Overview of Georgia CSP 2007-2013

Summary of the objectives of EU/EC Cooperation

There were following objectives:

1. **A mutually beneficial partnership promoting Georgia’s transition – based on the 1999 PCA.** In that Agreement, the EU and Georgia committed themselves to establishing a partnership which provides for close political and mutually beneficial trade and investment relations together with economic, social, financial, civil scientific, technological and cultural cooperation. The partnership is intended, in particular, to promote Georgia’s transition to a fully fledged democracy and market economy.

2. **Implementing the ENP and the EU-Georgia ENP Action Plan** - the objective of the ENP, launched in the context of the 2004 enlargement round, is to share the EU’s stability, security and prosperity with neighbouring countries, including Georgia, in a way that is distinct from EU membership.

3. **Security challenges – After the accession the wider Europe Strategy requires new the European Security Strategy, where there is a need for the EU to “promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations”.** In this context, the EU attaches great importance to the resolution of conflicts in Georgia’s two breakaway regions of Abkhazia and South Ossetia and is actively involved in ongoing efforts to achieve a peaceful settlement.

4. **Security and diversification of energy supply – EC Green Paper on EU's energy security challenges refers to Georgia, as Georgia is increasingly an important transit country for oil and gas from the Caspian basins, which also benefits the EU.** The Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline, connecting the Caspian basin with Turkey through Georgia, will progressively become a strategic alternative energy corridor.

5. **Development policy objectives** - the European Consensus for Development is driven by the primary objective of poverty reduction, with the complementary aims of promoting good governance and greater respect for human rights in a bid to ensure the stability and security of the countries in the regional context. These objectives also apply to Georgia, in order to promote the achievement of the MDGs. With an estimated GDP per capita of USD 13502, Georgia is classified as a lower middle income country in the OECD’s Development Assistance Committee (DAC) list of aid recipients. Despite solid economic growth in the past three years, overall poverty has remained high, with an estimated one third of the population still living under the poverty line.

Policy Agenda

Georgia’s Policy Agenda in CSP document reviews:

- general aspects
- internal policy
- external policy.

The document reviews developments including the rapid reforms in economic sector, conflict territories, rule of law and Human Rights protection, strengthening judiciary system, macroeconomic policy, fight with corruption, reform of public sector, poverty reduction, improving investment climate and so on.

Comment: While in general policy trends where positive, EC do not emphasis the problems related with rapid liberalization almost all sectors, and abolishment number of institutions under the slogan of fighting corruption (like antimonopoly service, or phytosanitary) that represents increased problems for future economic development. In addition, the problems of rapid and inconsistent changes of legislation in all sectors creates non stable situation in any sector.
CSP underlined that “The International Finance Corporation’s “Doing Business in 2007” ranked Georgia first for the intensity of reforms and improvement in business environment, moving from 112th to 37th position in the general classification among 170 countries rated”. However, this note is misleading as major achievement, which trumpeted Georgia’s towards for few years in higher rates in Doing Business survey, was introduction of major reforms to its labour laws, removing restrictions on working hours and dismissal procedures, and thereby lowering firing costs to some of the lowest levels in the world\(^1\). The new Labor law was heavily criticized by the International Confederation of Free Trade Unions (ICFTU) and the International Labour Organisation (ILO).

**Country Situation**

It reviews:

- General Aspects of development since Rose Revolution
- Internal Policy including resolution of internal conflicts, Consolidating democracy, the protection of Human Rights and fundamental freedoms, Macroeconomic policy, fight with crime and corruption, poverty reduction and investment climate
- External policy – EU integration and NATO membership aspirations, relation with Russia and Georgia’s regional role

In general, CSP correctly describes the problems related to political and human rights situation since Rose Revolution till the end of 2006, underlines problems of economic development, including the negative export-import trade balance and etc. It also clearly points out picture related to poverty within the country, problems related with assessment of the poverty.

