

European Neighbourhood Policy AND GEORGIA

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Content

Overview of Developments (pp. 1-2)

Crisis of August 2008: Reasons, Perspective of Eradication

⇒ **Analysis**
(pp. 3-5)

Economic Policy Priorities of Georgia and Fulfillment of Commitments under the European Neighbourhood Policy Action Plan

⇒ **Brief**
(pp. 6-8)

Statement of Georgian Civil Society on Transparency in Planning and Disbursement of International Aid for Georgia

⇒ **Statement**
(p. 9)

From the publishers

The monthly bulletin "European Neighbourhood Policy and Georgia" is a joint initiative of Open Society - Georgia Foundation, Eurasia Partnership Foundation and a group of NGOs.

The main objective of the bulletin is to provide latest and significant information about the development of Europe-Georgia relations and the preparation of the Georgian Action Plan in the framework of the ENP. The bulletin is supposed to help Georgian NGOs monitor the implementation of the Georgian Action Plan and make their voice heard about the development of Europe-Georgia relations.

The editorial board of the bulletin welcomes contributions from the readers about the development of the Europe-Georgia cooperation and their requests for publishing specific research papers or political documents in the bulletin. Georgian NGOs are welcome to publish results of their research and analysis of the Europe-Georgia relations and the implementation of the Action Plan.

Overview of Developments

Gocha Sirbiladze

The August short Russian-Georgian war led to 370 casualties and more than one hundred thousand internally displaced persons, extensively burned and looted villages and towns, largely derailed civilian and military infrastructures.

The large-scale military operations were stopped thanks to diplomatic mediation of the French President Nicolas Sarkozy on 11-12 August. The ceasefire deal was struck between Russia and Georgia. Later on 16 August, this deal underwent certain transformation to become the six-point peace agreement signed by presidents of Russia and Georgia, again through diplomatic efforts of the French President ([French EU Presidency web site](#)).

On 25 August, the [Council of Russian Federation](#) and the Duma asked the President of Russia to recognize the Georgia's breakaway regions of Abkhazia and South Ossetia. On 26 August, [the Russian President recognized the two separatist regions](#). This move caused a diplomatic uproar in the west and particularly in Europe. The EU leaders unanimously confirmed their support to territorial integrity and sovereignty of Georgia.

On 14 August, the Parliament of Georgia [decided to leave the Commonwealth of Independent States](#), while on 28 August the Parliament passed the [resolution](#) formally declaring Abkhazia and South Ossetia Russian-occupied territories, and calling Russian troops, occupying forces. The resolution also instructed the government to annul all treaties based on which Russian peacekeeping forces have been deployed in the South Ossetian and Abkhaz conflict zones for over a decade.

On 27 August, Minister of Foreign Affairs of Russia said that Russia was ready to establish "practical cooperation" between Russian troops and international monitor in so called "security zones" but not inside

(continued on the next page)



(continued from page 1)

Overview of Developments

the separatist regions outside. He claimed that "Russia fully implements the six-point agreement" ([Civil Ge](#))

on **September 1**, in [final conclusions](#) released after the meeting of the EU leaders, the EU warned Russia that the EU would break off talks with Russia on a Partnership Agreement unless Russian troops were withdrawn to positions held prior to August 7, as envisaged by the six-point agreement brokered by French President. The EU has also decided to step up its relations with Georgia, including visa facilitation measures and the possible establishment of a comprehensive free trade arrangement "as soon as the conditions are met."

On **September 8**, after a four-hour negotiations Russian and French Presidents agreed that Russia would withdraw its forces from internal Georgian areas adjacent to the Abkhazian and South Ossetian administrative borders within a month and allow the EU monitors there as a replacement ([French EU Presidency web site](#)).

On **15 September**, EU foreign ministers said in [final conclusions](#) of their meeting in Brussels also endorsed establishment of a civilian EU Monitoring Mission (EUMM) in Georgia to observe compliance by the parties of the six-point ceasefire accord. EUMM, with headquarters in Tbilisi, will have 200 observers deployed in areas adjacent to breakaway South Ossetia and Abkhazia. The mission is being established for an initial duration of twelve months. Also at the meeting the EU foreign ministers pledged EUR 500 million between 2008-2010 to help rebuild Georgian infrastructure.

