

## **Policy Department External Policies**

# **ANALYSIS OF THE EU'S ASSISTANCE TO GEORGIA**

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## Abstract

In recent years, Georgia has made remarkable progress in strengthening governance structures and implementing reforms conducive to economic growth. However, Georgia's progress in state-building has been achieved partly at the expense of democratic power-sharing. In light of growing concerns about Georgia's democratic performance, a certain readjustment of EU assistance priorities is necessary. The EU should rebalance its assistance between the objective of state capacity building and the objective of democracy-building, addressing problems such as insufficient separation of powers, undeveloped mechanisms of interest articulation and representation, and the weakness of the judiciary, the parliament, the party system, media, and the civil society. To ensure the effectiveness of EU assistance, it is also important to keep fighting corruption, develop donor coordination, intensify efforts to solve frozen conflicts and help reduce Georgia's vulnerability to external shocks.

*The manuscript was completed in early August 2008, before the war in Georgia. Issues raised by the war are addressed in a separate study specifically on this issue also prepared for the EP's Foreign Affairs Committee.*

## Executive summary

**Scope of the briefing:** The objective of this briefing is to assess the relevance and effectiveness of EU assistance to Georgia, concentrating on the domains of democracy, the rule of law, the freedom of expression and of the media, promotion of civil society and human rights. The assessment is performed in light of

- relevant EU objectives, as stipulated in key documents (EU-Georgia ENP Action Plan, ENPI Country Strategy Paper for 2007-2013, ENPI National Indicative Programme 2007-2010, Annual Action Programme, AAP, for 2007);
- relevant European Parliament resolutions;
- recent political, economic and social developments in the country.

This paper is divided into three parts. The first gives an overview of the objectives and instruments of EU assistance to Georgia. The second section evaluates EU assistance, analysing the relevance and appropriateness of its objectives and priorities and discussing a range of factors that impinge on its effectiveness and sustainability. The briefing closes with conclusions and recommendations.

### **Main findings:**

Objectives and priorities of EU assistance: Strengthening democracy, the rule of law, human rights and fundamental freedoms are the key priorities of EU-Georgia cooperation and EU assistance. However, most of the EU assistance allocated to Georgia during the first year of ENPI implementation focuses on administrative and institutional capacity building.

Reform progress and recent developments: While Georgia has made remarkable progress in strengthening weak and corrupt state structures, progress in state-building has been achieved partly at the expense of political pluralism and democratic power-sharing. The crisis of November 2007 and irregularities in the conduct of the 2008 elections intensified concerns about Georgia's democratic performance and excessive executive dominance.

Evaluation of EU assistance priorities: The identification of priority areas for assistance is based on sound analysis of Georgia's reform challenges and needs. However, in light of recent developments, the focus on state capacity-building should be coupled with stronger efforts to institutionalize democratic power-sharing, promote decentralization, strengthen mechanisms of representation, and enhance dialogue with the civil society.

Evaluation of the effectiveness of EU assistance: The structures and instruments of EU-Georgia financial cooperation are well developed. The methods of implementation are appropriate. EU assistance has made a major contribution to improving public finance management in the country. The effectiveness of donor coordination varies by issue-area. Institutional capacity is hampered by high turnover of staff in the Georgian public service. Corruption continues to be a significant problem. Georgia continues to be vulnerable to external shocks.

### **Recommendations:**

- In cooperation with other donors, the EU should develop more effective mechanisms and procedures for scrutinizing the democratic performance of the Georgian government. The capacity of Georgian NGOs to effectively monitor the government's performance on democracy, human rights, and the rule of law should be further strengthened. EU aid programming documents should include more detailed analysis of developments in the realms of democracy and the rule of law.
- Democratic conditionality underlying EU cooperation with Georgia should be strengthened, with particular attention to progress in institutionalizing democratic power-sharing and respect for human rights. In doing so, the EU should recognize that

offering or withholding financial assistance is not the key to ensuring Georgia's compliance with democratic norms. Georgia's strong interest in concluding free trade and visa facilitation agreements with the EU is a source of far greater leverage. The EU should emphasize that moving on to the "next stage" of EU-Georgia cooperation is contingent on implementing all parts of the Action Plan, rather than just selected priorities.

