

## The European Union and the Promotion of Good Governance in its Near Abroad

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One Size Fits All?

Tanja A. Börzel/Yasemin Pamuk/Andreas Stahn



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## **The European Union and the Promotion of Good Governance in its Near Abroad – One Size Fits All?**

*Tanja A. Börzel/Yasemin Pamuk/Andreas Stahn*

### **Abstract**

With the end of the Cold War, states and international organisations have systematically mainstreamed good governance in their development strategies for third countries. The European Union is no exception. The promotion of good governance ranks particularly high in the EU's "near abroad", which has become a focal point for EU foreign policy making since the 2004/2006 enlargement rounds. This paper seeks to systematically compare the EU's approach to promoting good governance in the Southern Caucasus. Armenia, Azerbaijan, and Georgia are equally marked by bad governance. Arbitrary rule and pervasive corruption are common in all three countries. Nonetheless, they significantly vary with regard to the degree of statehood, and the quality of the political regime. Our aim is to explore to what extent these variations have affected the EU's strategy of promoting good governance. Looking at the European Neighbourhood Policy (ENP), a rather recent policy framework, we seek to give some answers to the question whether the EU sticks to a "one-size-fits-all" approach, or whether it has started to practice some differential treatment.

### **Zusammenfassung**

Seit dem Ende des Kalten Krieges haben Staaten und internationale Organisationen die Förderung „Guten Regierens“ systematisch in ihre Entwicklungshilfestrategien integriert. Die EU ist dabei keine Ausnahme. Durch die EU-Osterweiterung und die Verschiebung ihrer Grenzen nach Osten spielt die Förderung von Good Governance eine besonders gewichtige Rolle in der neuen Nachbarschaft der EU. Dieser Beitrag stellt einen systematischen Vergleich der EU Good Governance Förderung im Südkaukasus an. Armenien, Aserbaidschan und Georgien sind gleichermaßen von „Bad Governance“ betroffen. Willkürliches politisches Handeln und weit verbreitete Korruption sind alltäglich in allen drei Ländern. Gleichwohl unterscheiden sie sich mit Blick auf den Grad an Staatlichkeit und die Qualität des politischen Regimes. Unser Ziel ist zu untersuchen, ob und auf welche Weise diese Varianz sich auf EU Good Governance Förderung auswirkt. Unseren Fokus legen wir dabei auf die relativ junge Europäische Nachbarschaftspolitik und die Frage, wie viel Differenzierung dieses gemeinsame Dachkonzept zulässt.

## Abbreviations

ACP	African, Caribbean, and Pacific Group of States
AEPLAC	Armenian European Policy and Legal Advice Centre
AP	Action Plan
AZPLAC	Azerbaijan Policy and Legal Advice Centre
BTI	Bertelsmann Transformation Index
CEEC	Central Eastern European Countries
CoE	Council of Europe
CSP	Country Strategy Paper
DG	Directorate General
ECHO	European Community Humanitarian Aid Office
EIDHR	European Instrument for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FSP	Food Security Programme
GEPLAC	Georgian European Policy and Legal Advice Centre
GoAZ	Government of Azerbaijan
GRECO	Group of States Against Corruption
INOGATE	Interstate Oil and Gas Transport to Europe
NGO	Non Governmental Organisation
NIP	National Indicative Programme
NIS	Newly Independent State
OECD	Organisation for Economic Co-operation and Development
PCA	Partnership and Cooperation Agreement
REC	Regional Environmental Centre for Central and Eastern Europe
GoAM	Government of Armenia
TACIS	Technical Assistance to the Commonwealth of Independent States
TI	Transparency International
TRACECA	Transport Corridor Europe Caucasus Asia
UN	United Nations
UNDP	United Nations Development Programme
UNTOC	United Nations Convention Against Transnational Organised Crime
WTO	World Trade Organisation

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## 1. Introduction<sup>1</sup>

With the end of the Cold War, states and international organisations have systematically mainstreamed good governance in their development strategies for third countries. The European Union is no exception. In fact, the EU has been among the first to include good governance, together with human rights, democracy, and the rule of law in its cooperation agreements with external partners.

In this paper we aim at shedding light on how the EU is promoting good governance in the Southern Caucasus. More specifically we ask whether the EU pursues a “one-size-fits-all” approach or whether it has developed strategies “tailored to each country’s specific circumstances” (European Commission 2004a: 14) that go beyond the regional framework of the European Neighbourhood Policy (ENP). Furthermore our aim is to explore in which way these specific circumstances do have an impact on the EU’s strategy of promoting good governance.

In order to explore these questions, we focus on Armenia, Azerbaijan and Georgia. The three countries are situated in the Southern Caucasus, which formed part of the former Soviet Union. It is important to note that compared to other post-communist regions, such as the Central Eastern European Countries (CEEC), the Southern Caucasus seriously suffers from bad governance. Arbitrary rule and pervasive corruption are common in all three countries. At the same time, however, Armenia, Azerbaijan and Georgia do vary with regard to the degree of statehood, the quality of the political regime, and their economic conditions. We argue that the different configurations on the ground may result in different opportunity structures that influence how and with whom the EU promotes good governance.

Our analysis will show that the EU applies a two-pronged strategy with regard to its eastern neighbourhood. It adopts a “one-size-fits-all” approach in the general policy framework that is spelled out and complemented by a country specific component on the ground. Domestic factors, such as the degree of statehood and the quality of democracy, result in significant variations in the EU’s strategy of promoting good governance.

To state our argument, the first part of our paper develops an analytical framework that identifies four ideal types of good governance approaches available to the EU. In addition, we discuss various instruments and influence mechanisms through which good governance can be promoted. Drawing on the few existing studies of governance export by external actors, we then formulate a set of expectations as to which good governance approach the EU is likely to choose when dealing with countries that differ with regard to statehood, democracy and economic development. We assume that on the regional level the EU follows a “one-size-fits-all” approach. On the country level, however, we expect the EU to adapt its strategies with regard to the specific

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<sup>1</sup> We thank Stephen Krasner, Thomas Risse, Vera van Hüllen and the anonymous reviewer for helpful comments and suggestions.

conditions on the ground. In addition, the EU should also react to significant changes in the country context.

The second part will explore to what extent our expectations hold. We will analyse the EU's good governance approach with regard to its eastern neighbourhood in general and the three countries of the Southern Caucasus in particular. Our findings show that the EU does indeed apply a "one-size-fits-all" approach to good governance on the regional level. On the country-level, this general approach is to some extent mitigated by the specific country context in which good governance is being promoted. Armenia and Georgia confirm our assumptions regarding the link between the domestic regime-type and statehood of the target country, on the one hand, and the good governance approach of the EU, on the other. By contrast, the case of Azerbaijan does not match our expectations. In this case, the EU refrains from adequately adapting to Azerbaijan's poor governance performance, which may be due to the supremacy of energy interests and a lack of leverage. Our paper concludes with a summary of our most important findings and points to some avenues for future research.

## **2. Promoting Good Governance – Towards an Analytical Framework**

### **2.1 Unpacking Good Governance**

While good governance has gained prominence in the literature, there is little agreement on the essence of the concept. The various definitions scholars use depend mostly on their respective research agenda or on their understanding of the actor under scrutiny. In order to structure the existing literature on good governance, we have developed an analytical framework that adopts a broad understanding of governance as institutionalised modes of coordination through which collectively binding decisions are adopted and implemented (Mayntz/Scharpf 1995; Scharpf 1997). This definition does not confine governance to the non-hierarchical coordination of public and private actors (Rhodes 1999) but also encompasses hierarchical steering through public actors only as well as private self-regulation. Furthermore, governance entails an albeit minimal normative dimension for it refers to institutionalised modes of coordination that intentionally aim at the provision of (basic) collective goods rather than serving individual self-interests (Ladwig/Jugov/Schmelzle 2007). Good governance has even deeper normative implications. In the following, we distinguish two main analytical dimensions found in the literature that enable us to better grasp the different concepts of good governance.

#### *Input or output legitimacy?*

A first analytical cut can be made by distinguishing different normative contents of good governance. One part of the literature associates good governance with the setting of a sound administrative and regulatory framework mainly provided by the state (Adam 2001; Fuster 1998). This notion prevails in studies that are informed by developmental considerations and largely concentrate on output criteria such as efficiency and effectiveness. Accordingly, most authors

implicitly or explicitly conceive of the core principles of good governance as transparency and efficiency, which translate into sound public financial management or the fight against corruption – principles that aim at making policies more predictable and effective (cf. Conzelmann 2003; Fuster 1998; Hill 2006).

However, many scholars and practitioners attach a wider political connotation to good governance (Tolentino 1995) that also places emphasis on the involvement of societal actors as part of the political process (Adam 2001). Scholars working in the field of democratisation and external democracy promotion go a step further by focussing on more demanding principles relating to the input-dimension of good governance, such as the respect for human rights and democracy (cf. McFaul 2004-2005; Carothers 2004; Burnell 2000). Both perspectives are linked by paying attention to the rule of law as a safeguard of institutions in both dimensions (König 2001; Magen/Morlino 2008).

We adopt a broad perspective on good governance that integrates the two strands of literature. Using the prism of legitimacy as an analytical tool, we can systematically order the various definitions and understandings of good governance. In a first step, our analytical framework draws on the distinction between the two aspects of legitimacy that were formulated by Fritz W. Scharpf – input and output legitimacy (Scharpf 1999). Output legitimacy corresponds to the narrow (regulatory) understanding in the developmental literature, whereas input legitimacy is equated with the wider (political) concept of good governance dominant in the literature on democratisation and democracy promotion.

In other words, output legitimacy refers to the extent to which the effects of political decisions are perceived to be in the interest of the people. In this view, good governance is about solving societal problems in an effective and efficient manner. Input legitimacy, by contrast, requires political decisions to correspond to the preferences of affected people. Accordingly, good governance must ensure that the preferences of the people are translated into political decisions.

