



**More Effective EU Democracy Support in the Eastern  
Partnership**

*Ideas for the Slovak EU presidency and beyond*

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## I. Overview

The Slovak presidency occurs at a moment of intense challenge for the Eastern Partnership (EaP). While most attention has focused on the unresolved conflict in the Donbas, another concern relates to trends in democratic development. Democratic reforms, for the moment

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appear to have stalled in Moldova and Ukraine, as both these countries have been mired in political crises in recent months. Georgia faces crucial elections in the autumn, against a backdrop of creeping Russian occupation and polls suggesting increased support for Russia-leaning parties. Political space is shrinking in Armenia and new protests have erupted in the summer of 2016 against the government. The situation is even more dire in Azerbaijan. Belarus remains resolutely resistant to far-reaching political liberalisation.

In this report, we ask what policy changes the EU might consider to address these trends with a focus on the changing political and geo-strategic dynamics in the region. The EU's attempt to redesign the European Neighbourhood Policy (ENP) on the back of a review published in November 2015 opens up the potential for policy improvements. It also raises expectations of what the EU might achieve, and has brought forth criticism of the direction the new ENP seems to be taking. At a lower level, a mid-term review of the European Neighbourhood Instrument is due in 2017, offering an opportunity to sharpen the modalities of EU democracy support in EaP states.

Our aim in this report is to match political trends within the EaP states to short- and medium-term policy improvements that the EU should be able to introduce through revisions to its democracy support instruments. We stress the role that the Slovak presidency might play in galvanising such improvements and the actions the broader Visegrad Four community might take to help upgrade European democracy support.

We start by situating the challenge of democracy support within the overall strategic context. Future democracy support must relate to, and build upon, the recent ENP review. We argue

there are positive possibilities in this sense, but also that the EU will need to address certain concerns that have arisen over the new ENP that is currently taking shape.

We then argue that EU democracy support in the EaP space needs urgently to deliver more effective backing for civil society. We explain how the nature of civil activism has begun to change across the EaP states. The EU needs qualitatively to fine-tune its civil society programmes, both to keep pace with new forms of protest and social movements, and also to deal with regimes' creeping restriction of civil society organisations.

Next, we argue that support for political leadership and political parties more generally is a missing element of EU democracy support in the EaP that needs urgently to be given greater priority. The EU needs to intensify its so far tepid support for the development of better functioning political party systems. This report suggests different ways in which the EU could make this happen.

We then map out how the EU could, and should, improve support to small and medium-sized enterprises (SMEs) as an integral part of its democracy support efforts. This is especially important as the political economy model of the EaP states and their persistently high levels of corruption and predatory state capture are powerful obstacles to democratisation.

The report attempts to support the Slovak presidency in its intention to intensify the EU's focus on the EaP region and to keep EU membership prospects open to countries that fulfil the requisite criteria – aims the presidency must achieve in the face of multiple internal EU crises. We believe that investing in a more stable and democratic Eastern Neighbourhood is vital not only for the region itself but also for the EU's geopolitical interests.

## **Section A: Short-Term Imperatives**

## II. The New Strategic Context and Revised ENP

The development of more effective democracy support must proceed from the current realities of geopolitical changes in the EaP area. And it must harness the potential provided by the ENP review of late 2015<sup>1</sup>, which is currently the overarching framework for redesigned EaP policies (over and above the Association Agreements that three EaP states have signed).

The ENP review contains positive signals for democracy support, but has also engendered new concerns. In the context of recent developments in the EaP region, the ENP review does not provide a comprehensive strategic revision. Rather, it opens the way to a more modest adjustment to a changing reality that is driven by many variables. Many of these variables are, of course, neither generated nor controlled by EU policies. The review looks ambitious in the context of how the EU works, given the complex institutional nature of any review of this sort. In this sense, it augurs well for the future and gives democracy support a new platform upon which to base itself. On the downside, it is not clear that the incipient new ENP carries a strong or clear message to democratic actors in the EaP states.

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Some experts have praised the ENP review for acknowledging the situation on the ground in the EaP region. It certainly draws many correct reflections on the different aspirations and level of preparedness of the neighbouring countries to engage with the EU. The attention the review gives to the principle of differentiation is notable and generally welcome – and potentially good news for the prospect of more tailored democracy support. The review is also strong on the operationalisation of EU interests and introducing (at least formally) an enhanced security angle – both overdue changes.

Nonetheless, the review has received a lukewarm reception from civil society organisations and other players promoting human rights and democracy. Their main criticism is that the EU seems

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<sup>1</sup> EEAS, European Commission (2015)

to have turned towards *realpolitik* and away from the promotion of values. The main priority now seems to be on imminent, short-term concerns of stabilisation and migration.

Conditionality, once a cornerstone of EU external action, is not mentioned even once in the text. Many civil society organisations fear that this denotes that the EU will favour policies of uncritical engagement with non-democratic regimes and that the Union will relinquish its main source of leverage for democratic reform.

The ENP review does not offer a clear ordering of priorities but a mix of old and new frameworks. It lists priorities as a flexible *a la carte* menu for the neighbours. Good governance, democracy, rule of law and human rights represent, for example, a self-standing framework (in chapter IV of the review) based mostly on existing tools and priorities that will form a “baseline” of the policy. A clear link, however, to the key chapter on proposed joint priorities for cooperation (chapter V) is missing.