- ENPI AAPs beyond 2007 should focus on strengthening the legislative and judicial branches of power, as well as specific institutions checking the power of the executive. Strengthening the Ombudsperson's office should be a definite priority; continued efforts are needed to strengthen the independence and impartiality of the courts and to introduce a transparent system of selection and promotion of the judges.
- Empowering local governments should be an urgent priority. More funding should be allocated to improving administrative and planning capacity at the local government level. Funding available to local governments under DCI NSA-LA programme<sup>1</sup> has been very limited; competence and capacity-building activities planned and implemented on a larger scale are needed.
- The EU should promote greater participation of civil society in the reform process and ENP implementation at all levels from political dialogue to policy-making and implementation. This means maintaining or increasing support to NGO capacity building, advocacy and networking activities under EIDHR<sup>2</sup>, IfS<sup>3</sup>, and the NSA-LA programme. The EU should apply appropriate project selection and assessment criteria to ensure that support goes to NGOs representing significant social groups and collective interests.
- Improving the media environment and supporting independent media outlets is particularly important in the wake of the November 2007 events. The feasibility of setting up a regional TV-channel ("Euronews Caucasus") could be examined.
- The EU should promote open debate in the Georgian society by supporting suitable media projects as well as activities designed to foster a culture of debate in schools and universities (e.g. under the DCI "Investing in people" programme).
- Comprehensive reform of the civil service should be supported, with a particular focus on developing improved recruitment and retention policies and building competence and capacity for improved public service delivery and for more effective administration of donor assistance.
- The EU should enhance the involvement and effectiveness of civil society in monitoring and fighting corruption. In particular, campaigns designed to raise public awareness about corruption should be supported.
- The visibility of the ENP and of Community assistance should be further increased, while avoiding the development of a negative public image associating Europeanization with top-down reforms and executive dominance. This can be done through enhanced communication with the stakeholders and the general public. In particular, a better explanation of the multi-instrument structure of Community assistance would help eliminate misperceptions about the objectives and priorities of EU aid.
- The EU should intensify efforts to restart peace processes in the conflict regions and help reduce Georgia's vulnerability to external shocks (e.g. by opening EU markets to Georgian products, helping Georgia to diversify its energy supply, promoting regional cooperation).

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<sup>1</sup> Non-State Actors and Local Actors programme under the Development Cooperation Instrument.

<sup>2</sup> [European Instrument for Democracy and Human Rights](#)

<sup>3</sup> [Instrument for Stability](#)

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# 1. Introduction

Until 2003, Georgia was one of the poorest performing countries in the European and Central Asian region, characterized by weak administrative capacity, a failing economy, and pervasive corruption. At the end of 2003, the Rose Revolution brought to power a new government committed to an ambitious programme of economic, political, and administrative reforms, as well as Euro-Atlantic integration. Since then, democratic institutions have been put in place and the country has experienced impressive economic growth. Georgia has made great advances in the areas of government effectiveness, regulatory quality, rule of law and control of corruption. State revenues have increased substantially, and new legislation has improved the business climate.

However, progress in state-building has been achieved partly at the expense of political pluralism and democratic power-sharing. A fully functioning system of checks and balances has not yet been institutionalized. The Parliament largely fails to exercise its oversight function, the party system remains undeveloped, and the influence of social interest groups and non-governmental organizations is weak.<sup>4</sup> Although Georgia has made good progress on judiciary reform in recent years, executive interference with the judiciary's independence continues to be a problem.

Recent events have demonstrated dangers associated with excessive executive dominance. In response to massive demonstrations and protests by the civil opposition, a state of emergency was declared in November 2007. The use of excessive force against peaceful demonstrators and the closing down of some independent media outlets elicited strong international criticism.<sup>5</sup> Presidential elections held on January 5, 2008 were characterized by incomplete implementation of the OSCE and Council of Europe standards. International observers expressed concerns about a highly polarized political environment and the lack of balance in the Georgian media. Parliamentary elections, held on May 21, 2008, however, were assessed more positively.

Georgia's state-building and reform processes are hindered by continued conflict in the separatist regions of South Ossetia and Abkhazia. The direct involvement of the Russian Federation in these regions is a particular reason for concern. By establishing official ties with separatist authorities in Abkhazia and deploying further troops in the region, Russia has contributed to the recent escalation of tensions.<sup>6</sup>

EU-Georgian relations are based on the Partnership and Cooperation Agreement (PCA), which was signed in 1996 and entered into force in 1999. Relations have intensified since 2004 when countries of the South Caucasus were included in the European Neighbourhood Policy (ENP). The ENP Action Plan with Georgia was approved in 2006.