**Comment:**

*In general, the trends of the country situation for 2006 are more or less fully reflected, including again emerging problems in part of Human rights protection and democracy consolidation. While there were some small signs already by that time in terms of the problems with Freedom of Media and general human freedoms that do not get into the report, the report correctly underlines problems in penitentiary and law enforcement system.*

*Meanwhile, assessment of the situation with regard of the poverty and the economic development needs more balanced approached, in order to diagnosis problems more correctly.*

*E.g. EU tries to focus its efforts on economic support for Georgia – but despite benefiting from Most favoured Nation status and from the EU’s General System of Preferences, trade with the EU remains low till 2006. Partially, some ongoing reforms has possibility to create more obstacles for intensification trade from one, side from another need for facilitation for further exports to EU is seen. This could be done only through detailed assessment of problems in economic sector, rather through accelerated process of signing Free Trade Agreement.*

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\(^1\) It should be underlined that World Bank Independent evaluation Group recently published evaluation, that highly criticized methodology, where counties become “top reformers” by slashing regulations and rewriting laws in a way that will boost their rankings. The IEG found that the DB survey is biased toward deregulation and hypes its results. It also found that there was "no statistically significant relationship" between the indicators and growth rates.

To calculate the official poverty level, Georgia uses an official indicator – the so called “living minimum” which is based on a minimum consumption basket of food for a healthy adult established by the Ministry of Labour, Health and Social Protection of Georgia. The previous methodology used to calculate the minimum necessary consumption basket, was adopted in 1992. This basket was based on the consumption of 2 500 kcal per day and was based on the nutrition norms of the Soviet period. The recommended new consumption basket is based on the consumption of 2 300 kcal per day. The recalculation of the poverty index in the middle of 2005 significantly reduces the official number of those below the poverty line from more than 50 percent to about 35 percent. However, despite this fact, the number of those below the poverty line continues to move in a generally upward direction (from 35.8 percent in 2004 to 39.4 percent in 2005 and 38.5 percent in the first to second quarters of 2006).

In addition to that it should be noted that indicators applicable in EU to assess the poverty rate, e.g. fuel poverty do not used in Georgia. That creates again problems in correct assessment of the poverty dept, based on substance minimum.

Past EC assistance

**Overall assistance (not included regional projects 500 mln EU for 1996-2006)**

<table>
<thead>
<tr>
<th>Instrument Name</th>
<th>Purpose</th>
<th>Years</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TACIS national programme</strong></td>
<td>field of legal and regulatory reforms and the approximation of Georgian legislation to that of the EU</td>
<td>2004/2006</td>
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<tr>
<td></td>
<td>Support for institutional, legal and administrative reform mainly in the fields of the rule of law, PCA implementation and institutional capacity building in the tax and customs administration</td>
<td></td>
<td>EUR 24.5 million</td>
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<td></td>
<td>Support for addressing the social consequences of transition, with a focus on primary health care, social assistance and child welfare reform</td>
<td></td>
<td>EUR 17 million</td>
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<tr>
<td><strong>Food Security Programme</strong></td>
<td></td>
<td>1997-2005</td>
<td>EUR 78.3 million</td>
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<tr>
<td><strong>ECHO</strong></td>
<td>immediate emergency relief to overcome the effects of the civil war and the consequences of the collapse of the Soviet Union. During the years, the focus has shifted from food aid to food security and income generating activities, increasingly targeting population groups affected by the conflict.</td>
<td>1993-2006</td>
<td>EUR 102.2 million</td>
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<tr>
<td><strong>EU support to rehabilitation and confidence building activities in conflict zones</strong></td>
<td></td>
<td>1997-2005</td>
<td>33 million</td>
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<tr>
<td></td>
<td>allocated EUR of assistance to Abkhazia and to South Ossetia</td>
<td></td>
<td></td>
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<tr>
<td><strong>Enguri Hydro Power Plant (HPP) rehabilitation</strong></td>
<td></td>
<td>2003-2005</td>
<td>EUR 9.5</td>
</tr>
<tr>
<td><strong>Macro-financial Assistance (MFA)</strong></td>
<td>MFA contributes to supporting Georgia’s economic reforms and improving its debt repayment strategy</td>
<td>1998 -2004</td>
<td>loan of EUR 110 million grant EUR 65 million</td>
</tr>
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new package of macro-financial assistance to assistance is to support economic reforms and help Georgia improve debt sustainability

