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CAUCASUS UNIVERSITY

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კრებულში განთავსებულია სამეცნიერო ნაშრომები, შერჩეული მეორე საერთაშორისო სტუდენტური სამეცნიერო კონფერენციისათვის „21-ე საუკუნე – განვითარების პერსპექტივები“, რომლის უმთავრესი მიზანია სტუდენტთა დასაბუთებული თვალსაზრისის წარმოჩენა თავიანთი ქვეყნების განვითარების პერსპექტივაზე. აგრეთვე ერთიანი ხედვის შემუშავება მსოფლიოს წინაშე მდგარი პრობლემების გადაწყვეტის თაობაზე.

The collection contains works of the Second International Student's Scientific Conference "Development Perspectives of the XXI century". The major goal of the conference is to present reasonable arguments from the students of the countries of Europe and South Caucasus on European integration opportunities. Here also one can find the initiative on forming entire vision for solving key problems, facing Europe and South Caucasus.

გამომცემელი: კავკასიის უნივერსიტეტი – ფრიდრიხ ებერტის ფონდის მხარდაჭერით

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Ed. board:

Shalva Machavariani (head), Indrek Jakobson, Giorgi Gaganidze, Londa Esadze, Lia Chakhunashvili, Natia Amilakhvari, Dina Oniani, Natia Narsavidze.

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Caucasus University was established in 2004. CU is a new institution founded on the base of Caucasus School of Business which was established during the transitional period of the country in 1998 when Georgia was making the first attempts to move from planned to free market economy. Now Caucasus University has got five schools: Caucasus School of Business, Caucasus School of Law, Caucasus School of Media, Caucasus School of Technology, Caucasus School of Governance and Caucasus School of Humanities, a relatively new school. The target segment of CU are highly motivated, advanced skilled and study dedicated individuals ready to invest in their study at CU to build the professional and successful careers as well as the management of business entities which understands that human capital is one of the most important and main asset for successful business. The role of the Caucasus University is to support the fast development of the business sector in Georgia and it is well known what a pivotal role the business sector has in the country's development in overall.

After becoming the member of Bologna Process, Higher Education Institutions of Georgia got a unique possibility to integrate into European Higher Education System. One of the main criteria of Bologna Process is the indivisibility of Education and Research, which on its part is an inevitable condition for creating the most priceless resource of XXI century – the intellectual resource.

Developing Intellectual potential is of utmost importance for Georgia. Apart from welfare, this is a direct way to settle in a civilized world. This kind of importance carries *International Students' Scientific Conference "Development perspectives of the XXI century"* which will take place on May 8-11 on Bazaleti lake complex. The aim of this conference is to select and expose students' best scientific works carrying original and important ideas for the development of the region.

I would like to wish successful operation and further great creative achievements to all members of the conference.

Prof. Kakha Shengelia

*President of
Caucasus University*

Already for the third time our fund supports Student's Conference organized by Caucasus University. We are very glad to be familiar with those young people who with great interest and what is the most important, with the professional approach are involved in this conference. The argument to this is the actuality and the difficulty of the selected issues, as well as the quality of the works.

We hope that the presented works will also deserve wide attention of the society and these works will be discussed not only by the friends of the students, but by the specialists of each issue as well.

Considering our experience we do know how valuable are the ideas offered by young generation. They are full of inexhaustible optimism, endeavor and great wish to become the participants of democratic transformation of Georgia, develop strong market economy and successful cooperation between nations. These are the aims the Friedrich Ebert Fund is supporting from 1994.

Our fund was established in 1925 following the will of Friedrich Ebert, first president of Germany. His last will was to help students. We are very glad that the initiative of Caucasus University once more provided us with the possibility to cooperate with young generation and support their involvement in scientific and social activities of our country.

Lots of thanks to our partner, Caucasus University and to the participants of the first International Students' Scientific Conference "Development perspectives of the XXI century".

Ia Tikanadze

*Friedrich Ebert Fund
Director of Georgian Branch*

International Students' Scientific Conference "Development perspectives of the XXI century" organized by Caucasus University and Friedrich Ebert Fund consists of two stages. On the first, preparatory stage accredited higher education institutions of Europe and South Caucasus received the announcement about conducting the International Students' Scientific Conference. In the result of the first stage quite a large number of annotations and applications were received. According to the estimation criterion considered in the regulations neutral regalement invited from various institutions they selected works higher education institutions of Europe and South Caucasus. Totally forty one students will participate in this conference.

On the second stage of the preparatory works the authors presented full versions of their works. Selected scientific works are now published in this collection.

We have to point out students' professional approach to the conference and the actuality and complexity of the selected issues.

On behalf of the organizational committee I would like to wish to all members of the conference success and further achievements in their professional activities.

Vice-president of Research Department of Caucasus University

Prof. Shalva Machavariani

THE SELF-DETERMINATION PRINCIPLE AND LEGAL PROSPECTS OF ABKHAZIA AND SOUTH OSSETIA

Ana Kostava

Caucasus University

Student of the second course of Caucasus school of law

Instructor: Anna Tabidze, Assistant professor

Introduction

The principle of self-determination is one of the universally recognized principles of international law, envisaged in most of basic international treaties and a *jus cogens* norm, which was acknowledged after the World War II. By the virtue of this principle, during so called “decolonization” process, “from 1945 to 1965, 56 new sovereign states were formed”¹. After the termination of decolonization, the self-determination principle has become the main argument for the separatist movements, including Abkhazian and Ossetia separatists, as there exists the idea that the modern interpretation of self determination principle serves as the justification of secession. The Russian federation, when recognizing these regions in august 2008, based the legal grounds fort such recognition on the self-determination principle.²

In 1918 the Secretary of State of the USA, Robert Lansing referring the emerging right of self-determination, remarked that the concept was “loaded with dynamite,” and that “it will raise hopes which can never be realized.”³ Hence uni-national states are rare in modern reality, and in virtually every state there are national or ethnic minorities or indigenous people, the tension between the state sovereignty principle and the right to self-determination reached critical boundaries. The plethora of armed conflicts exposed that the main questions linked with the self-determination principle are not suitably analyzed and determined in international law.⁴ The main objective of the following topic is to discuss the universal right of self-determination in international law generally and in the aspect of the possibility of this right being legal argument and prospect for Abkhazia and South Ossetia. For these reasons, the controversies between self determination principle and state sovereignty are discussed and exposed why the self determination does not imply secession in general and in why self determination cannot be used as a legal argument by Abkhazian and South Ossetia separatists in particular.

1. Brief historical review

1.1. Abkhazia

On 31st march of 1991, based on the outcome of universal and free referendum, independent and democratic republic of Georgia was declared. The declaration of independence and cleavage with Russia, contributed to stirring up of separatist movements. On 23rd July 1992, the Abkhazian supreme council sitting reestablished the constitution of 1925 and declared independent republic of Abkhazia. On 14th august of 1992, resulting from futile diplomatic negotiations, the decision to forcibly settle the dispute was adopted. Nominally, to protect the security of main transport line, Georgian armed forces entered Abkhazia. The entire Trans-Caucasian confederation (Chechens, Kazaks, Armenians, kabardo-balkarians, Ossetians) intervened in this war to assist Abkhazian side. Abkhazians received Financial, technical and informative assistance from Russia. On the 27th September of 1993, aggressors captured Sokhumi, Georgians defeated, and as a result,

1 Georgia and International law, collected articles, Tbilisi, 2002 levan Mataradze, “about the quality and self determination” p.20

2 Recent Development: The Exceptions That Disprove the Rule? The Impact of Abkhazia and South Ossetia on Exceptions to the Sovereignty Principle. By Gregory Dubinsky ; Winter, 2009; *34 Yale J. Int'l L.* 241

3 National Self-determination Adam Roberts, Balliol; <http://www.tamilnation.org/selfdetermination/>

4 Georgia and International law, collected articles, Tbilisi, 2002, levan Mataradze, “about the quality and self determination” p.10

whole Abkhazia was lost.¹ According to ceasefire agreement, the composition of peacekeeping personnel in the region consisted mostly of CIS, especially Russian contingent.² According to UN Security Council resolution 858 (1993), United Nations observer mission was formed, so called UNOMIG which was instructed to monitor the execution of the ceasefire agreement in 1993.³ In 1994 the Abkhazian supreme council adopted constitution, by which on the basis of the self-determination, Abkhazia was declared to be independent republic.⁴

1.2 *South Ossetia*

As for the Tskhinvali region, South Ossetia autonomous district filed the request of the status of autonomous republic to Georgian soviet republic supreme council in 10th November 1989. With the rejection of the request, the supreme council adopted the law interdicting the formation of regional parties. This was apprehended as the action against the south Ossetia Populist Party and on the 20th September of 1990, the south Ossetia declared independent republic within the boundaries of the Soviet Union. On the 10th December 1990, first president of independent Georgia, Mr. Zviad Gamsakhurdia wholly abolished the autonomous status of South Ossetia, which was followed by the aggravation of situation and clashes during the 1991. In 1992, the ceasefire agreement was finally reached, the peacekeeping mission was formed and also OSCE monitoring mission was set up, for the surveillance of this peacekeeping operation.⁵ In August 2008, resulting from the provocations in Tskhinvali region, armed conflict began between Georgia on one side, and Russia together with Ossetians and Abkhazians on the other. Russian federation was declared as occupant of Georgian territory. After this war, Russian President Medvedev signed Decrees recognizing the independence of Abkhazia and South Ossetia. In September 2008, the independence of these regions was recognized by Nicaragua.⁶ Georgia adopted the law declaring Abkhazia and South Ossetia as occupied territories.

2. The right of self determination

Acknowledging, that both separatist regions, now already partially recognized republics, place the main argument for their declaration of independence in self-determination principle, thus the essential issue - the right of peoples to self determination shall be discussed in every necessary context.

The first precedent to request right to secession on the basis of the self-determination principle occurred in Aaland Islands case in 1921, were council of League of Nations categorically denied any infringement to state sovereignty and rejected the idea of existence in any form of the right to secede in international law.⁷ Though the situation has changed greatly afterwards, and nowadays, some scholars and politics, together with separatist movements, citing the international practice, stipulate the self determination to be the exception of the state sovereignty principle, but the rule can have only as many exceptions until that is no rule at all.⁸

2.1. *What is the right of self determination – legal basis?*

The articles 1(2) and 55 of UN Charter explicitly include, and articles 73 and 76 (2) imply the “the principle of equal rights and self-determination of peoples”.⁹ These are the articles which form the legal foundation of self-determination in international law.

The two international covenants, ICCPR and ICSECR adopted in 1966 by general assembly should also

1 Georgia and International law, collected articles, Tbilisi, 2002

2 Agreement on a Cease-Fire and Separation of Forces, Geor.-Abkhazia, May 14, 1994, reprinted in U.N. SCOR, Letter Dated 17 May 1994 from the Permanent Representative of Georgia to the United Nations Addressed to the President of the Security Council, Annex I, U.N. Doc. S/1994/583 (May 17, 1994); S.C. Res. 934, U.N. Doc. S/RES/934 (June 30, 1994).

3 UN GA Resolution # 858 (1993) 3268-meeting, 24 August 1993.

4 Конституция республики абхазия принята на сессии верховного совета республики абхазия 12-го созыва 26 ноября 1994 г., одобрена всенародным голосованием 3 октября 1999 г. С изменением, принятым на всенародном голосовании (референдуме) 3 октября 1999 г. (<http://www.abkhaziagov.org/ru/state/sovereignty/>)

5 *Georgia: Avoiding War in South Ossetia*, International Crisis Group, 26 November 2004, ICG Europe Report 159, <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN019224.pdf>, retrieved on 2008-08-13

6 <http://www.newsru.com/arch/world/05sep2008/nika.html> retrieved at 01.03.09

7 decision of the council of the league of nations on the åland islands including Sweden’s protest 1921 available at http://www.kultur.aland.fi/kulturstiftelsen/traktater/eng_fr/1921a_en.htm 28 February, 2009

8 Recent Development: The Exceptions That Disprove the Rule? The Impact of Abkhazia and South Ossetia on Exceptions to the Sovereignty Principle. By Gregory Dubinsky ; Winter, 2009; *34 Yale J. Int’l L.* 241

9 P. Malanchuck, “contemporary international law of Akehurst” *Diogene*2005; p357

be taken into consideration. They went into force in March 1976. Both covenants have identical first articles, which state that “All peoples have the right of self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development.... The States Parties to the present Covenant, including those having responsibility for the administration of Non-Self-Governing and Trust Territories, shall promote the realization of the right of self-determination, and shall respect that right, in conformity with the provisions of the Charter of the United Nations”¹⁰.

UN General Assembly in 1960, by the resolution 1514 (XV) adopted the Declaration on the Granting of Independence to Colonial Countries and Peoples, the paragraph second of which explicitly stipulates that “All peoples have the right to self-determination; by virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development.”¹¹

Another important document is declaration on principles of international law concerning friendly relations and co-operation among states in accordance with the charter of the united nations adopted in 1970 by general assembly which foresees that By virtue of the principle of equal rights and self-determination of peoples enshrined in the Charter of the United Nations, all peoples have the right freely to determine, without external interference, their political status and to pursue their economic, social and cultural development, and every State has the duty to respect this right in accordance with the provisions of the Charter.¹² Furthermore, this declaration ensures that “Every State has the duty to refrain from any forcible action which deprives peoples of their right to self-determination and freedom and independence.”¹³

The special reporter of the sub-committee on prevention of discrimination and protection of minorities, stated in his study that “no one can challenge the fact that in the light of contemporary international relations, the principle of self-determination necessarily possesses the character of *jus cogens*”(peremptory and non derogable norm of international law).¹⁴

The International Court of Justice in Case concerning East Timor (Portugal v. Australia), in 1995 ruled that the right of peoples to self-determination was an essential principle of contemporary international law and an *erga omnes* obligation.¹⁵

The international law commission, (ILC) has initially included in draft articles on state responsibility, (text adopted at the first reading) namely in article 19, that “an international crime may result, inter alia, from a serious breach of an international obligation of essential importance for safeguarding the right of self-determination of peoples, such as that prohibiting the establishment or maintenance by force of colonial domination.”¹⁶

Considering all the abovementioned, one may observe, that the right of self-determination is one of the most remarkably codified principle, but further research is necessary to understand, what does the self-determination principle imply, how was it interpreted and explained in the practice of international law and by scholars in their works.

2.2. What does the self-determination principle mean?- scholarship commentaries

According to Rosalyn Higgins “It is one of the great myths that the UN Charter provided for and required self-determination in the form in which it evolved.” The concept developed in ways quite unintended by the charter, whose articles 1(2) and 55 referred in context only to Rights of peoples of one state to be protected from interference by other states or governments. But ideas develop and the growing identification of self-determination with independence from colonial rule has long since been regarded on all sides as legitimate and desirable. Though terms cannot be invoked to mean whatever the user finds it convenient for them to mean.¹⁷

10 Peter Radan, The break-up of Yugoslavia and international law; p 44

11 General Assembly resolution 1514 (XV) of December 14 1960, “Declaration on the Granting of Independence to Colonial Countries and Peoples. Para 2.

12 Declaration on Principles of International Law Concerning Friendly Relations and Co-operation Among States in Accordance with the Charter of the United Nations, UN General Assembly Resolution 2625 (XXV) 24 October 1970

13 P. Malanchuck, “contemporary international law of Akehurst” Diogene2005; p358

14 Peter Radan, The break-up of Yugoslavia and international law; p 9

15 Peter Radan, The break-up of Yugoslavia and international law; p 9

16 ILC, Draft Articles on State Responsibility”, article19

17 International human rights in context; law, politics, morals. Text and Materials. Henry J. Steiner and Philip Alston, Clarendon press, Oxford ;p989

Hurst Hannum considers that “despite the apparently absolute formulation in various UN resolutions and the two international covenants on human rights, self-determination has never been considered an absolute right to be exercised irrespective of competing claims or rights, except in limited context of “classic” colonialism...”¹

Rebecca Wallace emphasizes that the aim of the paragraph 2 of the Declaration on the Granting of Independence to Colonial Countries and Peoples, was identified in Western Sahara and Namibia cases, which were examined by ICJ in 70-s, and which concerned secession on the basis of self-determination claims.² It was acknowledged therein that “the application of the right of self-determination requires a free and genuine expression of the will of the peoples concerned.”³

These considerations corroborate that in due course, the content of the right of self-determination has changed and it modifies with the alternation of situations. The self-determination principle is somehow like phoenix, it was not able to exhaust itself yet, and on every new emergence, a new aspect of these right causes attention. Presumably these trait results from this right being one of the basic principles of international law, and being the imperative norm of customary, as well as treaty law. To further clarify the idea, a possibly coarse analogy should be made. In international law, there is only one exception from the prohibition of the use of force (article 2.4 of the UN Charter) which is straightforward codified in UN Charter article 51. This is the right of self-defense. The study of international practice in this field has exposed that states do their best to justify any use of force under article 51 of the charter. That resulted in emerging of many different forms of self-defense. Virtually the same situation may be observed in relation with self-determination principle, as there are no more *Terrae nullius*, or colonies in international society, and, thus, the only legitimate way to arising of new states goes through the modified right of self-determination. But for who? Who may feasibly be the subjects for this right?

2.3. Do the Abkhazians and Ossetians have the right of self-determination? - Or the meaning of the term “peoples” within the context of self-determination.

According to James Crawford, for the prospect of International law, the key word in the term “the rights of peoples” is the word “peoples” instead of “rights”.⁴ The articles of the UN charter do not explain what does the term “people” imply and which people have the right of self-determination. Both international covenants keep silence about this issue. None of the ICJ cases, considered on the self-determination topic, among them about Namibia, Western Sahara and East Timor cases discuss the term, and consequently there is no judicial definition by the court. For the abovementioned, it’s difficult to conclude, if the term “nation” may be used as equivalent to “peoples” for the self-determination context. According to David Mackinson, “the only way to avoid the arbitrary definition of the “peoples” notion is to normatively establish the concept. The “people” in this case should certainly be defined as the collective, the quality of interrelation, interdependence, peculiarity and originality (based on such characteristics as language, religion, culture, descent and other elements) of whose is sufficient to be granted the right of self-determination”⁵.

Because of the fact that there is no legal definition of the term “people” in international law, it is clear, that once more, the international society is granted the discretionary power, to recognize or not some groups as the subjects for the right of self-determination. “The right of self-determination is used for non-self governing territories, trusted territories and mandate territories. It is not explicitly defined whether it may be used for other territories or not. On one hand, paragraph second of the GA resolution 1514 (XV) ensures that all peoples have the right of self-determination. On the other hand, paragraph 6 of this resolution prohibits any kind of secession. In practice, UN never paid special attention to the exploration and enjoyment of the right of self-determination. The western states have often blames UN of playing double, but the basis for double-actions

1 International human rights in context; law, politics, morals. Text and materials. Henry J. Steiner and Philip Alston, Clarendon press, Oxford ;p977

2 legal consequences for states of the continued presence of south Africa in Namibia (south-west Africa) notwithstanding security council resolution 276 (1970) advisory opinion of 21 June 1971; western Sahara international court of justice advisory opinion of 16 October 1975

3 International law, A Student Introduction, third edition by Rebecca M.M. Wallace; p 65

4 The Rights of Peoples; edited by James Crawford; Clarendon Press, Oxford. P 55

5 The Rights of Peoples; edited by James Crawford; Clarendon Press, Oxford. P 75

stem from the UN Charter itself.⁶

The president of Russian federation, while explaining the legal foundation for recognition of Abkhazia and South Ossetia, declared that “not every nation in the world have their own statehood and they happily live together with other nations within the boundaries of one state, but when a nation considers that it is unfeasible to exist with the other within one state, they can use their right to freely determine their political status.⁷ the right of self-determination is the peoples right, but, notwithstanding this fact, it was considered that the use of term “nation” by Medvedev, was determined to establish the Abkhazian and Ossetia separatist governments as self-determining subjects.⁸ Though, the international society has not recognized that Abkhazia or Ossetia may be regarded as Peoples for the scope of the self determination, that is, despite all the attempts, it’s not clarified if they do have the right of self-determination. Even if we’ll suppose that both nations meet the requirements of the Mackinson’s definition, or, that they represent the subjects for the self-determination principle, it is still under doubt if this right can have any efficacy generally, or in this particular case.

3. The right of self-determination v. state sovereignty and territorial integrity

According to the constitution of Georgia and Universally acknowledged boundaries, Abkhazia and South Ossetia are the part of territory of Georgia.⁹ Georgia is an UN member state, and by the virtue of UN charter, all members of the UN must respect Georgian sovereignty and territorial integrity.¹⁰ “If the right of self-determination implies the choice between independence and on the other hand alliance with other people (with the variety of possible models); the self-determination cannot be granted to the internally colonized people without breach of another principle of international law, namely without the breach of non-interference with existing boundaries”.¹¹ “National self-determination is, in the final analysis, a determination of the will”¹², but where the methods of exercising self-determination are formation of sovereign and independent state, as well as integration with another state, or acception of any other political status, determined by peoples free will, the self determination should absolutely oppose the state sovereignty and territorial integrity principles. States, which have undergone the nightmares of secessionist movements with self determination claims, seek to ensure that secession is impermissible on the basis of certain norms.¹³

Today the Unrepresented Nations and Peoples Organization (UNPO) have 70 members. These are nations without state from all over the world. These are the nations with the great willingness of having the right of self-determination, and they request it. This fact initially implies that approximately the same numbers of states are under substantial risk to face its sovereignty and territorial integrity infringements. Do the self-determining people have the right to ask the secession of the territory where they live? This topic has been subject of heated controversy in international law. The idea that the self determining group somehow “takes” the territory, which “belongs “to another, a bigger state is quite doubtful, because, the state does not “possess” the territory. The territory is the geographic area, where the state exercises jurisdiction and self-government works.¹⁴ “Territorial sovereignty is exclusive right of a state to exercise its powers within the boundaries of its territory. This right is followed by duty; a state has the obligation to protect on its territory the rights of other states, particularly to respect their territorial integrity, as well as to protect its citizens who are on the territory of a foreign state, both in peace and in the state of war.”¹⁵ Territorial sovereignty also implies defense of territorial integrity. When self-determining subject claims the part of the state’s territory, this is a secession claim, which needs further discussion, about the concept of secession.

6 P. Malanchuck, “contemporary international law of Akehurst” Diogene2005; p363

7 Dmitry Medvedev, Why I Had to Recognise Georgia’s Breakaway Regions, Fin. Times, Aug. 27, 2008, at 9 (Asia ed.).

8 Recent Development: The Exceptions That Disprove the Rule? The Impact of Abkhazia and South Ossetia on Exceptions to the Sovereignty Principle. By Gregory Dubinsky ; Winter, 2009; 34 *Yale J. Int’l L.* 241

9 Constitution of Georgia, article 2

10 UN Charter, art 2.

11 The Rights of Peoples; edited by James Crawford; Clarendon Press, Oxford. P 119

12 Nationalism, by John Hutchinson and Antony D. Smith, Oxford University press, p54

13 The Rights of Peoples; edited by James Crawford; Clarendon Press, Oxford. P 75

14 The Ethics of Nationalism, MargareT Moore, oxford university press, p 165

15 P. Malanchuck, “contemporary international law of Akehurst” Diogene2005; p93

4. Secession

Nowadays, the prospects to secede, according to the practice established in 90-s is in the straightforward relation with the right of self-determination, which should have served decolonization only, by the idea of a group of scholars. Scholarship admits that initial formulation of universal principle of self determination in UN Charter and in international covenants was predestined to face this jeopardy. Donald Horowitz argues that “secession does not create a homogenous successor state, as its defenders consider creating. Secession does not reduce the risk of conflict, violence or oppression of minorities. The guarantees of minority defense seem more like illusions, as the mere existence of the right to secede contradicts and depreciates all efforts determined to ensure peaceful life within one state.”¹

4.1. Arguments for secession claims

Emergence of new states on the basis of self-determination principle is one of the most variable questions, and in each case it is determined by the complex and totality of plethora of different elements. The main factors to be determined in every case include the degree of destabilization, caused by such kind of claim, and the degree of the representation of the population by the government.²

The fact that degree of destabilization is much higher than permissible is beyond doubt and was repeatedly proved through the history of past 20 years. As for the legitimating of governments, and degree of representation, it should be noted that in Abkhazia, this degree is actually very low. It should be observed that in the conditions of Abkhazian –Russian pasportisation, according to the data of the same source, there are 117 000 voters in Abkhazia. This data was proved by the 2007 parliamentary elections (it remains obscure how in 1999 referendum there could have been registered 2 times more voters). It should be noted here, that in 23 November 1996, a plebiscite was held throughout the territory of Georgia on the question “do you support holding the parliamentary elections scheduled by Abkhazian autonomous separatist regime till the restoration of territorial integrity of Georgia and till the return of all internally displaced persons in Abkhazia?” 224 925 internally displaced persons participated and voted against in this plebiscite, by which the legal basis of Abkhazian constitution was voided, because, it was adopted ignoring the will of majority of citizens.³ For the abovementioned, it is clear that the government cant be legitimate, and the degree of representation is substantially low.

In the works of secessionist, that is supporting secession, scholars, there are two different groups of justifiable secession. These are: Arguments based on the free choice theory, and arguments based on the national self –determination theory.

The latter was advanced by Christopher Wellman, Harry Beran and Daniel Philpot. These arguments typically require that a territorially concentrated majority express a desire to secede in a referendum or plebiscite for the secession to be legitimate, and do not require that the seceding group demonstrate that they are victims of injustice in the hands of the state.⁴ This argument is fortified by the right of individual autonomy and free choice and right to free political association, with the self-determination principle. Generally, such kind of secession occurs by “unilateral declaration of independence, which is usually declaratory, and does not possess the force of being self-executor. The independence of state is gradually achieved by gaining effective control and by recognition from other states. Most attempts of unilateral declaration of independence end with fiasco, and even successful ones need a lot of time...”⁵ The Kosovo precedent may serve as the most appropriate example in this case. There is a great disparity with Kosovo example and Abkhazia for the free choice secessionist arguments scope. In Abkhazia, any referendum held will be simultaneously void, because the number of internally displaced persons is practically 2 times more than that of actual number of voters in Abkhazia.

As for the South Ossetia question, that is more complex, because there are some controversies about the representation degree in Tskhinvali. Ethnic Ossetians are 65% of the population in this territory. Besides, Ossetia has 2 presidents, whose degrees of legitimation are intersected. Though, in 2007, the European Union

1 Secession and Self- determination, edited by Stephen Macedo and Allen Buchanan nomos XLV, p 50

2 Frederic L. Kirgis, Jr. THE DEGREES OF SELF-DETERMINATION IN THE UNITED NATIONS ERA Copyright (c) 1994 The American Society of International Law American Journal of International Law April, 199488 A.J.I.L. 304

3 Zurab Jguburia “ Abkhazian problem and the new international realities”, Tbilisi, 2008

4 The Ethics of Nationalism, MargareT Moore, oxford university press, p 167

5 James Crawford, State Practice and International Law in Relation to Unilateral Secession Report to Government of Canada concerning unilateral secession by Quebec <http://www.tamilnation.org/selfdetermination/97crawford.htm>

Observers mission declared that none of the presidents should be considered legitimate, because, none of the governments had the sufficient degree of representation and legitimacy in South Ossetia.

National self-determination argument of secession is based upon the moral value that the national identity of a group should be recognized. National groups, who seek to become self-governing, should exercise a kind of jurisdiction, or should have the right to exercise the jurisdiction on that territory that they occupy. These arguments generally encompass several special claims in different situations. First that is cultural superiority, second is being indigenous on the territory, and third is having superior historical right on that territory. All these arguments imply that this nation is placed under unfair and unjust conditions within the state, from which it requires to secede. Historically, the only nation to have superior claim on the territory is Georgians. Furthermore, the cultural superiority may be simply proved in the regions. As for the suppression and deprivation of political rights, nothing can be invoked to confirm such discreditation of Abkhazian or Ossetia minority from the Georgian side.

4.2. Counter arguments for secessionist claims

There is no right to secede in international law. Any kind of secession is prohibited by resolutions, and states, in practice, when rejecting the idea of the right of secession, use resolutions. There is an emerging idea that it would have been correct to define the term “people” and other vague aspects of the self determination principle, on the basis of the international covenants once and for all.⁶ In the Declaration on the Granting of Independence to Colonial Countries and Peoples, paragraph 6 states that “Any attempt aimed at the partial or total disruption of the national unity and the territorial integrity of a country is incompatible with the purposes and principles of the Charter of the United Nations.”⁷ the Declaration on Principles of International Law Concerning Friendly Relations and Co-operation Among States in Accordance with the Charter of the United Nations of 1970 also refers to the prohibition of secession, stipulating that “Nothing in this declaration shall be construed as authorizing or encouraging any action which would dismember or impair, totally or in part, the territorial integrity or political unity of sovereign and independent States conducting themselves in compliance with the principle of equal rights and self-determination of peoples as described above and thus possessed of a government representing the whole people belonging to the territory without distinction as to race, creed or color. Every State shall refrain from any action aimed at the partial or total disruption of the national unity and territorial integrity of any other State or country.”⁸

Secession itself implies the actual danger of internationalizing the regional conflict. It may seem that secession should put an end to the problems, but in reality, this creates more additional problems. “International law has always favored the territorial integrity of states, and correspondingly, the government of a state was entitled to oppose the unilateral secession of part of the state by all lawful means.”⁹

The justification of secession and the possible codification of it mean that federalism will be absolutely rejected and that interethnic accommodation between states disrupted.¹⁰ Secession also precedes danger for UN objectives, namely, for the protection and insurance of peace and security. Humanitarian catastrophes may simply stem from secessionist claims, if conflicts are too vigorous. “International law has been prepared to acknowledge political realities once the independence of a seceding entity was firmly established and in relation to the territory effectively controlled by it.”¹¹ Daniel Thurer wrote in his *addendum* to the entry on “Self-Determination” in the Encyclopedia on Public International Law in 1998 that, ‘Rather than formally recognizing a right of secession, the international community seems to have regarded all these processes of transition as being factual rearrangements of power, taking place outside the formal structures of international law: international law only became subsequently relevant within the context of recognition.’¹² But still, international law does not recognize any attempt to

6 The Rights of Peoples; edited by James Crawford; Clarendon Press, Oxford. P 75

7 Supra note 15. para 6

8 Supra note 16.

9 James Crawford, State Practice and International Law in Relation to Unilateral Secession Report to Government of Canada concerning unilateral secession by Quebec <http://www.tamilnation.org/selfdetermination/97crawford.htm>

10 Secession and Self- determination, edited by Stephen Macedo and Allen Buchanan *nomos XLV*, p 50

11 James Crawford, State Practice and International Law in Relation to Unilateral Secession Report to Government of Canada concerning unilateral secession by Quebec <http://www.tamilnation.org/selfdetermination/97crawford.htm>

12 http://www.opiniojuris.org/europe/archives/archive_2008_02_17-2008_02_23.shtml

secede justifiable. James Crawford, in “State Practice and International Law in Relation to Unilateral Secession Report to Government of Canada concerning unilateral secession by Quebec” wrote that “international law does not confer any right to secession outside the colonial context thus the only way in which an entity can unilaterally secede is by the traditional means of winning a war of independence - as Bangladesh did in 1970-1 with India’s help, and as Chechnya is trying to do now. The alternative is to seek to negotiate its way to independence - if the central government agrees to engage in such negotiations, which it is not required by international law to do.”¹ For the forgoing reasons, it’s not legally possible that Abkhazia and South Ossetia, which are Georgian territories according to Georgian constitution and internationally recognized boundaries, secede from Georgia and form new states on the basis of the universal right of self determination.

Conclusions

The case law about the self-determination principle is rare². The international court of Justice, in 1995, granted the East Timor the status of independent self-governed entity on the basis of the self-determination principle³. Cases about Namibia,⁴ and Western Sahara⁵, were examined by the court earlier, but the court has similarly granted the right of self determination and then consequently, secession. But these cases had more or less colonization contexts, and, subsequently, their factual grounds completely differ from those in Abkhazia and South Ossetia. Thus, no analogy may occur between those cases and Georgian regions. The ICJ is now examining the Kosovo case, to issue advisory opinion on the issue of secession on the basis of self-determination. The Georgian claim against Russia is also in the list of pending cases of ICJ.

Observing the background that the statistics of secessions on the basis of self determination is the following : in 1965, Singapore seceded from Malaysia; In 1971, Bangladesh seceded from Pakistan; In 1980 Zambia seceded from Zimbabwe; In 1990 Namibia left the South African Republic; In 1994 Eritrea seceded from Ethiopia; in 2008 Kosovo seceded from Serbia,⁶ one may consider that legal prospect for Abkhazia and south Ossetia are quite encouraging for them and disturbing for us, but as the above analysis explored, even if the separatist regions will have the right of self determination, the self determination cannot be convoked as legal basis for secession of this regions, because, there is no right to secede in international law without the colonial context. But on the other hand, instead of formally recognizing the right to secede, international law acknowledges political realities. This question first of all, implies political support of the separatist movement, which so far has involved Russia and Nicaragua, but there is substantial risk, and though, it’s indispensable that a legally objective interpretation of all matters be made, and also, it’s essential, that rather than merely accepting political realities, international law itself took the burden of regulation of resembling processes and matters.

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Self-determination principle and legal prospects for Abkhazia and South Ossetia

Annotation

Ana Kostava

Caucasus University

Student of the second course of Caucasus school of law

Instructor: Anna Tabidze, Assistant professor

Today, Unrepresented Nations and Peoples Organization (UNPO) have 70 members. There is no legal right of secession in international law. On the other hand, somehow threatening statistics of new states, formed through secession on the basis of self-determination principle exists. The problem is of crucial importance for Georgia, as separatist movements of Abkhazia and South Ossetia have already declared their independence unilaterally, and recently, Russia and Nicaragua have recognized their independence.

The main hallmark of the essay is the legal prospects of alleged right to secession the basis of the self-determination principle of these two regions, the conflict with state sovereignty and territorial integrity principle. International law regulations, practice, treaties, ICJ case law, opinions of the most highly qualified scholars are discussed in the scope of this problem. The legality of conducts of all parties of conflict, through its history is determined and the main differences with other precedents outlined. The topic is determined to serve to determine the possible legal scenarios on the basis of self-determination principle through international law for Abkhazia and South Ossetia.

ESTABLISHMENT OF THE INSTITUTION OF THE JURY IN GEORGIA IN THE CONTEXT OF SOCIOLOGY OF LAW

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Tamar Charkviani

*Ilia Chavchavadze Tbilisi State University
PhD Candidate*

The third wave of democratisation has created a new phenomenon, a new type of regime, which has been called non-liberal democracy. According to a well-known analyst Farid Zakaria, in more and more countries in the world ‘democratically elected regimes... ignore the boundaries of their constitutional power and deprive their citizens of their basic rights and liberties.’¹ Generally elected, popular leaders do not hesitate to avoid parliamentary and constitutional frameworks and rule the country using presidential decrees, to use government machinery against the opposition and the free press, and to infringe constitutional human rights. This is the case in many countries in Latin America as well as in the former Soviet republics. Regular general elections in these countries do not guarantee supremacy of law, restriction of corruption and good leadership within constitutional limits. Georgia should be considered as one of these countries. All this limits the independence of state institutions and puts them under the influence of government authorities. The problem is especially acute with regards to the independence of the courts of law.

Obviously, the attempt to establish democracy and the supremacy of law in Georgia will be futile unless it is supported by strong judicial and legislative systems. Hence, starting legal reform in Georgia by reforming the judicial system and prioritising the tackling of corruption has been a justifiable course of action. Even more so, as corruption in the judicial authority has considerably damaged public trust in the courts of law.²

The effectiveness of social institutions in legal society depends greatly on formal norms and on mutual correspondence of norms and real practice on the other. In a society with high legal literacy, laws and norms are seen by most citizens as fair and are thus widely respected. In transitional, transforming societies, a lengthy weakening of institutional systems is followed by stabilization of illegal social practices that are deviant from formal norms. In this case the independence of the judicial system is especially important.

This empirical sociological research aims at studying, actualising and devising mechanisms for reacting to different issues and problems connected with the establishment of the institution of Jury in Georgia. The data acquired as a result of the research and its analysis will help groups interested in the successful implementation of reform to better see and analyse the problems existing before and after adoption of the new system. The value of the research lies in refining and improving the strategy for reform of the judicial system by the state, acquiring and reflecting on information necessary for working out the recommendations, wishes and opinions of the civil and scientific sectors, and further presenting it to the governmental institutions involved in the reform.

Scientific study of the issue of the Jury in the context of sociology of law is important for a better understanding/study of subjects and theories of sociology of law in Georgian sociology, as well as for actualisation of sociology of law and assisting the development of this field of sociology in Georgia.

The main aim and function of changes to the Constitution adopted in 2004 are to regulate criminal courts in order to ensure competitiveness of the process, protection of the equality of the parties in the face of the law

1 Farid Zakaria, ‘The Rise of the Non-liberal Wave’ Sazogadoeba da politika, #3, CIPDD, Tbilisi, 2000 (Foreign Affairs, 1997, # 6), p.27.

2 ‘The Role of Orthodox Christianity in the States and Societies of Georgia and Russia’. Heinrich Boell Foundation, 2004. p. 107.

from the point of view of procedural rights and obligations, as well as civil participation in the court proceedings and their publicity. To achieve all these goals the authors of the draft criminal code offer us an element absolutely new and alien to the Georgian judicial system – the institution of the Jury.

Establishing the institution of the Jury in the Georgian judicial system is considered to be one of the most important factors in ensuring its independence and impartiality. Since the Rose Revolution a number of changes have occurred in the Georgian legislation. A number of changes to the constitution adopted by the Parliament of Georgia in February 2004 involved one concerning the formation of the institution of the Jury, as a result of which, a statement of the obligation of the government to create the courts of Jury was added to the Georgian Constitution, Article 82.

The city courtrooms are already ready for the courts of the Jury but who will be the first 12 members of the Jury or who will be the first accused in their presence remains unknown. It is only clear that, initially, the court of the Jury will exclusively hear cases of murder. According to the draft law, at least until 1st January 2010 the court of the Jury will only function in Tbilisi city courts and it will only hear cases under Article 109 of the Criminal Code within their territorial jurisdiction.

The study and analysis of the institutionalisation of the institution of the Jury is especially important in the context of sociology of law. According to this discourse, the judicial system, as a social phenomenon, develops in legal relations and legal consciousness as a result of the influence of society. These are the factors that determine the structure and institutions of the judicial system. The subject of study in the sociology of law is the generalisation and analysis of the legal norms, values and perspectives of a society.

According to the concepts/theories of the sociology of law, observation of the process of internalisation of the institution of the Jury will become necessary upon its coming into effect. The acuteness of the issue is also determined by an insufficient amount of information in Georgian society regarding the functions of this institution, and moreover, this subject has not been studied, and there is no statistic data, no results of surveys among the population, and no public discussion reflecting the opinion of the majority of the public on carrying out this responsibility.

The aim of the project was sociological reflection on the process of institutionalisation of the institution of the Jury in Georgia. Namely, what positive and negative effects will follow the implementation of the institution of the Jury and how useful it will be for the Georgian judicial system. It is of interest to reveal discourses of different groups in society on the court of law, its social engagement, the fairness and unfairness of the judicial system, functions of the law, social awareness and culture.

The following empirical sociological research is based on the qualitative sociological research method: discourse analysis of the press. The object of the research is description and analysis of attitudes/ discourses of different social groups - the government, the political opposition, independent experts from different spheres, nongovernmental organisations, journalists - formed as a result of 2004 amendments to the Georgian Constitution on establishing the court of the Jury.

The press reflects various aspects of social life differently. It presents factual and analytical sides to certain events. Information on certain individuals, big and small groups, and processes developing in society as a whole, is given in the press. The possibilities of the press are not limited by just reconstructing the environment: it has a significant influence on the development of social and political processes. Ideas expressed in the press directly or indirectly influence the formation of social and state attitudes/discourses, hence it is worth noting that dominant state and social values are illuminated in the press, including clear reflection of social attitudes/discourses towards the court of the Jury and state policy connected with it.¹

The analysis of centuries of different Jury models in different countries reveals that this institute is rich in traditions. It has also been important from the point of view of involving the public in law enforcement, improving trust in courts of law, and protection of human rights; and in some places for supporting state ideology, which it successfully did for centuries.

The great social importance of the Jury is reinforced by the fact that the main slogan of revolutions in European countries was the establishment of the institution of the Jury. It was viewed as a form of public participation in exercising justice. Pre-revolutionary monarchies were effectively characterised by courts representing the kings' interests, as their subordinate bodies. The establishment of the institution of the Jury re-

1 Note: The following leading Georgian newspapers have been analysed: 'Kviris Palitra', 'Asaval-Dasavali', 'Rezonansi', 'Alia', 'Akhali Versia', 'Georgian Times', '24 Saati', 'Sakartvelos Respublika', 'Akhali Taoba'.

sulted in making this body relatively independent from government control. There are numerous cases famous in history where the court of the Jury made risky but objective decisions, which reinforced public trust in the institution.

It should be pointed out that the establishment of the institution of the Jury was initially initiated by reformer kings wishing to gain trust for the courts. However, later, the court of the Jury has been repeatedly used against royal power. In capitalist countries the institution of the jury was seen as a guarantee of protection of human rights and development of market economies. It has been most firmly established in the USA, and according to local authoritative judicial officials, it is very important for the effectiveness of the judicial system and its social functions.

But today, when in the world's leading democracies the popularity of the Jury has considerably decreased, as has the number of the cases heard by them, the question arises: how effective will the establishment and functioning of the institution of the Jury in modern, 21st century Georgia?

The roots of the history of the institution of the jury in Georgia date back from 1918-1921 legislation of the Republic of Georgia. The institution had a different function in Socialist countries, where a variation of the Jury – ‘the public Jury’ – was established. In the Soviet Union a Public Juror had a bigger function than just participating in exercising justice as it was connected with the Marxist doctrine of the death of justice in communist society, i.e. there will be no justice or courts and the behaviour of an individual will be controlled by public influence. Every member of society would participate in justice personally and check the fairness of existing laws. In this way the institution of the Public Jury was part of the main purpose of justice – the development (upbringing) of a new human being.

First of all, it should be pointed out that at present implementing the institution of the Jury in Georgian reality involves a series of serious problems – it requires substantial reform, funding and time. In order for the Court of the Jury to carry out the functions and aims envisaged by the law, and for its effects to be proportionate to the effort necessary for its implementation, apart from the means listed above, it is necessary: for society to be ready and willing to carry out the obligations of the Jury, which is preconditioned by respect by members of society for democratic values, a high level of legal and social identity, and the existence of a certain level of economic, social and cultural development in the country.

It is also important that the existence of the institution of the Jury in the country imposes numerous, rather heavy duties and responsibilities on members of society; e.g. refusal to carry out the responsibilities of a Juror results in a fine of 2000 GEL (i.e. a person has no right to refuse the function of a Juror according to his/her will).

The wish to establish a jural state involves first of all supremacy of justice in the state and not just establishing the principles of supremacy of law. The process of establishing a jural state is impossible without the participation of society. Therefore establishing the courts of the Jury is one of the important instruments in involving the public in exercising justice. At this stage arguments in favour of the necessity of establishing this institution can be grouped in the following way:

- Reformation of the judicial system will represent an important stage in integrating Georgia in European and Euro-Atlantic structures. This reform will be directly connected with the following processes of integration, as well as reinforcing the reputation of Georgia as a reforming state.

- The court of the Jury is a fundamentally democratic institution:

‘According to world practice, in all countries the immediate result of dictatorships being established was abolishment of courts of the Jury and their re-endorsement in the post-dictatorship period. Examples of this are Russia and post-Franco-dictatorship Spain. In Georgia for centuries the courts of law were used as a means for foreign powers to suppress ordinary people; they were used by other countries and totalitarian (and later Shevardnadze’s corrupt) regimes.’ (A respondent from a non-governmental organisation)²

- The principles underlying courts of the Jury will considerably decrease instances of unfair verdicts and infringement of human rights by law enforcement officials in Georgia as a result of manipulation by Judges.

- The court of the Jury will be based on the principles of directness and orality which will decrease the use of illegally acquired testimony and evidence in court.

- According to existing practice, due to the limited independence of the courts, non-guilty verdicts are extremely rare, which shows the dependence of the courts on the Public Prosecutor’s Office. The institute

² (D. Grdzlishvili, I.N. Rikadze, ‘Establishment of the institution of the Jury will contribute to a decrease in crime; ‘Kviris Palitra’ 26.02-01.03.2007 pp.13-14)

of the Jury will involve the public in the judicial process, which will guarantee a wider independence of the courts. The public will be given stronger control on monitoring the judicial system.

- The existing stereotypes concerning the Public Prosecutor will be destroyed. The Prosecutor is a lawyer who has only one client, whose interests he/she permanently protects, who pays his/her fees, and this permanent client is the State. The Prosecutor effectively has the same functions as a defender and he/she must be able to convince the Jury of the correctness of his/her position using strong evidence. This will be the main victory for the State.

'In the early 60s, on request of the USA, Nikita Khrushchev sent an American lawyer to Georgia, who asked his host for a seemingly unusual thing – to be shown a criminal case where the Prosecutor's arguments were completely destroyed by the Defence. However strange it may seem, an example of this could not be found in Georgia. In the Soviet period the State (i.e. the Prosecution) could not be wrong. It must be due to Soviet inertia that in independent Georgia the Prosecution is the winning party for a majority of cases.' (An independent expert, a political scientist).¹

- The verdict will be delivered by the Jury; criminal trials will be completely transformed, from the preliminary investigation to the sentence. The rights of the Defence will be increased and the trial will be absolutely competitive. The Defence will have the right to demand that the Prosecution present it with all the evidence without exception prior to the trial and examine it. Another serious advantage is that if the Defence considers its defendant to have an important alibi, it has the right to conceal it from the Prosecution and reveal it directly in court. Also, if the Prosecution does not present the Defence with all the evidence it can not use it in court as it will not be accepted by the Judge.

- The court of the Jury involves considerable changes in the witness's status – the witness will testify officially for the first time in court and not as part of investigation. The issue of 'he gave different testimony during the investigation and in court' will disappear; so both the Defence and the Prosecution will ultimately have to rely on the testimony of the witnesses. Apart from this, only the parties will have the right to ask questions during hearings, and the Judge will not have the right to interfere any more. The Judge will only observe them and make sure they act in agreement with the Law. Therefore everything will depend on the skills, experience and education of the parties. The Judge is the central figure but he/she will make an objective decision according to the evidence presented by the parties.

The intensity of discourses of supporters of the court of the Jury varies from one public group to another. Arguments citing negative effects of establishing the institution of the Jury exist mainly in groups of journalists and practising lawyers. Within this group a scepticism towards any novelties can also be clearly detected. At this stage arguments against the necessity of establishing this institution can be grouped in the following way:

- The main argument of opponents to establishing the institution of the Jury in Georgia is the small size of the population, and family and friendship bonds between most of them.

- According to the sceptics, Georgian mentality and limited legal awareness will prevent the establishment of the courts of the Jury.

- Legal reform is developing quickly and there are no means of involving the public or increasing public awareness of it. The population is not fully informed on what is happening the judicial system and they can only judge specific examples.

- The existing project for the institution of the Jury raises doubts based just on the principle of selecting the Jurors. How will 12 out of 50 randomly selected candidates be revealed? The draft law on the Jury points out that persons not suitable for the purpose include those whose public speeches may become basis for unfair decisions. This implies directly that anyone not supporting the 'National Movement' and the present government will not be accepted as a Juror. Hence it follows that the government is creating another body subordinate to it under a public name that will support any of its wishes.

- The project in fact introduces an institution of the Prosecutor's discretionary² prosecution, i.e. according to Article 22, the Prosecutor has a right of discretion in deciding on initiating or terminating criminal prosecution. In other words the Prosecutor personally decides whether a crime is to be investigated or not. If

1 'Tavisupleba' magazine, №6 (42), 30th June, 2005.

2 Note: Point 'L' of Article 2 of the General Administrative Code defines discretionary right as - a right which gives an administrative body or official the authority to choose the most appropriate decision out of several complying with the Law on the grounds of defending public and personal interests.

the Prosecutor decides that there are not enough reasons to start the prosecution his decision can not be appealed in court.

- It is common knowledge that in our law courts, during hearings of serious criminal cases, and especially on passing a sentence – swearing, rows, fights, shouting at the Judge etc. is a common practice. It not difficult to imagine what situation a Juror will find him/herself in being left alone, unprotected after a trial. After the hearing he/she goes back to his/her work, home, family. What kind of pressure will he be under? Countries where the institution of the Jury functions successfully can afford to move the cases from one constituency to another according to their gravity and amount of interest in them. We can not do this. So it extremely doubtful that anyone will willingly agree to become a Juror without any guarantee of their basic safety.

- In Georgia courts are criticised for their lack of independence and this is the reason for their low estimation. These accusations are grounded and it is important to try to prevent Judges being afraid of the government. But we should also keep in mind – and this concerns Judges most of all – that independence of the court does not only mean it being free from government control. The courts should also be independent from public opinion. If the government is motivated by political interests, the public often falls victim to biased emotions – at times aggressively forgiving, at times bloodthirsty etc. Hearing any specific case, both the Judge and the Jury should be concerned about directly following the Law and not about public reaction to their decision. It is not acceptable for either Judge or Jury to be influenced by this: each case is equally unacceptable.