As regards implementation, the new thinking aims to reduce cooperation with partner countries to three priorities. This is a response to an underperforming incentive-based approach (the “more for more” principle). This “fewer and bigger priorities” approach should allow for a concentration of resources and more focused action. One outstanding problem is the selection of partnership priorities, however, which is not clearly defined in the document – other than in a reference to the greater involvement of EU Member States being important. The process of setting priorities is likely to be run by governments, with very limited involvement of local civil society and other non-governmental actors. We fear that this will provide political leaders in the partner countries more control over EaP policies, over and above societies’ preferences.

The ENP review’s new focus on bilateral relations with individual EaP states is in many senses welcome. However, if pushed too exclusively it could be damaging for many issues like the environment or security that need to be tackled at a regional level. Although the future of the multilateral track of the Eastern Partnership is not fundamentally questioned in the review document, in practice the trend is already towards a focus on bilateral relations. The division between those EaP countries with Association Agreements and those without these agreements has much logic to it – but it should not entirely eclipse the ENP’s regional dimension.

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The ENP review does not address an increasingly evident weakness of EU democracy support: the fact that political reforms can be so easily reversed. Often the EU has

backed democratic reforms in EaP countries, but without focusing on making changes irreversible. The question of how to ensure that there is no reform backsliding needs to be more explicitly and systematically addressed.

To this end, there needs to be more political oversight of EU funding. As funding has become so sought after across the region - and given the not entirely positive experience with direct budget support - full access to information on EU funding should be granted to international and local watchdog organisations.

The ENP review is right to state that current policies have not worked well for various reasons – including the internal incoherence of the EU and the multiplicity of internal challenges that needed to be answered. The revised policy line might indeed bring about tighter control over at least some processes in the neighbourhood and strengthen some capacities of EaP states.

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However, there is one key strategic ingredient missing, if the shortcomings of previous ENP efforts are to be corrected. It is illusory to think that stability and security can be achieved without dealing more effectively with the policies of the Russian administration. The ENP review eschews any mention at all how EU policies in the EaP region might help shape change within Russia itself or of Russia's involvement in the region's (semi-) frozen conflicts – both of which are key to long-term stability.

Those actors in EaP societies that dedicate their professional lives and, in some cases put their personal safety at risk, to bring their countries closer to European values have expressed disappointment with (what they see as) the realist policy turn taken by the EU. This is despite EU promises to continue funding democracy programmes and make funding more flexible. Reformers need the political weight of the EU behind them when they challenge their governments.

## *Recommendations*

This account points to elements of the ongoing reform of the ENP that still need to be fine-tuned. There needs to be a clear statement on democracy support being part of the EU's new geopolitical approach -

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either as a separate declaration or in the revised terms of ENI guidelines. The EU must make clear that the emerging ENP will not side-line civil society actors and the pro-democratic elements of society. The Global Strategy, presented on 26 June<sup>2</sup>, offers some very general language on democracy that should be harnessed in an operational fashion within the EaP framework.

The EU institutions are looking for innovative ways to include and consult civil society on priorities for the new EU-Azerbaijan and EU-Armenia agreements. These welcome steps should be formally codified, so that the new ENP does not (even implicitly) weaken pro-democratic efforts – or create a context that makes effective democracy support programmes harder to run in EaP states.

Furthermore, it is necessary to clarify the reference to Member States' greater involvement. EU Member States should help create more synergies and coordination both at a political and an implementation level. Local civil society organisations are often confused by diverging messages coming from different European actors. More binding guidelines on coherence are needed for future practice.

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<sup>2</sup> European Union Global Strategy, (2016)

### III. Sharpening EU Instruments

In a close follow-up of the recently issued ENP review, the European Commission has also started the process of revising its financial instruments for the EU neighbourhood. The expectations here should be modest. The financial regulation that establishes principles of EU budget spending and sets limits to funding flexibility is not likely to be amended significantly. One of the debated amendments that will be proposed by the European Commission and might be adopted is a mechanism allowing for a smooth transfer of unspent resources from one budget year to another. The revision of programming documents, including regional programmes and multi-annual priorities, and the Single Support Frameworks will now take place in 2017 instead of 2018. This is in order to incorporate the ENP review and the new partnership priorities for political and technical cooperation that are to be agreed with the partner countries and established within the Partnership Priorities Framework.<sup>3</sup>

At this stage, it seems there is lack of will to modify the main instruments covering the Eastern Neighbourhood – the European Neighbourhood Instrument (ENI), the European Instrument on Democracy and Human Rights (EIDHR) and parts of the Development Cooperation Instrument (DCI) - until the debate about the next financial framework begins at the end of the 2014-2020 period. Although there are already some ideas circulating about how the instruments should look under the next EU financial perspective, such a debate is long term – it will need to bring in the issues suggested in section B of this paper.

Whether or not any “strategic leap” will take place in 2020 remains unclear. The EU, works slowly and through small adjustments. At present, it is realistic to focus on a less ambitious but useful agenda that might add at least some flexibility to the EU’s notoriously rigid funding rules.