On **September 23**, the first major group of EU observers, in particular over 30 uniformed Italian monitors, arrived in Tbilisi ([Civil Ge](#)). Ultimately at least 200 EU observers will be deployed in the areas adjacent to South Ossetia and Abkhazia by October 1.

"The Council of Europe must spare no criticism and must condemn all that it considers to be a violation of its principles and values with the utmost firmness," Lluís Maria de Puig, the president of the Council of Europe Parliamentary Assembly (PACE) said at the opening of its autumn session in Strasbourg on **September 29**. The August war in Georgia will be the main focus of the session. A group of 24 members of PACE submitted a request for the reconsideration of the credentials of the Russian delegation to PACE "on the grounds of serious violations of the basic principles" of the Council of Europe. The debates will be held in two parts: on September 30 and on October 2 ([PACE](#)).

CRISIS OF AUGUST 2008: REASONS, PERSPECTIVE OF ERADICATION

Archil Gegeshidze, GFSIS

Fundamentals of the Crisis

Hostilities that started in South Ossetia in August, 2008 quickly grew into the global crisis. Eradication of the crisis is a very difficult task, given its three-dimensional conflictogenic nature. On the one hand, the crisis is grounded on the Georgian-Ossetian and Georgian-Abkhaz confrontation, which dates back the decades and its roots are linked to the imperial policy of Russia and then that of the Soviet Union in Caucasus. Severity of the current confrontation is mostly a legacy of the bloody conflicts that took place in Abkhazia and South Ossetia in early 90s of the last century and which therefore were ethno-political by nature essentially. On the other hand, the crisis is fueled by the complicated relationships between Russia and Georgia stemming from the late "Perestroika" period. Absolute majority of present-day elite of Russia considers that the collapse of the Soviet Union (i.e. weakening of the strength of Russia – A.G.) was pushed, inter alia, by the national liberation movement that started in Georgia in late 80s of the last century. Besides, the course selected by Georgia towards democratic development and orientation towards Euro-Atlantic space, among the same elite is perceived as a hostile and dangerous policy towards Russia. Prospective creation of a western-type democratic state in Georgia, which would at the same time be the member of NATO, is seen as a existential threat to the strategy of maintaining influence of Russia over the post-Soviet space and restoring its super-state status to feed neo-imperial ambitions. Due to such perception, Georgia has been regarded as one of the most hostile states in the perception of Russian society. As far as it was

not possible to prevent Georgia from following the selected course either by economic sanctions or by strengthening the 'fifth colony' in the political spectrum, it was regarded that the most effective way was to provoke Georgia to get involved in the existing conflicts of Abkhazia and South Ossetia. From the third viewpoint, Russia, which has been dissatisfied with the results of the cold war and is suffering from inferiority complex, tries to revenge on the West by oppressing Georgia, and also achieve rearrangement of world order through gross violation of the recognized norms and standards of international relations. Such a position of Russia represents a serious challenge for the West. Further tensions between the West and Russia can be avoided as long as Russia is challenged to abide by the principles of civilized behavior.

Direct Causes of the Crisis

Today there are many talks about who started the war, Georgia or Russia. It is true that for the purposes of history it is important to exactly define what happened in the night of August 7. However, in order to find legal definition of responsibilities of political subjects who made the crisis, it is necessary to consider the processes that preceded the hostilities. While developing the final opinion, such analysis will make it possible to minimize errors arising from intentional defacement of the truth with the purposes of propaganda, or by the incomplete technical information. It is important to emphasize from the point of view of impartiality that not only the governments of Russia and Georgia, but also the heads of separatist administration and some international organizations, and certain western states are liable for creating the preconditions of the crisis.