Discourses on the institution of the Jury in different groups of society vary significantly. However the research has revealed that broad society does not participate in the formation of these discourses. It is difficult to say how much discourses of the representatives of governmental or nongovernmental organisations reflect public opinion, as the latter is not expressed anywhere at the moment and still remains to be studied.

In Georgia the problems connected with establishing a jural state and human rights and liberties are enhanced by a number of negative factors inherited from the past. Some of the factors are: a long lasting tradition of despotism and feudalism, omnipotence of the government, and lack of rights for the population, strong and widespread judicial nihilism; absence of freedom, justice, self-government, democracy, constitutionalism, political and legal culture; the subordinate position of the public with regard to the state etc.

All this hinders the process of liberalisation and democratisation of public opinion, and adoption of new legal and political values; it makes it difficult to find the correct strategic line between history and the present day, and form the right direction for the future.

List of the applied literature:

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2. Toennies, F. (1987), *Community and Society*, New York
3. Kon, I. S. (1989), *A History of Classical Sociology*, Moscow
4. Giddens, A. (1976), *Rules of Sociological Method*, London
5. Blau, P. (1963), *The Dynamics of Bureaucracy*, Chicago
6. Tansey, S.D. (2000), *Politics the Basics*, New York

Establishment of the Institution of the Jury in Georgia in the Context of Sociology of Law Annotation

Tamar Charkviani

Ilia Chavchavadze Tbilisi State University

PhD Candidate

The aim of this project is to practically assist Georgian governmental and nongovernmental institutions in carrying out an effective reform of the judicial system. This empirical sociological research aims at studying, actualising and devising mechanisms for reacting to different issues and problems connected with the establishment of the institution of Jury in Georgia. The data acquired as a result of the research and its analysis will help groups interested in the successful implementation of the reform to better see and analyse the problems existing before and after adoption of the new system. The value of the research lies in refining and improving the strategy for reform of the judicial system by the state, acquiring and reflecting on information necessary for working out the recommendations, wishes and opinions of the civil and scientific sectors, and further presenting it to the governmental institutions involved in the reform.

Scientific study of the issue of the Jury in the context of sociology of law is important for a better understanding/study of subjects and theories of sociology of law in Georgian sociology; as well as for actualisation of sociology of law and assisting the development of this field of sociology in Georgia.

Establishing the institution of the Jury in the Georgian judicial system is considered to be one of the most important factors in ensuring its independence and impartiality. Since the Rose Revolution a number of changes have occurred in the Georgian legislation.

The number of changes to the constitution adopted by the Parliament of Georgia in February, 2004 involved one concerning the formation of the institution of the Jury, as a result of which, a statement of the obligation of the government to create the courts of Jury was added to the Georgian Constitution, Article 82.

The main aim and function of changes to the Constitution adopted in 2004 is to regulate criminal courts in order to ensure competitiveness of the process, protection of the equality of the parties in the face of the law from the point of view of procedural rights and obligations, as well as civil participation in the court proceedings and their publicity. To achieve all these goals the authors of the draft criminal code offer us an element absolutely new and alien to the Georgian judicial system – the institution of the Jury.

First of all, it should be pointed out that at present implementing the institution of the Jury in the Georgian reality involves a series of serious problems – it requires substantial reform, funding and time. In order for the Court of the Jury to carry out the functions and aims envisaged by the law and its effects to be proportionate to the effort necessary for its implementation, apart from the means listed above, it is necessary: for society to be ready and willing to carry out the obligations of the Jury, which is preconditioned by respect by members of society for democratic values, a high level of legal and social identity, and the existence of a certain level of economic, social and cultural development in the country.

It is also important that the existence of the institution of the Jury in the country imposes numerous, rather heavy duties and responsibilities on members of society; e.g. refusal to carrying out the responsibilities of a Juror results in a fine of 2000 GEL (i.e. a person has no right to refuse the function of a Juror according to his/her will).

The study and analysis of the institutionalisation of the institution of the Jury is especially important in the context of sociology of law. According to this discourse, the judicial system, as a social phenomenon, develops in legal relations and legal consciousness as a result of the influence of the society. These are the factors that determine the structure and institutions of the judicial system. The subject of study in the sociology of law is the generalisation and analysis of the legal norms, values and perspectives of a society.

According to the concepts/theories of the sociology of law, observation of the process of internalisation of the institution of the Jury will become necessary upon its coming into effect. The acuteness of the issue is also determined by an insufficient amount of information in Georgian society regarding the functions of this institution, and moreover, this subject has not been studied, and there is no statistic data, no results of surveys among the population, and no public discussion reflecting the opinion of the majority of the public on carrying out this responsibility.

The aim of the project is sociological reflection on the process of institutionalisation of the institu-

tion of the Jury in Georgia. Namely, what positive and negative effects will follow the implementation of the institution of the Jury and how useful it will be for the Georgian judicial system. It is of interest to reveal discourses of different groups in society on the court of law, its social engagement, the fairness and unfairness of the judicial system, functions of the Law, social awareness and culture.

Methodology of the empirical sociological research – on the initial stage of implementation of the project information and data connected with the subject under study will be gathered according to the so called Desk Research method.

I. Desk Research – involves finding any existing governmental and nongovernmental, professional and non-professional newspaper and journal articles, databases, or public data connected with the subject under study. Gathering information, systemising and analysing it makes it possible to acquire background knowledge on the subject and evaluate the existing data. Namely: this method will help to single out the main problems of the subject under study and exactly define its direction. **II. Press Analysis** – involves gathering information and opinions on judicial processes connected with the institution of the Jury, through studying different opinions presented in the press. **III. Involved Observation** – a method of acquiring primary empirical data through direct perception and registration of all those factors that concern the subject under study and the aim of the research. Its main goal is to describe the process of a Jury trial, as well as the social atmosphere of the event under observation. **IV. Analysis of court decrees issued by the court of the Jury** – the study of court decrees issued by the court of the Jury makes it possible to analyse its opinions, argumentation and general tendencies in relation to these cases. All this enables the creation of a picture of legal practices, defining statistics, grouping similar or homogeneous facts, etc.

THE PERSON AND THE LAW

Mamuka Ashvetia

Akaki Tsereteli State University

Student of the fourth course of the faculty of Law

Instructor: Prof. Omar Mindadze

Each individual of our society must fully realize the significance of law.

They should always try to fulfill and not to violate it. This the shortest way for democratic development of our country.

Among other creatures, human is the only one who has the ability to go into the depths of law and protect legal rules.

Only the person can fulfill the norms of jurisdiction in the process of relations with other people.

In old time, ancient Greek Thinkers, Sophists began to perceive and learn human beings, as a especial phenomena.

The human, as a problem of philosophy, comes from the teaching of Socrate, made the inscribe in the entrance of Delfo's temple.

„Perceive yourself“

Different definitions of the human make this problem hard to solve. From the beginning of the ancient world the conception of human was always connected with the animal.

According to the great thinkers, for example Aristotle thought that human was a sensible (political) animal, Thomas Aquinel considered that human was a social animal, B. Franklin President of the U.S.A. thought that the human was an animal who could make weapons.

But I don't agree with this idea, because nowadays the man has his own way of life, which distinguishes from other creatures and organisms, these ways are expressed in the following elements:

- a) Conscience
- b) Technique
- c) Freedom of will and
- d) Creativity

We can say that, the human's mode of life is reasonable, voluntary, free creative process, or activity which he realizes by using technical means.

As for the people's relation with it was provided gradually for many centuries.

„Human beings aren't only speactators of life, they are the main characters and life is their creation and harvest, says Ilia ChavChavadze.

The law with state helps people in social sphere of relations, it is necessary for them to defense kindness.

And that's why I would like to begin the issue from human beings.

His essential mark, ideal and existential conditions is clearly connected with the law.

As we know, among live organisms only human has intellect, or ability to perceive the law, defense the rules, of low in the process of relation between other people he can improve juridical norms, he tries to find exact rules and regulations in case the law breaking.

We can conclude that we can't exist without system of justice because of the various factors of social, economic, political and progressive development.

On the other hand human can be seen as a creator of law.

First all, we must perceive that the law is indivisible property for people, and it is their existential value. After that we can say, that human has natural, indivisible rights life, freedom, equality and other important rights.

In other words, the law has natural value or self value.

For a long time, human's main rights of life, freedom, property and their defense was indivisible and belonged to concrete character, which guaranteed among human relations with casuistic method.

In the process of relationship, human's natural interests and rights are gradually producing, they also produce the freedom of several actions, and on the hand their rights are limited in intelligent standards.

From the point of social view the human perceives himself and it's his own right and duty to other people.

The human already estimates his actions by the law, we can say by the law norms. The law regulates the scales of human's actions, regulates suitable social relations which comes from their relationship.

As we know, according to the social development law becomes more normative, and the law takes social values, such as form and means of the normal live of the society

We can say that the society is assumed to be an independent part of population, which consists of non-governmental organizations.

These organizations are created for realization of people's own aims and interests.

It must provide good standards of living, that has be depended upon human rights.

If we want to realize the saw, we must improve rights. In this case one of the most important role plays the institution of Ombudsman as the protector of Human Rights.

The institution of Ombudsmen works in 45 countries of the world, though the terms used for it aren't the same in every country.

He/She must supervise human rights and freedom to be protected on the territory of Georgian, reveal facts of violation and promote restoring violated rights.

Nowadays human rights aren't on the high level in Georgia. We remember shameful facts of 7 November of 2007, when Georgian ombudsmen Sozar Subar were beaten in the meeting of oppositional parties.

The development of Georgian Society depends on reasonable actions such as fighting against corruption, terrorism, drug addiction and etc.

The concept of freedom of expression must be judged in relation to the idea of freedom of an individual. The problem of balancing freedom of expression with other interests is ancient as the origin of the idea freedom of an individual itself. The coexistence of human beings and their organization into states have provided an objective basis for limiting the freedom of an individual. Even the most democratic definitions of „freedom“ underlines its non-absoluteness. The principle that „freedom means the right to do anything that does not inflict harm to another“ entails that any freedom, including freedom of expression, calls for harmonization with other interests and peaceful coexistence. As value conflicts are inevitable, the way out of the dilemma in a democratic society is one _ fair balancing of values. That's why the position European Court of human Rights is quite reasonable and justified as it sets arching a fair balance between conflicting interests as the core objective of the European Convention on Human Rights and the European Court.

Although Freedom of expression has evolved differently in different European countries, the conceptual frame work on which its recognition was based was common _ the opinions on the essence, importance and role of the freedom as well as on its extents in relation to other lawful interests. The Case Law of the European Court of Human Rights shows that it has built on the common European traditions and experience.

Resolving a conflict of values involving freedom of expression is a daunting challenge. On the hand, there is a certain presumption of attaching priority to freedom of expression. However, on the other hand, such presumption is not always justified. Due to its ontological nature. Freedom of expression has a strong propensity to have a strong propensity to intervene into other interests. it often appears in the role of „an aggressor“ and the gravity of the damage it has inflicted or may inflicted empowers the state to intervene into it. Thus, subjection of freedom of expression to „formalities“, „conditions“, „restrictions“ or „penalties“ is mainly accounted for by its „provocative nature“.

If there is a conflict with other lawful interests, the presumption of attaching priority to freedom of expression is based on its dual implication _ it is not only a value as such but also an instrument to safeguard other values. it is means for not only self-realization and development of an individual but also for accomplishing the truth inasmuch as it is by virtue of freedom of expression that open, free discussions on the issues of public

concern, a necessary complement of a democratic political process, are made possible. Consequently, the dual implication of freedom of expression produces a dual value. Therefore, logical is not only the European Courts reference to it as a foundation of a democratic society a precondition for its development but also the fact that whenever a conflict of values is involved, the priority, of this individual right of dual value has a solid and serious basis. However, recognition of a special importance of freedom of expression in a democratic society is more related to its other implication _ an instrument quarantine free public debates and accomplish the truth _ than to the firsts one _ an instrument for self-relaxation of an individual.

Freedom of expression is subject or all the principles applying to the right under the Convention, which are subject to limitations in favor of other legitimate interests, among them _ a broad interpretation of the scopes of rights and a narrow interpretation of restricting provisions, imposition of strict criteria for evolution of the observance of grounds for restriction, and a requirement to convincingly establish the necessity limitation. Nevertheless, it is beyond question that the European Court applies the highest standards in relation to freedom of expression.

All the approaches employed in evaluating the interference into freedom of expression are measured against rigid conceptual principles. According to the basis for origin and the purpose to be served, these approaches are mainly built on three important principles:

One part of approaches reflects a certain hierarchy of values that is defined according to how adequate the given case of realization of freedom of expression is to the task or purpose that the freedom has in a democratic society and on which the recognition of its great importance is based. Consequently, the approaches that are employed are aimed at guaranteeing the degree of protection that corresponds to the value significance of the given case of implementation of freedom of expression.

The second set of approaches is based on the principle of subsidiary, reflecting the specifics of international control over human right and being designed to harmonize respect for the positions of sovereign states with the objective of international control.

The third set of approaches is based on the legal nature inherent to conflict of values themselves and is intended to harmonize and balance the interests involved.

Overall, there are a number of factor influencing the evaluation of the necessity for and reasonableness of restricting freedom of expression to safeguard other legitimate interests whether the expression involved an issue of public interest (concern); what sphere it falls within; what the margin of appreciation is in the given sphere; who expressed criticism and against whom; what the content of information and ideas was; whether it was a „statement of facts“ or „value judgment“; what was the target auditorium, the audience concerned by or learning the given ideas or information; what the form, manner or situation of expression was; which media (printed or broadcasting) was concerned; whether „duties and responsibilities“ were violated; what the damage, whether inflicted or potential, was; what the character or extent of intervention into a right, etc was. These factors shift the balance to different and provide the basis for a final opinion on the necessity for and proportionality of restricting freedom of expression. However, the influence of some factors is much stronger and more substantial.

The case law of the European Court shows that the factor for which priority is most often attached to freedom of expression in a conflict of interests is „participation in a public debate on the matter of public concern.“ On account of the vital importance the free exchange of ideas and information on the matters of public concern and of public debates of such issues, it is often deceive for the European Court whether the expressed idea involved an issue of public concern, how directly it was related to the normal operation of a democratic process and whether it constituted „participation“ into such process. It can be said with certainty that of all the possible cases of implementation of freedom of expression `participation in a public debate on the issue of public concern“ has the greatest chance to gain priority in a conflict of values and the strongest resistance to restriction.

Proceeding from the same logic, the political sphere (particularly, government criticism) and freedom of press are best protected in the Convention Law. The sphere of artistic expression is relatively less and the sphere of commerce _ much less protected. To illustrate this, suffice is to mention that to justify restriction of expression in politics, the respondent state is required to establish „pressing social needs“ and its „relevant and sufficient basis“ for restriction. In the sphere of commerce it is enough to prove that `restriction was not unreasonable“.

The European Court gives a vitally important role to freedom of press in democratic society as it is trough

it that public discussions of the issues of public concerns are made possible. Imparting ideas and information for the press is not only the right but also the duty. Besides, it is one of the most effective ways to ensure freedom of obtaining information and ideas for the public. For this reason, freedom of press is both an individual and a public interest. The idea of freedom of press irrespective of whether it concerns the rights of an individual journalist or an institutional independence of the press transcends the objective of protecting 'freedom of expression' as an individual right and assumes a much wider implication – ensuring a free flow of ideas and information on matters of its interest and a free discussion of such matters. Therefore, it stands to reason that restricting freedom of press requires an unusually weighty justification.

We can conclude that the law and the human are indivisible with each other, and at last we can say that:

The law is natural definition of human's rights and duties, compulsory combination of conduct's rules and social relations regulator system, which characters formativeness, formal definition, systemativeness, and their execute is secured by legal influence.

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3. Human Rights in international law, Collected Texts 2nd edition, Council of Europe publishing, 2000
4. Sharl Montescue "The spirit of the law"

The person and the law

Annotation

Mamuka Ashvetia

Akaki Tsereteli State University

Student of the fourth course of the faculty of Law

Instructor: Prof. Omar Mindadze

This work concerns with the relationship between the person and the law. It is shown in this work that been developing with the people for many centuries.

There is described that legal state development depends on the person.

Law was developed and smartened perfectly by the human as human needed to save his own rights and material values with the help.

We can conclude that the law and the human are indivisible.

GEORGIA AND THE HISTORICAL AND JURIDICAL PERSPECTIVES OF THE DEVELOPMENT OF LEGAL STATE

Zurab Svanadze

*Akaki Tsereteli State University
Student of the fourth course of the faculty of Law
Instructor: Prof. Omar Mindadze*

The conception of legal state is often considered in juridical and political literature in the last period. At first, the idea of building legal state was proposed for humankind by Romans. They created formula «who should behold them, who beholds us“. The main stipulation of legal state is supremacy of law.

The wise Socrate accepted death because he didn't want to avoid sentence of court. (In spite of its unfairness.)

As for European doctrines of new times, they gained relay-race from ancient thinkers. Justice is higher level than behests of state; it is still said in the statute of Northhempton of 1328.

The term of building legal state is denoted in scientific works of Germans scientists Velker and Aretin(1824). But this term was essentially analyzed legally by Robert fon follem(1832). It is worthwhile that the model of building legal state is dominated in the Continental Europe from Germany. The base of this doctrine is the philosophy of Cauty and Hegell. From their point of view, the authority has the rights that are adjudged by law, as for person, he has all these rights that are not forbidden by law.

Therefore the legal state accepts the strict form of legality.

It would be better to go back in Georgian juridical history. Human rights and freedom were the main phenomenon in Georgia in 12 century. For instance, the encroachment of other's property was minimally waned, the execution was forbidden, women' rights were amended. It should be mentioned that the civil world of those times began talking about these topics later. Besides if Jordano Bruno was Georgian he would not be punished for his thoughts. Because every Georgian would think about real form of terrestrial.

I think the main criterion of building legal state is the division of authority: Executive, Legislative, and Court. The creator of this conception is famous French enlightener Montescue. The other important criterions of legal state are developed civil society, also democratic institutions that are against authority of the person.

Therefore we can briefly determine the definition of the legal state.

The legal state is when its independent sovereignty is defended, the supremacy of law is professed and guaranteed, division of authority, the real maintenance of human rights and freedom, the existence of civil society, democratic political and religious institutions, developed and exactly determined legal system.

Consequently we should make such conclusion.

1. The first wishes of creation of legal state are in the scientific works of Platon and Aristotle.
2. The idea of building legal state was processed by Montescue.
3. The philosophical argumentation of building legal state was formed by Cauty and Hegell.
4. The practical realize of conception of legal state took place in Germany, Austria, USA, England and other countries.

Now we should consider the person's role as concrete individual in building legal state. The generation of human rights and its theoretical problems are essentially connected with the prevalence of the Natural Law. Ancient Greek thinkers Likofron and Antifon consider that people from birth are equal according to the Natural Law. The first juridical documents that were based on human rights were the declaration of Virginia (1776), the constitution of the USA(1791), the constitution of France(1789). The human rights are given in these political-

juridical documents that are still important even nowadays.

The Council of Europe plays the main role in the defense of human rights. On April 14, 1996 Georgia has sent the declaration to Euro Union in order to join it, which was founded in 1949. In 1999, 27 January, the Council of Europe had discussed the matter and supported Georgia's will to join Georgia the union.

In my opinion it was the most important event in the history of our country. As encourages accepting European juridical and cultural values. The human rights are inviolable, the state doesn't give anyone such kinds of rights, and it merely proves them with law and provides its realization.

Therefore rights are natural abilities of humans that secure their lives, property, human dignity and freedom in business and in every field of life.

With the category of "Right" the term "freedom" is also used.

Subsequently freedom may be divided in different groups.

1. The sphere where the state shouldn't be active, for example: encroachment of life, family, dignity, reputation, the freedom of speech and etc.

2. The sphere where the state should be active, it concerns with economical, social and political spheres. Thus we can determine the following rights: civil, economical, political, social, cultural, and the rights of information type.

Civil Rights these are the rights of life, the rights of personal secret, and the rights of dignity.

Economical Rights These rights underline the economical aspects of human rights. For instance: the right of property, proficiency or business.

Political Rights_These rights are connected with the sphere of policy, for example: the right of meeting, demo and the right of fare elections.

Social Rights_These rights determine the level of material development of society. Our constitution is a guarantee of the following rights: The freedom of labor, the creation of safe economical environment, the maintenance of medicine.

Cultural Rights These rights are connected with the use of native language, the freedom of choice of religion.

The right of information It means to accept or transmit information and spreading it in any way.

The human right is connected with the obligation. The correspondence of obligation and rights is the main factor of building legal state.

I am interested how the perspectives of building legal state were arranged in our country. As we mentioned above the base of building legal state is division of authority.

It is worthwhile that in the 12 century the political program was created by Kutlu Arslan, Who wanted to divide authority. Therefore the idea of Kutlu Arslan was forerunner of European Parliament, General State and Constitution Monarch. G. Abashidze mentions that the idea of Kutlu Arslan was incredible in that period and this idea was the ancestor of the Great Charter of England. As for the situation nowadays in Georgia, it should be mentioned that Georgia is a young democratic country. In my opinion it would be better for everyone to believe that it is quite difficult to talk about faultless democracy of Georgia, as the building legal state needs centuries.

The legal state can't exist without firm political institutions, organizations, and unities. The political structure of the state is divided into 3 elements.

1. The political system of society
2. The political action
3. Political culture

In order to develop the democracy of Georgia it is necessary to smarten and develop these elements.

At last I would like to say that the legal and political type was founded in Western development countries that are adequate with the ideas of building legal state.

In the constitution of the USA, France, Germany, England, Austria, Greece, Georgia is firmly fixed that

these countries are legal. The realizations of these ideas are supported by the Council of Europe and OSCE with their structures and international juridical laws.

These are the main features of building legal state that are distinguished with their strict structure and are interpreted with different ways by the researchers.

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4. Written Comment on the Draft Georgian Law on Freedom of Press and Speech, by Mr. Andrew Nicol and Dirk Woorhoof
5. Report of the European Commission Against Racism and Intolerance, Expert Seminar on Combating racism while respecting Freedom of Expression(Strasbourg,16_17 November 2006)

Georgia and the historical and juridical perspectives of the development of legal state

Annotation

Zurab Svanadze

Akaki Tsereteli State University

Student of the fourth course of the faculty of Law

Instructor: Prof. Omar Mindadze

This work concerns with the perspectives of the development of legal state. It reflects the juridical and historical system of legal state. There are shown the most important juridical documents of law. There is described the role of Georgia in this system. There are given some important Human Rights which reflect the development of the level of society.

At last, it is also shown the role of western states in the development of building legal state.

POLISH EXPERIENCE FOR DEMOCRATIC TRANSFORMATION AND EURO-ATLANTIC INTEGRATION FOR GEORGIA

Nina Demetradze

University of Warsaw

Student of the fourth course of the faculty of Law and Administration

Instructor: Shalva Matchavariani PhD

1. Introduction

Having gained independence after the disintegration of the Soviet Union and years of political turmoil Georgia has started a process of democratic transformation. Over the last decade Georgia achieved definite progress in attaining political stability, creating necessary basis for democratic statehood and free market economy. At the same time, in the late 1990s Georgia embarked on the course of becoming a full-fledged member of the European family.

Nevertheless, Georgia still faces difficulties and challenges in building up a legal and democratic state. In today's Georgia, democratic institutions are weak; there is a lack of unbiased judiciary, independent mass-media and favorable economic environment.

2. Background Overview

The Constitution of Georgia adopted in 1995 provided a solid foundation for normal functioning of state and social institutions within a stable democratic system. There was a certain balance and division of powers between the legislative and executive branches represented accordingly by the unicameral Parliament and the elective President as well as the judiciary. While the Constitution conferred on the Parliament the right of President's impeachment under certain circumstances, the President was unable to dissolve the Parliament. The institution of ombudsman and public prosecutor's office as a part of independent judicial branch were also established. Besides, the Constitution of 1995 dedicated the largest of its sections to human rights and freedoms and their protection.¹ However, the political background of the so-called pre-Rose Revolution period (November 2003) did not allow establishing a political system with the stable functioning of all the above institutions.

The constitutional changes made in the aftermath of the Rose Revolution, namely, in February 2004, destroyed significantly formal balance of powers. Although the post of a Prime-Minister was introduced, the power of the elective President was enhanced by providing him with considerable influence on the executive branch as well as that on the Parliament. Thus, the executive branch was formally headed by the Prime-Minister. The President, while maintaining the authority of dismissing the government, acquired the right to dissolve the Parliament under certain circumstances. Meanwhile, the right of the Parliament to impeach the head of state was preserved. Under these constitutional changes the public prosecutor's office became a part of the executive power alongside with other governmental agencies such as ministries of interior and justice. By the most recent constitutional amendment the public prosecutor's office merged with the Ministry of Justice into a single institution. The implications of this step are still to be awaited.²

As far as we can recall, the problems related to unbiased judiciary, independent mass-media and functioning of free market economy were the reasons of public discontent ahead of the Rose Revolution. However, analyzing the overall evolution in Georgia from 2004 up today, the so-called post-revolution changes, including those in the constitution have hardly solved any of the mentioned problems. We can state with certainty that a new wave of changes are needed in Georgia, changes which ought to be based on a broader public consensus in order to avoid setback in the process of development. The new changes should affect the constitutional system and major state and social institutions of the country and have to be consistent with the striving for the

1 The Constitution of Georgia adopted in 1995 (in Georgian language)

2 The Constitution of Georgia, amended in 2004 and 2008 (in Georgian language)

European family since the existing situation has a strong negative impact on Georgia's aspirations to integrate into Euro-Atlantic structures.

3. Desirable model of efficient transformation

Taking into consideration the above formulated concept of necessary transformation of Georgia, there is no doubt that the model which has proved itself as desirable and efficient should be applied. In this regard, the genuine use of experience accumulated by the former socialist countries of Central and Eastern Europe in the process of democratic transformation is crucially important.

Polish economic and socio-political transformation model has proved to be one of the most successful among the Eastern European countries. To the best of our belief, the political changes in Central and Eastern Europe created favorable opportunity for Poland to launch a process of gradual integration within the Euro-Atlantic structures. From the early 1990s up to the very accession to the EU, Poland underwent a hard road of political, economic, social and legal transformations consistent with the principles of membership in the European Community.

As a result, Poland was able to meet the demands and all necessary criteria for the accession known as Copenhagen conditions. Poland, namely:

- (1) Established stable democratic institutions guaranteeing the rule of law, protection of human rights and respect for and protection of minorities;
- (2) created not only a functioning market economy but also became capable of coping with competitive pressure and market forces within the EU;
- (3) Acquired the ability to assume the obligations of membership including adherence to the aims of political, economic and monetary union.¹

Over the years a further element has become increasingly visible on the agenda: regional cooperation and good-neighborly relations with adjacent countries. The first step in linking these virtues to the EU accession was taken in Corfu in 1994, in the context of the Stability Pact for Europe. This instrument was designed to encourage preventive diplomacy aimed at fostering good-neighborly relations and the negotiation of agreements to consolidate borders and resolve problems of national minorities among the states of Central and Eastern Europe and the former Soviet Union.²

In the process of integration, the awareness of competitive participation of Poland in the Common Market was duly emphasized. It was understood as a significant factor accelerating the country's development. In particular, the full participation enhanced the competitive potential of Polish enterprises, helped to create new jobs as well as conditions for active involvement of the dynamic, young and well-educated Polish society. The main features of the integration policy were restructuring, modernization and privatization.

In the process of integration with the EU the most important objectives for Poland was to convince the population and political elite of the member states that Poland has become a politically stable state with a growing market-oriented economy, that it shares European values, traditions and cultural heritage. Poland always underlined its responsibility towards a united Europe and its readiness to dismantle dividing lines.

On the other hand, the Polish society required all-embracing information on political, legal, economic, social and cultural aspects of Poland's accession to the EU. The success of this political process depended on providing the citizens with an objective, unbiased picture of both costs and benefits. Poland was aware of the EU's main challenge to raise the level of social acceptance of European institutions. In its negotiations with the EU, Poland was guided by the goal of ensuring for its society the optimum benefits from the EU membership. The membership referendum was to reflect comprehensive knowledge of the accession consequences.

Besides, Poland fully shared the objectives and means of the Common Foreign and Security Policy of the European Union. All international undertakings of Poland were fully compatible with the EU's foreign policy. In the face of growing threats to peace, security and democracy, Poland supported the development of the Common European Security and Defense Policy and all actions to combat international terrorism. As a NATO member since 1999, Poland was also actively involved in efforts to consolidate security, stability and democracy in the region.

As we have already mentioned, participation in the Common Market was one of the most significant parts

1 Marise Cremona, *Accession to the European Union: Membership Conditionality and Accession Criteria*, Bologna 2004

2 Matthias Pechstein, Philipp Kubicki, *The Legal Framework of Accession to the European Union*, Berlin 1999

of the Poland's integration with the EU. In this regard, the harmonization of Polish legislation has become a priority. The approximation of laws was not expressly mentioned as a precondition of the admission of Poland and other Central and Eastern European countries to the EU. However, it derived indirectly from the requirement that they would have to have the ability to fulfill all obligations resulting from the EU Treaty. To begin with, a list of several hundred legal acts was annexed to a Commission White Paper. Poland's response to the White Paper was the National Integration Strategy adopted by the Polish government in 1997. It stipulated that the elimination of obstacles in economic relations between Poland and the European Community had to be the principal aim of the adjustment of Polish law with the Community legislation. For that reason all rules and regulations were divided into the ones related to the legal situation of business enterprises (such as establishment, formation of entities, protection of intellectual property, bankruptcy law) and the ones related to trade (customs law, indirect taxation, technical regulations and standards, transport and telecommunications, consumer protection). Subsequent Union documents related to the approximation of laws were the Commission's opinion on Poland's application for the EU membership and the so-called Accession Partnership. Both documents dealt with approximation of legislation in areas covered by the relevant documents, including domestic market, economic and taxation issues, sector policies, quality of life and environment, justice and home affairs, foreign policy. They also confirmed that Poland, at the time of evaluation, had not attained consistency of its domestic legal system with Community law, however, it was expected that this condition would be eventually fulfilled in future, in particular, by the time of accession to EU. In 1998 a National Strategy for Preparation of Poland for Membership in the European Union was drawn up which stressed the importance of bringing national legislation in line with Community norms in a number of fields. The commitment to approximation of Polish law to Community law entailed a transfer of a large number of Community legal acts to the Polish legal system. This applied in the first place to the Community acts known as Directives which play a fundamental role in the process of harmonization. But it was also necessary to transpose some of the so-called Regulations to Polish Law. Subsequently, the question was to be raised what were the basic principles governing the applicability of both these categories of normative acts in the legal order of EU member-states, including Poland.³

Community Regulations are the most typical source of law for the functioning of the European Community as a supranational organization. They reflect to the highest degree the legislative competence of the EC. According to the Treaty establishing the European Community (TEC) the Regulations are directly applied in the domestic legal systems of EU member-states, including Poland. Community Regulations are binding on all subjects: Community institutions, member-states and individuals. The member states may not interfere in the content of Regulations. They may not lay down rules on the implementation and interpretation of Community Regulations by national authorities of EU member-states. However, in a number of situations national authorities may enact certain provisions relating to Community Regulations. As a rule, this is possible when the given Regulation itself provides so. This applies primarily to the obligation to establish penal sanctions and the necessity of enacting administrative and procedural provisions aimed at making implementation of the Regulations possible.⁴

The main legal instrument of harmonization of Polish law in the EU was the Directive. In the process of Poland's accession to the EU, Directives were considered as the majority of legal norms with which the Polish law had to be harmonized. On the other hand, there were Regulation provisions that had to be transferred to the Polish law in the pre-accession period. These referred, in particular, to mechanisms introduced by Community Regulations to bring Poland's public administration in line with the institutional and financial structure of the European Communities by the date of accession. The best examples were Regulations related to the institutions involved in the implementation of the Common Agricultural Policy.⁵

After the accession of Poland to the EU, all Regulations forming part of the *acquis communautaire* became directly applicable and immediately effective, and therefore their provisions replaced the domestic legislation in the area concerned. The prerequisite for that was their promulgation in Polish.

The Directive is an act of a special character. In accordance with TEC, it is binding upon EU member-states with respect to the aim to be achieved and the period of time within which it is to be realized. However, the choice of measures is left to the member-states. Directives are directly applicable in the sense that they

3 Poland's Way to the European Union, Legal Aspects, Warsaw 2002
Prawo Unii Europejskiej (Law of the European Union), Warszawa 2006

4 Prawo Unii Europejskiej (Law of the European Union), Warszawa 2006

5 Poland's Way to the European Union, Legal Aspects, Warsaw 2002

impose on member-states an obligation to implement them. This obligation arises upon a Directive's entry into force in the Community sphere.¹

We should also state that from the substantive viewpoint the process of adaptation of the Polish law to Community law suffered from certain shortcomings. The sponsors of the relevant legislation, followed by the Sejm and the Government of Poland, seemed sometimes to have settled for the simplest way out, limiting their activities to (often incorrect or careless) translation of Directives. Their nomenclature was also translated word for word, thereby introducing concepts which were not known to the Polish legal system. At the same time, alternative options were omitted – even when a concrete Directive required a choice between them. Sometimes a text of a Directive was annexed to the statute – which could have resulted in the necessity to amend the statute if the Directive itself were to be amended and the annexed translation was not official (introduction of the statute might, therefore, have been necessary after the publication of the Polish version of a Directive in the Official Journal of the European Communities).

Another method of harmonization of Polish law with Community law was interpretation and application of Polish law in the way that the ECJ judges applied Community law. This refers in the first place to application of the Europe Agreement which should have applied according to conflict of laws rules in case if the Polish law was at variance with the Agreement (and by analogy with Community law). This method went beyond the obligations laid down for association agreements by the ECJ which required taking into account the fact that the Treaty of Rome and association agreements should have been interpreted differently as they had different purposes. However, such application of the Europe Agreement was appropriate from the standpoint of substantive approximation of Polish law and the technical aspects of law application. Polish courts and other bodies responsible for applying the law were able to acquaint themselves with the Community judges worked (every domestic, including Polish judge dealing with a Community element might be a Community judge). At the same time, individuals could, in accordance with prevailing tendency of Community law, claim the appropriate content of an administrative decision. Judicial practice, however, did not limit itself to pro-Community interpretation and applicability of the Europe Agreement. The Supreme Administrative Court (NSA – Najwyższy Sąd Administracyjny) in its judgment in 1999 stated that, despite the lack of a formal requirement of compliance with the *acquis communautaire*, approximation should have been realized through interpretation consistent with European law since the obligations had their sources in the Europe Agreement. While deciding on the method of interpretation, the criterion of consistency with international law should have been taken into consideration. In another judgment, the NSA stated that certain articles of the Polish Customs Code had to be interpreted in the light of ECJ rules.²

Approximation of Polish law to European law was together with the four Community freedoms of key importance in the economic integration of the European Community. The approximation undoubtedly played a fundamental role in Poland's accession to the European Union. It also made possible the creation of a single market in Europe capable of competing with the American and Far-East markets. In the first period after submission of membership application, its importance was underestimated that was strongly criticized by EU institutions. It was followed by establishment of a parliamentary European Integration Committee to speed up the approximation work. The experience of other countries particularly in implementation of Community Directives had to be taken into account.

4. Possible solutions and recommendations

Proceeding from the above description of the current situation in Georgia and referring to patterns of Poland's successful transformation, we can put forward following possible solutions and recommendations:

1. As regards the constitutional system of Georgia, certain aspects should be addressed. Undoubtedly, the current unbalanced presidential system should be changed in order to remove the in-fact unique decision-making center within the power structure. From this standpoint, however, a certain dilemma can arise as far as the desirable alternative is concerned. One alternative can be the restoration of the pre-2004 balanced system with a strong President and additional mechanisms strengthening the Parliament. Another alternative would be

1 Maria Kenig – Witkowska, *Prawo Instytucjonalne Unii Europejskiej (Institutional Law of the European Union)*, Warsaw 2007

Prawo Unii Europejskiej (Law of the European Union), Warszawa 2006

2 Władysław Czaplinski, *Harmonization of Law in the European Community and Approximation of Polish Legislation to Community Law*, Warsaw 2003

introduction of the European type of parliamentary system or parliamentary-presidential system similar to that in Poland.³ The final solution of this issue should be based on broad public and political consensus as well as in-depth and comprehensive analysis of implications.

2. For ensuring unbiased judiciary, independent mass-media and free market economy, additional mechanisms of legal protection should be introduced. In this regard, taking into account the western expertise is highly desirable. The implemented changes should create solid and irreversible guarantees for safe functioning of the democratic system in Georgia.

3. Georgia should actively use all available tools of cooperation with (ENP, Eastern Partnership Initiative, IPAP, etc.) and integration into European and Euro-Atlantic structures (EU, NATO). This policy should be combined with all the steps and reforms aimed at achieving a desirable level of European integration.

4. From the viewpoint of European integration with genuine transformation of constitutional system, creation of unbiased judiciary, establishment of independent non-state actors (such as mass-media) and free market economy, the EU-proposed Eastern Partnership Initiative gains importance. One of the main priorities of the Eastern Partnership is enhancing the EU support to sector reforms in accordance with the EU standards. In this regard, proposals of how the EU can more effectively support sector reforms specified in the individual action plan should be elaborated; this support should be closely linked to a broader reform agenda. There is also a need to further developing the method of measuring progress, increasingly against the EU standards. Sector reforms, including the needs, conditions, instruments and timelines for Georgia could be addressed to in separate annexes in a new agreement to be concluded between the EU and Georgia. A crucial political aspect to be taken into account while dealing with this initiative is that the Eastern Partnership is seriously supported and promoted by the EU member-states. The concept paper on Eastern Partnership states as follows: "Taking into account the current political and economic situation in the Eastern partner countries, as well as EU's ambition to be an important player spreading European values, rules and standards in the region, the Eastern Partnership should be the EU strategic concept for the 6 Eastern neighbors. In this regard, EU can play a crucial role in building stability and prosperity by promoting European values, standards and norms".⁴ The commitment of participating countries, including Georgia to certain values will further affect the attitude of member-states and, finally, the EU towards the implementation of Eastern Partnership Initiative.

List of Applied Literature:

1. The Constitution of Georgia
2. Poland's Way to the European Union, Legal Aspects, Warsaw 2002
3. Prawo Unii Europejskiej (Law of the European Union), Warsaw 2006
4. Konstytucja Rzeczypospolitej Polskiej z dnia 2 kwietnia 1997 r. (Constitution of the Republic of Poland adopted on April 2, 1997)
5. Eastern Partnership, Concept Paper
6. Treaty on European Union
7. Treaty establishing the European Community
8. Marise Cremona, Accession to the European Union: Membership Conditionality and Accession Criteria, Bologna 2004
9. Matthias Pechstein, Philipp Kubicki, The Legal Framework of Accession to the European Union, Berlin 1999
10. Maria Kenig – Witkowska, Prawo Instytucjonalne Unii Europejskiej (Institutional Law of the European Union), Warsaw 2007
11. Władysław Czapliński, Harmonization of Law in the European Community and Approximation of Polish Legislation to Community Law, Warsaw 2003

³ The Constitution of Georgia adopted in 1995 (in Georgian language) Konstytucja Rzeczypospolitej Polskiej z dnia 2 kwietnia 1997 r. (Constitution of the Republic of Poland adopted on April 2, 1997)

⁴ Eastern Partnership, Concept Paper

**Polish Experience for Democratic Transformation and
Euro-Atlantic Integration for Georgia**

Annotation

Nina Demetradze

University of Warsaw

Student of the fourth course of the faculty of Law and Administration

Instructor: Shalva Matchavariani PhD

Having gained independence after the disintegration of the Soviet Union and years of political turmoil, Georgia has started a process of democratic transformation. Over the last decade, Georgia made some progress in achieving political stability, creating necessary basis for democratic statehood and free market economy. Nevertheless, Georgia still faces difficulties and challenges in building up a legal state. Democratic institutions are still weak; there is a lack of unbiased judiciary, independent mass-media and economic freedom.

At the same time, Georgia strives to become a full-fledged member of the European family. However, the existing situation has a certain impact on Georgia's integration into Euro-Atlantic structures.

Proceeding from the above, Georgia needs effective ways and means for overcoming the given challenges and difficulties. In this regard, experiences in building up democratic states in post-socialist countries of the Central Europe and, in particular, Poland appears to be especially useful. Over 1990's Poland managed to transform itself into a stable democracy with well-established state institutions, unbiased judiciary, independent mass-media and business-friendly economic environment. As a result, Poland joined both NATO and EU where the respect for democratic values is of fundamental importance. Membership in these organizations had imposed additional responsibilities and served as an impetus for further development.

In our research, we plan to put down a detailed overview of the abovementioned challenges of today's Georgia, to identify relevant solutions based on Polish experience of successful democratic transformation and submit appropriate recommendations. To this end, we will refer to facts exposing Georgia's current situation and will also consider contemporary legal system of the Republic of Poland.

ENERGY SECTOR IN EURO INTEGRATION – THE ROLE OF THE EUROPEAN UNION IN THE DIVERSIFICATION OF GAS SUPPLIES OF THE CENTRAL AND EASTERN EUROPEAN STATES

Levan Kakhishvili

*Ivane Javakhishvili Tbilisi State University
Student of the third course of International Relations
at the faculty of Social and Political Sciences*

Introduction

*“Independence in the energy sector can guarantee
our political independence in the future”*

Lech Kaczyński¹

Modern world politics is driven by many different factors. The last two centuries made important changes in how the world works. Energy related issues almost dominate contemporary international relations. Energy makes the world's engine work and as the famous saying of Mr. David Easton goes, “Politics is the struggle for allocating of scarce resources”. In this struggle, there are almost no rules and the main goal of each participant is to survive.

Everyone agrees upon the importance of the energy security, but the bone of content is how to achieve it. The aim of this paper is to consider the issue of energy security of the Central and Eastern European (CEE) countries in terms of gas supply and to deal with the role of the European Union in enhancing the energy security of the region. The main problem of the region is high dependence on the imports on a single provider. That is why in this paper several ways of diversification are discussed: 1. So-called Southern Energy Corridor (Nabucco pipeline project); 2. Nord Stream pipeline project; 3. Expanding gas imports from the current suppliers; 4. To built facilities for Liquefied Natural Gas (LNG). In addition some other factors also play significant role in energy security, such as interconnection of the whole European gas network; Increasing the share of the renewable energy sources (RES) in final energy consumption, the energy efficiency, and the reserves for a rainy day. These ways (each of them) are crucial to enhance the energy security of the region thus to enhance the energy security of the whole European Union.

Ways of diversification – alternatives to the Russian Gas

The CEE countries are dependent on Russian gas imports to the greatest extent in whole Europe. That is why the region badly needs diversification – alternatives to the Russian gas (See Table 1). Otherwise, Russia will be able to continue manipulation with its dominant position. On the other hand, the strength of the region is its importance as a transit corridor for Russian energy to the Western European market. About 80% of the Russian gas exports come via Ukraine and the rest 20% - through Belarus.² So Ukraine, Belarus and the Baltic States have crucial importance for Russian exports, taking into account that 96% of total CIS gas exports comes to the European market.³ It means that the dependency does not have only one straight direction. Nevertheless, European states are in worse condition in this “dependency game” as Marcus Svedberg calls the current situation in Europe.

That is why the European Union needs common energy policy and strategy. The EU has some efforts

1 Cited in: Nicholas Watson, Branching out – alternatives to Russia as CEE's main gas supplier.

2 Igor Osipov, From Transit Networks to Direct Routes: Politics and Business in European Energy Dialog with Russia (The Nord Stream Case), *Center for Applied Business Research in Energy and Environment (CABREE) University of Alberta School of Business 2007*, p.: 8.

3 Marcus Svedberg, Energy in Eurasia: the Dependency Game, *Transition Studies Review*, No. 14 (1), 2007, p.:196.

to form common understanding of the issue. As a rule, the EU never has a common position concerning the events on the international stage. The words of an Estonian historian, Kaido Jaanson, illustrate this fact: “There is one united Europe and 25 Russias”.¹

The EU has already realized that it needs the common energy policy and all the institutions have been engaged in the formation of the policy. The three main objectives of the Union’s policy are sustainability, competitiveness and security of supply. In March 2007, the European Council reached the agreement on the energy policy targets for Europe including:

- Establish the internal energy market – establishment and well-functioning of a competitive, integrated and interconnected market;
- Ensure a secure energy supply;
- Reduce greenhouse emissions;
- Implement a common international energy policy.²

As you see, the EU tries to have a common strategy and to speak in a single voice on the chessboard of the world politics. However, to assess the role of the EU in energy security of the CEE states we need to look through several cases that are discussed below in this paper.

Nabucco Pipeline Project – Gas Bridge to Europe

Project Description

Nabucco Gas Pipeline Project is the first one that will connect Central Asian, Caspian, Middle East and Egyptian gas deposits to the European market. The technical features of the pipeline are as following:

Route – 3300 km long pipeline starting at Georgian/Turkish and/or Iranian/Turkish border leading to Austria via Turkey, Bulgaria, Romania, and Hungary.

Capacity – the pipeline w designed to carry maximum amount of 31 bcm/y.

Costs – estimated investment costs amount to total of approximately EUR 7, 9 Billion.³

Shareholders – Botas (Turkey), Bulgargaz Holding (Bulgaria), MOL (Hungary), OMV (Austria), RWE (Germany), Transgaz (Romania) – Each shareholder holds an equal share of 16.67 % of Nabucco Gas Pipeline International GmbH.⁴

Timeline - the construction will start in 2010 and the first gas will flow to Europe in 2013⁵.

As it was already mentioned, the pipeline will transport gas from several different sources. Taking these sources altogether, they constitute the largest gas reserve in the world: CIS countries (excluded Russia) have gas reserves equivalent to 10240 bn m³, Middle East has reserves of 45330 bn m³ (excluded Iran) and Iran has 27500 bn m³ gas reserves.⁶ Even though these regions exclude Egypt that is also source of gas for Nabucco pipeline, they comprise 83070 bn m³ comprising more than 45% of the world’s gas reserves in comparison to the Russian gas reserves of 48000 bn m³ or less than 27% of total in the world. From these figures the importance of the Nabucco pipeline is obvious – it is the forth energy corridor to supply European market with gas from several alternative sources. As the market research shows, the demand for the gas shipped by the pipeline is very high. Sixteen shippers gave their concrete answer about their interest in Nabucco.⁷ Moreover, pipeline capacities are more than 100% overbooked by potential shippers on a nonbinding basis according to the latest data.⁸ As Reinhard Mitschek, Managing Director of the Nabucco Gas Pipeline International Ltd. Company says, “If we consider the huge demand in Europe and the declining European indigenous production then we

1 Cited in: Kristian L Nielsen, Opportunities and Limitations for the Baltic States of the EU-Russia Strategic Partnership, *Baltic Security and Defense Review, Volume 9, 2007. p.: 114.*

2 An Energy Policy for Europe, *Communication from the Commission to the European Council and the European Parliament*, 10 January 2007.

3 <http://www.nabucco-pipeline.com/project/project-description-pipeline-route/project-description.html>

4 <http://www.nabucco-pipeline.com/company/shareholders7/table-of-content-shareholder.html>

5 BBC-Interview, March 5th, Reinhard Mitschek (accessible via internet: <http://www.nabucco-pipeline.com/press-public-news/news/bbc-interview-20080305.html>).

6 BP Statistical Review of World Energy 2005. Cited in Igor Osipov, From Transit Networks to Direct Routes: Politics and Business in European Energy Dialog with Russia (The Nord Stream Case), *Center for Applied Business Research in Energy and Environment (CABREE) University of Alberta School of Business 2007.*

7 Status Report, Nabucco – Gas Bridge to Europe, *Nabucco Gas Pipeline International GmbH*, November 2008, p.: 8.

8 Market Survey Shows Huge Demand for Nabucco Capacities, *Press Release*, Nabucco Gas Pipeline International, August 2008.

has to count on additional gas imports to Europe. To bring further gas to the European market centers we need new infrastructure, we need capacity".⁹

The Role of the European Union

According to the facts provided above, Nabucco Gas Pipeline should be one of the top priorities of the European Union. The most important about this project is its multi-sourcing approach and that its shareholders are European companies. In addition, it bypasses the Russian Federation – the main gas supplier of the European market.

How can the EU contribute to the project? First, diplomatic encouragement and support is very important and the EU should certainly do it. Moreover, the finances also have crucial significance in the projects like this. Consortium partners (equity capital) will pay approximately 30% of the investment; lenders (bonded capital) will provide 70%. From those 70% will international institutions like European Investment Bank or European Bank for Reconstruction and Development will provide one third.¹⁰ On the 28th of January 2009 President Barroso in agreement with Commissioners Piebalgs, Fischer-Boel and Reding presented a proposal as part of the ongoing implementation of the EU recovery plan endorsed by the European Council in December 2008, the European Commission has today presented proposals to invest in key energy and Internet broadband infrastructure projects. The Commission proposes to spend € 250 million on the implementation of Nabucco gas pipeline project.¹¹ However, this proposal needs to be approved by the Council of Ministers.¹² It is very important that European institutions be involved in the implementing of the project, especially in the financial measures. However, after the recent events in Georgia in last August, many experts cannot see the future of the Nabucco project. Sometimes skepticism wins over the realism, but the real situation is different. As it was already noted, Georgia is just one part of the project. The most important strength of the project is that its sources are several countries. There is just one route via Georgia to carry Caspian and Central Asian gas. Although these regions are very important, they are not the whole project. The pipeline can take gas from Middle East as well as from Egypt. Hence taking into account this fact, you can easily conclude that it is still reasonable to invest in the project. Of course, Russia is doing its best to prevent and preempt this project including the war in Georgia (prevention) and construction of new pipelines such as Nord Stream and South Stream earlier than the Nabucco will be constructed (preemption). Nobody is happy due to the recent Russian-Georgian war, but the EU must not let Russia prevent the Nabucco pipeline project, especially when the situation in Georgia harms just one part of the project.