***Improved data collection, statistics and analysis*** to support smart-granting should be put in place. In particular, better data collection on how much the EU spends on different priorities would help formulate better policy.<sup>4</sup> The European Commission (DG NEAR) gathers data for sectoral envelopes and some empirical data can be drawn from the EU’s *Financial*

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<sup>3</sup> Out of the EaP countries, the Partnership priorities will be concluded with the countries that have not signed AA/DCFTA. Georgia, Moldova and Ukraine are in this sense enjoying much more complex contractual and consequently financial relation with the EU.

<sup>4</sup> Rihackova, Vera (2014); Szent-Iványi, Balázs (2014); Kaca, Elzbieta (2014)

*Transparency System.*<sup>5</sup> However, a set of criteria and a comprehensive cross-DG data collection mechanism that would deliver information on how much the EU spends, and on which type of actors and actions, is long overdue. The EU also needs to strengthen situational analysis and focus policy research to sharpen the EU's grant-making activities. Situational analysis must use all intra-institutional sources of information in order to identify major obstacles to democratic developments in the neighbouring countries and be used to underpin programming.

***Re-granting*** is a useful tool that helps the EU deliver small grants to grass-roots organisations through intermediary partners. It is important, however, to develop this tool further, especially as the EU is shifting towards bigger value contracts and grants. The criteria for re-granting - currently under discussion - must allow for larger amounts to be re-granted. The EU should consider enlarging the pool of beneficiaries for whom re-granting to local civil society is mandatory. More transparency and reporting is also needed to ensure that such re-granting increases. The EU should also allow beneficiaries a 'risk money cushion' for riskier support to non-registered entities and new forms of civil society actors described in Section B of this paper. This would go beyond the kind of lump sum funding available through re-granting rules.

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***Using existing flexibility in full.*** As civil society space is closing in many countries, the EU needs to use its own flexibility clauses more extensively. Funding for non-registered entities from the EIDHR hardly occurs and is extremely ad hoc and under-utilised. It would be useful to map the reasons why this is the case (for example, the personal liability of EU officials) and address these obstacles with specific guidelines.

***Joint programming for calls*** including Member States and civil society networks should become established practice. So far this has been limited as it is often a matter of lobbying and the good access of some civil society organisations based in Brussels that are the determining factors. Additional joint programming measures would not only bring additional expertise into the drafting process of the calls, but also a regulated information flow towards the potential applicants. The EaP Civil Society Forum, for example, could be involved in programming calls

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<sup>5</sup> Financial Transparency System, European Commission

covering the EaP region, as CONCORD (European Confederation of Relief and Development Non-Governmental Organisations (NGOs)) has been involved in the programming of DEAR (Development education and awareness raising) calls. However, clear rules for joint programming should be elaborated to ensure that conflict of interest is avoided.

*Support to actors* that are delivering flexible assistance to civil society in the region, needs to be stepped up in response to the closing space for civil society in some EaP countries and to address the fast changing needs of societies elsewhere. A specific facility pooling the resources of Member States and the European Commission should be set up to provide funding outside the established legal framework.

## IV. Maximising Visegrad Four Experiences

There is scope for the Visegrad Four (V4) states to sharpen the use of their own transition experiences under the rubric of ENP and EaP initiatives. They have all used this approach in recent years, of course. Yet, more needs to be done to maximise the potential and avoid the more simplistic approaches towards experience sharing.

The V4 countries have made democracy assistance, based on direct transition experience, a priority of their official development assistance in their neighbourhood. The EU has recognised the potential for sharing the transition experience of its members in various policy papers.<sup>6</sup> The publishing of an online database – the European Transition Compendium (ECT)<sup>7</sup> in 2010, represents the most visible and practical step the EU has taken in this direction. Although this was a promising step, unfortunately the tool has not been updated or developed further since then.

One of the most innovative proposals in this area comes from the European Parliament in its resolution<sup>8</sup> of 2008 where it called on the Commission to actively involve Member States with relevant transition experience in the preparation and negotiation of Action Plans and in monitoring their implementation. However, no concrete implementation measures have been presented so far.

In 2011, eight of the central and eastern European (CEE) countries produced a Non-paper,<sup>9</sup> ‘Harnessing the transition experience in the EU’s external relations – from policy to implementation’, in which they called on the European Commission and the EEAS to develop a more systematic approach towards using transition experience in external relations. This, they argued, would improve aid effectiveness through enhancing capacity development and closely link EU external and development policies with citizens’ needs on the ground. They called for

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<sup>6</sup> European Consensus on Development (2005); European Council Conclusions of 18 November 2009 on an ‘Operational Framework on Aid Effectiveness’; European Commission Green Paper on EU Development Policy (2011)

<sup>7</sup> European Transition Compendium (2010)

<sup>8</sup> European Parliament (2008)

<sup>9</sup> Non-paper by the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Slovak Republic and Slovenia (2011)

shares of funds under the whole array of EU budget lines to be ring-fenced for such transition experience sharing.

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Increasing the number of implementers from member states with relevant transition experience would strongly enhance the transition-experience flow and thus benefit EU democracy support. Central and eastern European countries have gained expertise in running democracy support programmes both as donors as well as implementers, and therefore can understand both sides of this equation – unlike the bigger and more established democracy promoters. The fact that the EU has yet to involve central and eastern European implementers on an equal footing represents a lost opportunity.

