

## **US Aid Cut Damages Shevardnadze**

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Washington's move stemmed from concern over pace of reform and corruption.

Washington has undermined President Eduard Shevardnadze's standing a month before parliamentary elections with its plan to cut financial assistance to Georgia.

Visiting Tbilisi at the end of September, Thomas Adams, the United States' senior coordinator for aid to the former Soviet Union, delivered a tough message to the Georgian government, telling them that Washington was deciding to wind up support for the energy sector and the finance ministry because these projects were "not producing results".

Over the past ten years, the US has spent more than a billion dollars on Georgia. Apart from humanitarian aid, the funds have been spent on a number of projects, ranging from military to fiscal ones. Tbilisi leaders have said several times that they hoped that, after the country's unconditional support for the Americans in Iraq, financial assistance would continue at the same level.

Shevardnadze has banked a great deal on his supposedly warm relations with Washington. He once was a popular figure there for his role as Mikhail Gorbachev's foreign minister in the late Eighties, but support for him is on the wane.

American tolerance of his administration appears to be wearing very thin. Adams, who heads the aid department for the State Department's Bureau of European and Eurasian Affairs, told journalists, "In all my meetings with government officials, I expressed our concern that the pace of reform in Georgia has slowed and needs to be expedited, particularly the pace of economic reform.

"Of 27 countries in Europe and Eurasia that my office assists, or has assisted in making this transition, Georgia's progress has slipped near the bottom. All of [its] neighbours are making much more rapid economic progress."

Until recently, Georgia was the third largest beneficiary of US humanitarian aid in per capita terms of the 27 post-Communist countries funded by the bureau.

Adams squarely identified where he believed the problem lay, saying, "In order to put the economy back on track, we have urged the government to tackle all forms of corruption more vigorously. Corruption siphons off hundreds of millions of lari that should be going into the budget."

Adams' announcement will primarily affect the current phase of a large-scale programme named Georgia's Energy Security, which is aimed at rehabilitating the country's existing hydroelectric power plants. The US government gave Tbilisi a 35-million-dollar grant for the initiative earlier this year, around half of which was to be spent on the hydroelectric plants.

The Americans are suggesting that this money went missing following a conflict between the US company PA Consulting Group, which manages the bulk of power distribution networks in Georgia's provinces, and the governor of Imereti, the region where the stations are located.

This summer PA Consulting began cutting off the power in regions, which were not paying their bills. In Imereti, however, regional governor, Temur Shashiashvili, regularly came to the central power distribution hub in person each time and switched the electricity back on.

The US government became involved only after the Georgian government disregarded a series of complaints from PA Consulting.

“The state has failed to keep its promises to pay for electricity, and this is a serious problem,” Shevardnadze admitted. “We made concessions and were kind to the population where the social situation in the region was not difficult.”

He added that his government was willing to rectify its mistakes in the future.

Georgia has suffered from severe energy shortages for more than ten years and badly needs to revitalise its existing power generating facilities. So the loss of the foreign specialists will be a heavy blow.

The loss of this programme follows the withdrawal of another strategic US investor, AES, which sold its power distribution networks in Tbilisi in August to the Russian power company UES.

In the same month, the International Monetary Fund cut aid to Georgia after the Georgian government failed to follow its recommendations.

And in July, this bitter economic medicine was preceded by a tough political message when former US Secretary of State James Baker came to Tbilisi for 24 hours and told Shevardnadze - his former partner in Cold War negotiations when the two men represented the US and the Soviet Union - to ensure free parliamentary elections and not to consider staying in office beyond the end of his second term in 2005.

On September 26, the election campaign took a nasty turn when fighting broke out in the eastern Georgian town of Bolnisi between pro- and anti-government party supporters. Several people were hurt, some seriously.

In a statement condemning the violence, the US embassy in Tbilisi reminded the parties involved that they had signed up to the so-called “Baker Scorecard” promising to refrain from violence. The statement called on the general prosecutor’s office to conduct a “thorough and impartial investigation into the incident”.

“The [Americans] have sent a message to the voters,” Vladimir Papava, chief expert of the International Endowment for Economic Studies and former economics minister of Georgia commented on the Adams visit. “This episode shows that the Georgian government has failed to either enforce order in the country, or promote democracy.

“There are no people in the government capable of solving any problems any time soon. Neither the IMF, which has halted its programmes, nor the parliament, which has only a month left before the new elections, has any control over the situation. The government has been left unsupervised.”

The overall result, according to Papava, is a growing rapprochement with Russia and in particular with the Russian gas giant Gazprom, which threatens Georgia’s energy security.

“If the government adopts a pro-Russian line again, it may as well halt all democratic reform, both political and economic,” he said.

The Georgian government now faces a shortfall of funds as a result of the US move. Giorgy Isakadze, deputy state minister, warned that the halt in funding to his sector of the economy would actually damage the reform process in Georgia.

“We have passed a package of laws to reform our taxation system, and now we don’t have any money to make them work,” he told IWPR.

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**Location:** Stavropol  
Russia  
North Ossetia  
Iraqi Kurdistan

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