Some people may think that the Caspian Region and Central Asian countries were crucial for the project. In spite of their significance, Nabucco pipeline will still be able to operate after the construction is finished provided by other countries. For instance, just recently, on December 2, the EU and Egypt signed a Memorandum of Understanding to enhance EU-Egypt energy cooperation.¹³ In the memorandum Egypt and the EU agree in the context of the EU-Egypt ENP Action Plan to develop their relations in the energy sector in several areas. One of them is as following: "Cooperation on development of reliable and efficient, domestic energy networks and transit networks towards the EU market".¹⁴ It is clear that this point is about energy transportation from Egypt to the EU. It is a very important stride made towards energy diversification, thus energy security of the whole European Union. The EU also supports the finalization of the Arab Gas Pipeline during the Energy Ministerial that took place on May 5, 2008 in Brussels. The Pipeline, which is being supported through the Euro-Arab Gas Market Centre, could transport Egyptian and possibly Iraqi natural gas resources to European countries.¹⁵ The words of Benita Ferrero-Waldner make everything clearer. She said: "Egypt is a strategic energy partner for the EU. The Memorandum that we are signing today will upgrade our cooperation in the sector

9 BBC-Interview, March 5th, Reinhard Mitschek (internet access: <http://www.nabucco-pipeline.com/press-public-news/news/bbc-interview-20080305.html>).

10 Brief Project Description, *Nabucco Gas Pipeline International*, (accessible via internet: <http://www.nabucco-pipeline.com>)

11 The Commission proposes € 5 billion new investment in energy and Internet broadband infrastructure in 2009-2010, in support of the EU recovery plan, *Brussels*, 28 January 2009.

12 <http://www.civil.ge/geo/article.php?id=20442>

13 EU and Egypt sign agreement on Energy, *Brussels*, 2 December 2008.

14 Memorandum of Understanding on Strategic Partnership on Energy between the European Union and the Arab Republic of Egypt. pp.: 2-3.

15 EU and Egypt sign agreement on Energy, *Brussels*, 2 December 2008.

recognizing Egypt's role as the sixth largest natural gas supplier to the EU and a key transit country between the Middle East, Africa and the EU.¹ So, keep in mind that Nabucco pipeline is the one that will carry Egyptian gas (via the Arab Gas pipeline) to the European market, so the steps made by the EU are very important for the implementation of the project and are the sign that this project has not lost its significance even after the war in Georgia.

In addition, we should not forget about a long-term perspective. The some other areas covered by the Memorandum are energy market reforms and convergence of Egypt's energy market with that of the EU, promotion of renewable energy and energy efficiency, development of energy networks as well as technological and industrial cooperation.² Egypt is situated in Africa on the continent that has huge potential in terms of renewable energy sources particularly solar and wind power.³ Thus, the country is the source of clean and cheap electricity also.

As for the preemptive efforts made by the Russian government, it is even useful for the EU and its member states if they will have several new pipelines. That is the aim the EU wants to achieve – competitiveness in the market. If Russia wants to be involved in this game it is up to her but the only necessary thing in that case is that the EU member states have a common position towards the things that happen in this realm. Not a single state should adopt the idea that she can negotiate with Russia alone and gain more. The Union should try to speak in a single voice. The EU initially was an energy community and it should not forget that nowadays energy-related issues are even more important than they were in the previous century. So, the EU can use the fact that several new pipelines are going to emerge, in order to enhance its energy security. That is diversification of transit routes. These pipelines should not become rivals and competitors. All of them are very important for the energy security of the EU and it should ensure their implementation. Moreover, the demand of the European market for gas supply will increase in the following decade and according to some sources, there will be a gap of 195 bcm in gas supply by 2025.⁴ This is a huge amount of gas and it is impossible to cover that gap with just one or two pipelines. Therefore, Europe needs not only one new pipeline but even more.

So, we can conclude that the EU works actively on the common energy policy and plays significant role in the Nabucco Gas Pipeline Project. Hence, even the fragmented EU can have important influence upon many issues and it will be useful if it manages to use its influence properly. As for the concrete results and success about the Nabucco project, the only thing we can do now is to wait. The time will tell.

Nord Stream – A New Gas Pipeline for Europe

Project Description

Nord Stream Pipeline or the pipeline across the Baltic Sea is a new offer to the EU to supply the market with gas. Everything would be all right if not one “little” thing: this offer is made by the Russian company Gazprom. To satisfy Europe's huge gas demands in the future, the pipeline is designed to have following technical features:

Route – 1220 km long two parallel pipelines that will link Russia directly to the European market in Greifswald (Germany) via the Baltic Sea running through the Exclusive Economic Zones and/or territorial waters of five countries: Russia, Finland, Sweden, Denmark and Germany (they are the countries that should provide the permission to build the pipeline).⁵

Capacity – each of the two parallel pipelines have the maximum capacity of around 27.5 bnm³, comprising total capacity of 55 bnm³ of the Nord Stream pipeline.⁶

Costs – planned investment is 7,4 billion Euros.⁷

Shareholders – Nord Stream Consortium members: Gazprom 51% (Russia), Wintershall Basf Group 20% (Germany), E.ON Ruhrgas 20% (Germany), Gasunie 9% (The Netherlands).

1 *The same.*

2 *The same.*

3 *The same.*

4 European Commission, Directorate-General for Energy and Transport, 2007. *Cited in:* Ten Answers about the Pipeline across the Baltic Sea.

5 Facts about the Natural Gas Pipeline across the Baltic Sea, *Nord Stream AG, 2008* (accessible via internet: <http://nord-stream.com>)

6 *The same.*

7 *The same.*

Timeline – the construction of the first pipeline is planned to start in 2010 after the permits are granted. In 2011 construction of the second pipeline will begin and after the commissioning the Line 2 in 2012 the pipeline will be ready to operate with its maximum capacity.⁸

The pipeline will carry gas from the Russian Federation to the European market bypassing the important region of Eastern Europe and particularly the states Ukraine, Belarus, Lithuania. That is why the project meets a great deal of criticism from the CEE countries. It seems that Russia wants to diversify the routes through which it provides gas to Western Europe. The CEE states perceive this project as a threat of their energy security. During recent years there have been several events of cut offs in gas and oil supplies from the Russian side to the CEE countries. However, for Russia closing tap of the pipeline for the CEE countries means that it cuts off the supply of the Western countries such as for example Germany (which is the largest consumer of the Russian gas) as those countries in the west get gas via the countries in the east. That means that it was difficult for Russia simply to stop gas supplies to CEE countries. However, Russia, having direct access to the Western European market via the Nord Stream pipeline, will be able to use its energy as a political tool more effectively.

The Role of the European Union

“The Georgia war increases the urgency of developing Nord Stream. Politically, the importance even increases, not decreases. It is one of the major projects where Russia’s Gazprom is working together with EU companies, and that is beneficial for both sides because we need more such cooperation, also upstream in Russia. Nord Stream is a commercial project and I don’t see why it cannot be carried out.”⁹ These are the words of the EU Energy Commissioner, Andris Piebalgs. He sees great importance of the project; hence, the Commission supports the Nord Stream pipeline. In addition, EU parliament and the Council regard to the Nord Stream pipeline across the Baltic Sea as a Project of European Interest with high priority for EU energy supplies.¹⁰ So, the EU highly supports the project.

On one hand, as it was already mentioned above, the demand for gas is increasing in Europe, so the Union will need more and more gas in the future. Russia has the largest reserves of natural gas. And 55 bnm³ is not little amount of gas. It is obvious that Europe needs this energy and even more, so why not? It is reasonable to build the pipeline and to get more gas from Russia.

On the other hand, it is under question if Europe will get more gas. My argument is that Europe needs diversification. If the pipeline went through some CEE countries, I believe that there would not be any resistance against the project, but it does not. Nord Stream is diversification not for Europe but for Russia. Russia needs direct access to the western market, bypassing CEE states in order to manipulate with gas supplies. In order to cut the supply and coerce the CEE states do things that they otherwise would not do.

One of the most important facts about Nord Stream is that through the pipeline CEE states get almost no gas. According to the recent presentation *Secure Gas Supply for Europe* in the last November, all the partners of the project – contractors and contracted gas purchasers – are from the Western countries such as Germany, France, Italy, United Kingdom, Switzerland, Netherlands, Denmark, Sweden, Norway and Finland. Moreover, from these countries contracted gas purchasers are Germany, France, United Kingdom, and Denmark.¹¹ What about CEE countries? This fact shows that the pipeline that provides gas for Western countries gains more support from the EU than the pipeline that will carry gas for CEE countries and not only for them (in this case Nabucco pipeline).

“The German federal government views the Nord Stream pipeline as indispensable in order to guarantee the transport of increasing amounts of gas to Europe in the future. The pipeline is therefore a project with a European dimension.”¹² It seems that several big countries talking about Europe mean just themselves or in a better case only Western Europe. It seems that those countries almost do not care of the CEE states. They are trying to implement their national interests forgetting about common interests and objectives.

In conclusion, more gas will be needed in Europe in the future and that is why it is reasonable to build the

8 Secure Gas Supply for Europe, *Nord Stream Project Presentation*, November 2008 (accessible via internet: <http://nord-stream.com>)

9 Andris Piebalgs, EU Energy Commissioner, *Reuters*, 24 September 2008 (accessible via internet: <http://www.nord-stream.com/en/>)

10 Facts about the Natural Gas Pipeline across the Baltic Sea, *Nord Stream AG, 2008* (accessible via internet: <http://nord-stream.com>)

11 *The same.*

12 Report of the German federal government, 5 November 2008 (accessible via internet: <http://www.nord-stream.com/en/>)

Nord Stream pipeline, but the western countries should think about the eastern ones also. The necessary step to make is to connect the whole pipeline networks of the EU in order to enhance energy security of the Union as a whole and not only particular part of the EU. It will guarantee the energy security of the CEE countries if the western countries would be able to export gas to their Eastern co-members of the EU in case of gas supply disruption. For example, one of the priorities of the Polish government to enhance energy security is "The creation of a net of the interconnections joining the Polish natural gas system with the EU system. Besides that, the possibility of a so-called reverse in the Yamal pipeline is also included."¹ If the Poland will get gas from Germany in case of disruptions in gas supply, it will be an additional guaranty of the energy security of Poland. As it is less safe for Poland to get gas directly from Russia than via Germany. For Russia is not so bold to cut off Germany's gas in order to stop supply for Poland.

We should also keep in mind that the first priority of the EU common energy policy is to establish an interconnected market. If the EU manages to implement this purpose, the Nord Stream pipeline should not face criticism any longer. The EU has much to do to enhance energy security of all of its member states.

Expanding Supplies from the Other Current Suppliers

Several important projects are planned to provide additional gas to the European market. New pipelines from different producer countries have crucial importance for the energy security of the EU. However, these new projects will not be able to contribute CEE countries' energy security if there are no interconnections among the gas network systems of the member states.

Troll Gas Pipeline from Norway was intended to carry gas from a Norwegian gas deposit Troll with a capacity of 10-20 bnm³, but it was discovered that if the exploitation of the gas deposit began it would result in a direct loss of 65 million barrels of oil. That is why the Norwegian government decided to cancel the Norwegian gas pipeline project. Still in long-term perspective this project stays very important.

Medgaz – Algeria/Europe Gas Pipeline via Spain is intended to provide South Europe with gas of 8-16bcm per annum. The construction has already begun and the operation will start in 2009.²

Galsi Pipeline is planned to start in Algeria and carry gas of amount of about 8bcm to Italy. The cost of the project is approximately 2 bn Euros. The pipeline is expected to come operational in 2012.³

Trans-Mediterranean gas pipeline is under construction, goes to Italy as well, and takes 8bcm of natural gas to the country from Algeria.⁴

Arab Gas pipeline is under construction and will carry Egyptian and possibly Iraqi gas to Europe. It will be one of the pipelines that will feed Nabucco.⁵

Euro-Mediterranean Gas and Electricity Grid and *Trans-Sahara Gas Pipeline* have also experienced support from the Commission in terms of financial assistance and diplomatic encouragement.⁶

As it can be seen from these facts, Mediterranean Region, Africa and Middle East attract great attention from Europe. These projects are for diversification of external gas supply of the EU. The Commission plays very important role in institutionalizing the relations between the EU and these regions setting several different and ambitious projects. As for the CEE countries, they will be concerned by these projects in case the networks of the member states are interconnected.

Interconnection of the Gas Networks

The interconnection of the European gas network is vital for small states such as CEE countries. It was already considered the Polish case that interconnection contributes energy security. If it so every single pipeline will be an additional guaranty of the energy security of the EU. The more gas the EU will take, the better it will share among its member states.

On November 12, the Commission adopted The Second Strategic Energy Review that focuses mainly on

1 Jerzy Marek Nowakowski, *The Impact of the Caspian and the Black Sea Regions on Poland's Energy Security*, Transcript of the International Conference *Building Energy Security: Cooperation among the Baltic, Black and Caspian Sea Regions*, Center for Strategic Studies, 2007.

2 <http://www.medgaz.com/medgaz/doc/0806WPCPresentation.ppt#313,14,Slide 14>

3 <http://en.wikipedia.org/wiki/GALSI>

4 <http://www.zawya.com/cm/profile.cfm?companyid=1001054>

5 Energy cooperation in the Mediterranean - What is the Commission doing? - Focus on Egypt, *Brussels, 2 December 2008*

6 *The same.*

the energy security, which is clearly presented as matter of common EU concern. The Review also takes the first steps towards the next stage of European Energy Policy, starting a process of defining an EU response to longer-term challenges likely to be met between 2020 and 2050. The Commission puts forward a number of concrete actions, in a five-point EU Energy Security and Solidarity Action Plan. The first in that plan are “Infrastructure needs and the diversification of energy supplies”. This point refers to proposal of six energy security priorities for the EU: Baltic Interconnection Plan, southern gas corridor, LNG Action Plan, Mediterranean energy ring, North-South interconnections within Central and South-East Europe, North Sea offshore grid.⁷ These priority projects explain how the above-mentioned projects enhance the energy security of the CEE countries. Moreover, according to the recent proposal made by the Commission EU will spend € 675 million on the interconnectors, that include: ITGI – Poseidon; Baltic interconnection Skanled; Slovakia-Hungary Interconnector (Velky Krtis – Balassaqyarmat); Gas transmission system in Slovenia between the Austrian Border to Ljubljana (excluding the section Rogatec-Kidričevo); Interconnection Bulgaria-Greece (Haskovo-Komotini); Romania-Hungary gas interconnector; Reinforcement of FR gas network on the Africa-Spain-France axis; Germany-Belgium-United Kingdom pipeline; France-Belgium connection.⁸ However, the most important thing still remains under question: will the western countries share their gas with their Eastern co-members in case of any kind of disruption in gas supply?

From the case of the Nord Stream pipeline, we can see how the bigger states prevail than the smaller ones. All the CEE states were against this project but the western countries are continuing to implement it. Their attitude towards Russia is that they have stable relationships with Russia and can talk to the country as they need Russia as nuclear country, as a country with a potential to talk to Iran, as a country together with which it is reasonable to counter terrorism and so on. Russia is not only a gas supplier country for the West but also a country that can simply sell some of its nuclear warheads to the terrorist groups. So, Russia has even more significance than a small country can imagine. That is why the West cannot simply punish Russia because of some “bad behavior”. Otherwise, there will be different terrible results (not only in terms of gas supply).

So regarding this multi-dimensional issue, there is no certain answer to a particular question. Nevertheless, still it is crucial to have interconnections within the EU system of gas networks.

CONCLUSION

Finally, you can see how comprehensive the energy security issue in terms of gas supply is. If the Nabucco pipeline is going to provide gas for CEE countries, Nord Stream leaves the countries in an uncertain vacuum for uncertain time. Energy security of the CEE states is dependent on the EU’s energy policy to much extent. Interconnections have vital importance for these countries and, although, the Commission has made some proposals, it cannot implement the goals set by its own. According to the organization of the EU, the main decision-making body is the Council of Ministers, where national interests are preferred to the common interests by the representatives of the national governments. As national security issues are very sensitive.

However, the EU has to be more united speaking in a single loud voice. The Union plays very important role to provide energy security of CEE but it should do even more. These proposals should be implemented and the projects should see the daylight. The interconnections should be developed in order to be on a safe side. The thing that the EU should do in the future is to invest in the infrastructure. The Union needs more modern infrastructure in order to increase energy efficiency. It is also worth to mention the LNG facilities. Financial aid to the CEE states is very important in this field. Moreover, the aim of the Commission to increase the share of the RES by 20%, to increase energy efficiency by 20% and to increase savings by 20% by 2020 is also very important step made towards the energy security of the EU as a whole.⁹

At last, I would like to quote the words of the EU Energy Commissioner, Andris Piebalgs: “We have to do more, be more ambitious, and be even bolder to avoid the risk of energy disruption in the future.”¹⁰ These words show the striving for the better and secure future of the European Union. I hope that in this Union there will be enough space for the small members such as the CEE countries.

7 Energy Council 8 December 2008, *Brussels, 5 December 2008*

8 The Commission proposes € 5 billion new investment in energy and Internet broadband infrastructure in 2009-2010, in support of the EU recovery plan, *Brussels, 28 January 2009*.

9 Securing Your Energy Future: Commission Presents Energy Security, Solidarity and Efficiency Proposals, *Brussels, 13 November 2008*

10 *The same*.

Table 1: Main natural gas suppliers* to the European Union, 2005 (in TJ-GCV)

Producer	Quantity	Destination country	% of total imports of the destination country	% of gross inland consumption of natural gas of the destination country
Russia	4 952 879	All EU countries		
	1 425 938	Germany	41,7%	37,9%
	888 721	Italy	31,8%	27,0%
	378 093	France	19,5%	19,8%
	282 145	Slovakia	100%	>100%
	269 065	Czech Republic	76,1%	75,1%
	264 523	Austria	70,0%	68,8%
	262 629	Poland	65,9%	46,1%
	194 935	Romania	100%	30,1%
	167 381	Finland	100%	100%
	115 949	Lithuania	100%	>100%
	114 340	Bulgaria	100%	87,7%
	66 710	Latvia	100%	>100%
	43 096	Croatia	100%	39,0%
	37 201	Estonia	100%	100%
33 776	Belgium	5,1%	5,1%	
25 746	Slovenia	59,8%	59,6%	
Norway	2 642 633	All EU countries		
	1 097 831	Germany	32,1%	29,2%
	460 416	United Kingdom	73,8%	11,7%
	447 040	France	23,1%	23,4%
	218 046	Italy	7,8%	6,6%
	182 471	Belgium	27,6%	27,8%
	89 018	Spain	6,3%	6,4%
	84 661	Czech Republic	23,9%	23,6%
	43 724	Austria	11,6%	11,4%
19 426	Poland	4,9%	3,4%	
Algeria	2 256 826	All EU countries		
	1 046 378	Italy	37,4%	31,8%
	609 182	Spain	43,3%	43,9%
	309 486	France	16,0%	16,2%
	128 211	Belgium	19,4%	19,5%
	112 022	Portugal	61,9%	64,2%
	17 788	Greece	16,4%	16,2%
	17 189	Slovenia	39,9%	39,8%
16 570	United Kingdom	2,7%	0,4%	
Nigeria	436 319	All EU countries		
	220 643	Spain	15,7%	15,9%
	146 596	France	7,6%	7,7%
	69 080	Portugal	38,1%	39,6%

* Incomplete data; some information is not available or claimed to be commercially confidential.

Source: Eurostat. Cited in: *Gas and Electricity Market Statistics, Eurostat Statistical Books, Eurostat, European Commission, 2007.*

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Energy Sector in Euro integration – the Role of the European Union in the Diversification of Gas Supplies of the Central and Eastern European States

Annotation

Levan Kakhishvili

Ivane Javakhishvili Tbilisi State University

Student of the third course of International Relations at the faculty of Social and Political Sciences

Instructor: Zygmantas_Vaiciunas, PHD Candidate

The main topic of this paper is energy security of the Central and Eastern European (CEE) States. However, this issue is too broad for a single paper that is why I explore the issue in terms of gas supply diversification and the role of the EU in this realm.

The paper claims that the EU has a significant role in enhancing energy security of the CEE states even though it does not have strong common energy policy. Although the EU pays more attention to the pipeline projects that contribute energy security of the Western European (WE) states, it can also play the leading role in the other projects also.

The paper explores the main gas supply diversification projects for the European gas market – Nabucco Gas Pipeline project and Nord Stream pipeline project (together with several other smaller projects), arguing that although CEE states are against the latter it can become a significant stride made towards the energy security of the region.

The paper argues that the EU has great potential to provide energy security for the whole Union by developing the interconnections of the gas sectors among the different member states. If the EU succeeds to implement this task it will be able to reduce its overall dependency on the single gas provider of the CEE states Russia, and to use a very important project of the Nord Stream – New European Gas Pipeline as a contributor of the energy security of the CEE states. However, quite often big states just forget the existence of the small states.

In conclusion, the paper claims that even though the EU cannot speak in a single voice, there are a lot of important signs to improve the current situation. According to recent documents formed bilaterally (for instance a memorandum with Egypt) or among the member states (for example, goals set by the Commission for 2020) are suggesting a better future for the EU common energy policy.

ANALYSIS OF BASES OF GEORGIAN PENSION REGULATING LEGISLATION AND WAYS OF IMPROVING IT

Avtandil Chelidze

*Ivane Javakhishvili Tbilisi State University
Student of the fourth course of the faculty of Law
Instructor: **Doctor of Laws Vakhtang Machavariani***

Despite the fact, that during recent period the government of the country and relevant (among them the Department of Statistics of the Ministry of Economic Affairs of Georgia) bodies are obviously trying to avoid all kind of talks concerning the existence of sector of shadow economy and the problems connected with them, there should be no doubt that shadow economy and together with this, economic crime exists in the country on a relevant level.

The above mentioned is proved by the fact, that the tendencies of general economic growth should be reflected on social-economical conditions of the population, namely on the growth of salary funds and pensions.

Hence we have no official statistical data on total amount of salaries issued in the country, scale of the shadow economics existing in the country is represented through the obvious disproportion existent between the growth rate of general macro-economic figures and the growth rate of pensions.

Hence in our opinion it must be very interesting to carry out a thorough analysis of the legislative base regulating the existing mechanism of the social maintenance. The point is that we encounter disputable and in some individual cases even wrong decisions among the decisions having been made lately in the economy management by the authorities. We think such a category of decision must belong to the last transformation practice of the legislative base regulating the pension's provision sphere. In particular on the December 23, 2005 by the Georgian parliament were revoked the following laws: "About obligatory social insurance"; "About obligatory insurance pensions" and "About introducing individual (personification) registration and personal accounts into the obligatory social insurance sphere". Consequently in parallel with neglecting of the principle of the social justice in the organizing process of provision of pensions a certain stimulus was given to the rising tendency of the shadow economic sector.

As it is known in any country and in any era the most important precondition of the perfect functioning of pension system is organizing its forming mechanisms by justice principle for which a pension must be adequate to the contributions carried out in the pension fund in the period of active work. From this viewpoint the present situation in Georgia is characterized by certain peculiarities. The point is that now in Georgia there are two systems of pension provisions, provisions that are well approbated in the world practice, in particular the state pension provision system based on the so called "Pay-as-you-go" principle, i.e. on the rule of financing of a retired generation by working generation. It should be noted that the state pension provision system either before adopting the above mentioned laws or after revoking them does not practically take into consideration an amount of pension contributions paid by a person in the period of work.

As we have mentioned, the Georgian legislation also considers the opportunity of using private retirement insurance independent from the state provision of pensions. The non-government retirement insurance system is based on the so called Pre-Funding principle and gives the chance of getting a pension adequate to the sum of money paid in pension funds by a person in the period of work.

At a single glance the above mentioned mechanisms of provisions are satisfying modern requirements and do not give any ground for criticism. However a thorough investigation of the existing situation is uniquely disclosing its deficiencies and what is worthy of special attention, its stimulating role for a shadow economic sector.

As it was already mentioned there are two pension systems in the country but due to the present situation neither of them plays a preventing role for the shadow economic sector. The point is the nongovernmental system of provision of pensions essentially includes important elements of preventing the shadow economic sector but considering a low level of trust in it from population and its non-coercive character the existence of the mentioned system does not change cardinally the situation created in the country. As for the state pensions provision system apart from the fact that it cannot provide pensioners with minimal necessities of life, its realization mechanism and lots of factors existed in the country are loading it with a stimulating function of a shadow economic sector.

The fact is that according to the law "About a state pension" dated on the 23rd of December 2005 a pension is granted to permanent resident of Georgia, aliens having been lived permanently on the territory of Georgia for the last 10 years and persons not having citizenship who is 65 (60 for women) years of age or those who have lost a breadwinner or are disables persons. Besides the above mentioned persons, a pension is also granted to those who died in war for the territorial integrity of Georgia, or those recognized as victims of political repressions and persons of other categories. Basing on the format of the present research the object of our study is not above mentioned pensioners and those envisaged by Georgian legislation having the right to get a pension. Our attention will be focused upon the most common in the country and most important defects from the economic viewpoint existed at this stage in the mechanism of granting and calculating of an age pension.

The fact is that according to Article 7 of Chapter III of the Georgian law "About state pension" a minimal amount of pension event at present is considered to be 28GEL. However according to paragraph 8 of Article 50 of the law about a state budget of 2006 adopted by the parliament of Georgia on the 23rd of December 2005 (from the 1st of September 2006) an amount of minimal pension is 38GEL and according to decree N258 of the Georgian government dated the 24th of November 2007 (from the 1st of December 2007) an amount of minimal pension is 55GEL. Hence the existence of the above mentioned formulation in the Georgian law "About state pension" obviously reveals the attitude of the legislative and executive authorities towards the issues of provision of pensions. Though as a main problem of this situation we must consider quite different thing.

The point is that the most Georgian citizens after reaching a pension age are granted a pension in amount of 55 GEL in spite of the fact what their income was during years and how much social payment they paid. Apart from the fact that the mentioned occurrence is contrary to the justice principle of provision of pensions, it represents a stimulating factor of the shadow economic sector. In the created situation neither an employer nor an employee is absolutely interested to pay a social payment; on the contrary this payment is quite unacceptable for both of them, because by paying it production costs of the employer are rising and for the employee it makes no difference because whatever amount of money he/she will pay during years, his pension will be 55GEL. This situation becomes harder and is charged with a psychological antagonism to paying of payments by conditions of provision of pensions set for high rank officials of the executive, legislative and juridical authorities being in conditions that are quite different (obviously privileged) from those set for the main part of population. In particular, the following laws are adopted by the government of Georgia and are acted: "About compulsory insurance of life and health and provision of pensions of a member of parliament"; "About guarantees of social protection of family members of former high-ranking political officials"; "About guarantees of social and juridical protection of judges"; "About social maintenance of persons (and their family members) transferred to the reserve from special services of military, internal affairs authorities and state guard"; "About social protection guarantees for members the constitutional court of Georgia" and "About social protection guarantees for members of Supreme Court of Georgia". It's true that pensions mentioned in these laws are granted pensions according to the same principle, i.e. without taking into consideration an amount of payments of social insurance paid by them during years, but their pensions are extremely higher compared to the pensions of the main part of personal.

All above mentioned facts to the great extant stipulate avoiding a generally established practice of paying social payments in the productive sphere which in its turn is causing a rise of unregistered output (service) or scales of shadow economics. The point is that giving a salary to an employee if social and income payments have not been paid under the norms given by the tax code of Georgia is practically impossible without existing of unregistered service. By this reason by using various tricks and methods a certain part of producers does not completely fix an income got from the production activity so that with this registered amount of money without an appropriate accounting report they will do salary accounting with the employee. As a result besides

not paying social and income (only income from the 1st of January 2008) tax (es) it also causes not paying other kinds of tax (VAT, excise) and as we have already mentioned, it makes a rise to scales of the shadow economic sector. This problem becomes heavier because in the present situation, law-abiding producers have to act by same “schemes”; otherwise they won’t be able to withstand competition.

As it is seen from the experience of many countries one of the effective instruments of getting over this hard situation is to put in action the so-called system of insurance pensions and introduction of a system of individual (personification) registration and individual accountability. But the point is that besides the fact that the introduction of this system of individual accountability is maximally appropriate to the justice principle of the pensions system, it itself creates an impartial active public mechanism for controlling a fight with shadow economic sector. In such conditions an employee as a rule is controlling an employer himself/herself because he/her himself/herself is interested in the properly defining of the tax added on his/her salary and hence in the increasing of the amount accrued on his/her personal account.

Just on this elementary truth was based adoption of the following laws by parliament of Georgia on the 20th of June, 2003: “About obligatory social insurance”; “About obligatory insurance pensions” and “About introducing individual (personification) registration and personal accounts into obligatory social insurance sphere”. Activation of this legislative base was planned from the 1st of January, 2006. In order to put these laws in act properly by the Ministry of Health, the Ministry of Social Protection and the Ministry of Finance there were carried out important organizational, methodological and other types of work for starting of the system of individual registration and individual accounts. However a few days earlier before starting the above mentioned legislation, on 23rd of December, 2005 the Georgian parliament revoked these laws.

The main reason of the taken decision there might have been the necessity of avoiding financial obligations hard to perform for state budget. At a single glance despite its logicity, this consideration cannot be counted as a solid argument, because putting into action a system of individual registration and individual accounts would have stimulated coming of the existed wages fund out of the unregistered (shadow) sphere and would have caused rising of budget incomes hence possibility to increase expenses. Furthermore controlling of the problem of avoiding of the considerably increased (in the form of pensions) financial obligations of the state might have been possible by amending of a basic part of pension envisaged by the Georgian law “About obligatory insurance pension.

To inevitability of amending of the unjust system of granting equal pensions to the basic part of population without taking into consideration the length of their service and an amount of money paid by them in the pension fund during years and which, as it was already mentioned, is the stimulating factor of the shadow economic sector, is pointed by N181 decree of Georgian government dated on the 29th of August 2007: “About defining an addition to state pension granted on the basis of a pension age taking into account the length of service”. From the viewpoint of social justice according to this document connecting of the pension amount with the length of service should be taken as a logical decision, though it is worthy of notice that its realization is creating some danger of corruptibility because according to Article 2 of the document: “As a conformation document of the length of service is accepted any document issued by a competent authority (i.e. an agency of social subsidies – subjected to the Ministry of Labor, Health and Social Protection) which covers the information about the labor activity period of a person”. The fact is that in reality in Georgia as a confirmation document of the length of service is accepted a work record card. Work record cards have been sold at markets for a long time and there is no problem to make any entry in thus document, because every producer knows that according to paragraph “h” of Article 41 of the Tax Code of Georgia keeping documents on the basis of which money is stopped from wages is obligatory only during 6 years. Therefore it is quite clear that under the conditions of individual registration and individual accounts any producing structure will practically have an opportunity without a risk to fix any length of service antedated (6 years earlier) and wages in the work record cards bought at markets.

As one of the considerable argument confirming problems existed in defining the length of service and impossibility of fixing pensions by these criteria at present can be accepted a phrase fixed in Article 2 of Decree N258 of the government of Georgia dated on the 24th of November 2007, according to which in calculating of social additional pay is not considered the length of work.

In order to get over the created situation, in particular, putting a social justice principle into act in the system of pension provision and what is the most important, to neutralize factors stimulating the shadow eco-

conomic sector, in our opinion it is reasonable for our legislative authority to start work for preparing normative acts necessary for introduction of individual registration and individual accounts, and for the corresponding executive authorities, in particular the Ministry of Labor, Health and Social Protection, agency of social subsidies, the Ministry of Finance of Georgia and the Income Service of the Ministry of Finance to start work to provide an institutional, normative and methodological base necessary for introducing individual registration and individual accounts.

List of Applied Literature:

1. Georgian Law of June 20, 2003 on “Compulsory Insurance Pensions”; and “On individual (personalized) calculation and on adopting accounts in compulsory social insurance sphere”.
2. “Georgian Tax Code” Georgia, “Legal library” 2007.
3. Resolution N181 of Georgian Government of August 29, 2007 about “Defining appendage to the state pension according to the length of service considering pension age”.
4. Resolution of Georgian Government of November 24, 2007 about “Defining appendage on State pension”

Analysis of bases of Georgian pension regulating legislation and ways of improving it

Annotation

Avtandil Chelidze

Ivane Javakhishvili Tbilisi State University

Student of the fourth course of the faculty of Law

Instructor: Doctor of Laws Vakhtang Machavariani

Complicated historical period since the restoration of Georgia’s political independence (May 26, 1991) has illustrated the importance of integration into European political and security systems.

A principal condition of Georgia’s integration into Euro-Atlantic structures is building a democratic state based on democratic principles and Rule of law, achieving this requires a huge effort. One of the main problems in accomplishing this objective is approximation and harmonization of Georgian legislation with European legislation.

This is yet again confirmed by resolution #828-Is adapted by Georgian parliament on September second 1997, according to this resolution, law or any other piece of legislation passed after September first 1998 has to be in accordance with EU standards and norms.

In spite of this, in practice some decisions made by Georgian government and legislation based on this decisions are nowhere in accordance with aforementioned requirements. Finding, analyzing and eradicating imperfections of this kind existing in Georgian legislation, stipulates the importance of our topic.

Article will analyze imperfections existing in Georgian pension regulating legislation. In particular the practice of ignoring, amount of years spent working by the pensioner or the amount of tax paid, when granting a pension.

In order to overcome existing situation, this work will analyze Georgian pension regulating legislative base. This work will evaluate imperfections existing in Georgian legislature in accordance with social equity principles recognized in EU member countries and will provide means of overcoming these imperfections.

THE HARMONIZATION OF THE GEORGIAN LEGISLATION WITH THE LEGISLATION OF THE EUROPEAN UNION

Ana Mikeldze

*Ivane Javakhishvili Tbilisi State University
Student of the third course of the faculty of Law
Instructor: **Natia Chitashvili, MA***

This study discusses important aspects of the process of integrating with European community in the field of judicial system which is the most important for Georgia to develop as a legal state. Harmonizing European systems of law represents one of the greatest challenges of the 21st century. In effect, it is the adaptation of national laws into a new supra-national law, a process that signifies the beginning of a new age in Europe.

The European Union has a long-term interest in the success of democracy and market economy in Georgia. EU enlargement in 2004 brought the EU closer to the Southern Caucasus, making the challenge even more important. Georgia declared its independence from the Soviet Union in March 1990. After the restoration of independence of Georgia on 9 April 1991 the new democratic government set a course for NATO and the EU. In the early years, assistance was in the form of humanitarian aid to meet the urgent and desperate needs of the population that later, developed into high level technical and financial assistance. The European Commission opened its Delegation to Georgia in Tbilisi in 1995. Today the Delegation has a full diplomatic status and its role is to facilitate the development of relations between the Government of Georgia on the one hand and EU institutions on the other. It also negotiates and coordinates the European Community's major cooperation programs in Georgia. The cornerstone of EU-Georgia relations is the Partnership and Cooperation Agreement (PCA). The PCA was concluded in 1996, which entered into force on 1 July of 1999 and forms the legal basis of EU-Georgia relations. Under compulsion of this bilateral agreement EU and Georgia undertook an engagement to establish two-way trade and economic relations, also cooperation in the area of economy, finance, science, technology and culture, which at the same time meant bringing Georgian legislation into line with the legislation of the European Union. Thusly, respect for democracy, principles of international law, human rights and market economy principles are the essential elements on which the EU-Georgia partnership was based. Through the PCA, which also eliminates trade quotas and the protection of intellectual, industrial and commercial property rights, the parties have accorded each other Most Favored Nation (MFN) treatment and Georgia benefits from the EU's General System of Preferences + (GSP+). The "GSP+", grants duty-free access to the EU for approximately 7,200 products from small and vulnerable countries that have ratified the major multilateral environmental agreements (MEA) as well as key human rights and governance agreements. At the General Affairs Council of February 2001, the EU confirmed its willingness to play a more active political role in the South Caucasus region and its intention to look for further ways in which to support efforts aiming at prevention and resolution of conflicts in the region and to participate in post-conflict rehabilitation. The Foreign Ministers of Georgia, as well as Armenia and Azerbaijan, welcomed the EU's commitment to play a more active role in the region in the Joint Communiqué issued on 30 October 2001 on the occasion of the Cooperation Councils with the three countries.

Before "Rose Revolution" in 2003, it had become obvious that Georgian government was not able to build a stable and economically developed state. The inability of the government disappointed donors. The World Bank stopped energetic and social programs in 2003 for the all-embracing corruption and USA made a statement that they would reduce the aid after 2004. Thusly, the role of USA in changing Georgian government was important. The changes brought about by Georgia's "Rose Revolution" in November 2003, including the subsequent holding of relatively free and fair presidential and parliamentary elections, were strongly welcomed by the USA and EU. This process hastened including the three countries of the South Caucasus in the ENP (Euro-

pean Neighborhood Policy). In July 2004, the EU launched operation EUJUST Themis in Georgia; a Rule of Law mission established using the civilian crisis management arrangements within the European Security and Defense Policy. The mission was designed to assist Georgia to develop a horizontal strategy to guide the reform process in the criminal justice sector. Following a recommendation made by the European Commission, the Council on 14 June 2004 decided to offer Georgia, Armenia and Azerbaijan the opportunity to participate in the European Neighborhood Policy (ENP), *inter alia* stating: "Each country will be given the same opportunity to develop its links with the EU, including through action plans, and will be treated in its individual merits in line with the general policy of the ENP". This marked a significant step forward in the EU's closer engagement with the region. Georgia has welcomed its inclusion and has expressed its readiness to exploit the opportunities thereby opened up. The EU – Georgia ENP Action Plan was adopted on 14 November 2006. The EU-Georgia Action Plan is a political document laying out the strategic objectives of the cooperation between Georgia and the EU. It covers a timeframe of five years. Its implementation will also help fulfill the provisions of the PCA, build ties in new areas of cooperation and encourage and support Georgia's objective of further integration into European economic and social structures. Implementation of the Action Plan will significantly advance the approximation of Georgian legislation, norms and standards to those of the European Union. In this context, it will build solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth. It will furthermore help to devise and implement policies and measures to promote economic growth and social cohesion, to reduce poverty and to protect the environment, thereby contributing to the long-term objective of sustainable development. Georgia and the EU will cooperate closely in implementing this Action Plan. The Tacis program is the main instrument for assisting the Georgian Government in the implementation of the PCA. Tacis is an acronym for Technical Assistance to the CIS (or Commonwealth of Independent States). In 2002 the European Union's Tacis program marked the tenth anniversary of cooperation with its partner countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The seeds of this partnership were sown in the beginning of 90s with the 13 countries concerned.

The Georgian Government has committed itself to adopting a National Program for the implementation of the PCA and, in conformity with Article 43 of the PCA, to the approximation of legislation in 13 independent sectors: Agriculture, Business, Competition, Consumer Protection, Customs, Environment, Financial Services (comprising Banking, Insurance and Securities), Intellectual Property, Labour, Public Procurement, Taxation, Transport, Technical Rules and Standards. Against this background, Tacis is providing technical assistance to the Georgian-European Policy and Legal Advice Centre (GEPLAC). GEPLAC, which has been rendering advice to various ministries and agencies since 1997, became the advisor of the leading coordinating institution of harmonization – the Governmental Commission. As a result, GEPLAC in close co-operation with government authorities elaborated the Proposals for the Strategy of Harmonization of the Georgian Legislation with that of the EU at the end of 2000. This assistance also supports Georgia's implementing obligations resulting from its accession to the WTO (World Trade Organization). Substantial work in terms of approximation of legislation has already been done. However, substantial progress needs to be made before commercial laws can be viewed as being regularly enforced. There is inadequate respect for the rule of law, which does not provide for adequate and fair enforcement of enacted rule. The rampant corruption that hampers normal private business activities has to be addressed with determination by the authorities. It is time to define a clear benchmarking approach against which it will be possible to measure concrete results in the adoption, actual implementation and enforcement of legislative and regulatory provisions.

The reform priorities identified in the EU- Georgia ENP Action Plan are: support for democracy and governance reforms, economic development and poverty reduction; cooperation on the reform of the judiciary, border management; regional cooperation; a peaceful resolution of internal conflicts. Following the inclusion of Georgia in the ENP in 2004, Georgia became eligible for the European Neighborhood and Partnership Instrument (ENPI). The European Commission assistance to Georgia from 1992-2006 amounted to almost €506 million. In 2007, under the INPI € 24 million was allocated for Georgia to focus on the reform priorities agreed in the ENP Action Plan. In 2008 the European Commission's post-crisis support for Georgia reached nearly €120 million. The funds form part of the 'Growth and Stabilization Package for Georgia' of up to €500 million covering the period 2008-2010, that was pledged by the European Commission after the 2008 August conflict. Adding the

€120 million for post-crisis assistance to the total regular funding for Georgia of €42 million the committed financial aid to Georgia for 2008 has reached more than €160 million. European neighborhood policy action plan has a set of priorities:

Priority area 1:

Strengthen rule of law especially through reform of the judicial system, including the penitentiary system, and through rebuilding state institutions. Strengthen democratic institutions and respect for human rights and fundamental freedoms in compliance with international commitments of Georgia (PCA, Council of Europe, OSCE, UN).

Specific actions:

- Reform of the whole judicial system in line with European standards notably through the implementation of the reform strategy for the criminal justice system, developed with the assistance of EUJUST Themis, including:

- ensuring proper separation of powers, independence and impartiality of the judiciary, prosecution, police and law enforcement agencies;

- improvement of training of judges, prosecutors, and officials in judiciary, Ministry of Justice administration, police and prisons, in particular with regard to the human rights issues and judicial internal cooperation;

- improved access to justice notably through the establishment of an effective legal aid system;

- penitentiary and probation service;

- system of execution of Court decisions;

- Adopt a new Criminal Procedural Code ;

- Implement the recommendations of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment, notably to improve detention conditions.

- Adopt a public service reform strategy and legislation for the civil service in order to improve good governance and transparency.

- Develop a functioning civil register (by end 2009);

- finalize and implement a strategy and program for local government reform (the “Law on Self Governance”), in accordance with Council of Europe recommendations;

- Ensure implementation of the Optional Protocol to the UN Convention against Torture.

EUJUST THEMIS was designed to support the Georgian authorities in addressing urgent challenges in the criminal justice system, assisting the Georgian government in developing a coordinated overall approach to the reform process. The operation achieved its main aims and completed its tasks on 14 July 2005.

Priority area 2:

Improve the business and investment climate, including a transparent privatization process, and continue the fight against corruption

Specific actions:

- Develop and implement a comprehensive program to improve the business climate, in particular to improve the conditions to starting a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts, and closing a business;

- Adopt and implement the necessary implementing provisions to the revised Customs Code in order to simplify and streamline customs procedures and to address the issue of customs ethics in line with EU and international standards;

- Set up a mechanism to ensure regular consultation/information of the trade community on import and export regulations and procedures;

- Strengthen the overall administrative capacity of the customs administration, in particular to increase transparency of customs rules and tariffs, to ensure the correct implementation of customs valuation rules, to implement the principles of risk based customs control and post clearance control ; provide the customs administration with sufficient internal or external laboratory expertise as well as sufficient operational capacity in the IT area;

- Continue the modernization, simplification and computerization of the tax administration. Ensure the smooth enforcement of the new Tax Code also by defining all necessary administrative structures and proce-

dures, including a fiscal control strategy, audit and investigation methods, co-operation with the tax payers and tax compliance;

- Ensure the implementation of the recently approved National Anti-Corruption Strategy by 2009 ; ensure active participation of civil society in monitoring implementation ; regularly assess impact and progress made ;
- pursue transparent privatization process both as regards divestiture and use of privatization proceeds;
- Establish the necessary administrative capacities to ensure an effective and transparent licenses system.

Priority area 3

Encourage economic development and enhance poverty reduction efforts and social cohesion, promote sustainable development including the protection of the environment; further convergence of economic legislation and administrative practices.

Specific actions:

- Maintain macroeconomic stability by implementing prudent monetary and fiscal policies including through ensuring the independence of the National Bank of Georgia; further improve strategic planning of expenditures through a Medium Term Expenditure Framework;
- Conduct a systematic review and revision of the government's reform strategy document, with particular emphasis on poverty reduction;
- Continue reforms in public finance management, including by implementing a comprehensive Medium-Term Expenditure Framework consistent with the Georgian government strategy;
- Develop a Research and Innovation policy directly relevant to the sustainable and equitable economic development policy objectives of Georgia;
- Undertake reform of the social assistance and health care sectors including establishing an effective legal base and effective management systems;
- Further reform efforts in the field of education to promote human resources development;
- Foster co-operation with the aim of reforming higher education sector in the context of the Bologna Process;
- Reinforce participation of Georgian scientists/students/academics in international and exchange programs such as TEMPUS, Erasmus Mundus, Marie Curie, Jean Monnet, European Community Framework Programs (FP6; FP7);
- Encourage life-long and life-wide learning opportunities as well as further the reform efforts in the field of education, science and training to promote sustainable development of human resources and human capital;
- Develop special programs of education for public servants (primarily for civic integration).
- Reform science management system through appropriate regulatory framework, financing model and governance based on scientific excellence, capacity-building and joint initiatives.
- Foster the development of education, information and communication programs and technologies.
- Strengthen administrative structures and procedures to ensure strategic planning of environment issues and coordination between relevant actors.
- Improve the quality in statistics;
- Jointly explore options for further enhancing bilateral trade relations, including the possible establishment of a free trade agreement between the EU and Georgia. In this context, the Commission will undertake a feasibility study which will also look at regional trade and economic integration aspects;
- To co-operate in the area of food safety;
- Ensure effective cooperation in order to establish and strengthen in Georgia a modern institutional system of technical regulation, standardization, accreditation, metrology, conformity assessment and market surveillance.

Priority area 4

Enhance cooperation in the field of justice, freedom and security, including in the field of border management.

Specific actions:

- Border management
- Georgia to fulfill its commitments on border management reforms (increase budget, integration of the

Georgian State Border Guard Department into the MoI, reform of the Ministry of the Interior, notably in the fields of human resources and management, etc);

- continue EU-Georgia cooperation on Border Management issues ;
- Develop a dialogue on fight against terrorism and organized crime, trafficking, illegal arms trading.
- Migration management (readmission, visas, asylum)
- Develop cooperation on migration and asylum issues;
- Establish a dialogue on matters related to the movement of people including on readmission and visa issues;
- Take steps to modernize the national refugee system in line with international and European standards and an IDP protection system that is self-sustaining and that offers integration opportunities for those who qualify.

Priority area 5

Strengthen regional cooperation

Specific actions:

- Enhance participation in regional cooperation initiatives in the Black Sea region, including the Southern Caucasus, e.g. environment, education, border management, transport as well as in the parliamentary sphere ;
- Continue cooperation in the Energy, Transport and Science and Technological development fields in the context of the EU/Black Sea/Caspian littoral states and neighboring countries initiative ;
- Strengthen Georgia participation in regional law enforcement cooperation initiatives in the Black Sea region, including the Southern Caucasus, as well as through EC-funded regional assistance initiatives such as SCAD;
- Support the Caucasus Regional Environmental Centre in meeting its objective to promote co-operation between Governmental and non-Governmental actors in the region, as well as enhance participation in its work ;
- Enhance bilateral and multilateral cooperation in the Black Sea region and between the Black Sea, the Baltic Sea and the Caspian Sea regions;
- Enhance youth exchanges and cooperation among the Black Sea States, including the S. Caucasus countries.

Priority area 6

Promote peaceful resolution of internal conflicts

Specific actions:

- enhanced efforts at confidence building;
- consideration of further economic assistance in light of the progress in the conflict settlement process;
- The EU points to the need to increase the effectiveness of the negotiating mechanisms. The work of the Joint Control Commission should be measured by the rapid implementation of all outstanding agreements previously reached and in particular by the start of demilitarization;
- The EU stresses the need for a constructive cooperation between interested international actors in the region, including the EU and OSCE Member States, on additional efforts contributing to peaceful settlement mechanisms in Tskinali Region/S. Ossetia and Abkhazia;
- Include the issue of territorial integrity of Georgia and settlement of Georgia's internal conflicts in EU-Russia political dialogue meetings.

Priority area 7:

Cooperation on Foreign and Security Policy

- Enhance EU-Georgia cooperation on Common Foreign and Security Policy, including European Security and Defense Policy;
- Georgia may be invited, on a case by case basis, to align itself with EU positions on regional and international issues.
- Develop possibilities for enhanced EU – Georgian consultations on crisis management.

Priority area 8:

- Transport and Energy

Take into consideration the transit potential of Georgia as well as its interconnection with the transport and energy networks of the European Union in order to ensure effective cooperation in the areas of energy and transport between the EU and the states in the Black Sea and Caspian regions in the framework of the “Baku Initiative”.

- Transport

Cooperation addressing the issues of transport security and safety, interoperability, promotion of multi-modal services, efficiency of freight transport and simplification of border crossing procedures in line with the recommendations of the High Level Group on Transport;

Develop intensive cooperation in order to ensure the gradual inclusion of Georgia in the Trans European Networks (TEN) in line with the recommendations High Level Group on Transport;

With a view of regional integration encourage development of Georgia’s transit role;

Further support TRACECA process.

