities. Under the amended AML Law, monitoring entities are required to retain the information/documents on all transactions for the period of not less than 6 years. Moreover, Georgian AML Law now includes a specific legal requirement on the financial institutions to ensure that information on customers and on all transactions, are kept upon the request by the competent supervisory authority.

According to the amendments (as of 19.03.2008) to the AML Law, the definition of “suspicious transaction” was modified and the new term - “Unusual transaction” (Article 2, Subparagraph “h1”) was introduced into the AML Law. According to the definition, unusual transactions are all complex, unusual large transactions, also types of transactions, which do not have apparent or visible economic (commercial) content or lack lawful purpose and are inconsistent with the ordinary business activity of the person involved therein;”

Additionally, for the purposes of the AML Law, monitoring entities are obliged to determine for themselves the principles for identifying transactions of persons having business relationship with them as unusual. (Article 5, paragraph 10). Article 5, paragraph 9 of the AML Law (as amended on 19.03.2008) obliges all monitoring entities to pay special attention to unusual transactions which do not have apparent or visible economic (commercial) content or lack lawful purpose, and in addition, to ascertain purpose of the transaction within the scope of their capability.

Furthermore, AML Law under the 19.03.2008 amendments introduced a new term for Georgian AML system the notion of “shell banks”. The definition of the term is given in paragraph “t” of Article 2 of the AML Law. The Shell Bank is defined as a bank, which physically is not present in the country where it is registered/licensed and which is not being controlled and supervised; Article 111 paragraph 1 prohibits establishment of shell banks: "Establishment and existence of the shell bank, as well as establishing business relations with such bank (including correspondent relations) shall be prohibited”.

Rules concerning correspondence banking relationships were also modified. FMS decree for banks was amended and the new provision states that in the course of establishing international correspondent relations, Banks shall obtain information from public sources on reputation of the respondent Bank and the degree of the supervision imposed. Banks additionally shall ascertain whether the Bank represents monitoring entity in the light of fighting money laundering and terrorism financing. Banks are also obliged to request from the respondent
banks information on exercising internal control with respect to fighting money laundering and terrorism financing and assess quality of such control.

The definition of suspicious zone and watch zone were added to the Georgian AML Law. List of Suspicious zone is defined under Article 2 of the AML Law (as amended of 27.03.2007) as a country or a part of the territory thereof, identified as having weak mechanisms for controlling illicit income legalization, based on information available to the monitoring entity.

Financial Monitoring Services also modified its decrees with respect to the AML/CFT regulation matters to improve customer due diligence requirements, varification and identification process requirements etc.

Along with the amendments to the AML law, the criminal legislation has undergone significant changes. Today, all aspects of the physical and material elements prescribed by Vienna and Palermo Convention are fully covered.

By the amendments of March 19, 2008 to the Criminal Code of Georgia the preparation of all types of money laundering (para. 1, 2 and 3 of article 194 of the CCG) is fully punishable under the Criminal Code of Georgia. Through the same amendments, the new Article 194\(^1\) has been introduced, which fully criminalizes the act of purchase, possession, use or realization of laundered proceeds.

As a result of March 19, 2008 amendments, the elements referred to in Article 6, (1), (a), (i) of Palermo Convention and in Article 3, (1), (b), (i) of the Vienna Convention are covered by the provisions of Article 194 of the CCG in conjunction with Article 23 (Complicity in money laundering) and Article 375 (Concealment of crime) together with Article 186 (Knowingly use, purchase, possession and realization of the proceeds of crime) of the CCG.

**Institutional changes: The FMS**

The Financial Monitoring Service of Georgia (FMS) was established in accordance with the Decree of the President of Georgia No. 354 dated June 16, 2003 and No. 483 dated August 23, 2007 and Article 74\(^1\) of the Organic Law of Georgia on the National Bank of Georgia. Amendmends made to the Organic Law of National Bank of Georgia modified certain provisions and Financial Monitoring Service is now dealt in Article 57 of the Law without any structural, legal or other changes.

Institution’s independence and funding is determined under the Decree which states that Financial Monitoring Service of Georgia is a self-governing organ and in its activities is not dependant upon any other organ. FMS is accountable to the President of Georgia. Funding by the National Bank ensures that the FMS is not lacking technical and other resources, and is not directly contingent on central government. National Bank of Georgia does not have the right to interfere with the professional work and responsibilities of FMS. The Head of the FMS is appointed by the President of Georgia in concernt with the Council of the National Bank of Georgia.

The FMS is an administrative type of FIU that serves as the national centre for receiving, analyzing and forwarding disclosed Suspicious Transaction Reports and other relevant information concerning suspected money laundering and terrorist financing activities. FMS began receiving, analyzing and systemizing reports on 1 January 2004. It receives its reports
electronically and in hard copy. The FMS has special database software, where the information received from monitoring entities is stored. This software allows the storing, systemizing, grouping, analyzing and the protection of the confidential information.

The FMS receives, collects, analyses and transmits information in accordance with the AML Law. The FMS issues and regularly updates normative acts determining the list of terrorists and persons supporting terrorism in accordance with United Nations Security Council Resolutions 1267 (1999) and 1373 (2001). The lists are published and distributed to financial institutions, which, on their part, are under obligation to identify and check against the lists every individual which participates in a transaction.

The FMS is active with respect to the international cooperation, it has concluded Memorandum of Understandings with similar agencies of eighteen countries (Liechtenstein, Serbia, Ukraine, Estonia, Czech Republic, Israel, Slovenia, Romania, Thailand, Panama, Belgium, Bulgaria, China, Croatia, Moldova, Lebanon, Armenia, Indonesia).

2.5. Economic reforms

Macroeconomic framework and functioning market economy (Annex II – Available Statistical Information):

The positive tendency in Georgian economy that was evidenced in the previous years has continued in 2008. The Government of Georgia has been successfully implementing those reforms and programs that were initiated last year. At the same time there is an impressive progress in the process of implementation of the five year program for 2008-2012 “Georgia without poverty”, which was elaborated by the Government of Georgia taking into account the new realities and challenges. Further elaboration of “Georgia without poverty” will be “50 months program” which is in the process of preparation. The new governmental program will provide detailed action plan on the reforms, programs and other measures in economic and social policy targeted at ensuring further economic growth, attraction of investments, job creation and expanding social assistance package to vulnerable population.

According to the program main goals of the Georgian government for the years 2008-2012 are as follows:

- Prosperity of the population – Georgia without poverty.
- Ensuring national security, and territorial and civil reintegration.

For the purpose of ensuring prosperity of the population, the efforts of the government will be directed towards fast and broadly based economic growth on one hand and towards implementation of large-scale social programs on the other. (See also chapter Support to Entrepreneurship)

At the beginning of 2008, with the aim to ensure macroeconomic stability, the Government of Georgia approved new initiatives targeted at introducing effective tools for fiscal and monetary stability and further improvement of business climate in the country. On 14 March 2008, the Parliament adopted the Law of Georgia on “Global Competitiveness of the Financial Services Sector,” Law on “Future Generations and Stabile Development Funds” and a package of amendments to several relevant laws.
The law on “Global Competitiveness of the Financial Services Sector” introduces measures facilitating establishment of foreign reputable financial institutions in Georgia and allows financial companies with authorization from their country of domicile supervisory bodies to start operations in Georgia without additional requirements. The same approach applies to the securities listed on the leading Stock Exchange Markets to be allowed for trade on the Georgian Stock Exchange. According to the Law within the next 5 years, further reduction of tax rates is envisaged: income tax (currently 25%) will be decreased to 15% and tax on income form dividends and interest will be abolished.

