

**MEMORANDUM TO ENPI COMMITTEE
CONCERNING THE**

**Annual Action Programme covered by the programming
document National Indicative Programme for the European
Neighbourhood and Partnership Instrument in favour of Georgia
for 2009¹**

1. Identification

Budget heading	19 08 01 03
Total cost	€7.4 million
Legal basis	<i>Regulation (EC) 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument</i>

2. Country background

Georgia in the last 4 years has enjoyed rapid GDP growth, which was expected to continue over the next years. In the first half of 2008, Georgia still enjoyed strong growth rate (12.4%) with average inflation rate of 9.2%, which had increased to 11.3% in July 2008. Economic growth was driven by financial intermediation, hotels and restaurants, transport and communication, real estate and construction.

Georgia had made considerable progress in improving the investment climate and in the area of economic liberalisation since the "Rose revolution". While the current trade balance had recorded a deficit of 33% of GDP, mainly due to the large volume of imports compared to exports, total FDI for 2007 accounted for US\$ 1.6 billion, with an estimate of US\$ 1.1 billion for 2008 (respectively 15.3% – 9.1% of GDP).

The European Union, with Germany and Bulgaria as major traders, remains the largest commercial partner.

About a third of foreign investment in recent years was used for the construction of pipelines by foreign firms. The biggest investors are USA followed by Great Britain. Kazakhstan and Azerbaijan and even Russia contributed large amounts in recent years; significant investments come also from the tax heavens Cyprus and Virgin Islands.

Before the open conflict between Russia and Georgia on August 2008, economic growth was running in double digits. With such a strong growth, there were inevitably inflationary pressures, but the central Bank was bringing these under control. The external current account

¹ In the preparation of the present Annual Action Programme, due account has been taken of the observations made by the European Parliament on the ENPI Strategy Papers 2007-2013 and the Indicative Programmes 2007-2010

deficit was large, but it was fully financed by private capital inflows and, in particular, foreign direct investment.

Recent political instability and the open conflict between Russia and Georgia have negatively impacted the economic growth.

On 22 October 2008 at the Donors Conference held in Brussels, public and private donors together have pledged US\$ 4.55 billion over the next three years to help Georgia in post-war recovery. The sum includes about US\$ 3.7 billion from governments and US\$ 850 million from private donors.

In December 2008 European Union decided to extend the GSP+ regime to Georgia, thereby facilitating its commercial relations with the EU.

The Government of Georgia envisages to counter-balance the effects of the crises by pursuing a counter-cyclical fiscal policy and intensifying public investments in infrastructure projects, which will stimulate the economy. Besides, it is planned to increase spending in social programmes.

In 2004, Georgia was included among the countries benefiting from the European Neighbourhood Policy. In November 2006 the EU-Georgia European neighbourhood Policy Action Plan (ENP AP) covering a 5-year time-frame was agreed. Since that time the Government of Georgia has been working on the ENP AP implementation. The recent political instability and the open conflict between Georgia and Russia have negatively affected the process.

In summer 2008 the European Commission put forward concrete ideas for enhancing the relationship between the EU and its neighbouring countries, including Georgia, through the Eastern Partnership. This would imply the possibility to upgrade existing partnership agreements to new association agreements including deep and comprehensive free trade agreements with those countries willing and able to enter into a deeper engagement with the EU. The Eastern Partnership will pursue a gradual integration of Georgia in the EU economy thanks to a gradual visa liberalisation and measures to tackle illegal immigration.

The Partnership would also promote democracy and good governance; strengthen energy security; promote sector reform and environment protection; encourage people to people contacts; support economic and social development; offer additional funding for projects to reduce socio-economic imbalances and increase stability.

3. Summary of the Action Programme

In the context of the policy objectives defined by the EU-Georgia ENP AP, the overall objective of this Annual Action Programme (AAP) is to support the implementation of the priorities areas 2 and 3 of assistance defined in the Country Strategy Paper 2007-2013 (CSP) and more specifically in the National Indicative Programme 2007-2010 (NIP).

The NIP for Georgia identifies 4 priority areas of cooperation for the 2007-2010 period:

1. Support for democratic development, rule of law and governance
2. Support for economic development and ENP AP implementation

3. Support for poverty reduction and social reforms
4. Support for peaceful settlement of Georgia's internal conflicts.

This AAP 2009 consists of 2 components:

a) Action 1: Support to the Vocational Education and Training Sector of Georgia

The rationale of the EC in providing a sector programme to support the vocational education and training (VET) sector of Georgia is a part of the overall objectives to support the priority areas 2 and 3 of the CSP/NIP: poverty reduction and social reforms and economic development of Georgia. The sector support will assist the country in the implementation of the national VET strategy (2009-2012) main objective, which is to prepare a *competitive work force for domestic and international markets, and pursue with the convergence of the Georgian VET system with the EU standards*. The first years of implementation of this strategy will test and monitor various forms of and approaches to VET provision and governance and will permit a refinement and fine tuning of a long term strategy.

The VET strategy is structured along three main areas / objectives:

1. Occupational standards and quality assurance
2. VET accessibility and flexibility
3. Participatory governance, management and efficient funding model in VET

The sector support will also assist Georgia in fine-tuning and consolidating the Action Plan underlying the VET strategy, and developing specific technical areas (such as qualifications system).

b) Action 2: Twinning and Technical Assistance Facility

The proposed Twinning and Technical Assistance Facility for AAP 2009 will provide the necessary resources to continue the implementation of the ENP AP. The Facility intends to continue the contribution to the gradual harmonisation and approximation of Georgian legislation to EU principles, norms and standards according to the provision of the Partnership and Cooperation Agreement, ENP AP and NIP and to the progressive economic integration between Georgia and the EU.