- Energy

Continue cooperation on Caspian and Black Sea regional energy issues (oil, gas, electricity) in the context of the follow up to the EU-Black Sea-Caspian Basin energy Ministerial Conference of November 2004 as well as INOGATE. With a view to regional integration and progressive integration with the EU energy market and system and Georgia’s role as energy transit country, encourage the development of diversified infrastructure connected to development of Caspian energy resources and facilitate transit. Progress in meeting these priorities will be monitored in the bodies established by the Partnership and Cooperation Agreement and the European Commission will issue a mid-term report on progress accomplished. On the basis of this assessment, the EU, together with Georgia, will review the content of the Action Plan and may decide on its adaptation as necessary. The Commission will issue a further report towards the end of the five years period and on this basis, decisions may be taken on the next step in the development of bilateral relations, including the possibility of new contractual links.

The reform of the judicial system, as regards the criminal justice sector, was significantly advanced but achieving full and effective independence of the judiciary remains a crucial objective. The organization of the judiciary was remodelled and put it in line with systems in other European countries and a technical upgrading of the courts was made. The implementation of the national strategy for criminal law reform, approved in 2005, continued during the reporting period. The strategy is to be fully implemented by 2010. To further strengthen the independence of the judiciary, the Parliament adopted a law on the rules of communication with judges of general courts in July 2007, regulating ex-parte communication of a judge. It also obliges judges to report immediately to the High Council of Justice on any attempt to influence the court. The High Council of Justice was reformed in June 2007, by removing it from under the President’s responsibility and integrating it fully into the judiciary. The latter body has also authority over the judicial appointment process. Progress was made in 2007 in the area of trade and economic integration. Negotiations on this aspect were prepared during 2007 and launched in February 2008 after the conclusion of Ukraine’s WTO accession process. Feasibility studies exploring the possibility of free trade agreements with Georgia were launched. ENP partners made limited progress on sanitary and phyto-sanitary (SPS) issues. Georgia, although endorsing key legislation, decided to delay food safety controls until the end of 2009. As regards co-operation in the field of public internal financial control (PIFC) in the framework of public finance management, reform efforts are in the early stages of development in Georgia. Overall, ENP partner countries have taken further measures towards producing reliable statistics and improving national statistical systems. Most ENP countries receive EU assistance in this field. Georgia, however, has not yet adopted the relevant legislation and suffers from a lack of administrative capacity. With regard to the fight against organized crime, all partner countries have signed the UN Convention against Trans-national Organized Crime. Georgia signed and ratified the Third Protocol on Firearms. With regard to the fight against drugs, partner countries further pursued the implementation of 1988 UN Convention against Illicit Traffic in Narcotic and Psychotropic Substances by establishing designated national authorities with a view to tackling the drugs phenomenon through both preventative and punitive measures. New national drug strategy was adopted in Georgia. With regard to judicial reform, work continued on the adoption of new legislation to enhance the capacity and efficiency of the judiciary. In this regard, particular attention was paid

to improving judicial independence, effectiveness and impartiality. Initial steps were taken to put in place national programs for the continuing training of judges and prosecutors in several partner countries and to improve selection and appointment procedures. Georgia also ratified the Council of Europe's Criminal Law Convention on Corruption. With regard to civil service and public administration reform also initial steps were taken to build a professional and accountable civil service, by promoting unified legislation including a code of ethics for civil servants and by strengthening qualifications through training and promotion of sector reforms. In the aviation sector, negotiations with the Commission services on a horizontal air transport agreement have either been finalized or at least started by most ENP partner countries. Georgia remains eligible candidates for such neighborhood aviation agreements. Partner countries pay particular attention to maritime safety standards; however, Georgia remains on the black list of the Paris Memorandum of Understanding on port state control. We continue strengthening policy frameworks in adopting energy strategy documents by developing domestic and international energy networks, reinforcing the EU's, candidate countries' and ENP partners' energy security. In 2007, commercial oil flows through the Baku-Tbilisi-Ceyhan (Turkey) pipeline commenced; the Baku-Tbilisi-Erzurum (Turkey) transit gas pipeline was commissioned. The South Caucasian partners cooperated in an EC study for a Trans-Caspian/Black Sea energy corridor. Azerbaijan, Georgia and Ukraine agreed with Lithuania and Poland to work jointly on the extension of the Odessa-Brody oil pipeline to Gdansk in Poland. Following its application, Georgia was granted observer status by the ministerial meeting of the Energy Community in December 2007. Most partner countries have updated their national strategies for the development of the Information Society, often focusing on the promotion of online services and increasing the use of internet by broadband deployment. Most partner countries have established such regulatory agencies and are making progress in the adoption of a regulatory framework based on the principles of the EU framework. The mobile telephony market is now liberalized in all of the neighboring countries and steps to open up the fixed telephony market has been also taken by Georgia. Georgia has not ratified either the Council of Europe Convention on Trans-frontier Television or the UNESCO Convention on Cultural Diversity.

We took steps to review our overall environment strategies and action plans and adopted amendments to our framework legislation. Some progress can be noted in the adoption and implementation of issue-specific legislation. Subjects of new legislation in preparation include water in Georgia. Partner countries are also participating in activities under the EU Water Initiative, including the Joint Process set up regarding the EU Water Initiative and the Water Framework Directive as well as national policy dialogues. Regional Environment Centers covering Armenia, Azerbaijan, Georgia and the Republic of Moldova promote co-operation between various stakeholders, including with neighboring countries.

Georgia is a formal signatory to the Bologna Declaration. The 1999 Bologna Declaration of June 1999, signed by 29 European Ministers of Higher Education, foresees the establishment of a European Higher Education Area by 2010. The Bologna Process aims to put in motion the reforms necessary for its creation, namely: the introduction of a three cycle system (bachelor/master/doctorate), quality assurance and mobility and recognition of qualifications and periods of study. Georgia joined the Bologna Process at the Bergen Conference in May 2005.

As regards cooperation in the area of culture, all partner countries except Israel have ratified or confirmed their intention to sign and ratify the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, providing the basis for enhanced cultural cooperation and policy dialogue. In the framework of the Kyiv Initiative, Armenia, Azerbaijan, Georgia, the Republic of Moldova and Ukraine began preliminary work with the Council of Europe on a framework for regional co-operation in the culture industries (cultural and viniculture tourism) and the rehabilitation of urban cultural heritage.

Promoting stability, good governance and economic development in Georgia is of strategic importance for us. In line with the Commission communication of 3 December 2008, the European Council welcomes the establishment of an ambitious Eastern Partnership and adopts the Declaration annexed to these conclusions. It calls for all necessary preparations to be made for the Eastern Partnership launching summit with the partner countries on 7 May 2009. The Eastern Partnership will promote stability and prosperity among the EU's Eastern partners covered by the European Neighborhood Policy. The European Council commits, on the terms set out in the declaration, to a deeper bilateral engagement and to a new multilateral framework involving the EU, Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine, aiming at accelerating reforms, legislative approximation and further economic integration.

The process of harmonization is not over. Approximation of Georgian legislation with the legislation of the European Union should continue. The unsettled problems with Abkhazia and South Ossetia put an obstacle in our path. Implementation of the Action Plan would help Georgia approximate standards with EU. It is closely connected also with our integration in NATO. NATO's Action Plan is identical to the European Neighbourhood Policy. The rule of law, democratic principles, stability and economic reforms are those main criterions that should evaluate the nation that wants to build a legal state.

List of applied literature:

1. Partnership and Cooperation Agreement between Georgia and Eu (1996)
2. Tacis – 10 years of cooperation
3. Cooperation Report 2003
4. Cooperation Report 2005
5. Cooperation Report 2007
6. European Neighbourhood Policy – strategy paper
7. Labour Law Reform in Georgia and EU Standards, *Anna Loria/Maik S. Masbaum* – Georgian Law Review
8. Implementation of the National Programme for Harmonization of the Georgian Legislation with that of the EU – David Kereselidze, Georgian Law Review, 9/2006-3/4

The Harmonization of the Georgian legislation with the Legislation of the European Union

Annotation

Ana Mikeldze

*Tbilisi State University
Student of the third course of the faculty of Law*

Instructor: Natia Chitashvili, MA

After the restoration of independence of Georgia on 9 April 1991 the new democratic government set a course for NATO and the EU, which at the same time meant bringing Georgian legislation into line with the legislation of the European Union. Approximation of Georgian legislation with the legislation of the European Union is an indispensable condition for becoming closer friend of EU. In the article I will discuss the opportunities and the stages of the National Program of the Harmonization of the Georgian Legislation with that of the European Union in every sector out of 13. I presume for such a little country as Georgia it is of vital interest to have a strong ally like NATO or EU, this is the reason why I suggest that our legislation must be harmonized with that of the EU. It is the most logical way to develop as a country, to build a legal state and integrate with European community.

FREEDOM OF INFORMATION AND THE WAYS OF IMPROVING THE ACCESSIBILITY TO PUBLIC INFORMATION

Tamar Kharazishvili

Caucasus University

Student of the second course of the School of Law

Instructor: LLM Levan Mosakhlshvili

1. Introduction

„For society to work, it must be informed adequately. Consequently, a society that is not well informed is not a society that is truly free.“¹ The exercise of a right to access to official documents helps the public to form an opinion on the state of society and on public authorities.² It is not disputed any more that democratic states cannot exist without freedom of expression and accessibility to public information. The world enters the new era of unprecedented transparency of public agencies. Furthermore, the right to seek, receive, create, keep and impart information or idea of any kind is the integral part of freedom of expression.³

In 1999 Georgia adopted The General Administrative Code of Georgia, III chapter of which dedicates to freedom of information. It contains the most progressive norms, but the realization of this legislation raises great problems and obstacles. Some of them are as followed: where the bound between public and closed information is, on which bases may the transparency of information be limited; how can be avoided the unlawful infringement by public authorities regarding the accessibility to public information; Protection of personal data remains a problematic issue as well. None of the above-mentioned issues would be researched here. The main purpose of this research is to show the ways of ensuring the accessibility to public information, how it is guaranteed by the existing legislation that the interested person receives the information on demand and without obstacles, who is responsible for releasing the public information from public agencies and are there any means in legislation to make this person liable for his (her) wrongdoings.

Several research methods are used in this theme such as empirical, doctrinal methods. Analysis of legislation, interview with practicing lawyers, also materials such as court precedents at international as well as at national level, also the researches and accounts of non-governmental organizations (Gyla for example) are broadly used here.

As for the structure of my research, first of all, I shall refer to freedom of information as the fundamental human right, the court interpretation of this right, legal regulation at international and national levels. After this general reference, the more precise issue will be considered: the reality of Georgia in regard with freedom of information and the ways of improving the accessibility to public information.

a. Freedom of information – the fundamental human right

Until the recent years, freedom of information wasn't considered to be the fundamental and indivisible human right. In 2006 the European Court of Human Rights as well as the Inter American Court gave the freedom of expression one more interpretation - freedom of information. The considered cases are of the greatest importance in this regard.

The European Court on Human Rights acknowledges both “the right of public to be adequately informed” and “the right to receive information” several times. The court declared unanimously that “public is entitled to receive information through journalists on the issues of public interest.” However, in none of the cases was the

1 Inter-American Court for Human Rights – Claude Reyes and others vs. Chile, 2006, available at <http://www.corteidh.or.cr/casos.cfm?idcaso=245>.

2 Draft Convention of the Council of Europe on Access to Official Documents and Draft Explanatory Report.

3 Georgian law on „freedom of speech and expression“, Parliament of Georgia, 24 June, 2004, article 3, paragraph 2.

right to receive information ensured by Article 10 of the Convention defined as the state's positive obligation to publicize the information.

In the case "Sdruzheni Iocheske Matki vs. Czech Republic" the court in its judgment interpreted the right rather innovatively and extended the scope of Article 10 of the Convention: "The right to get acquainted with administrative documents might be restricted only in cases stipulated by Article 10 (2), the denial is acceptable if it is envisaged by law, there is a corresponding legitimate ground and is necessary in a democratic society". The case is an important precedent, since it proves that violations of freedom of information principles are equated with violations of human rights and correspondingly, it is possible to apply to the European Court.

On October 11, 2006, the Inter-American Court recognized the right to accessibility of public information kept in the state agencies (Claude Reyes and others vs. Chile).¹ Inter-American Court ruled:

the State's actions should be governed by the principles of disclosure and transparency in public administration that enable all persons subject to its jurisdiction to exercise the democratic control of those actions, and so that they can question, investigate and consider whether public functions are being performed adequately. Access to State-held information of public interest can permit participation in public administration through the social control that can be exercised through such access.

The two abovementioned cases represent the most important precedents at international level with regard to the accessibility to public information. According to these cases freedom of expression has included freedom of information, whereas the later one has included the freedom of administrative documents.

b. freedom of information in international law

Freedom of information is guaranteed by plethora of international acts. As to the exact reading of the text, International law discusses freedom of information in the context of freedom of expression; however, it is quite rare to separate it as an independent right. The most relevant international acts protecting freedom of expression and therefore, freedom of information, are as followed:

Article 19 of the **Universal Declaration of Human Rights** provides: „Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.“ The same principle is shared by Article 19 of the **International Covenant on Civil and Political Rights**, which envisages restriction of freedom of information only in exceptional cases and circumstances provided by law.²

Article 10 of the **European Convention of Human Rights** stipulates: „Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers. “

The **Committee of Ministers of the European Council** elaborated the **Recommendation (2002)** Document on freedom of information for the State Parties. The recommendation provides that transparency of public administration and availability of information on issues of public interest are important in a democratic, pluralistic society. The Recommendation provide: „Public authorities should commit themselves to conducting an active communication policy, with the aim of making available to the public any information which is deemed useful in a transparent democratic society.“

The European Council has been working on elaboration of the **Convention on Accessibility to Official Documents**. The draft of the Convention is under preparation and various NGOs are actively involved in the process. Upon ratification, it will be the first binding document regulating publicity and will set the international transparency standards for public agencies.

c. freedom of information at national level

The freedom of information and transparency of public agencies were initially recognized by the **1995 Constitution of Georgia**.

Article 24 of the Constitution:

„Everyone has the right to freely receive and impart information, to express and impart his/her opinion

1 Claude Reyes and others vs. Chile. The circumstances of the case were the following: in 1998, three environmental activists requested information about the suspicious transport of timber; however they received neither information nor response.

2 The ground for such restriction might be- respect of the rights or reputations of others;- protection of national security or of public order or of public health or morals

orally, in writing or by other means. “

Article 41 of the Constitution:

„Every citizen of Georgia shall have the right to become acquainted in accordance with a procedure prescribed by law, with the information about him/her stored in state institutions as well as official documents exiting there unless they contain state, professional or commercial secret.“

Moreover, in its judgment of June 15, 2005 in regard to the case “The Georgian Young Lawyers’ Association and Rusudan Tabatadze vs. The Parliament of Georgia” the Constitutional Court made progressive explanations about freedom of information restrictions. The Court ruled that the restriction of freedom of information by state authorities should be subject to individual scrutiny in each specific case. The judgment provides: “Article 10 of the European Convention of Human Rights protects acquiring, processing and dissemination of public information. According to the Article, the person is entitled to receive ideas and data from the generally available sources, without state interference. The Constitution of Georgia contains more guarantees of freedom of information and imposes not only the negative obligation not to deter persons in receiving public information, but also the positive obligation –to impart public information stored in public agencies. The Constitution of Georgia imposes restrictions only in case the requested information contains the state, professional and commercial secret. ”

Ensuring these constitutional rights, the freedom of information chapter of the General Administrative Code was adopted on June 25th, 1999. As a result: All official documents – e.g. charts, models, plans, diagrams, photographs, electronic information, and video and audio records – that is, information held by a public agency or received, processed, created, or sent by a public agency or a public servant in connection with official activities, became public.³

„Article 19 – the global campaign for free expression“ states in its report „The Status of Freedom of Information in Armenia, Azerbaijan and Georgia“ that Georgia is a leader in the South Caucasus in regard to the implementation of freedom of information: Georgia was a country which established leading standards in the south Caucasus. In 1999, it was the first to adopt quite a progressive freedom of information act.⁴

2. Ensuring the accessibility to public information. Real problems and obstacles in Georgia;

Every public agency is obliged to appoint a public employee responsible for ensuring the accessibility to public information.⁵ Here it will be useful to identify what the public agency is: According to article 27 of General Administrative Code of Georgia, public agency is every administrative body, including the private legal person which gets the finance from the state or local budget within the scope of such financing. Even though, the insurance of accessibility to public information is guaranteed at legislation level, this only norm regarding the institution of FOI agent (person who is responsible for releasing the public information from public agencies) isn’t sufficient. This person’s activities should be guaranteed. A lot of problems and obstacles exist in this regard in Georgia. I will try to identify a number of them, which, I consider, are of great importance:

a. non-existence of separate, independent human resource for a person responsible to release public information;

As to the reality, the FOI officers hold two offices at the same time at public agencies. While working for one post, subsequently they are appointed for the job of FOI officer by the normative act of particular public agency leader. Consequently, they cannot perform the whole work for the both post, or even if they do so, their activities are completely ineffectual. The establishment of separate, independent human recourse in each public agency for a person responsible to release public information will be the real way out of the abovementioned problem. As a result, the requested information will be released timely.

For further improvement of FOI officer institute effectiveness, the following amendment will be reasonable: the particular department should be established within the Ministry of Justice, which will be responsible

3 The General Administrative Code of Georgia, article 2, paragraph 1 (l).

4 The report on freedom of information condition in “Armenia, Azerbaijan and Georgia;” Global campaign for free expression 15/04/2005.

5 General Administrative Code of Georgia, article 36.

for appointing FOI officers in every public agency. The main sense of such amendment is that the FOI officers will be responsible just before the Ministry of Justice; therefore they would not come under the influence of the particular public agency management.

The later recommendation refers to further implementation. As for the nearest future, it is of greatest importance that the independent human resource of FOI officers be established in public agencies. The inner bylaw of public agencies should contain such amendment. The scope of authority of FOI officer should also be considered by these bylaws.

Non-existence of public registers and databases in public agencies;

The general Administrative Code of Georgia obliges the public agencies to make the public registers where the whole public information is combined. The public registers and public databases ensure the effectiveness for releasing public information, even though the requested information isn't ready. It is very problematic that such registers and databases don't exist at all or they aren't modified and added by new information. This problem becomes more sensitive whereas 40th article of General Administrative Code of Georgia obliges the public agencies to release the requested public information immediately or in exceptional cases, envisaged by law, within no more than 10 days if responding to a request for public information requires:

- a. The acquisition of information from its subdivision that operates in another area, or from another public agency, or processing of such information
- b. The acquisition and processing of separate and large documents that are not interrelated or
- c. Consultation with its subdivision that operates in another area, or with another public agency.

b. the impunity of public employees for not giving the public information to FOI officer;

The FOI officers often have to address the other public employees who possess the requested public information. This is the practical way of receiving information whereas there don't exist the public registers and public databases. In the case if the public employees don't perform the request or perform inadequately, they will not become responsible for such wrongdoings. According to the existing legislation, the liability for non-fulfillment of public employee job in public agencies would be imposed by Georgian law on „Public Service“. In practice no one is punished for such wrongdoings.

The way out from this problem is the following: the public employees' non-fulfillment or unreasonable fulfillment of the request of FOI officer to transfer the necessary public information to him (her) will be considered non-fulfillment of public service for them. Consequently, such wrongdoing should be deemed as an administrative offence and the precise norm, regarding the liability, should be considered by the Administrative Code of Offences of Georgia. Thus, one more way for ensuring the accessibility to public information would be created.

c. non-existence of precise norm as to the legal responsibility of FOI officer;

Despite the fact that the General Administrative Code of Georgia gives the interested person the right to appeal the unlawful act of the administrative body or its employee, this mechanism cannot be considered to be effective. The reason for such ineffectiveness is non-existence of the precise norm regarding the administrative liability of the person responsible for releasing the public information (FOI officer). The way out from such legislative gap is Georgian law on Public Service, article 78, by which disciplinary liability stands in cases when he (she):

- a. intentionally will not fulfill his (her) public services;
- b. Will not fulfill the obligations completely and properly;
- c. Will cause financial damage for the public agency (when, for example, FOI agent didn't release the public information unlawfully and the public agency lost the case in this regard).

The forms of disciplinary liability are as followed: rebuke, reprimand, to relieve from the post for not more than 10 work days, to relieve from the post. Here, it is noteworthy, that just one disciplinary form of liability can be used for one disciplinary offence.

The liability for infringement the requirement of freedom of information is also guaranteed by Criminal Code of Georgia. Criminal liability stands for the following acts or omissions:

- a. Putting the obstacles in somebody's way to use his (her) right to freedom of expression, to receive or impart information within the scope of existing legislation; the same act done with the usage of post authority.
- b. Unlawfully refusing a person to get acquainted with his (her) personal information, official documents, information directly effecting his (her) rights and freedoms, or to give these kind of information incompletely or improperly, or to set other obstacles to get acquainted with public information.

The significant damage is necessary to occur for considering the mentioned acts to be crime. Furthermore, the person should commit these acts intentionally in order to become criminally liable.

Finally, it should be admitted, that criminal liability is the last mean and is less effective, because the value of information is determined by the fact when it is timely received and imparted. Therefore, a more effective measure should be adopted in legislation in order to deal with this problem.

Court precedents regarding the liability of FOI officers

There is almost none case regarding the imposition liability on FOI officers. Even though the liability of this person can be imposed by the conformable articles of the Georgian law on Public Services, as well as by employment legislation, non-existence of precise norm regarding the liability excludes the punishment of FOI officers.

There has been one case in which the claim for imposing disciplinary responsibility on freedom of information officer was satisfied. This was **Union Liberty and Justice vs. Security Ministry**. The applicant, requesting public information, asked that disciplinary responsibility be imposed on the freedom of information officer pursuant to articles 78 and 79 of the Georgian Law on Public Service.

The court didn't accept the claim of the applicant, rejecting the request as „not justified“. But the court did not justify its judgment. Instead, it transmitted a particularly dangerous attitude: that the disclosure of public information is of little value to public agencies, and that public officials who violate it are above the law.¹

As the analysis of legislation and court practice has shown the violation of requirements of the General Administrative Code of Georgia is not considered as an administrative offence. This means the following: the guarantees of protecting freedom of information in Georgia are very weak. Amendments must be introduced to the Administrative Code of Offences of Georgia. Violation of the Chapter III of the General Administrative Code should be considered as administrative offence and the offender should become liable on the omission.²

1. Recommendations regarding the insurance of accessibility to public information;

✓ Inner normative act of a public agency should establish separate, independent human resource in each public agency for a person responsible to release public information. This person will perform only the job regarding the post of FOI officer. The mentioned act should also clarify the scope of activities and authority of him (her);

✓ For the further improvement of this system, it will be reasonable to establish a special department in Ministry of Justice which will be responsible to point FOI agents in each public agency. Consequently, the degree of independence of FOI officers will be increased and they won't come under the influence or duress of that particular public agency;

✓ Be established the public registers and public databases. They must be systematized in computer programs. Thus, the requesting information will be released without the bureaucratic steps.

✓ The public employees' non-fulfillment or unreasonable fulfillment of the request of FOI officer regarding the transferring the necessary public information to him (her) will be considered as non-fulfillment of public service. Consequently, such wrongdoing should be deemed as an administrative offence and the precise norm, regarding the liability, should be considered by the Administrative Code of Offences of Georgia.

✓ The Administrative Code of Offences should also consider the scope of liability of FOI officers. The precise norm should, therefore, enter into the Code.

¹ Analysis of court practice, freedom of information, part II, Tamar Gurchiani, Tbilisi 2005, page 23.

² Georgia Young Lawyers Association, Freedom of information in Georgia, Tbilisi 2007, page 15.

2. Conclusion

As a conclusion, it should be noted what was the purpose of this research. Problems regarding the freedom of information are very sensational nowadays in Georgia. Have also seen, the freedom of information is recognized as a fundamental human right by European Court of Human Rights and Inter-American Court. The international as well as the national legislation guarantee the right to receive the information. The freedom to receive public information is considered in the context of freedom of expression. The chapter III of the General Administrative Code of Georgia regarding freedom of information is a greatest achievement of Georgian people.

Though freedom of information is guaranteed at legislation level, plethora of problems and obstacles exist in practice. The research devoted the problems regarding the insurance the accessibility to public information. The recommendations are given as how to solve the problems after the identification of them. The recommendations were elaborated as to the further improvement of the system which provides the accessibility to public information. As the institute of FOI officer is of great importance in this regard, the most of recommendations refer the further improvement of this institute.

List of the applied literature:

Legislation of Georgia

1. Constitution of Georgia;
2. General Administrative Code of Georgia;
3. Administrative Code of offences of Georgia;
4. Criminal Code of Georgia;
5. Georgian law on „freedom of speech and expression“;
6. Georgian law on „Public Service“.

International legislation

1. Universal Declaration on Human Rights - 1948;
2. International Covenant on Civil and Political Rights – 1966;
3. European Convention on Human Rights and Fundamental Freedoms – 1950;
4. The Recommendation on freedom of information for the State Parties, The Committee of Ministers of the European Council, 2002;
5. Draft Convention on Access to Official Documents and Draft Explanatory Report, the Council of Europe.

Court precedents

1. „The Georgian Young Lawyers’ Association and Rusudan Tabatadze vs. The Parliament of Georgia“, the Constitutional Court of Georgia, 2006, July 14;
2. Union Liberty and Justice vs. Security Ministry, Vake-SabuTalo regional court, 2004, May 10;
3. “Sdruzheni Iocheske Matki vs. Czech Republic”, European Court of Human Rights, 2006, July 10;
4. Claude Reyes and others vs. Chile, Inter American Court of Human Rights, 2006, October 11.

Researches, accounts, books

1. Comments on the General Administrative Code of Georgia, Merab Adeishvili, Gerd Vinteri, Dimitri Qitoshvili, Tbilisi 2002;
2. Analysis of court practice, freedom of information, part II, Tamar Gurchiani, Tbilisi 2005;
3. Georgia Young Lawyers Association, Freedom of information in Georgia, Tbilisi 2007;
4. The report on freedom of information condition in “Armenia, Azerbaijan and Georgia;” Global campaign for free expression 15/04/2005.

Web sources

1. Official web site – freedom of information – Georgian young Lawyers’ association, www.gyla.ge/foi;
2. Gyla, freedom of information, Training Materials http://www.gyla.ge/foi/doc_upload/freedom_info/2.%20treningis%20masalebi.pdf ;
3. Claude Reyes and others vs. Chile, the Spanish original version available at <http://www.corteidh.or.cr/casos.cfm?idcaso=245> .

Freedom of information and the ways of improving the accessibility to public information

Annotation

Tamar Kharazishvili

Caucasus University

Student of the second course of the School of Law

Instructor: LLM Levan Mosakhlidze

“For society to work, it must be informed adequately. Consequently, a society that is not well informed is not a society that is truly free.”

The right to receive the public information from the public agencies is guaranteed at international level as well as at the national level.

The international conventions, such as Universal Declaration Of human Rights, International Covenant on Civil and Political rights, and European Conventions on Human Rights stipulate that everyone has the right to freedom of expression. This right shall include freedom to hold opinions and *to receive* and impart information and ideas ***without interference by public authority and regardless of frontiers.***

ECHR in the case “Sdruzheni Iocheske Matki vs. Czech Republic”, as well as the Inter-American Court in Claude Reyes and others vs. Chile interpreted the right to freedom of expression rather innovatively and extended the scope of this freedom to the people’s right to get acquainted with administrative documents.

The right to the access to public information is also enshrined at national level in the Constitution of Georgia and in the General Administrative Code of Georgia.

Despite of the progressive norms in our legislation, a number of legislative gaps exist in connection with providing the access to public information.

Even though the General Administrative Code of Georgia obliges public agencies to release requested information immediately the requirement is not observed even when the information concerned has already been processed and is kept in public agency, or is a normative act of the public agency.

Certain obstacles exist and the aim of my research is to identify the problems regarding to the process of releasing the public information by the public agencies and, consequently, try to show the ways of working out the problems.

TRAFFICKING – 21ST CENTURY ACTUAL PROBLEM

Nino Nikolaishvili

Caucasus University

Student of the second course of the faculty of Law

Instructor: Prof. Z. Rogava

1. Introduction

It is proved by historic sources and research activities that initially human traffic was a typical phenomenon for slave-holding states, which passed a historic way of development and found a wide-spread occurrence not only in Georgia, but in many countries of the world of feudal age. It also occurred in the continents of America and Europe, but on a special scale in Asian countries, particularly – in a Moslem world.

Canon law fought against slave-trading, particularly, according to “Catholico’s laws” it was strictly prohibited to buy slaves. Slave-trade was a frequent occurrence for the world of those times, without distinction of territories, sex, nationality and confession.

The term – trafficking, derived from the word “traffic” (transportation, movement) – means sale of prohibited articles (trafficking), contraband. During the time this common term comparatively narrowed and gained a meaning of illicit trafficking in persons.¹

As we have already realized, trafficking in persons has not appeared in our time. However, trafficking is one of the most significant problems for a modern world in the 21st century. By character of risks, scale of spreading and number of illegal methods it takes the third place after traffic in arms and drugs, however, by latest information of researcher-criminologists, trafficking shifted to the second place. Profit of criminal sector of the mentioned field runs up to 5-7 million dollars a year on a global scale, and in some years it amounted to 9.5 billion.² Hence, I regard as important to examine this problem, to review its legal nature and legal control, to define gaps, which are in Criminal Code of Georgia as regards trafficking in persons, to show how much Georgia is facing the risk of trafficking and to draw a parallel between legislations of other countries by means of comparative analysis.

2. Legal control of trafficking

2.1 International legislation

Trafficking is one of the most severe evince of human rights violation. Human Fundamental Right means to be free from slavery that is recognized according to the Convention for Protection of Human Rights and Fundamental Freedom as well as by Universal Declaration of Human Rights³, exactly that principal value, which is violated along with other human rights in case of trafficking. The phenomenon, called slavery⁴ of the 21st century is not only a single grave crime, but indelibly “labels” any person, who becomes a victim of the crime, by its nature and due to the social results.

Palermo protocol is an international legal regulation, which touches on trafficking criminal nature and mechanisms of victims’ rights protection, was accepted in 2000 in Italian city of Palermo. This is a protocol of United Nations – “Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and

1 Trafficking of Migrants, IOM Policy and Responses.4-5 (1999)

2 S. Stoker, Organized crime as a growth factor of trafficking in persons – organized crime and corruption 58 (2000)

3 Council of Europe Doc. ETS NO.005, The Convention for the Protection of Human rights and Fundamental Freedoms, art 4 (1950); UN Doc. GA Res. 217A (III), Universal Declaration of Human Rights, art.3, 4 (1948); UN Doc. GA Res. 2200A (XXI) International Covenant on Civil and Political Rights art. 8, 9 (1966)

4 N. Bakakuri, N. Meskhi, trafficking – white slavery in the twenty-first century – legal and practical aspects of actions against trafficking, publication of Central Europe and Eurasia legal initiative of US lawyers’ association (2006)

Children”!

On June 7, 2006, Georgian Parliament ratified the abovementioned protocol of UN Convention against transnational organized crime. Adoption of the protocol was stimulated by circumstances that in spite of existing international forms and legislative enactments of humans’, especially women’s and children’s exploitation punishment, there is no universal document, which includes all aspects of trafficking in persons, and non-existence of such documents hampers effective protection of possible trafficking victims. Aims of the protocol are the following: a) prevention of trafficking in persons, especially women and children. b) Assistance and protection of people (victims), suffered from trafficking, taking into account human rights. c) Assistance amongst member-states to achieve these aims.⁵

The protocol, adopted by the United Nations Organization, includes definition of “trafficking” conception. It also includes forms of exploitation. The protocol considers some actions, which commit member-countries to assist and protect victims of trafficking.

The second important legislative document, which concerns the topic, considered by us, is Convention on Action against Trafficking, accepted by Council of Europe, which was ratified by Georgian Parliament on November 24, 2006. Accordingly, Georgia became a member-state of European Convention.

The purposes of this Convention are: a. to prevent and combat trafficking in human beings, while guaranteeing gender equality b. to protect the human rights of the victims of trafficking, design a comprehensive framework for the protection and assistance of victims and witnesses, while guaranteeing gender equality, as well as to ensure effective investigation and prosecution; c. to promote international cooperation on action against trafficking in human beings.

Under the Convention “trafficking in persons” means «Trafficking in human beings» shall mean the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs⁶

It is notable that Legislation of Georgia against trafficking completely conforms to established standards of the abovementioned international documents.

All international documents are attempts to settle a universal conception, where all possible kinds and forms of transnational exploitation would be expressed, but trafficking in persons is so multifaceted that it is simply impossible to word it in one conception.

2.1 Domestic Legislation

When we talk over the legislation, which regulates the issue of trafficking in persons, there should be noted Law of Georgia on actions against trafficking in persons, adopted by the Parliament of Georgia in 2006. This law determines authorities and obligations of state structures and officials, legal and organizational basis of actions against trafficking; it determines authorities of state structures and officials in actions, aimed at measures against trafficking. It also determines legal position of trafficking victims, security of their social and legal protection.⁷

The order of the President of Georgia of February 1, 2007 – on ratification of unified standards and regulations for identification of trafficking victims is notable. The order (No 23, January 25, 2007) of the President of Georgia - program of actions against trafficking in persons for the years 2007-2008 – is also important. This last includes quite important measures to prevent the crime of trafficking in persons. A

The article of Criminal Code of Georgia about trafficking in persons is also significant. Human personal rights and freedoms, acknowledged by the Constitution, are the objects of legal protection from the crime, as provided by this norm. Person’s life and health is an optional object.

From objective point of view, it can be mostly committed by actions, but it is not improbable that it also

⁵ UN DOC, Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime , RES/25 (2000) art 2

⁶ Council of Europe, Convention on Action against Trafficking, No. 197, (2005) art 4

⁷ Law of Georgia on actions against trafficking in persons (2006) ⁸M. Lekveishvili and others, private part of Criminal Code, book I,211 (2008)

can be committed by inaction (for instance, concealment). The crime is completed after perpetrating one of the actions, listed in the norm and it is not obligatory to give any terrible results. So, we see a crime of formal structure.¹ The given norm includes a lot of imperfections, so I consider it necessary to examine it in details.

An objective point of trafficking in persons is the person's winning over, handing over, transportation, hiding, engaging, and sheltering, by use of different methods. Particularly, by threat, force or other form of violence such as kidnapping, blackmailing, swindling, deception, by abusing of a position of vulnerability or abusing of power, by means of giving or taking some payments, aim of which is to get a consent of the person, who exercises control over other persons, or by receiving it. So, threat, force and use of other methods are intended towards the person's winning over, transportation, hiding, engaging, handing over or sheltering.

Abuse of a position of vulnerability or Abuse of power – in my opinion, there is no need to consider these methods for the given crime as I do not think the case real, when the person, being in a position of vulnerability can win over another person, to meddle in exploitation and he justifies this by his grave financial position, which was provoked because of his vulnerability.

Personally for me it is inconceivable to commit trafficking by means of fraud. Fraud is an infringing activity of misappropriation of somebody's belongings or receiving the title by means of deception; hence, it is inconceivable to commit the abovementioned crime by fraud.

I also suppose groundless to take into consideration in the above-mentioned norms a method of abuse of power. Here we do not imply use of official status that is provided in trafficking aggravating circumstances. The one thing that can be supposed is a force of criminal authority, which criminals use to perpetrate trafficking. Personally I do not agree to this point of view, as for its turn, a criminal force is not legitimate, hence, it is doubtful that a legislator could imply a non-legitimate force in this case.

We have already considered methods of trafficking in persons. But the actions, for realization of which the mentioned methods are turned to, are the following: winning over, transportation, hiding, engaging, handing over, sheltering. As for persons' engaging, the person is engaged as a thing and payment is done to his or her "owner", which has bought him or her as a slave. The payment can also be done to "engaged person", though it is inadequate in comparison with the work, which should be done. Use of this method for trafficking in persons can cause a problem in a court practice, as "inadequate payment" is an evaluative conception, criteria of which are different in different countries and not only in countries, but in different places within the bounds of one country, for example in a capital or regions. Hence, in my opinion, it would be better if the legislation determined an amount of payment.

Also persons' sheltering provokes some misunderstandings. In general, sheltering means "giving refuge".² So in such situations it is incomprehensible how sheltering can be done for a purpose of exploitation. Hence, if someone gives shelter to a person – for example, let us say for a homeless or unemployed person and saved him or her from danger, so we cannot accuse this person of exploitation of other persons', even if he makes this person to do some certain work. If he gives shelter to any homeless, hungry person, his action cannot be considered as infringement. In my opinion, the term "sheltering" needs to be more specified by the legislation.

We also should note that in the disposition of article 143 (1) of Criminal Code the aim of exploitation is not clearly emphasized. In general, characteristic feature of this crime is if it characterizes only acceptance of a person. However, it is obvious that if, for example, a person's winning over is not carried out for the purpose of exploitation, this action cannot be considered as trafficking. Hence, in the court practice it would be better to lay down this article in the following way to avoid any disputes: person's buying, sale, or arranging any illegal deal in respect of him or her, or his or her acceptance for the purpose of exploitation, as well as winning over, transportation, hiding, engaging, handing over committed with force or threat, for the same purpose.

Executor of trafficking is a responsible person, who achieved the age of 14. From the subjective point of view, trafficking in persons is an intentional crime. It is committed with direct intention. There is no significance of a motive for qualification.

Article 143 (2) of Criminal Code protects underage persons from trafficking. In such case an underage person's private law and freedom is an object of legal protection. One of the differences in these two points, which should be considered, is a victim, as at trafficking of underage persons, a victim can be only an underage person, i.e. the person who is under 18. Herewith, it is also notable that in Georgia children, as victims of

1 ⁸M. Lekveishvili and others, private part of Criminal Code, book I,211 (2008)

2 A. Chikobava, explanatory dictionary of Georgian language, section II (1990)

trafficking, according to the statistics of law-enforcement authorities as well as according to the information, provided by the foundation of assistance and protection of victims and persons, suffered from trafficking, fortunately, is an exception in Georgia.

3. Trafficking - a problem for Georgia

Trafficking in Georgia is a component part of illegal labor migration. Because of economic position in the country a wish to work abroad is extremely strong, but there are few legal ways to realize this. Trafficking is a serious problem in Georgia, and it mostly concerns women, which are 86.8% of trafficked migrants.³ Most of them fell a prey and were deceived by illegal advertising agencies, which offer to potential victims to work as babysitters, charladies, nurses, models and other professions. In Georgia there are different officially registered and legal organizations, such as: model agencies, travel agencies, services, providing work abroad, babysitters' services, student exchange program agencies.⁴ However, this does not mean that children and men are not threatened by this danger. Each of us can be a victim of trafficking, both women and men, and children as well.

Georgian society has increasing information about trafficking, but recognition of trafficking as a serious social problem goes on very slowly and encounters cultural obstacles. Associating of trafficking with prostitution and the point of view that victim is personally responsible for his fortune, divides the society.⁵

Greece and Turkey are the countries where trafficking of Georgian people is carried out. Georgia also is a transit country for citizens of central Asia. IOM has also found evidences that victims of trafficking are transported from Armenia to Turkey in passing by Georgia. It means that Georgia is both trafficking transit and delivery country. Georgian citizens mostly become victims of trafficking in Turkey, Greece and Dubai. Georgia, is used by countries of the Middle East and Central Asia as a transit country way to Europe.

To prevent the problem of trafficking in Georgia in our country first of all it is necessary to state the reasons and then to eliminate them. In Georgia, trafficking in persons is mostly provoked by the following reasons:

1. Poverty: standard of life in Georgia, especially in 90s, fell down almost seven times, certainly, nowadays the situation improved in the country and standard of life obviously has risen, though, this is not applied to all families. The problem of poverty, to our regret, still exists that is provoked by unemployment.

2. Massive migration – uncontrol migration of the population from Georgia has occurred in several stages. According to the facts of the population listing, in 1987-2003 it decreased from 5.6 mln to 4.5 mln, i.e. by 25%. Nowadays, population's leaving abroad decreased, though there are a lot of people who cannot be employed in Georgia and find the way out by leaving abroad.

3. Prostitution – prostitution is increasing in Georgia, especially in Tbilisi and in towns boarding Turkey, as a form of organized criminal activity.

4. Homelessness of children – in Georgia a problem of children homelessness really remains serious for the society. Day by day the number of waifs increases, that subsequently urges them on begging, theft and prostitution in future. We should search for the reason, which provokes trafficking in this problem as well.⁶

To show obviously that in Georgia trafficking is really a serious problem we can review facts of trafficking (trafficking in persons), published by General Public Prosecutor's Office and the court practice about the above-mentioned crime.

1. On July 30, 2006 Kakheti regional public prosecutor's office started investigation of criminal case #4306852 on the fact of trafficking in persons committed against G.M. By preliminary investigation of the case it was established the following: On June 20, 2001 in the city of Tbilisi, on the territory of the Market "Navtlughi", Gurchiani Omiko promised a temporary job in Kutaisi to G.M. by deception. G.M. agreed. O. Girchiani took G.M. by deception to his house, located in Upper Abkhazia, village Sakeni of Kodori gorge.

O. Gurchiani locked G.M. in the cattleshed and made him to do daily different types of physical unpaid work, using force and beating that was hazardous to health regularly. After finishing the work O.Gurchiani threw G.M. to the cattleshed again, and gave him a little food. G.M. tried to escape six times, but without any result. O. Gurchiani caught G.M. and returned him back. Exploitation of G.M. lasted for 5 years – from June

3 Hardship Abroad or Hunger at Home: A Study of Irregular Migration from Georgia 12, IOM.(2001)

4 G. Lobzhanidze, some problems of international organized crime 86 (2002)

5 Women for future, trafficking – illicit trafficking in persons; Don't be a slave in the 21st century, newsletter №1, 35

6 G. Glonti, human trafficking in Georgia 129 (2005)

20, 2001 until July, 2006. G.M. was freed in the result of special operation conducted in the Kodori gorge.¹

2. On June 17, 2005, Tbilisi District Court's College of criminal court examined a legal proceeding, instituted against L. Akopiani.

In August, 2004 L. Akopiani, M. Kalibegashvili, Sh.B. Kyzym and N.A. Kyzym set up a well-organized group for the purpose of material gains and decided to sale underage children. Court college established a procedural agreement, made between Akopian and Kakheti Regional Public Prosecutor's Deputy.

L. Akopiani was found guilty according to Criminal Code of Georgia, article 143², part 2, subparagraphs "A", "C" and "G", part 3, subparagraph "A", article 362, part one and was condemned to 5 (five) years of imprisonment that according to articles 63, 64 was considered as conditional, with casting 5 (five) years of probationary period.

Sentencing decision was without the right of appeal and enured from the moment of publication.

3. Case of the citizen of Uzbekistan

On February 26, 2008 Georgian Ombudsman was addressed by petition (No 065808) of the citizen of Uzbekistan, D.N. according to her, while being in the city of Andijan, a friend of her family, by name Jamila, offered her a well-paid job in Georgia. In Tbilisi Airport she was met by a man, by name Musa (as it became known later, he was a director of the hotel "Ildiz", located in the city Khopa). By deception they transported D.N. to Turkey with a forged passport of a citizen of Kirgizia and made her to prostitute in the hotel. As an applicant notes, she was taken away both passports, her real passport as well as forged passport of the citizen of Kirgizia. She was regularly assaulted, they made her to give them money, received from clients. She could escape to Trabzon after about six months of being there, where she found shelter at her friend's place. D.N. was arrested two months later. She phoned Jamila and told her about arrest. Jamila sent her own passport of Uzbekistan by bus, but there was no stamp of passing the board of Georgia. The mentioned fact became a reason of her arrest in Georgia on February 21, 2007.

In spite of the fact that trafficking is a great problem for Georgia as well as for many countries of the world (that is also proved by examples, given above), it is important to consider steps, which will help the state to eliminate the problem.

In due time, state department of the USA carried out a monitoring, according to which Georgia was entered into the list of the countries, which nihilistically look at the created situation. In 2003 concerning the issue of trafficking in persons it was published the third annual report, and Georgia has passed to the countries of the third group. That's why Georgia faced a danger that it would be imposed some sanctions, beside this, there was an issue of losing non-humanitarian aid. In September, 2003 Georgia took some certain steps from the point of view to settle the issue of trafficking in persons. And in the special report of 2007 and 2008 of the USA Department of State about trafficking in persons (trafficking)², Georgia was given a high appreciation, particularly, it was moved to the first basket³, where she joined a group of democratic countries of Western Europe.

Effective investigation of facts of trafficking in persons in Georgia and lawful prosecuting of guiltyies and at the same time, improvement of the quality of Georgian citizen's passport provoked reduction of transit function of Georgia.

During 2008, investigation of 14 criminal cases started (in 2006 – 27 cases, and in 2007 – 9 cases). From these cases, investigation of about 8 cases of sexual exploitation is carried out. 10 of 14 of started investigations touch on trafficking beyond Georgia, and 4, supposedly - committed in Georgia. In started investigations 19 victims are assigned. In 2008, 10 persons were accused of trafficking in persons (trafficking) (in 2006 because of crime commission 19 persons were criminated, and in 2007 – 12 accused). The above-mentioned information really certifies that in the latest period (years) facts of trafficking in persons obviously decreased.⁴

First of all, there should be noted that even in conditions of thoroughly improved legislation, a great significance is attached to a well-planned program measures to solve a problem of many-sided trafficking in persons (trafficking), which are created to the extent possible by a wide circle both of non-government and

1 [http://www.pog.gov.ge/upload/Pog_gov_ge_2006_Traffiking.Apr-Dec.06.GEO_5009.pdf\(26.02.09\)](http://www.pog.gov.ge/upload/Pog_gov_ge_2006_Traffiking.Apr-Dec.06.GEO_5009.pdf(26.02.09))

2 Trafficking in Persons Report, June 2007, United States of America, Department of State, available online at: <http://www.state.gov/g/tip/rls/tiprpt/2007/index.htm> (25.02.09)

3 See the dynamics of development: 2001 – second basket, 2002 – second basket, 2003 – second basket, 2004 – second control basket, 2005 – second basket, 2006 – second basket, 2007 – first basket, 2008 – first basket

4 Information of coordination board about the acting plan of actions against trafficking in 2007-2008 and in the second part of 2008

governmental structures.⁵ When we talk over the measures, which were taken by the government of Georgia against trafficking, it is notable that: on April 28, 2006 the Parliament of Georgia adopted Law on actions against trafficking in persons (trafficking), criminalization of trafficking in persons (trafficking) in the Legislation of Georgia, which was implemented on June 6, 2003 when corresponding amendments were entered in Criminal Code of Georgia, setting up a state foundation of assistance and protection of victims and persons, suffered from trafficking, aim of which is to provide compensation of trafficking victims and finance measures of their protection, assistance and rehabilitation, creation of a shelter to settle victims of trafficking, according to the information, provided by foundation of assistance and protection of victims and persons, suffered from trafficking, since 2006 nineteen persons made use of the shelter of the state foundation,⁶ setting up a permanent coordination board, which will coordinate anti-trafficking measures and governmental structures, coordination between international organizations and local non-government organizations and so on.⁷

Received results and forwarded steps does not mean that nowadays a problem of trafficking is overcome.

4. Comparative analysis

To state how trafficking is legally controlled in other countries of the world it is important to use a method of comparative analysis. Many countries participate in trafficking, some of them are consumers and others – suppliers, and the thirds are transit countries. Unfortunately it cannot be said that legislation of all countries is perfect, hence, it is difficult to fight against this crime.

Let us consider the Legislation of Russian Federation, as one of the greatest supplier-country. A problem of perfection of the Legislation of Russia is closely connected with improvement of the situation in regions. Nowadays, Russian legislation needs some changes. Article 127 of Criminal Code provides responsibility for illegal confinement of persons, article 126 – for persons' kidnapping, article 152 – for trafficking of underage persons and other articles, which touch on similar crimes. But completely they yet cannot cope with a problem of trafficking in persons. For example, if we consider article 126 of Criminal Code of Russia, we can see that a subject is charged with responsibility in case if he or she takes possession of a person secretly, or openly or by means of deception. However, conception of trafficking in persons includes such cases as kidnapping, when the person is not kidnapped. On the contrary, often a future victim agrees to leave the country, though he or she may know that criminal exploitation can be convicted with respect to him or her. Russian law expert criminologists suppose that some amendments should be done to two articles of Criminal Code of Russian Federation, which will provide responsibility directly for persons' winning over and trafficking, i.e. for persons' handing over for the purpose of sale-buying.⁸

The United States of America is a country-acceptor, where from the point of view of anti-trafficking policy, the situation is the best. The main in the Legislation of the USA is “a federal law on white slavery”, which along with many other relations, regulates exploitation conditions. The “act of protection of trafficking and violence victims” adopted in 2000 is also notable, which prohibits trafficking in persons. 20 years of imprisonment is provided for guiltyies, as well as perpetual imprisonment (imprisonment for life) in case if exploitation causes death of a victim.

The United States of America publish annual and periodical reports about the situation in the world from the point of actions against trafficking. It is also notable that American government takes necessary measures with respect to persons who do not satisfy minimal standards of anti-trafficking actions.⁹

Turkey belongs to mixed (transit – consumer) countries. Criminal Code of the country does not provide specific articles for this crime, but some articles can be used against trafficking, they are: dragging into prostitution (article 435), violence (article 436), sexual violence and others, and article 313 concerns an organized crime.