The amendment to the Law on Georgian Budget System introduces new regulations of State Budget planning. According to the amendment fiscal surplus becomes mandatory from January 1, 2009 and it (surplus) should constitute at least 0.2% of the forecasted GDP for that year. At the same time, 40-50% of surplus should be directed to special Funds - the “Fund of Future Generations” and the “Fund for Stabile Development” - on quarterly basis. According to the Law on “Future Generations and Economic Stability Funds” the proceeds of the Funds will be used for:

- after the settlement of conflicts on the entire territory of Georgia, economic rehabilitation and reintegration of Abkhazia and South Ossetia;
- support to long-term financial stability and economic growth;
- creation of stabile social conditions for future generations;
- effective response to recurrent challenges in the country resulting from Georgia’s dynamic development;
- neutralization of the budget cycles.

Special amendments were made to the Organic Law on the National Bank of Georgia (NBG) according to which, in case inflation exceeds a single-digit rate during four consecutive quarters, or by 2% exceeds the target inflation rate during four consecutive quarters vote of confidence of the President of the National Bank will take place in the Parliament. The Government and NBG will closely cooperate in implementing a more coordinated fiscal and monetary policy in order to ensure stabile macroeconomic environment contributing to sustainability of economic growth.

Several regulatory bodies (National Commission on Securities, Financial Monitoring Service, Insurance Supervisory Agency and the NBG’s commercial banks supervisory unit) were merged into Financial Supervisory Agency to serve as the sole regulator and supervisor of the financial services sector: banking, securities, insurance and anti money laundering monitoring (See also sub-title Fight against drugs, organized crime, human trafficking, money-laundering above).

Social policy and health

There is a strong link between the Government of Georgia’s (GoG) social and employment policies due to the fact that the main source of poverty in Georgia is unemployment and the largest part of socially needy are job-seekers (especially long-term job-seeker). In 2008 the GoG allocated 1/3 of the State Budget for social policy and programs which covers a substantial part of job-seekers.
Starting from 2005, the Government of Georgia GoG implemented substantial reforms of the social security system. Previously the system was targeted at various categories of vulnerable population, while the new system is based on the needs assessment of households and takes into consideration their incomes and social-economic conditions, taking into account their employment situation. As the largest portion of the job-seeker live under the poverty line they benefit from social assistance packages that include cash and other types of benefits (universal healthcare insurance package).

Nowadays 137 150 households receive cash benefits and more then 260 000 households receive various social assistance. From 2006 the system of unemployment benefits (up to that point unemployment benefit was about 12 USD per month and approximately 1500 job-seeker per year received such benefits) was reformed. In 2008 nearly 55 mln USD (GEL 80 mln) is allocated for medical insurance and 63 mln USD(GEL 92 mln) – for cash transfers for the beneficiaries of the above mentioned State Social Assistance Program.

During the period of 2008-2010 GoG will gradually expand the number of persons covered by the state program up to 1 200 000 among which the job-seeker prevail.

The share of employment policy expenditures (active and passive measures) in GDP has been steadily growing from 0.5% (2005) up to 1.2 (2007). It should be noted that GDP during the mentioned period (2005-2007) grew at fast pace. In nominal terms it increased by 46% whereby employment policy expenditures have more than doubled during the period of 2005-2007.

GoG implements several State Programs (see bellow subsection “Support to Entrepreneurship”) with the aim of stimulating jobs creation in rural areas and support of balanced regional economic development and improvement of professional skills of job-seekers by means of improving access to low interest credits, development of professional education and vocational training centres, and state employment programs.

More than 163 800 job seekers took part in active labour market measures. This equals to 62% of the job-seekers who now are either employed or have acquired better skills to compete on the labour market. The number of beneficiaries of ”Cheap Credit” and ”100 New Agro Enterprises” (see bellow) exceeds 36 200 persons.

Targeted social assistance within a state programme aiming at identification of families beyond the poverty line, valuation of social-economic situation and creation of data base is started. Implementation of „The social assistance program to the infants, born in the families below the poverty line – “good start” is started. In this program are included families who are registered in the united database of socially-unprotected families.

2008 program for medical assistance for the families under the poverty line is developed. The program of social assistance within its subsistence minimum and family assistance directions has reached 137 150 families by May 2008. The medical assistance of the people under the poverty line state program of 2008, which provides medical insurance to the people under the poverty line, is underway.

The Ministry of Labour, Health and Social Affairs of Georgia approved “The Social Rehabilitation promoting state Program of disabled, elderly people and homeless children”.
The program foresees several kinds of social services, including special twenty-four-hours institutions, specialized day centres, psycho-somatic rehabilitation of the disabled children, the prosthetic-orthopaedic devices delivery.

By the Order No 70/n (March 14, 2008) of the Ministry of Labour, Health and Social Affairs of Georgia program “The Social Rehabilitation promoting state Program of disabled, elderly people and homeless children” was approved. The program foresees several kinds of social services, including special twenty-four-hours institutions, specialized day centres, psycho-somatic rehabilitation of the disabled children, the prosthetic-orthopaedic devices delivery.

The policy of informational system and the tools of strategies and developments, including statistics and reporting documentations have been developed. By the financial support of EU, the World Bank (WB) and World Health Organization (WHO) there are carrying out development strategy and financial instruments of the informational system policy. By Order of the Minister of Labour, Health and Social Affairs of Georgia of May 6, 2008 the state healthcare programs have been worked out, which are based on the principle of the raised percentage of the finance the primary healthcare service and prevention, also healthy lifestyle popularization in the state financing of healthcare. Training / retraining of the human recourses of the primary healthcare service providers was undertaken to improve the quality of medical care. Within the framework of the Training / retraining 2007 state program of the medical personnel - 292 family doctors, 241 nurses of the general practice and 192 healthcare sector managers were prepared. The quality insurance group provided supervisions of the training process. In 2008 the above-mentioned activities were conducted by the financial assistance of the WB and EU.

2.6. Trade-related issues, market and regulatory reform

Trade:

Government of Georgia has carefully studied the feasibility study on EU-Georgia FTA, and has prepared detailed comments to the essence as well as content of the study, which the Government looks forward to discuss with the European Union.

From January 2008 Georgia has been benefiting from GSP granted by Norway.

Government of Georgia is actively working with the aim to meet those requirements needed for extension of the GSP+ regime from January 2009. In this regard it should be mentioned that the newly elected parliament will ratify the two remained conventions listed in GSP regulations, namely UN convention on Anti-corruption and the Cartagena Protocol, during the fall session.

At the same time the Georgian side is actively involved in consultations on Georgian labour legislation with ILO and other interested parties. In the view of the Government, the New Labour Code which was elaborated with active participation of interested stakeholders in 2006, namely the employers association and the trade unions, significantly streamlines relationships between employers and employees. At the same time, it offers instruments for the protection of employees’ and employers’ rights and interests. It is in full compliance with ILO conventions and European Social Charter as ratified by Georgia.
In June, 2008 the case of Georgia was discussed at the ILO conference in Geneva with regard to Convention on Right to Organize and Collective Bargaining was discussed. According to report produced by Conference, “The Committee took due note of the Government’s statement concerning the constitutional and legislative provisions aimed at ensuring effective protection of trade union rights, including the recent adoption of the Labour Code. It further noted the information provided concerning the upcoming UNDP-financed study on the impact of the Labour Code on the labour market and labour relations in Georgia. It also noted that the Government intends to carry out full consultations with the social partners in this regard. The Committee welcomed the Government’s indication that it was cooperating with the ILO to look seriously at all these matters and noted with interest the steps taken to study the full impact of the Labour Code.”