Russian Trap. At the end of the first term of presidency of Vladimir Putin it was made clear for Russia that against the background of the color revolutions in Georgia and Ukraine, and the eastern enlargement of NATO, it was more and more doubtful to maintain the influence on the post-Soviet space. And, Georgia substantially boosted the necessary reforms that were necessary for NATO integration and at the same time tried to move the 'frozen' processes of resolving the conflicts in Abkhazia and South Ossetia. 'Melting' of the conflicts, first of all, implied sharp reduction of monopolistic rights and role of Russia in the peacekeeping process. The Georgian diplomacy could manage gaining the support of international organizations and leading western states in this affair. For Russia it turned out to be absolutely unacceptable and it decided to "break" Georgia and for this purpose imposed strictest economic sanctions in 2006. After it was made clear that this way Russia would not induce social unrest in the country and the political course would not be changed, it was decided to find another way round. There was little time left: on the one hand it was more and more difficult to "cope with" the steps oriented towards peacekeeping initiatives for resolving the conflicts, developed by the Government of Georgia, and on the other hand, in Spring 2008, namely at the Bucharest Summit of NATO, the perspectives for Georgia for integration into NATO were clearly shaped. The only thing that Russia would able to do quickly was to try to drag Georgia into military provocation, though this could be possible only through extreme exacerbation of the situation in conflict zones. Russia started preparations quite soon: in March, 2008, it withdrew

(continued on page 4)

CRISIS OF AUGUST 2008: REASONS, PERSPECTIVE OF ERADICATION

(continued from page 3)

unilaterally from the economic and military embargo that had been imposed on Abkhazia by CIS on January 19, 1996; in April of the same year it initiated large-scale cooperative efforts with Abkhazia and South Ossetia sending railway-engineering troops, airborne forces and military machinery into Abkhazia; constructed military base in Java and carried out drills of the 58th army near the border with Georgia. It is noteworthy that after that military exercises the troops were not brought back to the places of their permanent deployment; instead, the 58th army remained at the Georgian border with the stock of military supplies, fuel and food.

Stubbornness of separatists.

The governments of breakaway regions, in agreement with Russia, maintained extremely tough positions in relationships with Tbilisi. They systematically refused to discuss the peacekeeping initiatives that were developed by the Government of Georgia or the independent third parties. The latest example was the "failure" of the peacekeeping plan developed by Frank-Walter Steinmayer, the Minister of Foreign Affairs of Germany. This plan was presented to the parties of the conflicts in June of this year. Meanwhile, the separatist governments continued to follow blindly all the instructions of Russia. Namely, by referring to artificial or unsubstantiated reason they refused to have negotiations with Tbilisi, or they were obstinately requesting to maintain moss-grown formats of negotiations and peacekeeping operations. Most importantly, the separatist governments did not prevent illegal build-up of Russian military might in conflict zones in the form that was most challenging for Georgia.

Erroneous strategic vision of Georgia.

The main strategic mis-

take of the Government of Georgia was that it thought it was possible to resolve the tasks of restoring the territorial integrity of Georgia and to integrate into NATO in a parallel in relevantly short period, whatever the threat of obstructions from Russian side. It should also be pointed out that the Government of Georgia could not elaborate the correct vision of conflict resolution. The major drawback that characterized the attitude of the Government of Georgia was its incoherence and orientation on false assumptions. Rather than having the direct dialogue with the Abkhaz and South Ossetian separatists, the Government of Georgia was constantly trying to find ways of direct or indirect influence on them. Contrary to the need in getting closer gradually to separatists and rebuilding the confidence, the peacekeeping initiatives of the Georgian side emphasized the definition of the status of Abkhazia and South Ossetia in the frames of the united Georgia. This provided additional reason to separatists to refuse to negotiate, and, consequently, indirectly supported fulfillment of the plan for escalation of confrontation between the parties of the conflict from the side of Russia. In this situation, positions of supporters of forced conflict resolution within the Government of Georgia got an upper hand little by little. The arguments of 'Hawks' were gaining more weight for the benefit of rapid strengthening of the armed forces of Georgia. In this environment, there was an increased threat to turn the deaf ear to warning messages of the West regarding the provocations inspired by Russia. As it seems, in the summer of this year there was a clearly formed idea within the Government of Georgia that the Georgian Army was capable of solving any military task in case of provocation or favorable circumstances.

