

# The Georgian Republic

A Briefing Notebook on the Education, Business,  
and Political Sectors

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2008

UNIVERSITY of  
**DENVER**  
JOSEF KORBEL SCHOOL  
OF INTERNATIONAL STUDIES



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## **A Briefing Notebook on the Education, Business and Political Sectors**

-Christina Farnsworth

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## **I. Introduction**

In exploring the educational, business and political sectors in the Georgian Republic, I discovered many themes and problems that kept surfacing in each arena. It is obvious that the three areas are intertwined, and each informs the other two to some degree. I chose to begin this discussion with the educational section because it is a way of socializing young Georgians and this is where future businesspeople and politicians are shaped. I then moved on to the business sector, which is facing a future where in which Georgian education is not meeting employer needs, and finished with the political section to give a more overarching final view of the situation as it exists in Georgia. Although policy informs both the education and business systems, the problems in each system are based in a long history of Soviet rule and a more recent struggle to build a strong state while keeping it democratic. While it is easy to track political issues and changes, which have been explosive of late, the issues that must be faced in each sector are longstanding and will require cultural and attitudinal changes on the part of Georgian society in general.

To begin, many of Georgia's cultural problems in dealing with education and business stem from the Soviet past. The education system, and particularly the Vocational Education Training system (VET), relied upon interaction with state-sponsored businesses to give graduates the skills they needed. Since independence, this relationship has not existed, and schools are unable to provide businesses with graduates who are ready for the workforce. Both local and international businesses are unsatisfied with the quality of Georgian employees because they lack training. These Soviet holdovers are also seen in outdated curriculums, teachers and professors who do not have appropriate

skills and are not receiving training, and businesses which have no on-the-job training or skills-sharing programs between firms. Authoritarian systems in education, business and politics are still in place, and paternalism is still widespread.

Corruption is also a problem across the sectors, with inadequate resource tracking and lack of clarity in governance. Buying grades still occurs even at university levels, and taxes are arbitrary and unpredictable. The recent political crisis which triggered the 2008 presidential elections underlined the absence of accountability mechanisms, and this is felt across all sectors in Georgian society.

Infrastructure is undeveloped; in education, this is seen in confusing management systems and little to no planning systems; in business and politics, the lack of telephones in every city, the unreliability of energy and electricity and unsafe roads and areas in Georgia cause problems.

Georgian society is, as a whole, very unequal. A large section of the population lives in poverty, while a very few are rich, and there is virtually no middle class. This makes democracy difficult, because there is not a strong civil society. In education, these inequalities are seen in the facts that certain areas (Tbilisi, for instance) receive better education than others, and a shadow education system of tutoring is available only to those who can afford it. These inequalities result in a shadow economy which affects Georgia's economic growth and could eventually cause further economic instability.

While all of these problems are ongoing, two recent events have had a particular affect on the Georgian social, economic and political scenes: the 2006 crisis with Russia and ensuing Russian embargo against Georgian goods; and the internal political crises that precipitated the 2008 presidential elections. The political crisis, which began with the

arrest of four Russian officers in Georgia, quickly escalated to an embargo of Georgian goods and the cessation of flights between Moscow and Tbilisi. Georgia has had to find new sources for gas, or pay extremely high prices for Russian gas, and this, along with the embargo, has taken its toll on the Georgian economy. Wrangling over South Ossetian and Abkhazian independence, as well as Russia's entry to the WTO, has further strained relations. In the last few months, however, there have been signs of potential reconciliation, and the February 21<sup>st</sup>, 2008 meeting between Presidents Putin and Saakashvili is said to have gone well.

The 2008 presidential elections were precipitated by an internal political crisis involving former defense minister, Irakli Okruashvili, who was fired from his position and accused President Saakashvili of murdering opponents and corruption. Okruashvili eventually recanted these allegations. President Saakashvili promised elections to occur in October of 2008, however in November, following protests against the president, he announced that the elections would take place in January 2008 instead. Up until the elections, there were allegations of corruption and government pressure on media and business in Georgia. While Saakashvili won the elections with a substantial majority, he is still expected to face difficulties in his term because he has lost some of the trust of the Georgian population.

While there are certainly problems facing Georgia in the educational, business and political sectors, the fact remains that some progress has been made. A number of the resources used in creating this paper are evaluation reports and proposals for change. Issues of corruption and transparency need to be addressed, from the presidency down to local school boards, and the task of transitioning from a socialist to a market economy

will continue to be challenging for many years. The Georgian economy is, however, improving, and with stability may come a strong middle class, committed to democracy, equality, and a government that can be understood, respected and upheld.

## II. The Education Sector

The Georgian educational system itself is structured with three levels that everyone attends, then three different tracks that can be taken. Pre-school education begins at age one up to age five, primary education takes place from age six to eleven, and basic education is from age twelve to fourteen or over. At this point, compulsory education is complete and a Georgian student has the option to continue with secondary education for age fifteen to seventeen or over, to take vocational education, again from age fifteen to seventeen, or to join the workforce. After vocational education, the student would be expected to go straight to the workplace. For those who complete secondary education, however, there is the choice of taking the Unified National Exams which would lead to a baccalaureate degree with the eventual possibility of a Masters degree and Doctorate; the alternative is to take the U.N.E. Simplified Rule and go on to Higher Professional Education (Ministry of Education and Science of Georgia 2007).

The Georgian Ministry of Education and Science has, since 1999, produced a number of reports evaluating the educational system and proposing programs to improve it. The first report, *Georgia-Education System Realignment and Strengthening Program*, was released in 1999 and offers an in-depth examination of the education system as a whole, as well as outlining the strengthening program. *The Georgian Vocational Education and Training System: Georgian Education Sector Study* (1999) and the *Georgian Education Sector Study – The Higher Education System* (2000) specifically examine the two tracks students can take; the VET (Vocational Education and Training) and the higher education systems. While each of these three studies was conducted almost ten years ago, they are the only English-language reports dealing with these

components of the education system that I could access. I also believe that, in spite of their dates, the reports themselves have some insight to offer, although the reader should be advised that the situation may have changed greatly since they were written.

Evaluation of the school-to-work transition and the program for change from the *Millennium Development Goals in Georgia* complete this first section explaining the educational system, its needs and its current programs.

The second section of this chapter examines specific issues within the Georgian educational system that contribute to conflict and which need to be resolved in order for the system to improve. Issues of gender discrimination, the criminalization of children, ethnic discrimination and the shadow education system are all areas in which inequalities exist and are perpetuated through the current Georgian educational system.

#### **a. The Educational System**

##### **i. Needs**

Prior to beginning the World Bank Education System Realignment and Strengthening Program, the Georgian Ministry of Education and Science prepared a report on the situation in the Georgian educational system. The first section gives a detailed country and sector background, speaking of the economic collapse of Georgia's first years of independence, and the widespread government reforms that began in 1994. It then looks at the severe decline in funding that the education sector experienced; in 1996, the state budget for education was 5% of what it had been in 1989. The results have been incredible difficulties in the sector.

Issues include the misalignment of education system objectives, which is a result of differences in the educational objectives of a Soviet state and a new society and market

with different demands. Teaching practices are not aligned with these new standards, given that under the Soviets there was only one curriculum and students were seen as passive recipients of knowledge. These new standards mean that teaching practices must be changed, an enormous challenge for the sector.

The new standards also mean that there is a need for appropriate learning materials and environments, for which there is no money. School facilities and upkeep have also suffered from a lack of funds. There is very little systematic and reliable information on student outcomes, and in higher education, students have reported that examinations are not always evaluated objectively.

