

State-Building and the European Union's Fight against Corruption in the Southern Caucasus

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Abstract

This paper asks under which conditions the state-building efforts of external actors in areas of limited statehood are likely to be effective. We argue that the legitimacy of the specific norms promoted by external actors among local actors is crucial for their success in strengthening state capacities. International norms need to resonate with the dominant domestic discourse on political reforms. To substantiate our argument, we focus on the European Union's (EU) anti-corruption programs and their implementation in one of the most corrupt regions in the world, the Southern Caucasus. We show that legitimacy can explain why the EU's fight against corruption helped reduce corruption in Georgia but not in Armenia. In both countries, political elites could selectively use anti-corruption programs as an instrument against political opponents using enhanced state capacities to stabilize the incumbent regime. Only in Georgia, however, the fight against corruption was facilitated by sustained domestic mobilization for anti-corruption policies that added pressure on political elites ‘from below.’

Introduction¹

During the past twenty years, states and international organizations have become involved in state-building in areas of limited statehood. In line with Krasner and Risse (2013) in this special issue, the paper asks under which conditions the efforts of these external actors are likely to be effective. Controlling for task complexity and institutional design, we argue that the legitimacy of the specific norms promoted by external actors among local actors is crucial for their success in strengthening state capacities. International norms need to resonate with both the dominant domestic discourse on political reforms and the political survival strategies of the incumbent elites.

To substantiate our argument, we focus on the European Union's (EU) anti-corruption programs and their implementation in one of the most corrupt regions in the world, the Southern Caucasus. Given its paramount negative impact on the political, economic and societal institutions of a state, corruption lies at the heart of the state-building agenda which the EU pursues in its Eastern neighborhood to turn it into a ring of well governed countries. To master this complex task, it has developed a highly institutionalized and legalized framework, the European Neighbourhood Policy (ENP), within which the EU and the Southern Caucasus countries negotiate the reform priorities and measures to be implemented.

Regarding the effectiveness of the EU's efforts at state-building, contracted, highly legalized reform programs and sufficient funding for the implementation have been successful in bringing about legal and institutional changes in all three Southern Caucasus countries that are in line with the EU's demands. However, our comparative study shows that only in Georgia these changes have resulted in lower levels of corruption. Azerbaijan saw little progress in fighting corruption, and Armenia none at all. Maximizing variation on the dependent variable, we focus on Georgia and Armenia to explain the differential success of the EU's anti-corruption programs by the third factor identified in the special issue, namely legitimacy. The specific anti-corruption norms and rules promoted by the EU have to resonate with local discourses and political survival strategies of the incumbent elites. Only sustained domestic mobilization for the fight against corruption will induce political elites to appropriate anti-corruption norms and implement legal and institutional changes rendering external state-building efforts effective.

In the following section, we elaborate the argument further before we turn to the empirical investigation into the role of legitimacy in explaining the differential impact of the EU's fight

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against corruption in Armenia and Georgia between 2000 and 2010.² Including Azerbaijan in the comparison would not only go beyond the scope of this paper. It would also impair the control for important alternative explanations, such as the democratic quality of the regime and interdependence. We first describe the EU's efforts at capacity- and institution-building in the field of anti-corruption policies, which are comparable vis-à-vis the two countries in the Southern Caucasus. We then look into the effectiveness of the EU's efforts: Our comparison shows similar formal institutional changes in both countries induced by the EU. Yet, implementation is more or less effective in reducing levels of corruption. Whereas we see some improvements in Georgia, the situation has not changed for the better in Armenia. In order to account for this variation in external state-building efforts, we finally compare the role of the various sources of legitimacy for the EU's differential impact. In both countries, political elites could selectively use the fight against corruption as an instrument against political opponents, using enhanced state capacities to stabilize the incumbent regime. Only in Georgia, however, the fight against corruption was facilitated by a second development that was absent in Armenia: Sustained domestic mobilization for anti-corruption policies put pressure on political elites 'from below.' The paper concludes with some reflections on the limits to external state-building efforts if legitimacy as a necessary condition for their effectiveness depends to a large extent on domestic politics beyond the reach of external actors.

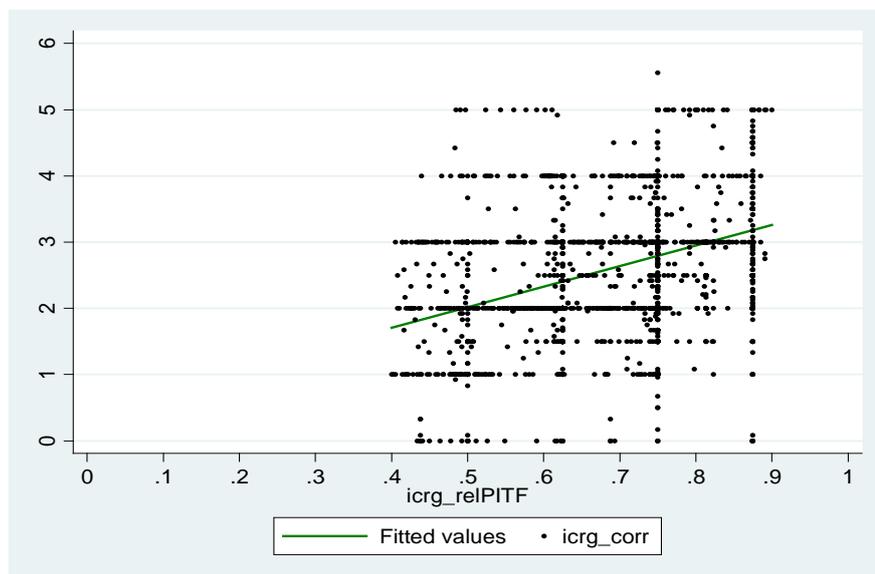
The Fight against Corruption, State-Building, and Legitimacy

Corruption fundamentally undermines the capacity of states to effectively provide collective goods and services. It is detrimental to a competitive market economy, impairs socio-economic development, deters foreign investment, and impedes innovation (Mauro 1995; Rose-Ackerman 1996; Shleifer and Vishny 1993a). Moreover, corruption undermines the political and public institutions in a democratic state by favoring certain parts of the population and excluding others from political processes (Johnston 2005; Karklins 2005). Finally, the existence of pervasive corruption has a corrosive effect on the territorial integrity of the state and the political community itself, bearing the danger of social unrest (civil war) and state collapse (UNDP 2006; cf. Shen and Williamson 2005). Given its paramount negative impact on the political, economic and societal institutions of a state, corruption is often considered to lie at the heart of failed collective goods and services delivery (Phongpaichit and Baker 2002; Spinellis 1996).