Slow actions of the West. The West has long tried to avoid active involvement in the process of resolving the conflict in Georgia. On the one hand they were cautious about the Russian factor; on the other, they did not know what to do. The United States was more active, though its role was mostly limited to providing political support to peacekeeping initiatives of the Government of Georgia. As for the European Union, it got interested in the topic of 'melting' the conflicts only after Georgia was involved into the *European Neighborhood Policy (ENP)*. However, this interest was not strong enough and the EU always avoided the performance of the leading role in the field of conflict resolution. During negotiations about ENP Action Plan, many sharp discussions were needed to define the field of conflict resolution as one of the priority directions of cooperation between Georgia and EU. Despite this, the activities reflected in ENP Action Plan are not clearly specific. It is only pointed out that "negotiation mechanism should become more efficient", the role of EU Special representation should become more active in the South Caucasus, and the issue of territorial integrity of Georgia and resolving the internal conflicts of Georgia should be taken into the format of a political dialogue of EU-Russia, etc. Thus, the ENP Action Plan does not foresee any particular steps from the viewpoint of increasing the role of EU in conflict resolution. It should be pointed out that in this regard the first attempts of making Europeans more active took place after the NATO summit in April of this year. Actually, at this summit the decision was not made on granting NATO Membership Action Plan to Georgia, and this, first of all, was because of the position of one certain group of NATO member European states. Unfor-

(continued on page 5)

CRISIS OF AUGUST 2008: REASONS, PERSPECTIVE OF ERADICATION

(continued from page 3)

Unfortunately, this position was justified with arguments, which created the temptation for Russia to take the steps in Abkhazia and South Ossetia that would be challenging for the sovereignty of Georgia. After everybody saw how Russia was making the situation more and more tense in the conflict zones, the Europeans were conscience-stricken and started to take active steps towards resolving the conflict within the frameworks of the European Union: first, Mr. Javier Solana, the European Union High Representative for the Common Foreign and Security Policy tried to test the ground for mediating between the sides of the conflict, later Mr. Steinmeyer, the Minister of Foreign Affairs of Germany brought a peacekeeping plan that has been specially developed for the region. Unfortunately these steps were late. Russia, as it seems, had already made the decision about implementing its own plan and 'buried' the initiatives of Solana and Steinmeyer very soon.

All the above-mentioned made it possible to start military operations in South Ossetia, and as we have pointed out, all the parties are more or less held responsible for this.

Where is the way out?

The August crisis and its impact on regional or global security will remain a hot topic among politicians and political scientists for a long time. The interest, first and foremost, is related to finding the answers to four major questions: a) Will it be possible to restore the normal process of building the state of Georgia and, consequently, to avoid the spread of destabilization to other countries and regions?; b) Will it be possible to 'tame' the empowered and authoritarian Russia, and to put it into the civilized frames of international relations?; c) Will the EU

and its instruments for the foreign policy and security prove to be effective for solving these problems?; d) What should the NATO's place and role be in the new environment and in the architecture of the European security? There are no clear-cut answers to these questions today, though nobody denies that currently there is a process of acknowledging the events that have taken place. The crisis of August made everybody feel the truth for a second: the viewpoints are reevaluated, stereotypes are ruined, new perceptions of world are being established, etc.

It so happened that due to many historical or geopolitical factors the entire burden of the task of dissolving the conflict and overcoming the crisis rests on the shoulders of the European Union. The United States of America are now standing back due to the pre-election campaign, and, mostly, they are limited only to expressing political statements and assessments for supporting Georgia. However, this position undoubtedly plays its "supporting role" and strengthens EU positions in its dialogue with Russia. It should be pointed out that the positions of the USA and the EU became similar on the issue of assessing the aggressive actions of Russia and scopes and forms of assistance to Georgia. This has evidently strengthened the transatlantic consent that has been very weak during recent years. This is a necessary condition for successful performance of the task of 'taming' Russia.