There is a lack of transparency of resource allocation, and inefficiencies in the use of resources. Lacking management information systems, evaluations are almost impossible to complete, and distribution of resources is difficult to track.

In terms of governance, there is a lack of clarity because of the decentralization process and redefinition of roles that has been taking place. There are five levels of governance, the central level including the Ministry of Education, Education Committee of Parliament, the President and line ministries. The regional level has twelve Regional Educational Departments, while the district levels have their own District Rayon Education Divisions. At the school level, management is in the hands of the principals and the deputy principals, and supposedly the Teachers' Councils. There is also a new level of local councils that have existed since 1998.

The report examines the roles of each participant at each level of governance, and also mentions that problems have emerged because of blurred boundaries of

responsibility, inefficient coordination, lack of management capacity, and no effective evaluation processes.

The report also mentions the growing inequities, given that because the education system is so poor, there is a possibility of opening private schools. Even in public schools there are inequities because of personal expenditure as parents support schools and gain influence.

There are also geographical differences, as Tbilisi is recognized as having better educational opportunities than the rest of the country. Ethnic minorities attending non-Georgian schools have specific problems because they are not being educated in a Georgian curriculum, and there is also a gender difference in terms of access to education. Poverty issues that teachers and students deal with also need to be addressed.

The report then goes on to outline the objectives for the program and the rationale for the World Bank's involvement. The program is described as having the following goals; realignment of the system objectives, strengthening capacity for policy and management, and project management support. There is then a detailed description of the financing, implementation and sustainability issues specifically concerned with the World Bank program and which do not pertain to the Georgian educational system itself. The report concludes with lessons learned from past operations in the country and sector. These lessons include the importance of focusing on teacher effectiveness, on teacher's involvement and public awareness, and on learning outcomes as specific needs to be addressed.

Two excerpts taken from the report are reproduced in the Appendix, which explain the problems facing the sector in greater detail. Again, it is important to note that the situation may have changed greatly since this report was written almost a decade ago.

Government of Georgia, Ministry of Education. (1999). *Georgia-Education System Realignment and Strengthening Program*. (Report No. PID7940). Tbilisi: Ministry of Education and Science, pp 1-6 and 8-11.

## **ii. Vocational Education and Training**

In 1999, Chris Sealy examined and evaluated the Vocational Education and Training program in Georgia through fieldwork and desk study conducted from January to September of 1999. He describes VET in detail, looks at the duties and needs of employers, students and faculty involved, examines the fit between the VET system and the Georgian economy, compares it to international trends, and critiques the situation and trends as they existed in 1999.

His description of VET begins with the developments in policy and legislation since 1990, looking at the various laws for elementary vocational education, the need to re-skill the population, the fact that enrollment has been steadily decreasing and that the infrastructure has been deteriorating, especially as the VET schools have been amalgamated or converted to regular secondary schools. He acknowledges the need for curriculum reform and new assessment standards, and recognizes the rise of private VET educational institutions. Since under the Soviet state, state-owned enterprises were heavily involved in the VET system, and now they are not, there is a problem in finding training provision for students.

Sealy did a survey of employers, students and faculty to supplement his data from state institutions and ministries. He found that professors that remain in the VET system are not the ones with marketable skills, and tend to be very conservative. They are often waiting long periods for paychecks, and often work on a part-time basis. There is also no more in-service professional training.

Students are generally from poor homes and their schools are in very poor condition, which supports their statements that students in regular secondary schools are generally richer. Further findings from the survey includes the fact that the VET educational experience has declined and still is; students would prefer to attend academic secondary school; access to employment is not dependent on diplomas or knowledge obtained at school; and teachers, students and parents do not understand the changes in the labor market that has resulted from the transition to a market economy. Because of this last problem, teachers do not understand their new roles and nor are they being trained to do so, while students would prefer the prestige of an academic education and are missing out on the benefits of good vocational training.

Sealy states that there is a lack of fit between the VET system and the economy in Georgia, especially in terms of supply and demand in the various sectors. He uses the wine industry as a case study; this is a growth industry but the education and VET systems are not taking its opportunities. The VET system is not adapting to the changes of the economy.

Sealy also examines unemployment and VET's reaction to it. The unemployment rate for those aged 15-25 years was twice the national average in 1999, and this shows the need for useful and effective vocational education for youth. An examination of

poverty line statistics and VET graduate-headed households show that those with a VET education are both more likely to be below the poverty line and have an advantage to earn a higher income than those without it.

After investigating foreign vocational education systems and offering a critique of the Georgian system, Sealy offers the following conclusions and proposals: the VET system is currently inefficient; reform of the system is necessary and feasible; and policy and systems of quality control need to be investigated and adjusted. He focuses extensively on the policy making processes, stating that they have become non-inclusive and have not followed government priorities. He also mentions that the top-down approach used has constrained the reform process. Assessment systems also need reform, as do financing systems for VET; resources are inefficiently distributed and sometimes redirected by corruption.

The excerpt taken from the report and reproduced in the Appendix contains the sections entitled “A Critique of the current situation and observed trends” and “Conclusions and Proposals”. Again, it is important to note that the situation may have changed greatly since this report was written almost a decade ago.

Sealy, C. (1999). *The Georgian Vocational Education and Training System: Georgian Education Sector Study*. Unpublished Report, Draft #2. Taken from the Ministry of Education and Science of Georgia website, pp 33-42.

### **iii. The Higher Education System**

In 2000, Jochen Lorentzen completed a final report on the Georgian higher education system. Using stakeholder interviews, surveys and workshops, he extensively

documented and evaluated the system. The following is taken from his own introduction as it succinctly summarizes his work:

“Section 2 describes the role of government, its reform agenda, the legislative and regulatory background, and the dimension and allocation of public resources. It then summarizes key characteristics of the higher education system in terms of the institutional providers, the staff employed, enrollment trends, and progression through the system. Throughout, problems are identified and discussed. Section 3 takes the analysis further by providing a microperspective on three fundamental areas, namely relevance, quality, and efficiency... Finally, section 4 concludes with a series of recommendations for system reform.” (pg 1)

Lorentzen begins with an explanation of how the system works. In terms of the legal and regulatory framework, the education system is regulated by the 1997 Education Law. Along with a 1995 reform program, the law attempts to align the education system with international practices. In sum, the provisions of the law and the reform program that are most relevant to higher education are: the introduction of privately operated institutions of higher learning; regulations concerning licensing and accreditation; curriculum reform; maintenance of so-called “state-order” contingents of government funded and allotted scholarships; and the introduction of a two-tier, four-plus-two system leading to bachelor and masters degrees, respectively.

He then speaks of the various institutions that were in existence in 1997-1998, the human capital employed in the sector, the funding system, student entry and progression, and the lack of and need for tertiary education systems that might integrate universities with the VET programs.

Lorentzen also presents case studies dealing with relevance and expertise, quality output, and efficiency and market use of resources. The first study, “Relevance: Does Georgia get the expertise it needs?” examines the higher education and VET systems and

their place in the world economy, output, employment and training profiles. To summarize these findings, the Georgian economic structure has moved drastically from industry and agriculture into services over the 1990s decade; all three sectors have declining and dynamic activities; official statistics which state that unemployment affects only towns are probably erroneous, with young people being the largest unemployed group; and enrollment trends in HE and VET systems do reflect the economic structural changes. In order to answer the question of why young people have such a high rate of unemployment, he designed an employer survey. The results conclude that the business community, both foreign and local, is dissatisfied with the education system. Recommendations for reform focus on the need for more research to better understand exactly where and how skills provided in higher education do not match with the skills in demand.