| European Initiative for Democracy and Human Rights Georgia | | | 2006 | grant of EUR 33.5 million. |
| Cooperation in the field of education and science | | | 2002-2005 | EUR 6 million |
| Tempus, 16 project | | | 2005 | EUR 6 million |
| Tbilisi State University with a separate TACIS project for the “Establishment of a Centre for European Studies” ( | | | 2005 | EUR 1,3 million |
| TACIS Regional programmes. | | | | |
| TRACECA | the TACIS regional programme, the “Transport Corridor Europe Caucasus Asia” |
| INOGATE | "Interstate Oil and Gas Transit to Europe", funded under the TACIS Regional programme, aims to increase the safety and security of energy transport to Europe, and promote IFI and private investment in energy transit. |
| South Caucasus Anti-Drug Programme (SCAD)- | addresses drug trafficking through Georgia, and aims to reduce the demand for and the supply of drugs along the drug trade route from Afghanistan to Europe. |

Comment: despite the fact that lessons learned part recognize that activities were successful when it was fully owned by the government, it does not address the important issue of public participation in decision-making. There is clearly important to have the public consultation and participation on all levels of decision making starting from decisions related to macro-economic sector, in order to improve overall ownership and prevent failure’s of implemented projects.
EC Response strategy

EC response strategy objective is to support PCA implementation and the achievement of the ENP AP’s objectives.

For that purposes EC response strategy will
- support the jointly agreed process for closer EU Georgia economic and social integration under the ENP is a distinctive EU external policy and support for its implementation should therefore constitute the main focus of EC assistance; It should be coherent with the Government's own reform strategy;
- contribute to the achievement of the MDGs for Georgia;

In order to achieve efficiency it should:
- be compatible with available EC resources (i.e. for instance exclude capital-intensive investments);
- allow concentration of limited EC resources on a reduced number of key priorities;
- facilitate as much as possible the transition from technical assistance to budgetary support;
- be complementary with other donors’ and IFIs’ interventions.

EC assistance priorities

Priorities identified in CSP fully follows the ENP Action Plan
- Political dialogue and reform (ENP AP Chapter 4.1)
- Cooperation for the settlement of Georgia's internal conflicts (ENP AP Chapter 4.2)
- Cooperation on justice, freedom and security (ENP AP Chapter 4.3)
- Economic and social reform, poverty reduction and sustainable development (ENP AP Chapter 4.4)
- Trade-related issues, market and regulatory reforms (ENP AP Chapter 4.5)
- Cooperation in specific sectors: transport, energy, environment, Information Society and Media, R&D (ENP AP Chapter 4.6)

Instruments and Means

Instruments and means to implement comprehensive support to above mentioned areas includes ENPI national program (120 mln EUR for 2007-2013), as well as regional (e.g. Black Sea synergy), crossborder and thematic programs.

Other type assistance include: twining, TAIEX, budgetary support

Georgia can participate in some Community programs and/or Agency works

In addition, European Investment Bank EIB external mandate has been extended for South Caucasus since 2007, mainly for financing energy sector, transport and environmental infrastructure projects. (3.8 billion Guarantee for South Caucasus, Moldova, Ukraine and Russia).
Comment:

The Rose Revolution speeds inclusion of all three South Caucasus Countries in the ENP, that represents significant increase in relations between Georgia and EU. That has been overall positive shift towards more close integration and increase relationship between Georgia and EU.

The CSP 2007-2013 is clear about the instruments it would use, links between them and its strategic goals, and how these initiatives interact with government and other donors activities. The fact that private sector development focus has been reduced should be welcomed, while there is still need towards increased focus on Poverty reduction and social costs of transition. In addition, the part on the Rule of Law, Good Governance and respect for human rights should be strengthen, especially in light of recent events end of 2007/2008.

Having the clear goal on conflict resolution should be welcomed. At political level – the EU Special representative is now present in almost all negotiations with conflicting parties and translated it into concrete activities for rehabilitation of infrastructure and peacekeeping negotiations.

From the range instruments used by EU in Past, the TACIS has the lion’s share. The replacement of Technical Assistance projects with budgetary support and sector wide approach should be welcomed. However, it needs to make more transparent and participatory sectoral or budgetary support conditions setting process. There is no policy and/or procedure that would give possibility for this type of participation of all stakeholders in decision-making process.