#### *State or civil society?*

The second analytical cut concerns the role of the state in relation to that of civil society in promoting good governance. The emergence of good governance in the development debate at the end of the 1980s basically marks nothing less than a shift in paradigm from “getting the market right” to “getting the institutions right” (cf. Fuster 1998; Menzel 1995: 43ff.). The idea behind this is that the creation of a regulative environment is a decisive precondition for achieving sustainable development. It further aims at the effective and purposeful management of primarily economic resources. Moreover, when it comes to delivering and safeguarding the rules of the game and managing public resources, the literature implicitly or explicitly refers to the existence of a more or less functioning state (Hill 2006; Theobald 2001). Consequently, the state and its administrative capacities play a crucial role in the good governance debate (Dolzer 2004; Murphy 2002; Pierre 1999).



Simultaneously, there is growing scholarly interest in the role of non-state actors in governance. On the one hand, state failure and the absence of hierarchy in international politics raised the question whether “new modes of governance”, i.e. patterns of cooperation between state and non-state actors, offer an alternative to hierarchical and monopolised decision-making (Risse/Lehmkuhl 2007). The main assumption of this kind of research is that the pooling of resources of state and non-state actors such as interest organisations or private businesses might contribute to an efficient, effective, and even inclusive formulation and implementation of collectively binding norms (Héritier 2003). Moreover, non-state actors can foster the legitimacy of governance, “hold governments accountable” and “form the base upon which a truly democratic political culture can be built” (Ottaway/Carothers 2000: 4). Thus, the literature on international democracy promotion focuses on the specific role of non-governmental organisations, political parties, and independent media as well as prospects and limitations to strengthen such (domestic) actors from the outside (cf. Mendelson/Glenn 2002; Carothers 2006; Raik 2006).

Thus, depending on which actors they focus on, external actors seeking to promote good governance may use two different channels of influence (Schimmelfennig 2007; Diez/Stetter/Albert 2006). They can choose the way of “intergovernmental interaction”, or they can seek to trigger and influence domestic reform processes “through transnational processes via societal actors in the target state” (Schimmelfennig 2007: 6). Using the intergovernmental channel, external actors either hope to alter the preferences of target governments over strategies by manipulating their cost benefit calculation, or they aim to change preferences of outcomes of governments by socialising them into new norms through processes of social learning and persuasion. The transnational approach targets domestic non-state actors in order to empower them vis-à-vis their governments in pushing for political reforms (Schimmelfennig 2007: 7).

We expect that it is the specific political setting of the target state that matters most for the actual choice of approaches and instruments by external actors. The next section identifies the approaches and instruments available for promoting good governance.

## **2.2 Approaches and Instruments of Good Governance Promotion**

Based on the two dimensions described in the previous section, we can now develop an analytical framework in order to qualify the EU’s attempt to improve the governance structures and processes in third countries across country and over time. Accordingly, we assume that the EU, on the one hand, can choose between different contents of good governance – placing stronger emphasis on either input or output related reform goals. On the other hand, the EU can invoke different channels of influence, either targeting the intergovernmental channel (state actors) or the transnational channel (non-state actors). Combining these two analytical foci, we arrive at a two-by-two matrix that allows us to differentiate between four ideal-type approaches of good governance promotion available to the EU.

The first approach of *effective government* addresses the *intergovernmental* channel and seeks to promote *output-oriented* objectives, focusing on the administrative core of good governance. This essentially entails improving governance through strengthening the government and its administration. The second approach of *effective governance* places emphasis on *output-oriented* reform goals as well. It either aims at including non-state actors in the implementation process in order to produce better policies by pooling resources and increasing acceptance, or it tackles the building and strengthening of non-state organisations that help better implement policies. The third approach of *democratic government* again relies on the *intergovernmental* channel. While promoting *input-oriented* objectives, however, the EU targets the state to have it establish and safeguard a public sphere in which interests can be articulated and aggregated. The fourth approach of *democratic governance*, finally, combines the *transnational* channel with *input-oriented* reform objectives. This approach wants to empower non-state actors in the making of public policies in order to improve the democratic quality of decision-making processes. Figure 1 summarises the available types of good governance approaches:

Figure 1: Four approaches of external good governance promotion

	Output	Input
<b>Intergovernmental</b>	effective government	democratic government
<b>Transnational</b>	effective governance	democratic governance

In analysing the EU's strategy of good governance promotion, a final distinction can be made with regard to the instruments external actors employ to make their targets (state or non-state actors) comply with their major goals (increasing input or output legitimacy).

With the mainstreaming of good governance into the foreign policy of international organisations and western states, compliance with external requirements has increasingly become an issue. The so called "management school" indeed emphasises lacking capacities as the main problem of compliance, which can be addressed by transferring financial and technical resources (Chayes/Chayes 1993; Chayes/Chayes/Mitchell 1998). Enforcement theories, by contrast, contend that states predominantly lack the will to comply with external requirements since they imply high costs, both economic and political. External actors can either induce recalcitrant states into compliance by offering negative (sanctions) and positive (rewards) incentives (Downs 1998; Fearon 1998), or they can seek to change their preferences through socialisation processes based on persuasion and social learning (Checkel 2001; Risse 1999).

Accordingly, external actors may draw on three types of instruments to promote good governance in third countries. These instruments differ mainly with regard to the steering mechanisms by which good governance is being diffused. First, *political dialogue* uses persuasion and learning strategies. Second, *conditionality* tries to manipulate cost-benefit calculations through creating positive and negative incentives. Finally, *assistance* is geared toward capacity building for institutionalizing good governance. The following figure summarises the set of instruments

and the corresponding (dominant) mechanism of influence generally available to external actors:

*Figure 2: The tool box for external action*

<b>Instrument</b>	<b>Mechanism of Influence</b>
Assistance	capacity and institution building
Conditionality	manipulation of cost-benefit calculations
Political Dialogue	social learning and persuasion

We assume that the four good governance approaches can be combined with all instruments available in the tool box for external action. We expect, however, that the EU's approach to promote good governance is shaped by the political setting in the target country.

### **2.3 Promoting Good Governance in Different Country Settings**

The literature on development cooperation has shown that the strategy of external actors towards third countries is inter alia influenced by the “capacity of government to formulate and implement policies and discharge government functions” and the “form of political regime” (OECD/DAC 1995: 16). Likewise, we expect statehood, i.e. the capacity of state institutions to develop and implement policies and to perform regulative functions on the one hand, and democracy, that is the extent to which the political process is based on the principles of accountability and inclusiveness on the other, to significantly shape the concepts, channels and instruments applied by the EU in its external relations in order to promote good governance.

We argue that bad governance in its different manifestations motivates the EU to promote good governance in the first place. Therefore the main target of good governance promotion are countries, in which informal institutions and high-level corruption pervade domestic decision-making processes and prevent societies to profit from the virtues of effective and legitimate governance. *Corruption* and *arbitrary rule* are detrimental to a competitive market economy, impair socio-economic development, and deter foreign investment (Rose-Ackerman 1996; Mauro 1995; Frank 2004). Moreover, they undermine the political and public institutions in a democratic state by favouring certain parts of the population and excluding others from political processes (Johnston 1999, 2005; Kitschelt/Wilkinson 2007; 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/Wiliamson 2005; Scott 1972). 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 bad governance (Spinellis 1996; Phongpaichit/Baker 2002). In these settings, good governance promotion either aims at strengthening the capacities of the state to effectively fight corrup-

tion, or it seeks to promote participation and civil oversight over the allocation of resources, thus affecting the relationship between the government and its citizens (Karklins 2005).

The approaches and instruments the EU chooses may depend on the capacity and willingness of third countries to overcome bad governance. Capacity directly relates to *statehood* for it refers to the material and immaterial resources a government can draw on to adopt and enforce policy changes necessary to effectively improve governance. The willingness to introduce relevant political reforms may be influenced, in turn, by the degree of *democratisation* a country has reached, such as the extent to which governments rely on clientelistic networks to remain in power (Treisman 2000; Khan 2006; Vorozheikina 1994).<sup>2</sup>

Statehood and democracy provide an opportunity structure for the EU's good governance approach. Since the EU generally prioritises state-building over democracy promotion (Kopstein 2005; Jünemann/Knodt 2007),<sup>3</sup> the domestic structure of the target country should mostly constrain or favour the channels through which the EU seeks to promote its development goals, which include effective rather than legitimate institutions.

Based on these considerations, we expect the EU to focus on the promotion of *democratic governance* when dealing with countries which are authoritarian (weak democracy) but have sufficient capacities to adopt and enforce policies (strong statehood), such as Belarus. In these settings, bad governance is a result of formal institutions that bypass main principles of good governance such as transparency, accountability, the rule of law and participative decision-making. In order to undermine authoritarian rule, the EU seeks the cooperation with actors beyond the state. However, opportunities for supporting non-state actors are seriously constrained by the repressive nature of the regime. Thus, the EU's influence on governance appears to be most limited for countries facing the biggest problems of bad governance.

Second, if countries score low on both democracy and statehood (e.g. many ACP), the EU is most likely to pursue an approach of *effective governance*. This does not only entail support for government institutions; the EU also seeks to involve the material and immaterial resources of non-state actors to increase the effectiveness of governance-related reforms. At the same time, the EU is unlikely to push for democratic reforms (input legitimacy) in order not to destabilise the country even further (cf. Jünemann/Knodt 2007).

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<sup>2</sup> For the counterargument cf. Manzetti (2007).

<sup>3</sup> The EU's bias towards promoting stability and order over regime change is deeply entrenched in its external relations with third countries, particularly the ACP. Traditionally, the EU's attempts to promote (good) governance have focused on capacity-building in the public sector through granting (unconditional) financial and technical assistance. The emphasis on state-building has been reinforced through the eastern and south eastern (West Balkan) enlargement processes where the EU's strategy has been "designed to stabilize countries that are already democratic rather than to promote regime change in nondemocracies" (Kopstein 2005: 91). Cf. Börzel/Pamuk/Stahn (2007); Börzel/Risse (forthcoming).