EU assistance to Georgia can be divided into two main phases. Between 1992 and 2006, the EC provided more than 510 million euro in grants through a range of instruments, the most important being Technical Aid to the Commonwealth of Independent States (TACIS) and aid from the European Community Humanitarian Aid department (ECHO). From 1 January 2007 onwards, the various geographical and thematic EU assistance programmes were replaced by a single instrument – the European Neighbourhood and Partnership Instrument (ENPI). Other

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<sup>4</sup> Bertelsmann Transition Index Georgia Country Report 2008, <http://www.bertelsmann-transformation-index.de>

<sup>5</sup> See European Parliament resolution of 29 November 2007 on the situation in Georgia, P6\_TA(2007)0572.

<sup>6</sup> See European Parliament resolution of 5 June 2008 on the situation in Georgia, P6\_TA(2008)0253.

major instruments of EU assistance to Georgia in the realm of democracy and rule of law are the European Instrument for Democracy and Human Rights (EIDHR), the Instrument for Stability (IfS), and the Development Co-operation Instrument (DCI).

The objective of this briefing is to assess the relevance and effectiveness of EU assistance to Georgia, concentrating on the domains of democracy, the rule of law, the freedom of expression and of the media, promotion of civil society and human rights. The assessment is performed in light of relevant EU objectives, as stipulated in key documents, as well as recent political, economic and social developments in the country that may necessitate a review or a re-prioritization of these objectives.

The assessment is based on the analysis of data from a variety of sources, including EU institutions, the Georgian government, and various intergovernmental and non-governmental organizations monitoring the development of democracy, rule of law and the human rights situation in Georgia. It also builds on interviews with beneficiaries and stakeholders of EU assistance in Georgia.

## **2. EU action and progress in the realms of democracy, human rights and the rule of law**

The EU-Georgia PCA, negotiated eight years before the Rose revolution, provides a very general foundation for cooperation in the realm of democracy and human rights. The priorities of EU-Georgian cooperation and EU assistance were developed in much greater detail following the inclusion of Georgia in the ENP and in the context of the reform of EU external assistance policies and instruments. The new package of EU assistance consists of a set of interrelated policy documents, detailing the objectives, priorities, and principles of EU-Georgia cooperation and EU assistance. These include:

- EU-Georgia ENP Action Plan (ENP AP)
- ENPI Country Strategy Paper for 2007-2013 (CSP)
- ENPI National Indicative Programme 2007-2010 (NIP)
- Annual Action Programme for 2007 (AAP).

The ENP AP sets out eight priority areas for action, one of which focuses on democracy, human rights and the rule of law. EU objectives under this priority area are defined as follows: *Strengthen rule of law especially through reform of the judicial system, including the penitentiary system, and through rebuilding state institutions. Strengthen democratic institutions and respect for human rights and fundamental freedoms in compliance with international commitments of Georgia (PCA, Council of Europe, OSCE, UN).*

The ENP AP stipulates the specific actions to be taken, including full-scale reform of the judicial system, adoption of a new criminal procedure code, improving detention conditions, adopting a public service reform strategy, developing a functioning civil register, ensuring that local (2006), parliamentary (2008) and presidential (originally scheduled for 2009) elections are conducted in accordance with international standards, implementing local government reform, etc. The AP also lists a number of general objectives that complement the specific priorities. In the realm of democracy and rule of law, these include, for instance, fighting corruption, strengthening the Georgian parliament, encouraging greater political pluralism, strengthening the role and functioning of political parties in Georgia, ensuring freedom of the media, and guaranteeing respect for the rights of national minorities.

Based on the objectives listed in the AP, the CSP defines the objectives and priorities for EU assistance for the five year period 2007-2013: *EC assistance in this area will focus on strengthening democracy and good governance, the rule of law, human rights and fundamental freedoms. This also covers the fight against crime and corruption and fostering the development of civil society, including in the social and economic sphere.*

The NIP for 2007-2010 defines in greater detail the focus of operations under the national allocation of the new **European Neighbourhood and Partnership Instrument** (ENPI). It reduces priority areas to four, the first of which is “Support for democratic development, the rule of law and governance”, further divided into three sub-priorities:

- Democracy, human rights, civil society development
- Rule of law and judicial reform
- Good governance, public finance reform and administrative capacity building

Financial resources available to Georgia under this NIP for the period 2007-2010 are put at € 120.4 million. Of this amount, 26 % (or €31.5 million) is reserved for priority 1 (Support for democratic development, rule of law and governance).