² The empirical data for this case study is drawn from a four-year research project on the EU's good governance promotion in European Neighbourhood Countries, as part of the Collaborative Research Center "Governance in Areas of Limited Statehood" and funded by the German Research Foundation 2006-2009 (cf. Börzel et al. 2010; Börzel and Pamuk 2011).

In these settings, efforts of external actors at state-building aim at strengthening the institutional capacities of states, of which the fight against corruption is a key dimension. Fighting corruption does not only improve the capacity of state institutions to provide collective goods and services. It may also promote participation and civil oversight over the allocation of resources affecting the relationship between the government and its citizens (Karklins 2005). Hence, international actors and researchers alike make a strong link between corruption and statehood. Indeed, there is a strong correlation between corruption and statehood (Figure 1). Therefore, the fight against corruption has become a prominent strategy of state-building efforts for external actors. However, the formal institutional changes external actors seek to induce do not automatically translate into lower levels of corruption and, hence, higher degrees of statehood. Enhancing state capacities from the outside has to go hand in hand with the political willingness of domestic actors to put them to good use and actively fight corruption. Legitimacy is therefore key for the effectiveness of external efforts at state-building. We argue that the demands of external actors become legitimate if the fight against corruption fits the survival strategies of domestic elites and, more importantly, resonate with domestic discourses on political reforms. Our empirical study confirms the claim of the special issue that the legitimacy of external actors and their strategies – understood as the correspondence between their reform agenda and domestic norms and beliefs – is a necessary condition for the effectiveness of international efforts at state-building.

Figure 1: Statehood and Corruption in Areas of Limited Statehood (country/year, 1984-2010)³



³ Source: International Country Risk Guide (ICRG) and Political Instability Task Force (PITF); own compilation. The data set consists of about 100 to 130 states but is changing on a yearly basis – mainly because of missing ICRG data or newly emerging states. All in all, 2632 data points are represented in the figure. In accordance with the other contributions to this special issue, we measure statehood with a combined indicator of ICRG Bureaucratic Quality and relative PITF in order to capture a state’s basic administrative capacity and its monopoly on the use of force (see Lee et al. 2012). Only countries in Areas of Limited Statehood, as opposed to failing or failed states, on the one hand, and consolidated states, on the other, are included (ICRG BQ relPITF $0.9 > X > 0.4$). For a measurement of corruption, we use the ICRG Corruption Indicator which is scaled from 0 to 6 with 0 being the lowest and 6 the highest value. The higher the assigned value, the lower is the degree of corruption in the country.

Focusing on the fight against corruption, we consider two dimensions of the effectiveness of external efforts, the dependent variable of this special issue. If efforts of external actors at state-building by enhancing state capacities to fight corruption are successful, we should see, first, the introduction of formal institutional changes in accordance with the demands of external actors. Second, these changes have to result in the actual reduction of corruption levels. It is not enough to introduce anti-corruption rules and, for example, create an independent prosecutor; corruption has to be prosecuted and penalized.

In order to analyze the role of legitimacy as a necessary condition for the effectiveness of external efforts at state-building, we investigate the EU's efforts at fighting corruption in the Southern Caucasus between 2000 and 2010. Armenia, Azerbaijan, and Georgia suffer from limited statehood and are among the most corrupt countries in the world. Striving for a secure and well-governed neighborhood, the EU started to address the fight against corruption in bilateral relations around 2000 and made it one of its priorities under the regional frameworks of ENP launched in 2004. The EU effectively induced all three Southern Caucasus countries to introduce formal institutional changes in line with its demands. However, only in Georgia, these changes have resulted in lower levels of corruption. By contrast, Azerbaijan saw little progress in fighting corruption, and Armenia none at all (Table 1).

Table 1: Corruption in the Southern Caucasus⁴

| | Georgia | Armenia | Azerbaijan |
|---------------------------------------|--|--|---|
| WGI Control of Corruption | -0,88 (2000) -0,16 (2010) → <i>improvement</i> | -0,66 (2000) -0,67 (2010) → <i>no change</i> | -1,13 (2000) -1,17 (2010) → <i>no change</i> |
| TI Corruption Perception Index | 2,3 (1999) 4,1 (2011) → <i>improvement</i> | 2,5 (1999) 2,6 (2011) → <i>no change</i> | 1,7 (1999) 2,4 (2011) → <i>slight improvement</i> |

The fight against corruption is a complex task. The EU's effort at state-building in this regard is less about the direct transfer of material resources (capacity-building in a narrow sense) but rather about the transfer of norms, rules, and procedures modifying basic state institutions to accommodate

⁴ Sources: Transparency International and World Bank. While the ICRG Corruption indicator captures the big picture in a global comparison, it is not very nuanced in tracing smaller variation between countries and changes over time. The Transparency International Corruption Perception Index (TI CPI) ranges from 0 (high corruption) to 10 (low corruption). It is a composite index that focuses on the perception of corruption in the public sector, i.e. state administration and politics, and relies on around a dozen different sources (Saisana and Saltelli 2012). The World Bank's Worldwide Governance Indicator for Control of Corruption (WGI CC) ranges from -2,5 (high corruption) to 2,5 (low corruption). It captures "perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests" (Kaufmann et al. 2010: 4), aggregating individual indicators of corruption from up to 21 different sources. The different reference years are due to the different availability of data. As the ICRG Corruption indicator, these two lack certain years for the three countries.

fundamental principles of good governance and the fight against corruption. Trying to bring about institutional reforms and behavioral change in all three branches of government, reaching from top-level decision-makers to low-level bureaucrats, the number of interventions necessary and the number of the actors to be coordinated are extremely high. Facing a complex task, the institutional design of external efforts at state-building in the area of corruption requires a high degree of institutionalization, a condition that EU's fight against corruption in the Southern Caucasus clearly fulfills. The ENP provides a standardized and formally institutionalized framework for cooperation with the EU's neighbors, including all three countries in the Southern Caucasus.⁵ It brings together a set of instruments that are highly legalized either by EU decisions (regulations) or in bilateral agreements with the individual neighbor countries. The EU provides sufficient resources for the implementation of its instruments. The setting of targets and the implementation of measures are embedded in a continuous process of bilateral negotiations, making the EU's fight against corruption in the Southern Caucasus an instance of non-hierarchical contracting (see Krasner and Risse 2013).