Beside this, under the Passport Code of Turkey, persons who were noticed in trafficking and prostitution

5 Guidelines for the Development and Implementation of a Comprehensive National Anti-Trafficking Response, Prepared by the International Centre for Migration Policy Development, Vienna – Austria, 22 (2006)

6 Statistics, presented by a consolidated fund of defense and assistance to victims of trafficking

7 General office of public prosecutor, department of legal securing, administration of human rights protection; newsletter about trafficking in persons; edition #7; 35 (2006)

8 Repetskaya, A.L. Transnational organized crime, (2001)

9 Widgeon J. Multilateral Co-operation to Combat Trafficking in Migrants and the role of International Organization 58 (1996)

are banned to enter the country.¹

5. Conclusion

In the considered topic it became obvious that trafficking is really the most significant problem of the 21st century for the whole world. Each of us, at any time, can become a victim of this crime. Hence, it is necessary to take more serious measures to eradicate the crime. Forwarded steps and received results do not mean that Georgia is freed from the problem of trafficking. In my opinion, beside those measures, which were taken by the government of Georgia, it is necessary to take the following measures:

1. The state should work out an economic and social policy, which will be directed at elimination of reasons of trafficking, for example, the government should focus on the policy of employment and should try to improve a life standard of the population.

2. The problem of trafficking should be regulated at a state level, and institute of ombudsman should actively participate in this matter. The role of law enforcement agencies and non-government organizations is also very important.

3. Georgia should coordinate more actively with other countries of the world to prevent trafficking in the world with joint efforts, punishment of guilty, protection of trafficking victims.

4. Informing the society about trafficking is also very important. It is necessary to carry out informational, educational and social activities. Trainings, brochures, TV advertisements are necessary to inform the society about trafficking in a proper way.

5. I also suppose that activity of different travel agencies or other employment agencies/companies should be controlled by the Legislation that will significantly decrease the above-mentioned crime. For this it is necessary to carry out registration of these companies and licensing of their activity.

Trafficking in Georgia, as we see, is still actual and needs a nonterminating process of active response of the state and taking important steps, to keep our population from the risk called trafficking, which is the greatest problem in the world in the 21st century.

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TRAFFICKING – 21st century actual problem*Annotation**Nino Nikolaishvili**Caucasus University**Student of the second course of the faculty of Law**Instructor: Prof. Z. Rogava*

Human trafficking is a modern form of slavery. This crime has a deep rooted history. Though, the last everyday occurrences, such as globalization processes between countries, help its development. Some forms of trafficking persist in 21st century. Trafficking violates the idea of basic human rights. The overwhelming majority of those trafficked are women and children. Unfortunately, in spite of governments' efforts the world is still unable to successfully tackle this problem, largely due to the socio-economic problems people face.

In my opinion, researching this phenomenon is very actual and important, for the nature of this crime.

The main thesis of my paper is trafficking, as one of the most severe problems in international community and also in our country, because Georgia is also familiar with this problem. In our country economic instability appears to be the main reason for existing of trafficking. Georgia has been considered a transit, supplier and partly a consumer country. The aim of my paper is to show, that we need to take more active steps in order to prevent trafficking and also to eradicate the gap in Georgian criminal code.

THE AIM OF ADMINISTRATIVE COMPLAINT, AS THE MECHANISM OF RESTORATION OF VIOLATED RIGHTS

Nino Machavariani

Caucasus University

Student of the second course of the faculty of Law

Instructor: Assistant Prof. L. Mosakhlshvili

Introduction

In Georgia, there are many ways of practical realization of human rights and freedoms; one of the examples is administrative code, which was adopted by Georgian parliament.

The aim of administrative code is to protect human rights and freedoms, also supremacy of law and public interests, which itself is executed with statement an administrative complaint. The latter one is important and interesting matter enough. It differs from statement because the aim of administrative complaint is to request the restoration of violated rights, as the aim of statement is to procure this right for appeal, and together they represent substantial element of implementation of human rights.

Administrative complaint is scrutinized by the higher organ of the administrative organ which has promulgated questionable legal-administrative act. And only after this procedure a person can appeal to court. So while appealing, the person is limited to attend directly to court and not to wait for examination the act by administrative organ. This is serious problem enough, because administrative complaint is for realizing human rights and vice versa it somehow limits one's right to appeal the court directly.

It's expedient to discuss generally administrative complaint, the right to appeal, permissibility of complaint, the rule of appeal by administrative organ and comparing with foreign instances.

Administrative Complaint

Administrative Complaint is a demand that is introduced by interested party into plenipotentiary administrative organ for restoring violated rights, for annulment individual administrative-legal act, that was promulgated by the same or lower administrative organ. Also for changing that act, or promulgating new one, executing or refraining from execution such kind of an act, that doesn't imply promulgating individual administrative-legal act. ¹

The right to appeal, administrative-legal act or administrative organ's action, is prerogative of only interested party. This means that, the complaint should inevitably be connected with violated rights.

The activity/inactivity of administrative organ or decision may violate human rights. In such cases, the person has right to appeal. Normative regulation, which is connected to production of appeal, is creating some kind of guarantees in the field of human rights protection. Legal protection of human rights is main function of administrative appeal. The right to appeal gives opportunity to interested person, for protecting his/her rights, to attend administrative organs, which their self are obliged to take measures for defending human rights and freedoms. ²

Admissibility of administrative appeal

The appeal, as the remedy of legal defense, attains its aim if its permissible and well-grounded. ³

At first, the admissibility of complaint is checked, then its substantiation. If it's found out that, the appeal is inadmissible, it's rejected for that reason.

While checking the complaint, there's an important term – to identify by whom the appeal is carried in.

1 Author body, text-book of Administrative Law, Tbilisi 2005. Chapter XII, administrative complaint, pg. 299

2 Author body, text-book of Administrative Law, Tbilisi 2005. Chapter XII, administrative complaint, pg. 300

3 Author body, text-book of Administrative Law, Tbilisi 2005. Chapter XII, administrative complaint, pg. 303

Only interested person has right to appeal for questionable act. It means that a third person, who wasn't damaged by this act, cannot appeal. In another case this appeal won't be permissible.

The appeal is well-grounded, when questionable act contains significant mistake, error. The advisability of an act is checked on the fact of legal procedure on the appeal. It's not recommended to promulgate individual administrative-legal act, if it's admissible on legal point of view, but is questionable according the consideration of practical influence.

While implementing discretionary authority, the proportionality of public and private interests should be protected. For example, according to administrative code's 7th article, while executing discretionary power, it's impossible to promulgate such administrative act, if damages caused to persons legally protected rights and interests are much higher then the goodness, for what this act was promulgated. An act, promulgated during executing such kind of power, shouldn't limit illegally person's interests and rights.¹

It's obligatory, that a complaint should be presented in writing form. The name of administrative organ, where the appeal is brought; the applicants personality; the name of organ whose promulgated act is appealed; the name of appealed act; demand; circumstances, on which the demand is based – this all should be designated in the appeal. If the complaint isn't conformable to demands, determined by law, applicant should be given a time to correct mistakes. The complaint shouldn't be anonymous, in order to prevent anonymous appeals, the applicant should mention his/her personality. If it turned out that the applicant gave false facts about his/her personality, the procedure will be immediately stopped.

It's not obligatory to substantiate the appeal, as administrative organ is obliged to carry out all circumstances and some legal norms about this complaint.

Despite latterly mentioned requisites, there are some terms determined for administrative complaint to be permissive. Administrative appeal isn't scrutinized, if: a) there already is judgment about the same argument; b) there already is discussion about the argument between the same parties; c) there is resolution of higher administrative organ about the same case; d) the appeal was brought by an incapable person; e) the appeal was brought by non-plenipotentiary person; f) the statute of limitations about the appeal has already expired.²

Administrative organ is obliged to give the applicant an opportunity to express his/her opinion, before obtaining decision about rejecting to discuss or receive administrative appeal. Administrative organ makes a decision about receiving appeal or rejecting this appeal during 5 days. Terms determined by law excludes obtaining several decisions that oppose each-other, also competition of decisions, participation of non-plenipotentiary person in discussing the matter, e.t.c.

Dates determined for bringing and scrutinizing appeal

According Georgian legislation, some dates are set up for appealing in administrative organ and appealing in court. By 180th article of administrative code, applicant has 1 month to appeal in administrative organ, after declaration or official acquaintance of administrative act. Activity of administrative organ can be appealed also within 1 month, after interested party was acknowledged about executing this activity or refraining from realizing this action. If something different isn't prescribed by law, the act comes in force at the moment of its acquaintance. It's impossible to appeal an act because of it's non-enforcing, before acquaintance. Permitting appealing an act before its acquaintance would cause some incomprehensibility, interference of higher administrative organ into lower administrative organs competence, rejection of the aim of complaint - to examine control, as it's impossible to realize control before making decision.

Georgian legislation foresees some special methods for acquainting individual administrative-legal act, for example, sending the act to interested party by post, in such case the act comes in force not later then 7 days after sending. Administrative organ is responsible for arguments connected to sending act by post.³

No data for appealing is established if administrative organ violates data for promulgating an act. The Data for appealing may restore, if the violation was done because of some permissive reasons. The decision is made according to the form of individual administrative-legal act, and this act may be appealed in court. From the standpoint of legal stability, it's important to hold the dates thoroughly, if third person's interests are considerable.

1 Z.Adeishvili, G.Vinter, D.Qitoshvili, the comments of Georgian Administrative Code, Tbilisi 2000.

2 Z.Adeishvili, G.Vinter, D.Qitoshvili, the comments of Georgian Administrative Code, Tbilisi 2000.

3 V.Loria, M.Salkhinashvili, "Georgian State and issues of Administrative Law", Tbilisi 2002.

The data for appeal of individual administrative-legal act must start with foreseeing all requisites of that act. The appeal is considered to be brought at the moment of presenting this appeal into higher administrative organ. The violation of date for promulgating an act will be considered as rejection on promulgation this act and it can be appealed with the means of administrative complaint.

The right to appeal obligates the administrative organ to study appeal and report the applicant about the result of his/her complaint. Plenipotentiary administrative organ must discuss and make decision during one month. If applicant brings complaint into non-plenipotentiary administrative organ, the latter one is obliged to send this complaint into plenipotentiary administrative organ. In such case the data for appeal will start at the moment of sending this complaint into plenipotentiary organ and not at the moment of appealing.⁴

According to terms determined by Georgian legislative, if there are such conditions that much more time is needed for discussing the appeal, then it was determined, administrative organ is obliged to make decision about the prolongation of the date. In the decision, the postponed date should be defined exactly. It's not permitted to postpone the date of appeal for uncertain time. If something different isn't prescribed by law, the time for appealing may long for one month. Administrative organ is obliged to make decision during seven days, after starting discussing the complaint and inform interested person immediately. According to this demands of legislation, administrative organ is obliged to study thoroughly the appeal from the date of receiving, determine the complicacy of the case, for not to make decision about prolongation the date of appeal on the last step of scrutinizing the appeal. The operativeness of discussing the appeal shouldn't limit studying the appeal objectively and completely.

The organs that discuss and scrutinize administrative complaint

The administrative complaint is scrutinized and discussed by structurally higher administrative organ, so the appeal is presented on the name of higher administrative organ or higher official. For discussing the appeal objectively, this rule excludes the participation of such person in examination of appeal, who was participating in promulgation or preparation the questionable act. In the case of presenting the appeal, the act is annulled by higher administrative organ.⁵

While scrutinizing the administrative complains, Georgian President has discretional plenipotentiary to appoint independent organ for discussing the appeal.

For discussing the appeal operatively, in some countries, on the first stage, the appeal is discussed by the official, who has promulgated the questionable act. If the complaint is rejected, then it's send to higher or special organ, who itself checks the permissibility of the appeal.

According to Georgian legislation, it's impossible to appeal the decision of independent organ into the higher instance. Administrative complaint isn't permitted also if there is no higher organ of the administrative organ, which has promulgated the administrative act, such organs are: the President of Georgia, National Bank, control chamber, e.t.c. Only in such cases interested party can appeal directly to court, as I have mentioned, there are no higher administrative organs.⁶

In some foreign countries, higher administrative organs are freed from receiving and scrutinizing administrative complaints, for example: in Germany, if higher organ is superior governmental body for federation or land, the decision is made by the administrative organ, which has promulgated the questionable act.⁷

It's also impossible to appeal the decision that was made after appealing into administrative court; it means it's not permitted to appeal for administrative complaint. If in this relationship several parties are participating and after appealing, administrative organ will satisfy the appeal in order to damage another party, the latter one has right to annul this act with the help of court, and not to attend to administrative organ.

It's permitted to bring complaint about the inactivity of administrative organ, and if administrative organ doesn't take measures about already taken appeal, the party has no right to appeal for inactivity in administrative organ in such case, but has right to appeal in the court.⁸

Appealing into administrative organ (Foreign example)

4 Z.Adeishvili, G.Vinter, D.Qitoshvili, the comments of Georgian Administrative Code, Tbilisi 2000.

5 Author body, text-book of Administrative Law, Tbilisi 2005.

6 Z.Adeishvili, G.Vinter, D.Qitoshvili, the comments of Georgian Administrative Code, Tbilisi 2000.

7 http://en.wikipedia.org/wiki/Administrative_law

8 Z.Adeishvili, G.Vinter, D.Qitoshvili, the comments of Georgian Administrative Code, Tbilisi 2000.

In foreign countries legislation has made some barriers in order to prevent unloading of courts. It's about administrative appeal, which requires important preliminary procedure. The main demand is that, if a person wishes to appeal to court, like Georgian legislation, at first he/she has to appeal in administrative organ, which has promulgated that act. After this, if appealing into administrative organ doesn't bring desired result, an interested party has right to attend court. ¹

Some special laws determine that, interested person shouldn't bring appeal in that administrative organ, which has promulgated questionable act, but in structurally higher organ. This is called "Administrative Appellation".

The discussion of an appeal is connected with great expenditures and also with long time. Besides, appealing into administrative organ somehow gives advantage to the latter one, because it gives opportunity to administrative organ to improve mistake immediately. Bringing a lot of appeals gives administrative organ a reason to recheck some normative acts, on basis of which questionable individual administrative-legal act was promulgated, as it may be irrelevant to existing condition, or may cause wrong functioning of public work. ²

Appealing in court (Foreign example)

It's possible that administrative complaint shouldn't be satisfied in administrative organ, in such cases interested party has right to attend court. From 1994 court was given authority to discuss administrative complaints. Decisions made by administrative organ are rechecked in court. It's also possible, that decision made by court be appealed in governmental council of legal administrative board. This procedure requires a lot of time: appealing into administrative organ, then appealing in the court and the last stage is to appeal in the supreme instance. ³

As it was mentioned above, the decision made by administrative organ may be appealed into supreme instance. In the supreme instance cases are checked *De Novo*⁴, on the basis of brought appeal. But this doesn't mean that the whole case is rechecked from the beginning to the end. May be, only the part of the decision of lower instance is checked. The court is obliged to be ensured that all the demands of law are protected. Appellate court may annul the decision of lower instance. For example, a court may hold that a fine was imposed by a non-plenipotentiary organ or person. Vice versa central appellate court may hold that the person/organ imposing a fine was competent, but may consider imposing a fine non legal for some another reasons. By such decision of central appellate court, an applicant shouldn't be placed in much worse condition then he/she was before appealing in court. ⁵

The right to appeal

The right to appeal is universal human right, by which private interests are maintained.

Appeal differs from declaration and from offer. The difference is that appeal is connected with violation of human rights and interests.

The appeal is divided into some categories. For example: appeal to a Court of Cassation, which may be written for civil, administrative and criminal cases, after the Court decision. Also there is appellate appeal, which is written by lower official for the higher official. Administrative appeal differs from the latter ones, because this kind of appeal is written by a citizen for official. ⁶

Administrative appeal is important right for protecting human interests. The right to appeal is determined by 42nd article of Georgian Constitution. According to this article, every person in Georgia enjoys his/her right to attend court, for protecting his/her rights and interests. Administrative appeal gives interested party to appeal for questionable individual administrative-legal act, but also limits applicants right to go directly to court and not to wait for the decision of administrative organ. The point of administrative appeal in itself follows from

1 Z.Adeishvili, L.Samkharauli, "The review of foreign Administrative Law", Tbilisi 2003.

2 http://en.wikipedia.org/wiki/Administrative_law

3 Z.Adeishvili, L.Samkharauli, "The review of foreign Administrative Law", Tbilisi 2003.

4 Again

5 French Administrative Law: L. Neville Brown, John S. Bell with the Assistance of Jean-Michel Galabert Book by L. Neville Brown, John S. Bell; Clarendon Press, 1998

6 V.Loria, M.Salkhinashvili, "Georgian State and issues of Administrative Law", Tbilisi 2002.

42nd article of Georgian Constitution, but somehow at the same time opposites this article.⁷

The advantage of appealing in court is that, firstly court is qualified organ, which has opportunity to protect human rights and freedom according to Georgian legislative. Secondly, court is neutral organ and can adjudicate without partiality, that's why court has much more faith, then administrative organ. Thirdly, on administrative appeal decision is made on the name of whole country and it's obligatory for everyone participating in this appeal: organs, organizations and officials.⁸

Conclusion

According to Georgian reality, very often it's obvious that, attending to court for protecting rights gives much higher quality, that's why sometimes appealing in administrative organ has no reason. As usual, corruption is wide spread in administrative organs and higher organs or officials are cognizant about violations. In such cases, appealing in administrative organ isn't so much effective. It's barrier for applicant and motive for spending a lot of time, sometimes without fruitful result. So from here a question may arise, was there any necessity for restoring the inevitable institute of appealing in administrative organ? Of course this method of appealing has its advantages, for example, discussing the appeal by administrative organs gives much opportunity for deciding much locally and operatively, then court procedure, but if the appeal isn't decides operatively, there's only one way left for applicant to protect his/her rights and freedoms - the court. But it's important to mention, that a complaint scrutinized by administrative organ is constructed on principle of publicity and transparency and this gives significance to inevitability of appealing in administrative organ and creates guaranties for discussing questionable matter objectively in short period. The aim of restoring this institution was to facilitate the court activities, of course this situation eased courts activities, but as it was mentioned several times, it violated human rights to appeal directly in the court and not to wait for scrutinizing the matter by administrative organ. The only way to settle the problem is to deny the institution of appealing in administrative organ. But let's keep fingers crossed and hope that the latter institution won't disturb interested party while appealing the questionable act and the practice will justify the hopes of legislators.

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6. Malkov B.B. Soviet Legislation about complaints and declarations. Moscow 1967

Legislative acts:

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2. Georgian Administrative Procedural Code

Websites:

1. http://en.wikipedia.org/wiki/Administrative_law
2. <http://www.iilj.org>

⁷ Malkov B.B. Soviet Legislation about complaints and declarations. Moscow 1967

⁸ V.Loria, M.Salkhinashvili, "Georgian State and issues of Administrative Law", Tbilisi 2002.

The aim of administrative complaint, as the mechanism of restoration of violated rights*Annotation**Nino Machavariani**Caucasus University**Student of the second course of the faculty of Law**Instructor: Assistant **Prof. L. Mosakhlshvili***

The administrative code is example of practical realization of human rights and freedoms. Very often the defenses of rights are executed with administrative complaint.

The aim of administrative complaint is the demand to restore violated rights; it's the important element for realizing human rights. Administrative complaint is scrutinized by the administrative organ which promulgates legal-administrative act. After this procedure a person can appeal to court, this somehow limits a right to appeal to court while you consider that your rights have been violated, and a person has to wait for the administrative organ's decision, which sometimes needs too much time. This is serious problem, because administrative complaint is for realizing human rights and also it somehow limits one's right to appeal the court directly.

THE AIMS OF THE PENALTY IN CRIMINAL LAW AND THEIR ENFORCEMENT MECHANISM

Baqar Phalavandishvili

Caucasus University

Student of the second course of the faculty of Law

Instructor: Prof. Z. Rogava

1. Introduction

According to the article 1st of the Universal Declaration of Human Rights (afterwards UDHR) - “All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.”¹ Many hundred years have passed since the human being endowed this Universal Human Right with legal status. Co-existence of the State and Law represent the guarantee for further protection of the mentioned right. Criminal law is one of the main sources for the protection and for the prevention of the breach of Human Rights. Suppression of crime and the lawful punishment of the violator is the guarantee of stability within the state. Meanwhile, democracy of the Lawful State is defined by the necessity and the legality in using the enforcement measure against the violator and hence justifying the deprivation of the constitutional and civil rights from this later². Thus, the issue is of paramount value.

The structure of the present research implies two interconnected parts. The first one (The aims of the punishment) analyzes the concept of punishment and the necessity of it. Important hypotheses and the view-point of the eminent scholars will be discussed. The evolution of the imposition of punishment and the inexorable consequences of it also deserves some attention. The main emphases will be made on the aims of the punishment.

The second part of the research considers the mechanism for the execution of the aims of punishment. The phrase exactly defines the concept of penitentiary system, as a main instrument for the attainment of those aims, without improvement of which the Lawful State is only a mere word. In this regard, part of the research will be dedicated to the analyzing of the condition of the penitentiary system of Georgia, the state initiated reforms in connection to this and their credibility. The research aims to discuss the noteworthy opinions and remarks of the eminent jurists and scholars, International and Regional organizations, NGOs and other human rights institutions concerning the penitentiary system in Georgia. In addition, the statistical information will be provided in regards to the criminality in Georgia.

The structure of the essay is likely to resemble the “pandect system”: the generality of the first part of the research will serve as the criteria for the penitentiary system of Georgia, if it “meets the requirements of the general part”. The main thesis of the research is based on the view that the attainment of the aims of punishment undoubtedly requires organic conjunction between punishment, imposition of the punishment and the execution of it.³ The research aims to identify the problems in this regard and search for the root of disorder. After that, the solution to the problem will be suggested.

2. Historical Evolution

2.1. Almanacs of the Georgian Law

The ancient Georgian law as the representation of the Feudal Order offers a considerably wide range of the aims of the punishment. A. Vacheishvili states some of the most noteworthy aims of the punishment: 1. one of the main aim was the ethical perfection of the culprit. Indisputably, this later responds to the aim of “bringing

1 UN Doc. GA Res. 217A (III) 1948, Universal Declaration of Human Rights, art.1 (1948)

2 T. DonjaSvili, The general part of criminal law, 364-370 (2002)

3 Z. GoTua, The general part of criminal law 5-10 (2001)

up” the criminal, which has been rejected in contemporary scholarship.¹ The second aim of punishment was the infliction of the corporal harm, if the first aim would prove to be ineffectual.

The view-point of Ephraim Mtsire should also be noted whose attitude regarding the aims of punishment – as the method for restoration of Justice and Lawfulness – sounds quite progressive and global for that time.

G. Nadareishvili differentiates between the “private and public” punishments in the medieval age of Georgian Law. Main aim of the private punishment was the satisfaction of the interests of the injured party. The “public” punishment was the state-enacted enforcement action. Without doubt, such kind of division is hypothetical as the main and only enforcement mechanism of punishment was the state itself.² Moreover, at early times the imposition of the criminal sanction was the prerogative of Feudal, only afterwards the monopoly on the infliction of the punishment by the state was established.

The main distinctive feature between today’s and historical perception of the aims of punishment was the relation between the criminal and a society. At early times, the punishment was construed as the violation of the rights of an individual and the compensatory damage was established.³ In the new stage of our development the dominant ideology changed and now it is acknowledged that crime confronts society.⁴ It should be noted that this later is not a universal and invulnerable attitude. It may be classified as a kind of fiction and there are important arguments against it.

3. Crime as an unlawful action directed against society

One of the eminent American scholars, D. Braman, suggests that: The strong link between community and law gives rise to claims of the following tenor: “the voice of the law is the voice of the community addressing itself, the voice of all the citizens addressing one another and themselves”. Surely remarks of this tenor would not be appealing to liberals.⁵ It is acknowledged that we are simultaneously members of different communities, that communities overlap, that membership in communities is partial rather than total, that membership in communities is a matter of fact as much as a matter of aspiration, etc.⁶; but then it would follow that there are many common laws corresponding to the different communities to which we belong, which would of course give rise to all sorts of jurisdictional, let alone logical, complications. Moreover, what are we to do with criminal cases involving non-members of the community? The wrongs that the (common) criminal law ought to punish are «wrongs which we share with the victim as fellow citizens”. This is not to say that they are wrongs against «the community' rather than against their direct victims. They are wrongs against their direct victims as members of the community, and so also wrongs against the community» Aside from the difficult discussion as to what exactly the good that the criminal law seeks to protect is, it seems that we would have difficulty dealing with wrongs involving non-members of the community. For imagine a traveling man who, passing through the territory of a given community of which he is not a member, is wronged. How can the members of the community say, that the wrong to the stranger is a wrong to him insofar as he is «a member of the community» since, ex hypothesi, this person is not a member of the community?⁷ We can assume that the saying – Crime is directed against the whole society is not an axiomatic and is quite complicated. Notwithstanding this, we should apprehend it as the huge step forward, for changing the dominant discourse inflicting the societies for centuries and hence, enabling to claim that the crime is directed against society. This later facilitates the creation of Homorganic society, with collective conscious as the Law represents one of the consolidative forces of society and the aims of the punishment are directed towards it.⁸

1 V. Metreveli, History of Georgian law 246-264 (2004)

2 G. NadareiSvili, Private and Public punishments in Georgian Law 100-128 (2000)

3 See. G. NadareiSvili, up, foot. #5, p. 248

4 M. LekveiSvili and others, Private part of Criminal law 25 (2008)

5 D.Braman, Punishment and Accountability: Understanding and Reforming Criminal Sanctions in America. 53 UCLA L. Rev. 1143 (2006)

6 R. A. Duff, Critique and comment: In Defence of One Type of Retributivism: A Reply to Bagaric and Amarasekara, 24 Melbourne U. L.R. 411 (2000)

7 See. R. A. Duff, up, foot. #11

8 Zaibert, Book review: Punishment, liberalism, and communitarians punishment, communication, and community, 6 Buff. Crim. L. R. 673 (2002)

4. Concept of the Punishment

Before analyzing the aims of the punishment it is interesting how the concept of the punishment is defined: The penalty is construed as the lawful response to the guilt of the culprit and it should be perceived as the redemption of guilt.⁹ The consequence is the initial acceptance of the criminal back to the society, which occurs after the criminal realizes the guilt and admits it. According to Hegel, the penalty is the verdict, which the culprit induces himself by his unlawful act. The penalty is imposed on the criminal judging by his guilt, and the guilt is defined as the irresponsible conduct of the criminal towards society, even though s/he had the opportunity to act with responsibility.¹⁰ In fact, the punishment is the special enforcement action of the state, which can be invoked only in case of judicial order and is directed to influence the criminal.¹¹ It is the “natural reaction” of the state against the felony, which represent the personal-negative Lawful reprimanding of the felon.¹²

It should be noted that all kinds of interpretation of the penalty encompasses the public, popular interest, which has the primacy. The public stability is the prerogative of law. The infringement of legal order is the same to oppose the society.¹³ In this regard, it is interesting those levels, stages that serve as the restoration of the breached law and order or the aims of the penalty, enforcement of which is endowed with specific functions.

5. The aims of Penalty

Nulla poena sine legge (there is no punishment without law) and nulla poena sine culpa (there is no punishment without the guilt). Those are the fundamental principles of Criminal Law.¹⁴ As it is known, every kind of offence has the unique disposition with legislator-defined sanctions. Georgian Criminal Code is not an exception. Art. 39. Paragraph 1 of the Criminal Code of Georgia (afterwards CCG) states the aims of the punishment: 1. Restoration of Justice; 2. Prevention of Crime (deterrence); 3. Resocialization of the felon (rehabilitation).¹⁵ The aims of the punishment identify the policy of the Criminal Code or what the CC generally strives for. Let's discuss the enumerated aims:

5.1. Restoration of Justice

The restoration of peace is quite a complicated issue. May be we are dealing with the modified Principle Talion? The restoration of justice inevitably includes the retribution. It is the echo of the Absolute theory of punishment, which deems the restoration of Justice as one of the main aims of punishment.¹⁶ The Legal literature acknowledges the collision of the Consequentialism and Retributivism. The topic of the justification of punishment has become increasingly complex. The more or less straightforward, orthodox way of distinguishing between consequentialism and retributivism, according to which consequentialists justify punishment attending to its consequences, and retributivists justify punishment attending exclusively to desert, has now become obsolete, as the debate has gained in sophistication and subtlety. The specialized literature is (over-) crowded with sub-types of justifications of punishment: negative retributivism (desert is merely a necessary condition for punishment), positive retributivism (desert is a sufficient condition for punishment), side-constrained consequentialism (consequentialism circumscribed by desert), in addition to a wide variety of «mixed theories» of punishment (theories that seek to combine retributivism and consequentialism in multifarious ways).¹⁷

Moreover, if there is a particular theory of punishment which is in tension with liberalism, retributivism would be the obvious candidate. Retributivism is sometimes associated with legal moralism (the view that every blameworthy act should be punished by the state). Such forms of retributivism, by no means rare, seem to be at odds with bulwark principles of liberalism, such as the harm principle, the right to privacy, and the neutrality of the state as to specific theories of the good, etc.¹⁸ Nevertheless, the freedom of society is depended on the giving up that freedom partially to the mechanism (state) which will ensure the stability.

9 L.G. Kutalia, Guilt in Criminal Law p. 642 (2000)

10 See. L.G. Kutalia, up, foot. #12, p. 653

11 See. z. goTua, up, foot. #7, p.8

12 D.C. Brody, J.R. Acker, W.A. Logan, Criminal Law 7-15 (2001)

13 A. Gabiani and others, The General Part Of Criminal Law 38-42(2007)

14 M. Turava, The Review Of The General Part Of Criminal Law 304-313 (2008)

15 Criminal Code of Georgia, art. 39 (1999)

16 M. L. Corrado, The Abolition of Punishment, 35 Suffolk U. L. Rev. 257 (2001)

17 See. Zaibert, up, foot. #22

18 K. Greenawalt, Commentary: **Punishment**, 1983 74 J. Crim. L. & Criminology 343 (1985)

Despite abundance of theories, the restoration of Justice includes the restoration of the individual and public good. The punishment should return the society and the injured party the feeling of supremacy of justice. However, in order to reach the justice the sentence must be justifiable and proportional to the criminal.¹ No doubt, it also covers the retribution, but it should not be the leading principle.

5.2. Prevention of the Crime

As Chezare Beccaria states: “The aim of the penalty is to deter the culprit from performing another criminal act and to prevent others from conducting the same acts”.² Prevention *per se* covers repression (punishment) but it should not be the dominant over prevention. On the contrary, repression should only be the means of attaining the prevention. If we assume the contrary (repression as the dominant aim of punishment) than we can conclude that it is desired for the Criminal Law if the offence will exist, as without the criminal there would not be any necessity of it.³ That’s why the prevention should prevail.

5.2.1. Prevention Theories

There is a distinction between the special and general theories of the prevention. According to the general prevention theory, punishment is directed towards the society. The criminalization of the action, the punishment for the criminal action, the public hearing of the case and others serve as the psychological warning against society.⁴ The special prevention theory is directed towards the criminal so that via punishment to induce his forbearance from criminal action. It is concentrated on the culprit as the means of psychological warning. However, the psychological influence (or maybe pressure) should only be an instrument of attainment of prevention goal. As mentioned above, psychological influence is the means of repression. Unfortunately, in Georgian reality, the prevailing character of the repression over other aims is quite rampant. If we declare the oppression as the aim of punishment, than we should also admit that the culprit is only a means, instrument for further prevention of the crime. By doing this, we would neglect plethora of international conventions protecting the human rights because the criminal preserves the personality. S/he should be declared as a person, who should be responsible for his/her, conducts.⁵ Accordingly, the prevention with conjunction of restoration of justice cannot be the flawless tandem in the struggle with criminality. That’s why, it is necessary the rehabilitation and the “Legal Improvement” (Molding a legally conscionable individual) of the culprit.

5.3. Rehabilitation

Rehabilitation (resocialisation) is the same to “return” the criminal back to the society. It is defined as the restoration of the deprived and restrained constitutional and civil rights that the individual possessed before being sentenced.⁶ Resocialisation is completed after the full social and legal rehabilitation of the person, when his/her criminal record will be annulled.⁷ It includes the “legal improvement” of the person as the lawfully balanced individual with high lawful conscious. Art. 57 of the law on detention of Georgia state the aims of the Social Service which helps the person in establishing the relationship with the society after carrying out the sentence.⁸ Accordingly, the complete isolation of the violator is not compatible with the rehabilitation. If we consider the issue from this view-point, than the rehabilitation is mistakenly taken for the aim of punishment. In fact, rehabilitation begins after carrying out the punishment.⁹ Despite this, rehabilitation with broader meaning does not approve this view. The period of imprisonment, In spite of the fact that it is the consequence of criminal act, includes the minimal standard conditions for the culprits. The law of Georgia on the prisoners clarifies that the convict must be provided with minimum standard of living, food, clothing, and others in order to facilitate the prevention of relapse (recidivism). From this view-point, rehabilitation process should be initiated in the prison.¹⁰ Unfortunately, the Georgian Penitentiary system is far from this ideal. Despite the reforms,

1 See. T. donjaSvili, up, foot. #2, p. 373

2 Ch. Beccaria, For the crime and punishment, translated. I. Xucurauli 32-33 (2003)

3 See. L.G. Kutalia, up, foot. #15, p. 215

4 See. T. Donjashvili, up, foot. #2, p. 374

5 See. L.G. Kutalia, up, foot. #15, p. 216

6 See. T. Donjashvili, up, foot. #2, p. 375

7 P. Dautashvili, The General Part Of Criminal Law 128 (2003)

8 Law on detention, art. 57 (1999)

9 See. P. Dautashvili, up, foot. #33, p. 129

10 E. Haag, Symposium on the Attorney General’s Task Force on Violent Crime: Could Successful **Rehabilitation** Reduce the Crime rate, 73 J. Crim. L. & Criminology 1022 (1986)

the mechanism for the insurance and execution of the aim of rehabilitation is in appalling condition, which contradicts the aims of the punishment and international duties of Georgia.

6. International obligations

Georgia is the signatory party of plethora international conventions, protocols, action plans and others, which embraces the specific obligations regarding the improvement of penitentiary system in Georgia. The prison establishments and generally the liberal treatment of prisoners (which *inter alia* incorporates the liberal legislation) serves as the indicator of the democracy in the country and is of paramount importance. Georgia is a reformer state in this regard. Reforms are generally positive event, albeit it is significant to evaluate the real outcome of the development.

7. Penitentiary system of Georgia

The penitentiary system of Georgia has been reprimanded by the numerous public and private international and regional organizations. The assessment of the nongovernmental organizations and the United Nations (afterwards UN) is important in the development process. Before analyzing the problem, it should be noted that the state initiated policy in law and especially in public law, such as criminal law is an inexorable event. The state strives to reduce the criminality by incorporating direct or indirect policies in Criminal Law.¹¹ The second part of the research aims to analyze the advantages and disadvantages of the state-initiated methods implementation of which is sometimes ineffectual and sometime lucrative and the parallels will be made in order to evaluate if the penitentiary system of Georgia meets the necessary requirements for the attainment of the aims of punishment. Judging by the political orientation of Georgia, the estimation of the international society is central.

7.1. Conventions and agreements concerning the rights of prisoners

Standard Minimum Rules for the Treatment of Prisoners – it is the first international document adopted by UN in 1955. The Document depicts the rules and norms, implementation of which is essential for the improvement of the penitentiary system. Art. 26 of the named document enumerate all the necessary conditions for the prisoner: Average feeding, hygiene, cleanness, heat, elimination, ventilation, single bed for single prisoner, education, sport and others.¹² Another important document is the European prison rules adopted by the committee of Ministers of the Council of Europe. Despite the recommendation character of the document it is of priority for Georgia to implement any kind of recommendation capable of increasing the level of democracy. Articles 14, 20, 22, 25, 26, 30 indicate directly on the minimum standard living condition in the prisons¹³. Existence of those conditions in the prison cell is of great importance and the violation of those requirements represents the breach of not only international but the municipal law as well. Additionally, the Georgian law on detention (art. 26)¹⁴ enshrines all the essential elements about the condition in prison, albeit their factual enforcement is missing.

7.2. International Evaluation about the Penitentiary System of Georgia

Before analyzing the reports of International organizations, it should be noted that Georgia has the specific obligations for the integration in the Euro-Atlantic zone. In 2004 the EU-Georgia action plan has been signed. The article 4.1.1. of the plan urges Georgian government to improve the situation in the prisons, prevent the gross violation of Human Rights there and enact the measures to facilitate their reintegration back to society.¹⁵

The Human Rights Report in Georgia surveyed by the U.S. Department of State; Bureau of Democracy evaluates the prison condition in Georgia critically. According to the report, inhuman and degrading conditions, poor infrastructure, many prisoners in one cell are rampant in Georgian prisons generally.¹⁶ Judging by the report of the Ministry of Justice of Georgia, 94 prisoners have died in 2008; 98 prisoners – in 2007; and

11 See. A. Gabiani and others, up, foot. #18, p. 40

12 UN Doc. Congress on the Prevention of Crime and the Treatment of Offenders, Standard Minimum Rules for the Treatment of Prisoners, art. 26 (1955)

13 Council of Europe, Rec. No. R(87)3, European Prison Rules art.14, 20,22, 25, 26, 30 (1987)

14 Law on detention, art. 26 (1999)

15 European Union, Commission Of The European Communities, Council Decision, Explanatory Memorandum art.4.1.1. (2006)

16 U.S. Department of State, Bureau of Democracy, Human Rights and Labor, Human Rights Report: Georgia (2008); <http://www.state.gov/g/drl/rls/hrrpt/2008/eur/119080.htm> (26.02.09)

96 prisoners in 2006.¹ Many prisons lack the capacity to treat the prisoner with medical care. The international observers noted that extremely small cells with plenty of prisoners in it, made it impossible to live there. Nevertheless, there were some positive moves: On April 23 Prison #5 in Tbilisi was closed. This later has always been the subject of condemnation. In 2008 The Ministry of Justice organized 12 seminars. 505 prosecutors and 234 prison officers have undergone the training courses.

European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment also evaluated the penitentiary system in Georgia in 2007. The report represents the detailed survey of the condition of prisons in Georgia. As the survey shows the main problem of the prisoners remains the poor standard of living and small cells. The average percentage of the prison overload is frightening 400%.²

7.2.1. Prevention of the torture, inhuman and degrading treatment

Article 17 of the Constitution of Georgia prohibits inhuman and degrading treatment³. Article 5 of the UDHR⁴, article 3 of the European Convention on Human Rights,⁵ even CCG prohibits torture. Conclusions and recommendations of the Committee against Torture of the UN provide a considerable account in this respect.⁶ According to the account of the Ombudsmen in 2008, 112 prisoners entered the pre-trial detention with severe corporal damages. The harsh living conditions and unbearable environment creates the ground for claim that the inaction of state regarding the non-improved poor infrastructure can be construed as the inhuman and degrading treatment. Exactly the same ruling has been placed by the European Court of Human Rights in Pears v. Greece case.⁷ Equally importantly, in Selmouni v. France case, the European Court of Human Rights ruled that the state has the duty to take care of the detainee and any kind of body-harm inflicted upon the detainee will induce the responsibility of that state (if the conduct amounts to the inhuman and degrading treatment). The ECHR awarded the injured party, Mr. Selmouni, with compensation.⁸

Similarly, the same cases can be drafted almost in every prison of Georgia. The harsh condition of the jails renders impossible to attain the aims of the punishment. Maybe there is some positive results regarding the prevention of crime (albeit, enormous quantity of prisoners contradicts this hypotheses). Speaking about the rehabilitation and the Justice restoration is worthless. The same can be corroborated by the statistical information.

7.2.2. The statistical information on the amount of prisoners

According to the Freedom House, there are 20 000 prisoners in Georgia.⁹ The government of Georgia took some steps towards improving the situation and reducing the amount of prisoners. In 2008 two amnesty acts have been issued by the president and another one in 2009. A new prison was opened in Gldani. Nevertheless, overusing the pre-detention actions increased the amount of prisoners twice since 2006.¹⁰

One of the significant reforms was the creation of probation center for non-detention punishments and the probation and learning center for prisoners in 2007.¹¹ This is the body which supervises the execution of other than the detention punishment such as the improvement labor, suspension of the punishment, relative punishment and others.¹² Total figure of individuals undergoing the probation on December 2007 was 1603, on May 2008 - 18110, on November 2008 – 20861 and on January 2009 there were 22476 individuals.¹³ We may assume

1 <http://www.justice.gov.ge/> (26.02.09)

2 Council of Europe, Report to the Georgian Government on the visit to Georgia carried out by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (), art. 12, 13, 14 (2007)

3 Constitution of Georgia. art. 17 (1995)

4 See. UDHR, up, foot #1

5 Council of Europe, European Convention on Human art. 3 (1950)

6 UN, Committee Against Torture, Conclusions and recommendations of the Committee against Torture, Georgia CAT/C/GEO/CO/3 (2006)

7 Pears v. Greece, 19 April 2001, ECHR (Serial A), Para 72-75

8 Selmouni v. France, 28 July 1999 ECHR (Serial A), Par. 78-81

9 Freedom House, Analysis ,Nations in Transit, Country Reports, Georgia, Executive Summary (2008); <http://www.freedomhouse.org/template.cfm?page=47&nit=452&year=2008> (27.02.09)

10 Human Rights Watch, Georgia: Lowering the Age of Criminal Responsibility Flouts International Standards (2007); <http://www.hrw.org/en/news/2007/06/10/georgia-lowering-age-criminal-responsibility-flouts-international-standards>

11 <http://probation.ge/indexst55.html>(27.02.09)

12 The law on execution rule of the non-detention punishment and probation, art. 1 (2007)

13 <http://probation.ge/indexst55.html>(27.02.09)

that the enlargement of the quantity of those individuals undergoing the probation procedure is not so alarming information (Despite the monthly enlargement) as the detention punishments should have been reduced. Unfortunately 50% enlargement of the amount of prisoners has been detected since 2007 and that is alarming. Overabundance of prisons cannot serve as the justification for reducing or desisting punishment of crime. That is not what this research aims for. The root of the problem is the state pursued Zero Tolerance policy. When the repression becomes the aim of the punishment there cannot be any pretention for democracy. As already mentioned above, declaring the repression (punishment) as the aim of punishment has been rejected in legal literature. When the need for the legal order transforms into the frenzy of oppression the ideal of Lawful State is obliterated. Abundance of prisoners indicates that the policy of Georgian state towards the prevention of punishment is completely ineffectual. Decreasing the Juvenile responsibility to 12 years is another representation of this policy.

7.2.3. Juvenile Responsibility

In 2007 Criminal responsibility of the Juveniles (minors) has been reduced from 14 to 12 years regarding certain offences. Fortunately, the Ministry of Justice declared the moratorium on this change, until the mechanism for the Juvenile Justice execution will be created.¹⁴ This amendment is totally unacceptable and will not serve for the prevention of crime. The 10th general comment on the children's rights in Juvenile Justice by the UN Committee on the rights of the child (2007) suggests and urges states not to decrease the Juvenile responsibility to 12 years and remain it to 14 or 16 years.¹⁵ According to the rule #4 of the United Nations Standard Minimum Rules for the Administration of Juvenile Justice (so called Beijing Rules) establishing the legal responsibility in early stages of human development is inappropriate, judging by the emotional, mental and intellectual condition of the minor.¹⁶ Furthermore, the ministry of justice has appropriately declared the moratorium on the amendment. Georgia does not possess Juvenile Courts and the executor mechanism for Juveniles is not working properly. If it is the case, those requirements should be met at first.

Furthermore, the Executive Director of the Europe and Central Asian Division - Holly Cartner – expressed that “by decreasing the Criminal responsibility of Juveniles, Georgia refrained from the international and European standards.” It is incomprehensible why the Georgian government refrained from the international standards and chose the different orientation. If a state declares its primary aim to attain the European way of life, it should act according to that way. Twelve-years-old minor is not capable of fully realizing his/her conducts. It cannot not serve as the justification for the prevention of crime as according to the statistics the amount of prisoners has increased and “proportionally” the range of rights of prisoners have decreased.

7.3. The Rights of Prisoner

One of the main rights of prisoner is the protection from torture, inhuman or degrading treatment. Equally importantly, the prisoner has the personal rights, which includes the relationship to the outside world and family in order to preserve the link with society.¹⁷ Before the amendments the prisoner had the right of long-lasting meeting with relatives. They could meet with family members for 3 days on the reserved territory of prison, which facilitated the rehabilitation of the prisoner (According to the recent initiative, 3-day lasting meeting may be revitalized). According to the article 48 paragraph 2 of the law on detention, the meeting period must not last more than 1 hour.¹⁸ The meeting with non-members of the family of the culprit is prohibited (art. 48 par. 1). The additional meeting right was granted by the judge, prosecutor, and investigator before amendments which has also changed. In the 7th isolator the visual and audio observance of the lawyer and the prisoner has been detected which is direct breach of the art. 48 par. 5 of the law on detention which states that executor officer can observe the meeting visually but the sound recording is forbidden.¹⁹

All the above mentioned indisputably clarifies the need of the essential reforms, which should be yet enacted in Georgia for the improvement of penitentiary system. The statistics is quite appalling in spite of the

14 See. Human Rights Watch, up, foot. #47

15 Committee On The Rights Of The Child, General Comment No. 10, Children's rights in Juvenile Justice, CRC/C/GC/10, art. 16, 17. (2007)

16 UN. GA. United Nations Standard Minimum Rules for the Administration of Juvenile Justice Beijing Rules, art. 4 (1985)

17 B. Smith, What Rights Should Prisoners Have? : An Analysis of Issues Surrounding Prisoner Rights, *Ratio Juris*, 15(2), 122 (2007)

18 The law on detention, art. 48 Para. 2 (1999)

19 The law on detention, art. 48 Para. 5 (1999)

high level of competency of Police, the problem remains unresolved. Probably there is a setback in the method of reducing the crime in Georgia, which has proved to be ineffectual.

8. Conclusion

According to the legislative reforms, Georgia surely experiences some progress, albeit the legislation reforms are not preceded with the reforms or creation of executor mechanisms. The state should provide the fully organized and well-functioning instruments for the attainment of the aims of punishment. Some derogation from the aims of punishment is obvious: Judging by the amount of prisoners the most characteristic aim pursued by the state is the repression. Attempt to classify repression as an aim has been rebuffed in theories of penalty. Furthermore, decreasing the rights of prisoners completely contradicts the rehabilitation aim. The prevention of punishment is also adversely affected taking the quantity of prisoners into consideration. The comprehensive fulfillment of international obligations is vital in the transitional period. Moreover, it is not recommended to reduce the Juvenile Criminal responsibility to 12 years. The state-instigated policy to challenge the criminality cannot serve as the justification to reduce the criminal responsibility to 12 years. If it is inevitable, at least the executor mechanism should exist and the Juvenile Justice Courts should be created.

Despite the reforms, the rehabilitation aim remains an unattainable chimera. Mostly the penalty is construed by the convict as the rejection from the society. The aim of the research was not to demand the luxury for prisoners. After all, they are criminals and they deserved the punishment that they imposed by their unlawful actions. Nevertheless, the antagonism and hostility induced by the fact of detention is the slow-motion bomb neutralization of which should be the primary goal of the state by creating the normal living conditions in prisons and hence avoiding any further revolt there.

Paradoxically, the root of the problem is the rigorous economic condition that induces one to commit a crime. The social problems are the cause of crime propagation. Nevertheless, that should not be the justification for the ill-planned policy of the state. The state should contradict the source and not the consequence of the problem. The Zero Tolerance policy, manifestation of which was disastrous and sometimes with lethal consequences disparages the aim pursued. The prisoners are individuals and the society is partially guilty for their conducts.

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The Aims of Penalty in Criminal Law and Their Enforcement Mechanism

Annotation

Baqar Phalavandishvili

Caucasus University

Student of the second course of the faculty of Law

Instructor: Prof. Z. Rogava

In legislative system of every civilized state, there are provisions regulating the aims and purposes of penalties in criminal law. One of the main principles of penalty in Criminal Law is the rehabilitation and Integration of the culprits back to the society and responsibility for fulfillment of this aim rests upon the government and the penitentiary system. The main thesis of the issue is to describe condition regarding the penitentiary system and portray conjunction between the above mentioned system and judicial practice in Georgia. The importance of the issue is evident, judging by the significance of the Human Rights in democratic state, the condition of which is quite regrettable in Georgia.

MOTIVATION IN BANKING SECTOR

Archil Lursmanashvili

Caucasus University
The fourth year Management Bachelor
Instructor: Prof. Lili Bibilashvili

Introduction

The topic is about motivation and more specifically about employee motivation in Georgian banking sector. The topic is very actual and important. As a rule employee motivation significantly influences the service quality and respectively customer satisfaction, that directly shows up on the company financial and social success.

Almost every bank operating in Georgia, as other service-oriented companies, need improvement of their activities (especially service quality). High quality service is one of the features showing the development of the country, what unfortunately Georgia lacks a lot.

For preparing the report questionnaires and interviews with banking sector employees were planned to be used. But because of the ongoing crisis, management of almost all banks abstained from conducting such surveys.

Despite this to obtain a general view interviews with HR department managers and with some employees were held. Also direct observation on employees during the working process was managed.

The theoretical part of the work is generally after text-books, virtual libraries and the internet.

Brief Overview

As a result of the conducted research banking sector employee motivation level and motivators used by management was determined. Another interesting and perhaps also useful part of the work is the recommendations proposed to the companies working in the sector (which also may be used in other sectors).