Today the major goal of the West is to make Moscow acknowledge that it will not be remained unpunished for playing with his muscles in the post-Soviet space and it will have to pay high political and economic price for this. Moscow should also realize that partnership with the West, which

is of vital importance because of its technological lag, is incompatible with occupation of neighbor countries. At the same time it is doubtless that the European Union is now facing a difficult dilemma. On one hand it cannot turn a blind eye to Russia's intervention into its neighbor country, but on the other hand it needs partnership with Moscow for stabilization of the region. This excludes substantially punitive attitude of the EU towards Moscow. The EU should be able to either stabilize the situation in Georgia, among them in Abkhazia and South Ossetia by cooperating with Russia or seriously consider the option of imposing sanctions. The EU will not be able to do both at the same time. Perhaps the priority should be the EU's maximum involvement with the purpose of stabilizing the situation in Georgia, and this should be done so that Moscow does not feel isolated. Nobody knows what may happen if Russia is pushed to the corner. At the same time people in Russia acknowledge more that limited partnership with the West is more dangerous in the future than short-term diplomatic sanctions. This is why the European Union should act with more courage and achieve establishment of respective security regime within the scopes of 6-point ceasefire agreement, and make Moscow face the option – either cooperate with Russia or tolerate cold relationships with the West.

ECONOMIC POLICY PRIORITIES OF GEORGIA AND FULFILLMENT OF COMMITMENTS UNDER THE EUROPEAN NEIGHBOURHOOD POLICY ACTION PLAN

Policy Brief

Introduction

On September 24, with the support of Eurasia Partnership Foundation and the Open Society Georgia Foundation, a roundtable discussion was arranged within the frameworks of the project Civic Monitoring of Implementation of European Neighborhood Policy (ENP) Action Plan. The topic of the discussion was the Economy of Georgia after the events of August, 2008. Professor Vladimer Papava (Georgian Foundation for Strategic and International Studies), Ioseb Tsiskarishvili (European Integration Forum) and Merab Kakulia (GEPLAC) presented their findings at the meeting.

The Policy Brief was developed based on the opinions and evaluations discussed by major reporters at the roundtable, where the statements expressed from the side of the audience were also considered.

The document consists of the introduction and three parts. The first part is dedicated to the assessment of negative impact the armed conflict has on the economy and of macro-economic reverberations. This assessment was carried out based on the documents available at the moment (Assessments of the Monetary Fund 15.09.2008, Letters of Intents of the Government of Georgia addressed to the Monetary Fund (<http://www.imf.org/external/np/sec/pr/2008/pr08208.htm>); <http://www.imf.org/external/np/loi/2008/geo/090908.pdf>)).

The second part describes incompatibility of the current state economic policy with the priorities of the ENP Action Plan, which is set to hinder movement of Georgia towards the EU.

The final third part lists recom-

mendations by reporters for the Georgian authorities.

I. Analysis of Economic Situation of Georgia on the Background of the Events of August and Identification of Problems

Significance of relationship with the European Union has been increased for Georgia after the August armed conflict of because of the role that the President of France, the EU Chairman, has played for reaching the agreement between the presidents of Georgia and Russia. Six-point plan, brokered by the President Sarkozy became the document based on which the hostilities on the territory of the country were ceased quickly and because of which, as the Georgian experts point out, the Georgian economy could survive. However, the consequences of war made Georgia face a few threats that require immediate response and do not remove the danger of economic collapse in the medium run.

All the fields of the economy of Georgia were affected by the war:

- **Infrastructure.** The August events derailed a major part of civil infrastructure;
- **Agriculture.** The armed clashes coincided with harvest or pre-harvest periods and the agricultural sector incurred significant losses and staggered to a halt;
- **Transport.** Over a month or so transit of goods around Georgia was not functioning at all, and did not return to its pre-war scale even at the end of September. Stability in the country of energy transit gave a crack;
- **Tourism.** The August events thwarted the touristic season causing contraction in the corre-

sponding portion of the gross domestic product;

- **Construction.** With the armed clashes in the foreground, real estate market faltered and started to generate financial predicaments for construction companies;
- **Financial sector.** Instability prospects for banking sector became real. For instance, the surge in outflow of deposits from banking institutions cropped quality of credit portfolio.