Holding task complexity and the institutional design of the EU's efforts constant, we can focus on the role of legitimacy. Krasner and Risse (2013) identify different sources for legitimacy of international actors and their efforts. Regarding the input legitimacy or participatory quality of the EU's efforts, the ENP prescribes the involvement of all stakeholders in the fight against corruption in all countries. The EU's negotiations of reform priorities and their implementation with ENP countries include first and foremost national governments and the administration, but also parliaments and the judiciary. Non-state actors play a lesser role, which is mostly due to the (semi-)authoritarian character of the regimes and the weak organizational capacities of societal and economic actors. Since EU-induced reforms are contracted, the EU may enjoy a certain degree of legitimacy among domestic actors, particularly with the incumbent regimes. The EU's input legitimacy may have fostered the formal institutional change in all three countries, but cannot explain the differential impact on the levels of corruption. It is too early to tell to what extent the EU enjoys output legitimacy, as we are studying lengthy processes of capacity- and institution-building that yet have to have an effect on domestic perceptions of the EU's problem-solving capacity. The international legitimacy of the EU being constant, we focus on domestic legitimacy, i.e. the domestic resonance or conformity of the norms and rules the EU promotes with the survival strategies of incumbent elites and local discourses on domestic reforms. In all three countries, the fight against corruption fits the strategic interest of incumbent elites and aligns with their survival

⁵ The ENP was launched in 2003/2004 and covers the EU's southern and eastern neighbouring countries without an (immediate) membership perspective. Omitted in the European Commission's original proposal of 2003 (European Commission 2003), the countries of the Southern Caucasus were included as partners in the ENP in 2004 (European Commission 2004).

strategies. The fight against corruption provides the opportunity and the means to disempower political opponents within or outside of the government and to please external donors, which explains again the formal institutional change in all three cases. However, the fit with local discourses varies significantly. Whereas the fight against corruption features prominently in public demands for political reforms in Georgia, it is rather low on the political agenda in Armenia. Sustained mass mobilization in Georgia has thus prompted the political elites to go beyond the strategic and highly selective use of anti-corruption policies and to engage in more comprehensive measures, effectively reducing the levels of corruption in the country.

Taken together, country variation in some dimensions of legitimacy can well explain the differential impact of the EU's fight against corruption in the Southern Caucasus. By contrast, alternative explanations advanced in the literature cannot account for the variation observed. Research on external Europeanization and more generally international democracy promotion, policy transfer and diffusion point to important scope conditions that have to be met for such state-building efforts to be effective (Börzel and Risse 2012; Magen and Morlino 2008). However, neither the countries' degrees of statehood, nor their democratic quality, nor their interdependence with the EU can explain the puzzle of similar institutional change but differential impact on corruption. Rather than exploring their explanatory power, we control for the degree of statehood, democracy, and interdependence, and focus on the third variable identified by Krasner and Risse, legitimacy (Krasner and Risse 2013), holding the other two constant.

In the following, we focus on two out of the three countries in the Southern Caucasus: Armenia and Georgia. They show similar degrees of statehood, democracy and interdependence in 2000, before the EU launched its efforts at the fight against corruption (see Table 2). Levels of statehood for both Georgia and Armenia improved over time. Yet, this may be a result but is certainly not the driving force of fighting corruption. As we will see, Georgia has strengthened its statehood, not least because the Saakashvili government has managed to reduce corruption within the state administration. Armenia equally improved its statehood, whereas the level of corruption, however, has remained stable. The (un)democratic quality of the two regimes does not correspond to the differential outcomes either – both Georgia and Armenia suffered an authoritarian backlash, admittedly much more dramatically in the latter case. Georgia and Armenia, finally, are equally dependent on EU aid and trade. Azerbaijan, by contrast, featured significantly lower levels of statehood than the other two countries, which corresponds to higher levels of corruption accordingly. Neither corruption nor statehood improved over time, which is what we would expect given the lower legitimacy of the fight against corruption. Yet, the democratic quality of the Azeri

regime is much lower and Azerbaijan is far less dependent on the EU due to its rich oil and gas resources, which makes it impossible to isolate the effect of legitimacy (see Table 2).

Table 2: Statehood, Democracy, and Interdependence⁶

| | Georgia | Armenia | Azerbaijan |
|---|--|--|--|
| Statehood | -0,62 (2000) 0,29 (2010) → <i>increase</i> | -0,59 (2000) -0,15 (2010) → <i>(slight) increase</i> | -0,89 (2000) -0,84 (2010) → <i>no change</i> |
| Democratic quality | 6,67 (2000) 5,24 (2009) → <i>(slight) decrease</i> | 6,25 (2000) 3,57 (2009) → <i>decrease</i> | 2,00 (2000) 2,74 (2009) → <i>(slight) increase</i> |
| Interdependence (EU share of net ODA in %) | 79,28% (2000) 80,58% (2010) → <i>no change</i> | 70,15% (2000) 70,30% (2010) → <i>no change</i> | 65,30% (2000) 51,97% (2010) → <i>(slight) decrease</i> |
| Interdependence (EU ODA as % of GDP) | 4,39% (2000) 4,33% (2010) → <i>no change</i> | 7,92% (2000) 2,55% (2010) → <i>decrease</i> | 1,72% (2000) 0,16% (2010) → <i>(slight) decrease</i> |

Investigating the effectiveness of the EU's fight against corruption and the role of legitimacy in Georgia and Armenia allows us to maximize the variation on the dependent variable and to systematically control for other explanatory factors, including alternative explanations advanced in the literature.