Till now in Georgia there is good cooperation between local delegation, as well as DG RELEX and relevant DG staff, who are willing to consult. However, the efficiency of consultations would increase if there would be settled clear guidelines and structured procedure for public inputs in programming cycle.

E.g. According to CSP were number of consultations with relevant Ministries, and some comments were submitted with regard to the CSP&NIP. However, while there were some round tables with NGOs, there were not structured consultation with NGOs regarding the CSP&NIP.

The Environmental Profile, attached to the document, is clear example when there is a need for more public inputs. E.g. according to document “A law on environmental permits was adopted in 1996, covering the issue of environmental impact assessments”. However, it lacks the following, that new Law on Licensing and Permits introduced in 2005 fully changed the law on Environmental Impact Permits, and since that the environmental permitting process and/or content changed fully e.g. the Government is not anymore responsible for public participation process, as well as Environmental Impact Assessment does not required anymore for oil, gas or gold extraction processes and etc.

The above mentioned are applied towards all sectors and could play important role in improving of institutional capacity, transparency and public accountability of state and administrative structures, as gives the model of good governance to Georgian authorities.

Gender

The CSP &NIP fails to support implementation and integration of EU gender equality policy as a cross cutting issue and the part of the harmonization process with EU legislation. The gender perspective is simply mentioned in the CSP text, not requiring any special activity from government or from EC to ensure gender mainstreaming/equality standards implementation under the ENPI funded projects and programs.
Indicative Program (2007-2010)

Priority Areas identified in Indicative Program focus on four priority areas based on CSP

Priority Area 1: Support for democratic development, rule of law and governance
Sub-priority 1.1: Democracy, human rights, civil society development
Sub-priority 1.2: Rule of law and judicial reform
Sub-priority 1.3: Good governance, public finance reform and administrative capacity building

Priority Area 2: Support for economic development and ENP AP implementation
Sub-priority 2.1: Promoting external trade and improving the investment climate
Sub-priority 2.2: Supporting PCA/ENP AP implementation and regulatory reforms
Sub-priority 2.3: Education, including vocational education, science and people-to-people contacts/exchanges

Priority Area 3: Support for poverty reduction and social reforms
Sub-priority 3.1: Strengthening social reforms in health and social protection
Sub-priority 3.2: Rural and regional development

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

Instruments

The indicative breakdown of resources should be as follows:

<table>
<thead>
<tr>
<th>Priority Areas</th>
<th>Mio€</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Support for democratic development, rule of law and governance</td>
<td>31.5</td>
<td>26%</td>
</tr>
<tr>
<td>2. Support for economic development and ENP AP implementation</td>
<td>31.5</td>
<td>26%</td>
</tr>
<tr>
<td>3. Poverty reduction and social reforms</td>
<td>38.4</td>
<td>32%</td>
</tr>
<tr>
<td>4. Support for peaceful settlement of Georgia's internal conflicts</td>
<td>19.0</td>
<td>16%</td>
</tr>
<tr>
<td>Total indicative ENPI allocation 2007-10</td>
<td>120.4</td>
<td>100%</td>
</tr>
</tbody>
</table>

Comments:

Sub-priority 3.1: Strengthening reforms in health and social protection sectors is the only activity that address vulnerable groups. Having alarming data about the health situation within the country in Health sector\(^2\), the EC support is crucial in order to reach MDG indicators in Country.

\(^2\) Infant-Mortality (per 1,000 live births): 41
Under-5 Mortality (per 1,000 live births): 45
Estimated Maternal Mortality Ratio (per 100,000 live births): 32

Social Watch Report 2006
Sub-priory 2.3 Education, science and people-to-people contacts address goal to improve the education level, however, more specific actions need taking into account emerged problems of primary education and access to primary education.

Although the indicators provided in the CSP clearly point to negative developments in regards to primary education enrollment and some health indicators, only very few resources are allocated to these issues.

The EC puts right focus upon the objectives of democracy, rule-of-law and governance, however, gender equality issue looks like missed from CSP and NIP.

As for the commitment to promoting environmental sustainability defined in CSP, neither CSP nor NIP defines any specific strategy or activities for integrating environmental objectives into country programmes or projects.