The AAP for 2007 details the priorities and allocations of EU assistance for the first year of the programming period. The AAP identifies three actions. The first is to tackle the issue of governance and public finance management; the second focuses on twinning operations in the area of economic development, regulatory reforms and ENP AP implementation, and the third pertains to peaceful conflict resolution and reconstruction and rehabilitation efforts in conflict areas.

The overall amount of EU assistance under AAP 2007 is €24 million which is distributed among the three actions as follows:

|                                   |             |
|-----------------------------------|-------------|
| Support to public finance reforms | €16 million |
| Twinning facility                 | €4 million  |
| Rehabilitation in conflict zones  | €4 million  |

Thus, two-thirds of EU assistance under AAP 2007 goes to the programme of public finance reforms designed to improve the efficiency and transparency of government spending, which in turn is expected to increase donor and investor confidence and to improve public service delivery, thereby contributing to poverty reduction.

Georgia is also a beneficiary of the **European Instrument for Democracy and Human Rights** (EIDHR). The EIDHR contributes to democratization by strengthening the role of civil society in the promotion of human rights, political pluralism and citizen participation and democratic representation. The EIDHR thus allows for the delivery of assistance without the need for government consent, which is “a critical feature of cooperation with civil society organisations at national level, especially in the sensitive areas of democracy and human rights.”<sup>7</sup>

- In the framework of the EIDHR, the Commission financed about 75 different projects in Georgia between 2003 and 2007. The amount allocated for these projects totals €3 300 000. The projects have focused on governance, political participation and democratic representation, fundamental rights, independence of the media and freedom

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<sup>7</sup> European Commission Delegation in Georgia,  
<http://www.delgeo.ec.europa.eu/en/programmes/europeaninit.html>

of the press, combating xenophobia, racism, and discrimination, and fighting corruption.

- A call for micro-projects closed in June 2008 focused on democracy and human rights promotion. Inter alia, the Commission called for projects monitoring the fulfilment of government commitments and obligations in the context of the ENP with reference to human rights and democratic reforms, rule of law and fundamental freedoms. The overall indicative amount made available under this call for proposals was €900 000.

Georgia also benefits from the **Instrument for Stability** (IfS). The IfS was created in 2006 and its main aim is to provide “an effective, timely, flexible and integrated response to crises, emerging crises or continued political instability.” Support from IfS is highly relevant to addressing the conflicts in Abkhazia and South Ossetia; it can be used to finance the implementation of the peace plans that have been tabled. Financing from IfS can also be used to address the effects of weaponry, ammunition, and explosive devices on the civilian population.

- In the wake of the state of emergency which was declared in November 2007, the European Commission allocated €2 million to support preparations for the Parliamentary elections held in Georgia on the 21st May 2008.
- Under a recent call for projects, the Commission will fund the holding of round tables designed to allow non-state organizations to propose policy advice to the EU institutions on conflict prevention, crisis management and peace-building issues. The overall indicative amount made available under this call was €525 000.

In addition, Georgia is eligible to receive EU assistance aid under the five thematic programmes of the **Development Co-operation Instrument** (DCI). Two of these programmes, “Non-state actors and local authorities in development” (NSA-LA) and “Investing in people,” are indirectly relevant to the thematic focus of this briefing. While the overall objective of NSA-LA is to help reduce poverty in the context of sustainable development, it also contributes to democracy-building by helping non-state and local actors develop capacity and pursue their objectives. “Investing in people” contributes to democracy and human rights by focusing, inter alia, on education, gender equality, and improving access to knowledge and skills.

- In December 2007, the Commission published 4 calls for proposals under the NSA-LA programme (in-country actions, multi-country actions, development education and networking). The Georgian country call focused on capacity-building of local authorities and non-state actors (including in South Ossetia and Abkhazia). The overall indicative amount made available under this call was €1 940 000.

Finally, it is important to note that several projects funded under the various **TACIS** AAPs are still ongoing or in the preparation phase. Many of these focus on assisting the criminal justice reform in Georgia - a key priority under TACIS AAP 2006.

- A call on “Capacity Building in Support of Rule of Law in Georgia”, funded from the TACIS AAP 2006 will be closed in September 2008. The action is designed to strengthen the capacity of the Ministry of Justice to coordinate and lead the complex process of criminal justice reforms. The contract has a maximum budget of € 2,700,000.

### **3. Relevance, effectiveness, efficiency and sustainability of EU action**

#### **3.1. Relevance of the objectives and priorities of EU assistance**

Overall, the priorities and objectives of EU assistance as stipulated in the key documents are based on sound analysis of Georgia's reform challenges and needs. EU assistance to Georgia rests on a logical and coherent framework linking broad objectives to specific priorities, actions and indicators of progress. EU assistance is sufficiently focused (AAP 2007 identifies three priority actions); the need to avoid excessive fragmentation is a key lesson learned from past experience with Community assistance to Georgia.