It should be emphasized that above-mentioned report published by ILO does not mention non-compliance of the Georgian labour legislation and ILO conventions. Subsequently there is nothing said about needed amendments to the Georgian Labour Code.

The Report rather focuses on the upcoming independent assessment of the Labour Code financed by the UNDP. The assessment has been planed in coordination with the ILO, social partners and the UNDP. It will assess the compliance of the Labour Code with international standards and its impact on the labour market and employment. Throughout the process of assessment the Government looks forward to closely cooperate with the ILO and all interested parties.

With aim of further trade liberalization an essential step was taken recently to ease export procedures for Georgian entrepreneurs. Namely, in accordance with the Governmental Decree of June 11, 2008 on Amendments to the Governmental Decree #256 of December 27, 2006 which regulates issuance of certificates of origin, non-preferential certificates of origin and preferential certificate of origin for Commonwealth of Independent States (CIS) countries (so-called CT 1 certificate). According to these amendments, all certificates of origin will be issued by the Ministry of Economic Development and not any more by the Chamber of Commerce.

In accordance with the Governmental Decree the Ministry will issue certificates of origin free of charge through simplified procedures whereby the number of necessary documents to be presented for the issuance of certificates has been also decreased. At present the fee of certificate is based on the contract value and is a burden for exporters. The above-mentioned changes will be in force from August, 2008.

**Customs:** All by-laws of the Customs Code effective from January 2007 have already been approved and further improvements in clarification of customs procedures are foreseen. The valuation rules are stipulated in the Customs Code and by-laws. Post clearance controls will be launched at the end of 2008.

Risk Management System was gradually adopted in all customs units within all Regional Service Centers since February 2008. This process was completed in June 2008. As a result detailed procedures of customs control have been developed, relevant responsibilities assigned and documents standardized, which has shortened time required for customs control and reduced likelihood of corruption.

Introduction of risk-based checking is underway. Since March 2008 risk-based checking system is operational at the customs check-points. The risk assessment is performed on the
basis of ASICUDA and its supplementary software using the price discrepancy and importers/exporters risks analysis. The risk-based checking system allows reducing significantly the time of customs clearance procedures, as well as administrative resources of the State Revenue Service.

Services of the "hotline" established in 2007 were significantly expanded and improved to improve access to information and consultations on import and export rules and procedures. With EC support the services were upgraded and new information technologies introduced. Training seminars were organized for the “hotline” staff.

**Free movement of goods and technical regulations:** Further activities were undertaken to initiate a dialogue to explore the possibility for the negotiation of the bilateral agreement on mutual recognition and protection geographical indications, including wine and spirits sector. The third round of negotiations was held on April 10-11, 2008 in Brussels. The draft text of the agreement was agreed at the meeting at the technical level. The European side will shortly submit the final draft text of the agreement to the Georgian side, after which the fourth round of negotiations will be fixed. The Georgian side hopes to have the mentioned agreement concluded by the end of 2008.

**Standardization:** Georgian National Agency for Standards, Technical Regulations and Metrology become affiliated member of European Committee for Standardization (CEN) from April 1, 2008. The representatives of the Agency participated in CEN General Assembly on June 23, 2008, in Bucharest. CEN membership will increase the availability of European standards for all interesting parties. It will also positively affect the awareness of entrepreneurs, particularly exporters on existing European standards and conformity assessment procedures.

Moreover, works are carried out for improvement of technical equipment of Agency’s enquiry point under WTO TBT agreement to increase awareness on and availability of European standards for all interested parties. In the framework of Lithuanian technical assistance project the agreement is signed on procurement of technical equipment for information Center of the Agency. The training of personnel and exchange of experience on providing services using IT technologies to the customers are also foreseen in the framework of mentioned project.

Permanent analysis of Georgian legislation is carried out. 75 Georgian laws, applied in the field of technical regulation are registered in the register of standards and technical regulations.

Georgia becomes an associate member of General Conference of Weights and Measures (GCPM) from 1<sup>st</sup> of April 2008. GCPM membership is one of the main prerequisites for ensuring traceability and international recognition of national measurements standards e.g. metrological infrastructure of the country. Agency has signed CIPM MRA Mutual recognition of national measurement standards and of calibration and measurement certificates issued by national metrology institutes and submitted for signing in BIPM.

Agency in the frame of regional metrology organization, COOMET, participates in international comparisons of national measurements standards with those of other countries. Works are in process for implementation of quality management systems according to ISO/IEC 17025 in respective laboratories of the Agency and for declaration thereof within the Quality Forum of COOMET. After successful completion of these procedures, the national measurements standards of the country will be recognized on international level by BIPM,
which in turn is one of the prerequisites of international recognition of test and measurements results carried out in the country.

A bilateral cooperation 6 year project with German National Metrology Institute PTB – “Promotion of Quality Infrastructure in Georgia with special regard to legal Metrology” started in February, 2008. The aim of the project is to develop demand-oriented quality infrastructure according to the priorities of the country and requirements of business sector. Within the framework of this project Mass Reference Laboratory in conformity with the existing international requirements will be established, equipped and international recognition thereof will be ensured. The services provided by this laboratory will fully cover the existing needs of the country in this field and entrepreneurs, particularly export oriented enterprises have not to obtain these services abroad thus the net cost of their products will be reduced.

Works are in process and the list of new and global approach directives and of harmonized standards therewith (Georgian version) are gradually updated on the web page of the Agency.

**Accreditation:** Following international standards in the field of accreditation were officially registered by the Accreditation Centre:

- EN 45011 (General requirements for bodies operating product certification systems);
- EN 45001 (General Criteria for the Operation of Testing Laboratories);
- ISO/IEC 17025, (General requirements for the competence of testing and calibration laboratories);
- ISO/IEC – 43-1 (Proficiency testing by inter laboratory comparisons -- Part 1: Development and operation of proficiency testing schemes);
- ISO/IEC – 43-2 (Proficiency testing by inter laboratory comparisons -- Part 2: Selection and use of proficiency testing schemes by laboratory accreditation bodies);

National Accreditation Centre has carried out several inter laboratory testing with accredited laboratories in Georgia and abroad.

The official results of the testing confirmed the competence of the Georgian labs involved in the testing. Results were satisfactory. The testing also confirmed (wine, brandy) high quality of Georgian products and their conformity with international standards.

Accreditation Centre pays a great attention to laboratory inspection in accordance with international standards using reference materials. As a result, the inter laboratory comparison testing manual has been created in Georgian language. National Accreditation Centre has already used the manual while carrying out implementation of inter-laboratory testing with Georgian and German laboratories.

For the purpose of the creation of internal information computer base in Accreditation Centre and for the improvement of infrastructure, work places have been equipped with PCs, techniques, programs, internet and other infrastructure.