EU funding rules are difficult for small CEE implementers to meet, given their relatively limited capacities. As a result, only 3.6 per cent of the total value of all grants and contracts aimed at democracy promotion in the Eastern Neighbourhood between 2007 and 2010 was implemented by CEE organisations as leading partners - only 30 projects out of 649.<sup>10</sup> Out of the 3921 grants awarded from EU thematic programmes (DCI) and instruments (EIDHR) between 2004 and 2013, only 30 were awarded to central and eastern European organisations, representing a mere 0.75 per cent.<sup>11</sup> The EU needs to correct this imbalance.

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<sup>10</sup> Szent-Iványi, Balázs (2014)

<sup>11</sup> Oana Raluca Badan, & Mirjam Sutrop (2014)

## *Recommendations*

Wider re-granting provisions would help to achieve this objective – smaller implementers could then be funded via larger recipients. EU programmes should also help CEE implementers build their own capacity to carry out democracy support in the EaP. The experiences of DEAR calls,<sup>12</sup> that have found ways of including the region’s organisations to a greater degree in education initiatives, should be extended to the democracy field in the EaP region. Central and eastern European experts should also be included more systemically within TAIEX (Technical Assistance and Information Exchange instrument of the European Commission arrangements).

Of course, there are significant differences between EaP states’ political conditions and those of the V4 states in the 1990s. However, the shared post-communist past and the language and cultural proximity play a significant role. EaP reformers frequently demand help from V4 and Baltic experts. This is an untapped potential that the EU must do more to fully realise. Supporting CEE implementers, who often act as democracy watchdogs and are actively engaged in their own countries, would also help address on-going concerns with democratic backsliding within the CEE Member States themselves.

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<sup>12</sup> Due to precedential lowering of some DEAR calls criteria for applicants from CEE, e.g. co-financing, the grant minimum, required years of experience; CEE implementers were successful in securing 14.17 per cent of all allocated budget (17.43 per cent of total awarded grants between 2004 and 2013).

## **Section B – Medium-Term Challenges**

## V. New Approaches to Civil Society

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In recent years, challenges and opportunities have arisen that affect civil society support. New kinds of civic actors and protest have appeared in states like Armenia and Ukraine; new forms of organisation have taken shape in places like Belarus; and at the same time, new regime tactics have narrowed the space for civil society support, most dramatically in Azerbaijan. The context for civil society in the European Neighbourhood has changed and this merits a wholesale reconsideration of donors' support for civil society organisations.

Civil society has taken on a new vibrancy, as protests have spread in several EaP countries. New forms of social protest based on digital technology have both positive and negative features. They involve effective protests against regimes, but have not shown themselves good at post-protest, long-term alliance building. This has been apparent in Ukraine and Armenia. Divisions are also widening between new urban movements and more traditional organisations in rural areas.

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international donors. This is part of a broader debate that is gaining traction over different 'varieties of democracy' that might merit encouragement, which in part reflects the emergence of new types of civic actors. Some new civic movements may militate for democracy but not be especially 'liberal'.

Today, civil society is a more contested concept amongst analysts than it was in the moment of liberal optimism following the fall of the Berlin Wall. It is also a far more divided sphere. The division between 'old' and 'new' civil society is currently the subject of much debate amongst activists. And it is an increasingly potent phenomenon with which external support for civil society still struggles to come to terms.

The trend in most EaP societies today is towards a younger generation seeking more direct models of democracy based on digital technology and crowd sourcing – as was seen in activism in Moldova during the last year, for example - and what these demands mean for existing concepts of both representational and direct democracy.

Today influence is wielded through diffuse social movements at least as much as through traditional civil society organisations. These movements offer a form of ‘counter-power’ as they link together different issue-based networks. They often reject standard forms of leadership and have generally not forwarded very comprehensive policy programmes. It is said that their importance lies in the very *process* of networking rather than any well worked out or long-term substantive goals.

Membership of such movements is most often occasional and shifting; individuals protest but then do not invest huge amounts of time or effort in developing serious and implementable detailed proposals for any one civic body. Part of the reason for this is that the nature of the protests movements have often been predicated on an uneasy and diverse mix of actors – as was seen most dramatically in the case of the Maidan revolt in 2014. Today’s civil society is, some experts insist, more about diffuse networks, selective participation, actions as ends in themselves, civil disobedience, and symbolism.

Experts talk of a ‘second generation’ civil society emerging in EaP states. These are based around informal campaigning for extremely local issues, like saving a particular park or preventing a given development project. The 2015 Electric Yerevan protests are often cited as typical of this new activism. Activists see such specific issues as the concrete manifestation of corruption, oligarchic capitalism and persistent authoritarian dynamics. The groups are not professionalised and indeed often have a negative view of the professionalised NGO sector that they see as too self-serving and tame. The second generation initiatives want to be seen as broad-based and inclusive movements, not ‘opposition’ activists aligned with certain political parties or political agendas.

Some analysts see the new shape of civil society as positive for democracy; others fear its impact is highly problematic and destabilising. It is unclear how external actors can influence these new trends – if at all.

In many senses, the changes are positive and welcome. The emergence of new civic actors and more confrontational protest activity represents a benign, healthy and to-be-expected playing out of the way that democracies are supposed to resolve differences. The middle class has become more active across the world as its attention turns to non-material grievances, like political freedoms.