I suppose that the given recommendations will improve the present situation (if of course these recommendations are taken into consideration) and will stimulate other industries, sectors use different types of motivators what will allow them to offer the customer a high quality service.

Theories used in different periods are discussed in the work. The theories of earlier period, such as Maslow's Hierarchy of Needs, Theory X and Theory Y, Two-factor Theory which are taken into consideration and used by number of managers are not supported by researches, in other words they are not valid. Accordingly, these theories are not paid attention in the work, but comparatively new, well probed, effective and efficient theories are valued more.

As a result of the conducted research one can conclude that these theories are not very popular in the banking sector of Georgia.

Summarizing theoretical framework and situation analyses some recommendations were provided, which will be useful to be taken into consideration by the banks.

Theoretical Framework

A well-known word motivation – is “the processes that account for an individual's intensity, direction and persistence of effort toward attaining a goal” (“Organizational Behavior” 12th edition, Pearsons/Prentice Hall – Robbins and Judge). The three elements of the motivation should be explained: **(1) intensity** – determines how diligent a person is, **(2) direction of the effort** – what are the goals of the individual (for this case it should be same as the organizational goals), **(3) persistence of the effort** – how long can the individual persevere the effort.

Motivation is not personal trait – something one has and others do not. Despite the fact that different per-

sons are motivated by different factors motivation is a result of an interaction of the person and the situation, environment. It changes together with the change of the situation.

Intensive development of motivation theories begun in early 1950s. Three well-known motivation theories were also developed in this period. These are: Maslow's Hierarchy of Needs, Theory X and Theory Y, Two-factor Theory. The experiments and researches conducted in later periods did not support the validity of these theories, but yet these theories are popular and frequently used nowadays.

Later based on psychological researches and experience scientists formed different theories. Next we will discuss several of these theories, which may be tailored to the existed environment and situation.

McClelland's Theory of Needs

After David McClelland theory an individual is having mainly three needs: need for achievement, need for power, and need for affiliation. These needs can be explained as follows:

- Need for achievement – desire to overcome resistance, to achieve goals under predetermined rules, to achieve success;
- Need for power – desire to make others behave in such a way they would not behave if not you;
- Need for affiliation – desire of friendly and close relationships.

Goal-Setting Theory

In late 1960s Edwin Locke determined that the best motivator is to work towards attaining specific goals. Exactly determined goals tell a person what is he/she required to do and what effort he/she needs to achieve that goal.

According to the goal-setting theory specific and difficult goals which are supported by feed-back give productively and effectively done work.

Self-Efficacy Theory

Self-efficacy theory is directed to the individual's belief that he/she is capable to fulfill a task of some level of difficulty. A person with higher self-efficacy is more self-convinced. The person convinced in his/her abilities and capabilities does not "give up" easily and keeps on working to the finishing of the task.

Equity Theory

According to the equity theory individuals compare the efforts they give and results they get to the efforts and results of others. As a result of this comparison an organization can get three possible states of its employee: undervaluing, equity, overvaluing. Any inequity causes relevant reaction and activity from the individual. The result of the inequity is a demotivated employee.

Expectancy Theory

Victor Vroom expectancy theory – the behavior of the individual depends on what he/she expects as a result of this behavior and how attractive the expected result (this expectance) is for him/her. This dependence is well seen graphically:

Respectively the focus is on the three relationships:

1. Effort – goal. The expectance of the individual that some level of the effort will give some goal;
2. Goal – reward. In accordance to the achieved goal he/she gets feed-back (reward);
3. Reward- personal goals. The reward given by the organization and the individual's personal goals or wants are intercepted.

Above discussed theories are focused generally on nonmaterial motivators, material motivators (such as salary, wage, bonuses, and etc.) are also very important. To say briefly, money is a very effective and simple (but short-term) source of motivation.

Situation Analyses

As already mentioned, to determine motivation level and motivators used in the banking sector a questioner based on the above discussed theory was prepared.

The questioner was determined for the employees of the banks operating in Georgia, but because of the ongoing crisis management of almost all banks refrained from conducting such type of survey.

To generate a general overview on this subject other methods became necessary to be used. These were: interviews with the HR department employees and direct observation on bank employees during the working process.

Based on interviews we found that almost every bank operating on Georgian market uses nearly the same motivational methods and approaches. The motivators in the banks are presented generally by the material motivators, such as: salary, wages, premium, bonuses, salary increase and etc. Some kinds of nonmaterial motivators – oral or written thank are also used sometimes. But nonmaterial motivators are not paid big attention and they are not perceived important.

The crisis, that arose in Georgia as a result of different reasons, had a negative influence as directly on operating business associations (and besides of course banks) so naturally on motivational systems too.

The negative influence on motivation and motivators was once again enforced by the fact that banks were generally depending on material motivators. To save financial results the new financial and calendar year almost all banks annulled such kind of motivators (bonuses, premiums, salary increase), and some banks had to take more fierce steps – stop paying salary (or to give some employees not paid vacation) or just fire them (staff reduction).

Taking into consideration the fact that the banks have almost no motivation system (as mentioned above there are no more material motivators and nonmaterial motivators lost their weigh – and just did not exist), it would be logical to get a high level of demotivation and dissatisfaction among banking sector employees. But the reality turned to be entirely contrary: bank employees are quite motivated and do their job effectively and with high quality.

This paradoxical result can be explained as follows: simultaneously with annulling the material motivators, there appeared new “motivator” – fear of losing a job. The majority of bank employees work better as they used to not to appear in a list of staff reduction.

To my mind, such kind of “motivator” cannot be useful for a company and entails serious dangers, more specifically in such situation there may be formed a not healthy competition among employees and there is a threat that an employee thinking about possible firing can be harmful for a bank. In some case he/she can put under danger material and intellectual property of the bank. The extremely negative result may be a crime, such as: he/she may transmit intellectual property, valuable information to competitor companies, may damage or stole company property.

The high level of the possibility of raising these dangers is linked to the motivation system functioning before the crisis. As the banks have not been using nonmaterial motivators, after reduction of material motivators, there was left practically no source to motivate employees.

During informal conversation employees explained that they would be glad to move other company and the only reason of staying in the same company was sharp reduction on job market.

Situation Analyses and Theoretical Framework

To find relationship between the above mentioned theories and the present situation is somehow difficult. In other words the banks do not use these motivational tools. The main motivation system was based on material motivators, more specifically – money.

To improve motivation level, employee effectiveness and satisfaction and respectively the whole company effectiveness and quality, it would be useful if the companies (banks) at least partially use the well-known and probated motivation methods.

To better understand these theories and to tailor it to the Georgian reality and the present situation it would be wise to discuss them separately.

McClelland's Theory of Needs

Persons striven by need for achievement does the job better than it was done before them. Their reward is the job itself and the pleasure got by doing the job. Such types of individuals are self-motivated. Individuals with high desire of achievement prefer situations were they have responsibility (are empowered), feedback on the work done and the average level of risk.

The need for power is performed by the desire of having influence over other, controlling other. Individuals with high need of power get pleasure by being in charge of something, prefer status-oriented positions and are more concerned by prestige and influence over others, then effective and quality work.

Individuals with the need for affiliation avoid conflict and competitive situations. They focus on relationships and not on achievements.

Goal-Setting Theory

As a result of researches it was determined that more difficult goals require more effective working than more easily attained goals. But to get such effect an individual must share and accept this goal.

So it would be useful if management of an organization takes into consideration the theory and to improve employee motivation level generate such kind of tasks for them that would be difficult but attainable.

The feedback on the work performed is also important factor for motivation. It allows the individual to compare what should be done to what is really done, analyze the difference and take into consideration the faults.

It should be mentioned that some individuals have so called self-generated feedback; this means he/she analyzes the work done by him/her himself/herself. Such types of individuals are more productive, effective and motivated.

As many other traits, this trait (self-critic, "self-feedback") can also be developed and improved by the individual.

Self-Efficacy Theory

This theory is in close relationship with the goal-setting theory. Giving difficultly achieved goals increases self-efficacy, as when the manager gives the employee a difficult task, the employee feels the confidence and support from the manager, what increases self-estimation.

Albert Bandura, the author of the theory, suggests that there are four ways to increase self-efficacy:

- Enactive mastery – after Bandura the most important issue to increase self-efficacy is the professional side of mastering. Every successfully attained goal increases self-confidence of the person;
- Vicarious modeling – a person becomes more self-convinced when sees other is capable to do the task;
- Verbal persuasion – an individual's self-confidence increases when another person persuades him/her that he/she has necessary skills and abilities to achieve the success;
- Arousal – arousal and sometimes irritation works as energizer. But in some cases (when the effective work requires calm approach) this may cause reverse effects.

Equity Theory

According to the equity theory when feeling inequity an individual may have one of five reactions:

1. change effort (e.g.: do not work as well as working before);
2. distort perception of self;
3. distort perception of others;
4. change the object of comparison;
5. quit the job.

Of course none of the above mentioned gives desired results for the company.

Also it should be mentioned that the cause of the feeling of inequity is not only salary/wage, but other nonmaterial stimulus are important too.

What is meant under equity and justice? As a result of researches the meaning of this term for the employees was determined. Generally the perception of the equity goes to the **organizational justice**, which requires the unity of the following components:

- Distributive justice – equal division of stimulus between employees;
- Procedural justice – fairness of the result determination process;
- Interactional justice – the degree of respective approach.

All the three aspects of justice are to be taken into consideration when interacting with employees. Managers should publicly discuss and share the information about why some employee is given some stimulus (reward), should take objective decision of rewarding an employee. For this a respective motivational system is needed, which takes into consideration public systems of employee appraisal.

Expectancy Theory

The activity of the individual is determined by a logical sequence, which can be perceived with three connections: effort – results; results - rewards; rewards – personal goals.

The main idea of expectancy theory is exactly in determining and understanding these connections. Based on an individual's personal goals, an organization (management) should generate a desirable reward for the employee, which will be in connection with the results and the corresponding effort.

Of course every individual is driven by different personal goal and desire, but yet it should be at least partially recognized.

Recommendations

Despite the approaches of the methods and theories discussed are quite different, they have the same goal – to motivate an individual and respectively to increase his/her effectiveness and quality. Each of them taken separately cannot give such an effect as their complexity.

These methods fill up each others and generate the effect of synergy; accordingly they should be implemented coordinated.

The starting point of implementation for every company would be to take an individualistic approach to each employee.

Personal goals of an employee should be determined, what he desires, by what he is driven, what he wants to achieve. There are several ways to determine this: direct observation on an employee during the working process, surveying employees using the relevant questioners.

After determining personal goals rewards, stimulus motivating the employee may be defined. According to McClelland's theory of needs three types of motivators can an individual have at the workplace: achievement, power, and affiliation. These needs can be presented in an individual equally, or can be presented with big differences (e.g.: high level of need for achievement and almost zero level of need for power). Besides these motivators other motivators should also be taken into consideration if presented for an individual. An employee should be given the reward, stimulus motivating for him/her. Herewith it is necessary to distribute rewards equally (depending on performance) and the performance should be estimated objectively and fairly.

As a result to follow this sequence will give desired effort, effect and quality from the employee.

Feedback on the work performed and the experience gained by successfully achieving a goal (enactive mastery) will increase the employee self-efficacy. And also successful performance and effort given by one employee will generate a precedence of imitation by another employee (vicarious modeling).

The effort may also be increased by giving difficultly achieved goals (which themselves will increase employee self-efficacy) and sometimes by irritation. Again these become a part of the sequence.

Objective, fair and respective approach to every employee is also important (to avoid demotivation).

Implementation of these recommendations is not easy. Of course it is not an ideal model of motivation system of an organization, but using its modified model (tailored to the specific company) will sharply increase motivation level among employees and respectively will increase company effectiveness, work quality and accordingly financial gain.

It should be mentioned that this model is mainly focused on nonmaterial motivators which will not be a cost for an organization and which can be implemented any time despite the scarcity of financial or other resources.

Conclusion

The present motivation level and methods used in banking sector for employees are not so enviable. The ongoing social-economical crisis can be considered as a reason of this situation, but it should be mentioned that the crisis just played the part of **catalyst**. The real reason is quite different. Demotivated employee is a result of incorrectly implemented motivation system. If going deeper, the incorrect motivation system is a result of incorrect HR policy and management, and the latter is caused by incorrectly planned strategy. Actually the problem has begun earlier – when these companies (banks) entered Georgian market. Accordingly, correction of the sole problem – low level of motivation, just making changes in this field will be quite difficult and nearly impossible. Checking strategy and main objectives should be made frequently during existence of a company and this issue is more actual during the crisis period.

In my opinion, if the present approach is kept unchanged the situation will deteriorate which will directly expose financial and not only financial loss generated by demotivated employees (which also seriously acts on company image). Of course the loss in the banking sector is considerable for the present, but this result is more, and even entirely is connected to the financial problem. It should be mentioned that the importance of motivation and demotivation connecting this issue is not considered yet.

Finally, we can conclude that the way out the present situation is to check and change company strategy and the whole business, also to find out the mistakes which are apparently seen and “lay on the surface” and the most important is to correct or radically change them.

Not taking into consideration all the issues and the present environment will procrastinate the way out of the crisis and the improvement of the situation for the banking sector.

Also, we can conclude that not taking these steps will lead the companies to the position where they will be quite weakened (and may even go bankrupt) or will have to take action hastily which will be ineffective, low quality and will require huge spending. The reason for this may become as lasting the crisis period so the improvement of the overall situation and increasing competition.

Despite the present situation there are fairly serious resources which are a guarantee of positively arranging the problems.

List of the Applied Literature

Text-books

- Organizational Behavior” 12th edition, Pearsons/Prentice Hall – Robbins and Judge

Internet

- <http://www.wikipedia.org>
- <http://ebscohost.com>

Motivation in Banking Sector Annotation

Archil Lursmanashvili

Caucasus University

The fourth year Management Bachelor

Instructor: Prof. Lili Bibilashvili

The topic is about motivation and more specifically about employee motivation in Georgian banking sector. The topic is very actual and important. As a rule employee motivation significantly influences the service quality and respectively customer satisfaction, that directly shows up on the company financial and social success.

Almost every bank operating in Georgia, as other service-oriented companies, need improvement of their activities (especially service quality). High quality service is one of the features showing the development of the country, what unfortunately Georgia lacks a lot.

For preparing the report questionnaires and interviews with banking sector employees were planned to be used. But because of the ongoing crisis, management of almost all banks abstained from conducting such surveys.

Despite this to obtain a general view interviews with HR department managers and with some employees were held. Also direct observation on employees during the working process was managed.

The theoretical part of the work is generally after text-books, virtual libraries and the internet.

As a result of the conducted research banking sector employee motivation level and motivators used by management was determined. Another interesting and perhaps also useful part of the work is the recommendations proposed to the companies working in the sector (which also may be used in other sectors).

I suppose that the given recommendations will improve the present situation (if of course these recommendations are taken into consideration) and will stimulate other industries, sectors use different types of motivators what will allow them to offer the customer a high quality service.

DECLINING OF ECONOMIC INEQUALITY IN THE CONTEXT OF IMPROVING THE SOCIAL RESPONSIBILITY OF THE BANKING SYSTEM

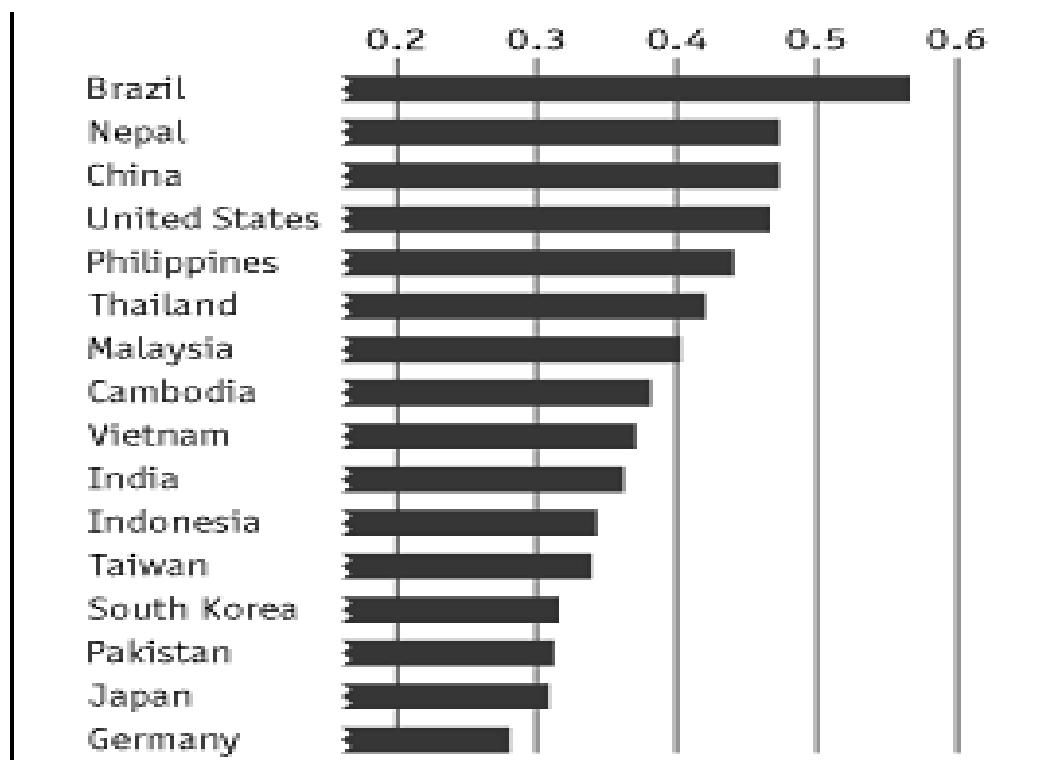
Ulyana Shtybel

Lviv Ivan Franko National University (Ukraine)
Student of the fourth course of the Faculty of Economics
Instructor: Reverchuk S. K.

Economic inequality refers to disparities in the distribution of economic assets and income. The term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among nations. Economic Inequality generally refers to equality of outcome, and is related to the idea of equality of opportunity. It is a contested issue whether economic inequality is a positive or negative phenomenon, both on utilitarian and moral grounds.

Economic inequality has existed in a wide range of societies and historical periods; its nature, cause and importance are open to broad debate. A country's economic structure or system (for example, capitalism or socialism), ongoing or past wars, and differences in individuals' abilities to create wealth are all involved in the creation of economic inequality.

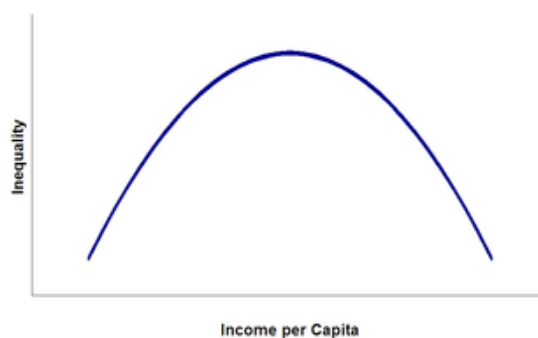
There are various Numerical indexes for measuring economic inequality. Inequality is most often measured using the Gini coefficient, but there are also many other methods.



Differences in national income equality around the world as measured by the national Gini coefficient. The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income).

Development patterns

Simon Kuznets argued that levels of economic inequality are in large part the result of stages of development. Kuznets saw a curve-like relationship between level of income and inequality, now known as Kuznets curve. According to Kuznet, countries with low levels of development have relatively equal distributions of wealth. As a country develops, it acquires more capital, which leads to the owners of this capital having more wealth and income and introducing inequality. Eventually, through various possible redistribution mechanisms such as social welfare programs, more developed countries move back to lower levels of inequality. Kuznets demonstrated this relationship using cross-sectional data. However, more recent testing of this theory with superior panel data has shown it to be very weak.



Inequality, growth, and progress

The question whether inequality or equality is beneficial for economic growth and progress has occupied the minds of the greatest scientific thinkers as well as policy makers. There is evidence from a broad panel of recent academic studies shows that there is a non linear relation between income inequality and the rate of growth and investment.

Robert J. Barro, Harvard University found in his study “Inequality and Growth in a Panel of Countries” that higher inequality tends to retard growth in poor countries and encourage growth in well developed regions.. In their study for the World Institute for Development Economics Research, Giovanni Andrea Cornia and Julius Court (2001) reach analogous conclusions. The authors therefore recommend to pursue moderation also as to the distribution of wealth and particularly to avoid the extremes. Both very high egalitarianism and very high inequality cause slow growth.

Income inequality diminishes growth potential through the erosion of social cohesion, increasing social unrest and social conflict causing uncertainty of property rights. Extreme inequality can effectively reduce access to productivity enhancement measures, or cause such measures to be allocated inefficiently toward those who already have, or can no longer absorb such measures.

On the other hand, The World Bank World Development Report 2000/2001 shows, that inequality and growth are not related. Inequality neither drives growth nor does it impair growth. Other Research (W.Kitterer) also shows, that in perfect markets inequality does not influence growth. In real markets redistribution contributes to growth.

Considering the inequalities in economically well developed countries, public policy should target an ‘efficient inequality range’. The authors claim that such efficiency range roughly lies between the values of the Gini coefficients of 25 (the inequality value of a typical Northern European country) and 40 (that of countries such as China and the USA).

The precise shape of the inequality-growth relationship depicted in the Chart obviously varies across countries depending upon their resource endowment, history, remaining levels of absolute poverty and available stock of social programs, as well as on the distribution of physical and human capital.

It is well known that the first bank transactions were carried out yet for 2 thousand years before Chris. Initial purpose of bank operations was not only getting a profit, but redistribution (placing) temporally free money resources in time between people.

Passing the years of becoming and reformation, now banking system of different countries can surprise

those wise people, who put first stone in banking. And this surprise obviously couldn't be pleasant at all.

So question is what should we do with this economic inequality? Should we fight with it or should we continue to observe and deepen in our own selfish welfare?

The problem of economic inequality deepens by growth of large world corporations, by global processes which concentrate riches in one hand and diminish possibilities for development of other.

It seems that economic processes go on a locked circle, each time getting from one crisis to another one. My thought is such, that it is needed to change the whole system which large corporations work after.

I more detailed will touch a bank sphere, because exactly here I see problems which it is possible positively to use, applying the new approach. For example, I am talking about **Saving Tax**, which in Europe is control by European *Union Savings Directive* (1st July 2005), but EU withholding tax is not deducted from individuals who reside outside the European Union. Thus, for example, a resident of Jersey or of Switzerland, would not pay the tax, even though these countries have signed the agreement with the EU. Neither Jersey nor Switzerland is in the European Union.

All EU Member States with the exception of Belgium and Austria have agreed to exchange information with each other. In Luxembourg clients can choose between exchange of information and withholding tax retention. But as for that countries are so important to save their bank secrecy, I suppose, there will always be contradictions.

Anyway, the Republic of Seychelles and Republic of Mauritius are two good alternative jurisdictions to consider for circumventing the effects of the Directive. Directive gave good subsoil for the fight against money laundering and for the fight against tax deviation, but however it grows the row of new problems which are not contribute the social equality, so therefore, I offer that deduction of such tax, control the question of bank secret and money laundering were considered in the context of improvement of economic equality through Fund, about which more detailed we will talk farther.

Social Responsibility and Banking

In fact in 21 century in their mass, banks already are not the example of morality, ethics or justice.

And in many case, exceptional getting a profit for banks, make them unavailing for society, and in the conditions of financial crisis, even, dangerous, so as the banking system has authority and force to manipulate people and at such selfish position manipulates them exceptionally in the financial interests.

Humanity did not yet lose tailings of consciousness and responsibility; therefore there are wise people, who put the question of social responsibility of the banking system, paying attention to the problem of money laundering, bank secrecy, saving tax and etc.

The task of my research work is to put social responsibility of bank sphere on a new level, linking the concepts, which are the ground of it and on the basis of these links and collected information, to formulate an own idea, which gives beginning for the future detail work, but in a prospect can be realized and incarnate in International Fund of social justice, equality and social cultural development, which gives humanity an answer for a question how to force the banking system to be socially responsible, to work in behalf of society, promoting welfare of all people.

Seeking for salvation from hypocrisy, lie, mercenariness, rescue from death of the planet Earth, conscious persons and science come to the concept of ethics banks, the best traditions of Islam banks are examined. Let's consider the more detailed above-mentioned.

Modern Islamic banking

Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah, known as Fiqh al-Muamalat (Islamic rules on transactions). The basic principle of Islamic banking is the sharing of profit and loss and the prohibition of riba (usury).

Islamic banks lend their money to companies by issuing floating rate interest loans. The floating rate of interest is pegged to the company's individual rate of return. Thus the bank's profit on the loan is equal to a certain percentage of the company's profits. Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded. This practice is called Musharaka. Further, Mudaraba is venture capital funding of an entrepreneur who provides labor while financing is provided by the bank so that both profit and risk are shared. Such participatory arrangements between capital and labor reflect the Islamic view that the borrower

must not bear all the risk/cost of a failure, resulting in a balanced distribution of income and not allowing lender to monopolize the economy.

Islamic banks have grown recently in the Muslim world but are a very small share of the global banking system. Micro-lending institutions founded by Muslims, notably Grameen Bank, use conventional lending practices and are popular in some Muslim nations, especially Bangladesh, but some do not consider them true Islamic banking. However, Muhammad Yunus, the founder of Grameen Bank and microfinance banking, and other supporters of microfinance, argue that the lack of collateral and lack of excessive interest in micro-lending is consistent with the Islamic prohibition of usury (*riba*).

Ethical banking (Redirected from Social banking)

Historically banks have been viewed solely as financial institutions, which should concern themselves with all things financial. Morality has not entered the equation. This public view has allowed banks significant leeway with concern to ethical standards. This is because they have not been associated with the actions taken by the businesses they lend to. Banks have also stated that a reason for not mounting the new challenges that sustainability presents is that such inspection would require interference in the activities of clients. However with changing social demands, and as more is known about the effects that banks can have through their lending policies, banks have begun to feel pressure from the general public, NGOs, government's, and the like to go beyond conventional business management. For example in the mid 90's the Cooperative Bank asked 6,000 customers what their thoughts were on ethical banking; 84% responded that it was a good idea. In fact the cooperative bank was formed in response to the growing consumer base looking for ethically oriented banks.

An *ethical bank*, also known as *social*, *alternative*, *civic*, or *sustainable bank*, is a bank concerned with the social and environmental impacts of its investments and loans. Ethical banks are part of a larger societal movement toward more social and environmental responsibility in the financial sector. This movement includes: ethical investment, socially responsible investment, corporate social responsibility, and is also related to such movements as the fair trade movement, ethical consumerism, boycotting, etc. Ethical banking is a juvenile sector this movement. Other areas, such as fair trade, have comprehensive codes and regulations that all industries that wish to be certified, as fair trade, must adhere to. Ethical banking has not developed to this point; because of this it is difficult to create a concrete definition distinguishing exactly what it is that sets an ethical bank apart from conventional banks. Ethical banks are regulated by the same authorities as traditional banks and have to abide by the same rules. While there are differences between ethical banks, they do share a common set of principles, the most prominent being transparency and social and/or environmental aim of the projects they finance. Ethical banks sometimes work with narrower profit margins than traditional ones, and therefore they may have few offices and operate mostly by phone, Internet or mail.

Where does a conventional banker's money go?

In conventional banking money that is put into the bank, for example in the form of savings, can and is used by banks to make investments and to give loans to others (i.e. mortgage loans, student loans, loans to businesses and corporations, etc.). The money put into the bank by a depositor may be used to finance, by way of investments/loans, business that the depositor would not knowingly support. For example, the savings of a depositor may be used by the bank to give loans to companies that do animal testing, manufacture weapons/cigarettes/alcohol, do not pay fair wages to their employees internationally, pollute, violate human rights, support repressive government regimes, etc. While the money put into a bank by an individual depositor seems to have little importance, the combined power that all the money that depositors put into banks creates a situation in which banking ethics or lack there are capable of significantly impacting the world.

What is an Ethical Bank?

The chart below portrays the general differences between conventional banks and ethical banks.

	Conventional banking	Ethical banking
Seeks...	financial gains	social and financial gains
Invests...	wherever the highest interests and rate of return are to be obtained	in companies that improve society and the environment
Its investment funds reward...	companies even if they act irresponsibly	companies that show social responsibility
Decisions are made...	by management	by staff and customers
Provides...	no information about what it does with depositors' money	information about all the activities it finances
You...	can't decide where your money is invested	can choose the activities you wish to finance: alternative energy, fair trade, employment schemes

Ethical banks have different policies that consider a different set of questions than conventional banks do with regard to what they will or will not invest in and to whom they will or will not lend to. While ethical banks do differ from one another, concerning the ethical policies they use to decide whom they will lend to and what they will invest in, a general understanding of ethical policies used by ethical banks can be drawn from those used by the Cooperative Bank (UK) and the Citizens Bank (Canada).

They seek to do business with businesses that:

- Research, develop or market goods and services with environmental benefits
- Support and promote fair trade and international standards of human and labor rights
- Respect aboriginal rights and land claims
- Demonstrate leadership in addiction prevention and treatment
- Recycling and sustainable waste management
- The development of alternatives to animal experimentation
- Farming methods that promote animal welfare, for example, free-range farming

On the other hand these banks will not invest in governments or businesses involved in the following:

- Irresponsible marketing practices in developing countries
- Tobacco product manufacture
- Currency speculation
- Uncontrolled release of Genetically modified organisms into the environment
- Patenting; in particular, of indigenous knowledge
- Cloning; in particular, of animals for non-medical purposes.
- Global climate change, through the extraction or production of fossil fuels
- The unsustainable harvest of natural resources, including timber and fish.
- Animal testing of cosmetic or household products or ingredients
- Intensive farming methods, for example, caged egg production
- The manufacture or transfer of armaments to oppressive regimes
- The manufacture of torture equipment or other equipment that is used in the violation of human rights.
- Have a track record of human rights violations or are complicit in efforts to suppress human rights
- Encourage hatred, discrimination, or exploitation towards individuals or groups

Conventional banks deal with mostly internal ethics, ethical banks add to internal concerns by applying external ethics.

How can we judge what is ethical?

Whether or not you have thought of about it you have principles and morals that guide your everyday actions. The way in which you understand morality will affect the way in which that you judge the actions of others as moral or immoral. The ethical theories proposed by the following historical philosophers hold equally true with ethical banking nowadays.

John Stuart Mill

The premise of Mill's utilitarian ethical theory is that an action is of moral importance if it contributes to the overall happiness of all people. Therefore, in Mill's perspective a bank would be moral if it tended "to promote happiness".(p.10)^{Mill 1957} If the conduct of the bank in question acts in way that produces the greatest amount of happiness for the greatest amount of people then it will be acting morally according to Mill.

Immanuel Kant

According to Kant's Categorical Imperative morality lays in actions not in outcomes. With this knowledge you could purpose that the act of lending money is not in and of itself immoral and according to Kant's perspective banks should not be judged as moral or immoral based on the outcomes of their lending. However the second formulation of Kant's categorical imperative states: "act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end"(pg.66-67)^{Kant 1956}.

Aristotle

For Aristotle lawfulness is important in the measurement of morality, as is equality and justice. Whether an action is or is not in accordance with the law is an important measurement of morality for Aristotle. Many banks do business in accordance with the law in all practices. They may also specifically seek to do business with law-abiding clients. Nevertheless this can be problematic, as laws vary internationally. This means that a bank could be viewed as ethical even while funding clients who lawfully conduct business in harmful manners. However this measurement is challenged by Aristotle's statement: "what is just in transactions is something equitable, and what is unjust is something inequitable" (p. 84)^{Aristotle 2002}. This means that a bank needs to take into account the unjust/inequitable behavior of its borrowers to qualify as an ethical bank. For example, lending to a law-abiding corporation that does not pay its employees a sufficient living wage would be immoral.

Market economy as it was envisioned by Adam Smith vs. current economy

The argument against regulating banks is that the regulations would violate the proper functioning of the free market economy. Severyn T. Bruyn disputes this argument in his article "The Moral Economy".^{Bruyn 1999} He states that the extreme disconnection between market actions and morals was never the intent of the market economy's founding thinkers, specifically Adam Smith. He argues that putting standards and regulations in place that rest on the basic morals of society should not conflict with the free market, but are actually an important part of the proper functioning of the free market. His conclusion is based on statements made by Adam Smith. When Smith first envisioned the market economy, he did not divorce morals from the market. In fact, morals were supposed to be a natural part of the workings of the market economy. He believed that economic transactions should be the result of mutual agreement and should involve morality and friendship. He stated that selfishness could obstruct the market economy from running morally. If interpersonal relationships did not play a part, then the interdependency experienced by individuals could vanish and unfair play based on greed and mistrust would exist. Bruyn discusses today's society as one that has lost its basic morals in the market. He states that there is a need for a reigniting of civil society.^{Bruyn 1999}.

Switching to an ethical bank

The numbers of people concerned with the morality of banks continues to grow, as can be seen by the continual growth of Triodos Bank, United Kingdom (also based in The Netherlands, Belgium and Spain); Co-operative Bank, United Kingdom; Reliance Bank, United Kingdom; ShoreBank, USA; RSF Social Finance, San Francisco and New York, USA; Shared Interest, based in the United Kingdom, investing throughout the developing and developed world; Wainwright Bank (USA); Cultura Bank, Norway; GLS bank, Germany; JAK members bank, Sweden, interest-free bank; Alternative Bank, Switzerland; Triodos Bank, based in the Netherlands with branches in Belgium, the United Kingdom and Spain.; Branca Etica (Italy); Crédit Coopératif (France); Citizens Bank (Canada); Bendigo Bank (Australia); Green banking options remain limited, EIRIS says Specialized green ethical banking.

At the same time with social banks the social responsible investing also are developing and it has a good

influence to large corporations, what mean that there is a hope to minimize the negative consequences of globalization.

International Fund of social justice, equality and socially cultural development

Means accumulated by the Fund due to bank sector (taxes, payments, collections) are distributed in equal parts between member states. Authorized departments of Fund determine urgent individual social necessities of each country and carry out financing of such necessities, also Fund finance projects socially cultural direction (building of universities, galleries for young talents, centers of development). Main attention turns to the spheres of people life, which are no privilege, but implicit right of personality (house, clean water, healthy meal, education).

There are special commissions in Fund, which control the process of realization of social equality, justice and watch to their violation. Such commissions are able to collaborate with Council of Europe and another international organization, but consider the core of functioning (bank sphere), the Fund will accent attention exactly on economic and material justice for population of each country, maximally equalize material position of everybody, improve welfare of population and by such method leveling the concept of bank materialism. Fund also has a task to «educate» banking system, exploring and inculcating to modern banking the best principles of Islam banking, codes of bank ethics and put ethics banks on a new perspective level of development.

Purpose of Fund is adduction of the banking system to the indexes and norms, what will convert it from avid profitable organization on socially responsible banking system, co-coordinated on realization of mission of overcoming of poverty, by adjusting distributing of means and inflowing it in the most staggered spheres of social existence.

One of the sources of receptions of facilities to Fund is a saving tax, a bank secret will be well-kept, but a tax will be deducted and accumulated by a Fund, with the purpose of subsequent redistribution between members. Countries which are not participants will not be able to carry out international bank transactions, but sure participation in such Fund is positive, so as enables to member countries to get the help in those areas of vital functions, which critically need financing.

It is possible to speak, that such practice is advantageous for more poor countries and can cause dissatisfaction of more rich countries, but in the context of global justice, such action are justified. Anyway for supporting of the national banking system and stimulation to economic activity in place of residence, percents which are deducted from the deposits of residents is considerably lowest, than from non-residents (5%/20%).

The reason of global economic inequality is large capitals, therefore quite logically, that exactly this large capital in the percentage ratio should pay for economic inequality.

Internationality of such Fund will provide the deductions which in any case will turn the taken out sum of money, and also Fund will carry out measures on counteraction to money laundering and will be able to offer a lot of alternatives to the existent of credit-banking systems.

Fund actually is not a government bodies, but it has ponder able plenary powers and exists on the basis of indisputable (prerogative) international agreements, international legislation and high status over the world. Fond can exist on the base of World Bank of Reconstruction and Development or International Monetary Fund, but Fund is the separated structure, which mission is to do a bank sphere accountable for social equality and justice. Also, I consider, it's effective to fasten after large commercial spheres (industries), those areas of human existence, which do not answer the level of development in one country, in comparison with other.

Means of the Fund are accumulated due to voluntarily payments of financial institutions, and also due to the tax and no tax receipts which are tightened by Fund in the forced order, but exceptionally due to bank operation. Creation of Fund puts the decision of problem of money laundering on quite another level, can stop a polemic and deprives ambiguities at least in two questions: saving tax and bank secrecy.

On such way minimum sum of saving tax will be paid, but there will be no inaccuracies and disagreements in percents for residents or non-residents, because in final result member states will get the equal aid. Embracing a world such system will be able to work for good of all humanity, wherever it is an island in the Pacific Ocean, offshore area, central Europe, Ukraine or Georgia!

An economy is not the system, which expects completion of human existence and tries to hold on from a crisis to the crisis, from a decline to the decline, keeping human welfare at level not lower than it is in the concrete moment of time. Although a modern global economy deport oneself just like this, we should look ahead,

understand and believe that today is only beginning (point of counting out) for the planet Earth, therefore our future needs wisdom, stabilities not for degradation, and radical decisions, ideas and changes for continuation of process of evolution. Who decided that ideas of Nobel level not for the brains of contemporaries? Who said, that Adam Smith has said everything, that was possible to say, and Marks and Engel tested everything, that was possible to test?

Economic science can be exhausted at the level of the system, in which it exists, but there is numberless amount of variants of events development in other revolutionary systems, and all from them are called to protect humanity and improve fate, I am sure, it is possible only on the basis of moral and ethics values.

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12. European Union Interest and Royalties Directive
13. European Union Saving Directive
14. www.inequality.org
15. <http://www.wider.unu.edu/publications/pb4.pdf>
16. <http://ec.europa.eu/>

Declining of economic inequality in the context of improving the social responsibility of the banking system

Annotation

Ulyana Shtybel

Lviv Ivan Franko National University (Ukraine)

Student of the fourth course of the Faculty of Economics

*Instructor: **Reverchuk S. K.***

In this work the problem of social inequality is explored and index description (Gini coefficient and measure income inequality) is pointed. There is criticized modern surplus mercenariness of bank sphere and mention the problem questions of money laundering, bank secrecy and the special attention pay on the nowadays situation about saving tax, role and failings of European Union Savings Directive.

In this work are shown economist opinions about ethics in bank system.

There is offered the improvement of social responsibility of the banking system by socialization of saving tax, developing of ethical banks and introduction of the best traditions of Islam banking. In connection with the crisis phenomena and necessity at revolutionary ideas for an economy, there is offered establishing of “International Fund of social justice, equality and socially cultural development” and implementation by it functions of economic distributor due to a bank sphere, by such way leveling the concept of bank materialism and assist in the decline of social inequality.

ROLE OF DEVELOPMENT AND COMMERCIALIZATION OF NANOTECHNOLOGY IN DEVELOPMENT OF ECONOMY OF GEORGIA

Irakli Vekua

Caucasus University

The student of the second year of bachelor degree program

Instructor: Prof. Shalva Machavariani

The nanotechnology (“Nano” means a milliard part of unit) in narrow sense is a technology of working with substance at level of separate atoms. The traditional method of manufacture means working with such amount of substance which contains billions of atoms. Thus, transition to manipulation with atoms essentially changes accuracy and production efficiency.

Ideas of nanotechnology have started to assume a modern air in the eighties the XX century. In 1981 scientific company IBM has created a so-called tunnel microscope. It has appeared that by means of this microscope it is possible not only to see atoms, but to move them. So this innovation was a demonstration of possibility of constructing of any substance or a subject.

It is possible to say that now nanotechnology is the most rapidly developing branch of a science. “Nanorevolution” has begun some years ago and many countries annually join this process. The reason of such interest is those forecasts according to which “nanorevolution” will be more important, than the computer revolution. The nanotechnology becomes the arena of the fierce international competition; therefore the developed countries invest great sums in nanotechnology development.

In Georgia nanotechnology is paid not enough attention. There is no concrete plan for development of this branch of science. Despite it, in Georgia there are scientists who work in this sphere and have certain successes. Some of them worked at leading foreign research institutes and were successful enough. They try to continue working in Georgia in this direction, but their sources of financing are rather poor.

After “Rose Revolution” in Georgia the situation in many spheres has changed. Changes occurred in Georgian science too, but there is no saying that all has cardinally changed in proper direction. Every year the number of scientific institutes and the people working in these institutes is reduced (Table 1 and 2).

Table 1
unit

	2003	2004	2005
Scientific institutes, all	120	120	99
Including:			
colleges	23	23	19
Scientific research institutes	97	97	80

Source: Department of Statistics

Table 2
in thousand

	2003		2004		2005	
	All	Including women	All	Including women	All	Including women
Researchers, all	16,1	6,0	13,3	7,1	9,2	4,6
Including having scientific degrees						
The doctor of sciences	1,8	0,3	1,9	0,4	1,3	0,3
The candidate of sciences	5,7	2,4	5,8	3,0	4,6	2,3

Source: Department of Statistics

According to available information, these figures were even more reduced, the number of scientific institutes has decreased to 66, and number of their employees to 4854 (Table 3).

Table 3

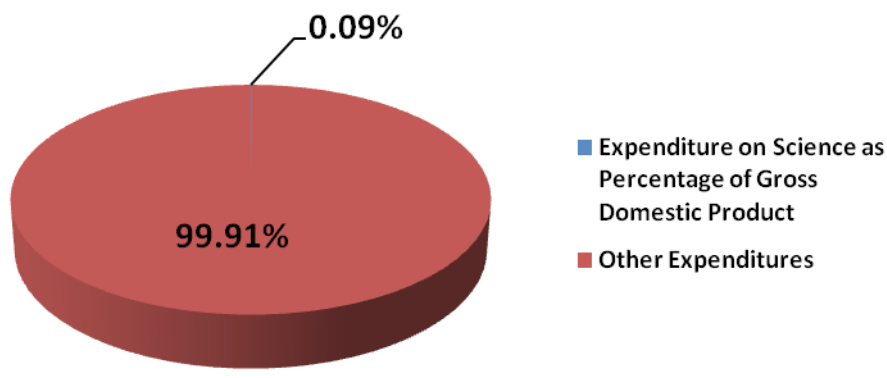
The general data	
Number of scientific institutes	66
Number of their employees	4854
Includes women	51%
Includes men	49%
Aggregate number of managements	135 (3%)
Includes women	23%
Includes men	77%
Aggregate number of researchers	2525 (52%)
Includes women	52%
Includes men	48%
Number of main researchers	616 (24%)
Number of senior researchers	862 (34%)
Number of researchers	1047 (42%)
Aggregate number of auxiliary researchers	2194 (45%)
Includes women	51%
Includes men	49%

Source: Ministry of education and science

The sum spent on a science, increases every year though its share in a Gross Domestic Product (Schedule 1) – 0,09%, is very low, in comparison with those requirements which are put forward by the European Union to its members, and recommends to other countries (EU27 R&D spending stable at 1.84% of GDP).

Certainly, growth of the sum allocated for a science will promote its development, but Particularly on nanotechnology influence of this will not be essential, because now in Georgia there is no special institute in nanotechnology, also the National Scientific Fund does not have separate direction for nanotechnology in competition of scientific grants.

Schedule 1



The unique state document which concerns technology development in Georgia is the cooperation program between the Ministries of Education and Science of Georgia and Armenia for 2008-2011. It provides strengthening of relations between two countries in education spheres and sciences, including in the field of technology. The European Union has supported cooperation between Georgia and Armenia in an education and science sphere. Despite signing document, there is hard to say whether this will change situation in general.

I think, for successful development of nanotechnology in Georgia it is necessary coordinated work of the government, business community and scientists. The main reason of popularity of nanotechnology in the world is its profitableness. In Georgia really there is a potential that this branch became financially attractive.

Georgia does not have possibility to invest billions in development of technology and to carry out basic researches in this area; besides we do not have a corresponding infrastructure. Therefore it is important to allocate advantage of those directions which demand smaller financing. Such direction is the theoretical technology.

The developed countries of the world spend billions in nanotechnological researches. This process contains some stages. Theorists work over new ideas and after achievement of certain result transfer the project to experimenters.

After approbation of idea the project comes back again to theorists after that it is again transferred to experts for carrying out of experiment and so indefinitely while all details will not be considered. The most expensive part of this process is the experiment.

During research scientists use special computer programs which help them with acceptance of optimum decisions. For creation of such programs the specific knowledge and experience is necessary. In Georgia there is a potential for creation of similar programs. Competition of grants of the Georgian national scientific fund has won the project of creation of one from such programs. It is necessary to pay more attention to such undertakings because in the developed countries there is a big requirement on them.

Georgian scientists are working on new ideas and theories. Some years ago financing for similar projects in Georgia was not obtained and some have tried to find financing abroad. The international funds and foreign businessmen have allocated the sums for carrying out of researches. Accordingly, patents for the reached results belong to them and also they receive fees for use of inventions. The invested sums for researches and patenting of results much less than that profit which they can bring. Similar projects exist till today and foreign businessmen even more often come for cooperation with the Georgian scientists. Some of them have received invitations for work abroad. Now, when the role of an intellectual resource grows in the world more and more, it is inadmissible so carelessly to address with it.

For technology development in Georgia it is necessary to undertake following steps:

Step 1. To create the Georgian institute of technology in which the Georgian scientists will unite. At this institute scientists and experts of marketing should work in coordination that there was a creation of a demanded product and the offer it to the market in the correct form.

Step 2. It is necessary to issue the cooperation agreement in sphere of nanotechnology with corresponding institutes of the developed countries that there was a development of the received results in Georgia in the leading world research centres. Several years ago similar agreement was signed between Germany and

Azerbaijan.

Step 3. Separately to allocate a nanotechnology direction in a competition of National Scientific Fund of Georgia, every year to finance at least one project from this sphere. It will promote interest growth to this direction of a science and will create the lever of its financing.

Step 4. In corresponding with educational institutions to create an educational-information course for students in order to increase amount of the persons interested with nanotechnology. Also it is necessary to include into a school course of physics fact-finding lecture about nanotechnology that the future generation knew more about modern technologies and prospects of their development.

Most important is the correct management of nanotechnology in Georgia. It is necessary to choose the suitable market for the Georgian production which will be basically patents and computer programs. Acquisition of good reputation in the market is one of major factors for success. Cooperation agreements (Step 2) should help Georgia with search of consumers. Some successful projects will be sufficient to interest the Georgian businessmen. In Georgia there is no experience of investment of money in a science and extraction of profit from this, therefore this direction is considered rather risky in the Georgian business environment. From the side of business science financing has the form of a certain charity in our country. I think, in case of precedent creation this relation will be changed.

List of Applied Literature:

1. www.statistics.ge
2. www.mof.ge
3. www.mes.gov.ge
4. www.gnsf.ge
5. www.nanometer.ru
6. www.rusnanoforum.ru
7. www.delgeo.ec.europa.eu

Role of development and commercialization of nanotechnology in
development of economy of Georgia

Annotation

Irakli Vekua

Caucasus University

The student of the second year of bachelor degree program

*Instructor: **Prof. Shalva Machavariani***

It is possible to say that now nanotechnology is the most rapidly developing branch of a science. “Nanorevolution” has begun some years ago and many countries annually join this process. The nanotechnology becomes the arena of the fierce international competition; therefore the developed countries invest great sums in nanotechnology development.

The main subject of the scientific work is importance of the commercialization of nanotechnology. Commercialization will made this branch of a science more attractive and will support development of nanotechnology.

The scientific work describes problems that baffle development of nanotechnology in Eastern Europe, especially in Georgia.

The goal of the scientific work is describing necessary arrangements for nanotechnology commercialization and positive results it can bring.

DEVELOPMENT OF TOURISM IN SOUTHERN CAUCASUS

Gunel Ismailova

Azerbaijan University

Student of the forth course of the faculty of Economics

In modern period must be pay attention on tourism development. To develop tourism in a short time with full of natural and human resources, Southern Caucasus countries have favorable conditions and opportunities. But because of objective and subjective reasons the development of tourism couldn't get enough dynamism during the independence years of these states. For that purpose a high attention should be paid to the tourism industry, its development strategy and legislative base should be elaborated. In order to provide a competition capacity of South Caucasus in the world tourism market an excellent strategy plan should be created by a fully systematic approach. Let's first familiarize with general information and some comparative statistical indices for Azerbaijan, Georgia and Armenia.

AZERBAIJAN

Territory of Azerbaijan is 86,6 thousand square km. The country extends between longitude 44° and 52° east and latitude 38° and 42° north, Baku situated at the parallel of 40°. Azerbaijan borders with Iran (765 km) and Turkey (15 km) on the south, Georgia (480 km) on the north-west, Russia (390 km) on the north and Armenia (1007 km) on the west. The national language is Azeri.

The Republic of Azerbaijan has a very rich flora and fauna. There are more than 4,500 species of higher plants here. You can found in Azerbaijan Sixty-six per cent of the species growing in the whole Caucasus. The variety of its vegetation and the richness of Azerbaijan's flora results from the variety and richness of its physical-geographic and natural-historic conditions.

Azerbaijan is situated on northern extremity of the subtropical zone, south-eastern Caucasus and north-western part of Iran plateau. Its climatic diversity is caused by the complicate geographical location and landscape, the proximity of the Caspian Sea, the effect of sun's radiation, etc.