“Agreement between Turkish Accreditation Agency ((TURKAK) and The Georgian National Body on Accreditation - Centre of Accreditation (GAC) on Cooperation in the Field of Accreditation” was signed on 26 April 2008.
Sanitary and phytosanitary:

The Ministry of Finance developed the draft Government Decree on “The adoption of technological schemes for sanitary quarantine control in customs zones and along the Georgian border”. A Working Group was created by the Decree of the Minister of Agriculture #2-57 in April 10, 2008 for the adoption of the Rapid Alert System for Food and Feed (RASFF). With the support of EC funded Customs Project amendments are being elaborated for the joint Decree of the Ministers of Finance and Agriculture #171-#2-37 dated March 6, 2008 to bring Georgian SPS control closer to European standards. The organizational structure has been elaborated in order to determine the food safety matters. The action plan for risk analysis with respect to food and feed has been finalized.

Establishment and company law

In order to further simplify Business registration and promote investments the amendments to the Law “On Entrepreneurs” (March 14, 2008) has been approved, according to which:

- the business registration is a single procedure performed immediately at the moment of submission of the application;
- the electronic signature is introduced that simplifies business registration and other administrative procedures;
- there is no mandatory requirement for having official seal during the registration procedure;
- there is no mandatory requirement for notarization of signatures and the statute of a company;
- there is no special requirement for minimal paid in capital during the registration process;
- the process of “redomiciling” is allowed for any foreign company in Georgia

Support to Entrepreneurship: At the beginning of 2008, under the program “Georgia without Poverty” the Government of Georgia launched several programs with the aim to support small and medium sized enterprises by means of provision of favorable credits to farms end enterprises thus supporting the growth of employment and creation of new jobs.

State Program “Cheap Credit” was launched in 2008 after successful implementation of a pilot State Program, “Employment Program 2007 – Development of Small and Medium Size Businesses” which started in 2007 with the aim to stimulate jobs creation in rural areas, and namely in agricultural farms, agricultural processing enterprises, handicraft and export oriented enterprises thus supporting decrease of long-term unemployment.

The budget of the “Cheap Credit” State Program is equal to GEL 35 million (2008) and GEL 5 million for the program “Employment Program 2007 – Development of Small and Medium Size Businesses.” Currently with GEL 28 million credit portfolio, the number of new jobs and beneficiaries of approved projects exceeds 31 400 persons.

Under the program private sector enterprises receive low interest credits that are provided for implementation of the projects that ensures creation of new jobs. Therefore, the main selection criterion of cheap credit projects is number of new jobs created.
The Program “100 new Agro Industry Enterprises” was launched in 2007-2008 in order to stimulate establishment of new agricultural processing enterprises and support to jobs creation in rural areas. Within the program an entrepreneur has an opportunity to purchase state owned land at a price lower than market price with obligation of creation of processing infrastructure and employment. One of the criteria for the selection of applications is a number of new jobs to be created.

The State Program “Vocational Training and retraining” training/retraining of job seekers was carried out in December 2007 – April 2008 in order to enhance professional skills and help job-seeker to meet the changing requirements of the labor market. The Program is supposed to contribute to the reduction of structural unemployment caused by structural changes in the economy, whereby a large number of vacant jobs exist in many sectors of the economy with job requirements that do not match the skills of the jobless.

Under the Program, registered job-seekers received for three months vocational training scholarship from the State Budget while working in a private or municipal company. The private sector infrastructure was largely used as a facility for training/retraining of the job-seeker.

More than 113 800 job-seeker and more than 1 400 enterprises participated in the Program. Among the beneficiaries of the program women comprised 65% of total participants that is 7% more than the same indicator in 2006 Professional training/retraining programs.

The State Program “Development of Professional Training Infrastructure” has been launched. The Program contributes to the reduction of structural unemployment caused by structural changes of economy, whereby there are a large number of vacant jobs in many sectors of the economy with job requirements that do not match the skills of the jobless.

Development of two professional education centers was launched. The goals of this program are: establishment of at least 50 professional centers, establishment and development of infrastructure for professional education of job-seeker and thus creation of employment opportunities for the latter. Under the program the Government provides physical infrastructure (buildings) for establishing new training centers.

The program is conducted in close and effective cooperation between the public and private sectors (PPP). This program provides the sides with more flexibility and adjustability to market conditions as the spheres and training programs, as well as the number of students of the professional education centers are determined by the private companies, i.e. potential employers of long-term unemployed.

Currently the impact of employment programs has not been fully evaluated since their implementation was recently completed. However, an independent study of labour market of Georgia, to be financed by the UNDP, will evaluate the impact of these measures on long-term unemployment.

Free Industrial Zone. In July 2007 the Law of Georgia on “Free Industrial Zones” was adopted. It aims to provide a better environment for investment, be a stimulator of increased economic activity in the country and support influx of capital and technology through creation of free economic zones.
International companies have been invited for the expression of interest on long-term concession of Poti Sea Port and development of the free industrial zone on the territory adjacent to the port. In April 2008 the GoG has selected the investor – the RAK Investment Authority (United Arab Emirates), based on the competition.

Investor will construct the new port facilities. In parallel, infrastructure on the territory of more than 300 hectares will be developed. According to the preliminary calculations, several thousands new jobs are to be created and USD 1.5 billions are expected to be invested.

World best practices were studied while the model of free industrial zone in Poti was elaborated. It does not envisage any tax breaks that violate EU regulations. Bylaws and several regulations are elaborated regulating the rules of establishment and operation of FIZ’s. The development of the first FIZ in Poti is under way, which will result in enhancing regional economic development, attraction of investments and jobs creation.

**Investment promotion**

Due to favorable business climate the volume of investments was steadily growing. In 2007 FDI increased by 69% (Compound Annual Growth Rate 56% in 2003-2007) The essential part of FDI (93% in 2007) were directed to enterprise sector. The rest was invested in banking sector. According to the Georgian legislation foreign investor's rights and guarantees are equal to those granted to Georgians. Profit and property repatriation is allowed. The legislation provides full and unconditional protection of investments. Investors are eligible to receive any license/permit personally or through official body. Investors may request the purchase of state property necessary for their business activities and initiate accelerated privatization procedures (through auction or direct sale).

**Taxation**

As a part of improvement of the structure of the revenue service, the transformation of territorial units of the Revenue Service has been competed on the regional level (Regional Service Centers (Tax Inspections)) as well as on the local level (Customs check-points). All customs check-points work 24h/day including weekends and holidays.

**Intellectual Property Rights**

In accordance with the Law "On Border Measures Relating to Intellectual Property" intellectual property is being registered and protected by customs units. 7 trademarks have been registered. Work is ongoing with the World Customs Organization (WCO) and the World Intellectual Property Organization (WIPO) for the adoption of modern technologies in the field of intellectual protection.

**Conformity of Intellectual Property Rights (IPR) legislation with PCA obligations and TRIPS requirements and its efficient enforcement:** The draft amendments improving certain procedural provisions related to registration of industrial property objects (inventions, utility model) were made to Patent law of Georgia to ensure full conformity of IPR legislation with PCA obligations and TRIPS requirements and its efficient enforcement. To further harmonization with EU legislation industrial design was taken out from the scope of Patent Law protection and separate draft law for the protection of Industrial design was prepared.
Aforesaid draft law is made in full accordance with directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs. Relevant trainings on legal protection of industrial designs were organized during the law drafting process.

“Sakpatenti” in cooperation of Ministry of Agriculture of Georgia drafted normative acts provided by Law of Georgia for the protection of new varieties of plants.

*Functioning of the judicial system to guarantee access to justice for right-holders and availability and effective implementation of sanctions:* with assistance of Sakpatenti Georgian judges participated in CIS regional workshop for judges on intellectual property issues which was organized by EPO and was held in Kiev.