Third, democratic regimes whose statehood is limited (e.g. Bosnia-Herzegovina) are primarily subject to the promotion of *effective government* since the major challenge is to strengthen the capacity of state-institutions to adopt and enforce political reform in order to improve governance.

Finally, we expect the EU to focus on the promotion of *democratic government* when dealing with countries which are comparatively advanced in their democratisation process and whose capacity to hierarchically adopt and enforce policies is sufficiently developed (e.g. CEEC). The EU will seek to further strengthen the effectiveness and legitimacy of the reform-minded government in their attempts to improve governance.

Figure 3 summarises our expectations with regard to the EU's approach in different country settings. The next section will explore to what extent our expectations hold in the framework of the European Neighbourhood Policy towards the Southern Caucasus.

Figure 3: Statehood, democracy, and good governance approaches

	Autocracy	Democracy
intact statehood	democratic governance	democratic government
limited statehood	effective governance	effective government

### 3. Good Governance in the European Neighbourhood

#### 3.1 One Size Fits All...

With the end of the Cold War, good governance has been mainstreamed into the development strategies of international organisations, such as the World Bank, UNDP and the OECD. The same is true for individual Western states, such as the United States or the Federal Republic of Germany (Adam 2001; Hill 2006; Weiss 2000).

The European Union is no exception. It has been among the first actors to write good governance – together with human rights, democracy, and the rule of law – into its agreements with third countries. The promotion of good governance is an integral part of the EU's foreign policy and is supported with considerable financial and human resources.

Since good governance originated within international development cooperation, the concept entered the EU through this gateway and quickly spread into other policy areas. Moreover, it was the DG Development of the European Commission that took the lead in further developing the concept and mainstreaming it into the EU's external relations (for further details cf. Börzel/Pamuk/Stahn 2007). Initially, the EU started with a narrow concept of good governance that essentially focused on *effective government*, separating it from political principles such as human rights and democracy (Beck/Conzelmann 2004). Yet, since in many developing countries the

state has been weak or largely absent, the Cotonou Agreement of 2000 opened a transnational channel by making the participation of non-state actors in EU development cooperation a formal objective.

While EU development policy has increasingly moved towards promoting *effective* and to some extent even *democratic governance*, its enlargement and pre-accession policies have focused on strengthening effective and democratic government by focusing conditionality and assistance mainly on state actors (cf. Börzel/Pamuk/Stahn 2007).

The European Neighbourhood Policy falls in-between development and enlargement policy. It has been proposed by the Commission in response to the geographical and political changes during the course of the EU's Eastern enlargement in 2004. In order to turn the "near abroad" into a "ring of friends" (European Commission 2003a), the EU has heavily drawn on the policies that had proven so successful in promoting 'good governance' in the CEEC (Kelley 2005). There are, however, major limitations, the most important of which is the absence of a membership perspective for the countries concerned. Thus, the ENP is the attempt to externally induce modernisation and, to some extent, democratisation processes without offering the incentive that proved key in the enlargement process (Magen 2006).

The EU has evolved and institutionalised its relations with the "eastern" dimension of the ENP in four steps since 1991.<sup>4</sup> Each step has envisaged a deepening of relations with the successor states of the Soviet Union including those of the Southern Caucasus. The set of instruments at the EU's disposal subsequently expanded from mere technical assistance at the beginning of the 1990s to a comprehensive toolkit for external action a decade later. Lastly, the EU's insistence on improving governance and fighting corruption in the respective countries has also increased significantly over the past 15 years.

After the break up of the Soviet Union, the EU quickly recognised the independence of its successor states – including Armenia, Azerbaijan and Georgia. In order to support the Newly Independent States (NIS) in coping with the consequences of the 'triple' transition (Offe 1991), the EU initially concentrated on the provision of financial and technical assistance through the TACIS programme.<sup>5</sup> TACIS covered a wide range of issues, such as support for privatisation 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.<sup>6</sup>

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4 For the southern dimension see Bicchi (2006).

5 The Technical Assistance for the Commonwealth of Independent States programme included Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Russia. Mongolia joined the programme from 1993-2003.

6 Further EU programmes addressing the NIS are loans of the *European Investment Bank*, assistance by the *European Community Humanitarian Aid* department (ECHO), the *Food Security Programme (FSP)* as well as direct assistance to NGOs within the scope of the *European Initiative (since 2006 Instrument) for Democracy and Human Rights (EIDHR)*.

In a second step, the EU sought to formalise its relations with the TACIS countries. By 1999 altogether nine bilateral Partnership and Cooperation Agreements (PCA) had entered into force. With minor variations, these agreements were designed to further support the transition of the NIS to full-fledged market economies and, to a lesser extent, to liberal democracies. The formalisation of relations brought about a significant change with regard to the instruments of the EU. Similar to its other regional foreign policy frameworks, the EU established a regular political dialogue at different levels and formulated conditionality criteria. While both democracy and human rights are subject to negative conditionality and an explicit goal of the PCAs, good governance is not.<sup>7</sup> Assistance through TACIS remained in place and completed the toolkit of the EU. It primarily aimed at supporting the implementation of the PCAs through capacity building measures. On the whole, the PCAs covered similar cooperation issues and areas.<sup>8</sup> In 2000, a new TACIS regulation<sup>9</sup> further elaborated on the objectives stipulated in the PCAs. It continued to provide mainly for the intergovernmental channel and focused on supporting effective rather than inclusive policy making. In sum, the predecessor policies of the ENP sought to enhance *effective government*.

Eastern enlargement triggered the third step in the evolution of the external promotion of good governance in the NIS. The European Neighbourhood Policy can be understood as an attempt of the EU to provide financial and economic incentives in order to facilitate ambitious economic and political reforms in the post-Soviet countries. Jointly agreed Action Plans (AP) that copy the logic of the accession partnerships in the EU's enlargement policy are at the institutional core of the ENP. The APs formulate short and medium term reform priorities, the implementation of which is monitored and discussed regularly in the political dialogue. Those countries that fulfil these obligations may be rewarded with closer cooperation, for instance, through lifting trade restrictions or simplified visa regimes. Negative conditionality, by contrast, is not part of the AP, but the EU refers to the common values stipulated by the respective clauses of the PCAs.

Unlike the Partnership and Cooperation Agreements, the Action Plans – though to varying degrees (see country studies) – refer to good governance as specific objectives of the cooperation between the EU and the partner governments in the Southern Caucasus. Moreover, since 2004, the EU started to require ENP partner governments to consult and cooperate with non-state actors and civil organisations in the formulation and implementation of the national reform agendas (Cf. European Commission 2004a; European Commission 2006b; European Commission 2007d). This can be interpreted as a cautious opening of the transnational channel.

7 Cf. for example Title I, VII and XI of the PCA with Armenia or Title I, VII, XI of the PCA with Georgia.

8 The only major differences between the agreements with Armenia and Azerbaijan for instance are three additional articles regarding the construction sector (Art. 47), enterprise restructuring and privatisation (Art. 60), and monetary policy (Art. 70) in the PCA of the latter. Interestingly, in the context of privatisation the EU explicitly emphasises the importance of transparency. Cf. PCA Azerbaijan.

9 Council Regulation No. 99/2000 of 29 December 1999.



In a fourth and most recent step, the EU has replaced its old assistance programme TACIS with a new financial instrument. In 2007, the so-called European Neighbourhood and Partnership Instrument (ENPI)<sup>10</sup> was introduced to specifically address the needs of the ENP. Unlike TACIS, the ENPI regulation defines good governance as a central commitment on which the partnerships are based (Art. 2.1) and as an explicit goal of assistance (Art. 2.2 (d)). With regard to the policy objectives, the ENPI regulation states:

“Community Assistance under the Neighbourhood and Partnership Instrument shall promote enhanced cooperation and progressive economic integration between the European Union and the partner countries and, in particular, the implementation of partnership and cooperation agreements [...]” (Art. 2).

It also underlines that EU assistance shall rely on the principle of co-financing and shall be based on a cooperation partnership with beneficiaries (Art. 2). In contrast to the TACIS regulation of 1999, ENPI addresses transnational channels of cooperation stating that “partnership will involve, as appropriate, national, regional and local authorities, economic and social partners, civil society and other relevant bodies” (Art. 4 (c)). In addition to the use of transnational channels of influence, the regulation also requires the beneficiary partner governments to “associate the relevant partners as appropriate, in particular at regional and local level, in the preparation, implementation and monitoring of programmes and projects” (Art. 4 (d)). With the introduction of ENPI that officially replaced the TACIS programme in January 2007, the EU has also changed its strategy regarding the delivery modality of its development assistance. While TACIS had been provided primarily through jointly managed projects, ENPI has replaced the project logic by a ‘sector-wide’ approach allocating the assistance by means of direct budgetary aid to the partner governments.

In a nutshell, good governance has increasingly gained prominence in the EU’s policy towards its neighbours, particularly those in the east. Likewise, non-state actors have been subsequently “upgraded”. However, unlike in the EU’s development policy, they have not received the status of official partners. Moreover, their involvement – whether of civil society organisations or business – aims at increasing the public institutions’ efficiency and effectiveness rather than to head for the “democratic quality” of the reform process. Thus, ENP continues to be biased towards *effective government* although some changes towards *effective governance* are underway. Finally, the EU has expanded its toolkit for the promotion of good governance. Assistance has been subsequently complemented by conditionality and political dialogue. Figure 4 summarises our findings with regard to the EU’s expanding good governance approach in its Eastern neighbourhood.

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<sup>10</sup> Council Regulation No. 1638/2006 of 24 October 2006.