Azerbaijan is surrounded by the Major Caucasus, Minor Caucasus, Talysh and North Iranian Mountains. The Kur lowland between the Major and Minor Caucasus, stretches to the Caspian Sea in the eastern part of the country. In the north of the country situated the Major Caucasus and stretching from the north-west to the south-east, protects the country from direct influences of cold air masses, coming from the north.

The sun shines for 2200-2400 hours a year on the Kur-Araz lowland, Apsheron peninsula and other plains and foothills, while the indicator totals 2600-2800 in the plains around Araz in the Nakhichevan Autonomous Republic. Due to increased cloudiness in the mountainous regions, only 1900-2200 hours per year are sun shining.

The temperature regime and its distribution throughout Azerbaijan are regular and depends on the features of air masses, entering to the country. In the hottest month of a year the average temperature mainly equals 26-27C in the Kur-Araz lowland, while in other plains and foothills it does not fall below 24C. The absolute temperature maximum (46C) and minimum (-32C) are registers on the plains around Araz in Nakhichevan Autonomous Republic, characterized by its continental climate.

SIGHTSEEING IN AZERBAIJAN

Baki, Nakhchivan, Lankaran, Astara, Gabala, Gakh, Guba, Ganca

Suitable natural condition and climate of the Azerbaijan Republic allows developing tourism here. Let us drop here to a number of indicators (parameters) connected with tourism what (Mild climate of Azerbaijan allows to develop here tourism successfully. Let's take a look to some tourism related indices.)

The basic indicators (parameters) of the Hotels

	2002	2003	2004	2005	2006	2007
The number of the tourists coming with purpose of rest, entertainment	32036	17798	57649	79594	99348	120901
Including:						
Country citizens	6849	15186	45076	61181	77088	91937
Foreign citizens	25187	2612	12573	18383	22260	28964
Profit from exploitation hotels, by thousand manat	26129.7	41770.5	54326.5	66510.9	74342.4	89785.3
Expense for the exploitation hotels, by thousand manat	22991.7	31072.1	37385.7	47312.0	50012.0	80020.3
VAT and other taxes	2548.7	4413.4	6094.7	9441.1	9445.9	9787.3
The number of Hotels, unique	94	96	238	262	285	320
The number of the numbers	5300	5034	9827	10661	11403	11829

The number of the tourists, person according to purpose journey

	2002	2003	2004	2005	2006	2007
Number of accommodated tourists by travelling purpose	117882	146232	213274	264058	291617	305483
Including:						
Rest, entertainment	32036	17798	57649	79594	99348	120901
Business (business-like) to journey	52893	102648	104184	141933	151174	138999
Cure	1022	1652	8986	17701	15118	7719
Etc.	31931	24134	42455	24830	25977	37864

The number of the tourists according to period living, person

	2002	2003	2004	2005	2006	2007
Number of accommodated tourists by staying period	117882	146232	213274	264058	291617	305483
1-3 days	86195	108358	144308	184690	206628	233575
4-7 days	18528	28043	37364	49660	44474	27418
8-28 days	7573	7705	28334	26244	34972	23028
29-91 days	5094	1470	2691	3079	5020	1432
92-182 days	371	458	108	120	279	275
183-365 days	121	198	469	265	244	19755

Flows of international tourist, thousand person

	2003	2004	2005	2006	2007
Total number of people coming to Azerbaijan and Azerbaijani citizens going abroad	2512,7	2752,9	3111,9	3097,9	2964,0
The number of the citizens coming to Azerbaijan from the foreign country	1038,0	1279,4	1282,1	1262,0	1332,7
Including on purpose of the journey					
Private	74,7	97,2	94,9	99,7	107,9
Business (business-like)	935,2	1129,7	1146,2	1124,4	1184,8
Tourism	28,1	52,5	41,0	37,9	40,0
The number of the citizens going from Azerbaijan to the foreign country-total	1474,7	1473,5	1829,8	1835,9	1631,3
Including on purpose of the journey					
Private	104,7	103,1	124,4	130,4	115,8
Business (business-like)	1299,2	1304,0	1612,1	1617,5	1434,0
Tourism	70,8	66,4	93,3	88,0	81,5

The number of hotels

	2002	2003	2004	2005	2006	2007
The number of hotels-unique	94	96	238	262	285	320
According to the sort of property;						
State	48	48	74	67	65	61
Special	40	42	156	184	208	243
Municipality	-	-	-	-	-	-
Foreign	3	3	5	6	8	11
United	3	3	3	5	4	5
Collective	-	-	-	-	-	-

GEORGIA

Georgia is situated at the cross-roads of Europe and Asia. It occupies 69,700 sq. km with a population of about 4.5 million people. The national language is Georgian. In the north, Georgia has a 723 km common border with Russia. Georgia also shares borders with Azerbaijan (322 km) to the south-east, Armenia (164 km.) to the south, and Turkey (252 km.) to the south-west. The largest river is the Mtkvari. The Rioni River, the largest river in western Georgia, has its origin in the Greater Caucasus and empties into the Black Sea at the port of Poti.

SIGHTSEEING IN GEORGIA

Tbilisi, Batumi, Borjomi, Gori, Kutaisi, Mtskheta, Sukhumi, Telavi etc.

ARMENIA

Armenia is situated at the Southwestern Asia. Armenia is east of Turkey and bordered by 3 countries: Turkey, Azerbaijan and Georgia. Population of Armenia is 3.3 million people.

The location of Armenia in subtropical zone. It is formed here by air masses of midlatitudes. In summer tropical continental air masses encroach from the South. In winter the air above Armenian Plateau is strongly cooled and the area of high air-pressure sets here. Armenia receives an average of 2700 sun hours of light a year. Armenia is a mountainous country.

SIGHTSEEING IN ARMENIA

Yerevan, Erebouni, Tsitsernakaberd Park (situated on the Tsitsernakaberd hill), Sevan, Zvartnots, Echmiatsin, Garni, Gegard, Khachkars etc.

For the development tourism in Southern Caucasus we have suitable natural climate and condition. So the development of tourism sphere requires solving economic and political problems. As the base of these problems we can indicate the following items:

- Existence of political instability and conflicts (Georgia-Russia, Azerbaijan-Armenia)
- The disparity of tourism sphere in modern standards
- The lack of training system of professionals for tourism industry
- Haven't enough flow of local and foreign currency investments mechanism in tourism industry
- The enervation of doing tourism service information system and etc.

Problem

- Existence of political instability and conflicts (Georgia-Russia, Azerbaijan-Armenia);

Being in a state of war is the main obstacle on the way of developing tourism both for Azerbaijan and Georgia. Since one might expect that no tourist will consider visiting any place which is in a state of war. This proved by the latest events in Georgia - tourist flow to this country was decreased drastically following latest incidents. Occupation of its territories and refugees is the main reason for most of difficulties that Azerbaijan has come across today. This, in turn slowed down the evolution of tourism business here.

- The disparity of tourism sphere in modern standards;

One of the main problems in tourism development is the fact that the tourism infrastructure does not meet the requirements of the world standards. As the governmental sanatoriums in Azerbaijan do not suit the modern

standards and the private resorts are more expensive than the ones in foreign countries, so population prefers resorts in abroad.

- The lack of training system of professionals for tourism industry;

There's a still weak management of cultural heritage in Southern Caucasus region. The main reason for this is the lack of experienced personnel.

Realizing following steps might be appropriate in Southern Caucasus region in order to solve several indicated problems.

- Solving the conflicts and reconstruction of stability in a short time;

The development of the tourism in unstable country is impossible. Whether, the development of the tourism is a prior concern, the unstably should be solved and governmental boundaries of all countries in Southern Caucasus should be fixed to internationally recognized levels. Also, human rights should be strengthened and all abuses in that level should be defeated.

- The reconstruction and development of modern tourism sphere in Southern Caucasus region;

As we know, one of the outstanding tourism infrastructures is located in Mediterranean Sea shores. To develop Caspian and Black sea region tourism infrastructures, practises of Mediterranean countries is ideal to use.

- Strengthen and reconstruction political-economic relation between the countries;

To solve the controversies between countries and its boundaries is merely way out for sustainable development of tourist and citizen safeties.

- Direct financial resources to development of tourism;

To transfer fiscal sources under control of government to the tourism will develop that sector. Also, funding must be created to develop the natural and cultural resources. Furthermore, legislative acts should be developed for the tasks related funding and fiscal administration.

- Application of unit visa regime in Southern Caucasus region;

As an example in European Union countries single visa regime could be applied in Southern Caucasus. Barely visa regime for developed countries could be applies. To use Single visa regime in region will cause an interest of tourists.

- Training specialists will be working in tourism sphere;

To provide cultural object with administrative bodies should be concerned. Active human resources strategy should be applied in that sphere. International practises should be used and staff might be sent to the courses related management of tourism. Also in local scale courses related tourism could be arranged.

List of the applied literature

1. Туризм: экономика и социальное развитие – Гуляев В.Г. 2003
2. Statistic parameters of Azerbaijan Republic – 2008
3. www.azstst.org

Development of tourism in Southern Caucasus

Gunel Ismailova

Azerbaijan University

Student of the forth course of the faculty of Economics

In modern period must be pay attention on tourism development. To develop tourism in a short time with full of natural and human resources, Southern Caucasus countries have favorable conditions and opportunities. But because of objective and subjective reasons the development of tourism couldn't get enough dynamism during the independence years of these states.

So the development of tourism sphere requires solving economic and political problems. As the base of these problems we can indicate the following items:

- existence of political instability and conflicts (Georgia-Russia, Azerbaijan-Armenia)
- The disparity of tourism sphere in modern standards
- The lack of training system of professionals for tourism industry
- haven't enough flow of local and foreign currency investments mechanism in tourism industry
- The enervation of doing tourism service information system and etc.

In order to solve the problems mentioned above it will be advisable to realize the following directions in Southern Caucasus region

- Solving the conflicts and reconstruction of stability in a short time
- The reconstruction and development of modern tourism sphere in Southern Caucasus region
- Strengthen and reconstruction political-economic relation between the countries
- Direct financial resources to development of tourism
- Application of unit visa regime in Southern Caucasus region
- Especially shaping civilized environment in regions
- Training specialists will be working in tourism sphere.

HOTEL AND RESTAURANT INDUSTRY CHALLENGE: SERVICE PERSONNEL ROLE

Manana Salakaia

Caucasus University

Alumnus of Caucasus School of Business, faculty of Management

Instructor: Prof. Sh. Machavariani

The image of Georgia as tourism destination was rising in recent years and so does customer expectation. The companies in this industry should focus on rising customer loyalty. However, the Georgian reality is opposite. The key to success in this industry is service and customer loyalty. Conversely, the local hotel and café/restaurants not only fail to raise customer satisfaction but their delivered service hardly goes beyond elementary level. The result is dissatisfied customer. The problem is that the managers in service organizations have not comprehended the importance of delivering high-quality service. Because of inexistence of proper service infrastructure and the self-willed pricing and service policy of owners/managers, Georgia loses customer attraction opportunity. Hospitality – feel at home out of home – needs high level of service. The service itself is highly personalized. So, human resource is very important in this sphere. Georgian tourism industry should recognize importance of service personnel role in service delivery. Rising demand needs better human resource management.

One of problems in service industry is lack of qualified personnel. Another most important issue is retention of qualified staff. Training and development of staff does not guarantee personnel retention and job dissatisfaction level is high among personnel. The reason varies from unattractive remuneration to ineffective management or simply wrong motivation system. The dissatisfied personnel translate into dissatisfied customer. So, right strategy is needed for gaining success in this industry.

The aim of work is to demonstrate: 1) the importance of creating service culture in Georgian Service Industry (specifically in Hotel and Restaurant Sector), where high-quality service might be way of life; 2) the important role of service personnel for customer satisfaction; 3) the strategies for delivering customer-driven service – recruiting the right person, personnel development, providing support systems, and retaining best personnel.

Service in Georgian Hotel and Restaurant Industry

The product differentiation in competitive markets becomes more and more difficult. So the focus goes on differentiating through service and many companies worldwide gain competitive advantage through service quality. All service companies might concentrate on delivering best service. The success of company largely depends on the quality of service they offer. They should think from the customers' view and satisfy the needs and expectations that their customers have.

For gathering information about opinions of representatives of key players in the industry brief interviewing were conducted with them: particularly with Georgian visitors of café-restaurants, foreign tourists and several waiters/waitresses at café/bars and restaurants. Also, the information was gathered from Internet forums where dozens of people expressed their point of view and experience. The members of forums are ordinary customers of research industry, as well as employees in the industry.

Generally, customers think that the service level in Georgia is low. Majority thinks that organizations where service level is high are very few (McDonald's was named most often), however this will not be so unless numerous trainings from foreigners.

It is not rare to see personnel frowning sternly in café in Tbilisi and taking dishes from table to make you leave soon. There are pretensions among customers that a personnel smiling at work is rare. Customers do not

understand the reason of such behavior. If one meets smiling personnel serving warmly and politely, this is only because of the personality of this personnel and does not mean that all the staff in that organization serve alike and there are some standards there.

Regarding the hotels, the situation is better here concerning service. However, as the attracting customer is not through service level but by advices from relatives, so the service is paid less attention by managers.

This does not regarding prestigious hotels like Sheraton and Marriott. Concerning standards, except these two brands, the high-quality service is only in several hotels nowadays. Some of such hotels are hotels of “m|group” and “Sympatia”. Almost all other hotels have no standards of delivering service.

There is also discontent because of prices. When comparing Georgian 3-star hotel with the same-level hotels in Turkey - developed tourism country, it was found that hotel cost per person in Georgian hotel equals double room cost in Turkey. In addition to high-quality service and competitive price, customers may have various discounts, like following graphs show:

Single room	60 euro
Double Room	80 euro
Triple Room	100 euro
Children policy	0-6 free 7-12 50% discount

The tourism agencies also suggest various discounts on group or multiple visits. However, such practices are rare in Georgia. The discounts in hotels are only in prestigious ones, which are local branches of international network and are pursuing international corporate strategies.

Tables 1 and 2 show that there is growth tendency (fig. 1) of both visitor quantity and hotel quantity in Georgia. So, there is no ground to suppose that high price is caused by supply falling behind demand in this industry and the fact is that hotel rooms are vacant even on seasons.

Table 1. Quantity of visitors by years
(*Hotels and Hostels Research*, Department of Statistics of Georgia)

Total Visitor Number								
	2000	2001	2002	2003	2004	2005	2006	2007
Total	74546	70114	70510	82630	116496	152288	217095	282361

Table 2. Hotel Quantity (by years of starting operations)
(*Hotels in Georgia*, 2007; Department of Statistics of Georgia)

2000	2001	2002	2003	2004	2005	2006
22	19	17	17	40	46	66

No flexible pricing strategy, no discounts, high prices even on non-season times and even when rooms are empty on seasons – in such situation it is inappropriate to talk about creating high-quality service culture, while hotel management is so inflexible.

Such pricing system together with poor service quality indicates to how inflexible hotel politics is. The service providers do not consider good service to be important in customer relationship the same way as they fail to consider how important flexible pricing strategy in attracting and retaining customers is.

The reasons for such situation are negligence of managers/owners in importance of points discussed above and generally inexistence of standards in industry.

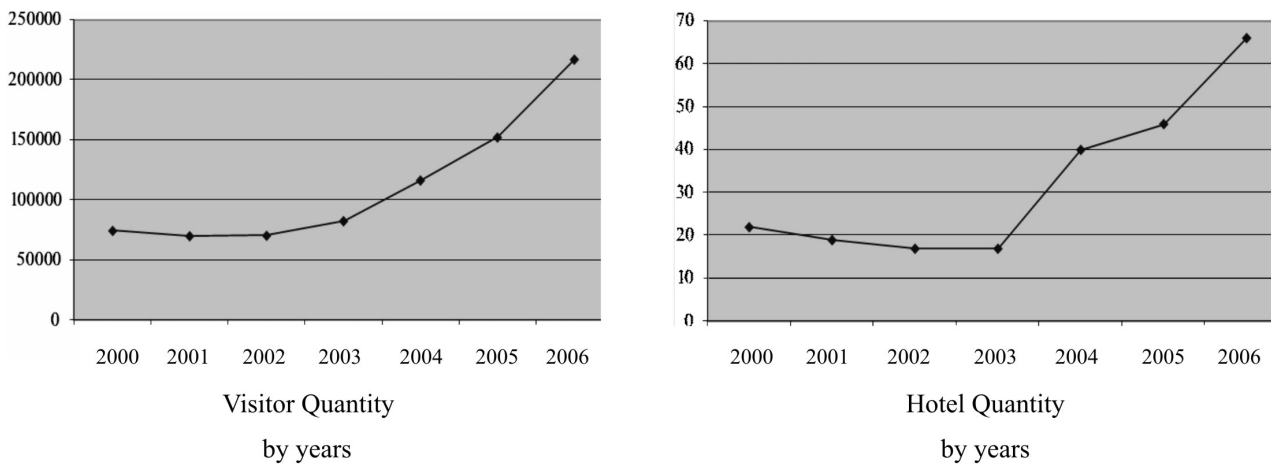


Figure 1. Visitors and Hotels Quantity Growth Tendency

For Georgia to form as tourism place, establishment of proper structure is needed, where service industry key players create right product, create standard for right service delivery, and establish infrastructure for raising the product awareness and delivering it. The whole structure must work along common standards. For achieving all these, the establishment of associations is needed, which will help in tasks of establishing common industry standards, pricing system, service standards; the database of hotels will be established which will provide tour agencies with exact information about conditions in hotel, the reliable rating system will be determined. Tour agencies themselves should suggest discounts and wide range of hotels with full and right information about price/service/rating and other conditions of hotels.

All this is needed for Georgia to establish right view about the importance of right service and pricing, and industry infrastructure to attract and retain customers.

In the rest of the work the focus is on role of personnel in delivery of high-quality service, the problems they face and the strategies for human resource management are stated.

Critical Importance of Service Personnel

Service personnel and their supporting employees are critical to service company success. The frontline personnel represent organization in the eyes of customers, they are the brand, they establish the company image and they are main sellers of company products. Anything these employees do or say establishes customer perceptions about company.

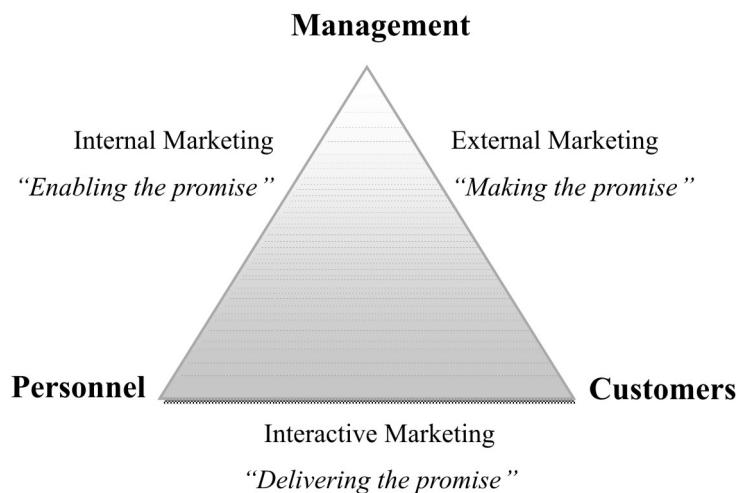


Fig. 2
Service Triangle

Source: P.Kotler, *Marketing Management*, Prentice Hall, 1994

The customers have some expectations regarding service. For example, when they enter café, one expects to have desired menu together with pleasant service and will not be object of anger burst of some nervous waiter.

Framework *Service Triangle* (fig. 2) demonstrates importance of people in success to gain customer satisfaction. The figure shows three interdependent sides – company (management), customers and personnel. Between these three sides, three types of marketing are carried out: external marketing, interactive marketing and internal marketing. (*Marketing Management*, 1994)

Through *external marketing*, the company sets up customers' expectation and makes promises to customers about what is to be delivered. However, the promises must be kept.

Interactive marketing is when these promises are kept or broken by company. If promises are not kept, customers are dissatisfied and will leave.

The third side – *internal marketing*, are the activities in which company engages to help personnel deliver promised service, like recruiting, training, motivating, rewarding, and providing support systems, etc. If service personnel are not *able* or *willing* to deliver promises made then the company will not be successful and service triangle will collapse. All the three sides are important to avoid this and to complete the whole. Sides are interdependent – what was promised by external marketing should be the same as what is delivered during interactive marketing, and the support systems should be aligned with what is expected from personnel.

Employee Satisfaction, Customer Satisfaction, and Profits. Satisfied employees make for satisfied customers (and in turn satisfied customers can reinforce employees' sense of job satisfaction). Researches show that it is hard to achieve success unless employees are happy at their jobs. The correlation between employee satisfaction and customer satisfaction is high. Employees that feel valued by company will better treat customers, resulting in greater customer satisfaction.

The logic between connection of employee satisfaction/loyalty to customer satisfaction/loyalty and eventually profits is illustrated on framework *Service Profit Chain* (fig. 3). Companies that manage human resources right will outperform other companies in era of competitive markets. (*Services Marketing*, 2005)

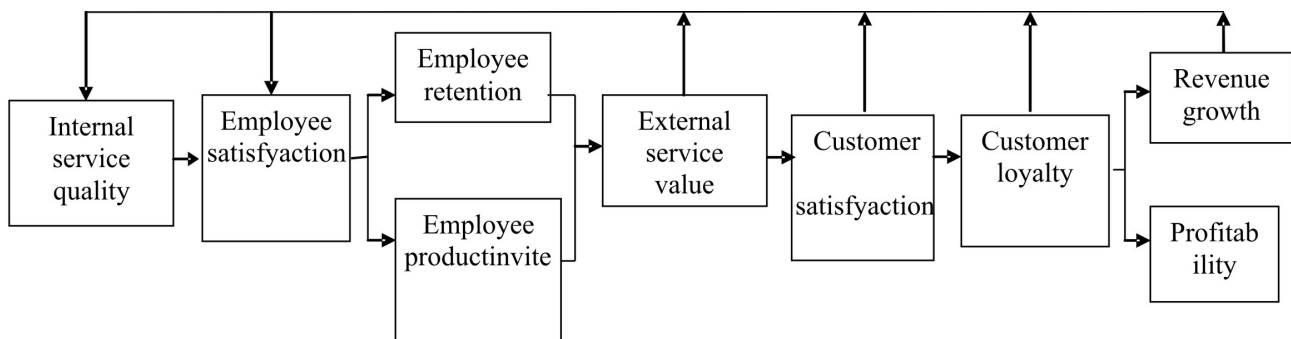


Fig 3. Service Profit Chain

Source: JL Henkett, TO Jones, GW Loveman, WE Sasset, Jr., and LA Schlesinger, "Putting the Service-Profit Chain to Work", Harvard Business Review, 1994

Service Personnel Role Challenges. The frontline employees who serve the customers directly, link the external customers and organization. So, except mental and physical skills, such jobs require unusual level of *emotional labor*, ability to handle interpersonal and interorganizational conflicts, and make trade-offs between quality and productivity. The term *emotional labor* was used by Arlie Hochschild and refers to the labor that goes beyond physical and mental skills needed to deliver high-quality service. It means smile, making eye contact, showing sincere interest, friendly conversation, etc. Friendliness, courtesy, empathy, and responsiveness toward customers require huge amount of emotional labor from frontline employees. Such labor often requires them to suppress their own feelings and emotions. (*Services Marketing*, 2005)

Frontline employees often face interpersonal and interorganizational conflicts at their jobs. If their frustration and confusion is left unattended, this may lead to stress and job dissatisfaction, and eventually burnout. Often they face conflict between their values/personality and the behavior demanded from them (role requirements). Also conflict may arise, when employee does not agree with the policies of company and has to

whether cope with this feeling and suppress it or lose job.

When serving many customers at the same time, employees have difficulty with serving many with heterogeneous demands. Also customized serving and spending additional time with one customer makes employee inflexible in meeting needs of everyone and others may be dissatisfied for having to wait.

These tasks are even harder when high-quality service has to be delivered because in such case employee has to deliver quality service while being efficient at the same time and serving all in timely manner. In such cases, personnel face trade-off between effectiveness and efficiency. The employee has to efficiently serve the customer with as less time cost as possible, while not sacrificing the quality level.

Such trade-offs and conflicts often lead to stress and discomfort in personnel. However, carefully selecting people who can handle emotional stress, training them in needed skills and giving them coping abilities and strategies will help them be effective and efficient at their jobs.

Strategies for Delivering Service Quality through People

A combination of strategies is needed to ensure that personnel are not only *able* but also *willing* to deliver quality, customer-oriented service. These strategies for supporting personnel are referred to as *internal marketing*. In hotel and restaurant industry, importance of attracting, developing and retaining of personnel cannot be undervalued. As this industry is highly personified, main focus should be on personnel through whom company delivers product to final customer. If considering employee role importance, primary goal is to enable and motivate personnel toward delivering customer oriented service. Four main strategies for enabling this are: 1) hiring the right people, 2) developing personnel to deliver quality service, 3) providing needed support systems, and 4) retaining the best employees. (*Services Marketing*, 2005)

Hire the Right People. Significant attention should be paid on recruiting service personnel. Such attention toward recruiting is opposite of traditional practices in many service industries where service personnel are the lowest on corporate ladder with lowest remuneration. (*Services Marketing*, 2005)

The new approach is to estimate not only technical skills and capabilities of applicant but also their customer- and service orientation. That is, except *service competencies* the applicant should be screened also on *service inclination* – their orientation toward serving customers and attitudes toward service. Service effectiveness is correlated with service-oriented personality traits such as helpfulness, thoughtfulness and sociability (*Services Marketing*, 2005). Applicant with high scores on both dimensions will be best choice.

Companies can exercise innovative approaches while assessing candidates, such as group interviews and simulation games where personal traits of applicants may be assessed.

Develop Personnel to Deliver Quality Service. Once the company has recruited the right personnel, it must train and develop these employees to ensure high-quality service. They must be trained not only in necessary technical skills and knowledge but also in interactive skills. This will help them to provide caring, empathetic and responsive service. Successful companies heavily invest in training to ensure that training fits company vision and goals.

Many companies decided that personnel might be empowered to accommodate customer needs/requests, to deliver customized service and to recover on the spot when things go wrong. *Empowerment* means giving personnel authority to make decisions, however, authority alone is not enough; they need the knowledge and tools to be able to make these decisions; and they need incentives to ensure that the decisions are right. The positive effects of empowerment include job stress reduction, improved job satisfaction and service performance. However this is not easy task and organizations have to decide which employee is proper for “extra” authority and if empowering fits company procedures.

Because service jobs are often frustrating and challenging, working as teams might ease job stress and tension. Personnel that feel support and feel the team backing them are more effective at jobs and more easily maintain enthusiasm. Team where everyone helps and commiserates each other promotes attitude of achieving together the common goal.

Encouraging “everyone has a customer” attitude and basing rewards on team performance helps to promote team spirit and encourage team efforts.

Provide Support Systems. Without customer-focused internal support systems, it is impossible for personnel to deliver quality service and be effective and efficient at jobs.

Employees need right, properly functioning equipment to deliver service. In addition, the internal systems

and processes should be based on customer satisfaction and must support quality service performance reverse to approaches of many companies' processes emphasizing cost efficiency, bureaucratic rules, etc. Implying service-oriented processes will need whole system redesign.

Setting up *service culture* in company will help company in their transition to customer-driven system. Where service culture exists, there is appreciation for quality service and customer-driven service is way of life and common norm for everyone. Those who attained developing service culture in their companies possess grand competitive advantage. As no amount of supervision would allow company to control behaviors of every employee. In such cases, company may rely on its service culture to influence thoughts and behaviors of employees.

Retain the Best Personnel. Company that hires and develops employees must also work to retain them. Employee turnover not only incorporates risk to lose best people, but it also effects deficiently on personnel morale and service quality. Many companies invest a lot in attracting employees, however then fail to retain them because of attitude of taking them for granted. Such attitude diminishes employee morale and may eventually cause good employees to search other job alternatives.

For personnel to remain motivated to work for common goal with company, they need to share company vision. Employees need to understand how their work fits into big picture of whole organization and its goal. When the vision and direction are clear and motivating, and if employees feel valued and that their needs are taken care of, employees are more likely to remain with company along the path to the common goal. Various health care plans, benefits, family leave, family sick days, workplace flexibility and etc. are some of initiatives to benefit employees and make them feel valued.

If company wants best employees to stay, it must reward and promote them. Often company reward systems are based on productivity, sales or other dimension that in fact work against good service. However if company's vision and goals emphasizes service performance, then service behaviors that increase this outcome need to be recognized and rewarded. For example, personnel may receive incentive compensation based on company's customer satisfaction scores. The scores are calculated from customers' statements of complaint or compliment.

Also surveys are used where customers are asked to assess the level of service they received. These measurements (multiple customers for each employee or department) are then integrated in performance appraisal of each respectively and rewarded. However such measurement systems are challenging to implement. The measures must be appropriate, the sampling of questioned customers must be performed fairly and validity of results must be guaranteed. The hotels will have different incentives for each department, for example, front desk staff and housekeeping, and for the hotel as a whole by week, by month, etc. The bonuses then roll up for the region level and the brand level.

Traditional approaches like one-time monetary awards, pay rise, promotions may be linked to service performance. Other types include special organizational and team celebrations for achieving improved customer satisfaction or for attaining customer retention goals.

Conclusion

Because of inexistence of industry infrastructure and carelessness or ignorance of owners/managers of café/bar/restaurants and hotels, Georgia loses opportunity of attracting and retaining customers. These problems together with poor management of personnel drains from Georgia profit from serving customers oriented on receiving quality service. These strategies stated in work are aimed at helping personnel to effectively satisfy customers as well as be efficient in their jobs. High-quality service will be great challenge in hotel and restaurant industry years after. It will be key to success for staying ahead in competitive markets. However, this requires complex management approaches. As service delivery is through people, these approaches include human resource management, especially in relationships with customers.

The work discussed poor service quality in Georgian hotel and restaurant industry, frontline employee role importance in service delivery and strategies for allowing personnel stay motivated and be effective in service performance.

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Hotel and Restaurant Industry Challenge: Service Personnel Role

Annotaition

Manana Salakaia

Caucasus Uniersity

Alumnus of Caucasus School of Business, faculty of Management

Instructor: Prof. Sh. Machavariani

The image of Georgia as tourism destination was rising in recent years and so does customer expectation. The key to success in this industry is service and customer loyalty. However, the Georgian reality is opposite. The local hotel and café/restaurants fail to raise customer satisfaction. The problem is that the managers in service organizations have not comprehended the importance of delivering high-quality service. Because of inexistence of proper service infrastructure and the self-willed pricing and service policy of owners/managers, Georgia loses customer attraction opportunity.

The service itself is highly personalized. So, human resource is very important in this industry. Georgian service industry should recognize importance of service personnel role in service delivery.

Job dissatisfaction level among service personnel in Georgia is high. The reason varies from unattractive remuneration to ineffective management or simply wrong motivation system. The dissatisfied personnel translate into dissatisfied customer. So, right strategy is needed for gaining success in this industry.

The aim of work is to demonstrate: 1) the importance of creating service culture in Georgian Service Industry (specifically in Hotel and Restaurant Sector), where high-quality service might be way of life; 2) the important role of service personnel for customer satisfaction; 3) the strategies for delivering customer-driven service – recruiting the right person, personnel development, providing support systems, and retaining best personnel.

GENERAL ISSUES OF EFFECTIVE INVESTMENT ALLOCATION

Lasha Machavariani

Caucasus University

The student of the fourth year of bachelor degree program

Caucasus School of Business

Instructor: Instructor: Prof. Sh. Machavariani

For Georgia, as well as for other countries in a transition to market economy, effective management of the investment activities is vital. Today domestic and foreign investors face a number of problems when considering investment decision-making, related to a lack of objective information on investment environment and irrelevant use of modern methodological approaches to effective investment allocation. As a rule, investors approximately identify possible income according to economic industries, which becomes a stem for adequate investment decisions. Because of some objective and subjective reasons when assessing investment opportunities, widely accepted methodology has not been utilized including: definition of discount rates, necessary for working out of investment forecasts; determination of insurance rates defined by risk factors; anticipating annual inflation rate; calculating payback periods etc.

For future investments is important to see the perspective to invest (Fig. 1 and 2, Tables 1 and 2) |1|

Investment

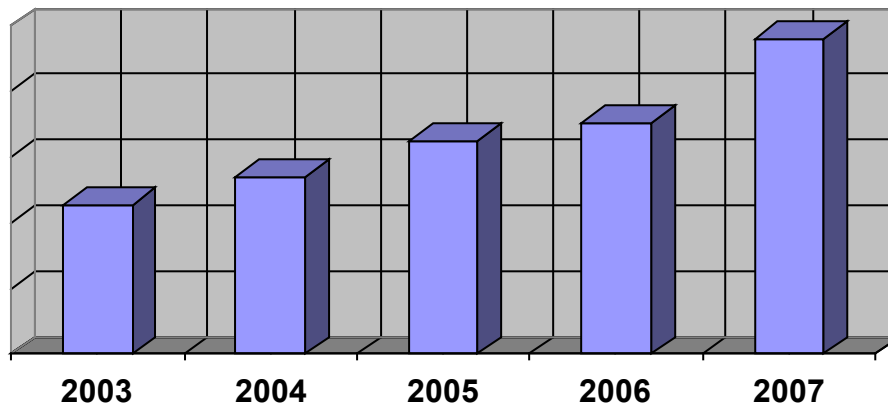


Fig. 1 Dynamics of Investment

INVESTMENT IN FIXED CAPITAL (mln. GEL)

Table 1

	2003	2004	2005	2006	2007*
Agriculture, hunting and forestry; fishing	76.1	83.5	88.9	98.1	120.2
Industry	209.4	243.5	222.3	204.7	311.4
Construction	56.6	146.5	143.9	187.9	252.7
Trade, repair motor vehicles and personal and household goods	119.9	142.7	124.3	102.0	195.3

Hotels and Restaurants	38.6	36.8	38.8	51.6	58.4
Transport and Communication	752.7	853.8	900.0	965.9	1 163.1
Financial Intermediation	37.8	46.9	57.0	63.8	118.0
Real estate, renting and Business activities	88.0	89.6	110.7	111.9	251.8
Education	53.0	42.9	58.8	67.5	86.0
Health and Social work	22.7	39.3	32.3	31.1	40.6
Community, social and personal service activities	139.2	141.1	189.2	237.4	308.1
Public administration and common use assets	80.4	225.7	678.5	724.2	975.6
Personal use assets	609.2	604.8	616.7	678.0	924.3
Total	2 283.6	2 697.3	3 261.4	3 524.2	4 805.6

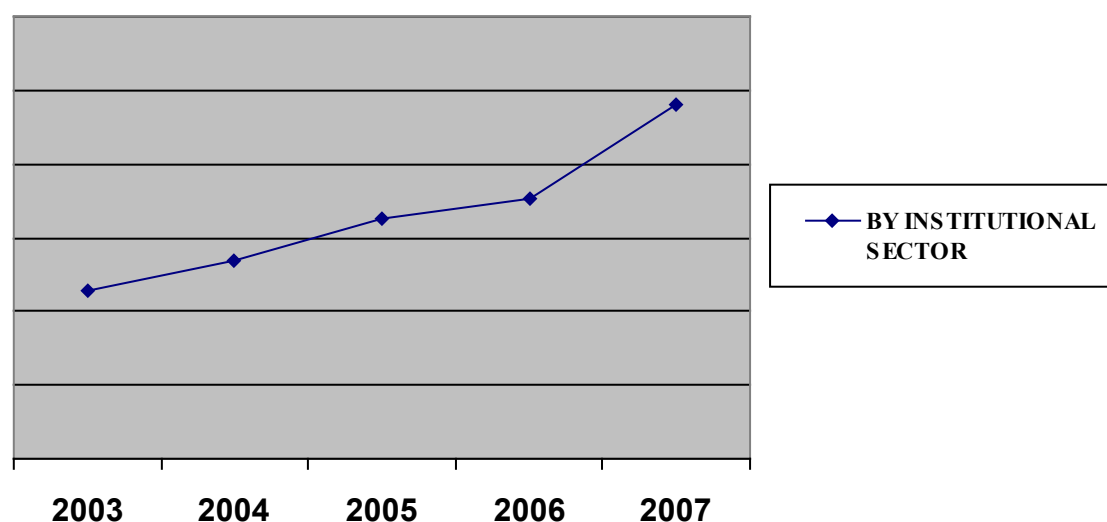


Fig. 2 Investment in Fixed Capital by Institutional Sector

INVESTMENT IN FIXED CAPITAL BY INSTITUTIONAL SECTOR (mln. GEL)

Table 2

	2003	2004	2005	2006	2007
Non-financial corporations sector	1 403.4	1 630.5	1 734.8	1 873.9	2 581.5
Financial corporations sector	37.8	46.9	57.0	63.8	118.0
General government sector	80.4	225.7	678.5	724.2	975.6
Households sector	681.5	684.1	701.2	771.2	1 038.5
Non-profit institutions serving households sector	80.5	110.0	90.0	91.0	92.0
Total	2 283.6	2 697.3	3 261.4	3 524.2	4 805.6

In Georgia, there is a high interest from investors in last period, and increased interests in all sectors. And also was made some large investments already, but in Georgia there are still many privatization objects, where is possible to invest.

There are very actual to get investments in Georgian capital from foreign investors, and for this is very important to make right decisions and make foreseen forecast.

For the implementation of these factors there should be an approximate forecast made of its perspectives. For the definition of the latter we can use the approach which is based on the dependence elaborated by I. Ansoff, and which correlates competitive status and strategic capital investments [1].

Suppose, according to our forecast invested capital C , during t years, $V_1, V_2 \dots V_t$ income will be earned. In this case Present Value (PV) and Net Present Value (NPV) of future cash inflows respectively are calculated by the following equations: [3.4]

$$PV = \sum_{t=1}^T \frac{V_t}{(1+r)^t} \quad (1)$$

$$NPV = \sum_{t=1}^T \frac{V_t}{(1+r)^t} - C \quad (2)$$

If the project includes repeated investments during N years, then:

$$NPV = \sum_{t=1}^T \frac{V_t}{(1+r)^t} - \sum_{t=1}^N \frac{C_t}{(1+r)^t} \quad T \geq N \quad (3)$$

Where: T – The duration of investment project;

N – The duration of investment allocation;

V_t – Income received from the capital investment in t year;

C_t – Capital invested in t year;

r – Discount rate and equals:

$$r = r_1 + r_2 + r_3$$

Where: r_1 – Guaranteed rate of return on invested capital;

r_2 – Insurance rate, defined by risk factors;

r_3 – Minimum income rate accepted by the investor.

According to the method elaborated within the frames project [4], the general relationship between invested capital and received income graphically will look like (Figure 3):

I_k - Critical Investment Point, fixes an investment quantity which is not enough to generate profit, but even by its small increase will generate profit. If in the (3rd) equation $NPV = 0$, that is, the rate of income and invested capital are equal, it is thus possible to calculate critical investment point (I_k):

$$I_k = \sum_{t=1}^T \frac{V_t}{(1+r)^t} - \sum_{t=1}^N \frac{C_t}{(1+r)^t} \quad (4)$$

Optimal Investment Point (I_o) indicates such a quantity of investment, increase of which will not cause the proportional increase of profit. I_o is calculated by the following equation:

$$I_o = \sum_{t=1}^T \frac{V_t}{(1+r)^t} \Big/ \sum_{t=1}^N \frac{C_t}{(1+r)^t} \quad (5)$$

Thus I_k and I_o points determine “The effective zone of investment”.

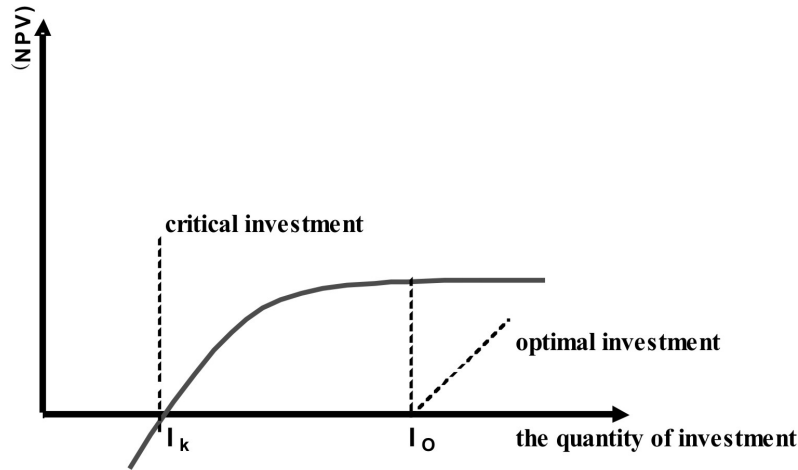


Fig. 3. Correlation between invested capital and received income

As can be seen from the illustration, as well as from equations (4) and (5), “The effective zone of investment” depends on the duration of the investment project, incomes, discount rate and frequency of investment, the definition of which is very difficult.

For the given discount rate range in different economic industries investors are concerned with:

- a) During what time period does investment in the given economic industry, given the rate of return, come into “The effective zone of investment”;
- b) What the annual rates of return on investment allocated in different economic industries should be, in order for the investor to earn the planned income (NPV) in the desired period of time.

Given the conditional unit of investments, for each possible discrete meaning of rate of return on invested capital (case a) and received profit (case b) by (3-rd) equation net profit and annual rate of return are calculated for any possible meanings of T, N and r variables. On the basis of the analysis of the received results the following are determined: necessary time period for investment to fall into the “effective zone of investment” and rate of return on investments that insure the planned profit (NPV) in the desired time period by the investor. Obviously, the procedure of calculation of every possible meaning of equation variables is very difficult and durable. To simplify the situation the meanings of variables should be changed by an incremental pace, which does not influence the calculation accuracy. Namely, the pace of the discount rate is 0.02, for the rate of return – 10 per cent.

From the diagrams in illustrations 4 and 5 it is clearly seen how the $NPV=f(T)$ equation varies for the different fixed meanings of the rate of return in the whole possible discount rates spectrum. The intersecting point of the concrete graphic on the X-axis defines the time interval, which corresponds to the critical investment point and might be considered the start of the “effective zone of investment”.

Figure 4 utilizes an annual rate of return equaling 0.4, and Figure 5 utilizes an annual rate of return of 1.2.

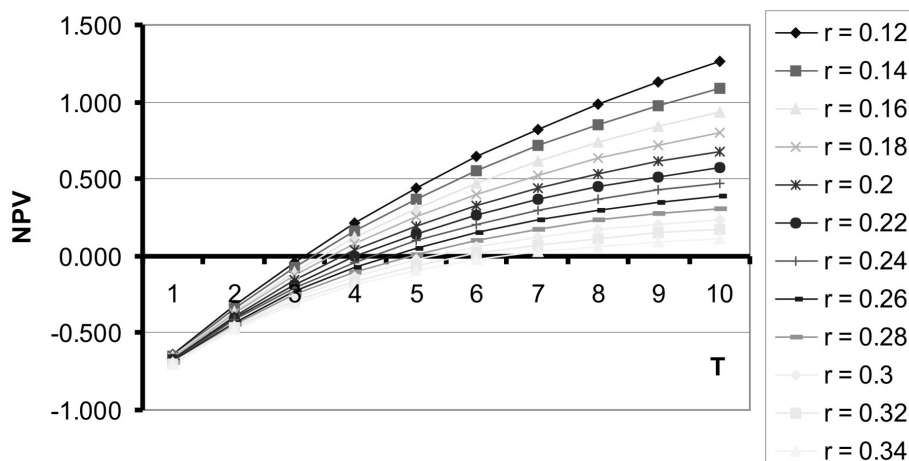


Fig. 4. Correlation between net profit and the investment duration, when annual rate of return $V_t=0.4$

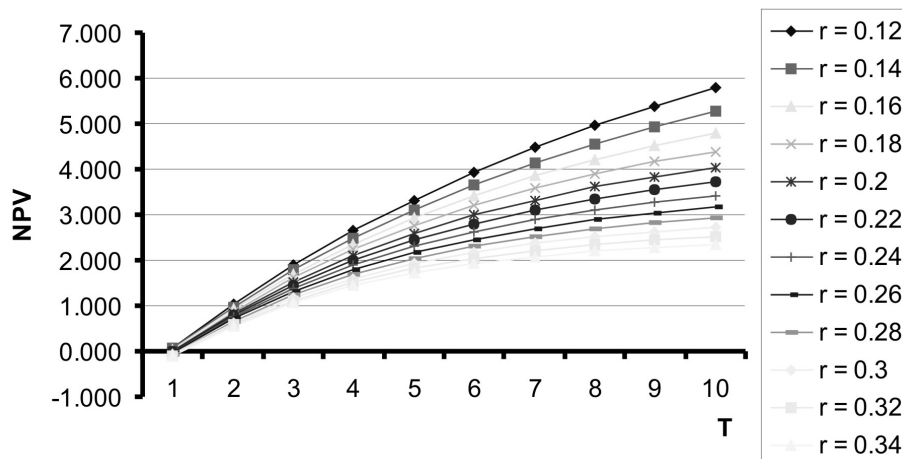


Fig. 5. Correlation between net profit and the investment duration, when annual rate of return $V_t = 1.2$

There is established a dependence between the annual rate of return (RR) and possible discount rate (DR) meanings, which help to determine the time necessary for falling into the “effective zone of investment” (Table 3).

TIME NECESSARY TO FALL INTO “THE EFFECTUIVE ZONE OF INVESTMENT”

Table 3

RR \ DR	20%	30%	40%	50%	60%	70%	80%	90%	100%
0,200	∞	4,2	3,2	2,2	1,6	1,2	1,1	1,0	0,6
0,220	∞	4,6	3,5	2,3	1,7	1,3	1,15	1,1	0,65
0,240	∞	4,9	3,7	2,5	1,8	1,4	1,2	1,15	0,70
0,260	∞	5,2	4,0		2,0	1,5	1,25	1,20	0,75
0,280	∞	5,7	4,5	2,8	2,2	1,6	1,30	1,25	0,80
0,300	∞	6,1	4,9	3,0	2,3	1,7	1,35	1,30	0,85
0,320	∞	6,5	5,4	3,2	2,4	1,8	1,40	1,35	0,90
0,340	∞	7,2	6,0	3,5	2,5	1,9	1,5	1,40	0,95

Likewise, the diagrams in figures 6 and 7 give a clear idea how the meaning of rate of return is determined, which is necessary to receive the desired meaning of NPV in the time interval acceptable for the investor. Figures 6 and 7 correspond to cases in which $NPV = 0.4$ and $NPV = 1.2$

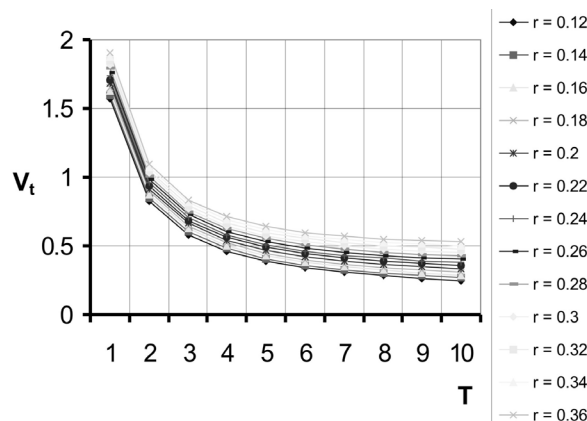


Fig. 6. Correlation between rate of income and investment duration, when $NPV=0.4$

There is an established correlation between NPV and the annual rate of return for different investment project duration, given the discount rate (in the examples $r=0.12$ and $r=0.32$). The illustrated relationship indicates that by improving the investment environment, when risk factors and correspondingly discount rates are reduced, expected profit will grow substantially (Here, as an additional factor we have duration of the investment project). We can also see in the illustrations that the “effective zone of investment» is increasing.

Every calculated meaning of NPV and V_t is represents a three-dimensional area element, which indices are NPV, T, r and V_t , T, r and upon request by the customers can be provided in both graphical and table mode.

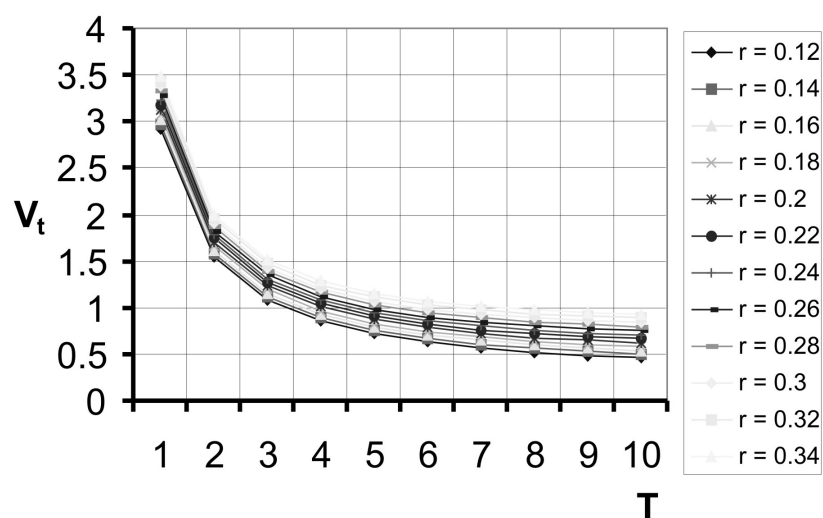


Fig. 7. Correlation between rate of income and investment duration, when $NPV=1$.