The EU's Efforts at State-Building in the Southern Caucasus: The Fight against Corruption

Since the demise of the Soviet Union in 1991, the EU has successively intensified bilateral cooperation with Eastern European countries, including the Southern Caucasus. From the beginning, the EU provided financial assistance under the TACIS program to support the 'triple transition' (Offe 1991) of those countries that were not eligible for the EU's pre-accession policy, including Armenia and Georgia.⁷ In the second half of the 1990s, the EU negotiated bilateral

⁶ Sources: World Bank, Quality of Government Dataset, and EU. The statehood indicator used in this special issue captures the big picture (see footnote 3). However, it tends to group together countries in the same region, which vary significantly with regard to their monopoly over the means of violence and their bureaucratic quality. The same holds for most of the Western Newly Independent States and the Southern Caucasus, for the latter of which Georgia is completely omitted. For a comparison between Armenia and Georgia, we therefore use the World Bank's Worldwide Governance Indicator for Government Effectiveness that highly correlates with the statehood index data but paints a more nuanced picture for the countries we are interested in and whose values correspond more closely to the findings of our own qualitative research (cf. Börzel and van Hüllen 2011; Börzel and Pamuk 2011; van Hüllen 2012). Values range from -2,5 to 2,5. To measure the democratic quality, we use an indicator that combines the Freedom House Freedom in the World index with the Polity IV Index (Hadenius and Teorell 2005). It covers procedural and structural elements of democracy and shows a higher validity and reliability than its constituent parts. The scale ranges from 1 to 10. To measure interdependence, we use EU aid dependence measured by the EU (and its member states') share of net ODA in % and EU (and its member states') ODA as % of GDP, European Union, DG External Trade, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/statistics/>, last access 15 February 2013. Trade dependence provides an alternative indicator, which, however, is less useful in this case, since the overall trade of Georgia and Armenia with the EU is low.

⁷ The Technical Assistance for the Commonwealth of Independent States (TACIS) program provided financial and technical assistance to Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Russia in 1991-2006. Mongolia joined the programme from 1993-2003. TACIS was replaced by the European

Partnership and Cooperation Agreements (PCAs). They entered into force in Armenia and Georgia in 1999 and also aimed at stabilizing the transition to market economy, liberal democracy, and consolidated statehood. In response to the EU's 2004 Eastern enlargement, the EU launched the ENP as a regional framework for cooperation and its state-building efforts. Until today, the ENP remains the main framework for the EU's efforts at state-building in order to foster peace, stability, and prosperity in the EU's neighborhood (European Commission 2004).

With the ENP, good governance became a key cross cutting issue in the EU's relationship with Armenia and Georgia. It covers issues such as improving electoral legislation, conducting free and fair elections, ensuring the separation of power (particularly with regard to the judiciary), encouraging the development of political parties and civil society organizations, guaranteeing the independence of media, protecting human rights and civil liberties (particularly minority rights) and fighting corruption (Börzel, Stahn, Pamuk 2010). While the EU's strategy papers underline the importance of its support for anti-corruption strategies, it has not elaborated its own normative framework for the fight against corruption. Instead, it has borrowed international anti-corruption norms and rules from the United Nations (UN), the Organization for Economic Co-operation and Development (OECD), and the Council of Europe.

Yet, the fight against corruption has become one of the EU's priorities in external state-building in its neighborhood. It can draw on a proper toolbox that heavily relies on the top-down methods and instruments of its former accession policy with regard to the Central and Eastern European countries (Kelley 2006). In order to implement bilaterally agreed Action Plans (APs), the EU can use negative and positive conditionality, political dialogue, and financial and technical assistance. The ENP thus provides a highly institutionalized, contractual framework for the EU's efforts at state-building that applies to both Armenia and Georgia.

Good governance is mainstreamed into the ENP APs concluded with Armenia and Georgia in 2006. Country reports had highlighted corruption as one of the main challenges to good governance and statehood in 2005, so the fight against corruption gained a prominent place in the APs. The EU asked Armenia and Georgia to accede, ratify and implement international conventions that are related to the fight against corruption, including the UN Convention against Corruption (2003), the Council of Europe's Criminal and Civil Law Conventions on Corruption (1999) or the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997). Both governments agreed to join international anti-corruption networks, such as the "Group of States against Corruption – GRECO", and implement their recommendations in

Neighbourhood and Partnership Instrument (ENPI) in 2007 that covers countries of the EU's eastern and southern neighbourhood.

order to advance legislative or institutional reforms in this regard. Finally, each AP contained some additional requirements that largely concentrated on promoting anti-corruption measures within the administration and/or the law enforcement agencies or improving the legal framework for the prosecution of corruption-related crimes. The required actions are quite similar for Armenia and Georgia, and only slightly vary with regard to the specificity of certain measures (cf. Börzel, Stahn, Pamuk 2010).

The ENP was explicitly designed to provide an alternative to membership – depriving the EU of its allegedly most successful instrument for external state-building, namely accession conditionality. However, the EU still has a range of institutionalized positive and negative conditionality at its disposal. Basically, the EU offers deeper cooperation and economic integration in exchange for political and economic reforms as agreed in the ENP APs. Under the ENP, the EU can reward progress by upgrading bilateral relations (e.g. association agreements), lifting trade restrictions (e.g. deep and comprehensive trade agreement), simplifying visa regimes or extending the scope of assistance. Based on the PCAs, it may also (threaten to) suspend bilateral agreements, withhold assistance under TACIS/ENPI, and impose political sanctions (e.g. visa bans).

The PCAs already established a regular political dialogue with Armenia and Georgia to win over the hearts and minds of governmental actors through persuasion and to socialize them into the norms and rules the EU seeks to promote. Political dialogue in the Cooperation Councils, Committees, and technical sub-committees shall reflect the ‘partnership-based approach’ of joint commitment and ownership, by which the EU seeks to treat the countries subject to its governance transfer as equal partners. With the ENP, political dialogue became tightly linked to the implementation of political conditionality and the APs, as partners use the meetings to agree on reform agendas that identify priority areas and actions for changes in governance institutions, negotiate their implementation and monitor progress.