*Public awareness in the field of intellectual and industrial property protection:* Sakpatenti translated into the Georgian language summaries of international treaties in the field of IP, other informational and scientific materials were prepared for publishing and collection of laws in the field of intellectual property. The website of Sakpatenti is renewed, where the information concerning patents granted and trademarks registered in Georgia are located. Users can also familiarize with the legislation of Georgia and international treaties in IP sphere.

**Statistics**

Government of Georgia is actively working on the reform of the Statistics Department under direct supervision of the Prime-Minister. GoG intends to implement comprehensive reform of the National Statistics System with the aim to increase institutional strength, transparency and independence of the system, and improve quality and reliability of the statistics produced. The reform will consist of the two main components: institutional restructuring and methodological advance in order to achieve compliance of the methodology applied to recognized international standards.

According to the preliminary scheme, the new agency – National Statistics Office (NSO) will be established as a legal entity (foundation). NSO will not be a part of any governmental institution. However, in order to ensure its sustainability, NSO will be financed from the state budget. NSO will have its own CEO, supposedly reputable foreign expert, Supervisory Board and an Advisory Board – a consultative body.

In accordance with a Government vision, NSO will be engaged in the provision of selected macroeconomic indicators. At the same time it will coordinate the process of collecting respective data from governmental agencies.

The reform envisages introduction of the new system of statistics from January 2009. The respective legislative package will be submitted to the Parliament of Georgia during fall session.

**Public finances**

*Improvement of Public Finance Management and Treasury accounting system:* To improve of PFM and Treasury accounting system, e-treasury project was introduced in pilot organizations that use Treasury services. The system is being tested and improved on a
technical level. The Ministry of Finance received PEFA report prepared by WB/EC. With due consideration of PEFA findings, further harmonization of State Budget with PEFA standards is foreseen. In the framework of the Accounting Reform Strategy negotiations are underway with the technical expertise for preparing detailed action plan for adoption of IPSAS (International Public Sector Accounting Standards).

**Improvement of the budgeting process and Medium-Term Expenditure Framework:** In accordance with Georgian law on “Georgian Budget System” and Decree №300 of Government of Georgia, dated 28 December, 2007, Basic Data and Directions (BDD) of Government of Georgia for 2009-2012 were elaborated in April 2008. As an improvement in comparison with the previous BDD, BDD 2009-2012 includes medium term strategies of Autonomous Republics and local self-governance units.

**2.7. Transport, Energy, Environment, The Information Society, Research and Development**

**Transport sector**

The Government has been actively pursuing liberal policy in the transport sector. The revision and renewal of the international treaties in the field of transport is underway aimed at promotion of liberal approach and competition.

**Railroad transport:** In 5 months of 2008 the Georgian railway carried 8.9 million tons of cargo, 4.2 million tones of crude oil and oil products and 1.4 million passengers. (In accordance with appropriate data of 2007 Georgian railway carried 8.5 million tons of cargo, 4.7 million tones of crude oil and oil products and 1.5 million passengers)

In accordance with the agreement on New Baku-Tbilisi-Kars Railway Line signed in February 2007 by the Governments of Georgia, Turkey and Azerbaijan, a construction company had been identified. “Azerinshaatservice” ltd. will construct Akhalkalaki-Kartsakhi 29 km railway section. At the same time, preparation of the project on the rehabilitation of the existing Marabda-Akhalkalaki railway section will be realized by the “Kievgiprotrans” ltd. The transport capacity of the new railway line will be approximately 8-10 million tones by 2010-2012.

**Road transport:** 9.5 million tons of cargo was transported and 104.2 million passengers were carried by road transport in 5 months of 2008. (9.4 million tons of cargo was transported and 101.2 million passengers were carried by road transport in 5 months of 2007).

In the course of the liberalization policy, pursued by the Georgian Government bilateral agreements on road transport are being reviewed. The draft intergovernmental agreement on International Road Transport was prepared, which lifts quantitative and other forms of restrictions as well as fees. The agreement will be signed with several countries, amongst them with the Czech Republic, Hungary, Slovakia, Poland, Estonia and Finland. Currently the negotiations are held with the above listed countries and their competent authorities for the arrangement of working sessions and finalization of the agreements. Basic principles of the Agreement between the Government of Georgia and the Government of the Republic of Moldova on International Road Transport have been agreed and the document will be signed in the near future.
Today, a draft of the “Georgian National Road Safety Strategy” is prepared by the Ministry of Economic Development of Georgia that is agreed with all interested bodies and will be presented to the Government of Georgia in accordance with appropriate rules.

**Maritime Transport:** 7.6 million tons of cargo was processed at the sea ports in 5 months of 2008. The volume of the cargo in Poti Sea Port reached 3.4 million tones and in Batumi Sea Port – 4.2 million tones. (In accordance with appropriate data of 2007, 7.5 million tons of cargo was processed at the sea ports. The volume of the cargo in Poti Sea Port reached 3.0 million tones and in Batumi Sea Port – 4.5 million tones)

Sea ports of Georgia are linked with Ilichevsk (Ukraine), Varna (Bulgaria) and Kavkaz (Russian Federation) ports by direct railway-ferry lines and with Novorossiysk (Russian Federation) and Burgas (Bulgaria) ports by direct Ro-Ro lines. At the same time, appropriate activities are underway to develop existing maritime ferry connections, as well as establish new connections between the Black Sea ports of Georgia and other countries. Nowadays, negotiations with the respective bodies of the Republic of Turkey are underway in order to establish a direct ferry connection between the sea ports of Poti (Georgia) and Samsun (The Republic of Turkey).

On the basis of international tender, the winner company had been identified and on April 11, 2008 51% of the Poti Sea Port shares had been handed out to the United Arab Emirates Company RAK. The above-mentioned company will construct the new sea port and develop a Free Industrial Zone near the Poti Sea Port.

Construction of the Kulevi terminal near Poti Port was completed in 2008 and it already started operation. Design capacity of the above-mentioned terminal is 10 mln tones.

**Civil Aviation:** In 5 months of 2008, international airports of Georgia served 297 700 passengers. (In 5 months of 2007, international airports of Georgia served 205 302 passengers)

It is planned to construct an air-cargo and a multi-modal cargo terminal near the Tbilisi International Airport. The terminal will receive the cargo by air, railway and motorway and will process it.

With a view to pursuing the liberal policy in the field of aviation, for the promotion of free competition and liberalization of air traffic, a number of draft model agreements on air services between the Georgian Government and a number of the EU Member States have been developed: namely between Georgia and Federal Republic of Germany, the Kingdom of Netherlands, Republic of Greece, Republic of Hungary, Lithuanian Republic, Republic of Estonia, Republic of Italy, Czech Republic, Republic of France, the Kingdom of Denmark, Romania, Republic of Poland. Appropriate procedures are underway in order to sign the above-mentioned agreements in the nearest future. On June 20, 2008 an “Agreement on Air Transport between the Government of Geogria and the Government of the Republic of Armenia” was signed. Appropriate procedures are completed and it is planned to sign Air Services Agreements with the United Arab Emirates, Switzerland, China and Ukraine in the nearest future.
Implementation of the liberal principles in the field of civil aviation will also facilitate the entrance of the so-called “low cost” airlines on the Georgian aviation market. As a result, new air companies such as Lithuanian Airlines and Air Baltic entered the Georgian civil aviation market.