Macroeconomic outcomes of hostilities reflected above all in slow-down of economic growth rates in Georgia. Hence, the following dynamics of macroeconomic parameters can be anticipated:

- **Slowed-down growth of gross domestic product or its negative growth.** Optimistic forecast of the experts reserve 5% and 6-7% growth of Georgian economy for the current and next years respectively. This means a sharp decline in reality, considering 12% rocketing growth in 2007;
- **Increase in the deficit of the current accounts.** In 2008, and also 2009-2010, balance of payments of Georgia is expected to have a large deficit owing to worsening investment climate. Financial support of donor countries and international financial institutions, including Monetary Fund, is not likely to cover the deficit, forecasted to reach 21% in 2008;
- **Growth of fiscal deficit.** Economic slow-down is expected to trim tax revenues. The experts predict 6-7% increase in the gross fiscal deficit in 2008;
- **Reduction of international reserves.** Foreign currency reserves reduced by 23% in August, the result of massive Na-

(continued on page 7)

ECONOMIC POLICY PRIORITIES OF GEORGIA AND FULFILLMENT OF COMMITMENTS UNDER THE EUROPEAN NEIGHBOURHOOD POLICY ACTION PLAN

Public Policy Brief

(continued from page 6)

tional Bank interventions to quench the war-driven panic. Given the reserve dynamics, possible future deficit in payment accounts may lead to higher volatility of GEL exchange rate;

- **Increase of inflation.** In August, growth of consumer prices reached almost 13%, compared to 10% in July. The Georgian experts suppose that monetization of financial assistance may boost inflation rates. Towards the end of this year, inflation is likely to increase and be expressed in a two-digit figure;
- **Liquidity crisis.** The war incited distrust to banks and withdrawal of 15% of deposits. At the same time, quality of bank credit portfolio worsened, liquidity crisis deepened and interest rates soared.

International finance institutions (World Bank, Asia Development Bank, The European Bank for Reconstruction and Development, International Monetary Fund), also the European Union and the United States of America plan to allocate significant amounts for financial assistance to Georgia. Considering that the European Union plans to provide the assistance of several hundreds of million Euros to Georgia for post-war rehabilitation, integration of Georgia into the European Union is becoming so motivated economically and politically that the mentioned Action Plan should become the document of more significance and values than it used to be.

Today the public is interested to know if the Government of Georgia is mobilized to fulfill the Action Plan that has been agreed with the European Union. Besides, according to the information widespread in the public, the Government of Georgia meets all the obligations that it has undertaken

before the European Union. The reality though is different. All the three were of the same opinion that the Government of Georgia remains unmotivated towards the Neighborhood Policy and shows no intention to properly fulfill the obligations in the economic field set fourth in the ENP Action Plan.

In the Minutes of the Meeting of the Extraordinary Council of Heads of the EU States, held on September 1, 2008, it is stated that the European Union is ready to help Georgia reconstruct infrastructure and rehabilitate economy, to start negotiations on visa facilitation and free trade issues once certain conditions are met.

All the three reporters were unanimous to point out that the Georgian economic policy is in contradiction with the European principles and approaches in a number of respects. According to the memo submitted to the Monetary Fund by the Government, the latter does not intent to render corrections to that policy. All the reporters of the 24 September roundtable agreed that fulfillment of certain obligations under the ENP Action Plan is not a priority in the economic policy of the Government. This attitude is likely to hamper any further integration of the country with the EU.

II. Perils of the Chosen Economic Policy

The reporters unanimously stated that the current economic policy of the Government is at loggerheads with the commitments under the Neighborhood Policy Action Plan. Namely:

1. **Non-transparent Privatization.** Non-transparent privatization process opened the door of the Georgian market to the Russian capital. Russian companies who are doing their business in Georgia represent subsidiaries of par-

ent companies owned by the Russian state, and if the parent companies are having problems, automatically the subsidiaries will not fare well either. Perhaps today Russia is not using these companies to set up an economic crisis in Georgia. However, if it does - despite the risk of losing its political image and its own ongoing economic turmoil - and declares economic war to Georgia, the latter would surely loose unless help comes from the European Union and the USA;

2. **Obstructed Market Competition.** Antimonopoly regulation, a key factor of the market competition, has been annulled in Georgia at the end of 2004. What is more this move was seen as an important reforming step ahead. The European Union declares that if Georgia wants to have a free trade regime with it, then Georgia needs to have a legislation that supports competition, as it is in Europe. This is why it is necessary to re-establish antimonopoly service to support economic activities in the country, and to advance more towards the European Union;