Beside negative and positive conditionality and political dialogue, the EU provides financial and technical assistance in order to enhance state capacities to fight corruption. TACIS covered a wide range of issues, such as support for privatization processes and the development of the private sector as well as the reform of the public administration, of education and social services, of the transport, energy, agricultural and telecommunication sector or nuclear safety and environmental policies. Around 2000, the EU started to link TACIS more closely to its (good) governance agenda, including the fight against corruption. ENPI defined good governance as a central commitment on which the partnerships are based and included the fight against corruption as an explicit goal of assistance. It takes a ‘sector-wide’ approach allocating the assistance by means of direct budgetary aid to the partner governments. Between 2000 and 2010, the three countries of the Southern

Caucasus received 385 million Euro, which accounts for 28% of the total EU budget allocated to the Eastern neighborhood countries (cf. Börzel, Stahn, Pamuk 2010).

With few exceptions, the EU's implementation of these instruments for state-building through the fight against corruption was similar in 2000-2010 in Armenia and Georgia. Overall, the two countries have felt little pressure by the EU to change their governance institutions in accordance with ENP goals and requirements. The EU has almost exclusively relied on financial assistance to build institutions and capacities for the fight against corruption.

The EU has never formally invoked negative conditionality legalized in the PCAs or TACIS and ENPI regulations. It has, however, in 2003 restricted the provision of assistance to Georgia and decided to fundamentally revise its Country Strategy Paper (CSP) (cf. Börzel, Stahn, Pamuk 2010). While the EU claimed that the "serious deterioration of the security situation" (Georgia CSP 2003, 3) triggered this unprecedented step, it also highlighted "serious problems of governance and continued weak rule of law, including high levels of corruption" (3) as one of the major challenges in Georgia that the EU had previously underestimated.⁸ In order to strengthen the "effectiveness of the conditionality attached to EU assistance", the EU determined that assistance under TACIS "will only be continued if and insofar as jointly agreed objectives are reached" (4) and "should be focused exclusively on those reform programmes to which the Georgian Government demonstrates credible and sustained commitment" (5), including in the fight against corruption. It is difficult to assess the practical implications of these decisions. Only two months after the adoption of the revised programming document, the Rose Revolution brought about an unexpected change of leadership in Georgia and the EU's approach towards the country switched back to an almost unconditional support. More generally, it was at this point that the fight against corruption prominently entered the EU's state-building agenda. In 2004, it started active state-building efforts in this area also in other neighboring countries. For both Armenia and Georgia, the National Indicative Programmes (NIPs) 2004-2006 were the first to include the fight against corruption in projects that supported the implementation of the respective PCAs (see below).

The fight against corruption has been an issue of political dialogue in both Georgia and Armenia. Yet, the joint translation of reform priorities into specific measures has been hindered by imprecise goals, the lack of timeframes and the absence of responsible agencies (cf. Börzel, Stahn, Pamuk 2010).

⁸ European Commission 2001: Country Strategy Paper 2002 – 2006. Tacis National Indicative Programme 2002 – 2003. Georgia, Brussels (27 December 2001). European Commission 2003: Country Strategy Paper 2003 – 2006. Tacis National Indicative Programme 2004 – 2006. Georgia, Brussels (23 September 2003).

In 2000-2010, Armenia and Georgia received respectively around €140 million and €180 million under TACIS and ENPI (Table 3). However, it was only in 2004 that the fight against corruption explicitly appeared in the TACIS NIPs for 2004-2006. Under the heading of institutional, legal, and administrative reforms, anti-corruption measures were now included in the respective programs to support the implementation of the PCAs that had been going on for years. In line with the CSP revised in 2003 (see above), the NIP for Georgia also included a new program to support the reform of the judiciary and law enforcement. The TACIS Annual Action Plans for Georgia for 2004-2006 list several programs related to the rule of law more broadly (e.g. with the ministries of justice and interior) and more narrowly to the fight against corruption (e.g. with the office of prosecutor general). By 2006, TACIS also funded specific rule of law programs in Armenia.

Table 3: TACIS and ENPI assistance levels 2000-2010⁹

| National allocation (million €) | | Armenia | Georgia |
|---------------------------------|---|---------|---------|
| TACIS 2000-2003 | Total | 20.0 | 29.0 |
| TACIS 2004-2006 | <i>Institutional, legal, and administrative reforms</i> | 13.5 | 11.5 |
| | Total | 20.0 | 28.0 |
| ENPI 2007-2010 | <i>Democratic governance</i> | 29.52 | 31.5 |
| | <i>Regulatory reform</i> | 29.52 | 31.5 |
| | Total | 98.4 | 120.4 |
| Total 2000-2010 | | 138.4 | 177.4 |

With the new ENPI, the EU significantly increased its funding for state-building efforts. In addition, it systematically integrated the fight against corruption into the programming documents for 2007-2010. Anti-corruption policies became officially part of the first funding priority related to democratic governance, linked to public administration reform in Armenia (sub-priority 1.2) and to the rule of law and good governance in Georgia (sub-priorities 1.2 and 1.3). While the fight against corruption was not explicitly mentioned in relation to regulatory reform, programs under this second funding priority also address issues of institution- and capacity-building in this area. According to the ENPI Annual Action Programmes, the EU financed programs on justice reforms (2008) and support for the implementation of the AP (2010) in Armenia and programs on public finance management (2007, 2010) and reform of criminal justice (2008) in Georgia. Taken together, the EU financed programs in both countries that touched upon all funding priorities relevant for the fight against corruption, namely the reform of public administration, finance management, and civil service; the reform of the judiciary; civil society; and the approximation of legislation (see Börzel, Stahn, Pamuk 2010, 142).

⁹ Sources: Own compilation based on the National Indicative Programmes for each country.

Overall, the EU has relied on soft, partnership-based instruments to negotiate reform priorities and their implementation with Georgia and Armenia in order to tackle the complex task of fighting corruption. The framework for its efforts at state-building is highly institutionalized and it has implemented similar measures in the two countries between 2000 and 2010.

