Public Financing of Civil Society Organisations: Considerations for Georgia

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1. Introduction

Sustainability is a key challenge faced by civil societies in low- and middle-income countries (INTRAC 2016), which has been repeatedly highlighted over the past several decades. However, more recently, the discussion on sustainability has been focused on the need to increase the level of national public funding channelled through civil society organisations (INTRAC 2016; ICNL, 2010). There is considerable literature on the characteristics of public funding mechanisms for CSOs, its components and contributions of such funding towards democracy promotion and development of various models that exist worldwide (Visser, 2015). However, these works adopt a descriptive rather than analytical viewpoint, assuming that public funding of civil society offers positive incentives to sustainable development and democracy and, thus, is inherently beneficial for civil society organisations. However, the texts fail to address the on-going debates and criticisms from within and outside the civil society realm about the negative side-effects of CSOs’ reliance on public funds. In fact, few studies analyse the many contingencies associated with public funding, which can have both enabling and disabling impact on civil society development.

To this effect, Georgia makes an interesting case for analysis. Georgian civil society has proven to be instrumental in both democratic development and consolidation, as well as in delivering services to the most disregarded populations (USAID, 2014), implementing these interventions with generous support from international donor community (USAID, 2016). While this economic dependency has been subject to criticism from international agencies, academics and society, there is a common acknowledgment that Georgian civil society faces objective difficulties in raising funds. While this dependency on foreign funding has been of limited concern to CSOs (Pinol Puig, 2017), recent political and economic trends have increased CSOs’ interest in diversifying their funding portfolios, including through raising funds from public authorities. On the one hand, the Government of Georgia has committed to implementing the European Union Association Agreement, which requires greater cooperation between the public sector and civil society and, consequently, further engagement efforts with CSOs. On the other hand, CSOs fear reduced aid owing to global aid politics and, thus, feel the need to pursue other source of income. While both the EU and USAID have funded CSOs to enhance their sustainability, in recent years they have been paying special attention to public funding mechanisms\(^1\) as a tool to achieve financial sustainability of civil society. These projects include research, advocacy and lobby activities to increase and enhance government funding opportunities for civil society organisations.

An EU-funded study conducted in 2017 on state funding for CSOs in Georgia identified numerous state grant mechanisms to CSOs underpinned by several laws (CSI, 2017). The study comprehensively describes the legal framework, funding amount and grant mechanisms, as well as provides an overview of rather fragmented and even unknown information on public funding

\(^1\) The EU-funded project Georgian Civil Society Sustainability Initiative (2017-2020) is implemented by Konrad-Adenauer-Stiftung in cooperation with Civil Society Institute (CSI), Center for Training and Consultancy (CTC), Center for Strategic Research and Development of Georgia (CSRDG) and Kutaisi Education Development and Employment Center (KEDEC; advancing CSO Capacities and Engaging Society for Sustainability (ACCESS)).
to CSOs in Georgia. This study has been used to provoke discussions within the sector on ways to improve the legal and economic aspects of current public funding mechanisms. However, this study did not address the possible implications of public funding of the sector. This is not surprising as only limited research has been conducted on the implications associated with receiving state support by CSOs, which in fact are inherent to all European CSO funding models (Toje, 2010; OSCE, 2010; Visser, 2015; Arvidson, 2017).

Given that Georgia is now embarking on the road to improve public funding of the civil society sector, Europe Foundation decided to undertake a comprehensive analysis of the risks and challenges posed by state financial support, in order to foster evidence-based debate within the sector and to design a strategy that promotes holistic reforms that transcend the regulatory framework, including measures to lower risks associated with management and use public funds. Thus, this study aims to outline key risks associated with and challenges experienced by state and non-state funded CSOs in Georgia when accessing and managing public grants. In addition, this study assumes that supporting CSOs with public resources is of political interest and receiving public funds implies risks and challenges for civil society organisations in terms of independence, accountability, legitimacy, mandate and CSO sustainability as an original intent of funding (Tapia & Robles, 2006)\(^2\). Importantly, CSOs that approach the reform of public grant mechanisms from solely legal and economic viewpoint might fail to advocate for a model that effectively supports civil society participation in democratic and development processes. Therefore, there is a need for a more critical analysis of the implications and consequences of receiving public funds.

The remainder of this report is organised as follows. Initially, the methodology of the study is presented to situate the research within a wider conceptual framework. Then the paper provides a brief review of the origins of provision of public funds to civil society organisations in the context of European countries, followed by a presentation of public financing model for CSOs in Georgia both at local and at national level. This study subsequently highlights the main risks and challenges associated with state funding of the civil society organizations, providing recommendations for a more holistic approach to advocating improved and enhanced state support of civil society.

### 2. Methodological Approach

#### 2.1. Analytical Framework

All public measures to support civil society, including the provision of public funding, are based on a government’s vision of the role of civil society, its ‘embeddedness within their societies’ and the need to engage them or provision of services (OSCE, 2010). These are shaped by the historical and cultural traditions through which the state and civil society have related and evolved along the state-building process. Therefore, a state’s approach towards civil society engagement,

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\(^2\) CSO sustainability is understood as CSOs’ capacity to independently fulfil its mission over time while meeting the needs of its constituencies and to mobilise economic resources including CIVICUS, USAID’s Civil Society Organizations Sustainability Index (CSOSI), Global Partnership Monitoring Framework, and EU Road Maps (INTRAC, 2014).
including the choice of relevant funding mechanisms, is of political nature or a response to political interests (OSCE, 2010; Desse, 2012). In modern democracies, public financing models for CSOs are closely linked to the development of welfare state and implementation of their social policies. Within this context, the ‘rules of the game’ for state-civil society relations are strongly driven by the type of welfare system, inasmuch as these rules are designed to respond to both the welfare needs and the implementation of policies related to social capital, such as provision of services or civic education. This allows for the assumption that the levels of and spaces for CSOs engagement are influenced not just by historical, cultural and political patterns, but also by the type of welfare system found in a given country. Therefore, first-level analysis should examine the historical and cultural characteristics of the CSO financing model in Georgia and its various elements, as it would allow for making comparisons across the existing models. The following are the common elements of CSO financing mechanisms that are to be considered: legal-fiscal framework, variety of funding mechanisms, policy/strategy and role of CSOs, sustainable origin of funding, investment in capacity development.

While mapping of funding mechanisms makes it possible to identify a Georgian model for functioning CSO financing mechanisms that satisfy European system standards, it fails to determine whether the existing model in Georgia is ‘fit for the purpose’. It is well-known that the presence of formal institutions (i.e. legal frameworks and funding mechanisms) does not guarantee the necessary support for CSO development, including their sustainability or their ability to fulfil their vision and mission. Thus, there is a need for an extra layer of analysis in terms of appropriateness, accountability and economic sustainability of providing public funding to the sector.

**Appropriateness**

In the context of this study, appropriateness refers to whether existing mechanisms are suitable to support the many roles that its civil society plays. This includes analysing whether policies and financial mechanisms are context-adapted and properly account for the needs and capacities of CSOs to deliver the results that have been committed to at the time of receiving the grant. One of the indicators of appropriateness is the existence of formal (e.g. Sweden, UK, Hungary, and Moldova) or informal (e.g. Germany) government policies or strategies that set a vision or mission for government engagement with civil society and, accordingly, establish principles for grantmaking.

**Accessibility**

Accessibility represents both formal and informal difficulties in accessing public funding for CSOs. These include issues that ensure a transparent granting process access, for example, information and information availability (including in the language of minority populations), selection criteria, timing and publication of results.
Accountability

Accountability is ‘the relationships established when one party is held responsible for its actions’ (Hulme & Edward, 1996; Sharma, 2008) and is composed of three dimensions: answerability, sanction and responsiveness. Accountability is underpinned by transparent systems and processes that allow for holdings while being held accountable.

Sustainability

The sustainability aspects of public funding include financial resources used for CSO grants, budget allocations and the extent of their predictability.

Data collection

This research employed both primary and secondary data. Secondary data were extracted from existing documents, studies and academic articles through exhaustive desk research and literature review and primary qualitative and quantitative information was collected during a field survey administered in December 2017.