The second case study, “Quality: Is the system geared to high-quality output?” looks at lessons from international experience and surveys the experiences and views of students and teaching staff. In the recommendations for reform section, Lorentzen notes that “the most important barriers to the delivery of high-quality HE are outdated course contents, teaching methods, and corruption” (41). He believes that partnerships between local and international institutions which have worked well in other sectors might help change these conditions.

The third and last case study is “Efficiency: Does the system make good use of limited resources?” To address this question, he examines the market and how HE is provisioned for, decision-making processes, funding processes, what expenses are spent on, the relationship between funding and enrollment, fee structure, degree progress,

completion and attrition, exams and quality monitoring, personnel and costing. He concludes by noting that universities do not have the technology and expertise to operate management information systems, and nor is there an environment for proper resource planning and monitoring and evaluating performance indicators.

Finally, in his Conclusions section, Lorentzen presents a threefold challenge: to enhance relevance by providing skills and qualifications that will be useful in the labor market; to improve the quality of education delivery and the curriculum; and to raise efficiency by using management tools and performance indicators.

The excerpt reproduced in the Appendix is Lorentzen's summary of recommendations. Again, it is important to note that the situation may have changed greatly since this report was written almost a decade ago.

Lorentzen, J. (2000). *Georgian Education Sector Study – The Higher Education System*. Unpublished Report, Final Version. Taken from the Ministry of Education and Science of Georgia website, pp 54-55.

#### **iv. School-to-Work Transition**

In March of 2006, the World Bank and UNICEF published a report by Furio Rosati, Zeynep Ozbil and Diana Marginean entitled *School-to-Work Transition and Youth Inclusion in Georgia*. This study was carried out in two phases, involving analysis of secondary data, quantitative analysis, qualitative fieldwork, and rapid institutional analysis of policy responses and policy gaps in the school-to-work transition. This took place over two years. It analyzes the composition, timing and duration of the school-to-work transition, and gives policy recommendations based on these analyses. I will briefly

summarize the study's background, findings and recommendations, and the report's executive summary is included in the Appendix.

In terms of background, after the economic collapse that followed independence, the economy stabilized around 1996/7, but this stability and the economic growth that Georgia is experiencing has not had much of an effect on household welfare. Although adult participation in the labor force has remained stable, the number of youth in the labor force has fallen dramatically; this trend has affected young women even more so than young men.

The findings of this study include the following: young people take an average of over six years to settle in a job following school; young women can take twice as long to find a job than young men; there is a high proportion of youth involved in informal work to the number that are in wage employment; there is a great deal of differentiation between poor and non-poor young people; poor young people are less likely to remain in school after completing compulsory education; parents' education levels seem to positively influence their children's educational attainment and job prospects; corruption permeates the higher education system; lack of resources at university level means that graduates are not up to the requirements of the labor market; very few students receive hands-on experience; young people whose heads of household are unemployed are more likely to also be unemployed; minority nationalities are less likely to get jobs and be in school than Georgian young people; and nationality can also affect the period of transition from school to work.

Findings that regard the government include the following: the education sector is very under funded, having dropped from 7% of the GDP in 1991 to 2.3% in 2005;

demographic trends indicate that the youth population may decline by about one-third by 2030; the demographic trends must be addressed to avoid the ultimate result of a shrinking national population; the government has introduced a universal entrance exam for university admission, in order to try to combat corruption, and these initiatives must continue; and national youth programming does not emphasize youth participation in decision-making.

The recommendations of this report include: a new comprehensive approach to youth in Georgia that recognizes that they are important for development; establishing a Youth Policy Steering Committee that would include youth representatives and maintain dialogue with the government; a new legislative framework to recognize youth as participants in dialogue and policy-making; more physical and financial resources for the educational system; educational reform; educational investments, especially for disadvantaged areas and minorities; new initiatives to reduce corruption; establishing career centers; labor-market programs to support both the employability and employment opportunities for youth; capacity building in government at all levels to support youth programming; and a monitoring and evaluation system of these new programs and policies.

Rosati, F., Z. Ozbil and D. Marginean. (2006). *School-to-Work Transition and Youth Inclusion in Georgia*. UNICEF Report, # 38626. Washington: The World Bank, v-ix.

## **v. Program for Change**

In 2004, the United Nations published *Millennium Development Goals in Georgia*, giving background on development needs and outlining programs to meet these

needs. Goal 2 was to “ensure coherence of Georgian educational systems with educational systems of developed countries through improved quality and set up”. While I will summarize their view of the situation in 2004 as well as the challenges facing developing this sector, the education goals section from the publication is reproduced in the Appendix.

The factors listed that explain the reasons behind the difficulties facing the Georgian educational system include: little financing; cumbersome, centralized management system; little access to curricula, textbooks and materials; irrelevance or absence of standards; outdated teacher training; subjective student assessment; negative vestiges of the Soviet past; weak links between the labor market and HE and VET policies.

Major challenges for improving the system include; developing the VET system; reforming the tertiary educational system; providing equal access to education, especially for those in need of special care.

United Nations. (2004). *Millennium Development Goals in Georgia*. Tbilisi: United Nations, 28-32.

## **b. Issues**

### **i. Gender**

Silova’s 2004 UNICEF Report, *Gender Review in Education: Republic of Georgia*, examines the qualitative indicators that may reveal gender difference in the Georgian education system. The aims of her report are to: identify gender issues in education; examine how existing education policies affect gender equity; and inform the design, management and implementation of programs in gender equitable education.

The study did not find gender disparities in enrollment data; however it did reveal that there is not enough data on gender and education in terms of attendance, dropout, socioeconomic class, and minority groups. Although there are reports of female disadvantage in minority groups, there is simply not reliable information that would inform the government of what areas need to be targeted.

Child labor is widespread in Georgia, and girls have a tendency to be involved in non-economic activities when working for their families, while boys tend to work in paid labor. Girls are often kept at home to help with the family in rural areas, although as boys grow older, they may also dropout of school in order to earn money.

Qualitative data shows that there are many traditional gender stereotypes that discount the importance of female contribution in political, economic and social spheres. In schoolbooks, men are portrayed more often than women, and are typically engaged in economic activities while women are pictured working in the home. Also, in schools, women tend to occupy the lowest-paid positions.

Silova recommends working towards a more inclusive definition of gender that would move in the direction of gender equity; completing more research into gender in Georgia; and working to make the entire education system, from policy-making to curriculum and teacher training, more gender sensitive.

The excerpt from this report contains Silova's recommendations, for both the short-term and the long-term, and can be found in the Appendix.

Silova, I. (2004). *Gender Review in Education: Republic of Georgia*. UNICEF Report, pp. 15-20.

## **ii. Criminalization of Children**

While not specifically related to the educational system, it would behoove anyone dealing with conflict resolution in schools to be aware of a tendency to criminalize children. In a UNICEF article from 2005, *Criminalization of children happens very easily in Georgia, UNICEF expert says*, Caroline Hamilton, international expert and professor of law at Essex University, stated that “the criminal justice system is very rigid and does not meet children’s needs”. The remainder of the article deals with recommendations for state officials in working with juvenile offenders, as well as the creation of a group of experts to study the problem and offer new options. The recommendations include focusing more on rehabilitation and avoiding sentencing juveniles to jail by developing more options for the juvenile justice system.