The project objective is to support the Georgian administration and relevant institutions in the implementation of the NIP in areas with the potential to enhance trade, investments and growth, such as: rule of law, education, environment, social and health reforms, rural and regional development. Some part of this amount will be also used for technical assistance not directly related to twinning projects, but demanded by the Government of Georgia and necessary for the implementation of the ENP AP and NIP priorities and for the preparation of sectors for future twinning projects. This technical assistance will be implemented in accordance with underlying principles of the backbone strategy.

4. EXPECTED RESULTS

The Annual Action Programme 2009 will have a direct impact on poverty reduction and will contribute to the achievement of Goal 1 of the Millennium Development Goals. Through the sector support to the VET the following results are expected:

- increased access to VET by youth and adults
- improved relevance and quality of qualifications to better respond to demands of various sectors of the economy, incl. formal and informal, and to local / regional development needs
- improved quality and management of VET institutions, incl. strengthening of partnerships at regional level, enhanced quality management, introduction of self-assessment practice
- effective and participatory governance of the system, in particular to ensure coherence and efficiency within a setting with growing private sector participation in provision;
- informed decision making, namely development of a performance monitoring system.

Suitable indicators will be identified that will facilitate the measurement of progress in meeting the overall programme objectives. These indicators will be jointly developed with the Ministry of Education and Science and will become an integral part of the Ministry's own monitoring process. Indicators will combine actual outputs with relevant benchmarks, that will permit a constant monitoring of the reform process.

The Twinning and Technical assistance facility will contribute to:

- Deeper economic integration with the EU internal market
- Regulatory and institutional approximation in areas with the potential to enhance trade, investment promotion and growth;
- Improved efficiency, knowledge and integrity of the judiciary and law enforcement agencies;
- Greater independence and capacity of the criminal justice sector institutions (police, prosecutor's office, judiciary);
- Improved political governance
- Modernisation of the Georgian administration in order to effectively play a role in the implementation of the ENP AP.
- Increased efficiency of social assistance for vulnerable social groups;
- Improved quality and capacity of the Georgian administration in the areas of education, science and training systems;
- Strengthened rural and regional development.
- Improve regulatory convergence and introduction of best practices in all other areas relevant to the ENP AP and the CSP/NIP

Good governance is a horizontal issue and also central to the VET programme and potential twinning areas. The programme will also have a direct impact on women, young Georgians, young unemployed adults and other vulnerable categories of the population. Social equity in access to training is a fundamental principle of the draft VET strategy, the support of which is also planned through this Programme.

5. PAST EC ASSISTANCE AND LESSONS LEARNT

The implantation of the AAP 2008 is on track despite the difficulties faced during 2008. The first half of the year was characterised by both Presidential and parliamentary elections and political instability thereby negatively affecting the implementation of EC assistance. The second half of the year was characterized by increased tensions and provocations that culminated in the war with Russia with important negative economic, political and social consequences.

Nevertheless all three Financing Agreements have been signed. After the Commission decision was taken in September 2008, the signature of the Financing Agreements on Twinning/TA and on Conflict resolution took place in October 2008 while the FA on SPSP Criminal Justice was finalised in December 2008. With regards to the FA on “Conflict Resolution”, the open conflict between Georgia and Russia reduced the relevance of proposed activities, thus an additional Memorandum of Understanding was signed between the European Commission and the Government of Georgia in October 2008.

Lessons learned from the previous AAPs have shown that Georgia qualifies for budget support (EC FSP 1996-2006; PFM SPSP, ENP AP 2008) and that the system is in principle understood by the Government. However experience shows that conditionalities need to be well negotiated, to ensure not only relevance, but also ownership by the programme recipients. The Twinning/TA facility still needs strong promotion and support in the governmental structures.

6. COMPLEMENTARY ACTIONS

The activities foreseen under the AAP 2009 will build on and complement activities of on-going projects financed under ENPI and other instruments that have been extended to Georgia after the August war 2008 (e.g. Instrument for Stability). In the VET sector an ongoing project, financed under the IfS, aims at assisting the recovery of Shida Kartli (the main region adjacent to the conflict zone) and is based on three components, one of which is dedicated to the establishment and development of VET capacity within the University of Gori. The programme will be implemented in close coordination with other donors and in particular with EU Member States.

The Twinning facility will complement twinning projects started under AAPs 2007 and 2008 and will build on the results achieved by previous preparatory projects in the related fields. The partnerships between Georgian and EU administration foreseen under Twinning will bring to the process increased ownership and sustainability of the reforms.

7. COMMUNICATION AND VISIBILITY

Proper communication and visibility of the actions will be achieved via the communication strategies defined for each of the measures proposed in the Programme. A communication budget is set aside for promotion and visibility in each of the actions.

8. COST AND FINANCING

The overall amount of AAP 2009 is € 27.4 million, indicatively distributed within the different actions in the following terms:

Action 1: Support to the Vocational Education and Training Sector of Georgia	€19 million
Action 2: Twinning and Technical Assistance Facility	€8.4 million
Total amount of the action programme	€27.4 million

Within the maximum indicative budget of all the specific actions, cumulated changes not exceeding 20% of the maximum contribution of the Community, are not considered to be substantial provided that they do not significantly affect the nature and objectives of the Annual Action Programme 2009. The Committee is invited to give its opinion on the attached Annual Action Programme for the ENPI for Georgia for 2009.