A first phase consisted of a desk review of the current literature, such as scientific articles, evaluation studies, comparative studies and reports, and research on financing mechanisms in Europe and models, including Eastern European countries and Georgia. This literature review provided a theoretical and practical background on the role of different models for state financing in CSOs as well as their underpinning values and principles. The desk review facilitated the development of an analytical framework to map and assess public financing support for Georgian civil society.

In the second phase, the consultant carried out field mission to gather primary data in December 2017. The researcher conducted in person semi-structured interviews with representatives of CSOs, both that benefited from national grant mechanisms and those that have not. Interviews were also conducted with staff working in the management of national and local grantmaking schemes implemented by the following state agencies:

- LEPL Children and Youth Development Fund
- Ministry of Internally Displaced Persons
- Crime Prevention Center
- Center for Electoral Systems Development, Reforms and Trainings
- National Center for Disease Control and Public Health
- Presidential Reserve Fund
- Tbilisi City Hall
- Rustavi City Hall
- Gori City Hall
The above-mentioned mechanisms were selected on the basis of the following criteria: high level of activity; considerable amount of economic resources allocated; most popular among local CSOs; in key policy sectors related to welfare state.

A total of 39 CSO representatives, experts, and public employees were interviewed (7 staff of national authorities and 4 staff from local authorities). In addition, a short survey was carried out via online survey of CSOs. In total, the consultant received 22 responses, of which 12 CSOs have had experience with state funding and 10 had no such experience. Finally, two key informants working on the largest EU-funded civil society project were also included in the study.

To gain a first-hand understanding of the issues and access as many CSOs as possible, two focus groups were conducted, one in Gori, where a highly active local authority is providing support to CSOs, and another in Tbilisi. Both CSO groups were integrated in the research project to shape the key findings and accordingly, provide feedback. The broad issues discussed were as follows:

- Types of state financing received,
- Preferred sources and mechanisms,
- Barriers in accessing public financing,
- Support available with finance, and
- Influence of state financing on organisational development (e.g. repercussions of organisations not receiving public funding).

In addition to the abovementioned 39 CSOs that participated in semi-structured interviews and focus groups, a survey for CSOs was sent via e-mail to 30 CSOs, which were carefully selected to ensure an equal representation of CSOs with and without state funding. This web survey was administered using Google Forms, an online data collection tool. A total of 22 questionnaires were returned (12 CSOs with and 10 without government funding) during 25 December 2017 – 12 January 2018. While the survey results cannot be considered statistically representative because the selection did not follow a statistical sampling rule, the collected data helped to cross-check information, trends and statements gathered through semi-structured interviews and desk review, thus, enhancing the veracity and reliability of the claims made by the present analysis.

3. Public Funding for civil society:
3.1. Origin and models

Civil society has always been considered distinct from the government and private sector and is often referred to as the ‘third sector’ comprising of organisations that do not pursue profit and are not controlled by the state. It includes a wide range of organisations, each occupied with different institutional missions, all of which can be formal or informal, transient or long-term, collaborative or confrontational and which represent the interest of an aggregate group of individuals collaborating to pursue shared goals through collective action.

With politics and excessive bureaucracy limiting the state's capacity to address citizens’ heterogeneous needs, organised citizens with common interests have resorted to creating CSOs
to provide goods and services that the state and markets are unable to deliver. This trend has been more widely observed in developing countries, where CSOs have proven to be one of the key actors in ensuring access of marginalised and excluded groups to services and decision-making processes at the local, national and global levels (Hulme, 2002). Civil society organisations have also been considered necessary to oppose totalitarian regimes (Huntington, 1991; Mercer, 2002; Lewis & Kanji, 2009) and to ensure democratic consolidation (Putnam, 1995 and 2000). In fact, in Eastern Europe and Latin and South America, civic groups were successful in ousting authoritarian regimes in the 1980s and 1990s by voicing the demands and concerns of disadvantaged and marginalised groups, while at the same time counterbalancing state power and enhancing the state’s legitimacy, accountability and transparency (Mercer, 2002; Lewis & Kanji, 2009). The 2008 global financial crisis further contributed to viewing civil society increasingly as an alternative service provider in the face of failed welfare systems, a conduit of voices and interests of those most affected by the recession and a driver of accountability and transparency in failed economic models (Jessen, 2017).

Consequently, one can discern three commonly accepted approaches through which civil society can relate to the state: (1) complementing the state by filling in the gaps in service provision; (2) opposing the state by holding the government accountable; and (3) supporting state institutions in developing a sense of citizenship and social capital. These relationships are not mutually exclusive and sometimes, can even create paradoxes by co-operating with the state while attempting to hold it accountable. However, for these relationships to be fruitful, mutually-beneficial and effective in promoting democratic development, it is necessary to have ‘a favourable environment for the establishment, operation and sustainability of CSOs’ (ICNL, 2010). The state is highly responsible for setting conditions for the existence of civil society and for creating a favourable environment for CSO operations through legislation, administration and public discourse. In doing so, the state is to adopt an enabling legal framework regulating the civil society sector, together with a policy for civil society engagement in the public arena and allocation of economic resources for CSOs to fulfil their mandate according to the established rules and policies. In fact, the arena for public funding has become crucial to CSO sustainability (Tapia & Robles, 2006).

A worldwide 35-country study conducted in 2003 by Johns Hopkins University, which included 5 states from Central and Eastern Europe, found that 53% of CSO income is self-generated, whereas 35% comes from government funding and 12% from private philanthropy. Another study by the same university highlighted that civil society is an important job-creating sector in both developing and developed economies (5.6% and 10% respectively) (Desse, 2012). However, the 2008 financial crisis has considerably reduced public funding for CSOs at both the national and international levels (Hanfstaengl, 2010; Engelbrecht, 2016) and slowed down philanthropic activities, thus, causing the rationalisation of the sector in terms of number of organisations and activities (Hanfstaengl, 2010). The crisis also highlighted the importance of state funding for CSOs (Pinter, 2002), which has come under much scrutiny, given the recent global trend of governments

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3 Some key examples are Spain, Greece, Italy, and South Africa.
rolling back their democratic practices and trying to maintain their hold on power by significantly restricting the enjoyment of civil and political rights by their citizens.\textsuperscript{4}

These negative trends notwithstanding, public authorities in most western societies acknowledge the added value and independent contributions of civil society to democratisation and development through participation in policy design and implementation. In fact, civil society organisations are considered to be inherently good and, thus, protected from the control and interference of the state and markets (Jessen, 2017). As a result, over the past decade, the role of government funding provided to CSOs in Central and Eastern European countries has significantly increased in the development and democratisation processes, which could be a naïve approach, as CSOs are susceptible to state capture and this risk has not been adequately addressed. Though a new trend of de-funding many liberally-minded CSOs that are going against the government’s declared conservative stances is now developing in the new EU-member states, which shows that the assumption that government funding will ensure sustainability of a democratic civil sector is also naïve.

3.2. Public Financing Models for Civil Society Organisations in European Countries

It is difficult to account for the rationale that underpins the provision of public funding for civil society organisations worldwide. Many scholars have attempted to define and analyse various CSO finance models which can then be compared with those across countries in the context of welfare state and policies (Desse, 2012; Solomon, 1999). This study also adopts this approach because it helps to conduct the analysis in the larger context of the simple financial relationship between the government and civil society and, thereafter, frame it within a ‘social contract’ with the state, that is, a specific yet sufficient policy framework that well-determines state-civil society relationships.

There are different ways in which governments financially support civil society in Europe. This paper suggests the following classification: continental, liberal, socio-democratic, Mediterranean and deferred democratisation models. The continental model combines a strong welfare system with an equally strong tradition of civil society cooperation with the government to achieve common goals. On the one hand, the government needs CSOs to provide social services to the public and on the other, CSOs need the government to achieve their mission and vision, thus becoming their raison d’etre. There is no formal policy that sets the ‘rules of the game’, rather the division of roles between state and civil society is determined by the ‘principle of subsidiarity’.\textsuperscript{5} This creates a highly co-operative relationship between CSOs and the government, wherein the

\textsuperscript{4} As estimated, “more than 120 laws restricting civic rights were introduced or proposed in 60 countries” between 2012 and 2015, which included criminalization of previously permitted activities, bans on foreign sources of funding, suppression on online freedom of expression and use of the internet, strikes against judicial independence, etc. See Emelie Aho and Jonatan Grinde, Shrinking Space for Civil Society – Challenges in Implementing the 2030 Agenda, p. 5 at http://www.forumsyd.org/PageFiles/8150/PO150943_Rapport_5maj_web.pdf (last accessed on June 26, 2018).