Figure 4: Phases of the EU's good governance promotion

		Concepts	Channels	Instruments
1991-2006	TACIS & EIDHR	output-oriented	Intergovernmental (transnational in case of EIDHR)	assistance
1997-	PCA	output-oriented	intergovernmental	political dialogue negative conditionality (essential elements)
2004-	AP	predominantly output-oriented	predominantly intergovernmental	political dialogue positive conditionality (increased economic integration and political cooperation)
2007-	ENPI & EIDHR	predominantly output-oriented	predominantly intergovernmental (transnational in case of EIDHR)	assistance political dialogue positive conditionality (further allocations depending on reform progress) negative conditionality (suspension clause)

Over the last 15 years, the EU has mainstreamed good governance into its external relations and developed a universal toolkit for its promotion. In the next section, we will explore in detail to what extent the EU's "one-size-fits-all" approach has given way to a more differential treatment. Although the Southern Caucasus in general belongs to the group of states with weak statehood and democracy (cf. chapter 2), at a closer look Armenia, Azerbaijan, and Georgia differ with regard to their governance structures; as a result we expect the EU to pursue some differential treatment on the ground.

### 3.2 ... or Towards Differential Treatment?

The breakdown of the Soviet Union brought Armenia, Azerbaijan and Georgia face-to-face to enormous political, economic and social challenges. Widespread poverty and regional conflicts have contributed to political instability and economic decline. By the end of the 1990s, it had become clear that the Newly Independent States performed much worse than other post-communist countries in Central Eastern Europe, with regard to both economic and political transition. The main reason for this gap is attributed to bad governance (Carothers 2002).

Most of the NIS, including Armenia, Azerbaijan and Georgia, have belonged to the group of highly corrupt countries. In fact, the Corruption Perceptions Index of Transparency International (TI) has repeatedly ranked the three Southern Caucasus states among the most corrupt in the world (cf. figure 5).

Figure 5: Corruption in the Southern Caucasus

TI Corruption Perceptions Index	Armenia	Georgia	Azerbaijan
2004 (rank out of 146 countries)	3.1 (82.)	2.0 (133.)	1.9 (140.)
2007 (rank out of 179 countries)	2.9 (93.)	2.8 (99.)	2.4 (130.)

The scale ranges from 0 (high corruption) to 10 (low corruption).  
Source: Transparency International 2004, 2007.

Both “grand” corruption (misuse of political power) and “petty” corruption (misuse of administrative competences) are common in all three countries. Nonetheless, Armenia, Azerbaijan and Georgia differ with regard to the forms of corruption. The World Bank rates Armenia as a country with medium state capture and high administrative corruption (cf. World Bank 2000). In contrast, Azerbaijan and Georgia are described as countries with high levels of administrative corruption as well as state capture. At least in the case of Georgia there have been some improvements since 2000, in particular with regard to the reduction of corruption in the lower law enforcement agencies. The high level of corruption found in the three states correspond to the overall assessment of the World Bank Governance Index, which identifies major governance failures in all three countries. Azerbaijan appears to be in most urgent need of improving governance. Armenia and Georgia perform better, albeit on a comparatively low level.

Figure 6: Governance in the Southern Caucasus

World Bank Governance Indicators		Armenia	Azerbaijan	Georgia
Government Effectiveness	Governance Score (-2.5 to +2.5)	-0.16	-0.7	-0.16
	Percentile Rank (0-100)	51.2	27.5	50.7
Regulatory Quality	Governance Score (-2.5 to +2.5)	0.26	-0.44	-0.22
	Percentile Rank (0-100)	59.0	34.1	44.4
Rule of Law	Governance Score (-2.5 to +2.5)	-0.52	-0.86	-0.61
	Percentile Rank (0-100)	38.1	22.4	32.9
Control of Corruption	Governance Score (-2.5 to +2.5)	-0.58	-0.99	-0.36
	Percentile Rank (0-100)	35	15.0	44.7

Source: Kaufmann et al. 2007.

Overall, there is still a huge gap between the expectations of the EU and the performance of the three countries in fighting corruption. As a result, anti-corruption policies should figure prominently in the EU’s good governance approach towards the Southern Caucasus. Hence, while, given their extremely high levels of corruption and bad governance, the functional demand for

promoting good governance is equally strong, the three countries differ with regard to statehood and democracy.

Measuring statehood and its limitations, i.e. the degree to which the monopoly on the use of force and the capacity to hierarchically adopt and enforce collectively binding decisions are compromised, is rather difficult. Most indices do not restrict their focus on the capacity of the state to effectively formulate and implement policies, but also include normative aspects regarding the content of state policies (e.g. World Bank Governance Indicators or Bertelsmann Transformation Index (BTI)). Moreover, the results regarding the strength of the monopoly on the use of force are distorted by the existence of “renegade territories” as for example in the cases of Azerbaijan and Georgia. According to the BTI stateness index, for instance, Azerbaijan and Georgia’s overall score is comparatively low due to the frozen conflicts within their territories. In particular, the scores of the first (monopoly on the use of force) and the fourth (basic administration) dimension of statehood appear to be skewed (cf. figure 9). This implies that, while the two states are not in control of the “renegade” regions, their capacities to deploy coercive power may be intact in their remaining territories.

Figure 7: Statehood in the Southern Caucasus<sup>11</sup>

BTI index stateness with sub-dimensions	Armenia	Azerbaijan	Georgia
Overall	8,8	6,8	5,3
Monopoly on use of force	9	6	4
Citizenship agreement	9	6	5
No religious dogmas	9	9	8
Basic administration	8	6	4

Source: Bertelsmann Stiftung 2005.

If we discard the existence of territorial conflicts, the differences regarding the degree of statehood in the Southern Caucasus countries become less significant.<sup>12</sup> Nevertheless, Armenia appears to have the most developed state institutions, followed by Azerbaijan and Georgia.

We find more variation between the three countries with regard to their democratic quality. Although in their formation phase, all three republics envisioned a western-style parliamentary democracy as the basis of their form of government, none of them can be considered a consolidated democracy. The degree of the democratic progress, however, varies considerably between the three countries. Georgia has made the most progress, followed by Armenia and lastly Azerbaijan (cf. figure 8).

<sup>11</sup> The indicator “stateness” is part of the BTI Democracy Status. It includes the sub-indicators monopoly on the use of force, citizenship agreement, no religious dogma, basic administration.

<sup>12</sup> For the purpose of this research project, we restrict our focus to those parts of the countries that are formally under control of the respective government.

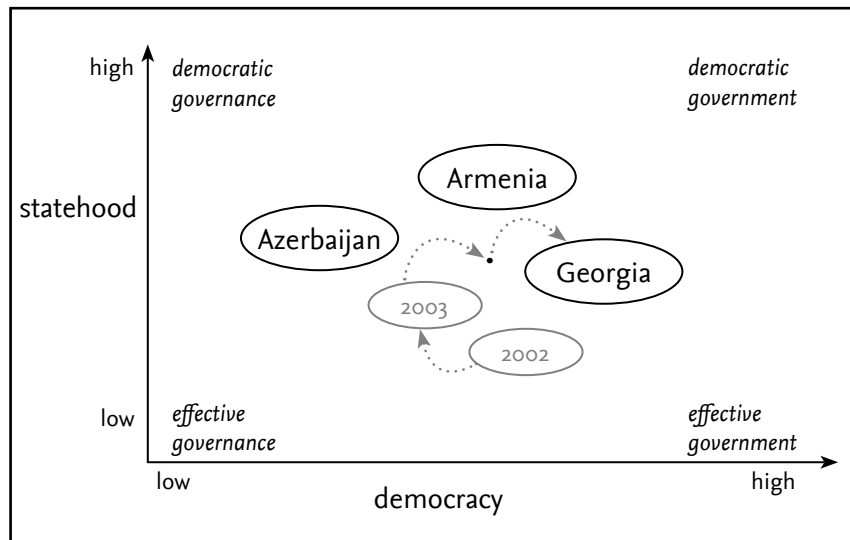
Figure 8: Democracy in the Southern Caucasus

Democracy indices	Armenia	Azerbaijan	Georgia
FH Freedom in the World Index 2001	4/4 (partly free)	6/5 (partly free)	4/4 (partly free)
FH Freedom in the World Index 2006	5/4 (partly free)	6/5 (not free)	3/3 (partly free)
Economist Intelligence Unit Democracy Index 2007 (rank out of 167)	4.15 (110) "hybrid regime"	3.31 (129) "authoritarian regime"	4.9 (104) "hybrid regime"
BTI Democracy Status (rank out of 125)	6.0 (65) "highly defective democracy"	3.8 (98) "autocracy"	6.9 (42) "defective democracy"

Sources: Bertelsmann Stiftung 2007; Freedom House 2008; Kekic 2007.

All three countries of the Southern Caucasus are in great need of improving governance. Compared to the other two countries, Azerbaijan suffers most from corruption. Concurrently, its limited statehood and lack of democratic institutions increase the challenge for the EU. We expect the EU to pursue *effective governance* predominantly relying on assistance and political dialogue. Georgia, by contrast, appears to have become slightly less corrupt, its statehood is less intact, but it is more democratic than Azerbaijan and Armenia. According to our model, the EU should focus on strengthening *effective government* using conditionality as the main instrument in Georgia. With the Rose Revolution in 2003, Georgia improved with regard to both statehood and democracy. As a result, we would expect the EU to also promote democratic government. Armenia, finally, though the strongest performer in statehood, somewhat falls in between the other two countries with regard to the level of democracy. Thus, given the EU's bias towards building state institutions, we are likely to see an *effective government* approach with a slight tendency towards *effective governance*. However, the variance with regard to statehood and democracy may not suffice to cover the entire range of possible approaches the EU may choose. A cross-time comparison of individual countries may help us to increase the variance. For instance, in contrast to Armenia and Azerbaijan, the situation in Georgia varies considerably between 2002 and 2007 with respect to democracy and statehood. Thus, we would expect the EU's approach to adapt to the changing opportunity structure moving from its initial approach of predominantly promoting effective governance, as in the case of Azerbaijan, to effective government. Figure 9 depicts our expectations with regard to the EU's good governance approaches in the Southern Caucasus:

Figure 9: Expectations with regard to EU good governance approaches in the Southern Caucasus



The next section will explore to what extent our expectations hold. We will systematically compare the approaches and instruments of EU good governance promotion in the Southern Caucasus across countries and over time.