All three actions at the centre of AAP 2007 (reform of the public finance system, twinning operations, rehabilitation and reconstruction in conflict areas) are highly relevant and crucial to Georgia's successful transformation. Reform of the public finance system improves the efficiency of public spending and service delivery, helps establish conditions for effective use of donor assistance and reduces the fiduciary risks of the Commission. Twinning operations have the potential to make a significant contribution to administrative capacity building and regulatory reforms. Reconstruction and rehabilitation efforts in Abkhazia serve important humanitarian aims and respond to repeated calls that the EU should be more active in the conflict zones of the Eastern Neighbourhood.

However, recent political developments call for some readjustment in the priorities of EU assistance to Georgia. The presidential and parliamentary elections of 2008 represent progress over past elections and have strengthened the democratic mandate of the government. However, deviations of the electoral process from international standards are a cause of concern. Most importantly, the November 2007 crisis and ensuing polarization of the political environment represent setbacks in the area of democracy and human rights.

With regard to several indicators of achievement, identified in the NIP (e.g. positive assessment of compliance with democracy and human rights principles by various domestic and international actors; fully sustained levels of freedom of expression and media freedom; positive increased trust of citizens that human rights and fundamental freedoms are being respected) the situation in Georgia appears to be worse than a year ago.

In light of the above, three observations can be made. First, it is important to develop more effective mechanisms for scrutinizing the democratic performance of the Georgian government and to strengthen the democratic conditionality underlying EU assistance to Georgia. In particular, continued EU assistance should be conditional on progress made in institutionalizing democratic power-sharing. Existing analyses suggest that while the Georgian government has proven its reliability as a partner to international donors, its responsiveness to donor requirements is much greater in the realm of economic reforms than political reforms. Thus, it has been slow in responding to international criticism regarding violation of human rights norms or concerns about interference with the independence of the judges.<sup>8</sup>

Second, the EU should strive towards rebalancing its assistance between the objectives of state capacity building and the objective of democracy-building. Under AAP 2007, the majority of EU assistance is targeted at strengthening state structures (primarily, through public finance

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<sup>8</sup> Bertelsmann Transition Index Georgia Country Report 2008, <http://www.bertelsmann-transformation-index.de>

reform). While public finance reform is an important and commendable priority, annual action programmes for the coming years should also prioritize

- the institutionalization and consolidation of power-sharing arrangements and genuine separation of powers;
- strengthening institutional channels for the articulation and representation of social interests;
- decentralization processes, in particular local government reform and capacity-building at the local level.

Third, EU assistance to non-governmental sector through EIDHR and the NSA-LA programme of the DCI should be maintained, and, if possible, increased. While there are no arbitrary restrictions on NGO activity, and the number of civil society organizations is large, their impact on the policy-making process remains weak. In light of recent political developments, particular emphasis should be given to organizations, projects and activities that promote human rights, freedom of the press, civic education, and enhance social dialogue and stakeholder consultation in the reform process. The priorities of the 2008 calls under EIDHR and the NSA-LA programme (e.g. NGO and local authority capacity-building; NGO monitoring of government's record in meeting commitments under ENP) are entirely appropriate in this respect.

### **3.2. Effectiveness and sustainability of EU assistance**

**General EU commitments and actions to ensure aid effectiveness:** In managing its external assistance, the European Commission is committed to achieving the 12 indicators of progress identified in the Paris Declaration on Aid Effectiveness.<sup>9</sup> These aim at strengthening partner country ownership, donor alignment, harmonization, managing for results, and mutual accountability. The Commission has also set more ambitious targets for itself in a number of areas. For instance, it aims at channeling 50% of government-to-government assistance through country systems, to increase the percentage of EU assistance provided through budget support. To facilitate implementation by the Commission, devolution of responsibilities to Delegations was completed in 2006.

**Joint ownership and alignment of aid with national priorities:** The ENP AP, together with the NIP and the AAPs constitutes a comprehensive set of interrelated documents linking EU assistance to agreed-upon objectives and priorities. The Georgian government is strongly committed to the reform objectives identified in the ENP AP and has declared its intention to implement the plan in three, as opposed to five years. Among the civil society, the government is often perceived as being overeager in its zeal to implement the Action Plan and rushing reforms without taking the time to consult with stakeholders and social interest groups.<sup>10</sup> Also, the government appears to be somewhat selective in implementing the ENP AP, focusing on areas best corresponding to its interests.