\textsuperscript{5} Central government may only act where action of decentralized authorities is insufficient.
former are characterised as being both highly institutionalised by and dependent on government priorities (Desse, 2012) to the point of reproducing ‘hierarchical interdependence’ (ECNL, cited in OSCE, 2010, p. 15). Consequently, public funding can represent up to 56% of total CSO revenue. To a certain extent, this model can be found in for example, Germany, Belgium, France and Ireland (OSCE, 2010; Desse, 2012).

In a liberal model, a state extensively involves CSOs in the provision of social services and citizenship development. The relationship between the state and civil society are ruled by a legal framework for CSOs and specific public policy which define both parties’ roles, including contracting conditions, transparency and accountability standards, and this in turn, forges mutual trust and confidence (OSCE, 2010). CSOs are well-rooted in the communities they serve and supported by a wide and concrete constituency, which allows them to generate additional income through philanthropic and fundraising activities and not be solely reliant on state funding\(^6\). In fact, 51% of their revenue is earned from fees, while 35% is from government revenue. Similar public financing models can be found in the United Kingdom and Switzerland.

The social-democratic model, also known as the Scandinavian model, was consolidated during the Cold War as a strategy to oppose the ‘statist’ model of the Soviet Union. At the time, the Scandinavian governments were compelled to ensure high levels of state welfare support and civic engagement. This created a civil society landscape for a residual group of CSOs focused on providing services to their communities in limited sectors such as sports, culture and leisure activities (Desse, 2012), although later, a large number of organisations began raising their voices and advocating for their constituencies’ interests, promoting civil and political rights, as well as interests of farmers and the labour force (Arvidson et al., 2017). Low involvement in service provision, combined with formal mechanisms for citizen participation and advocacy activities, has enabled the development of a vibrant and self-autonomous civil society wherein CSOs can both provide services and hold the government accountable on the basis of a ‘constructive’ relationship between the state and civil society (Stalsett, 2017; Djuliman, 2017; Arvidson, 2017). In this case, CSOs revenue structure is made up of membership fees and only about 25% are from public resources (OSCE, 2010; Desse, 2012).

The emerging or Mediterranean model is a type of residual welfare system that resulted from the end of rightist dictatorships. Authoritarian states prevented the existence of civil society organisations because they were considered damaging to the authoritarian state. Civil society is limited to politically aligned organisations and is used as means of co-option and political interference (OSCE, 2010). Even today, state-civil society relationships continue to be influenced by ‘traditions, nepotism or political interest in funding for involvement of CSOs in service provision’ (OSCE, 2010, p.16). As a result, public financing for civil society has become residual and is characterised by low levels of institutionalisation, ‘low levels of public financing’, and ‘dependency relationships’ (OSCE, 2010, p.16). Countries that adopted continental models include Spain, Portugal and, to some extent, Italy (Desse, 2012).

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\(^6\) Government funding represents about one-third of the sector’s income in the United Kingdom.
The deferred democratisation model in the European context refers to a welfare system in countries that emerged from the fall of the communist regimes. The communist system was characterised by state-civil society relationships deeply marked by a paternalistic state and party-controlled organisations of the regime, where CSOs were seen as an instrument of control over society and means of achieving economic growth. However, civil society groups also played an active role in overthrowing the Soviet system, promoting the transition process towards a democratic system and providing services during subsequent state failure (Fenger, 2007; Polese et al., 2014; Sayfutdinova, 2015). Welfare systems in countries that have adopted the deferred democratisation model continue to undergo development, given deficient state programmes that are unable to address large socioeconomic problems (Fenger, 2007) and the limited formal room for civil society participation in social policies, with the exception of sports and culture (Desse, 2012). Strategies to engage with CSOs are uneven across these countries and the CSOs supported with public funds are mainly service providers. On average, government funding represents up to 30% of CSOs’ total annual budget, similar to the amount received by CSOs in Western Europe (CSI, 2017; Desse, 2012).

4. The Public Funding Model for Civil Society Organisations in Georgia

4.1. Characteristics of the Public Funding Model for Civil Society Organisations in Georgia

For several years, Georgian CSOs have enjoyed an enabling environment that allowed them to operate freely with limited regulations and bureaucracy compromising its independency and sustainability (Pinol Puig, 2017; USAID, 2017). However, the country’s political context is characterised by the co-existence of democratic and undemocratic elements, with risks of unpredictable reversal of democratic process that could disenable the environment for civil society participation (Youngs, 2015; Pinol Puig, 2017). This includes democratically elected governments in Georgia threatening and challenging democratic institutions such as the rule of law, respect for fundamental rights and civic engagement.

As in many post-communist countries, where welfare systems are still being developed and the remnants of the communist system leave little room for civil society participation in social policies (Desse, 2012), civil society engagement in Georgia is governed by a highly fragmented legal framework (CSI, 2017; USAID, 2017). The legal framework, namely the Law of Georgia on Grants, includes the direction and purpose of grants\(^7\), which are predominantly aimed at the provision of services for health, culture and sports (Desse, 2012) to the point that social services have become ‘partially commodified goods’ (Polese et al., 2014, p. 188).

For CSOs that provide services, the government has become an increasingly important source of funding, which has allowed them to diversify their funding portfolios (USAID, 2017; CSI, 2017). These CSOs receive public grants to implement services complementary to the government’s role as a service provider and to conduct public awareness activities in the fields of, for example, justice

\(^7\) Article 3, para., 1C of Law of Georgia on ‘Grants’.
and road safety (USAID, 2017). The Central Election Commission (CEC), including the Electoral Systems Development, Reforms and Training Centre, the Ministry of Sports and Youth Affairs, and the Ministry of Internally Displaced Persons (IDPs), Accommodations, and Refugees,⁸ which was legally authorised to award grants in 2016, are among the largest providers of public grants. On the basis of this description, the Georgian model can be labelled as the deferred democratisation model. Welfare system in Georgia is still being developed. A legal framework provides legal coverage to public institutions to establish and provide grants and CSOs are granted to provide only services, often as they were private sector. Regulations are yet to include provisions to financially support watchdog and advocacy oriented CSOs. Nevertheless, they remain active and are allowed to engage in policymaking processes (Pinol Puig, 2017). In fact, their presence and visibility is relatively high, which is comparable with the size of the social-democratic model and it is expected that this type of CSOs will grow in the coming years (Desse, 2012). As the democratic and capitalist economic system is progressively consolidated, the current model is bounded to evolve towards one of the four models described above (Mediterranean model, Socio-democratic model, Liberal model and Continental model). The state’s approach towards welfare and civil society will largely determine the final outcome of these evolutionary processes.

4.2. Challenges of public financing model for civil society Organisations in Georgia at national level

Despite the presence of a legislative framework that regulates the grant-making process in the public sector and a formal system that sets mechanisms to ensure fair and transparent grant making and grant awarding processes, in practice it seems that the system suffers from a number of issues and challenges in terms of accessibility, appropriateness, accountability and sustainability.

4.2.1. Appropriateness

A key characteristic of the Georgian government’s grant mechanisms is an overall and rather weak legal framework composed of a general law that provides minimum regulations to cover the basic standards of awarding public funding to CSOs and eligibility conditions accompanied by a wide range of regulations developed according to the nature and functions of each public institution (e.g. Legal Entities of Public Law (LEPLs) or line ministries). While this legal framework is rather general, it does not include a fundamental approach and purpose for grant provisions by the governments to CSOs.

In the European models presented above, the vision and mission of civil society participation are often defined by a specific policy related to the government’s engagement with civil society, as is the case of Hungary, Croatia and UK, or a sector policy such as the welfare and social policy framework, which is the result of a ‘social contract’ between the state and society in the Czech Republic, Nordic countries or with slightly differences, in Macedonia (Toje, 2010; OSCE, 2010; OSCE, 2011).