### Armenia

Since the breakdown of the Soviet Union, the EU has supported Armenia through a variety of assistance programmes. Starting with the introduction of its TACIS programme in 1991, the EU provided a total of € 386.39 million of assistance to the Republic of Armenia until December 2006.<sup>13</sup> The early period between 1991 and 1998 was mainly characterised by the severe crisis the Armenian economy underwent in the years following independence. Therefore, humanitarian assistance accounted for half of the total assistance in the early 1990s. Additionally, close to one third of the aid was allocated through the EU's Food Security Programme initiated in 1996. In the first years of Armenia's independence, the EU's engagement mainly focused on institutional capacity-building in order to support the country's "triple transition" (Offe 1991) in market, state and democracy. Funding was mostly provided to public institutions, such as the Central Bank of Armenia, national ministries (e.g. Ministries of Agriculture, Labour and Social Issues) and other government agencies. In sum, the EU's first good governance approach was characterised by promoting *effective government*.

In 1999, the Partnership and Cooperation Agreement further institutionalised the EU's relations with Armenia. Within the new framework, the EU's approach still remained output-oriented

<sup>13</sup> This amount includes TACIS national allocations (25.59%), the TACIS nuclear safety programme (7.51%), humanitarian aid under ECHO (17.80%), assistance from the European Agricultural Guidance and Guarantee Fund (12.98%), Food Security Programme (26.48%), macro-financial assistance (9.34%), and aid against the effects of the Russian Financial Crisis (0.39%). In addition, Armenia has benefited from the TACIS regional programmes on energy (INOGATE), transport (TRACECA), and environment (REC).

and mainly addressed governmental institutions. However, the PCA introduced the instrument of political dialogue. Moreover, the stipulation of an “essential elements clause” made bilateral cooperation with the EU conditional on the respect for democratic principles, the rule of law, human rights and the consolidation of a market economy (Art. 2). Although the instrument of political dialogue significantly enriched the mechanisms of influence available to the EU, assistance remained the primary instrument of the EU-Armenia relations.

In 2001, the Commission adopted a Country Strategy Paper (CSP) for the programming of TACIS in Armenia covering the period of 2002-2006 (cf. European Commission 2001a). The CSP for the first time explicitly pointed to persisting problems of bad governance. With view to the EU policy objectives the document for instance stated “[i]t is paramount to establish a business climate conducive to foreign and domestic investments, removing all obstacles, and widespread corruption above all” (European Commission 2001a: 4).

Under the CSP 2002-2006, institution and administrative capacity building as well as poverty reduction constituted the primary aims of the EU’s assistance to Armenia. This is also corroborated by the fact that the major share of the EU’s allocations for Armenia in this period was provided to the Armenian European Policy and Legal Advice Centre (AEPLAC), a project that had started in 2000 in order to assist the Armenian government in the approximation to the *Acquis Communautaire* (European Commission 2001a: 5). Next to the general conditionalities of democratic principles, human rights and the obligations set out in the PCA, the document also formulates country specific conditionalities such as the fulfilment of the commitments with regard to the Medzamor Nuclear Power Plant (European Commission 2001a: 23). Furthermore the political dialogue between the EU and Armenia mainly concentrated on issues related to the reform agenda as for example the decommissioning of the power plant (European Commission 2001a: 4).

The strong emphasis on effective government was mitigated to some extent by the second National Indicative Programme (NIP) covering the period from 2004-2006. The document explicitly referred to the Armenian government’s failure “to address the issue of promotion of the private sector and good governance” (European Commission 2003c: 2). As a consequence, the NIP 2004-2006 made stronger use of the transnational channel. This change in approach aimed at ensuring a “better awareness among Armenian civil society concerning values and principles underpinning PCA, securing their inputs in related reforms, and monitoring implementation” (European Commission 2003c: 7). Moreover assistance now also covered the issues of decentralisation and local self-governance (European Commission 2003c: 9). The transnational approach was strengthened additionally by the specific conditionalities for assistance. Hence the document claimed “full support by authorities for capacity building in administration and civil society” (European Commission 2003c: 7). The focus on transnational actors was also covered in a direct manner, as TACIS support aimed at “[p]romoting a vibrant civil society” (European Commission 2003c: 15), which was a novelty in the Armenian case. At a closer look, however, the

use of the transnational channel continued to place strong emphasis on effectiveness rather than democracy.<sup>14</sup>

Overall, between 2002 and 2006 the EU's strong *effective government* approach towards Armenia was slightly broadened to include *effective governance* as well. Assistance remained the primary instrument although political dialogue on specific reform issues was established. Over time conditionality with regard to the governance performance had been reinforced. However the EU did not make use of this instrument.

In the run-up to the introduction of the European Neighbourhood Policy, the Commission issued a Country Report on Armenia in 2005. Again this report expressed concerns about weak governance and particularly corruption in Armenia (European Commission 2005a). While assessing positively that the government of Armenia had signed and ratified both the Conventions on Criminal Law and Civil Law of the Council of Europe and also acceded the Group of States Against Corruption (GRECO) in January 2004, the report criticised the Armenian government for not fully meeting international standards, particularly with regard to the prosecution and conviction for bribery and corruption-related offences (European Commission 2005a: 8). As a consequence the Commission demanded stronger state activities in the fight against corruption, in particular in the areas of civil service reform, tax and customs administration, money laundering and in the educational sector (European Commission 2005a).

Based on the Country Report, the ENP Action Plan<sup>15</sup> was negotiated between the European Commission and the Government of Armenia in 2006. It introduced a list of eight *priorities for action* (cf. AP AM 2006) that specified the scope and objectives for the development cooperation under ENP.<sup>16</sup> Though not mentioning good governance explicitly, the AP displays several implicit governance-related objectives. It is noteworthy that the *rule of law* including the *fight against fraud and corruption* already constitute a prominent part of the first priority area (AP AM 2006: 4). The respective reform objectives refer to the institutional strengthening of the rule of law and democratic institutions, specific actions involve legal and administrative reform of the judicial system, strengthening of the independence of the courts, and the separation of powers. Likewise, priority area one puts strong emphasis on the reform of the electoral code and administration as well as a review of the progress made with regard to the implementation of

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<sup>14</sup> The Commission consistently voiced concern over the stalled democratisation process in Armenia and referred to the essential elements of the PCA as the foundation of the relations between Armenia and the EU (cf. European Commission 2001a, 2003c). However, the EU did neither apply conditionality with view to these principles nor did the programming of assistance reflect a particular emphasis on increasing input-legitimacy.

<sup>15</sup> EU/Armenia Action Plan, adopted 14 November, 2006 [hereafter: AP AM 2006].

<sup>16</sup> These include the strengthening of democratic structures and the rule of law, strengthening of the respect for human rights and fundamental freedoms, economic development and poverty reduction, improvement of the investment climate and strengthening of the private sector, legal and regulatory harmonisation with EU standards (PCA implementation and Acquis), decommissioning of the MNPP and development of an energy strategy, peaceful solution of the Karabakh conflict, and regional cooperation.

the National Anti-corruption Strategy and Action Plan.<sup>17</sup> The remaining priority areas also bear strong, though indirect references to the principles of good governance.<sup>18</sup>

On the whole, the long-term goals and specific objectives formulated in the AP still place emphasis on the output dimension. Almost all measures put primary importance in addressing the objectives of increasing efficiency and effectiveness of state institutions. Classical input related issues, such as democracy and human rights, are addressed in a more diluted sense. The exception is the clear requirements of the AP regarding democratic elections, and the electoral code (AP AM 2006). While the main cooperation partner remains the state in general, and government authorities in particular, the specific objectives as well as the targets outlined in the AP framework suggest a gradual change in the Commission's intergovernmental strategy. On the one hand, the AP does not target the executive branch exclusively anymore. It also addresses the legislative and judicial bodies on the central level as well as local government. The separation of powers on the horizontal as well as on the vertical level seems to have become a stronger issue in the EU-Armenian relations. On the other hand, the AP calls for the active involvement of non-state actors, civil society organizations as well as private sector associations in particular in implementing the national anti-corruption strategy, in improving the human rights record, in the resolution of the Karabakh conflict and with regard to education and environmental governance (AP AM 2006).

Assistance still represents the main instrument by which the Commission seeks to improve the reform process in Armenia. However, the project logic that was applied under TACIS has been replaced by a programme-oriented, "sector-wide" approach under ENPI that allocates assistance by means of direct budgetary aid to the partner governments strengthening the importance of political dialogue where the terms of EU assistance are negotiated. While the tranches of the budget aid programmes are based on performance-related ex-post *conditionality*, the EU has not made use of it as of yet. Thus, the greatest change related to the introduction of the ENP occurred with regard to the EU's initial approach of promoting *effective government*, which was complemented with some elements of *effective governance* and *democratic government*.

The dominance of assistance among the instruments for external action is also prevalent in the ENPI. Since the introduction of the new financial instrument, assistance levels for Armenia have risen considerably. The indicative budget for 2007-2010 allocates € 98.4 million.

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<sup>17</sup> This state programme is a requirement of the GRECO membership obligations of the Republic of Armenia. The draft of the state programme was financed by the World Bank. The GoAM Anti-corruption Strategy and Action Plan was adopted end of 2003.

<sup>18</sup> Area number two for instance addresses the institutional reform of the police in order to eliminate mistreatment and corruption (public sector management: fight against corruption), area number three targets capacity building of administrative structures and procedures to ensure strategic planning (public sector management: efficiency & effectiveness), area number four envisions institutional reform of the tax and customs administration systems and collection (public sector management: transparency & exchange of information, efficiency, effectiveness); and finally in area number eight, the reform measures practically formulate a form of new governance modes, by supporting a Caucasus Regional Environmental Centre in order to promote cooperation between state and non-state actors (participation).



With regard to the issue of good governance, the Country Strategy Paper for the period of 2007-2013 reiterates Armenia's failures in promoting governance:

“[R]eform process in the economic sphere has progressed very well in recent years, the reform process in the political and institutional sphere has been proceeding on a different path; democratic structures and the rule of law should therefore be an important area on which cooperation [...] could focus” (European Commission 2007a: 9).