3. **Reduced independence of the National Bank.** Based on the law adopted in 1995, the National Bank of Georgia was established as an independent professional body, the guarantor of macroeconomic stability of the country. Independence of the National Bank has always irritated the Georgian political elite and there has always been a temptation for the Government and the Parliamentary majority to create real mechanisms for influencing the bank. In 2008, the Parliament adopted a new law that stripped the National Bank of financial control function and turned the NB into less resistant to political pressure;

4. **Labor Code Inconsistent with European principles.** New labour regulations

(continued on page 8)

ECONOMIC POLICY PRIORITIES OF GEORGIA AND FULFILLMENT OF COMMITMENTS UNDER THE EUROPEAN NEIGHBOURHOOD POLICY ACTION PLAN

Public Policy Brief

(continued from page 6)

suits well the employers only. This is not acceptable for the EU. The government believes that this legislation creates a favorable environment for investment. Though the experts think that the effective Labor Code leaves employees without any right. European experts say that if Georgia would like to keep to the road of European integration than its Labour code should be harmonized with the European model. This means sound legal guarantees for employees;

5. Disregard of the Issues of Food Safety. When the country plans to shift to the system of free trade with the European Union, it is necessary that products of the country should undergo quality control similar to that of the EU. Unfortunately, Georgia is unable to fulfill institutional requirements of food safety because it is believed that immediate imposition of such control would be too heavy a weight for producers to carry. Facilitation of export of agriculture products and development of entire the sector necessitates establishment (restoration) of the phytosanitary agency in Georgia and activation of the certification procedures. The task of performing these activities has been taken by the Georgian Government by 2008, though, the reporter thinks there is no guarantee at all to ensure fulfillment of these requirements;

6. Low Degree of Independence of the Department of Statistics. Statistical information that the Government publishes does not enjoy high degree of confidence. This is because the Department of Statistics does not represent an independent body, and the statistical data published by it tries to depict activities of the government better than they are in reality. For example, although the inflation rate published last year was quite

high already (12%), the experts asserted that the real inflation was at least 1/3 times higher. Mr. Vladimer Papava thinks that the Government, which elaborates and exercises the economic policy, cannot be the evaluator of its own activities at the same time. There is a conflict of interests here, and the Government will always be interested in using the activities of the Department of Statistics for positive evaluation of its activities. The EU Action Plan adopted in 2006, it is clearly emphasized that it is necessary to establish the Department of Statistics as an independent body, which could not be performed during the last 2 years. For increasing the confidence level of statistical data, it is necessary to speed up the reform of the Department of Statistics, and to ensure its independence and reliability of the data;

7. Lack of Protection of Private Property. Since the Rose Revolution of 2003, the private property has grown vulnerable. The government declares that the Constitution does not provide for proper protection of the property rights, and thus creation of stable constitutional guarantees is the agenda of the day. However, the reporters who made speeches at the meeting think that these rights are more or less protected by the Constitution; Rather, the problem lies in disrespect of the main Law;

8. Non-existence of Independent Judiciary. This is one of the most significant problems that hinders improvement of investment climate in the country and hampers the business development. Establishment of the principles of the rule of law and the judiciary reform are declared the first priority in the Action Plan of the Neighborhood Policy. However, the reforms are being implemented with insufficient intensity for now, caused by the lack of the

political will. And the judiciary enjoys very little degree of confidence among the society.

III. Recommendations

At the roundtable discussion of September 24, the reporters offered the following recommendations to the government:

1. Fulfill the obligations stipulated in the ENP Action Plan, which will support Georgia to get closer to Europe;

2. Elaborate new geopolitical and geo-economic strategy with the involvement of the society, as far as the issues of energy security of Georgia, also the transit potential of Georgia for energy resources of the Caspian Sea needs to be rethought in the new reality;

3. Change the security policy of the country to preclude any future coercion of Georgia into military actions;

4. Adopt the law, which prohibits the companies to participate in the privatization of strategic objects, if more than 20% of foundation capital of these companies belongs to the structure, which is directly subordinated to the foreign state. With the purpose of avoiding the political risks, legislation should be developed for creating a commission of foreign investments, like it is done in the USA. Activation of such a structure will be effective only in case if the procedures are carried out in transparent and democratic ways;

5. Prevent companies linked to the security of the country (among them the mass media) from offshore non-transparent industrial systems, ensure public access of the lists of their founders.