The Effectiveness of EU Efforts

Formal institutional change

The EU's efforts at state-building for the fight against corruption have induced institutional changes in the Southern Caucasus. Both Armenia and Georgia have ratified and given effect to the major international conventions on the fight against corruption. This includes the ratification of UN Convention Against Corruption (Armenia 2007, Georgia 2008) and the Council of Europe's Civil and Criminal Law Conventions (Armenia 2005 and 2006, Georgia 2004 and 2008) as well as the accession to GRECO (Armenia 2004, Georgia 1999). In order to abide by their international obligations and the EU's demands as specified in the ENP APs, the governments of Armenia and Georgia have introduced a number of changes to their governance institutions that are quite similar (see Table 4). They have developed anti-corruption strategies and anti-corruption action plans, which are drafted by Anti-Corruption Councils and whose implementation is supervised by special Commissions. Moreover, the public prosecutor's offices were charged with the investigation and prosecution of crimes related to corruption. Finally, Armenia and Georgia have introduced several legislative changes by issuing new legislation and amending existing laws. Overall, the EU has been successful in promoting the reform of formal anti-corruption institutions and policies, enhancing state capacities for effectively fighting corruption in Armenia and Georgia between 2000 and 2010.

Table 4: Domestic Institutional Change in the Southern Caucasus¹⁰

| | Armenia | Georgia |
|---|--|--|
| Anti-corruption agencies | | |
| Drafting policies | Anti-Corruption Council (2004) Expert group (2008) | Anti-Corruption Policy Coordination Council (2001) National Security Council (2005) Inter-Agency Coordination Council of Combating Corruption (2008) |
| Implementing policies | Anti-Corruption Strategy Monitoring Commission (2004) | Department for Coordinating Anti-Corruption Policies (2001) State Minister of Reform (2005) |
| Investigating and prosecution | Anti-corruption Department in Prosecutor-general's Office (2004) | Inter-Agency Coordination Council of Combating Corruption (2008) Prosecutor's Office (2005) |
| Anti-corruption policies | Anti-corruption Strategy (2003-2007, 2009-2012) Implementation Action Plan (2003-2007, 2009-2012) | National Anti-corruption Strategy (2005; 2010) Action Plan for the Anti-corruption Strategy (2005-2006) |
| Anti-corruption legal changes (examples) | Law on the Office of the Public Prosecutor (2007) Law on Operational Investigative Activities (2007) Law on the Organization and Implementation of Inspections (2007) Law on the Declaration of Property and Income of Physical Person (2007) | Amendment of the Criminal Code (2006) Law on Chamber of Control (2008) Amendments to Law on Conflicts of Interest and Corruption in Public Services (2009) |

Effective implementation – levels of corruption

Given the high levels of corruption in both countries and the little pressure the EU exerted, these changes in governance institutions are not trivial. However, the EU's state-building efforts differed in their impact on the levels of corruption in Armenia and Georgia.

In the early 2000s, before the EU started its external state-building efforts to fight corruption, Georgia and Armenia showed similar levels of corruption (see Table 1 above). In both Armenia and Georgia, tightly organized patronage networks permeated the public sphere and helped sustain a stable equilibrium of informal institutions. The extensive misuse of social networks for particularistic purposes favored certain political interests and excluded others from the distribution of public goods (Drury, Kriekhaus, Lusztig 2006; Stokes 2007). Finally, uncontested control of the incumbent regime, the lack of economic alternatives, and a comparatively weak civil society further

¹⁰ Sources: Freedom House 2006: Nations in Transit- Country Report Armenia, available at: <http://www.freedomhouse.org/template.cfm?page=47&nit=388&year=2006>; Greco 2006: Joint first and second Evaluation Round – Evaluation Report on Armenia, adopted on 10th March, 2006, GRECO Eval I-II Rep (2005)2E; Transparency International 2009: Global Corruption Report, Cambridge University Press, Cambridge. Freedom House 2005: Nations in Transit – Country Report Georgia, <http://www.freedomhouse.org/template.cfm?page=47&nit=363&year=2005>; Greco 2009: Second Evaluation Round – Compliance record of Georgia, adopted on 15th May, 2009, Greco RC-II (2008) 9E, Strasbourg.

added to the institutionalization of oligarchic monopolies (Shleifer and Vishny 1993b). Corruption has not only yielded huge private rents but also allowed incumbent elites to control the access to power and resources securing the loyalty of key domestic actors (International Crisis Group 2004). Ten years later, both countries still face enormous challenges in fighting corruption. However, in Georgia, formal institutional changes have resulted in significantly less corruption according to the World Bank and Transparency International. Armenia, by contrast, has made no progress in fighting corruption at all.

The comparison of Armenia and Georgia demonstrates that the state-building efforts of external actors can induce changes in domestic anti-corruption institutions and policies, which, however, do not necessarily result in a more effective fight against corruption. In the following, we demonstrate that it is the higher legitimacy of anti-corruption as the international norm the EU seeks to promote, which explains why the EU's governance transfer has been more successful in Georgia than in Armenia.

Legitimacy

Krasner and Risse identify several types and sources of legitimacy of external actors and their efforts at state-building (Krasner and Risse 2013, 17-20). The analysis of the EU's fight against corruption in the Southern Caucasus shows that two of these dimensions do not vary between Armenia and Georgia: input legitimacy in terms of the participatory quality of the EU's efforts and formal international legitimacy of the EU and its norms.

First, in terms of input legitimacy, the EU not only negotiated the reform priorities and their implementation with both governments, making its efforts at state-building an instance of non-hierarchical contracting (see Krasner and Risse 2013). It also urged both governments to cooperate with civil society and non-governmental organizations (NGOs) on corruption related reforms. The APs of Armenia and Georgia explicitly call upon the EU's partner governments to involve non-state actors defining, implementing and monitoring anti-corruption measures. The same applies to financial and technical assistance. Unlike TACIS, ENPI allows for a direct cooperation with business and civil society actors and requires the beneficiary partner governments to involve all relevant stake-holders in the implementation of programs. Yet, unlike in other foreign policy frameworks, the EU has refrained from upgrading the status of non-state actors (Börzel, Stahn, Pamuk 2010). The new Eastern Partnership Civil Society Forum, which shall facilitate a dialogue between the governments and local civil society organizations, has not changed this as yet (Boonstra and Shapovalova 2010). In practice, domestic societal and economic actors have hardly

been involved in the implementation of the EU's fight against corruption in the Southern Caucasus. This can be explained by the overall limited organizational capacities and lack of autonomy of civil society and the clientelistic nature of business in these countries. Second, the EU refers to the same set of international anti-corruption norms vis-à-vis Armenia and Georgia and can thus claim the same formal international legitimacy conveyed by the UN, the OECD, and the Council of Europe.