Accordingly, the National Indicative Programme covering the period from 2007 to 2010 performs a significant up-grading of good governance and the broadening of the EU approach towards Armenia. The first priority area, for instance, includes several elements, such as the reform of the judiciary and the public administration, public finance management and the fight against corruption as well as the strengthening of human rights and the civil society (cf. European Commission 2007a). Thus, the formerly strong emphasis on reforming state agencies and particularly the executive has been mitigated by integrating the transnational channel to some extent. Moreover, reform objectives regarding the rule of law and fundamental freedoms may serve both, the strengthening of input- as well as output-legitimacy. Furthermore, in drafting the CSP for the period of 2007-2013, the Commission actively consulted civil society organizations. The strategy paper, however, still does not contain any explicit conditionalities for the Armenian authorities with regard to the inclusion of non-state actors.

In a nutshell, the good governance approach of the EU towards Armenia has broadened between 1992 and 2007. It slightly shifted from promoting effective government to promoting effective governance. These modifications have been mainly driven by the incremental introduction of the transnational channel after 2000. Input-related objectives are represented only marginally and in a more or less formal way by the requirement to improve the electoral code. All in all, assistance has constituted the main instrument used by the EU in promoting its reform agenda. However, capacity-building has been complemented by the introduction of conditionality and political dialogue. The EU has started to make timid use of positive and negative incentives and social learning.

### *Azerbaijan*

The implementation of the TACIS programme in Azerbaijan started in 1992. As in the case of Armenia, in the early 1990s TACIS complemented other assistance programmes such as humanitarian or food security assistance. Until December 2006, Azerbaijan received a total of € 409.16 million under the various EU assistance programmes.<sup>19</sup> Early TACIS assistance focused on legal and institutional support, the energy sector, enterprise restructuring and the development of infrastructure. In general, EU assistance to Azerbaijan served the purpose to enhance

<sup>19</sup> This includes TACIS national allocations (28.47%), exceptional macro-financial assistance (7.33%), humanitarian aid (22.51%), European Agricultural Guidance and Guarantee Fund (16.06%), FSP (18.82%), rehabilitation (4.49%), and exceptional humanitarian aid (2.32%).

the capacities of governmental actors to advance the ongoing economic transition. Thus, as in the case of Armenia, the EU initially followed a strong *effective government* approach.

In 1999, the EU-Azerbaijan PCA introduced the instruments of political dialogue and conditionality (essential elements clause) as well. Assistance, however, still remained the primary instrument. Parallel to Armenia, the Country Strategy Paper and two national indicative programmes provided the general guidelines and principles for the supporting reforms in Azerbaijan. National allocations to Azerbaijan amounted to a total of € 44 million for the period 2002 - 2006.

The CSP 2002-2006 identified corruption as the primary governance problem Azerbaijan was required to tackle. In fact, good governance was narrowed down to the fight against corruption in the private sector by linking it to the areas of market economy, business climate, public finance and expenditure (European Commission 2001b: 12).<sup>20</sup> As in the case of Armenia, the major part of the TACIS national allocations was dedicated to the Azerbaijan Policy and Legal Advice Centre (AZPLAC). The centre was designed to provide expertise and political advice for the Government of Azerbaijan. Finally, the reform objectives targeted the education system as well (cf. European Commission 2001b). In contrast to Armenia, however, the EU explicitly refrained from using the transnational channel in this area. Instead, it preferred a strong inter-governmental approach addressing "central government" institutions (European Commission 2001b: 20). Hence, the beneficiaries of assistance were the 'Ministries of Justice, Foreign Affairs, Environment, the State Statistical Committee and various higher education institutes' (cf. European Commission 2001b). Further reform goals concentrated on improving the business climate by developing strategies in order to approximate the regulatory environment to EU and WTO standards.<sup>21</sup> Again, beneficiaries mainly included government agencies, such as the Ministries of Economic Development and Fuel and Energy as well as the customs administration. By sharp contrast to Armenia, assistance had not been made conditional on the inclusion of or dialogue with the civil society at all.

The second NIP covering the period from 2004-2006 recognized the "increasing respect for democracy, rule of law, and human rights" in Azerbaijan (European Commission 2003d: 3). Widespread corruption, however, remained a strong point of critique. Consequently, the focus of the EU's engagement was similar to that of the previous NIP. Thus "implementation of the PCA, reducing corruption in part through improving governance [and] improving the business climate" (European Commission 2003d: 3) remained prevalent.

Furthermore, the Commission added support for improving border management, the targeting of social assistance, and environmental governance. The focus of assistance also included

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<sup>20</sup> However, the CSP generally confirms the political will [!] of the GoAZ to fight corruption through the Presidential Anti-Corruption Programme: "The gradual process of improving transparency in all legislation and the consequent decisions taken by officials is beginning to have impact. Top-down efforts to improve dialogue between the business community and the highest levels of government shows that progress is being made, albeit slow" (cf. European Commission 2001b: 10).

<sup>21</sup> Part of this reform agenda had been defined due to wishes from the EU-business community. Cf. European Commission (2001b).

the modernisation of the tax system and the development of a vocational training strategy. In stark contrast to the gradual switch to the transnational channel that took place in Armenia, the inclusion of non-state actors in Azerbaijan was neither demanded nor were non-state actors targeted by ENPI assistance. Moreover, in the period of 2000-2006 no EIDHR projects were conducted in Azerbaijan.<sup>22</sup> With regard to governance-related conditionality the Commission did not specify other criteria than those of the PCA. Compared to the case of Armenia, the EU deviates with regard to both its governance approach and instruments. In Azerbaijan, the EU over time continued to rely almost exclusively on the intergovernmental channel, aiming at the improvement of the effectiveness and efficiency of state institutions. The strong and unchanged *effective government* approach and the narrow focus on the fight against corruption confined to the economic sector may be traced back to the dominance of multinational companies in the energy sector.

As in the case of Armenia, the priorities of the ENP Action Plan were based on a Country Report, which the Commission had issued in 2005. By comparison to earlier documents, the CR more strongly voiced critique about weak governance in various spheres. The report inter alia pinpointed shortcomings in elections, the lacking separation of powers, persisting human rights problems, and, as before, widespread corruption (cf. European Commission 2005b). With regard to the latter, the Commission acknowledged the signing and ratification of several anti-corruption conventions (UN, Council of Europe, GRECO) as well as the development of an anti-corruption legal framework and the adoption of a State Programme on Fighting Corruption (cf. European Commission 2005b). Yet, as in Armenia, the legal provisions criminalising corruption were deemed insufficient to fully meet the requirements of international standards (European Commission 2005b: 7). Accordingly, the Commission asked for further state action in the fight against corruption, particularly in the areas of money laundering, civil service, and the tax system, as well as in the regulatory framework on the private sector development, privatisation, and land reform (European Commission 2005b).

Similar to Armenia, the priorities for action of the ENP Action Plan reflect these desiderata. Thus the AP contains a series of reform objectives including transparency in the management of Azerbaijan's oil revenues and privatisation process.

Compared to Armenia, number, order and focus of the priority areas in the Azerbaijan Action Plan<sup>23</sup> differ considerably. The most striking fact is that the Karabakh issue features so prominently.<sup>24</sup> As in the case of Armenia, none of the priority areas makes direct references to good governance. Nonetheless, the AP of Azerbaijan entails a number of governance-related issues

<sup>22</sup> EIDHR funded only one regional project, establishing anti-corruption resource centers in the late 1990s.

<sup>23</sup> EU/Azerbaijan Action Plan, adopted November 14, 2006 [hereafter: AP AZ 2006].

<sup>24</sup> Already in their negotiation process the ENP Action Plans between the EU and the South Caucasus faced a series of problems caused by the conflicts between Azerbaijan and the EU member state Cyprus. Even more important for the delay was the insistence of the Azerbaijani authorities on a paragraph stipulating the territorial integrity of the country.

as for instance the strengthening of democratic institutions and the separation of powers. This goal includes institutional reforms in order to ensure checks and balances between the executive and the legislative (horizontal separation of powers) as well as the devolution and decentralisation of government bodies on the horizontal level (AP AZ 2006). Priority area three bears reference to the governance-related issues of the rule of law and civil society development. The specific objectives in the area of the rule of law mainly target the independence, impartiality, and efficiency of the judiciary. Interestingly, priority area three also requires the Azerbaijani government to actively promote the growth of civil society organisations with capacity building measures and to alleviate the cumbersome registration procedures for NGOs (AP AZ 2006). The issue of corruption, which had figured so prominently in TACIS documents and the Country Report 2005, comes “only” in fourth place. The corresponding reform objectives remain focused on improving the legal framework for the fight against corruption (cf. AP AZ 2006). In addition, transparency initiatives are required particularly in the energy sector regarding the privatisation process, tax code (definition of administrative structures, procedures and policies), tax-collecting system (public awareness strategies to ensure tax compliance; implementation of a fiscal control strategy as well as auditing and investigation methods). A further peculiarity of the AP Azerbaijan is priority area nine, which calls for a strengthened EU-Azerbaijan bilateral energy cooperation and regional energy transport cooperation (AP AZ 2006).

In sum, the Action Plan primarily includes prescriptions for improving governance by increasing output legitimacy. Although the plan defines reform objectives that focus on the transparency and accountability of state institutions, this approach remains rather marginal and formal. Moreover, the transnational channel figures much less prominently than in the case of Armenia and Georgia. The involvement of non-state actors is explicitly provided for only in the Karabakh conflict resolution and the educational sector. Although the AP generally requires the Azerbaijani authorities to promote the growth of civil society and its organised forms, cooperation is neither made conditional nor directly funded. Thus, the AP continues to promote *effective government* in the first place without mitigating either its strong output orientation or its mostly exclusive intergovernmental approach.

In 2007, the European Neighbourhood Policy Instrument replaced the TACIS programme. In line with the new budget, the Commission has allocated € 92 million for Azerbaijan for the period of 2007-2010. The ENPI Country Strategy Paper for 2007-2013 reiterates the issue of bad governance (cf. European Commission 2007b). Particularly, the problem of widespread corruption figures prominently. However, the CSP in a way also acknowledges Azerbaijan’s “evolutionary reform strategy to develop democracy and market economy” (European Commission 2007b: 3).