STATEMENT OF GEORGIAN CIVIL SOCIETY ON TRANSPARENCY IN PLANNING AND DISBURSEMENT OF INTERNATIONAL AID FOR GEORGIA

At a roundtable discussion held in Gori on September 28 and dedicated to International Day of Freedom of Information, three Georgian NGOs, Georgian Young Lawyers' association, Green Alternative and Transparency International Georgia, highlighted the need for transparency in planning and disbursement of the USD 3+ billion international aid for Georgia

According to official data, during the recent Georgia-Russia conflict (8-12 Aug, 08), dozens of civilians and servicemen were killed, thousands of houses were damaged and burned, and about 158000 people became homeless. 900 hectares of forests were burned in Samtskhe-Javakheti and Shida Kartli regions, while there were oil spills in the Black Sea and on the Georgian railway after bombing and explosions.

The international financial institutions (the IFIs, namely the World Bank, the Asian Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development and the International Monetary Fund) as well as the EU and the USA, plan to allocate significant sums for Georgia's reconstruction.

According to the preliminary statements of the USA and the EU, these sums will be used for emergency budgetary support, humanitarian aid, and Georgia's economic and infrastructural rehabilitation. In addition, the IFIs plan to allocate different types of credits for structural reforms, the fast eradication of conflict results and mitigation of the impacts for the affected population, as well as municipal and other infrastructure development projects.

These sums would ensure the reduction of the damage resulting from the conflict and support Georgia's further development. However, in order to properly allocate and disburse the funds and ensure proper results, it is important that the process of prioritisation and disbursement of the money is based on the principles of transparency and participation.

Public participation in the decision-making process

It is critical that the affected communities, local authorities, NGOs, expert groups and trade unions are

involved in the process of needs assessment and related prioritisation of funds disbursement. They should have a decisive voice in deciding what needs to be done and how this will be accomplished. The major decisions that will have an impact on Georgia's future should be taken with due public participation and with the support of the Georgian people.

The dialogue between donors, government and society is essential to ensure informed decision-making, to gain society's trust for the donor countries/organisations and the government, as well as for effective definition of Georgia's priorities.

As transparent as the process would be during the initial decision-making stage, there need to be more guarantees that the follow up steps will also be transparent and implemented properly.

Access to information

In parallel to the discussion on needs and priorities, discussion also needs to take place on how to monitor the allocated financial support for Georgia. All citizens should have a right to request and receive full, timely and objective information regarding:

- What funds have been allocated by each donor country / organisation to Georgia and how this money will be disbursed;
- Terms binding the use of the funds;
- How money will be disbursed (what governmental structures will be involved in the process and the responsibility of each structure);
- What are mechanisms to ensure the proper allocation and disbursement of funds by the government;
- How governments and donors will ensure accountability mechanisms with regard to allocation and disbursement of funds towards society.

Compliance with international conventions

It is critical that during the allocation of their financial aid and investments the donor countries and organisations comply with the "Paris Declaration on International Aid Effectiveness" and the UNECE convention on "Access to information, public participation in decision-making and access to Justice on environmental matters" (the Aarhus convention).

Support for the development of democracy in Georgia

External financial support for Georgia should contribute not only to eradication of the damage sustained from the recent conflict but also to longer term goals – the democratic development of Georgia and its further integration into European Institutions.

Georgia will become a strong, independent state only if it is established on and operates in line with the principles of democracy. To achieve that goal, it is essential to support free media, an active non-governmental sector, an efficient system of human rights protection, strong local self governance, and independent legal system, a pluralistic political system, free and fair elections and other necessary democratic institutions.

Any international aid support should be directly related to how the Georgian government implements its obligations to develop a functioning democracy.

We would like to thank all donors for their expressed moral and financial support and hope that these efforts will bring positive results for Georgia, its partner countries and the organisations.

Georgian Young Lawyers' Association

*Association Green Alternative
Transparency International -
Georgia*