UNICEF. (2005). *Criminalization of children happens very easily in Georgia, UNICEF expert says*. Retrieved January 8, 2008 from the World Wide Web:  
<http://www.unicef.org/georgia>

## **iii. Discrimination**

Two articles from UNICEF (*The Issue* and *Schools for ethnic minorities in Kvemo Kartli start teaching history and geography in Georgian*) examine questions of discrimination within the Georgian educational system. *The Issue* (2004) states that there is widespread discrimination against and stigmatization of disabled children, many of whom have been denied their right to an education. *Schools for ethnic minorities* (2007) looks at an early attempt to redress educational discrimination against ethnic minorities, in that for many years ethnic youth have not received a Georgian education, leaving them

on the fringes of society. This positive initiative will hopefully continue and educational discrimination against ethnic minorities will become a non-issue.

UNICEF. (2004). *The Issue*. Retrieved January 8, 2008 from the World Wide Web: <http://www.unicef.org/georgia>.

UNICEF. (2007). *Schools for ethnic minorities in Kvemo Kartli start teaching history and geography in Georgian*. Retrieved January 8, 2008 from the World Wide Web: <http://www.unicef.org/georgia>.

The Ministry of Education and Science of Georgia also has a report dealing with discrimination in schools; *Anti-Discrimination Measures in Georgian Education System* (2006, retrieved from the website). This report examines the constitutional and legal framework for equality in education; discusses ways in which vulnerable and disadvantaged groups are empowered to receive education; and describes measures and programs implemented to deal with discrimination in the educational system.

Discrimination in Georgia involves minorities living in cities, Georgian citizens in remote regions, special needs children, refugees, and vulnerable and disadvantaged groups. Under Georgian law, everyone has the right to receive an education. One method of ensuring equal access has been the Unified National Admission Exams for entrance into university. By using a national exam, possible subjectivity may be avoided.

Programs such as the Social Programme for the financial assistance of students, the Civil Integration Program, The Future Starts Today, the Material-technical Rehabilitation Programme for Public Schools in Georgia and the Programme of Alternative Forms of Care for Orphans and Children Deprived of Parental Care in Residential Institutions, all begun since 2004, attempt to assure that discrimination is not happening in schools.

While the fact remains that discrimination does exist in the educational system, the government is taking steps to combat it.

Government of Georgia, Ministry of Education. (2006). *Anti-Discrimination Measures in Georgian Education System*. Tbilisi: Ministry of Education and Science.

#### **iv. Shadow Education**

The 2004 study, *Shadow Education: Private Tutoring and its Implications in the Nine Post-Socialist Countries*, was conducted by Silova and Bray and examines questions of private tutoring; is it constructive or does it merely make already great social inequalities even greater?

Private tutoring is used for three reasons in the post-Socialist countries; enrichment strategy, compensation for low-quality mainstream education, and income generation for teachers. It has both a positive and a negative affect on mainstream schools, in that it can aid individual students in a number of ways, however it can also disrupt school curricula. The study also found that private tutoring is not available to everyone. Richer families can afford better tutors and more intensive lessons.

There is also corruption in the use of private tutoring. In compulsory private tutoring, teachers blackmail their students into taking tutoring with them after hours, often threatening to lower grades if they refuse. The “referral system” of private tutoring occurs where such tutoring has been prohibited, and teachers from many schools refer their students to each other for help in specific subjects.

The study concludes with recommendations that include: raising public awareness about the phenomenon of private tutoring; regulating private tutoring to reduce

corruption and inequities; ensuring adequate salaries for teachers; and initiating public debate on the phenomenon of private tutoring.

The “Summary of Findings” and “Conclusions and Recommendations” sections are reproduced in the Appendix.

Silova, I. and M. Bray. (2004). *Shadow Education: Private Tutoring and its Implications in the Nine Post-Socialist Countries*. Education Support Program of the Open Society Institute, 2-5.

### **III. Business Sector**

This chapter begins with a section on the economic background, opening with a portion of the CIA World Factbook report on Georgia which gives Georgia's basic economic information in terms of numbers. The next two articles, from the World Bank and the United Nations, look at the challenges facing the Georgian economy and include recommendations and programs to deal with these challenges. The World Bank report also offers a very detailed look at the Georgian economy. The next article examines the marketing environment and its challenges, also looking at Soviet culture and its effect on current practices. Finally, three shorter articles from 2007 look at the current economic situation.

The next report on the shadow economy examines the problems caused by the non-official economy in Georgia, and the reasons behind its existence. It places the shadow economy both culturally and economically, and identifies issues that must be addressed before it will cease to exist.

The two articles included in the following section section examine business culture in the Caucasus, the first with relation to the previous Soviet culture, and the second with relation to the current situation of transition. Both offer insights about Georgian and Caucasus business practices, and the second addresses many issues that may contribute to conflict within the business sector.

The three articles used in the next section focus on Georgia's position in the Caucasus economy, its cooperation with its neighbors, and possible prospects for Georgia and the rest of the area.

In the final section, a timeline from the Civil Georgia Daily Newspaper gives a detailed history of the recent conflict with Russia and the various events that precipitated and have prolonged this crisis.

### **a. Economic Background**

#### **i. Basic Information**

-labour force by occupation – agriculture 40%, industry 20%, services 40%

-unemployment rate – 12.6%

-population under poverty line – 54.5%

-exports – scrap metal, machinery, chemicals, fuel re-exports, citrus fruits, tea, wine

-exports – \$1.908 billion

-export partners - Turkey 12.7%, Azerbaijan 9.4%, Russia 7.7%, Armenia 7.5%,

Turkmenistan 7.3%, Bulgaria 6.4%, US 6%, Ukraine 5.8%, Canada 5%, Germany 4.6%

-imports - \$4.725 billion

-import partners - Russia 15.2%, Turkey 14.2%, Germany 9.5%, Ukraine 8.7%,

Azerbaijan 8.7%

-external debt - \$2.04 billion

<b>GDP</b>	<b>Georgia</b>	<b>USA</b>
Purchasing Power Parity	\$18.16 billion	\$13.06 trillion
Official Exchange Rate	\$5.301 billion	\$13.16 trillion
Real Growth Rate	9.4%	2.9%
Per Capita	\$3900	\$43,800

Taken from the CIA World Factbook, the Economic Report is in the Appendix.

CIA World Factbook. 2008. *Georgia*. [online] at

<https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html#Econ>.

## **ii. Challenges**

In 2003, the World Bank completed a comprehensive analysis of the Georgian internal and external economic environment in order to design a program to improve export development. The report itself is extremely in-depth, covering the macroeconomic setting, the Georgian infrastructure and trade environment, as well as examining all of Georgia's exports.

Since the economic collapse following independence, the Georgian economy rebounded in 1996-1997, although economic growth has since weakened. Growth has depended on domestic consumption, while exports have not contributed much to the GDP. Agriculture and industry, important sectors of the Georgian economy, have not rebounded completely and this has resulted in widespread underemployment. This situation has created a need for export development, which is the focus of the report.

Georgia has many natural resources, a well-educated labor-force, and an excellent location, being the best link between European and Central Asian markets. Although the transportation infrastructure for export does exist, however, most exports are only sent to the CIS and are low-value.

The necessary conditions for a country to compete in international markets include 1) a stable macroeconomic framework and a competitive exchange rate; 2) a liberal trade regime and easy access to export markets; 3) a favorable investment climate and 4) efficient mechanisms for technology transfer and learning within individual firms. Georgia already meets the first two requirements, however does not have a favorable business environment and lacks mechanisms for technology transfer and learning.