At the same time, as a result of the above-mentioned liberal policy the European Commission proposed the Georgian Side to sign the ECAA (European Common Aviation Area) agreement. The meeting between Georgian and European civil aviation experts was held in April 2008. Georgian side expressed the initial consent on acceptance to start negotiations on the ECAA agreement. Hereby, the European Commission will prepare appropriate draft agreement and provide to the Ministry of Economic Development with it in the nearest future. Signing of this agreement will cover all existing agreements between Georgian and the EU countries and will lead to abolishment of existing restriction on establishment of tariffs, capacity, frequency, number of designated airlines and destination points.

Being a member of the European Civil Aviation Conference, Georgia intends to finish all procedures for the membership in EUROCONTROL, which will allow the country to integrate in the European air navigation system as well as bring national civil and military air control system in line with European standards.

Development of Energy Sector

Energy security and energy diversification: Within the Co-operation on Caspian and Black Sea regional energy issues, under the framework of the INOGATE program, the Feasibility study of the project “Trans-Caspian-Black sea gas corridor” was completed in May 2008. The goal of the project is to identify different ways and a means of gas transportation corridor with provision technical, economical, ecological (environmental) and legal aspects. The implementation of the above mentioned project will support the strengthening of energy security of the region through diversifying the energy resources.

On May 23, 2008 with a view to regional integration as well as progressive integration with the EU energy market, Georgia signed Joint Statement Regarding the “Euro-Asian Oil Transportation Corridor” project (EAOTC) in Kiev (Ukraine) together with Azerbaijan, Lithuania, Poland and Ukraine. EAOTC project is important for increasing and strengthening the energy security of the participating countries through the establishment of the reliable route for the transportation of the hydrocarbon resources from the Caspian region via the territories of the Republic of Azerbaijan, Georgia, the Republic of Lithuania, the Republic of Poland and the Ukraine to international markets.

It is notable that progressive steps have been taken to finalise individual metering process in order to expedite the consumed energy payment collection to full extent. JSC Kakheti Energy Distribution and JSC Energo-Pro Georgia have successfully completed individual metering in the most populated regions. The installation works are under way in the others. The process of individual metering will be finalized by July 1, 2008 and accordingly electricity consumed by 127 000 customers will be metered individually since then.

Renewable energy: The Ministry of Energy of Georgia is considering the effective utilization of the country’s major energy potential - hydropower resources and the construction of small, medium and large hydro power stations. In this regard, the Government of Georgia adopted the State Program - “Renewable Energy 2008” in April, 2008. The purpose of this state program is
to approve the rule of construction of new renewable energy sources in order to support attracting foreign investments.

In regard to energy efficiency and renewables the special working group was established which is drafting *Law on Energy Efficiency and Renewables*. It will presumably be ready in near future.

In the first quarter of 2008 TOR (Terms of Reference) of the study on utilization of hydropotential of the rivers Mtkvari and Khrami has been prepared. The tender will be announced on the implementation of TOR in near future.

The projects on construction of new hydropower plants are set as priority by the Ministry of Energy of Georgia that tries to attract investors interested in construction of new HPPs in various parts of country. The Ministry also negotiates with several interested investors the construction of wind plants in order to effectively use country’s renewable energy potential.

The feasibility study of Namakhvani HPPs Cascade has been finalized. Now, the tender is to be conducted. The feasibility studies of number of HPPs (including: Kintrishi HPP, Qobuleti I and II HPPs, Kirnati HPP, Khelvachauri HPP, Chorokhi I and II HPPs) are underway.

The rehabilitation of the Unit №1 has been completed at the Vardnili HPP and rehabilitation works on the hydro unit №2 are finishing.

As for the construction of the Khudoni HPP the first phase report has been prepared by company Ingenierie/ARS Progetti under the Environmental Impact and Social survey project in April 2008. In addition, in April 2008 Colenco Power Engineering/Stucky submitted the final report of phase II of the feasibility study of Khudoni HPP.

The ongoing rehabilitation works on Enguri HPP are partially finished.

*Security of energy infrastructure:* It should be noted that in the beginning of 2008, in order to implement SCADA project which is the component of the Support Project of Electricity Market the following steps have been taken:

1. The installation of optical cables on high voltage lines was finalized.
2. The installation of information receiving and transmitting system has been accomplished by 70%.
3. The modeling and data inclusion in the SCADA computer system was completed.

With a view to improving energy efficiency and enhancing the use of renewable energy as well as increasing energy security in the region, based on MOU between the government of Georgia and Turkey on construction of 400 kV power transmission line connecting Georgia and Turkey, in the first half of 2008, several agreements were signed among the state energy companies of Georgia, Turkey and Azerbaijan on the implementation of the project’s technical and financial parameters.

*Gas Sector*

Within the framework of the North-South main gas pipeline rehabilitation project works for the rehabilitation of the particular sections under the second stage of the project have been
completed. The tender for carrying out the construction works has already been announced. At present the review of the competition materials are underway for the selection of the building contractor(s), after finalizing of which (presumably at the end of July) the construction of North-South Caucasian main gas pipeline will be undertaken.

In terms of enhancing the regional security, special importance is attached to the construction of the underground gas storage. In 2008 the Georgian Oil and Gas Corporation conducted an assessment that has proved the feasibility of construction of the said gas storage, taking account of the current state of local and regional markets. The results were presented at the International Conference on the Georgian Oil, Gas, and Energy and Infrastructure issues and at the 15th International Caucasian Oil and Gas Conference.

Within the framework of Millennium Challenge Fund, the preparation works for the selection of the qualified candidates who will prepare the feasibility study of the construction of local or/and regional gas storage are currently ongoing under. Furthermore, at the initiative of private companies another research was undertaken to determine the feasibility of the construction of relatively small gas storage. By the end of the year, the draft feasibility study for the proposed underground gas storage will be prepared.

**Tariff Policy**

Currently the new methodology of setting the electricity tariffs, service standards and monitoring rules are under the process of elaboration at the Georgian National Energy and Water Regulatory Commission. The Commission has already adopted the rule of setting the cost of the connection of new consumers to the distribution network. Furthermore the Commission is working on promotion of the creation of the favorable environment for the more efficient and intensive use of renewable energy sources.

The new tariff methodology is elaborated on the basis of the applicable legislation of Georgia.

At the same time, the service standards and monitoring rules are under elaboration. The said rules envisage the introduction of the specific service standards in the distribution companies. It is noteworthy that the process of elaboration of electricity tariff settings and consumption rules for the distribution companies involves as well the conditions defined to insure the service quality according to the standards. Moreover the introduction of the service standards and marginal price methodology will be insured simultaneously.

In 2008 the Commission has adopted the Resolution # 7 “The Cost of Connection of New Consumers to Power Distribution Network” through which the cost of connection for the distribution companies to the distribution network has been established. It should be noted as well that the draft methodology covers the mandatory purchase of the renewable and alternative energy sources during the process of tariff calculation by ESCO.

**Environment**

*The Policy Document on Forestry* financed by the World Bank within the frame of Forestry Development Project has been drafted and reviewed at the Ministry of Environment and Natural Resources of Georgia. Representatives of different non Governmental Organisations took part during the discussion process. Various comments and suggestions have been
presented. The Draft Statute on “Rules of Conducting the State Ecological Examination” is drafted and submitted to different agencies for comments.

The Draft Law on “Water Basin Management” has been drafted and has passed internal hearing procedures and is prepared for submission to the Government. In order to ensure ecologically safe and economically optimal use of surface water resources, principles of water basin management have been drafted into a law on Water Basin Management. Preliminary actions are being undertaken to ensure transition to basin management, within a project on “Surface Water Resources Basin Management Policy of Georgia” and the draft law is prepared for submission to the Government.