Conversely, sceptics argue that the explosion of protests denotes a mal-functioning, or misfiring of the long-supposed connection between civil society and democratic quality. They argue that today's new civil society actors are almost the antithesis of the democracy-enhancing qualities that civil society organisations have traditionally been assumed to possess. Today's protestors oppose and seek to undermine governmental power; but they have no ideology, no comprehensive governing manifestos of their own. They propose no solutions. They oppose certain policies (austerity, elite corruption) but have no systemic alternative worked out.

Some observers feel that disruption has become an end in itself. Within and beyond the West, participation in politics today stands at odds with

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political representation. Critics lament that civic movements are today anti-institutional; they do not seek actively to strengthen the institutional checks and balances of liberal democracy but rather seek direct action as a means of circumventing the channels of representative democracy. As governments change time and again with no significant adjustment to policies, they see elections as increasingly meaningless.

A different and more clearly negative development relates to the tactics that non-democratic regimes today employ to neuter international civil society support. These tactics go from the overt banning of external civil society funding to more subtle means of limiting donors' political space for working with civic leaders. Donors have yet to design an effective way of working in this less favourable context.

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These trends – positive and negative; structural and policy-specific - are unlikely to be temporary blips. Rather, they will colour the whole context of democracy and human rights support over the long-term. Evidence of what works and what does not work must be closely inspected and some long-standing assumptions about civil society support across the ENP region need to be re-examined. This must be done in a way that links together traditional NGOs and new civic actors. Of course, the EU should not abandon its traditional NGO partners. Indeed, sometimes it is NGO leaders who establish new movements as they seek to keep pace with new tactics of civic activism. Rather, the EU must work to bridge the best elements of the old and new forms of activism.

## *Recommendations*

ENP instruments need to support new forms of civil society activism, while also working to limit the fragmentation that it often entails. The EU needs a greater capacity to identify and communicate with the new actors. Furthermore, it needs a beefed-up EaP advisory group structure. The use of open ‘calls for proposals’ is probably not the most effective means of addressing the new environment.

As the second generation of civic initiatives in ENP states commonly does not seek external funding, donors need to reassess the best way to facilitate their activities. Getting too close to such groups may undermine their credibility; therefore, more attention should be paid to structural conditions. The aim should be to help put new civic activism on a more stable footing.

New forms of civil society action place a premium on agile opportunism – tactical flexibility and quick responses to reform opportunity as and when these appear. They call for less reliance on standard ‘building block’ models of democracy-building, where the EU simply works methodically through capacity-building programmes in each of democracy’s constituent components.

ENP instruments need to support new civic activity but also seek a *bridge-building* function into representative institutions. The ENP and ENI should pay more attention to balancing and combining the *critical* function of civic initiatives with their *agglutination* (or interconnection) role.

In response to the ‘closing space’ challenge, EaP democracy support will need to be refashioned as a more subtle and sensitive endeavour, but must also not become overly defensive. The EU needs to respond in a more political way, but also without engendering a counter-productive spiral of repression. The ENP/ENI need not only to react after-the-fact, but also to get ahead of the curve and adopt strategies able to pre-empt problems EU partners might face from regimes. Because of the closing space challenge, EU programmes need to take the ‘do no harm’ principal far more seriously.

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There is much debate over how critical the EU should be in its diplomatic responses to cases of new restrictions placed on civil society. Getting these reactions right is important. But even more crucial is to start planning further ‘upstream’ in the process of civil society support, with the aim of heading off dramatic clampdowns well before regimes contemplate such actions.

While often the EU will need to offer covert protection to human rights defenders, in general it should be more transparent in its aims. EU actors will need to define and publicise their aims and guidelines more clearly and more transparently so that they cannot be accused of partisanship or direct political meddling. Of course, the EU insists it does not take sides and has perfectly benign intentions in its EaP civil society support; nevertheless, more could be done in terms of explaining and public diplomacy, and modify the rules of engagement to undermine any grounds that regimes might have to drum up popular support against ‘external agents’.

Much of the EU’s focus has been on protecting human rights defenders when these are targeted by regimes. Such protective measures are, of course, necessary, but they attack the symptoms, not the cause of the closing space problem. Rather than a direct targeting of opposition to the regime *per se*, sometimes donors will need to take a step back and aim at building a new form of politics over the longer-term.

Most crucially, this challenge requires much greater coherence between civil society support and other aspects of EaP policies. Dealing with the backlash must be part of a broader strategy. Authoritarian regimes can still too easily take advantage of contradictions in democracies’ foreign policies.

One much discussed way forward is to wrap civil society support up within broader packages of EU economic support. If this route is pursued more fully, operational guidelines would be required to prevent the more political elements of funding being diluted by economic assistance. This would require greater buy-in to the democracy agenda from all sectors of the EaP machinery.

More flexible EU funding rules are required to free up the kinds of imaginative funding capable of circumventing regimes’ cleverer backlash techniques. Efforts should be made to support innovative measures that democrats adopt in many countries to get around new restrictions on their activities. Regime restrictions evolve quickly. However, local civil society organisations also evolve quickly in response. Therefore, the ENP and EaP must be more capable of keeping up with this iterative tit-for-tat in the way initiatives react on the ground.