Most interestingly, the document aims at explaining the emphasis on the intergovernmental channel of the previous years (European Commission 2007b: 17). Accordingly, it attempts to justify the strong ‘top-down’ approach as a consequence of the “need for institution building” and, partly, of “an insufficient sense of ownership on the part of the national authorities” (European Commission 2007b: 17). However, lack of ownership is considered less severe in the case of the Azerbaijani authorities than in other TACIS countries. While the CSP still refers to the indis-

pensability to democratise, improve fundamental rights and develop independent media and the civil society, the assistance priorities do not reflect a real change in the output orientation or the strong intergovernmental channel.

Hence, most of EU assistance under ENPI continues to aim at increasing effectiveness and efficiency rather than inclusion or even participation. Under ENPI the EU largely continues supporting *effective government*, mainly by technical and financial assistance. Finally, negative conditionality remains a (general) principle of the cooperation but has never been invoked.

In sum, the EU's approaches and instruments to promote good governance in Azerbaijan have varied less than in Armenia. The EU has largely stuck to the *effective government* approach, which was only complemented by some minor elements of *effective governance* and *democratic government* in the AP. The transnational channel remains comparatively underdeveloped, even though there is some recognition of the importance of this channel both in the AP and in the programming of ENPI. In general, the EU has mainly concentrated on the improvement of the business environment and related governance issues, which may reflect the greater importance of Azerbaijan as a trading partner and market for European companies. Assistance and political dialogue have been the central instruments for these purposes. By contrast, the EU has refrained from invoking or even specifying conditionality criteria, despite the weak governance performance of Azerbaijan.

However, the pervasiveness of corruption, the lack of state capacities, as well as the deficient democratic institutions would have suggested a much stronger focus of the EU on effective governance or even on democratic governance. The deviation may be due to the fact that Azerbaijan is less dependent on the "good will" of the EU given its growing economic strength. The decreasing dependence on foreign assistance enables the Azerbaijani authorities to elude pressure by the international community and to barter and bargain much more forcefully than Armenia or Georgia are in a position to do. In addition, the strategy of diversification of energy resources in order to reduce dependence from the Russian Federation and the Middle East has recently gained momentum in the EU member states. This is also corroborated by the Commission's increasing efforts to establish an EU wide common energy strategy (European Commission 2006a).

### *Georgia*

Similar to Armenia and Azerbaijan, the engagement of the EU in Georgia started with the provision of assistance through TACIS and other aid programmes.<sup>25</sup> In the early 1990s, Georgia was plagued by civil war and political turmoil which resulted in a low share of TACIS funds

<sup>25</sup> Overall, Community assistance for Georgia between 1992 and 2006 amounted to € 505 million. Almost 26% of the total amount had been provided by the TACIS programme, 20% by ECHO, 12% had been food aid, 20% by the Food Security Programme and another 13 % had been macro-financial assistance. Additional 9% came from other programmes.

compared to other sources of assistance that responded to more urgent needs of the population, such as food aid or humanitarian assistance. TACIS funds had mainly been used for supporting the transition of the Georgian economy and the management and development of basic infrastructure. Between 1992 and 1998, the TACIS programme focused on the following areas: privatisation, the development of financial and capital markets as well as enterprises, agriculture, transport and energy. Measures taken included reviewing management practises, legislative frameworks, issuing pilot studies and the provision of advice and trainings (European Commission 1998). The major rationale was to increase planning and policy implementation capacities at various state agencies, but also newly established enterprises as well as those that were (formerly) owned by the state. In general, EU engagement in Georgia during the 1990s corresponded to an *effective government* approach primarily promoted through assistance.

As in the cases of Armenia and Azerbaijan in 1999, the PCA between the EU and Georgia entered into force and significantly expanded the toolkit of the EU and the depth of relations. Since then, political dialogue has been institutionalised and subsequently expanded. Additionally, the EU introduced safeguard clauses on the state of the democratic development, the rule of law and human rights. The focus on output-related reforms to be carried out by the government prevailed at this stage. Furthermore, compared to Armenia and Azerbaijan, the PCA displays only minor variation in scope and issues. Until 2003, assistance remained the most important instrument to promote good governance in Georgia. The TACIS programme ought to support the implementation of the PCA and related governance reforms. As the Commission referred to Georgia as a developing country in the Country Strategy Paper of 2001, poverty reduction and food security became equally important (cf. European Commission 2001c). As in the case of Armenia, the EU recognized a “paramount” (European Commission 2001c:5) need for improving the business climate and fighting corruption. According to the Commission, corruption and poor law enforcement even hampered the effective implementation of some assistance projects (European Commission 2001c). The NIP 2002-2003 provided € 14 million for Georgia. It mainly facilitated the implementation of the PCA, particularly with regard to legal approximation. This included further capacity building measures for the Georgian-European Policy Legal Advice Centre (GEPLAC), which was founded as early as 1997. Other measures concerned technical assistance for the implementation of the Food Security Programme, reforms in the health sector and of the Georgian border guards (European Commission 2001c). All measures primarily served capacity building purposes and targeted state actors, including the Governmental Commission on EU-Georgia Partnership and Cooperation, ministries and agencies concerned by the FSP such as the Ministry of Agriculture, the Ministry of Health, Labour, and Social Affairs as well as ministries related to border control. Other priority areas in the NIP target the health and transport sectors (cf. European Commission 2001c). Regarding the various sub-priorities, the CSP formulates additional conditionalities linked to the provision of assistance.<sup>26</sup> As in the case of Armenia, they emphasise, among other things, the necessary commitment of the authorities. Cooperation or participation of non-state actors was not made subject to conditionality in any

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<sup>26</sup>The Country Strategy Paper for Georgia, covering the assistance-programming period from 2002 to 2006, furthermore reiterates the common values “respect for democratic principles, the rule of law and human rights”, which are subject to conditionality in the PCA.

case. Thus, the governance-related provisions of the CSP of 2001 are clearly about promoting *effective government*, mainly through financial and technical assistance. The transnational channel was only strengthened through the provision of EIDHR-funds since 2002.<sup>27</sup>

In 2003, the approach of the European Union towards Georgia fundamentally changed. The significant worsening of the security situation, in particular for foreigners, and the dubious role of state actors<sup>28</sup> contributed to a complete replacement of the CSP for 2002-2006. The revised CSP for the period from 2003 to 2006 openly referred to “serious problems of governance and continued weak rule of law, including high levels of corruption” (European Commission 2003b: 3) and casted doubt on the commitment to reform of parts of the government. The instruments and channels used by the EU to promote good governance in Georgia reflect a substantial shift towards the application of negative conditionality and a significant strengthening of the transnational channel. Continuation of assistance had been restricted to projects that were likely to reach their objectives due to a real commitment of the authorities. Additionally, the focus of TACIS funding partly shifted from state actors to non-state actors such as “NGOs, independent media, local communities, small business etc.” (European Commission 2003b: 4). The scope of measures became broader and much more governance-related, particularly in the first area of intervention. It still embraced legal approximation and implementation of the PCA, now in particular with respect to customs legislation and further capacity building to GE-PLAC. Besides, the NIP highlights under the same general headline assistance for judiciary and law enforcement reforms as well as strengthening civil society and human rights. With regard to the judiciary, assistance is scheduled for “addressing identified shortcomings in the whole chain: police investigation, prosecution, successful conviction and imprisonment” (European Commission 2003b: 29). Accordingly, the targeted state agencies include the prosecution authority, the penitentiary system, police and customs, and the border guards. An important point regarding these reform measures was the insistence of the Commission that both formal (e.g. human rights commissions, ombudsman) and informal civil oversight mechanisms (advocacy from civil society) were to be promoted (European Commission 2003b: 29). A similar point was made with view to PCA related reforms.

The third main intervention area, the strengthening of civil society and human rights, most clearly reflects the quite significant shift towards the transnational channel. This subsection of the NIP aimed at empowering NGOs mostly by capacity building measures of various sort, but also at improving their legal status (European Commission 2003b). The same section reinforces the demand of the Commission on the Georgian authorities to generally involve NGOs in governance-related reform measures, such as “public administration reform, including judicial reform and the implementation of rule of law” (European Commission 2003b: 31). The

<sup>27</sup> The Commission allocated between 2002 and 2006 € 2 million annually through EIDHR for Georgia.

<sup>28</sup> In at least two cases staff from the delegation of the Commission or associated partners fell victim to crimes: In 2001 a German official of the Commission delegation to Georgia was murdered and in 2002 a British banker implementing projects funded by the EU was kidnapped for several months (cf. Lomadze 2002).



second priority area, tackling the social consequences of transition, flanked the general poverty reduction strategy of Georgia, and aimed at enhancing local community-based governance, services and infrastructure in order to improve food security and rural business opportunities. To almost every sub-priority the Commission attached additional conditionalities, the most important of which are commitment and political will of the Georgian authorities and the involvement of civil society actors. In sum, the revised CSP for Georgia strongly complements *effective government* with *effective* and even *democratic governance*. Furthermore, the introduction of negative conditionality due to governance failures is unique compared to both the Southern Caucasus states.

It is, however, difficult to assess to what extent the conditions and prescriptions of the NIP 2003-2006 really materialised. Only two months after the adoption of the document, the Rose Revolution brought about an unexpected change of leadership in Georgia that was welcomed by the EU. In 2004, a major donor conference supported the reform agenda of the new Georgian government by gathering additional assistance amounting to € 850 million. The EU consequently set up a supplementary Action Programme for 2004. In the introductory “country update” it acknowledged the “strong commitment of the [new] Georgian Government to democratic reforms, with the aim of enhancing political stability, the rule of law and economic normalisation in the country” (European Commission 2004b: 1). For this reason, restrictions on assistance had been lifted and additional funding for the apparently reform-minded government allocated. Additional measures to be taken under the first priority area identified in the CSP included support for reforms of the Ministry of Justice, the Parliament, customs and tax administration reform and the establishment of a Centre for European Studies in the State University of Tbilisi. In the second priority area additional funds were allocated for the support of child welfare reforms. The document did neither reiterate the conditionality criteria of the NIP nor the strong demand to involve civil society. Thus, the EU largely switched back to the promotion of *effective government* in 2004.