The Second National Communication of Georgia is being drafted within the frame of project on “Preparation of the Second National Communication of Georgia to the UNFCCC”.

Inventory of greenhouse gas emissions of 2000-2005 is completed. Inventory of greenhouse emissions of 2006 is undergoing. Lectures and seminars have been regularly conducted for public awareness rising purposes.

Inter-State procedures are underway for accession to the First Protocol on the “Long Term Financing of Joint Program on Monitoring and Assessment of Dissemination of Long Range Air Pollutants in Europe”.

The state of collection, packaging and temporary safe disposal of expired and non-usable pesticides in Georgia was assessed and necessary steps were undertaken. Within the framework of this program the high-risk-bearing objects were collected in Kvemo Kartli, Mtskheta - Mtianeti, Shida Kartli and Imereti regions.

Eight project proposals on study of vulnerability of economy and natural ecosystems towards climate change and adaptation process have been prepared by competent NGO-s and academic circles and submitted to the Ministry of the Environmental Protection and Natural Resources. The most vulnerable segments of the Black Sea coastal zone have been assessed. Black Sea coastal zone adaptation strategy is under development. The projects on irrigation and restoration of windproof zone are already developed in Dedoplitskarso region.

**Information society**

With the view of ensuring the reliable communication between the state entities, the government of Georgia made a decision to establish the “Georgian Unified State Network” of data transfer. In accordance with memorandum of understanding on the creation of the Unified State Network signed between the “Magticom” and the Government of Georgia in August, 2007 the network is scheduled to be set up till the end of 2008.

Unified State Network designed to create the unified and secure, VPN-type network within the territory of Georgia. As a result online connection between the state entities, digital data interchange (including audio and video files) between the central and regional entities, signification reduction of state expenditures, high-speed and inexpensive internet will be available.
At the first stage, the company commits itself to ensure the following: connecting up to 500 terminals to the Unified State Network throughout the country, creating network management center, installing IP telephones, connecting to the network and providing technical services. Concurrently, the “Macticom” would offer customers all internet services available.

In the course of the second stage, upon request, the “Macticom” would connect any state entities and organizations to the Unified State Network and provide the technical services with the respective conditions.

It should be mentioned that from 2008 ministries and other governmental structures have been gradually joining to the network. Majority of them effectively use network in order to ensure high-level and prompt communications with their throughout the country.

The Law of Georgia on E-signature and E-documents was adopted in 2008, March 14. Adoption of the above specified law created a legal framework for the application of e-signatures and e-signature certified e-documents. The law would regulate the legal relations between public and private sector in a secure and expeditious fashion. The law is based on the international best practices and is in compliance with the EU Directives on “E-signatures” and UNCITRAL’s model legislation. The law will facilitate the introduction of various e-services in Georgia. National System of Numbering of E-Communication Network and the draft plan were developed by the Ministry of Economic Development of Georgia.

2.8. People to People contacts and education

Education and research: The flexible student loan system was introduction in the framework of the state programme “Knowledge Door” and in cooperation with the private leading banks of Georgia. The programme aims to increase equity in access to higher education in line with the Bologna Process requirements and envisages allocation of loans for master students who had been enrolled in leading universities abroad with a rate of interest of 9% and period of 10 years for paying it back.

The state funds had been allocated to stimulate and co-finance the participation of Georgian scientists in the EU Seventh Framework Programme. Co-financing scheme for participation was introduced for the projects already financed within the 7th framework programe.

The EU/TEMPUS- MES joint project was officially launching to introduce the TUNING methodology in higher education curricula in line with the Bologna requirements.

The first National Report on Adult Education in Georgia in the framework of life-long learning was elaboration with the purpose to present at UNESCO world conference on Adult Education (CONFINTEA VI) in Brazil in 2009.

Georgia became a governmental member of the European Quality Assurance Register (EQAR) - the newly established single institution in the framework of the Bologna Process with the purpose to improve the quality and increase transparency of Quality Assurance Agencies in Europe and world-wide.

The National Professional Agency became fully operational and increased its coordination functions for better linkage between professional education and labour market. Vocational
programmes were introduced in secondary schools for increasing the future employability of school-children etc.

**Culture:** Convention on the Protection and Promotion of the Diversity of Cultural Expressions adopted by UNESCO on October 20, 2005 has gone through inter-state procedures and was affirmed by the Administration of the President.

**Financial cooperation under the European Neighbourhood Policy Instrument (ENPI)**

In the first part of 2008 significant progress has been achieved in implementation of Programmes under the ENPI. The National AP 2007 is the first programme supporting the transition from the TACIS assistance to ENPI. The Financial Agreement was signed between the EC and the Government of Georgia early 2008 for €24 m assistance package (€16 m - the budgetary support, €4 m – Twinning, €4 m – Rehabilitation and confidence building in Abkhazia, Georgia)

**Budgetary Support:** Budgetary support programme relates to the Government's reforms aimed at further improvement of public finance management. €16 m. Euro is to be provided to support PFM reform over the three years from 2007 to 2009. The Initial installment of €5 m was transferred at signature of the Financial Agreement. The Ministry of Finance believes that the reforms that are underway will allow timely release of the second installment later in 2008. The awareness raising seminars on Budgetary Support Programme for the potential beneficiaries of the PFM has been organized by the EU Programmes National Coordinating Unit.

**TAIEX:** Georgian state institutions already started to actively participate in TAIEX Programme. The PAO as a focal point for TAIEX/TWINNING Programme in Georgia plays important role in preparation and assessment of TAIEX proposals from the line ministries.

During the reported period about the 15 TAIEX requests have been submitted to the European Commission in following areas: border issues; visa facilitation, agriculture, education, migration issues, environment. TAIEX also contributes to identification of the new areas for the potential Twinning Projects.

**TWINNING:** The awareness raising campaign was organised in state institutions where modernization is considered as strategic priority. Currently the Georgian Border Police of the Ministry of Interior; Ministry of Education and Science; United Transport Administration of the Ministry of Economic Development, Ministry of Finance; Ministry of Culture, Monuments Protection and Sports, Ministry of Energy are identified as potential recipients of the Twinning projects from the 2007 and 2008 ENPI APs.

**ECHO:** Currently ECHO”s assistance is focused on the small-scale income-generation projects and basic rehabilitation of destroyed individual houses. In 2007 ECHO has installed €2 m EURO for the shelter rehabilitation, food security and income generation assistance projects in Abkhazia, Georgia.

**Cross Border Cooperation (CBC):** Georgia was actively participating in the Joint Task Force (JTF) and Working Group meetings devoted to elaboration of CBC Programming document and identification implementing rules of the Programm. The CBC Programming Document was
discussed with line Ministries and stakeholders at regional level and later approved by the Georgian side and submitted to the EC. Unfortunately launching of operations under this programme is delayed by some participant countries.

**Peaceful Settlement of Conflicts:** The Office of the State Minister on Reintegration is in the process of negotiations with the EC to update existing format of the Steering Committee for the Rehabilitation and confidence building projects in order to achieve the maximum efficiency in project implementation and supervision in conflict zones. It is expected that the projects under the 2007 and 2008 AP should effectively contribute to the confidence building process and become more visible and target oriented.

**Stability Instrument** was used for the launching the € 2 m project “Support for Public involvement in Parliamentary Elections in Georgia”. The first phase of the project contributed to the election process and will continue to provide support to the Government in terms of modernization of the legal framework of election process and trainings.