## VI. A Link to Leaders and Parties

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*The EU must be ready to invest in a new generation of political leadership across political society, including through political parties and their local or youth and women branches.*

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Alongside the changes to civil society support, the EU needs to work harder to support the development of political leadership across the EaP space. Political parties need to be considered as partners of change on an equal footing with civil society and included amongst the recipients of EU democracy support.

Experience has demonstrated that political parties can either lead democratic change or be the main obstacle to it. Well-tailored assistance in the programmatic, managerial, and ideological spheres, alongside support in transforming electoral success into responsible and efficient governance is needed to ensure the former scenario rather than the latter. The EU must be ready to invest in a new generation of political leadership across political society, including through political parties and their local or youth and women branches.

Stronger political leadership can play a crucial role in creating a pluralistic environment capable of reflecting a broad scope of political and reform questions. Healthy political parties can act as bridges between NGOs and governments (and parliaments) in policy-making, legislative drafting and the overall change of political culture. This structural and societal change can provide an indispensable and long-lasting political dimension to pro-democratic reform processes.

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*Investment in political leadership not only improves party structures and engages citizens in the democratic processes, but also accelerates the overall vibrancy of civil society.*

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Political parties and movements with wide local structures and democratic internal decision making can help bring previously disenfranchised and underrepresented populations including women, youth, people with disabilities, or minorities as well as various citizens' interest groups into the centre of political decision making. This, in turn, enriches the variety of policy options for voters. Investment in political leadership not only improves party structures and engages citizens in the democratic processes, but also accelerates the overall vibrancy of civil society.

European democracy supporters still under-play the importance of political leadership and parties, including in the EaP region. Yet, through the vast network of European political parties, that include membership from the EaP countries, and with the transition experience accumulated among various political leaders across the European party spectrum, the EU is actually in a much better position than US implementers to provide broader support to pro-reform transition via greater engagement with political parties.

The side effect of the EU's rather narrow focus on NGOs creates a divide within the political sphere that is unhelpful to reform. The EU sees NGOs as the stars of pro-democratic change, while political parties are perceived as laggards. This picture, though often true, discourages pro-reform citizens from actively joining political parties. It also diminishes the pressure local party structures can assert on their leaders to push for reforms as members of parliaments or governments. Investing in a new generation of pro-reform leaders can help make reform more sustainable.

Across the EaP, the EU needs a better balance between civil society and political party support. NGOs can rarely be at the helm of reforms. Only a balanced approach engaging the full spectrum of civil society – including its political sphere - can trigger change in political culture. This would help NGOs to become more representative and increase citizens' confidence in political leadership, as the new societal dynamics will push them to become more accountable to their electorate.

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Assistance to political actors means supporting democratic checks and balances within policymaking systems that lead to ideologically balanced policy proposals, encourage strong party management, responsible political behaviour and participatory dynamics. Such assistance would allow for a greater space for dialogue with the rest of the society. The latter is of particular importance as it is central to successful reform processes and functioning democracy.

There are two primary support schemes for political leadership in place. First, multi-party assistance, focusing on party systems, parliamentary and electoral processes. Second, assistance centred around individual parties or party coalitions. Both of these models must include the whole spectrum of political parties from left to right, and all parties that pledge adherence to democratic principles and values, including parties in the governments or governmental coalition and in the opposition. This requires tailor-made approaches to the whole range of political actors, as in each of the EaP countries the power

relations between pro-reform and reform-hindering or pro-democratic and illiberal parties differ. It is of vital importance that the EU not exclude democratic parties critical of the Union from its support.

While Member States' political foundations (mainly the German political foundations) and the US aid organisations run programmes under both the possible models of party support, the EU has only slowly begun to act in this sphere and mainly adhering to the first model of support.

In the last few years it has provided support to the European Network of Political Foundations (ENoP) that represents 70 political foundations from 25 countries. In 2012, the European Commission produced a guideline, 'Strengthening democracy support to EU delegations: from performance indicators, knowledge sharing to expert services' under the rubric of the European Instrument for Democracy and Human Rights. This was designed to help EU officials and delegations run small scale programmes that included political parties. The European Commission has also promised to step up EU engagement with political parties in its Action Plan on Human Rights and Democracy (2015–2019).<sup>13</sup>

### *Recommendations*

The recent steps taken by various EU institutions provide a good foundation for further engagement with political leadership and parties within its democracy support assistance schemes. But more needs to be done.

Enhanced support in the ENP can be built on three pillars: first, by seizing the potential of European political parties to provide assistance to their partners in the EU's neighbourhood via their institutes and network foundations; second, by seeking new ways of support for the work being done by political foundations, most of which are united under the ENoP platform; and third, by enabling greater sharing of transition experiences within the European political families.

The European party foundations are in the best position to provide the space and structure for such support with the broad networks of political parties in the EU's neighbourhood. An effective system for sharing the central and eastern European political leaders' transition experience would be extremely valuable to EaP reformers. Some fear that democracy support mechanisms for political parties could be used for party political competition; however, the codes of conduct within platforms such as ENoP have

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<sup>13</sup> European Commission, 9 (2015)

been effective in keeping this in check and, therefore, should be used in a similar fashion in new EaP initiatives.