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⁸These Ministries were abolished at the time of issuing this report. However, the points made here with respect to these institutions are still valid, as they provide examples and could serve well for future planning.
In the case of Georgia, there is no formal public policy related to civil society engagement at the national or sectoral level that underpins the government’s approach towards civil society. Moreover, its welfare systems remain underdeveloped and are characterised by elements of liberal and continental models, wherein civil society largely delivers services with a residual space and limited resources (Fenger, 20007; Polese et al., 2014).

Nevertheless, the interviews conducted as part of this study revealed an existence of an informal strategy for CSO engagement. For instance, increasing the government’s outreach in service provision and ensuring wider population coverage were unanimously highlighted as one of the main objectives of providing public funds to CSOs. Some even saw it as a means to formalise CSO participation in the implementation of government policies in a given sector, so as to establish CSO-government cooperation. In the case of the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees and the Ministry of Labour, Health, and Social Assistance, CSO involvement was externally imposed as a result of foreign aid delivered to Georgia through government systems. The analysis of the nine grant schemes9 highlighted that their priorities, objectives and expected results tend to be government driven; that is, they are determined by each ministry or the Legal Entity of Public law (LEPL) in a corporate manner. In all the studied cases, decisions were taken during ad hoc inter-departmental meetings and commissions, through specific inter-departmental coordination and by the implementing bodies (e.g. the State Commission for Migration in the case of the Ministry of IDPs). Although CSOs are the main recipients of grants, their participation in setting priorities and objectives is limited to consultation, feedback provision based on previous grants or representation by a chosen single civil society organisation. An exception was the Ministry of Sports and Youth Development10, which seems to engage CSOs in defining of priorities, objectives and expected results through a formal consultation process. In general, the Georgian state expects CSOs solely to provide services related to, for example, the social, educational, health, trainings and education sector. Occasionally, the state agencies fund CSOs to deliver awareness raising campaigns and only the President’s Fund, which legally cannot provide grants, but only assistance, has a general purpose of ‘democratic development.’ Arguably, the purpose of democratic development should be much more evident in state support schemes directed toward CSOs.

This informal approach involves significant risks, as shown by CSO experiences in countries where service provision by civil society organisations is mainly financed by public funding (the continental and Mediterranean welfare systems). With their increasing incorporation into the service delivery sector, CSOs’ are moving away from their own mission and vision and drawing closer to the sphere of public sector influence (Visser, 2015; Hulme & Edwards, 1996). As a result, CSO interests often tend to align with government goals, thus, transforming CSOs into an

9 LEPL Children and Youth Development Fund; Ministry of Internally Displaced Persons; Crime Prevention Center; Center for Electoral systems development, reforms and trainings; National Center for Disease Control and Public Health; Presidential Reserve Fund; Tbilisi City Hall; Rustavi City Hall; Gori City Hall.

10 The Ministry seized to exist in the process of finalizing this report.
extended arm of the government and compromising their identity and risking being co-opted (Visser, 2015; Baur et al., 2012).

Georgia’s state institutions have a wide range of instruments that economically support CSOs, both directly and indirectly. The most frequently used forms of support are grants and in-kind contributions, although direct allocations (locally known as subvention) have also been reported. Besides provision of grants, CSOs also benefit from indirect contributions in the form of grant-related tax advantages, which are derived from bilateral treaties between the donor states and Georgia.

With the exception of the President’s Fund, all public institutions provide funding and grants through a project approach and annual calls for proposals. The President’s Fund, however, adopted an ‘open window’ approach which ensures permanent availability of funds for CSOs without the need for CSOs to pay constantly attention to the publication of proposal calls.

It is important that the process of determining grant award ceilings does not follow an appraisal of sectoral needs, the beneficiary interests or the deliverer’s market price. Interviewees found it difficult to explain how public institutions calculate the maximum budget amounts that are to be allocated to CSO grants, given that grants cannot be more than 1% of the total budget of the agency at hand. CSOs believe that lack of results-based budgeting process leads to underspending of the funds that could be available for grants. It also is one of the reasons why the CSO funding allocations remain rather small and limited, often not reaching the 1% threshold established by the law.

Finally, studies have shown that civil society needs government support to deliver the expected public goods and for greater and meaningful CSO engagement in policymaking ‘through formalised partnerships with government agencies’ even in the most advanced democracies (Larragy in Visser, 215 p. 234). Thus, financing mechanisms framed in formal or informal strategies for CSOs engagement should also create opportunities for CSO capacity development (OSCE, 2010). However, the lack of opportunities to develop capacities, as well as better and more competitive public services, are among the main concerns expressed by the interviewees. In fact, all granting mechanisms analysed in Georgia accounted for capacity development activities as non-eligible costs which undermines CSOs to develop further their technical and institutional capacities and, in turn, negatively affects the quality of government services provided through CSOs as well as the consolidation of civil society sector in Georgia.

4.2.2. Accessibility

European models also tend to ensure equal conditions for funding accessibility, that is, the equal access and coverage as well as quality of services even when resources are limited (OSCE, 2010). This also involves mechanisms of fair competition, transparency and access to information. Most of the interviewed beneficiaries and non-beneficiaries perceived that the granting process is transparent in terms of the conditions and planning. They have labelled this process transparent,
since the RFPs are published in newspapers, on websites, at the regional level\textsuperscript{11} and on a tenders’ platform which has increased access to grant opportunities and information. The Ministry of Justice and the Ministry of IDPs from the Occupied Territories, Accommodation and Refugees also include a geographic criterion that ensures the coverage of an entire Georgian territory.

Although a vast majority of CSO beneficiaries who participated in the study agreed with the statement that ‘the government provides timely and clear information about funding availability’, it appears that practices differ by ministry in terms of publication of grant information, calls and timing. In fact, information on public funding for CSOs is rather fragmented and this leads to the unequal dissemination of information and, thus, unequal accessibility. This said, all public institutions interviewed in this study publish calls for proposals and grant documents three weeks before the closing date and publish the results about 10 days after. The calls for proposals include information on conditions for grant access and even selection criteria. The beneficiary CSOs perceive that ‘application conditions and selecting criteria are clear when calls for proposals are published’. However, technical conditions and requirement to opt for a grant differ by granting mechanism. Some mechanisms, such as the Children’ and Youth Development Fund under the Ministry of Sports and Youth Development, were considered to be demanding in terms of sector experience, presence at the regional level, human and economic resources and even internal transparency. However, some others such as IDP’s grants simply require CSOs to be registered and to demonstrate financial capacity or cash flow. The President’s Fund even supports individuals and non-registered CSOs. Nevertheless, differences in selection criteria across the granting mechanisms do not seem to be an issue for CSOs in general. Finally, CSOs perceive that submission procedures for funding proposals are largely appropriate and do not imply excessive administrative burden.

Projects to be funded are selected by an \textit{ad hoc} commission, group, or committee or a technical group set up by a granting institution and comprising of public civil servants from the concerned departments and sometimes, external experts from international organisations (I\textOs) and/or international non-profit organisations (INGOs). To avoid conflicts of interest, the commission members are asked to declare all potential conflicts of interest. In case of a conflict, the member is asked to exit the selection commission. However, the present research revealed that the selection process of commission members remains unclear and often both objectivity and independence are not ensured. Evaluation committees are chosen and managed at the discretion of each granting mechanism. The selection committee membership is chosen by a task manager and often include politically appointed staff or individuals from organisations with potential conflict of interests. In fact, conflict of interest was most frequently cited as a challenge by public entity staff and a key contributor to bias towards certain organisations, which can be detrimental to most CSOs.