Despite the reliance on internationally accepted norms, incumbent elites have been reluctant to endorse the EU's anti-corruption agenda. The adaptation costs for implementing the EU's demands regarding the fight against corruption were enormous in Armenia and Georgia, given the similarly high levels of corruption in the early 2000s. As the remainder of this section will show, the EU's efforts nevertheless aligned with the survival strategies of incumbent elites in both countries. The contracting of anti-corruption reforms between the EU and Georgia and Armenia has given the incumbent regimes of both countries a strong say on which measures they shall adopt. In a (semi-)authoritarian context where the rule of law and the separation of powers, and in particular the independence of the judiciary, are deficient, incumbent elites can selectively use anti-corruption policies in order to disempower their political opponents or satisfy the demands of external donors. This strategic interest facilitated at least formal institutional changes in line with international demands in both countries. By contrast, the resonance between the EU's norms and local discourses varied significantly between Armenia and Georgia. In the case of Georgia, the contracted anti-corruption program coincided with a local anti-corruption discourse and domestic mobilization on charges of corruption against the Shevardnadze government. The domestic acceptance of and support for the fight against corruption was therefore much higher in Georgia than in Armenia. The new government under President Saakashvili thus responded to both international and domestic demands when it implemented the institutional reforms more systematically than its Armenian counterpart and fought corruption more effectively.

Anti-corruption in Georgia: Differential empowerment of political elites

In the first decade after its transition, Georgia had done little to fight the pervasive corruption that crippled its state institutions and its economy (Darchiashvili and Nodia 2003; Kikabidze and Losaberidze 2000). President Eduard Shevardnadze depended on clientelistic networks and widespread corruption to consolidate and maintain his power, as he lacked the support of a strong and well-organized ruling party (Spirova 2008; Zürcher and Wheatley 2008). Consequently, little changes occurred with regard to the fight against corruption under his presidency. However, Shevardnadze's system of widespread corruption soon became a major point of domestic and international criticism in the early 2000s. As a consequence, the EU restricted its assistance provision to Georgia in 2003 for the first time (see above). In addition, the then minister of justice,

Mikheil Saakashvili, left the government in 2001 and founded the United National Movement, pledging to take issue with the Shevardnadze regime over corruption.

After Shevardnadze had tried to steal the vote in the 2003 elections, mass popular protests and international pressure forced him to resign from office. In the following presidential and parliamentary elections, Mikheil Saakashvili and his party could secure large parts of the electoral support. He declared the fight against corruption to be the core of his government policies (Wheatley 2005) and was supported by the EU with financial and technical assistance (see above). The new government immediately took action against corruption within the law enforcement agencies, which resulted in the complete dismantling of the traffic police, which had been considered as one of the most corrupt institutions in the country. Reforms of the police forces continued with investments in modern equipment, the creation of a new Police Academy, mandatory exams and training for police officers, and considerable increases in salaries. At the same time, draconian fines for minor offences were adopted. Petty corruption was upgraded as a serious crime, warranting several years of imprisonment (Boda and Kakachia 2005; Hiscock 2006).

Saakashvili placed the fight against corruption under the direct control of his government. Since 2006 and 2008, respectively, the Minister of State Reform and the Minister of Justice, who heads the Inter-Agency Coordination Council of Combating Corruption, have been charged with the drafting and implementation of anti-corruption policies. The changes introduced to the governance institutions resulted in a significant decline of corruption. However, corruption remains a problem. Georgia still belongs to the nearly three quarters of the 178 countries in the Transparency International Index that score below five, on a scale from 10 (highly clean) to 0 (highly corrupt). While state authorities targeted petty corruption at lower levels of bureaucracy, Sakaashvili has been accused of turning a blind eye to major corruption and abuse of power among his closest allies, whom he himself had allegedly placed in many prominent positions. Thus, corruption has not been eradicated but rather transmogrified into elite corruption (Chiabrishvili 2009; Pamuk 2011). Next to rewarding his closest associates, Saakashvili has also used the fight against corruption to oust political opponents (Di Puppò 2009). When the former minister of defense and close associate of Saakashvili, Irakli Okruashvili, left the government in 2006, formed an opposition party, and accused the President of numerous crimes, he was arrested on corruption charges. A court found him guilty of large-scale extortion and sentenced him to 11 years in prison. What was widely perceived as political persecution sparked mass protests and contributed to the rise of antigovernment rallies in 2008 (Freedom House 2008b).

Nevertheless, we have seen some substantial improvements, which have not only been facilitated by the fight against corruption helping Saakashvili to consolidate the power of his regime. The

eradication of entrenched corruption has helped to strengthen the statehood of Georgia by improving the capacity of state institutions to provide collective goods and services and by fostering economic growth (World Bank 2010; European Stability Initiative 2010). This has allowed Saakashvili to reap substantial electoral benefits with an electorate that toppled his predecessor on corruption charges. The strong anti-Russian sentiment in the population has fostered the resonance of EU norms and rules with local discourses on the integration of Georgia into “the West”, which is also reflected in the country’s aspirations for EU membership (Ademmer 2011; Sierra 2011).

Anti-corruption in Armenia: Domestic resistance and external pressure

Unlike in Georgia, post-independence governments in Armenia have not faced political mobilization against corruption. This is less related to the lower levels of corruption in the 1990s. Rather, Armenia’s historical irredentism as well as the Karabakh conflict have created a strong sense of national identity that has bound together the country’s various rivaling elite factions and makes them more reluctant to engage in internal power struggles. At the same time, political conflicts coagulate along nationalistic issues, such as Karabakh and Turkey (Hovannisian 2008), which supersedes any grievances the population might suffer from corruption and renders the strategic use of anti-corruption measures as means to win or consolidate political power difficult. Most importantly, even though the government is characterized by a ‘hyper’-executive with far-reaching competences dominating the state apparatus (Shahnazaryan 2003), it largely relies on the support of a wealthy business elite, the Armenian ‘oligarchs’, as a power base. While the oligarchs enjoy preferential access to the Armenian economy, they reportedly support the incumbent regime, mainly associated with the Republican Party of Armenia, “helping to rig elections and suppress the opposition” (Danielyan 2006, unpaginated). They have also increasingly assumed membership in parliament (Freedom House 2008a), where they sided with the incumbent government, rather than challenging it (Freedom House 2006). The close ties between political and economic elites are thus both the source of high degrees of corruption (Bertelsmann Stiftung 2010) and the power basis of the incumbent regime. Hence, there has not been a domestic discourse on corruption which would have allowed political actors to use EU anti-corruption norms mobilize the public in order to challenge the incumbent regime.