The potential of European political groups to support their family members is clearly demonstrated by the few existing initiatives of this kind, such as a pilot projects of the Wilfried Martens Centre for European Studies and of the Alliance of European Conservatives and Reformists (AECR) in Ukraine. However the current ENI's structures do not allow the European political families fully to explore their potential in this sense. The EU should seek ways to support coordination among political foundations on how to better provide reform and party building expertise. The support could then also be channelled and increase the quality of existing programmes, like TAIEX for example.

Equally, the EU should extend its funding for both multilateral and one-party targeted support that is currently provided by a strong network of implementers - including political foundations, international organisations, European political foundations, the EED and the European Parliament (through its Directorate for Democracy Support). It should also increase coordination with national parliaments' programmes for supporting parliamentary democracy. In addition, it should invest more in increasing expertise on working with political parties and parliaments among the European Commission and the EEAS staff in Brussels as well as staff at the EU Delegations in EaP states.

Parliamentary strengthening should be further supported. The successful model of the European Parliament's support to the Ukrainian Verkhovna Rada should be extended to Georgia and Moldova (and potentially to further AA countries). With close cooperation amongst the political foundations and families, and also civil society experts, the European Parliament can accelerate good quality legislative processes and strengthen parliamentary oversight as well as support legislative implementation of Association Agreement and free trade commitments via the EuroNest Parliamentary Assembly and bilateral delegations to the EaP.

And finally, it is important that the implementers of political party support do not view their involvement as competing with NGOs for their share of the funding. A more diversified allocation of funds, with clear budgetary lines for support of the political aspect of civil society may be required. Flexibility, sustainability and a less technical and more political approach must be among the main principles of all EU support schemes. Adding the necessary political dimension to EU democracy support is something that would arguably do more than anything else to generate tangible results in the EaP.

## VII. Vibrant Private Sectors in Support of Democracy

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*Democratic transition can – in the right conditions – be aided by a competitive market economy that disperses economic power through the growth of small and medium sized enterprises.*

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Democratic transition can – in the right conditions – be aided by a competitive market economy that disperses economic power through the growth of small and medium sized enterprises (SMEs). It is well known that, in general, democratisation is unlikely and difficult without a vibrant market economy (although evidence shows many nuanced variations in the relationship between economic and political liberalisation). Where a state helps the development of SMEs this can help ensure that the middle class is not tempted by illiberal economic and political models. This part of transition is often overlooked in international democracy support policies.<sup>14</sup>

A strong and growing SME sector can help empower citizens directly and offers one path to fight corruption. In most transitional countries, economies are dominated by large state-owned firms, monopolies, oligarchs and crony capitalists. This concentration of economic resources goes hand in hand with a concentration of political influence. Large firms have the resources to fund political movements and influence the media. Their overwhelming influence produces opaque decision-making. A large number of citizens are dependent on oligarchs for a meagre living, which restricts their political options and freedoms. This feudal-like crony capitalism is often orchestrated by the Kremlin to further its geopolitical interests. SMEs help diversify both home grown as well as foreign economic and political influence. Small business owners and associated professionals tend to have an interest in transparent procedures and rule of law, because they cannot compete through insider, backroom deals. Citizens employed by SMEs often are better compensated and more empowered to engage in politics than employees of state-owned or monopoly firms.

Employees of SMEs have more incentives to press for democracy and to vote for moderate, reformist parties in elections than do workers in state-owned monopolies or oligarch businesses.

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*A large number of citizens are dependent on oligarchs for a meagre living, which restricts their political options and freedoms.*

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These observations are especially pertinent to EaP states. The enabling institutions of market economies have not gained traction in EaP countries, and need further support and strengthening. SMEs are especially important in the EaP environment today. Supporting SMEs to become competitive with EU-

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<sup>14</sup> CIPE (2007)

based firms will be crucial to assuaging doubts about EaP policies. In the long run, a stronger business sector in the EaP can provide financial support to independent and web-based media, helping to develop greater media pluralism and fight Kremlin disinformation. In the process, support to SMEs could be showcased to demonstrate the tangible benefits delivered by EU assistance.

To this end the EU should not only support economic reforms, but also encourage the creation of business organisations and chambers that would support such changes via political engagement.

The EU has developed its own ‘Small and Medium Sized Enterprises Flagship Initiative’<sup>15</sup> to the EaP. This Initiative seeks to support SMEs on the policy level in cooperation with the OECD and helps the partner countries establish effective SME policies. The EU also co-finances the World Bank’s STAREP programme to improve financial reporting.<sup>16</sup> In addition, the EU has initiated a networking programme through EastInvest, also aimed at providing capacity-building. Furthermore, the EU also provides direct business support to SMEs through the SME Finance Facility (together with the European Bank for Reconstruction and Development, European Investment Bank and KfW) that is operated under the Neighbourhood Investment Facility.<sup>17</sup>

To sharpen the effectiveness of this on-going work, the transition experience from the Visegrad Four would be extremely useful. Furthermore, an investment-oriented assistance program, similar to USAID Enterprise Funds, could also facilitate change in the local economies.<sup>18</sup> Currently, the EU is not running any comparable programmes - the SME Finance Facility comes somewhat close but is not as comprehensive (for example, it does not involve ‘embedded’ EU managers to serve on the boards of EaP SMEs).