As part of the challenges posed by gaps in granting mechanisms to ensure equal access to funding opportunities, this research showed that accessibility also seems to depend on the organisations

\textsuperscript{11} In this study, only IDP’s Ministry did information sessions at regional level, mainly because their targeted CSOs work at local level.
themselves. Since CSOs in Georgia are highly competitive in providing services for the public sector, it is not rare for them to participate in a tender process with a high success rate (USAID, 2017). While grants and tenders are regulated by different laws, in practice, both differ only at procedural level and this affects equal accessibility for all CSOs because it depends on CSOs’ capacities. Tenders tend to be market oriented and, therefore, the requirements to award a tender are far more demanding than those of a grant; for instance, economic and human resource requirements as well as specialisation must be duly justified. At the process level, the tendering system is more transparent because it is compulsory to publish all tender documents on a devoted digital platform, which is also used to publish grants. The transparency of the tendering process is further enhanced by rigorous scrutiny of international financial institutions and donors through public finance management assessment and Public Expenditure and Financial Accountability Assessment. In fact, Georgia’s procurement system has been defined as transparent and open (PMC, 2014). Tax deductions include devolutions for the payment of income taxes generated for the delivery of services through a tender. This means that the only difference between tenders and grants is the awarding process and, therefore, the economic impact over CSOs remain the same by the end of the project. Since CSOs’ access to tenders relies not on the level of difficulty or appropriateness of the tender mechanism but on CSOs’ market competitiveness in the provision of public services (USAID, 2017), not all CSOs will be able to access this additional source of funding.

In any case and despite considerable individual and organisational capacities, several CSOs serving advocacy or watchdog roles are having internal discussions about whether the organisation should accept public funding. In Georgia, it seems difficult to conceive a situation in which on the one hand, civil society activities are financed by the government and on the other, CSOs raise their voices against the government and hold them accountable. In fact, receiving public funding is perceived as a ‘conflict of interest’. In certain cases, these fears are driven by the experiences of few CSOs which believed that they lost a grant in a given sector for campaigning at the national level for another related sector under the competency of the same ministry. This seems to be a threat shared by CSOs worldwide. Studies have highlighted that engaging in certain advocacy and watchdog activities that involve confronting government could jeopardise CSO access to future funding and as result, they often ‘hold back their criticism towards to government’ (Arvidson, 2017). In other cases, fears are driven by suspicions that emerge from competing with CSOs linked with the evaluation committee members; this seems to be a trend in the so-called ‘deferred democracies’ such as Georgia, where public funding recipients are often exposed to ‘opaque allocation criteria’ and ‘discrimination based on ideological bases’ (Pousadela & Cruz, 2016 p. 610). Within these contexts, organisations have adopted various coping strategies, including limiting measures to access public funds. While service delivery CSOs recognised the application of self-censorship, watchdog CSOs preferred limited access to public funds by using a small share of the government’s annual budget or rejecting all public contributions.
This analysis considers two types of accountability: upward and downward accountability. The former refers to CSOs accountability to granting institutions, while the latter represents CSOs accountable to their members, beneficiaries and/or constituencies. In general, upward accountability is imposed through the submission of financial and narrative reports in which CSOs provide progress and performance information related to project implementation. These reports tend to discuss inputs that justify expenditures, which are in line with financial reports, and thus, there is limited information on outputs. Some institutions, e.g. the Centre for Crime Prevention and the Ministry of IDPs, statistically analyse the provided data. The Children and Youth Development Fund uses the data to assess performance and disburse further funding. Monitoring is complemented by site visits performed by the government staff. Granting institutions claim that they inform CSO beneficiaries of accountability requirements at the time of signing the contract, which contributes to the transparency of the upward accountability mechanism. CSOs do not consider monitoring and reporting requirements to be excessive, complicated or cumbersome; rather, they are ‘easy to handle’. In addition, most CSO projects are externally audited.

Although all granting institutions employ similar tools, methods and processes to ensure CSOs' upward accountability, monitoring and reporting practices of public funding are uneven. Namely, while some projects are monitored on a monthly basis, others are assessed only by the end of the project and independently of the amount, nature or objective of the grant. Sanctioning measures for misuse of funds also differ by mechanism. For example, in the case of conciliation failure, the Central Electoral Commission can even sue CSOs, whereas the President’s Fund initiates the recovery of funds. The Children and Youth Development Fund reviews internal governance of the awarded CSOs. This report is then submitted for governance assessment, which is based on international standards. Differences in reporting and to some extent, auditing requirements, discretionally place public resources of the same type, nature and origin at different levels of scrutiny and as a result, CSOs are unequally held accountable for funds of the same type, nature and origin, that is, public resources.

Upward accountability is further weakened by the lack of external evaluations of projects that are funded through public institutions. The public institutions included in this study only conducted external evaluations in the case of international aid funds, whereas this was not the case for projects financed through the state budget. This can be attributed to the lack of funds and expertise to evaluate such projects, although it is mandatory to externally audit most projects. Further, in-kind contributions were not subjected to accountability processes. Finally, only tenders were submitted for financial accountability assessment, with some of the tenders being required to submit such a report by the end of the contract. In sum, it appears that upward accountability limited to the provision of narratives and financial reports is an issue for all public financing mechanisms (Tapia & Robles, 2006; O'Dwyer & Unerman, 2008).

As users of public funding, CSOs can be held accountable by citizens and scrutinised as any other public institution. Therefore, CSO accountability towards their members, beneficiaries and
constituencies regarding the use of public funding should be considered equally important. Most of the interviewed CSOs mentioned having internal feedback mechanisms such as surveys and focus groups, through which beneficiaries can raise complaints and pose disagreements. Additional project monitoring activities that can be used to hold CSOs accountable are processes that track implementation and identify issues to be addressed. Both CSOs and the government do not publish project financial and narrative reports. Nevertheless, most annual reports and certain CSOs tend to adhere to the Transparency Declaration which requires the publication of project documents (e.g. funder, narrative and financial reports) on an online platform, which is not yet operational. Although CSOs might be subjected to certain beneficiaries’ scrutiny, current practices constitute a type of accountability characterised as being unidirectional and unidimensional. To elaborate, CSOs decide when and how they are held accountable through specific methods and according to funding availability, instead of having open and non-binding mechanisms through which members, beneficiaries and constituencies can question CSOs’ public-funded actions. This weak culture of accountability, low public trust and legitimacy further undermines downward accountability (Pinol Puig, 2017; USAID, 2017).

While many CSOs are attempting to co-operate with the government through service provision, they also expect the government to be raison d’être, that is, responsible for democratic development including the survival of the civil society (INCL, 2010).

4.2.4. Sustainability

An important element of effective strategic engagement is provision of funding by the state. However, it can also be sourced through other state revenues. In countries like the UK, lotteries offer long-term support to CSOs; in Hungary, a 1% allocation mechanism is already in place in addition to the state revenue. Both the lottery and the 1% system have proven to be long-term, predictable, sustainable and flexible sources of funding as they do not directly depend on the country’s economic performance. In fact, the 1% law in Hungary has resulted in an increase in public awareness about the role civil society plays in providing public goods (OSCE, 2010).

In Georgia, public funding is mainly sourced from the national budget through the financial revenue structure. Public funds for CSOs come from the annual budget allocated to the ministries. Financial resources come from foreign aid (non-taxable revenues), indirect taxes, other income generated by the state and from the collection of direct taxes from citizens and the private sector. However, the economic system’s sensitivity to financial shocks, as well as aid dependency, does not favour a solid revenue framework necessary to ensure sustainability of granting mechanisms.

An important factor of an effective strategic engagement common in the European models is that public authorities are requested by law and/or by policies to ensure the provision and predictability of funding (OSCE, 2010). In the case of Georgia, the total allocated amount is stipulated up to a 1% of the total budget allocated to the grantmaking agency, so as to prevent over expenditure while ensuring the availability of funds. If the grant amount exceeds 1%, then the departments in charge of awarding grants are required to provide justification to the Prime Minister of Georgia’s prime minister for review and approval. In practice, the amount awarded
varies depending on the granting institution and the sector, not only because 1% of the total budget differs from one institution to another, but also because institutions do not tend to award the full amount available for grants. They rather tend to provide a number of small grants that end up representing a small or very small share of the budget (CSI, 2017). Additionally, this share varies from year to year based on institutional discretion. In practice, this results in a large number of small and atomised projects of questionable impact for the government and society at large. For the civil society, it means government grants represent a very limited percentage of CSOs budget – about 3 to 5%. Only two of the 35 CSOs that participated in this study said that government resources account for more than 75% of their annual budget, but funds for these CSOs came from international organisations regulated by national systems for the provision of specific services to the vulnerable populations (e.g. IDPs, HIV patients, others).

Other ways through which the state provides economic support to CSOs includes in-kind contributions, tax deduction as well as direct allocations, known as ‘subvention’ (CSI, 2017). These sources are used in an \textit{ad hoc} manner, mainly at the local level, as explained in the following sections. Combining in-kind contributions with grants or with direct allocations or using them in a complementary manner is not considered. Thus, the current model cannot be considered sustainable, either predictable.