There are a number of problems facing the business environment. Tax administration is arbitrary and unpredictable, and without accountability mechanisms. Refunds for VAT paid on imports are also difficult to get unless the person seeking a refund has political connections. Transport costs, while officially comparable to other countries, are not competitive when one adds the unofficial payments to border agencies, excessive and time-consuming documentation, and additional costs from delays or long journey times. Finance is not easily accessible because interest rates and collateral requirements are very high, and loans mature very quickly, mostly in less than a year. Although there is a legislative framework to protect property rights, these rights are not generally enforced, and this is a serious problem for exporters in wine, mineral water and information technology, to name a few. Standards are not adequate for non-CIS markets, especially for food and agricultural products. Power supply is one of the biggest problems, given the frequent power outages. Technology and marketing skills are not well-developed, due to low earnings, inadequate technology, weak management skills and training, lack of specialization, lack of economies of scale and overstaffing and workers' attitudes. There are inappropriate upstream policies which limit access to raw materials and contribute to inefficiency of downstream production. Free trade with CIS countries reduces the motivation to become competitive in other international markets.

There are other issues that the business community must face within the Georgian social and cultural structure. Approximately one fifth of Georgian rural households do not trade with markets, doing only subsistence agriculture, and internal market integration has been shown to be an important determinant of poverty. Corruption is widespread, with approximately three percent of household income used for bribes. This

prevalence of corruption limits trading opportunities, especially for the poor and small or medium businesses. Intermediate private agencies have not emerged since the shift from central planning, and so there are not many farmer-based organizations or linkages between farmers and processors. Rural roads are also in very bad condition, and can be a problem during bad weather. Lastly, wage employment has decreased substantially, although there is some self-employment that has tempered this.

The Executive Summary of the report is in the Appendix.

Poverty Reduction and Economic Management Unit. (2003). *Georgia: An Integrated Trade Development Strategy*. Report No. 27264-GE. World Bank, pp. xii-xxviii.

The eighth goal for the 2004 Millennium Development Goals in Georgia is “Global Partnership for Development”. Issues that the United Nations felt needed to be confronted include liberalizing customs tariffs, developing the financial system, dealing with Georgia’s large external debt, and ensuring equal access to communications systems across the country. The UN saw major challenges for the country as including the importance of implementing a prudent monetary policy, dealing with external debt liabilities, and confronting rural poverty and lack of fixed telephone lines in rural areas.

Goal 8 from *Millennium Development Goals in Georgia* is in the Appendix.

United Nations. (2004). *Millennium Development Goals in Georgia*. Tbilisi: United Nations, pp. 52-55.

### **iii. Marketing Environment**

Ozsoy and Apil open their 2005 article, *The Emerging Marketing Environment in Georgia as a Transition Economy*, with a description of the economy as it existed in the Soviet period; centralized planning for all decisions concerning goods and services, underdeveloped banking system, and no advertising, meaning that there was no marketing environment.

After describing the reform policies introduced in Georgia that do provide opportunities for marketing developments, the authors list various weaknesses in the business environment, including low salaries which continue to fall; household incomes are not growing; there is large disparity between a small high-income class and a large low-income class, with few medium-income people; and poverty remains high.

In terms of the political and legal environment, the Georgian government has made progress in liberalizing the trade regime, however taxation and corruption remain the largest problems for businesspeople.

In terms of infrastructure, the transport sector is steadily improving, with a number of bilateral agreements having been signed. Energy and electricity need to be more reliable, although in Tbilisi the supply has been improved. Telecommunication has developed very rapidly, and the internet is also growing.

The Georgian culture, however, still retains some Soviet etiquette and customs. Business culture “relies on former habits, former links, former friends, former ways of demonstrating one’s authority, former distrust against foreigners, and former inclination for avoiding personal responsibilities”. Traditional Georgian clan structures also remain

influential. In spite of the business culture that still hangs on, foreigners are very welcome in Georgia.

While there have been many improvements and the economy has been growing since 1996, the market is still not a buyers' economy, and it seems that it will take more time to fully escape the vestiges of the Soviet past.

The final section of this article, "Conclusion and Suggestions" is in the Appendix.

Ozsoy, I. and A. Apil. 2005. *The Emerging Marketing Environment in Georgia as a Transition Economy*. in Akademik Arastirmalar Dergisi, No. 2, pp 85-86.

#### **iv. Current Situation**

In three current articles, each written since March 2007, the Georgian economy is seen as being strong and growing. From Emerging Markets Monitor, *Georgia: Rising FDI Points to Strong Growth and Lari Upside*, and Economic Outlook's *Embargo Impacts Growth but Outlook is Positive*, and *Banking Boom Signals Steady Long-Term Growth*, the articles recognize the detrimental effects of the Russian sanctions in 2006 but report that the banking sector is improving, as is GDP growth. *Embargo Impacts Growth* suggests that trade and account deficits are problematic, and that diversifying trade partners and finding new sources of energy outside of Russia will be very important in the future.

Emerging Markets Monitor. (2007). *Georgia: Rising FDI Points to Strong Growth and Lari Upside*. Retrieved January 5, 2008 from the World Wide Web:  
<http://www.emergingmarketsmonitor.com>

Economic Outlook. (2007). *Banking Boom Signals Steady Long-Term Growth*. Retrieved

January 5, 2008 from the World Wide Web:  
<http://www.emerginemarketsmonitor.com>

Economic Outlook. (2007). *Embargo Impacts Growth but Outlook is Positive*. Retrieved January 5, 2008 from the World Wide Web:  
<http://www.emergingmarketsmonitor.com>

## **b. Shadow Economy**

UNDP Georgia's 2007 *Report on the non-observed economy in Georgia* assessed work done at Georgia's Department of Statistics on the non-observed economy and also analyzed its structure, evolution and causes in order to offer recommendations to reduce it.

Part Three, "Economic analysis and policy recommendations" is the most important for our purposes. The report defines a "shadow economy" as referring to "legal and productive economic activities that are (partly or wholly) concealed from the authorities in order to avoid compliance with taxes and regulations". There are four consequences of a shadow economy: allocation effects, which affect the innovation potential of the economy as a whole; distribution effects, because although these activities supplement income, the distribution of this income is unclear; stabilization effect, which can act as a buffer to the economic cycle or can throw off measurements, presenting a problem for policy makers and perhaps leading to instability; and fiscal effects, direct losses for the state.

The shadow economy is caused by poverty or an entrepreneurial motive. One issue that may also contribute to the shadow economy is the question of whether citizens trust the state; if taxpayers believe that officials are corrupt (and in Georgia, a number of them do), they will be less willing to pay taxes and more likely to engage in shadow

economy activities. Unfair tax competition can also be a problem, where businesses believe that other businesses are evading some taxes, and to be competitive, they must also evade taxes. Two other issues that have a strong bearing on the shadow economy are the regulatory burden that businesses face in terms of licenses, social security payments, and taxes, and corruption, along with the belief that bribes replace taxes.

The report then addresses the recent reforms in the taxation process, and concludes that Georgia's shadow economy has declined substantially since the Rose Revolution, and that the economic growth that the country is currently experiencing helps give citizens a sense of trust and satisfaction with their government. There remain questions that need to be dealt with; for instance, personal income tax and social security will soon be merged in a new system, and this could cause problems. Also, given the poverty in Georgian society and the fact that poverty is a motive to engage in shadow economy activities, it is possible that a personal income tax for all may not be appropriate. Corruption remains an issue, as do structural problems inherited from past governments. The authors conclude by asking how it would be possible to "develop a culture of compliance with respect to the law, rather than the culture of informality that existed for so long?" (UNDP 2007: 41).