**Instruments of EU assistance to Georgia:** The ENPI is in many ways superior to previous EU assistance programmes and instruments. It is more policy-driven, flexible and coherent. The design and management of EU assistance during the 2007-2013 programming period builds on important lessons learned from past experience. The streamlining of various forms of community assistance (budget support, twinning, grant contracts) in one instrument is commendable. However, it should be noted that the multi-instrument structure of EU

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<sup>9</sup> The Paris Declaration on Aid Effectiveness, <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

<sup>10</sup> Interviews conducted with NGO representatives in Tbilisi and Abkhazia, June 2008.

assistance (ENPI, IfS, DCI, EIDHR) remains complex (especially during the transition from TACIS to ENPI) and difficult to comprehend. This may lead to misperceptions regarding the priorities of EU funding, especially with regard to the proportions of aid given to the government and the NGO sector (assistance to non-state actors is divided between three different instruments).

**Methods of implementation:** Most of the Community assistance under AAP 2007 comes in the form of budget support. This form of assistance has distinct advantages compared to project finance, such as greater efficiency and coordination. However, the effectiveness of budget support depends heavily on the institutional capacity and administrative efficiency of the governance structures of the receiving country. According to the European Commission, past experience has shown that Georgia fully qualifies for budgetary support and that the system is well understood by the Government who acts as a willing and able partner in the implementation of the budget support process.<sup>11</sup>

**Institutional and administrative capacity.** The effectiveness of assistance provided under TACIS was often undermined by weak institutional and administrative capacity of the Georgian government. However, government performance has improved significantly in recent years. The key components of AAP 2007 (public finance reform, Twinning) are geared towards further strengthening governance structures. The absence of adequate human resources in the ministries and other government agencies remains a significant problem which has, at times, seriously undermined Georgia's capacity to absorb foreign assistance. The implementation of the public finance reform agenda requires adequate numbers of well trained and motivated staff. Recruitment and retention policies throughout the Georgian public service need improvement. The turnover of staff, including at senior and middle management levels, is high and often results in the loss of capacity and institutional memory. The alleged strengthening of cabinet control over the implementation of development cooperation projects has further restricted the pool of available competence.<sup>12</sup>

**Reliable public financial management and procurement systems:** Under the Paris declaration, donors commit to using country systems and procedures to the maximum extent possible and to strengthening, rather than undermining these systems, if weak. While many important reforms of the public finance system have been carried out since 2004, much remains to be done. Support to the public finance management reform is a key priority under AAP 2007, accounting for two-thirds of the ENPI assistance available for that year. The project complements an ongoing World Bank supported Public Sector Financial Management Reform Support Project, scheduled for completion in March 2010. Defining a single policy matrix for measuring results is crucial to ensure sufficient coordination of activities.

**Corruption:** Georgia's 2007 ranking in Transparency International's Corruption Perception Index (79<sup>th</sup> in the world) represents a significant improvement on its performance in 2005 and 2006, when Georgia was ranked 130<sup>th</sup> and 99<sup>th</sup>, respectively. Although Georgia is no longer considered to have a rampant corruption problem, corruption continues to be a significant issue in the public sector. In particular, the privatization process is criticized as being non-transparent and involving many irregularities. Inflow of large amounts of donor funding creates additional incentives for corrupt behaviour in this lower-middle-income economy. The allocation of assistance based on political and strategic considerations, rather than the economic needs and policy performance of the recipients, may aggravate the situation. While

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<sup>11</sup> Previous Commission experience in managing budget support programmes in Georgia includes the Food Security Programme under which €1 million of EU funds were channeled into the national state budget.

<sup>12</sup> Interview with a diplomat at a member-state embassy in Tbilisi, July 2008.

the share of assistance that has gone into the pockets of corrupt officials or NGO activists is difficult to estimate, it is clear that every effort should be made to ensure appropriate use of EU funds.

**Donor coordination:** Avoiding excessive fragmentation of aid is key to ensuring aid effectiveness. Since the Rose Revolution, Georgia has absorbed massive amounts of foreign aid from a wide range of donors, including the International Monetary Fund, World Bank, United Nations, European Bank for Reconstruction and Development, the Organisation for Security and Cooperation in Europe, etc. It also received bilateral assistance from a range of countries around the world. The Ministry of Finance has produced a document defining the strategy and priorities for cooperation with development partners for 2007-2011. Although much has been done to ensure effective donor coordination, the November crisis, elections and changes in the composition of government reportedly greatly complicated the work of the donors.<sup>13</sup> Absorption capacity remains a problem; sometimes, this is seen as encouraging unhealthy competition among the donors. However, donor coordination in priority areas identified in AAP 2007 is reasonably strong.