4.3. Challenges of public financing model for CSOs at Local Level

Decentralisation and devolution of powers to municipalities has been attempted with the Local Self-Governance Code, which aimed to bring public administration closer to the citizens. The Code seems to recognise the duties and competences of municipal authorities to ensure both citizenship participation and service provision. Below is a brief overview of the challenges of public financing model for CSOs at the municipal level.

\textbf{4.3.1. Appropriateness}

The regulatory framework allows local authorities to receive national and international grants to perform their functions, but it does not allow them to issue such grants. Consequently, the capacity of local authorities to partner with CSOs for trainings, social service provision and awareness raising is not allowed by the law. Interestingly, this has not prevented municipalities from providing economic support to local CSOs. Regional CSOs, mainly community-based organisations, identify problems within their communities. They then present a proposal to the competent department, which in turn will bring it to the attention of \textit{Sakrebulo}, an elected council authorised to decide on municipal budget allocations. If the proposal is submitted when the municipal budget is being drafted, CSOs will lobby for their cause through public hearings or via the civil servant in charge of drafting the agenda. If the project is accepted, the municipality will allocate public funds to co-finance the project, commonly known as ‘subvention’ or ‘programmatic budget’. However, if the proposal is submitted in the middle of a fiscal year, the support provided is in the form of in-kind contributions (e.g. material, transport, food, and
space/building for the activities), since the annual budget is already committed and contribution in cash would imply violating the law. To receive cash contributions, CSOs enter into a formalised tender contract with the municipalities. Thus, the lack of legislative framework has not deprived CSOs of public funding; instead, a ‘bottom-up’ system has been formalised with the use of the existing legislation and institutional mechanisms. Two municipalities out of the three included in this study, Gori and Tbilisi, have more or less formal and competitive programmes that channel public funds through CSOs.

At a strategic level, the informal structure of funding points to the lack of a strategic vision in the engagements between the local authorities and CSOs. The objectives are mainly driven by CSOs, who set the agenda for the provision of services through their project proposals. The absence of a regulatory framework leads local municipalities to use legal and contractual terms (tender contracts) that are not fit for the purpose of establishing partnerships with CSOs, as this framework is suited for competitive selections of service providers. At the implementation level, with the allocated public funds, CSOs execute projects that address the lack of basic community services such as health, education or social activities, including sports, culture or road safety. In doing so, CSOs deliver services that should ideally be provided by the municipality. Thus, CSOs act as substitutes for local authorities and unfairly assume governmental responsibilities. Consequently, the funds received from public institutions are highly inadequate to meet the needs of local communities, which result in small and atomised actions that often create liabilities for local authorities and/or beneficiaries and result in unequal redistribution of services (Fenger, 2007; Polese et al., 2014). Thus, grants to CSOs from local authorities seem inadequate to fulfil the complementary roles of CSOs and municipalities in the general welfare of the communities.

4.3.2. Accessibility

The above-described funding schemes entail a publication of official calls for proposals, which also detail selection criteria. Only registered CSOs are eligible to apply and their proposals are subject to a competitive selection. An Evaluation Commission is formed, in line with a decree issued for the purpose, which regulates the selection. Although the composition may vary, the Evaluation Commission typically has four members: the mayor, a representative from Sakrebulo, an independent member, and a representative from the sector. Since local authorities cannot issue grants, the subvention takes the legal form of a tender. Nevertheless, this cannot be assumed as a general practice at the local level; rather it is exercised by very few municipalities and still the support offered to the CSOs might vary.

The absence of a regulatory and policy framework leads to informal arrangements through which community-based organisations engage with local authorities to address welfare and social issues that welfare state system fails to perform both as a regulator (not being able to regulate grants at the local level) and as an implementer (local tax competences or replace local municipalities competences). This is a characteristic feature of ‘welfare state transformations’ linked to the decentralisation process in post-socialist countries (Polese et al., 2014 p. 188). Securing a grant depends largely on the CSO’s capacity to approach the municipality, its ability to convince the civil
servant receiving the proposal to forward it to *Sakrebulo*, and its connections with local authorities. Thus, equal opportunities for access are not ensured. Fair competition, transparency and equal access to local government funds are further undermined by the lack of a regulatory framework.

### 4.3.3. Accountability

The shortcomings of the local funding process are acute in the aspect of upward and downward accountability. Upward accountability is limited to monitoring of activities, through site visits, by the municipality staff. Reporting requirements are irregular as they depend on the institution issuing funding, but they are mainly negotiated at the time of the contract, or in terms of number and modes of payment in case of in-kind contributions, or only once the project is finalised. The requirements may not necessarily include a narrative report. In-kind contributions are rarely monitored. The lack of a regulatory framework further promotes discrentional allocation of public funds.

Downward accountability is almost non-existent, at least at the formal level. At the national level, downward accountability is unidimensional and unidirectional as it consists of surveys, focus groups or group discussions held by the same CSOs for a specific project and at a specific time. These are mainly to satisfy the monitoring obligations of the funding, rather than to provide real answers to beneficiaries. These shortcomings are linked to weak internal governance of grassroots organisations. Finally, the sustainability of the process is rather limited. Lack of competency to issue grants creates a system of small funding for atomised actions, which does not contribute to sustainability of results.

### 4.3.4. Sustainability

This requires ‘provision and financing devolution’ but is crippled by ‘insufficient financial resources or access to local revenues, to ensure equal coverage and/or quality of services’ (Polese et al., 2014). In the case of Georgia, municipalities receive budget programmes and sub-budget programmes yearly from the central administration but not specific funding for grants. In-kind contributions are usually provided at the local level than at the national level. However, they are not combined with cash contributions.

A demand-driven approach for funds is so embedded at the local level that local authorities expect CSOs to propose projects. Indeed, sometimes lack of economic support to CSOs is justified by the ‘passiveness’ of CSOs. Further, access to funding seems to depend on access to specific information, such as knowing the right people to approach for support, the capacity to influence and familiarity with the decision-making process at the local level. Receiving public funding for initiatives relies exclusively on the CSO’s capacity to lobby.
5. Conclusions

In Georgia, a number of public financing mechanisms managed by line ministries or public entities exist to support CSOs to provide basic services, mainly in the field of social, culture, sports and justice (CSI, 2017). Whilst there is no denying of the existence of a CSO public financing system, the above analysis highlights a number of challenges which are common in other public funding systems. The literature review carried out in the framework of this study also noted that even the most sophisticated funding mechanisms for CSOs experience issues of unfair awarding practices, excessive bureaucracy, political biases and limited transparent systems, to a greater or lesser extent, across all five European models. These pitfalls have continuously challenged the independence, accountability, legitimacy and sustainability of CSOs (Toje, 2009; ICNL, 2014; Visser, 2015; OSCE, 2010). Thus, it cannot be concluded that receiving government funding is without risk; contrastingly, gaps and deficiencies of the current model might also expose Georgian CSOs to the similar risks as those experienced by European models, and more concretely to the following.

An unappropriated approach puts CSOs at risk of being institutionally captured

There seems to be general consensus in rating the current system as good since both state and CSOs clearly benefit from it; only improvements in terms of budget availability and policy devoted to the sole purpose of financing CSOs were requested by interviewees. However, the current system experiences many other challenges that require attention and deep consideration by both parties, CSOs and the government. Although public authorities acknowledge the importance of CSOs in implementing their sector policies, engagement with CSOs is ad hoc and the purpose for which CSOs are granted funds is not recognised by any state policy. While Georgia has adopted the Law on Grants which provides some guidance on the granting processes, it is outdated and requires improvement. Furthermore, fragmentation of granting mechanisms across the ministries shows a more utilitarian engagement with CSOs, which is ad hoc and aims at supporting specific needs of the concerned ministry or granting public authority without any consideration for institutional and capacity development of civil society organisations. In fact, informal approach or lack of CSO approach at both sectoral and national levels has resulted in a system of scattered granting mechanisms that support the implementation of a large number of small and atomised projects without concrete results.