The report's conclusion can be found in the Appendix.

UNDP. (2007). *Report on the non-observed economy in Georgia*. Retrieved January 8, 2008 from the World Wide Web: <http://www.undp.com>, pp. 40-41.

### **c. Business Culture**

In his 2001 article “Leadership Styles and Work-Related Values of Managers and Employees of Manufacturing Enterprises in Post-Communist Countries”, Ardichvili gives the results of his studies of managers and employees in Russia, Georgia, Kazakhstan and Kyrgyzstan, in an attempt to address cultural value differences.

Ardichvili examined the following cultural dimensions: power distance, the degree of inequality among people; individualism; masculinity; uncertainty avoidance; paternalism; and fatalism. For his hypothesis dealing with leadership, he looked at questions of transformational and transactional leadership.

His results showed that in Georgia, masculinity scored highest (151), with fatalism (120) and paternalism (108) next, followed by long-term orientation (69) and individualism (41). In terms of leadership, inspirational motivation was most important at 3.1, followed by contingent reward at 3.0, then individual consideration (2.9), intellectual stimulation and charisma (2.8), and management by exception (2.3).

Although the study was only intended to compare the four countries, it does provide interesting information on business culture in Georgia. It appears that masculinity and paternalism are very important in this culture, and anyone working in the business world should take this into consideration.

The discussion portion of the article is reproduced in the Appendix.

Ardichvili, A. (2001). “Leadership Styles and Work-Related Values of Managers and Employees of Manufacturing Enterprises in Post-Communist Countries”. *Human Resource Development Quarterly*, vol. 12, no. 4, pp. 377-380.

In their 2006 article, Szabo and Petrosyan examine “Small and medium-sized enterprises in the Caucasian countries in transition”. Their purpose is to analyze the small and medium-sized enterprise sector (SME) and to describe its characteristics, the laws that affect it and the measures that support it.

The strengths of Georgia’s SME sector include legislative support and governmental and international organizations that focus exclusively on supporting SME, as well as a desire within the population to run their own businesses. There are many opportunities available as well, including a good location, a good environment for tourism, development of regional infrastructure and the entrance of Georgia into the WTO. Weaknesses include the following: high external debt; weak information-consulting services; low demand on domestic market; lack of access to credit resources; lack of support measures for start-ups; lack of business experience; lack of business incubators; lack of budget resources; low level of competitiveness and quality consciousness; large share of shadow economy; and lack of business insurance system. Threats to SMEs include: stagnation of the national economy; low investment in SME sector; unstable supply of energy resources for enterprises; large share of false products in market; low competitiveness of SMEs; low payment ability among most of the population; and regional conflicts. All of these issues can easily be among factors of conflict in this sector.

Szabo, A. and A. Petrosyan. (2006) “Small and medium-sized enterprises in the Caucasian countries in transition”. Published online. *Springer-Verlag*.

#### **d. Georgia's Role in the Caucasus**

In his 2005 article, "Georgia's Economic Role in the South Caucasus", Papava opens by giving a history of the Soviet Union in crisis before Georgia's independence, and the repercussions this would have on the newly independent countries of the Caucasus. Each of these countries fell into crises following independence, though have begun to recover. Because of their size, location and economics, Papava points to the need for a unified South Caucasus with interaction between all members. Azerbaijan and Georgia have already begun to work together on issues of energy transport, and it would seem that Georgia is perfectly placed to promote the formation of an economic system in the South Caucasus with close ties to Russia.

The Emerging Markets Monitor article *Georgia, Neighbors to the Rescue* demonstrates how Georgia is working with Azerbaijan and Turkey, perhaps a precursor of cooperation to come.

In Terterov's 2001 book, Doing Business with Georgia, he includes a description of Georgia's role in developing "The Silk Road" under the section of "International Economic Strategy". Georgia is focused on three fields of development: the Transport Corridor Europe-Caucasus-Asia (TRACECA); a Trans-Caucasian strategic energy corridor; and a Trans-Caucasian telecommunications network. Each of these projects has begun and is supported by international partners.

Papava, V. (2005). "Georgia's Economic Role in the South Caucasus". *Problems of Economic Transition*, vol. 48, no. 4.

Emerging Markets Monitor. (2007). *Georgia: Neighbors to the Rescue*. Retrieved

January 5, 2008 from the World Wide Web:  
<http://www.emergingmarketsmonitor.com>.

Terterov, M. 2001. Doing Business with Georgia. London: Kogan Page Ltd.

#### **e. Georgia's Relationship with Russia**

The 2006 Timeline of important events in Georgia, from the Civil Georgia Daily Newspaper, chronicles the economic crisis that occurred between Russia and Georgia during that year. On January 22, 2006, two gas pipelines in Russia's North Ossetian Republic exploded, cutting off gas supply to Georgia. President Saakashvili called these explosions "heavy sabotage" against Georgia by the Russian Federation, and called Moscow "an unprincipled blackmailer". The President immediately began discussions with Iran to supply gas, although on February 5<sup>th</sup> they began again receiving gas from Russia.

Continuing political difficulties over Russia's policy towards Georgia and South Ossetia may have caused Russia to ban Georgian imports of mineral water. Russia also banned Georgian wine imports, and in response, President Saakashvili asked Georgian businessmen to buy at least 10 tons of grapes from Georgian wine-growers to lessen the impact of the embargo.

On September 27<sup>th</sup>, Georgia's intelligence service arrested four Russian military officers on charges of espionage, triggering the worst crisis with Russia to date. After the release of the officers on October 2<sup>nd</sup>, Russia cut air, sea, land and railway links as well as postal communication with Georgia on October 3<sup>rd</sup>, an action that must have had serious repercussions for the business community.

On November 2<sup>nd</sup>, the Russian energy producer Gazprom said that it would more than double the gas price for Georgia, while the Georgian government said that it would not pay this “political price”. Five days later, Gazprom offered to sell gas at the original price, if Georgia would give some of its assets to the Russian gas monopoly, which offer the Georgian government refused. After talks, both Georgia and Azerbaijan prepared to receive most of their gas from Turkey, however after delays on Turkish gas, Georgia still had to pay the full prices for Russian gas in late December.

All of these political difficulties with Russia (which will also be dealt with in the political section) obviously have important repercussions for Georgian business.

United Nations Association of Georgia. (2007). Civil Georgia Daily Newspaper.  
Retrieved January 2, 2008 from the World Wide Web: <http://www.civil.ge/eng/>.

#### **IV. Political Sector**

The four sections that make up this chapter begin with giving some background to the political situation in Georgia. Articles in the section examine democracy in Georgia and in the Caucasus region, while the final timeline gives a precise history of political developments during 2006 that shaped much of the current political situation.

The second section examines Georgia's role in the Caucasus and political developments that affect all the countries in the region. There is also some focus on Russian interest in the Caucasus.

In the Georgian-Russian Relations section, the first article examines the problems that the Russian trade embargo has created for Georgian civilians, and what these civilians' thoughts are on relations with Russia. The following two articles present differing points of view on which country is creating the problems; Georgia or Russia.