EaP countries’ institutional frameworks still need a major overhaul. Better protection is needed for minority shareholders, for example. SMEs can act as a catalyst for these changes, and via their own structures and together with the support of civil society they could push for reforms that would create a healthy capital market. Lack of access to capital remains a key challenge in EaP countries, and building trust and sound institutions could significantly lower the hurdles SMEs have to overcome. SMEs and civil society need each other if they are to succeed in their push for institutional reform.

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<sup>15</sup> European Commission (2015)

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

<sup>18</sup> USAID (2013)

Several key components must be included in any strategy to support SMEs. The above-mentioned investment-oriented approach should prevail when selecting local SMEs to take part in EU assistance programs; strong business cases and plans should be required to gain access to EU funding, and keeping local companies accountable must become a priority. The current SME Finance Facility includes some elements of this investment-oriented approach, but there must be a stronger emphasis on Return on Investment (ROI) and keeping managers accountable. The second element of the USAID Enterprise Fund approach – putting successful EU businesspeople on the boards of supported companies – could serve two goals: these professionals could ensure effective oversight and advise on competitive business environments.

Therefore, to ensure a well-functioning monitoring system for partner SMEs, well-known and respected managers from the CEE region, who have gone through this transition period themselves, should be used. Ideally, these managers would participate on a *pro bono* basis to provide advice for EaP SMEs in order to maximise the impact of the assistance programmes. Currently, this type of knowledge transfer is not featured highly on the EU's agenda.

### *Recommendations*

The EU's Eastern Partnership Small and Medium Sized Enterprises Flagship Initiative needs to make *capacity building* more of a priority: the V4 example shows that companies must first be established then learn the rules of the game, and finally acclimate themselves to competition they have never experienced before. Management skills truly make a difference between success and failure because these companies do not have any cushion to weather tough times.

There must be a change of mind-set on the EU and donors' side as well to think in terms of investing rather than subsidising. Donors must support SMEs in building solid business models. Holding grantees accountable – possibly via embedded managers or regular evaluations – is one way to do this.

These approaches to support interventions will not yield results immediately. Time is needed for reforms and capacity-building to make a difference. However, the EU can focus on several intermediary indicators to track progress. For example, entrepreneur associations can be formed that can partner with other civil society organisations in order to hold governments accountable; advocate for a better legal

environment; and fight against corruption nationally and locally.<sup>19</sup> Opening EU-sponsored supporting offices in key locations in EaP countries could help develop the right legislative framework, strengthen the rule of law and the protection of property rights, and guarantee the protection and enforcement of contracts.

In the longer run, the focus should be on impacts rather than outputs. Lower transaction costs as a result of trust-building measures are key. Furthermore, the establishment of local investment funds and other stable financial institutions helping the growth of SMEs and entrepreneurs should also be taken into consideration.

The EU should develop a more specific initiative to support SMEs as anti-corruption actors. The high level of systemic, predatory corruption in EaP states is well-known, and many EU initiatives seek to tackle this serious problem. Yet the EU could do more to enlist SMEs to work with reformist local officials and civil society to attack networks of nepotism.

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In all these dimensions, EU support for SMEs will not provide an automatic glide-path to democracy, but could in some conditions make a modest contribution to weakening the centralisation of economic power that works against democratisation across the EaP region.

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<sup>19</sup> During the roundtables in Bratislava, Prague, Budapest, Warsaw and Brussels discussing this paper, a concrete proposal to fight one of the main obstacles of pro-democratic changes – corruption was developed. Its core idea lies in building corruption-free safe havens with a help of local authorities and citizenry. More on this idea and its development can be found here: <http://kki.gov.hu/corruption-free-safe-havens-a-concrete-proposal-for-actionw>

## VIII. Conclusion

### *A path forward*

While EU leaders self-evidently have crucial internal questions on their agenda during the Slovak presidency, it is vital they do not pass up the opportunity to improve the effectiveness of their reform efforts in the EaP. Recent months have seen a worrying EU disengagement from EaP questions – as internal questions dominate discussions, events in the Middle East and security challenges have become a more acute concern, and as the situation in the EaP appears – on the surface, at least – to be stabilising or at least not dramatically worsening. We believe, however, that in order to secure a pro-democratic course for the region, EU governments must redouble their focus on EaP policy and goals. It is vital to be proactive rather than reactive to stave off future crises and improve conditions on the ground.

To reiterate, our main suggestions are that the EU:

- *uses the ENP and ENI review as a platform for reform;*
- *attains greater buy-in to the democracy agenda across all economic support and security policy measures;*
- *taps into the transition experiences of CEE countries to enhance the efficiency and irreversibility of the reform process in the EaP;*
- *employs a broader understanding of civil society including its marginal and not entirely pro-EU factions;*
- *offers more flexible and tailor-made support to NGOs, new civic actors, political parties and SMEs;*
- *invests in stronger political leadership;*
- *links its democratic support more effectively to its private sector initiatives.*

If the EU fails to sharpen its policy instruments in the EaP, then it will be unable to help address the root-causes of the underlying challenges that have resulted in the many current, and possible future difficult geopolitical dilemmas. Therefore, the Slovak presidency must use the opportunity that the next six months presents to call for the necessary reforms

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