As experience of Eastern European states has demonstrated, the absence of formal strategies to CSO funding often leads to ‘informal renegotiations of welfare policies’ and prevents the recognition of non-state actors as providers of welfare services, allowing the government to ‘turn a blind eye’ to one of its main responsibilities (Poelese et al., 2014, p. 195). Within this context, CSOs might align with governmental goals, at the risk of becoming an extended arm of the government, while compromising their identity and achieving limited results in terms of social change.

The risk of co-opting increases with inconsistencies in procedures, reporting, auditing and accountability requirements involving public funding that exist across granting institutions. The
fact that they are different and scattered implies that only those CSOs that are used to working with those institutions get to know them, privileging a limited number of CSOs over the rest. This might risk leading to a *de facto* monopoly situation whereby only these CSOs would be able to make it through the process, preventing other more well-placed CSOs from providing the services. A proof of this tendency is that some CSOs have become the ‘usual suspects’ in certain sectors for providing given services.

*Accessibility is undermined by non-transparent practices in the awarding process*

Although most of the interviewees in the present study rated the granting process as ‘transparent’ in the sense that it is public and known by the applicants, some non-transparent practices in the awarding process were also pointed out. Issues concerning conflicts of interest among members of selection committees seem to be more recurrent, favouring those organisations that have close links with members of the committee. Organisations have been limited in accessing funds due to their advocacy practices. Non-transparent practices might also affect tendering processes overall at the local level. A study carried out by Transparency International (2017) pointed out a positive correlation between receiving contracts and being part of the ruling party in the Tbilisi City Hall as result the so-called ‘revolving door’ principle.

These and other anecdotal experiences raised during the present study have led to a strong division within CSOs about receiving public funding with some organisations limiting themselves from it. On the one hand, there are CSOs that receive funding from government that admit self-censoring when criticising the government, but they acknowledge that grants allow them to exercise influence. On the other hand, there are CSOs that strongly refuse to apply for government grants arguing that to do so is ‘to be perceived as a partisan organisation’. They have also noted a ‘fear of being controlled by the government’ as one of the reasons for refusing public funding. These are mainly watchdog CSOs that are used to be in a confrontational relationship with state institutions. There are also a mix of advocacy and service delivery CSOs that do not seek public funding, as they are able to raise competitive project or core funds and would like to distance themselves from public authorities for the fear of being negatively perceived as handmaiden to the state. There are also others, who have public funding, but believe that they are able to maintain their independence vis-à-vis public authorities. Therefore, it seems difficult to completely disassociate access to funding from political alignments, necessitating closeness to or agreeability with the government to continue receiving public funds.

Challenges relating to unfair, politically biased or non-transparent practices in financing CSOs have even been identified in all European models to varying degrees. Even the most sophisticated funding mechanisms have failed to avoid them, such as in Scandinavian countries (Toje, 2009). Nevertheless, it is important to keep in mind the differences between Georgia and those countries. Whilst those countries enjoy a consolidated welfare state with strong institutions that can detect and address those practices, Georgia is characterised by a developing welfare state in a context with democratic and de-democratised elements, where democratisation and a reversal process can take place at the same time (Youngs, 2015), thus leading to situations of democratically elected governments threatening the ‘structural elements of functioning democracies’, such as
limiting freedom of expression and the will to control CSOs, as has happened in Hungary or Poland (Centre for Peace Studies, 2017).

**Accountability for public funding remains extremely weak**

As managers of public funds and organisations that are accountable to taxpayers and the Parliament, executive authorities must ensure public policies are results-oriented and report accordingly. In doing this, they must make certain that public funds channelled to and through CSOs are managed effectively, accounted for and reported on regular basis. In the case of Georgia, this is only partly true. As indicated above, the lack of a formal strategy or approach leads to a lack of a result-oriented framework. In terms of upward accountability, each institution has different evaluation criteria, and reporting, auditing and evaluations are hardly ever carried out. Information published online only contains the name of the funded organisation, but neither the title of the project nor its geographic scope. Feedback about why a proposal was not selected is not usually provided; only the final rate is indicated, in the best cases. While some public institutions apply strong monitoring and even sanctioning mechanisms, others do not even contemplate a situation for recovery. Since tendering systems are centralised, upward accountability mechanisms are equal, and limited, to audits.

This creates a situation where although all granting institutions have accountability mechanisms, the great differences between them mean that spenders of public funds, in this case CSOs, are held accountable to different degrees. It is especially worrying in a context like Georgia, where the system of checks and balances is rather weak and watchdog organisations experience great challenges when holding the government accountable (Pinol Puig, 2017). Although this is not the case yet, it is important to note that in a scenario of increased public funding towards CSOs, as advocated by many, including the international donor community, CSOs will inadvertently become the government’s implementing partners, which in turn compromises their capacity to hold the public agency that they partner with accountable, since they would run into conflicts of interest by holding their funders and their own performance accountable (Rohwerder, 2016).

Challenges for CSOs seem to be greater in terms of downward accountability. CSOs must be accountable not only to those who provide funds to them, but also to their beneficiaries and taxpayers at large. Public authorities do not impose specific transparency requirements on CSOs except for contractually required reporting, monitoring, and control of financial data linked to individual grants. However, there appears to be no obligation to make this information publicly available and the government does not disclose this information. Available information on the performance of funded CSOs and/or activities funded by government grants seems to be extremely limited. CSOs by themselves do not publish these reports, although some of them have committed to do so. Accountability towards citizens is limited to feedback mechanisms for beneficiaries, in the best of cases.

A situation analysis of government and civil society relations carried out in 2015 (Pinol Puig, 2015) highlighted that neither state institutions nor development partners have been paying enough attention to the issue of CSO legitimacy. It is well known in Georgia that aid dependency has
enhanced upward accountability towards donors to the detriment of downward accountability towards constituencies and beneficiaries. Similarly, as this study has demonstrated, public funding has made CSOs more accountable toward public authorities, but not toward their constituencies. Becoming legitimate requires an actor to be accountable, and weak accountability to taxpayers in the use of public funds also undermines the legitimacy of CSOs.

Both weak accountability and weak legitimacy are strongly embedded characteristic of Georgian CSOs. The rollback by the state of the provision and financing of social welfare programmes in the post-communist period provided room for CSOs to mushroom and replace state functions in delivering welfare services. The state “remained incapable of creating regulatory framework in which non-state welfare providers such as CSOs could “legitimately take on the welfare functions that post-socialist states were shedding” (Polese et al., 2014). A culture of mistrust towards civic engagement left by Communism drove away CSOs’ interest in building constituency (Bialer et al., 2009). Today, CSOs are still expected to cooperate with the government through the provision of services, while CSOs expect government to be responsible for democratic development, including the survival of civil society in many post-communist countries like Hungary (INCL, 2010). The last CSO report published by USAID pointed out that in Georgia “constituency building is [still] difficult for most CSOs, as they drift from one project to another in the pursuit of funding, making it difficult to establish lasting relationships with local stakeholders” (USAID, 2017, p. 101). This study noted many individuals who form CSOs expect that public administration will provide all that they need just for the sake of having CSOs around.

In summary, while CSOs make use of public funding, it is extremely important that they remain accountable to their citizens as managers and users of the citizens’ taxes. By not doing so, they risk the loss of legitimacy, credibility and efficacy (Visser, 2015; Gonzalez de Assis et al., 2012). Pushing for an increased allocation for CSO grants might even exacerbate these deficits of legitimacy, unless accountability challenges are addressed on both sides.

Limited availability of public funding that limitedly contributes to the economic sustainability of civil society organisations

As a country advances in economic development, foreign aid and the concomitant funding for CSOs, will decrease. This is in fact what several development partners and a significant number of CSOs have assumed recently in Georgia. However, this assumption needs to be considered very carefully since it might imply hidden risks and challenges beyond the sustainability of CSOs. First of all, it is important to consider the numbers. The percentage of public funds allocated to CSOs represent a very limited percentage in terms of the granting institution’s budget as well as of the national budget. The grants are so small that they are between 3 and 4% of the a CSO annual budget, unless grants come from foreign aid where the percentage can go up to 85% of an organisation’s budget. Secondly, funds are only made available for the sole purpose of providing services; very limited funds are allocated to awareness and citizenship building, and none for advocacy. Thirdly, having no resources for institutional strengthening or capacity development means that CSO drift from one project to another in the pursuit of funding, whilst also preventing technical and institutional capacity to expand their activity (including services) and their sources
of income (USAID, 2017). Last but not least, state funding makes CSOs more vulnerable to politics as simple as a change in government where overall welfare models are being developed. This is especially the case in countries where trends of polarisation and politicisation of CSOs exist like in Georgia (Pinol Puig, 2015). There, CSOs tend to align ideologically with the hand that feeds them (Tapia & Robles, 2006; Pousadela & Cruz, 2016). Thus, current CSO granting mechanisms are not enough or consolidated enough to support an effective partnership between state and civil society or CSO development.