**Civil society involvement:** While there are no arbitrary restrictions on NGO activity, and the number of civil society organizations is large, civil society involvement in the reform process has been hampered by low capacity of non-state actors and excessive executive dominance in the Georgian political system. The NGO sector reportedly suffers from brain drain as a result of recruitment to government positions. Furthermore, many of the NGOs are donor-driven groups that do not have strong social roots.<sup>14</sup>

The dialogue between the government and civil society is widely regarded as insufficient.<sup>15</sup> There is a wide-spread perception among civil society organizations that after the Rose Revolution, the focus of EU assistance has shifted from supporting the civil society to channelling aid to the government.<sup>16</sup> However, civil society interest in the ENP and its implementation is strong. EIDHR projects, together with opportunities for regional and international cooperation offered by the ENP, have helped to strengthen NGOs and increased their voice in the reform process. EIDHR and NSA-LA projects have a further relevance in that they can be implemented on the whole territory of Georgia, including areas not controlled by the government such as Tskhinvali region/South-Ossetia and Abkhasia.

**Visibility and perceptions:** Public opinion is supportive of closer cooperation with the EU. However, the objectives and principles of ENP need to be better explained to the general public. The visibility of certain forms of Community assistance (e.g. budget support) is low. The fact that an overwhelming majority of EU assistance goes to the central government for purposes of administrative and institutional capacity building has led to concerns in the civil society sector that Europeanization may further strengthen the already dominant executive branch. These perceptions quite accurately reflect the distribution of EU aid in favour of the government: the amounts made available to the civil society under EIDHR, DCI NSA-LA and IfS are small compared to the volume of the budget support schemes under ENPI AAP 2007. However, it is also likely that the complicated structure of EU assistance (especially, the existence of multiple, separately administered instruments and programmes) makes it difficult for stakeholders and ordinary people to get a clear picture of EU activities designed to support non-state actors.

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<sup>13</sup> Interview with a diplomat at a member-state embassy in Tbilisi, July 2008.

<sup>14</sup> Interviews with representatives of the NGO sector in Tbilisi and Abkhasia, June 2008, and the Bertelsmann Transition Index Georgia Country Report 2008, <http://www.bertelsmann-transformation-index.de>

<sup>15</sup> Interviews with representatives of the NGO sector in Tbilisi and Abkhasia, June 2008.

<sup>16</sup> Ibid.

**Sustainability of EU assistance** is dependent on general stability in the country, the Georgian government's continued commitment to reforms and ENP AP implementation as well as on the capacity and competence of the government structures to implement projects. With regard to the first, unresolved conflicts in the separatist regions, the lack of territorial integrity and difficult relations with Russia impede the consolidation of statehood. Escalation of tensions and outbreak of violence (e.g. due to increased Russian involvement) remains a probability. Such destabilization could undo much of the reform progress achieved to date, and disrupt or undermine implementation processes and donor-coordination systems that have been established. In addition, wide-spread poverty and marginalization of broad and unorganized segments of the population can also give rise to destabilization.

The government's commitment to reforms and ENP AP implementation remains strong. So far, external threats have not caused Georgia to change direction: the recent Russian embargo, involving a ban on import of Georgian products and an energy blockade caused a major crisis but did not reroute the country from the course of reforms and Euro-Atlantic integration. High staff turnover in the public sectors impedes institutional learning and accumulation of competence. If continued, it may undermine Georgia's ability to absorb assistance.

## 4. Conclusions and recommendations

In recent years, Georgia has made remarkable progress in strengthening governance structures, institutionalizing the rule of law and implementing reforms conducive to economic growth. The conclusion of the EU-Georgia ENP Action Plan provided new impetus to the reform process. The reform of EU assistance programmes led to the streamlining of existing thematic and geographical programmes into one instrument, the ENPI.

While it may be too early to assess the impact that assistance under ENPI has had, this analysis suggests that certain essential elements of success are in place:

- EU assistance rests on a logical and coherent framework linking broad objectives to specific priorities, actions and indicators of progress;
- identification of priorities is based on sound and thorough analysis of Georgian reform challenges and needs;
- the structures and instruments of EU-Georgia financial cooperation are well-developed;
- the new framework of assistance builds on lessons learned from over 15 years of experience with Community aid to Georgia.