The Country Report of 2005, on the basis of which the EU-Georgia ENP Action Plan had subsequently been drafted, repeated the notion of “a strong commitment of the [new] Georgian authorities to implement their reform plans notably in the field of good governance”. In addition, the CR once again referred to “the new authorities anti-corruption drive” (European Commission 2005c: 10). Corruption, however, was still considered a serious problem in particular in the education system, customs, and the energy sector. Other concerns pointed to the lacking independence of the judiciary, of the media, and the ill treatment of detainees. The EU/Georgia Action Plan has been adopted on 14 November 2006<sup>29</sup> as in the cases of Armenia and Azerbaijan. Though not directly referred to in the headlines of the various priority areas, the AP for Georgia contains the broadest scope of governance-related reforms. In this respect, the agenda among other things comprises the strengthening of democratic institutions, reforms with regard to the judicial system, civil services, local government, business-related laws, the customs code and administration, the tax administration, privatisation and licensing (cf. AP GE 2006).

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<sup>29</sup> EU/Georgia Action Plan, adopted 14 November, 2006 [hereafter: AP GE 2006].



Fighting corruption figures most prominently in priority area two, which aims at improving the business and investment climate and includes demands for transparency in privatisation processes, licensing, and the implementation of the Georgian government's anti-corruption strategy. Another reference to fighting corruption is made in the complementary section "General Objectives and Action". In the subsection "Political Dialogue and Reform" there is an extra paragraph on the issue that demands the signing and ratifying of additional international conventions,<sup>30</sup> the development and implementation of specific anti-corruption measures within the judiciary and the law enforcement agencies, and progress with regard to the implementation of GRECO recommendations (cf. AP GE 2006). The reform agenda laid out in the AP almost entirely focuses on measures carried out within or through state actors. However, civil society inclusion is recommended with respect to the implementation of the government's anti-corruption strategy, to the resolution of internal conflicts as well as higher and vocational education and environmental governance. It is an open question whether these suggestions are still linked to conditionality or not. In sum, the integration of Georgia into the ENP framework brought about a combination of different approaches. The EU's reform prescriptions cover our *effective* and *democratic government* dimensions as well as *effective governance*.

As in the cases of Armenia and Azerbaijan, the new financial perspective 2007-2013 brought about a sharp increase in assistance for Georgia. In the financial period of 2007-2010 the ENPI indicative budget for Georgia amounts to € 120.4 million. The NIP 2007-2010 lists three priority areas for the programming of assistance (European Commission 2007c). There are striking similarities to the cases of Armenia and Azerbaijan, particularly in regards to the first two priority areas. As in the two other Southern Caucasus countries, the EU integrated support for reforms regarding the strengthening of the rule of law, administrative capacity building, public finance management and the development of civil society. However, the fostering of dialogue between state and non-state actors as well as the inclusion of civil society actors in decision-making processes is also part of the reform agenda (European Commission 2007c). Thus, compared to TACIS, the new assistance programme more explicitly includes the transnational channel in the Georgian case. Furthermore, envisaged reforms aim at increasing input-legitimacy even more strongly than in Armenia. Whether and to what extent this broadening of the good governance approach will be reflected in the EU's distribution of funds, remains an open question. So far we at least rhetorically observe a cautious broadening of the good governance approach from *effective government* in all directions – to *effective governance*, *democratic government* and *democratic governance*.

In conclusion, promoting good governance in the case of Georgia in many respects deviates from Armenia and Azerbaijan. Until 2003 the EU largely concentrated on promoting effective government. Due to governance failures the Commission revised the CSP in 2003, introducing negative conditionality and partly switching to the transnational channel. This unique shift, however, hardly materialised as the Rose Revolution brought about a change in leadership. The

<sup>30</sup> These include the UN Convention on Corruption, relevant articles of UNTOC, the CoE Criminal Law Convention on Corruption, the Civil Law Convention on Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Commission reacted by appreciating the efforts of the new government to improve governance and curb widespread corruption, and largely switched back to its original approach. The Action Plan of Georgia, however, appears to be more ambitious than in the cases of Armenia and Azerbaijan when it comes to governance-related reforms. Nevertheless, in general the emphasis on increasing output-legitimacy and the intergovernmental channel has returned. Thus, promoting good governance in Georgia with the exception of the CSP 2003 means promoting *effective government* with complementary elements of *effective* and *democratic governance*. Since the adoption of the AP and the establishment of ENPI, even some inceptions of promoting *democratic government* have emerged.

#### 4. Conclusions

This paper aimed at shedding light on the EU's efforts to promote good governance in the Southern Caucasus. In chapter two, we developed an analytical framework to systematically map the different concepts, the channels of influence and the instruments used by the EU in promoting good governance. Chapter three used this framework to trace the EU's approach with view to the general framework of the European Neighbourhood Policy and to its activities in Armenia, Azerbaijan and Georgia.

Our empirical analysis of the ENP shows that the EU has indeed developed a "one-size-fits-all" approach for its Eastern neighbours. Our country studies also reveal that the EU's good governance approach varies over time as well as across countries. Initially, the EU's involvement in the Southern Caucasus placed strong emphasis on promoting effective government. This is hardly surprising given the rapid economic decline in most of the NIS following the liberalisation policies in the early 1990s. Moreover, the economic crisis made humanitarian assistance through ECHO or Food Aid an equally important priority.

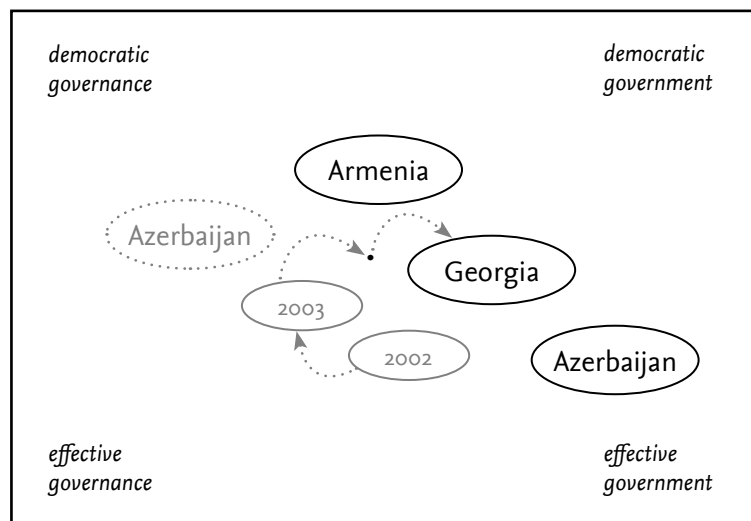
With the further institutionalization of its relations with the Southern Caucasus, the EU's approach started to generally broaden towards effective governance by increasingly encouraging the involvement of non-state actors in the reform processes. This trend has been most pronounced in Georgia, and to a lesser extent in Armenia, while in Azerbaijan, the use of transnational channels has been the most restricted.

This finding appears to corroborate once more the "one-size-fits-all" approach of the EU in its external promotion of (good) governance (Börzel/Risse forthcoming). However, a closer look at the country level reveals that the EU indeed adopted country-specific approaches taking into account the degree of statehood and democracy in the cases of Armenia and Georgia. Moreover, the EU also reacted to the changes in democracy and to a lesser extent in statehood that took place in Georgia. In line with the medium degree of statehood and democracy in Armenia, the EU initially pursued an *effective government* approach, which opened up toward *effective governance* when the transnational channel in the overall ENP framework was strengthened. In Georgia, the EU's shift toward *effective governance* was more pronounced because the EU reacted to

governance failures and the major decline in democracy in 2002 by turning to non-state actors. With the democratic reforms induced by the Rose Revolution in 2003, however, the EU changed its approach once again and returned to its initial approach of promoting effective government. Nonetheless, the EU introduced elements of democratic government to its reform agenda in response to comparatively greater political freedoms in Georgia.

While Georgia and Armenia largely confirm our theoretical argument, Azerbaijan has not met our expectations. Instead of adopting a stronger focus on effective governance that would resonate with the persistently bad record on democracy, the EU has clung to its initial approach of promoting effective government. This deviation may be explained by the “energy factor”. On the one hand, Azerbaijan’s energy resources render the country less dependent on external assistance (resource dependency). On the other hand, the EU’s interest in energy security impairs its ability to resort to conditionality. It also prevents the EU from pushing too hard for its reform agenda through transnational channels since up to the present the Azerbaijani government has successfully counteracted any attempts of the EU to establish strong direct relations with non-state actors that could undermine its power. Figure 10 summarises our findings.

Figure 10: Empirical findings



In a nutshell, our findings strongly suggest that the EU applies a two-pronged strategy with regard to its Eastern Neighbourhood. It adopts a “one-size-fits-all” approach in the general policy framework that is spelled out and complemented by a country specific component on the ground. Furthermore the specific approaches and instruments account for the country context with regard to democracy and statehood. Compared to other external actors, such as the US, the EU makes only cautious use of both the transnational channel and conditionality. The EU rather seeks to closely cooperate with state actors as long as possible. Moreover, as the Georgian case illustrates, the application of (negative) conditionality seems to be a measure of last resort.

Lastly, our findings suggest that specific EU interests may mitigate though not overhaul its overall approach. In Azerbaijan, economic interests of the EU partly question the coherence of its efforts, as the EU refrains from applying those instruments and approaches that would increase reform pressure on the Azerbaijani government. The recent war between Georgia and Russia over South Ossetia may lead to a similar shift of the EU's focus on promoting good governance towards promoting security and economic interests. Thus, the question whether the ENP can "achieve compliance" (Magen 2006) with regard to good governance does not only depend on the approaches and instruments in principle available to the EU but also on its willingness to effectively make use of them.

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