6. Recommendations

The analysis clearly showed that there is no granting system or specific funding model in Georgia. Rather there are various individual granting or funding mechanisms with some consolidated practices and systems that involve great risks in terms of institutional capture, politicisation and sustainability, in part because they further deepen CSOs’ accountability and legitimacy challenges. These risks and challenges cannot be ignored, especially when advocating for an increase in state support towards CSOs. The following are some of the recommendations derived from the analysis.

To advocate for a review of the legal framework to reduce fragmentation and to develop holistic policies and strategies directed toward CSOs

It is imperative to undertake a comprehensive review of legislation to develop a single consolidated legal framework that cuts across sectors and creates common for all public institutions principles of awarding funds and ensuring both accountability and transparency. A favourable fiscal and legal framework comprises of rules relating to the guarantee of basic freedoms, CSO operation, administrative impediments and state harassment, legal capacity and responsibility, as well as the availability of financial and non-financial state support for CSOs such as fiscal preferences and in-kind contributions. It also regulates how both cash and in-kind contributions are distributed and monitored in a transparent manner, whether CSOs can participate in all phases of the public funding cycle, and whether CSOs are legally allowed to compete for government contracts and participate in local and national procurements (ICNL, 2014; USAID, 2011). All of these are important elements that are currently quite unclear within the existing legal framework. Rules and procedures to regulate local practices should be considered, which can be done without engaging in a lengthy debate on fiscal decentralization.

Policies and strategies for working with CSOs should be transparent, forward-looking and results-oriented. Policies and strategies should outline the overall objectives, principles and conditions for government-CSO partnerships. They should be integrated into sector policies and strategies to link them with the level of funding and with the mechanisms required to implement policies and to convert it into result oriented public funding available for CSOs to engage with CSOs (OSCE, 2010). Beyond the availability of funds, policies and strategies should include the possibility to combine direct and indirect contributions. Currently, in-kind contributions are mainly provided at the local level; only the Ministry of IDPs combines financial and in-kind contributions by allowing
CSOs to make use of public buildings in exchange for their maintenance. This type of practice should be further explored and extended.

The importance of having a well-thought-out strategic vision on engagement with civil society cannot be overstated, especially in light of the fact that in Hungary, Croatia and Poland, a single and specific strategic approach based on a cooperation framework was ineffective for CSO engagement, but rather caused problems of accessibility, as well as political and institutional capture. Given this, it is recommended to leave some room for line ministries, LEPLs and other public granting institutions, including local authorities, to define their own strategies, approaches and policies. This would allow for the definition of more appropriate, accessible, accountable and sustainable mechanisms towards CSOs. It is good practice to consult closely with CSOs when developing these, which will further CSO understanding and ownership of policies and requirements.

**Policies and strategies towards civil society should include the eligibility of funds for capacity development activities**

Support for CSO development requires that all types of public financing mechanisms allow for institutional and capacity development. This is important since it helps CSOs performance in the short term and the CSO sustainability in the long term.

**To demand a more transparent system that ensures equal access to all CSOs**

Transparency, as well as compliance with rules, would be greatly facilitated by a clearer and more consistent system across institutions. There is also scope for greater consistency in the levels and degrees of accountability to ensure equal treatment of all CSOs. Specifically, the selection process and accountability mechanisms should be improved and equalised. Outsourcing the selection of grants to independent groups of experts and harmonising the monitoring and reporting mechanisms are options to be explored. Transparency would also be enhanced if different granting institutions, as well as CSOs, published information about grant-funded activity and entities in a more consistent and uniform manner. This, in turn, would support CSOs accountability.

**To remain independent to hold government accountable**

Supporting CSOs with public resources is of political interest and implies high risks for the nature of civil society. Governments determine where CSOs will work and in which sectors. The balance between keeping CSOs’ autonomy and meeting government requirements at the implementation and political levels has proved difficult for many organisations. There is evidence to show that public funding provides incentives for CSOs to hold back their criticism of public authorities or self-limit their access of funds for fear of being controlled’ or ‘monitored’ by the government. Some CSOs in Georgia seem very aware of this risk and have therefore adopted different measures, such as limiting the share of public grants in the organisations’ annual budget. Other
measures might include applying pressure to develop specific objectives and results for each engagement and the roles for CSOs.

**CSOs should continue working on strengthening their accountability and legitimacy towards citizens**

By having limited and weak accountability towards the taxpayers, CSOs are chipping away their credibility not only vis a vis the Georgian public, but also in front of public institutions when advocating for an increase in allocation of public funds for CSOs. Therefore, it is important that CSOs improve their internal governance mechanisms to strengthen downward accountability and legitimacy for the use of public funds. These mechanisms should not be project-based, but rather continuous and long-lasting tools that would allow for citizens’ feedback of the overall organization.

**To not become dependent on government funds**

Notwithstanding the need to reform the current CSO public funding landscape, government funds should not be viewed as a key determinant of CSOs’ financial sustainability either in the short- or medium-term. Many scholars have pointed out that, in the end, the importance and impact of public funding for an organisation are determined by the “perceived importance of the funding by the organisation” (Arvidson et al., 2017, p. 16), rather than by the economic contribution. In other words, it depends on whether CSOs perceive their relationship with the government as one of dependency or not. Considering this becomes key in a context such as Georgia where public funding seems to imply a risk of instrumentalisation and a perception of politicisation, rather than the achievement of common public good.

**To frame CSOs’ public financing within a larger debate of a welfare model and democracy**

Most European public funding for CSOs is related to a type of welfare system underpinned by social contract between state and society. In fact, the literature review pointed out a positive correlation between strong and highly developed welfare states and a strong and highly developed civil society sector (Desse, 2012; Solomon, 1999). The current situation in Georgia presents a weak CSO granting system derived from a communist-era limited CSO involvement in cultural and social activities, which in the post-communist times expanded to service delivery, due to the state failure. Within this context, CSOs seem to seek public funds to ensure their own economic sustainability, rather than to advocate for the development of a democratic welfare system underpinned by a social contract between state and society. In fact, interviews revealed that the lobbying for the design and adoption of a specific policy for CSOs were strongly influenced by the aspirations of increasing the amount of public funds channelled through CSOs, which is seen as a way of promoting the latter’s economic sustainability.

This approach might not be sufficient to support the consolidation of civil society’s public funding model comparable to the European ones noted at the beginning of this analysis. In this sense, it is encouraged to frame the current debate within the context of the welfare state and welfare
policies, including the role of civil society in Georgia’s sustainable development. This approach would, on the one hand, enhance the credibility of CSOs as drivers of economic and democratic development vis-a-vis the government and, on the other hand, it will strengthen their legitimacy, creating opportunities for greater engagement between CSOs and their constituencies through the achievement of social contract with the state.

The poor results and negative impact of an overall policy for engagement with CSOs in countries such as Hungary, where the CSO policy has been used to persecute civil society, or in Moldova, where the policy was not implemented, should provide enough insights to Georgian CSOs to consider the risks implied by an overall national CSO policy. It should also push them toward more strategic thinking. Furthermore, given the wide spectrum of CSOs, roles and complex relations with public authorities, it is recommended to advocate for sector government-CSOs partnership frameworks underpinned by corresponding sectoral policies, developed by the government in consultation with CSOs. This “Government-CSO partnership sector approach” would allow for setting up engagement policies adapted to the characteristics of each sector, ‘fit for the purpose’ of state-civil society partnerships (social contract), with common goals and agreed results, responding economically and legally to the needs of CSOs and their beneficiaries, while leaving less margin of manoeuvre to shrink spaces for civil society participation.
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