While the achievements are notable, much remains to be done. Georgia's progress in state-building has been achieved partly at the expense of political pluralism and democratic power-sharing. The crisis of November 2007 and problems related to the conduct of 2008 presidential and parliamentary elections intensified concerns about excessive executive dominance. A recent report by the Bertelsmann Foundation warns that external actors involved in Georgia's transformation should "keep an eye on the government's readiness to sacrifice democratic standards for the sake of effectiveness."<sup>17</sup>

In light of these concerns, a certain readjustment of EU assistance priorities is necessary. Assistance allocated to Georgia under ENPI AAP 2007 focuses largely on administrative and institutional capacity building. While all three priorities of AAP 2007 (public finance reform, twinning, and rehabilitation in conflict areas) are highly relevant and commendable, they may

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<sup>17</sup> Bertelsmann Transition Index Georgia Country Report 2008, <http://www.bertelsmann-transformation-index.de>

have the unintended consequence of further strengthening the dominant executive branch at the expense of other actors. The EU should rebalance its assistance between the objectives of state capacity building and the objective of democracy-building, addressing the major weaknesses of Georgian political system such as insufficient separation of powers, executive dominance, undeveloped mechanisms of interest articulation and representation, and the weakness of the judiciary, the parliament, the party system, media, and the civil society.

Specifically, this analysis leads to the following **recommendations**:

- In cooperation with other donors, the EU should develop more effective mechanisms and procedures for scrutinizing the democratic performance of the Georgian government. The capacity of the Georgian NGOs to effectively monitor the government's performance on democracy, human rights, and the rule of law should be further strengthened. EU aid programming documents should include more detailed analysis of developments in the realms of democracy and the rule of law.
- Democratic conditionality underlying EU cooperation with Georgia should be strengthened, with particular attention to progress in institutionalizing democratic power-sharing and respect for human rights. In doing so, the EU should recognize that offering or withholding financial assistance is not the key to ensuring Georgia's compliance with democratic norms. Georgia's strong interest in concluding free trade and visa facilitation agreements with the EU is a source of far greater leverage. The EU should emphasize that moving on to the "next stage" of EU-Georgia cooperation is contingent on implementing all parts of the Action Plan, rather than just selected priorities.
- ENPI AAPs beyond 2007 should focus on strengthening the legislative and judicial branches of power, as well as specific institutions checking the power of the executive. Strengthening the Ombudsperson's office should be a definite priority; continued efforts are needed to strengthen the independence and impartiality of the courts and to introduce a transparent system of selection and promotion of the judges.
- Empowering the local governments should be an urgent priority. More funding should be allocated to improving administrative and planning capacity at the local government level. Funding available to local governments under DCI NSA-LA programme has been very limited; competence and capacity-building activities planned and implemented on a larger scale are needed.
- The EU should promote greater participation of the civil society in the reform process and ENP implementation at all levels from political dialogue to policy-making and implementation. This means maintaining or increasing support to NGO capacity building, advocacy and networking activities under EIDHR, IfS, and NSA-LA. The EU should apply appropriate project selection and assessment criteria to ensure that support goes to NGOs representing significant social groups and collective interests.
- Improving the media environment and supporting independent media outlets is particularly important in wake of the November 2007 events. The feasibility of setting up a regional TV-channel ("Euronews Caucasus") could be examined.
- The EU should promote open debate in the Georgian society by supporting suitable media projects as well as activities designed to foster a culture of debate in schools and universities (e.g. under the DCI "Investing in people" programme)
- Comprehensive reform of the civil service should be supported, with a particular focus on developing improved recruitment and retention policies and building competence and capacity for improved public service delivery and for more effective administration of donor assistance.

- The EU should enhance the involvement and effectiveness of the civil society in monitoring and fighting corruption. In particular, campaigns designed to raise public awareness about corruption should be supported.
- The visibility of the ENP and of Community assistance should be further increased, while avoiding the development of a negative public image associating Europeanization with top-down reforms and executive dominance. This can be done through enhanced communication with the stakeholders and the general public. In particular, a better explanation of the multi-instrument structure of Community assistance would help eliminate misperceptions about the objectives and priorities of EU aid.
- The EU should intensify efforts to restart peace processes in the conflict regions and help reduce Georgia's vulnerability to external shocks (e.g. by opening EU markets to Georgian products, helping Georgia to diversify its energy supply, promoting regional cooperation).