The Government of Georgia has addressed the EC with the request to attract additional resources from the Stability Instrument in order to widen its operations to support conflict resolution efforts.

**Good Governance Facility Instrument:** The GoG has submitted request to the EC for consideration of additional assistance from the Good Governance Facility Instrument to provide additional support to Georgia. There is no feedback on the above request.

**Neighborhood Investment Facility (NIF):** The decision of the EC officially launching the NIF gives the opportunity to the Government of Georgia to benefit from this instrument with the support of Member States and European Financial Institutions (EIB, EBRD). More detailed practical instructions are expected for further development of the programme.
Annex I.

In order to support the implementation of humanitarian and social-economic rehabilitation programs in conflict zones:

- Based on the initiative of the Office of the State Minister of Georgia for Reintegration, work on the concept of creation of social-economic zones integrated in Abkhazia and Tskhinvali region began in February 2008.
- Moreover, in February 2008 the Office of the State Minister of Georgia for Reintegration began to develop the ideological platform concept “Multiethnic Georgia” key objective of which is to run public awareness campaign of Georgian population on reintegration and civil integration of ethnic minorities.
- In February 2008 the Office of the State Minister of Georgia for Reintegration in cooperation with the Georgian Institute of Public Affairs developed the concept regarding functioning of modern vocational training centers in Tskhinvali Region which will provide the population with the knowledge and skills necessary for proper professional orientation and effective work in today’s competitive environment.
- In April 2008, agreement between Georgian and Lithuanian Governments was reached about funding the vocational training and retraining courses for the population of Tskhinvali Region.
- Agreement on allocation of quotas for attending Master’s Faculty of Public Affairs of the University of Kiev by the students living in Tskhinvali Region was reached between the Office of the State Minister of Georgia for Reintegration and University of Kiev.
- In 2008 the Temporary Administration facilitated and encouraged resettlement of 40 families (120 persons) from Tskhinvali to Kurta. 35 resettled people are employed in the temporary administration on different positions. 50 people are working in private sector mainly construction, banking and retail sale.
- 35 square high voltage alternative electricity transmission lines of Tkviavi-Kekhvi were constructed (3 900 000 GEL);
- Rehabilitation works were carried out on 1 MG capacity aggregate of Kekhvi power station (960 000 GEL);
- Kekhvi-Kheiti 10 square high voltage electricity transmission line was put into operation (400 000 GEL);
- 4000 square and 2500 square high voltage transformers were purchased, out of which 2500 square is working.
- Clean-up works of cast-ashore timber and blocked up macadam of Kekhvi power station’s head works were carried out (1 500 GEL).
- Medium pressure gas supply pipe Kekhvi-Kurma-Achabeti-Tamaresheni-Kheiti-Dzartsemi-Kemerti-Sveri was funded by OSCE (415 000 GEL);
- Medium pressure gas supply pipe Eredvi-Berula-Argvitsi-Prisi is completed (1 405 000 GEL);
- Low pressure gas supply pipe Eredvi-Beloti-Argvitsi-Prisi is completed (94 000 GEL);
- High and medium pressure gas pipes are put through in Pronee gorge (700 000 GEL).
- Low pressure gas supply pipe Akhmaji-Mosabruni-Ikoti-Boli is put through in Akhalgori Rayon (250 000 GEL);
- In 2008, for the purposes of development of small enterprises, 500 000 GEL allocated by Gogi Topadze’s financial aid were allocated through tender. Among them should be mentioned beekeeping, funded in the amount of 70 000 GEL. In 2007, 340 colonies of
bees were equally allocated to private entrepreneurs both Georgians and Ossetians in all regions.

- In addition within the framework of OSCE funding, over 600 colonies of bees are purchased, out of which over 400 were allocated to Ossetians.
- For facilitating fruit sale, in 2008 credit in the amount of 900 000 GEL was allocated from the state budget. Production of meat and milk products with the companies “Nikora” and “Amaleti” has been planned in Didi Liakhvi gorge by using local resources.
- According to the Decree No 5 of the President of Georgia, dated 12 January 2007, “On the Construction of Mountain-Ski Complex in Upper Abkhazia and Implementation of Youth Programs in the Region”, in 2008 construction of 200 meter high ski trail in Gentsvisi was completed. Development of this tourist infrastructure will significantly contribute to raising the incomes of the region’s population.
- In 2008 in Azhara village (Upper Abkhazia) works for improvement of water supply system were carried out, namely the water pump and power security box were purchased and installed;
- Head works and pipes of water supply damaged by landslide in Chkhalta village were repaired. Moreover, restoration and clean up works of the administrative building of Abkhazia government and sewerage system of the school were carried out. In Chkhalta and Azhara villages, damaged boiler and heating system were repaired and restored;
- Administrative building of Chkhalta village, Azhara school, People’s Bank’s branch and police buildings were fenced in (6,0 thousand GEL);
- In 2008, rehabilitation works of the roads of local importance were carried out in the amount of 15,0 thousand GEL.
- Construction of ambulance cottage and bridge on the river Kodori in Azhara village has been launched.
Anex II

Statistical Information

The real GDP growth in 2007 constituted 12.4% (9.4% in 2006). If compared to 2006 the fastest growing sectors of the Georgian economy were mining and quarrying (20.2% real growth rate), real estate sector (14.8%), financial sector (14.7%), transport and logistics (14.4%), construction (14.3%), manufacturing (13.7%) and hotels and restaurants (13.5%). Average annual inflation rate in 2007 was 9.2%. In May 2008 it constituted 11.2%.

In 2007 Foreign Direct Investments (FDI) increased by 69% as compared to 2006, and constituted more than USD 2 bln (12% of GDP). The largest investor countries in 2007 were Netherlands, Czech Republic, Denmark, Great Britain and United Arab Emirates.

Georgia’s total foreign trade turnover amounted 6456,9 mln. USD in 2007 and increased by 38,1% compared with previous year. Export constituted 1240,2 mln. USD (increased by 24,9%) and import constituted 5216,7 mln. USD (increased by 41,7%).

Georgia’s total foreign trade turnover with European Union countries amounted 1807 mln. USD in 2007 and increased by 58,3% compared with previous year. Export constituted 268 mln. USD (increased by 42,3%) and import constituted 1539 mln. USD (increased by 55,0%). The share of EU in total trade turnover of Georgia was 28,0% (24,4% in 2006), share of export was 21,7% (19,0% in 2006) and respectively share of import was 29,5% (25,9 in 2006).

Among 10 major partner countries of Georgia in 2007 there are 2 EU member countries: Germany (5th place) and Bulgaria (7th place).

Georgia’s total foreign trade turnover increased by 37,1% and amounted 1740,9 mln. USD in QI 2008. Export increased by 46,8% and constituted 330,6 mln. USD, import increased by 35,0% and constituted 1410,3 mln. USD.

Georgia’s total foreign trade turnover with European Union countries increased by 29,3% and amounted to 384,3 mln. USD in QI 2008. Export increased by 50,5% and constituted 95,7 mln. USD, import increased by 25,0% and constituted 388,6 mln. USD.

Due to growth of economic activity and creation of new jobs unemployment rate decreased down to 13.3% in 2007 (13.6% in 2006). According to the integrated studies of households and labor force, the level of income was characterized with upward trends in the country. In 2007 the average monthly income of one household increased by 9.5 % and amounted to 422.2 Gel, which was two times more than the subsistence level.