The final section focuses on the presidential elections that took place in January 2008. These elections were the objects of many scandals and speculations, and the timeline and articles in this section give a detailed account of the issues that precipitated the elections and the surrounding political drama that accompanied them.

##### **a. Political Background**

The 2000 Icon Group *Executive Report on Strategies in Georgia* includes a section entitled "Political Risk Assessment in Georgia" which opens with a description of the Georgian political system. It is a republic type of government, with 53 rayons, 9 cities and 2 autonomous republics. Suffrage is universal for those over 18 years of age. The President is both the chief of state and the head of government. S/he is elected by popular

vote for five-year terms. The legislative branch includes the Supreme Council (Parliament) and has 235 members; they are elected for four-year terms.

This report was written in 2000, when President Shevardnadze was still in power, and so a number of political issues may not be applicable. However, at the time this was written, the Icon Group identified the following political issues: questions of central authority and control; question of whether the technically independent judiciary is actually subject to pressure from the executive branch of government; IDPs; developing a market-based economy; human rights issues; revising the Criminal Procedures Code; and completely enforcing freedom of religion.

Icon Group. (2000). *Executive Report on Strategies in Georgia*. Retrieved December 20, 2007 from the World Wide Web: <http://www.icongroupedition.com>.

Mitchell's 2006 article, "Democracy in Georgia Since the Rose Revolution", examines the political conditions in Georgia in order to inform US policy. At first glance, it appears that Georgia has the best conditions for democracy than any other democratizing country, including a pro-Western leadership, an ethnically homogenous citizenry, and no violent ethnic conflicts. However, the attempts to bring South Ossetia and Abkhazia into the country, the lack of strong democratic neighbors and the continuous difficulties with Russia make creating democracy problematic. While President Saakashvili has worked on building democratic institutions, ensuring government accountability and cultivating a strong civil society, not all of these goals have been achieved. The constitutional reforms that occurred after Saakashvili's election

in 2004 put a great deal of power in the president's hands, and thus much more formal power than the president previously had. The new constitution was also a rushed affair, going through in two weeks with very little public debate. Saakashvili's party has questioned the need for an opposition party, calling itself the "only democratizing political force in Georgia". Since Saakashvili came to power, NGOs play a lesser role in public life than they did under Shevardnadze, and in some ways the media is less independent than it was. While Saakashvili is a strong leader, it is important to note that he has been a state-builder first and a democrat second; Georgia needs both a strong state and a strong democracy.

Mitchell, L. (2006). "Democracy in Georgia Since the Rose Revolution". Published by Elsevier Limited on behalf of the Foreign Policy Research Institute.

Nichol's 2006 report, "Armenia, Azerbaijan and Georgia: Political Developments and Implications for US Interests", discusses obstacles to peace and independence and the external security context in order to examine US interests and aid in the region.

Under the "Obstacles to Peace and Independence" section, Nichol looks at regional and ethnic conflicts, economic conditions and democratization. In Georgia, the South Ossetia and Abkhazian conflicts have almost become Russia-Georgia disputes, because of Russia's increasing controls over the regions. The economic conditions in Georgia is very affected by Russia's refusal at times to sell them natural gas, while Georgia has also cut off gas supplies to South Ossetia. Nichol sees Georgia as having experienced increased political instability over the past few years.

The “Obstacles to Peace and Independence” section is reproduced in the Appendix.

Nichol, J. (2006). “Armenia, Azerbaijan and Georgia: Political Developments and Implications for US Interests”. CRS Issue Brief for Congress. Washington: The Library of Congress, pp. 4-10.

Civil Georgia Daily Newspaper’s *2006 Event Timeline* provides an event-by-event chronicle of the important developments that faced the Georgian political sector over 2006. Issues of note include the various crises with Russia that occurred throughout the year, including the pipeline explosions in January, Russia’s embargos on mineral water and wine, discussions and disputes over Russia’s role in peacekeeping in Abkhazia and South Ossetia, the arrest of four Russian military officers and Gazprom’s attempt to get some of Tbilisi’s assets by selling gas to Georgia at twice the normal price. Other important events include reactions to government pressure on business and free media, local self-governance elections, alternative presidential elections in South Ossetia and the announcement of presidential elections to take place in October of 2008.

United Nations Association of Georgia. (2007). Civil Georgia Daily Newspaper. Retrieved January 2, 2008 from the World Wide Web: <http://www.civil.ge/eng/>.

#### **b. Georgian-Caucasus Relations**

Nichol’s 2006 report “Armenia, Azerbaijan and Georgia: Political Developments and Implications for US Interests” also looks at Russia’s involvement in the South Caucasus, and the implications that this has for the region as a whole. Since Putin became president in 1999, Russia has attempted to keep influence in the region; however, since

2003 there have been several developments that would challenge this influence. Russian influence has typically been primarily military and strategic, although recently the economic sector has also become important.

Russia has kept thousands of military personnel in the South Caucasus, with four military bases in Georgia alone. Georgia and Azerbaijan have been concerned over Russia's military actions in Chechnya, and there are now OSCE observers to monitor Georgia's border with Chechnya. Since 2001, Russia has also attempted to enter Georgia because of alleged terrorists within the Georgian border. In 2005, Georgia pressured Russia to present a plan to close its military bases, and eventually Russia promised to close one in 2007 and a second in 2008.

Each country in the Caucasus is heavily reliant on Russian gas, and although Russia has not opposed plans to build pipelines that do not enter Russian territory, Putin does want to be sure that most gas flows through Russia.

Turkey and Iran are both keeping good relations with the Caucasus countries, and may offer other options aside from dealing exclusively with Russia.

Nichol's section on "The South Caucasus's External Security Context" can be found in the Appendix.

Nichol, J. (2006). "Armenia, Azerbaijan and Georgia: Political Developments and Implications for US Interests". CRS Issue Brief for Congress. Washington: The Library of Congress, pp. 16-20.

The Economist article "Hanging Together" looks at the possibility of Caucasian countries finally working together, now that all their economies are starting to recover

from the post-independent collapses. The article states that the most important country in the Caucasus is Azerbaijan, with the largest population and oil and gas. After last year's attempt by Russia to charge Georgia twice as much as the normal price for gas, Azerbaijan was able to make up the supply and get Georgia through the winter. If Georgia and Azerbaijan work together, they could disrupt Russia's monopoly on Central Asia's gas supply, both to the Caucasus and to Europe.

The two obstacles to the countries working together are domestic politics and war. Azerbaijan's opposition activists are regularly harassed, and Islamists in the country are gaining power. In terms of war, the Russian support for South Ossetia and Abkhazia are likely to continue to cause problems, as is Azerbaijan's conflict over Nagorno Karabakh.

Economist, The. (2007). "Hanging Together". Retrieved January 5, 2008 from the World Wide Web: <http://www.economist.com>.

### **c. Georgian-Russian Relations**

In their 2006 article "Georgia vs. Russia: The "Human" Cost", Esipova and Srinivasan look at the crisis between Russia and Georgia over the arrest of four Russian officers in Georgia, and the toll this has taken on the Georgian population. While it was a disaster in terms of trade, there are also hundreds of thousands of Georgians living and working in Russia to support their families still in Georgia, and there has been a great deal of emotional and financial stress. In their survey of 1000 residents of Georgia, 53% said that they must remain on good terms with Russia no matter what, 32% said that the country must take a principled position in regards to Russia and not back down under any

circumstances, while 3% believed that the country should cease any relationship with Russia and 12% didn't know or refused to answer.