Rather, the fight against corruption beyond formal institutional changes in Armenia has largely been a response to the policy-specific conditionality of external donors. In the early 2000s, two developments gave rise to the practical implementation of anti-corruption measures. First, international donors other than the EU started to step up their financial support for the fight against corruption. Next to the EU’s financial and technical assistance, the World Bank provided a \$345,000 grant to develop an Action plan for the fight against corruption, while at the same time

officials of both the International Monetary Fund and the World Bank insisted on its publication by the end of 2003 (Freedom House 2004). Second, the Armenian Diaspora voiced concerns and increasingly supported the implementation of domestic reforms of the public administration and judiciary, customs, tax, education, public health and other sectors (Transparency International Armenia 2006). Consisting of very disparate groupings including various organizations and parties in the United States, France, and Lebanon, the Diaspora provides considerable financial aid and other resources to the country (Gillespie and Okruhlik 1991; IOM 2008). Furthermore, genuine political parties that enjoy support from influential Diaspora organizations have succeeded in building a stronghold in parliament (Dudwick 1993), particularly the Armenian Revolutionary Federation - Dashnaktsutyun (ARF-D) that re-entered the political landscape under President Kocharian in 1998. Corruption and take-overs of shares by the state have been a major impediment for Diaspora investors (Manaseryan 2004). The ARF-D, as the main Diaspora related political organization, backed President Kocharian in his run for presidency in 2003,¹¹ while putting the fight against corruption on its political agenda. It was also the Diaspora loyal ARF-D that pressed for the establishment of an anti-corruption council, introduced fight against corruption related policy changes into parliament and accused Kocharian of protecting big businesses instead of fighting corruption (Danielyan 2004).¹² Under increasing international pressure, the Armenian government moved beyond formal institutional changes and launched publicly visible attempts to crack down on corruption, including the sacking of corrupt officials in the tax department, customs service and police. Given their lack of systemic effect, such changes in personnel have been criticized for being merely symbolic (Grigoryan 2008). A similar process marked the aftermath of the presidential elections of 2008, in which Robert Kocharian handed power over to his preferred successor Serzh Sargsyan. Sargsyan was, similar to his predecessor, renowned for holding close ties to the oligarchic business community of Armenia (Freedom House 2004). However, as a reaction to the violent suppression of protests in the aftermath of the 2008 presidential elections, the US government froze and suspended its assistance for Armenia in the framework of the Millennium Challenge Account program on grounds of a lack of democratic governance (Bertelsmann Stiftung 2010). Sargsyan subsequently declared the fight against corruption a priority for his Republican Party. His attempts to tackle corruption, however, have not yet resulted in measurable improvements. Initiatives only targeted lower governmental levels, leaving the source of corruption on the top-levels of government and business untouched (Grigoryan 2009) and Armenia's corruption score unchanged.

¹¹ 'ARF to back Kocharian in 2003 Polls', 2002. available at: <http://www.azg.am/EN/2002112601>, accessed 15 February 2013.

¹² 'ARF Presses Reforms Fight Against Corruption', 2003. available at: <http://asbarez.com/48744/arf-presses-reforms-fight-against-corruption/>, accessed 15 February 2013.

Conclusion

The comparison of the EU's promotion of anti-corruption policies vis-à-vis Armenia and Georgia in 2000-2010 has highlighted the role of legitimacy for the effectiveness of external effort at state-building. Tackling the complex task of changing institutions and enhancing capacities for the fight against corruption with a highly institutionalized framework for cooperation under the ENP, the EU's efforts were more successful in Georgia than Armenia. Incumbent elites in both countries chose to adopt legal and institutional changes in line with the EU's expectations because they resonated with their strategic interest. Especially in a (semi-) authoritarian context, anti-corruption policies open the opportunity to selectively prosecute political opponents on corruption charges. However, only in Georgia, the formal changes have been more systematically implemented, effectively reducing the country's level of corruption whereas Armenia has not seen any progress. Unlike in Armenia, the external norms resonated with local discourses in Georgia and continued mass mobilization increased the incentive of Saakashvile regime to fight corruption. Subscribing to anti-corruption policies became not only a means to disempower political opponents but also to win elections.

Our findings corroborate the claim of this special issue that legitimacy of external state-building efforts is a necessary condition for their effectiveness. Yet, they also point to an important limitation of external actors in enhancing state capacities in areas of limited statehood. Our paper clearly shows that successful institution-building is not enough to ensure the effective provision of public goods and services. Without the political willingness of domestic actors, we see a decoupling between formal institutions and actual practices. This explains why legitimacy is key. Yet, if legitimacy is a function of the resonance of the norms and rules external actors promote with the strategic interests of incumbent elites and local discourses, the effectiveness of external actors' efforts at state-building are confined to cases where domestic politics is 'right'. Unlike the participatory quality of their institutional design, external actors have little means to manipulate survival strategies or local discourses. The same is probably true for their perceived problem-solving capacity or the trust in their knowledge and moral authority. In the context of the EU's fight against corruption in the Southern Caucasus, this points to the risk of adverse effects of its efforts which are part of a broader state-building agenda. The cases of Georgia and Armenia demonstrate how incumbent elites can instrumentalize the efforts at state-building of the EU and other external actors to silence political opposition and use enhanced state capacities to stabilize their (semi-) authoritarian regimes. This goes against the proclaimed objective of external actors not only to build state-capacity but also to promote democratic (and not just 'good') governance. Again, legitimacy might make a difference, though. The broadcasting of video footage of prisoners being beaten and sexually abused by allegedly corrupt security forces resulted in massive street protest

two weeks before the parliamentary elections in 2012 and contributed to the first peaceful transition of power in the history of Georgia.

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