Esipova, N. and R. Srinivasan. (2006). "Russia vs. Georgia: The "Human" Cost". Gallup News Service.

Petrou's 2006 article in Maclean's, "Is this the return of the Evil Empire?" looks at Russia's image in the world today, and in regards to Georgia, why and how Russia is putting pressure on the economy. Georgia is leaning heavily towards the west, and has become a "key battleground in the confrontation between Russia and the West" due in large part to its location. Petrou cites the bullying tactics used by the Russians against Georgia, including backing separatist rebellions in Abkhazia and South Ossetia, and keeping the conflicts going as a bargaining chip when it comes to such areas as Kosovo. The embargos on Georgian and Moldovan wine as well as on Georgian mineral water have been difficult for the Georgian economy, as have the greatly increased gas prices and frequent, unexplained gas-line explosions that shut down heat during winter. Many Georgians believe that this bullying is Russia's way of punishing Georgia for its ties to the West, and for its increasing democratization.

Petrou, M. (2006). "Is This the Return of the Evil Empire?". Maclean's, May 22, 2006.

Kokeev's 2007 article "Georgia: A Quandary" looks at Georgian-Russian relations after a spy scandal, and dealing with political maneuvering by a number of

actors in the Abkhazian and South Ossetian regions. In contrast with Petrou, Kokeev sees Georgia as the ultimate cause of the Russo-Georgian difficulties.

The spy scandal in October of 2006 sparked an incredible crisis in Georgian-Russian relations, including a partial economic blockade of Georgia and an interrupted political dialogue. Kokeev states that Georgian policy is dictated by Washington, and that the reason for the russophobia of the Georgian leaders is that the United States does not want to develop a sustainable, strategic partnership with Russia. He further states that the indignation over Russia's economic sanctions against Georgia is a smokescreen, which hides the fact that Georgia wishes to finance its accession into NATO using Russian money. He also states that Georgia is a parasite on the UN, addressing the General Assembly although it has not paid its dues and thus is not a voting member. He concludes by noting that there has been no repair in the communication between Georgia and Russia.

Kokeev, M. (2007). "Georgia: A Quandary". *International Affairs*, vol. 53, no.1, pp. 74-78.

In the days following the 2008 Georgian presidential election, relations between Russia and Georgia have been cautious but positive. The SwissInfo article "Georgia and Russia pledge better ties at Inauguration" describes Russia's presence at Saakashvili's inauguration service, which Russian Foreign Minister Sergei Lavrov attended. This was a positive gesture of goodwill, although it is important to note that relations will not be mended overnight. "Russia and Georgia: frosty relations thawing" from Russia Today News gives a history of the Russian-Georgian crisis, and speaks of the February 21<sup>st</sup>

meeting between Presidents Putin and Saakashvili, remarking that both sides are currently willing to resume ties. The meeting was a positive experience, as described in the Civil Georgia article “Georgian, Russian Ministers on Putin-Saakashvili Talks”.

The question of Kosovo’s independence has also strained Russian-Georgian relations, with rumors flying that Russia would use Kosovo as a precedent to grant South Ossetia and Abkhazia. Four Civil Georgia articles look at the rumors, and conclude that although there is still conflict between Georgia and Russia over the two regions, Russia has said that it will not recognize Abkhazia or South Ossetia.

Antidze, M and N. Mchedlishvili. (2008). “Georgia and Russia pledge better ties at inauguration”. *SwissInfo*. Retrieved February 27, 2008 at <http://www.swissinfo.org/eng/swissinfo.html?siteSect=43&sid=8644135>.

Russia Today. (2008). “Russia and Georgia: frosty relations thawing?”. *Russia Today News*. Accessed February 27, 2008 at <http://www.russiatoday.ru/news/news/21177>.

United Nations Association of Georgia. (2007). Civil Georgia Daily Newspaper. Retrieved January 2, 2008 from the World Wide Web: <http://www.civil.ge/eng/>.

#### **d. 2008 Elections**

Civil Georgia Daily Newspaper has created a timeline of the events that led to the political crisis and early presidential elections of 2008. It begins in September 2007, with the beginnings of the Okruashvili corruption affair. As a result, the largest protest rally in recent years demanded Okruashvili’s release, early elections and the abolition of the president’s post. Okruashvili eventually confessed to extortion, however calls for an early election continued. Protests continued, growing in strength until November 7<sup>th</sup>, when a

state of emergency was declared. The next day, President Saakashvili announced that the elections would take place on January 5<sup>th</sup>, 2008.

A number of articles in *The Economist* followed the controversy from October 10, 2007 to January 10, 2008. The first article, dated October 10<sup>th</sup>, “Georgia’s murky politics” looks at the former defense minister, Irakli Okruashvili, his firing from his position, his accusations towards President Saakashvili alleging that the president ordered the murder of his opponents, and finally Okruashvili’s recanting of these accusations. The article points out that the entire situation reflects badly on the Georgian government, President Saakashvili, and the judicial system.

“People Power” appeared on November 8<sup>th</sup>, comparing the protests that are occurring with those that ousted the previous president, Shevardnadze. It describes the November 7<sup>th</sup> police action to break up a protest, involving tear-gas and water cannons and injuring numerous people.

The next article, dated November 10<sup>th</sup>, “Georgia, no peace I find” states that snap elections will not fix the political mess. Following numerous demonstrations with some violence and a police action with more violence, the authorities said that they were battling “an alleged Kremlin-backed putsch”. The state of emergency allowed the government to blackout opposition media and to ban public meetings. The upshot is that President Saakashvili has seemed to exhibit cronyism and this has dismayed both the Georgian population and international observers. His focus on state-building is occurring at the expense of building a functioning democracy. This may hurt Georgia’s chances of joining NATO.

“Misha’s mess” appeared on November 15<sup>th</sup>, condemning Saakashvili for blaming the protests on Russia and for holding snap elections that will not be as fair as if there was sufficient preparation time. The article also calls the West to task for not condemning Saakashvili’s use of force. “Caucasian Circle” (also November 15<sup>th</sup>) lists the improvements that have occurred in Georgia since the Rose Revolution of 2003, and in spite of Saakashvili’s blunders and loss in popularity, expects that he will win the election.

January 5<sup>th</sup>’s article, “A test of democracy”, looked at the parties running for election, while explaining why the West and much of Georgia is disappointed in Saakashvili, in spite of expecting him to win. It also mentions that there will be some difficult questions to face for whoever wins: NATO’s spring summit probably will not accept Georgia; there is a substantial risk for more provocations from Moscow; and there is a continuing feud between Mr. Patarkatsishvili’s business empire and the Georgian government.

The next article, “Getting out of a mess in Georgia” (January 7<sup>th</sup>), looks at the election results. While Saakashvili won decisively, it appears that the election was conducted appropriately, in spite of opposition’s complaints. The opposition also received support, so that the government will have a real opposition. There are plans to hold a parliamentary election in April, which will also curb Saakashvili’s power.

The final article, “Misha bounces back” (January 10<sup>th</sup>), looks at the precipitating crisis before the election and the election itself, which was democratic even if not completely fair. It concludes by recognizing that Saakashvili seems to have learned a lesson, and hopefully the West which has overwhelmingly supported him has as well.

United Nations Association of Georgia. (2007). Civil Georgia Daily Newspaper.  
Retrieved January 2, 2008 from the World Wide Web: <http://www.civil.ge/eng/>.

Economist, The. (2007). Various Articles. Retrieved January 5, 2008 from the World  
Wide Web: <http://www.economist.com>.

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