The above discussed methodology elaborated by the use of modern financial means, enables help for potential investors in decision making. For this, investors should insert the planned or desired parameters into the proposed program and then consider the economic utility of the investment project.

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General issues of effective investment allocation*Annotation****Lasha Machavariani****Caucasus University**The student of the fourth year of bachelor degree program**Caucasus School of Business**Instructor: Instructor: **Prof. Sh. Machavariani***

For Georgia, as well as for other developing countries in a transition to market economy, effective management of the investment activities is vital. Today domestic and foreign investors face a number of problems when considering investment decision-making, related to a lack of objective information on investment environment and irrelevant use of modern methodological approaches to effective investment allocation. As a rule, investors approximately identify possible income according to economic industries, which becomes a stem for adequate investment decisions. Because of some objective reasons when assessing investment opportunities, widely accepted methodology has not been utilized including: definition of discount rates, necessary for working out of investment forecasts; determination of insurance rates defined by risk factors; anticipating annual inflation rate; calculating payback periods etc.

In Georgia, there is a high interest from investors in last period, and increased interests in all sectors. And also was made some large investments already, but in Georgia there are still many privatization objects, where is possible to invest.

In the scientific work discussed methodology elaborated by the use of modern financial means, enables help for potential investors in decision making. For this, investors should insert the planned or desired parameters into the proposed program and then consider the economic utility of the investment project.

INFORMATION REVOLUTION AND THE EVOLUTION OF ECONOMIC POLICY

Giorgi Nikuradze

*Ivane Javakhishvili Tbilisi State University
Student of the sixth course of the faculty of Law
Instructor: **Irina Gogorishvili, Associate Professor***

Today, the world observes an incredible phenomenon called information revolution and the evolution of economic policy.

The reality of the 21st century shows that revolutionary development of information technologies allows economic policy makers and citizens to be in discussion and relationship without the help of intermediaries.

A new global control system of navigation providing great revolutionary changes is planned to be created in the near future.

Novel revolutionary tools of the state economic policy allowing governments to take more resistant and preventive actions for early identification and reprogramming the processes impeding the well-being of the nation are just being created ensuring effective use of resources.

Technological progress and information revolution can be considered to be the best stimulating factors of globalization allowing us to see the world as a one whole. Global information permits not only to forecast the trends but to control and model them as well.

Opportunity for simulation of the global development model can be considered vitally important allowing the world governmental bodies to see hundreds of billions of development projects and to choose the most optimal given the common global interests.

But what about the people in transition phase who rarely or never use personal computers and other modern information technologies? Scientists have found the way out for them starting to develop a special educational system simplifying application of modern information technologies especially for those who avoided them considering it difficult to handle.

It is interesting to discuss the project of global library based on semantic programs. Although the library is but an embryo yet, in the near future you will have an opportunity to become the best-educated person in a year after frequent visits to such a library by means of individual recognition algorithm.

Economical-political processes face the trends of complete transformation.

Nowadays the priority of every state is to pursue such a policy that supports diligent and clever students and healthy competition among them to reveal national intellectual potential accumulated throughout the centuries. The above is an important step to find the way in the labyrinth of information revolution. It is necessary to find golden section between information receiving and delivery. This is the sphere where the experts of economic policy have a basic role, because they can create the basic algorithm, which will develop the ability of information acquisition and elastic navigation through it.

Now, let me tell you a few words about current events and trends of Georgia. Today, Georgia has a great potential – it can produce a whole “army” of information retrievers and analysts. From that point of view it is important for Georgia to take stable and effective actions to ensure employment of clever young people in this sphere. We have such a great potential in this sphere that it will be enough for the majority of countries in the world, if not for the whole world, rather than for our country.

In recent years developed countries try to show their competence and potential. Georgia should promptly join the global strategic development process and show the world the competence and skills of its citizens in information technologies in order to take the proper strategic role in global development.

The number of creative jobs is rapidly increasing. New companies compete with each other in rapidity,

flexibility and quick changes rather than in size.

Development of information-oriented society, on the one hand, and the need of effective administrative management, rational strategic decisions and high-level administrative services, on the other hand, stipulated to introduce electronic government and electronic administration tools.

Today the governments of many countries understand the necessity of electronic government and are taking certain steps to implement it in practice.

After the transitional period of information technologies the evolution of economic policy will shape a new way of thinking and an incredibly revolutionary attitude to information technologies.

OECD Ministerial meeting in Seoul, Korea, 17-18 June 2008 adopted a declaration dedicated to security the future of the Internet Economy.

Declaration states common desire of those countries gathered there to promote the Internet Economy and to support innovation, investments, and competition in the information and communications technology (ICT) sector. It is especially underlined that their main concern is to uphold the open, decentralized and dynamic nature of the Internet and to contribute to innovation, participation and ease of access. The focus is on security and respect for intellectual property rights. Declaration upholds the access to the Internet for people in developing countries.

In his book “The World Is Flat” Thomas Friedman describes the trends, which “flattened” (leveled) the 21st century allowing the citizens of poor countries to compete with those of industrial countries, while it was impossible a bit earlier.

Nowadays major competition in the world is going on between us and our imagination rather than between the states or companies. Creative imagination is critical for our future.

Demand on the jobs requiring expert thinking and complex communication is increasing rapidly. The problem is interoperability of the required and available labor skills.

Many students will happen to study different and quite unrelated fields in life. It is more important to be able to study anything that will be necessary tomorrow, rather than that what we know today.

In early days the majority of people had a minor role in economy. They were either passive consumers of mass products or the employees lost in bureaucratic structures of organizations. Today, increasing availability of information technologies provides the tools of collaboration, production and communication for everyone. This gives people freedom to participate in innovations and to create wealth in any sector of economy.

We live in the era of great changes. These changes are not temporary and we must not think that after a while everything will go back to their usual state. A new era of continuous changes is being shaped – this is the era of rapid changes.

Let me introduce four principal trends having major influence on our life:

- **Moore’s law** - first stated in the article published in *Electronics Magazine* in 1965 by Intel co-founder Gordon Moore. It sounds as follows: “The number of transistors on a chip double every 24 months.” This law is still valid.

- **Photon law** – Since 1983 the network transmittance per drum is tripling every twelve months.

- **Internet revolution** - In 1992 number of internet users was 300. Today their number is over billion and it doubles in every 120 days.

- **Abundant information** - The above three trends provides the fourth marked with abundant information. Number of words, terms and notions is rapidly increasing. As many as 3000 books are published every day.

The 21st century needs workers with conceptual thinking and the major goal of education system is to prepare such people.

Appearance of informative society determined the necessity of quite new, effective, flexible and community-oriented government for modern democratic states. The goal of electronic government, which is the essential element of any informative society, is to create and develop a system providing the increase of government efficiency, on the one hand, and, on the other hand, community-oriented high-level governmental service.

Principal driving force in the process of shaping the electric government is the state itself. The state must provide necessary conditions for successful work of electronic government and must solve its main problems: making political decisions, formation of responsible bodies/ administrative structures, development of national

information and communication infrastructure and their integration in a unified system of “electronic government”. At the same time, active participation and support of the community is an essential premise for the success of electronic government.

The objectives of the electronic government are: community service on a single continuous basis according to their requirements and desires at any moment and at any place; electronic document communication, which is the backbone of electronic government. It will ensure reduction of costs and increase of administrative productivity; optimization of control and decision-making in different institutions by means of integration of the knowledge and information scattered in different departments and sections and by removing barriers between them.

For development and financing of electronic government as well as for promotion of its projects the legislative basis plays a very important role. Only a few countries have managed to create integrated laws immediately for electronic government. In the majority of countries electronic governments rely on the laws of information sector.

Information revolution promoted the role of information. The 21st century has shown the revolutionary development of information technologies. It is important for Georgia to take its significant place among the developed countries of the world and to be able to take progressive actions to demonstrate the intellect of Georgian people by means of active economic policy both in the country and beyond it taking national interests into consideration.

Pursuing economic policy the government should find golden section between global and domestic interests giving revolutionary changes a right way and controlling the country by means of advanced information technologies.

Attitude of super-states to the unified global informative network is interesting and alarming as they have an ambition to turn the whole global information system into a weapon for purposive control of other states according to their interests. Until the information is available for everyone and awareness is synchronized in the citizens of different countries of the world by means of different social networks, there is nothing to worry about. But should the central base of information be globally monopolized by any state, it will mean to conquer the other states.

It is necessary to create global system of security for information technologies where the member countries will have equal rights.

Future leaders of economic policy should be equipped with analytical and innovative thinking, must continuously be developing their intellectual and physical skills and must continuously be synchronized with the awareness of other people available by means of revolutionary achievements of information technologies.

The evolutionary stages of economic policy is tightly connected with application of information and digital technologies; with their development stages and consistency with current political, cultural and religious positions and goals of the country; with posing the important economic and political problems of the country and their prompt solution; with competitiveness of our policy-makers and economists against the managers of other countries.

In pursuing the international economic policy it is very important to have integration and transformation ability, because according to global political and economic trends the world is in continuous development and, accordingly, causing the development of economic, political and other strategic skills and instruments in order to resist global competition and not to challenge the freedom of the country.

Right use of information technologies and right economic policy can prevent Georgia from the threats related to global integration. In pursuing global economic policy it is inadmissible to give priority to private interests damaging the state interests. Next, it is important to ensure the security of integration. After that it will be possible to take part in administration and development of unified global information system in equal conditions and to take part in important revolutionary changes of global importance with account of national interests and to hold common human interests within the global framework and the trends of national development.

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Information Revolution and the Evolution of Economic Politics
*Annotation****Nikuradze Giorgi***

*Ivane Javakhishvili Tbilisi State University
Student of the sixth course of the faculty of Law
Instructor: **Irina Gogorishvili, Associate Professor***

The present work “Information Revolution and the Evolution of Economic Politics” has been dedicated to the research of topical problems of modern economic politics. Development of digital technologies has been followed by the revolutionary evolution of information technologies and the evolutionary changes in economic politics. Current trends clearly indicate the universal importance of information technologies in solution of global economic and political crises. Creation of electronic government allows immediate exchange of information between the government bodies and ordinary citizens without the help of intermediaries. Current drives in information technologies promise revolutionary changes for the nearest future providing the change of global thinking and our relation to information technologies.

MONOPOLISTIC FIRMS IN THE MARKET ECONOMIES AND THE ROLE OF A STATE IN THEIR REGULATIONS

David Pochkhua

Caucasus University

Student of the second course of the Caucasus School of Business

Instructor: Giorgi Natroshvili, Associated professor

Preface

Modern world economy's theory and practice reveal that the key of economic success is free competition. Existing monopolies are considered to be an opposite of competition, which is followed by welfare loss, spending resources ineffectively, abrogation of consumer's interests and rights. In practice there are some economic agents having monopolistic power and abusing it. The fight against such display of unfairness and support for equality and competition dates back to the ancient Roman period, depicted in the earliest efforts of Roman legislators to control price fluctuations and unfair trade practices. The further traces of such legislation can be monitored in the Middle Ages in Europe, especially in England through XV-XVI centuries, where one chapter of common law was about trade control and it is basis of modern competition law.¹ Because of more intensive and close economical relationships among countries the importance to regulate these interrelations was increasing. The majority views monopoly in negative context and this is an incorrect point of view. Absence of monopoly on patent and copyright may after all cause the stagnation of the progress of mankind. From this angle, a monopoly is not only desired but necessary. One of the aims of this article is to point out the positive and negative sides of monopoly and discuss them in details.

In USA in the beginning of XX century a great attention was drawn to antitrust law, where a lot of law for propitious competitive market ("Sherman Act" 1890, "Clayton Act" 1914) was promulgated. Main point of "Rome Agreement" reached in 1957 and World Trade Organization (WTO) founded in 1994 is an antimonopoly regulation, which is developing and changing constantly². That is why, countries oriented on Market Economy should constantly be involved in this process, and for developing countries existing precedent standards are of a great importance. All this for ensures the protection of the existing market economy for developed countries and countries its formation for developing countries.

It has to be mentioned, that without the correct antimonopoly regulation the absolute integration into the world economy is practically impossible. Also it is equally binding for all countries their antitrust law to be in accordance with the international law. In the circumstances of economical globalization the economical problem of a separate state may turn into second state's problem; that is why additional regulations are necessary. During the world economical crisis experts stress the importance of increasing economic regulations. The article stresses the inevitability of governmental interference in case it has a positive impact on economy.

The types of the monopoly: The Theory and practice

The monopoly is the word of the Greek origin (Mono – sole; Pollen – the seller). The monopolies in the societal relationships and different fields of activities have been present since the ancient times, however the modern meaning, the "economic structure" and functional characteristics were acquired in XX Century. The types of organization and regulation norms became much more flexible.

The brief economical definition of the Word is as follows: "The firm which is the sole retailer of the goods without the close substitutes".³ The evolving of the monopolies has a plethora of reasons. A possession of the

1 www.wikipedia.org

2 The evolution of the competition theory and antimonopoly regulation in Georgia, Slava Fetelava. 2008

3 N. Gregory Mankiw – Principles of Economic, 5th Edition, Tbilisi, "Diogene" 2005.

core resources by a single firm is one of the most important among them, however such examples are rare in practice. The second case is the monopolies created and backed up by government. In the majority of cases such monopolies pose treat to the society, as their formation is caused by the political authority of the future monopolist. It has to be mentioned that the governmental support is inevitable in the Lumber of the cases. For instance the case of patent and copyrights. If the inventor creating an innovational product is not guaranteed to be the sole producer of the good, he often loses the stimulus for the further creativity, or worse, even hide what he has already developed from the limelight. The history knows the plethora of such Facts. The need of interference from the estate was spotted back in 1561, by granting the producing monopoly Rights to the people. The laws concerning the copyrights and patents have their own drawbacks alongside their profitability. However the chief advantage of such laws is the stimulation of the creative activity.

The monopolies are formed when one firm operates with less production costs, than it would be possible in case of the existence of tow or more firms, which implies the minimization of the average total costs. For instance, we can discuss the water supply system of the town: If the market is supplied by a single firm, the fixed costs are unitary (the firm has to set up the network for one time). However, if the service is provided by two firms, the fixed costs are trice as much.

Thus, this is the case where the existence of a monopoly can be justified and the interference of the government is inevitable. In specific cases, when the market grows, the natural monopoly becomes a part of the competitive market. The idea of French law maker Hans-Herman Hope considering the formation of the monopolies is quite interesting: "As the states evolved on the grounds of the early natural elite, it becomes understandable why the monarchy has been more rampant than a democracy throughout the history of mankind."

The situation of a monopoly as such is not illegal. "Frequently, the monopoly is even needed, if the field is reach with capital and is in need of the substantial infestations. The only thing is that the situation must not be abused."¹

The dangers of the monopoly

The monopolistic power is depicted through the ability of firms to manipulate the price of their product. The prices are changed through the regulation of the supply. Every firm in the market is oriented on profit. In case of the monopolistic producers the price manipulations enable the maximization of the product. The income of the monopolist is equal to the multiplication of quantity of the goods sold Q and price P . The total income of a monopolist is influenced by the quantity as well as the price effect, which varies from the income of the specific firm and is caused by the monopolists ability to influence the prices. Now lets observe the process of the profit maximization. Consider a firm which produces the small quantity Q_1 of goods. In this case the marginal costs are less than the marginal revenues. By increasing the production quantity a firm can increase the profit. The similar discussion applies to the firms of the greater production. In case of monopoly the demand curve shows how the quantity is reflected don the price of the goods, and the marginal revenue curve shows how the firm's income changes alongside the change in quantity. The maximum of the profit can be reached by choosing the production volume, for which the marginal revenue equals the marginal cost. In the monopolistic market the Price is more than the marginal cost:

$$P > MR = MC$$

This circumstance is the negative characteristic of the monopoly, which causes the variety of the problems. The monopoly profit equals the difference between the total income and total costs:

$$\text{Profit} = TR - TC$$

The analysis of the monopolistic profit states that it causes the deadweight losses. We face the ineffectiveness of the monopoly. "The prices set by monopoly are more than the marginal costs, so the consumer who values the goods more than their production costs, will not purchase the goods. We can conclude that the quantity produced and sold by monopoly is less than the socially effective quantity." The most problematic aspect is that the deadweight losses damage the consumers more than the producers. The producer surplus increases on

1 Natural monopolies and competition problems in Georgia, magazine "Business and legislation", 2008.

behalf of the consumer surplus.²

One more danger, which the monopoly arises, is the raiderism: The absorption of the small firms by the bigger ones, or creating the obstacles in entering the market. It occurs that in economy the agents with monopolistic power often acquire the political influence, which endangers not only the economy, but the state itself. The theory can be proved through many facts: Many aristocratic merchants and capitalists have played a core role in the political life of many countries, using their wealth and economical situation for political aims.

If the monopolist lacks the political culture and the state is unable or unwilling to react appropriately on his abuse of power, the problem arises: The high prices and inability of optimally acquiring the resources at hand. In the majority of cases, the quality drops, as the monopolist acknowledges the absence of any alternative to his goods or services.

Antimonopoly Law

The antimonopoly law plays an important role in supporting of the competitive market. The aims of the competitive policy are as follows: The protection of the wellbeing of the consumer, the maximally equal distribution of the material values, the support of small and average business, the development of the less developed regions and employment of the population.

The observation of the antimonopoly laws of different countries reveals the two forms of the legislative regulation of this field. The first of them rests on the principle of antimonopoly regulations of every legislative relationship in the market. According to the other the laws are accepted for the legislative regulations of competitive segment of the market.

The two models of antitrust laws are distinguished: European and American, which together create a base for the antimonopoly legislation.

The formation of European or British model started long ago with the laws, norms and contracts taken before the evolvement of capitalism at its foundations. It is directed not against the monopolies but against monopolization. The core role in its formation was played by the precedential law, which is meant for the countries where the antimonopoly laws are in the process of formation.

The laws of the Great Britain contained the laws regulating the prices, protecting the trademarks, prohibiting the restrictions by one firm on entering its market by other firms etc. The abovementioned model does not admit the binding procedures on merging, which makes the British business environment rather desired. The antitrust legislation of Great Britain is the entity of many different laws, which form the Strong legislative basis for avoiding the problems caused by monopolies and their elimination. The wide scales of the legislation are caused by the wide scales of the economy, but that does not mean that the countries with the small economies should not take the certain laws into account. On the contrary, in such circumstances the best combination of the laws can be chosen. E

The American model from the pure legislative point of view is the basis of the antimonopoly legislation and is characterized by strictness. The competition is backed by three Basic laws: "Sherman" 1890, "Clayton" 1914, "Concerning the federal committee of trade" 1914. The first of them prohibits the unregulated restrictions and the abuse of monopoly power. The "Clayton act" strictly monitors the merges and treats, which have the monopolistic tendencies and restrict the competitive market. Despite the fact the Course book pointing out the effects of merges was published in 1982. The act "Concerning the federal committee of trade" reacts on the individual violations.³ The US Government not once interfered into strengthening and carrying out of antitrust legislation. The individual monopolies are not subject to the antimonopoly regulations: Telephone or Telegraph companies as well as communal service firms. And it is fair.

The European Union model does not contain anything that is absent in the separate models. The main stress is made on the internationalization of economical and legislative living and the importance of creation of the unitary norms of competitive policy is stressed. At its foundations, the model rests on the treaty of 1995, which foresees the close economic integration and collaboration. It was followed by 1957 Rome treaty, taking a form of an economic union. Antimonopolistic policy is the main direction of the economical policy of

2 N. Gregory Mankiw – Principles of Economic, 5th Edition, Tbilisi, "Diogene" 2005.

3 www.wikipedia.org

European Union.¹ The competitiveness of the market is one of the chief criteria to enter the economic territory of the European Union. And the advantage that the market can bring to the individual countries is certainly great. Only this reason is enough for the European countries to make a creation of a competitive market a priority of the European countries. The “Roman Treaty” states: “The anticompetitive treats are prohibited, as they can negatively affect the trade among the member states and create drawbacks for the competitiveness of the united market.” For this very reason the abuse of the dominant position is prohibited. The European Union model is particularly against the cartels.

From everything above mentioned we could deduce that in spite of the differences the main points on which the antimonopoly laws of this or that country should rest, exist. The installation of the antitrust law without the careful consideration is unacceptable. In every particular case the economic characteristics of the certain countries should be taken into account, as the laws are often action less due to their inconsistency with the reality.

The state is obliged to create the legislative basis and care for its credibility. He as a monopolist has this opportunity if the proper political will is present. The actions which the state can carry out concerning the monopolies are as follows: It should try to convert the monopolized fields into more competitive fields, should accept the laws defining the patterns of actions of the monopolies, turn the number of the private monopolies into the societal monopolies, or do nothing. It is desirable for a country to provide the proper operation of the antitrust legislation with the minimal interference into this politics.

Great Britain and USA have not once witnessed the case when the government made a straightforward interference into antimonopoly regulations. Back in 1911 USA supreme court decomposed the countries greatest oil company “Standard oil”,² US government did not give Microsoft the right to purchase the private financial computer company “Unit”, in order to prevent the accumulation of the market power in the hands of a sole company. From one point of view these actions are against the principle of non-interference of government into business, however the decisions are justified by the positive effect.

For the states the main way to solve the problem is the political will. The countries, which have the problems in the field do not need the creation of the new legislations, but can develop their own laws on the basis of already existent ones.

The conclusion

The problems associated with the monopoly can not of course be solved at once. This is a long and rather sensitive process. Any effort of solving the case without the political will of government is senseless. The solving of the case requires observing its economical and legislative aspects. Only the combination of these aspects can enable reaching of the antimonopoly regulation matching the international standards and norms. When regulating the monopoly the degree of the involvement of state should be defined. Also the fields where the monopoly is acceptable and where not should be carefully differentiated. The preventive actions should be carried out for the monopolistic situation not to be abused.

The existence of the monopoly in the separate fields can cause the high prices, the ineffective spending of the resources, social costs etc. However, from the other perspective, the absence of the monopoly can become the cause of the drawback of the scientific-technological progress of the mankind. Thus, the monopolies have the great importance in various aspects of human life and have a straightforward effect on their development.

1 The evolution of the competition theory and antimonopoly regulation in Georgia, Slava Fetelava. 2008

2 www.wikipedia.org

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1. The evolution of the competition theory and antimonopoly regulation in Georgia, Slava Fetelava. 2008.
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6. UNDP report about Human Development 2006.
7. Natural monopolies and competition problems in Georgia, magazine "Business and legislation ", 2008.
8. www.wikipedia.org

Monopolistic firms in the market economies and the role of a state in their regulations

Annotation

David Pochkhua

Caucasus University

Student of the second course of the Caucasus School of Business

*Instructor: **Giorgi Natroshvili, Associated professor***

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THE SAMPLES OF FREE INDUSTRIAL ZONE IN GEORGIA AND ITS FUTURE IN THE XXI CENTURY

Irakli Giorbelidze

*Ivane Javakhishvili Tbilisi State University
Student of the third course of the faculty of Economics and Business*

Entering the market economy, increasing the scale of financial globalization, expanding competitive environment made us think about new challenges. In order to support development of economy in the country, the necessity of innovations and reforms became clear and definite.

New investments and their effective management is the first sign of economic renaissance and according the experts' opinions, currently there is a "Hunger of Investments" in Georgia. The following paper reviews the feasibility of creating free industrial zones and generally economic zones for sustainable local economic development in current conditions.

Before discussing the SWOT analyze of free industrial zones, first we should define the term "Free Industrial Zone". Generally, the free economic zones so called off-shore zones are important event of the second half of the XX century of world's economy. These zones are favorable establishment, which enables the company to get extra profit and also plays relevant role in spreading the principles of open economy. The economic rules, constraints and special administrative laws ease judicial and economic regimes. The special customs, investment and tax rates are attractive for investors and therefore, offshore zones are somehow the "traps" for foreign capital investments.

The main characteristics of free economic zone are the following:

1. Benefiting from various preferential and motivate measures, among them:
 - Fiscal – the tax-deductive regime from several businesses
 - Financial – In this case it has direct and indirect influence. The direct impact envisages subsidizing the business from state budget or issue special interest rate state loans. The indirect effect is low rate for utility payments and similar beneficial activities.
 - Administrative- The simplicity of registering the enterprises and less bureaucratic procedures for entering and leaving the country for foreign citizens
 - Foreign economic- Decreasing or annulling the customs fee in foreign trade
1. The special form of zone management with wide competence of solving economic issues independently.
2. All-inclusive support from central government

The modern world represents various kinds of free economic zones for instance: free trade zone, free customs territory, free industrial zone.

From conceptual view, there are two main kinds of economic zones: The first is based on territorial approaches and represents clearly determined territory, where every citizen of this territory benefits from privileged regime. The second approach has function characteristic and contains the regime, which imposes special regimes on several kind of entrepreneurial business not considering the origin of economic agent.

Generally, free industrial zone can be defined as distinctly determined territory, where the special regime for economic-financial business are imposed in hopes of attracting foreign investments in priority areas, simulating entrepreneurship and introducing advanced technologies.

Although there is no import-export customs fee in free industrial zone, entrepreneurs are due to have register and submit annual declaration, where every production and operation should be stated. In several countries like Macedonia, Turkey, Ghana, Guatemala, Costa-Rica the entrepreneurs are income tax exempted. Never-

theless, these privileges in Costa Rica, Guatemala and Ghana only occur for the first 10 year of your business. The VAT exemption regime is imposed in Russia, Guatemala and Ghana in Free industrial zones. The excise tax exemption rule is in Russian Federation, the property tax exemption – in Guatemala and so on.

The several characteristics of free industrial zones according the countries

Country	The initiator of creating the zone	The period of zone	The prohibitions	Tax exemption	Supervising
Russia	Government	20 years, no possibility of extension	Extracting raw materials, producing venturesome and radioactive production	Import-export customs fee. VAT, Excise Tax	The federal authorities of executive power
Turkey	Government	With Coordination with government	-	Import-export customs fee, Income tax	-
Macedonia	Government	50 years (There is a possibility of extending period for 25 years)	Producing nuclear, radioactive production, also drugs, arms, chemical and biological production	Import-export customs fee, Income tax, tax on money transfer	The head office of free economic zone (created by government of Macedonia)
Costa-Rica	Ministry of Foreign Trade	Coordinating with Ministries	Producing nuclear, radioactive production,	Import-export customs fee, Income tax	Corporation (Is created by government)
Guatemala	Ministry of Economy	The privileges on tax deductions occur for 10 years	Extracting oil and gas, fishing industry, producing woods, sugar, coffee, wool, banana, sesame, radioactive production	Import-export customs fee, Income tax, Property tax, VAT	The firm establishing the zone is fully responsible
Palestine	Cabinet of Ministers	Not more than 49 years	-	Import-export customs fee	The Council of Industrial Property and Free Industrial Zones
Iran	Cabinet of Ministers	Coordinating with government	-	Import-export customs fee, no-visa regime	The Administration of Free Zone
Uzbekistan	Parliament	Coordinating with parliament	The production, which is harmful for natural resources and environment	Import-export customs fee, special currency regime	The Admin Council of Free Zone
Mongolia	Parliament	Coordinating with parliament	The production of products which is prohibited to be imported and produced according the legislation in	Import-export customs fee, VAT	The chief of free zone (Assigned by Prime Minister)
Ghana	The order of President	The privileges on tax deductions occur for 10 years	The products harmful for environment	Import-export customs fee, income tax	The Council of free zone
Mozambique	Government	Assigned by government	The products harmful for environment	Import-export customs fee	The firm establishing the zone is fully responsible

Free industrial Zones is one of the element of new international labor distribution. In globalized world, but is also significant, that this FIZ has negative experience too:

The first thing is that foreign investors usually are not attracted with “spare space”. They are interested in the case, if there is relevant infrastructure or the creation costs are covered by the government. And sometimes, the expenses on infrastructure is 80% of investment. Accordingly, the approach that every cost is reimbursed by investment is wrong.

The second view is that creating free industrial zone is the means of corruption. And generally, the privileges imposed in this zone of foreign investments are often disadvantage and constraint for local entrepreneurship development.

While mention several negative sides of Free industrial zone, I consider, that it is appropriate to define SWOT analyze of Free Industrial Zone in Poti,

The Strengths of this issue are:

- ❖ Creating new employment opportunities
- ❖ Attracting investments
- ❖ Creating competitive environment
- ❖ Increasing cargo turnover
- ❖ Improving infrastructure
- ❖ Building the port (New Terminal)

Weaknesses:

- ❖ Problematic Region
- ❖ Limited currency area
- ❖ Weak infrastructure
- ❖ Less control from Georgian side

Opportunities:

- ❖ Cheap labor
- ❖ The fiscal, foreign trade and administrative privileges
- ❖ No limit on currency operations
- ❖ Less bureaucratic

Threats:

- ❖ The risk from neighboring countries
- ❖ Increasing “hunger of investments” in the whole country

The newly enacted Law of Georgia on Free Industrial Zones provides:

- ❖ Profit Tax exemptions for enterprises defined as Foreign Enterprises by the Customs Code of Georgia and registered in the Free Industrial Zones
- ❖ Imported goods into the FIZ are exempt from VAT payment,
- ❖ Transactions and operations carried out in the FZ are exempt from VAT payment.
- ❖ Property Tax exemption for the Free Industrial Zone enterprises.
- ❖ Import of foreign goods into the FIZ is exempt from Customs Tax.
- ❖ Goods manufactured in the FIZ and exported to the territory of Georgia is exempt from Customs Tax.
- ❖ Employees of Free Industrial Zone Enterprises pay Income Tax through declaring their tax statements.

The impact of Free trade zone can be assess in different aspects:

Economic Aspects:

- ❖ The Government does not participate - either directly or indirectly - in the financing of the project
- ❖ The management rights will be awarded to an operator with a commitment of a good faith payment of an estimated lump sum in the amount of \$60 million for the Poti Port and \$10 million for the

400 hac. of adjacent land.

Technical Aspects:

- ❖ The respective operator should create functional facility to include administrative support, operational customs related logistics, all major infrastructure and utilities network.
- ❖ The expected turnover to accommodate higher capacity cargo should take place within 9 months of the contract signing.
- ❖ The Government will facilitate the development of infrastructure to the Free Zone boundary (motorway, rail, water, electricity, gas, communications)
- ❖ The operator should submit a Master Plan to include: Timeline of Poti Port infrastructure rehabilitation, a detailed outline of the Zone development strategy; investments; and the number of jobs it will create

Legal aspects:

- ❖ The existing port and zone area can be developed jointly by one operator or by separate operators according to a mutually agreed on master Plan announcement
- ❖ The proposal and Master Plan agreed on between the operator and the Government is a part of the contract and serves as basis for monitoring fulfillment of commitments by the operator
- ❖ The operation of the FZ will be regulated according to new laws on industrial zones recently adopted by the Georgian Government.
- ❖ The Government shall provide the simplest possible administrative and other procedures necessary for corporate management

Generally, the planned turnover is the following:

Turnover Growth Rate %

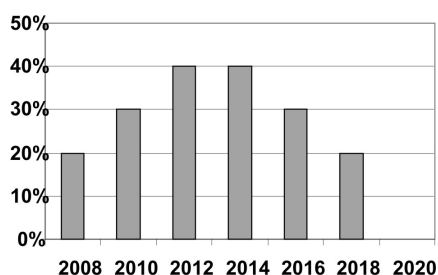


Chart # 1

Container Handling (Growth rate %)

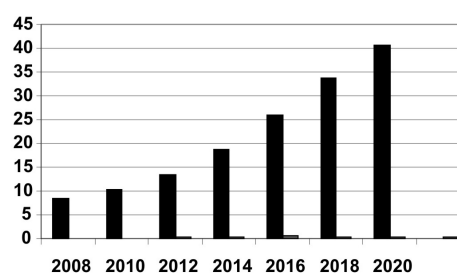


Chart # 2

Exactly advantage location of free economical zone and extremely liberal legislation system must provoke attracting foreign investments, as investment environment in Georgia is not very attractive from the various points of view. First defining factor of the investment environment is the size of a market. Larger is the market size, the more attractive it is. Georgian market doesn't differ with large scales. Second factor is legislation. Georgian legislation is liberal. Heritage Foundation considers us to be attractive country in this direction. According to the index of economical independence, Georgia occupies 32nd place. This means, that there are quite liberal barrier for displaying providing business and industrial initiatives in Georgia. An interrupting factor is political instability. It is known, that inventors pay large attention to the political stability and investment guarantees. A problem of territorial integrity of our country, what puts Georgia under the permanent danger of war is also added to all, mentioned above. There are some problems from the point of executing law. Fixed facts suppressing private property influenced negatively upon investment surrounding. It is important to provide profitable activities and creation of the mechanisms of legislative protection. Qualification of working forces is also a serious problem. it is very low in Georgia. Intellectual resource is also reduced. Main reason of creating free industrial zone is attracting investments, growth of business activity in the region and achieving employment. For this the country must form advantage financial conditions to the investors, for making their choice for the benefit of Georgia among many others. We'll see in the future how much successful the function-

ing of free industrial zone is, and if inflow of investments take place. They call free industrial zones off-shore ones. These are the territories, which are under the doubtful sight of everyone, because of being uncontrolled. Its creation in Georgia has been followed by opposition and critical dependence. Most of Georgian experts have negative dependence upon free industrial zones, because it is considered to be the sphere of unreduced actions of private interests of definite persons, for whitening "black money", selling capital in the way of avoiding rules and taxation, perspective of which in Georgia is very doubtful. To my mind, it is incomprehensible, why is there any need of founding free economical zone in such country in which there have been made important steps towards liberalization of economical and industrial surrounding. Complete liberalization of foreign trade took place in the 90s. This meant that export was released from taxation. Tariff-free reductions, as quoting and licensing were abolished. Since 1998, currency operations have complete independence. In 2006 they reduced high custom tariffs. Today custom tariff on agricultural production is 12%, on building materials - 5%, others are zeroed. They simplified licensing and rights on beginning industrial activities and their realization.

Free industrial zone, to my mind, will support growth of inflation. Foreign investments will enter FIZ. This will give rise to the growth of masses of foreign currency in the country, which devaluates it in relation with Lari, and this is bad for export. There is no political stability in Georgia, rights of the owners are abolished, and working force is not qualified. Permanent changing of legislative system is still continuing. According to this, there is a danger, that foreseeing disadvantage business environment, short termed foreign capital of doubtful appear will enter FIZ, which will run out of the country as soon as the conjuncture worsens a little and thus provoke finance-economical destabilization. There is danger in selecting an operator. FIZ wouldn't be successive, if it operator were not recognized worldwide and a successful investor in this business. For being successive, it is also necessary to make Georgian FIZ a part of industrial infrastructure of the world and integrated chain. Creation of free industrial zone has its positive sides. There are large possibilities for business development and growing business activity. It is possible to develop backward region, and zeroed taxation regime will be additional stimuli for providing business. A positive side of free industrial zone also is the fact, that leading technologies and Know-How will enter the country. It will increase inflow of foreign currency, because, the capital is objective in its nature it moves towards the place, where there is low payment. Inflow of investments gives the possibilities for economical and social development. Investments will give rise to the creation of working places, relatively - employment. Creation of free industrial zone in Georgia, as they say, is not calculated for fiscal effect, it is necessary to provide investments and create attractive surrounding for new business and new working places. With free industrial zone export potential may be increases. The largest part of manufactured production will be for export that will definitely be successive for Georgia, as firming Lari in the country gave rise to the rise the price of export and worsening taxation balance. For example, data of covering import with export was 32% in 1995; in 2000 it grew up to 46%, for today it is reduced till 23%. From 1995, till 2007 the volume of export has been increased 8 times, and 11 times - of import. Nominal WIP at the same period has been increased from 3.9 Billion Laris to 17 billions i.e. 4.36 times, while real WIP has been increased only per 2.1. Exchange rate of the currency gave rise to the worsening of taxation balance. Only 10% of the production manufactured in FIZ will be permitted in Georgia, others will be exported to other countries. This will provoke improvement of taxation balance.

FIZ is directed towards territorial expansion. Its territory duels in 5-10 years. if FIZ of Guria-Samegrelo works successfully, Guria-Sukhumi-Ochamchire will join it. Separatists will not be able to block all good of FIZ. For example, Turkish separatists of North Cyprus requested themselves to join economically successful Cyprus. To the experts' mind, economical integration is necessary. They must make joint investment projects with Abkhazians and Alanians. Founding such zones will give rise to the centralized lob in the conflict regions, which will play positive role in the affair of regulating conflicts. Though, this is only a dream today, as it is known, that they need very good control and stability. If realization of good administration is possible in the conflict regions and the investors have feeling of stability, it will be really possible to create FIZ there. In the modern reality it is utopia, though we can not exclude anything in the future. Creation of free industrial zone is already decided and it will be activated very soon. FIZ is expected to be an impulse for economical development of Georgia, though opening of free industrial zone is not a miracle, there mustn't be surplus expectation, it is a permanent process, which will bring first results in 5-10 years. Modern century is of globalization. A process of economical globalization in the world will not be avoided by Georgia and it will be progressively integrated into the world economical system. The process, to our mind, has already begun. Foundation of free

industrial zone speaks for this. Georgian government passed the law “about global competition abilities of financial sector”, which foresees foundation of financial center. Main goal of the law is integration of Georgia to the world financial system. Articles involved in the processed “revolution legislative” package touches upon founding off-shore zone in Georgia. We mean foreign banks and assets per ten million dollars.

I think that creating free economical zone under the conditions of free economy is the most ineffective step. Exactly for this I consider creation of free economical zone in Georgia to be nonsense. There are countries of two kinds in the worlds - those, which have surplus investments and which suffer lack of them. Countries having surplus investments strengthen inner investor in its free economical zone. I.e. the country forms such conditions, that the investor invests money in the free zone at the territory of his/her country and doesn't take it out of it. Creation of free economical zones in the country being in hunger of investments hardens the situation, as the investor doesn't come in the country itself, but in the zone. Local investor will try to do same. Georgian economy is not firm and creation of free economical zone will ruin economy of whole country. The fact, that something will be done in one town and whole country will be raised is illusion. One zone will not stand international capacity. Development of insufficient industrial surrounding at whole territory of the country will cause chaos in this zone! In conclusion, I consider, that Poti Free Industrial Zone should be based on several issues. The first- this zone should be managed according the legislation of International Chamber of Commerce, which includes establishing relevant infrastructure. The emphasis is done on infrastructure as if there is no service of flight, railways, road and similar means of transportation, the development of Poti Industrial Zone will be difficult. The second issue is the question of Poti being the tough infrastructure unit. As it is hard to make business linkages with local government authorities. I reckon, that assuming Poti to become international transit city is not realistic. Even though, Poti Industrial Zone can somehow be efficient for poverty reduction, but the long term economic perspectives is doubtful as foundation of FIZ is followed by expenses, at the first stage because of tax payments, and this reduces budgetary incomes and in addition, attractive legislative regime of free industrial zone will give rise to the inflecting investments to one concrete region of the country at the expense of other ones. This will ruin less interesting regions from the point of investments. This may give rise to the opposition among various regions, as people living in this or that region may say that they are oppressed and have no opportunity for being developed.

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The Samples of Free Industrial Zone in Georgia and its Future in the XXI Century

Annotation

Irakli Giorbelidze

Ivane Javakhishvili Tbilisi State University

Student of the third course of the faculty of Economics and Business

Entering the market economy, increasing the scale of financial globalization, expanding competitive environment made us think about new challenges. In order to support development of economy in the country, the necessity of innovations and reforms became clear and definite.

New investments and their effective management is the first sign of economic renaissance and according the experts' opinions, currently there is an "Investment Starvation" in Georgia.

The following thesis describes and shows the feasibility of creating free industrial zones and generally economic zones for sustainable local economic development in current conditions. In addition, using existing statistical data I will conduct SWOT analyze of free industrial zone in Poti.

According the experts of UN, "Free Industrial Zone is the part of territory with special economic, juridical, administrative and taxation regime, which supports expanding foreign political connections, attracts foreign and local investments. In addition, it is the mean to establish export-oriented enterprises".

The main characteristics of free industrial zone are the following:

- a. Benefiting from various preferential and motivate measures,
- b. The special form of zone management with wide competence of solving economic issues independently.
- c. All-inclusive support from central government

The paper will also discuss the following aspects and benefits of free industrial zone:

- The definition of Free Industrial Zone
- International Experience according the countries
- Benefits of FIZ
- The legislation on Free Industrial Zone
- SWOT analyze of Poti FIZ
- Future of FIZ in Poti

In conclusion, the paper will show the impacts of free industrial zones on Georgia's economy and in addition, will define the possibilities and advantages of expanding this experience on other territorial parts of Georgia.

PERSPECTIVES OF FREE ECONOMIC ZONES IN GEORGIA

Mikheil Chikovani

Kutaisi, Tsereteli, State University

Student of the fourth course of the faculty of social science

Instructor: Prof. G. Gvartadze

In present Georgia, in political circles perspectives of free economic zones in Georgia are more often discussed. In independent Georgia during the period of different governments the ideas of creating various types of FEZ (Free Economic Zones) were actively analyzed.

The ideas of creating FEZ began development in XX century. It had its own objective reasons. Leading countries, which were exhausted after wars, were trying to internationalize the economy and to support trade in order to overcome the crisis at a fast speed.

After decomposition of Soviet Union a new wave of forming special zones has begun. The countries which were closed and remote from the world's economy are attempting to open their doors to foreign investments.

In order to reach this goal countries in former Soviet Union create such zones on their territories where tax and administrative benefits are present.

Against this background far-forgotten idea of creating FEZ has become popular in Georgia. We have already formed one FEZ.

The growth of numbers of particular economic zones is the main characteristic of the world's economy. By the beginning of 2006 in 120 countries all over the world more than 2000 different types of FEZ were operating. The total annual turnover made up more than 60 billion dollars. /original source/

According to the definition of UN experts a FEZ is the territorial unit of the state with particular economic, law, administrative and tax regime that provides widening of external political links, attraction of foreign and local investments and development of new technologies, creating modern enterprises mostly oriented on export. [1]

Main characteristics of FEZ:

1. Use of different kinds of preferences and incentives, namely: fiscal, financial, administrative, foreign economic ones.
2. A special form of the area management with the right to independently solve a wide range of economic issues.
3. Support of the central government.

Free economic zones differ substantially in terms of the reason of its creation and the level of importance for country's economy. For example, developed countries as well as states with great territories create such zones with the aim of realizing regional policy. Similar zones created on the territories of remote islands by Great Britain and the zones created on peripheral units of federation by Russia can be taken as an example.

As for developing and post-communist countries FEZ is the means to internationalize the economy and attract investments. These countries introduce favorable benefits in certain territorial units with the aim of developing trade relations.

It is of note that in developing countries the level of influence of the zones on the national economy is rather restricted while in developed countries the issue of similar effect is not even actually considered.

Regarding the abovementioned we can conclude that FEZ's are mainly formed due to the following reasons:

1. Wider involvement of the national markets in the world economy.

2. Attraction of local and foreign investments in order to develop highly profitable production.
3. More effective use of the potential of international division of labor to create and increase the production of export goods.
4. Increase the income part of the state budget.
5. Social.
6. Complex development of lagged-behind regions.
7. Creation of working places and employment of population.
8. Raising the level of qualification of working force, forming qualified personnel.

When talking about FEZ it is necessary to review the experience gained by the world in this respect. In appendix (app. 1) some of the characteristics of FEZ in several developing countries are given.

In terms of FEZ countries in South and East Asia have reached success. Through creating such types of zones these countries managed to turn into large industrial unites. The detailed discussion of existing zones will take much time as they are quite diverse. Moreover, in South-Eastern Asia the success was conditioned by many other factors that don't exist in Georgia's present reality. For example, the capacity of the ports existing in these states, close territorial location to China, political will of world's developed countries and etc.

It is of note that, these states deepen the integration in territorial respect. For instance, at Indonesia (2003) and Vietnam summits a question of forming free trade zone of Eastern Asia was raised, which has to compete with the European Union and the USA by 2010. Gradual decrease of tariff barriers should increase China's influence on the regions in South-eastern Asia in comparison with the USA. Concerning the project the negotiations with Japan and South Korea are held at a fast speed.[2 p.74-76]

In China the oldest FEZ was founded in 1980. Shenzhen was marked to be the most successful. In 20 years from a small village of fishers it turned into a big city with 10 million populations. Its location was chosen to attract industrial investments of Hong Kong. The experiment turned out to be successful. By 2001 the number of employed people reached 3.3 million and its annual economic growth comprised 16.3%. [4]

In the United Arab Emirates Jabel Ali free economic zone in Dubai can be considered to be the most successful in the world. It was created in 1985 and none of the tax systems operates there, restrictions reach the minimal level and there are no obligations for having local partners, employees can be brought from any place.

Akaba special economic zone in Jordan was formed with the aim to increase foreign investment and stimulate economy through it. The interesting point in this zone is that the management created isolated custom service that is independent from national custom administration of Jordan. It was done with the aim to strengthen operations in the zone. Certainly it caused administrative difficulties, but the zone still reached its success.

Aside with abovementioned, a big experience of Poland should be mentioned. Nowadays, 14 FEZ-s are functioning in Poland and it can be said with determination that Poland has turned them into successful ones.

For example, Varmia-Mazuri FEZ was created in 1997. It is located near the Kaleningrad region. The amount of planned investment comprises 423,7 million euros, that will provide employment of 5550 people; free economic zone of Lodz, the second largest city of Poland with population of 800000. It is divided into 16 sub-zones. This zone is identified by its high standards and service [4].

It is without doubt, that the talk round the FEZ-s of different countries of the world can last endlessly, but the discussion should lead to the analysis and conclusions. It's obvious to put such type of a question: "What kind of model is appropriate for Georgia's reality? What should be learnt from the world's experience?"

Existing FEZ-s are of so many different types and number in the world that it is difficult to say something new. However, there is no ideal model that would be successful in every country. It's also doubtful, if the successful model will meet the expectations without any changes in Georgia's reality as every country faces different challenges. What is the way out in this situation? Shall we consider the experience gained in the world? Certainly, we should take into consideration the experience, but we should not copy the models. We should change it in such a way to fit Georgia's reality.

In the very beginning, a question should be put: What type of FEZ are we going to create in Georgia?

Will it be a limited territory or economic zone of functional type? We will discuss a territorial type in more details, but I don't see much perspective in a functional one. Firstly, I'm against protectionism in any field and secondly, transforming a field or some fields into a FEZ of narrow specter will cause the flow of all financial resources that will kill the development of other directions in embryo phase.

I also consider formation of off-shore zones to be impossible as these zones can be changed into the centers of 'whitewashing' 'black money'. Provided that state government is very weak and corrupted and government circles may easily be involved in the process of "whitewashing" it may lead the state to collapse.

I think the possibility of formation of FEZ on limited territories or free transit zones seems much realistic.

In this respect I approve the model of Luxemburg that was taken as the model by government to form Poti FEZ. However, it should be taken into consideration that Luxemburg became successful not for a preferential system but geographical location as well.

In Georgia, on the territory of FEZ, I consider the system of profit tax assessment existing in Shenzhen more effective. Namely, we can release manufactures from taxes for several years. During the following next years they will pay half of profit tax. If the profit is used in the form of investment, creating company's starting capital, forming daughter firms then 40% of profit tax will be compensated.

When we talk about FEZ we should mention that the success of the zone greatly depends on the political stability, validity of ports, and the quality of custom service. We can take the zones created on the territories of the former Soviet Union, Pakistan, Libya and in other politically unstable countries as an example that can't reach the appropriate level of their development due to the inner-national and inner-political conflicts.

We should mention that the problem of instability is quite relevant in Georgia. I also consider formation of FEZ in conflict regions quite possible that may lead to stabilization of the situation in the region. When creating such zones it would be reasonable to review Akaba model. Perhaps, like in Akaba, formation of two customs will be necessary. The problems that can be followed should be identified. Administrative relations should be regulated like in case of Jordan's government. I'll discuss the formation of such FEZ in Abkhazia and Samachablo in more details below.

As for the idea of forming free transit zones it should be noted that Georgia stands a lot of opportunities. The geo-political location of Georgia enables the state to get high effect by means of creating such a type of zones.

It was briefly about the world's experience and its use in Georgia. Let's discuss the prospects that FEZ's have in Georgia.

For the last years Georgia's government has started talks about formation of FEZ in order to stimulate inactive industrial sector. Before we discuss this issue let's make a brief historical review. The history of FEZ in Georgia starts from Berlin's Congress in 1878. On the congress by Turkey with the help of Markiz Solsberi _ Batumi external ministry the claim was made towards Russia. Russia took the responsibility to declare Batumi to be 'Porto Franka' _ the territory free from customs fee. This regime lasted for 8 years. During this period the industry has developed, the number of population has increased up to 3500. Batumi took 3rd place in the Transcaucasus by its trade turnover preceded by Tbilisi and Baku. On the Black Sea it occupied the second place in goods turnover after Odessa. [3 p.64]

After years the idea was supported by Aslan Abashidze's government. In 90s he raised the question of declaring Batumi as a FEZ several times. The project was examined by the parliament of Adjarian Autonomous Republic to back but fortunately, it was not approved by the state parliament. It is not difficult to guess that the Adjarian government of those days had more interest in separatist intentions rather than in economic development of the country.

Nowadays in Georgia Poti FEZ is functioning. It's interesting if Poti can operate as successfully as it was in case of Batumi. City of Poti is situated in the west part of Georgia and is located on the Black Sea. It is connected to the world ocean through the Bosphorus, Dardanelle and Gibraltar straits. Mostly it represents transportation artery in international relations of Georgia especially in Europe-Asia transportation link. Poti harbour is a significant because of its unique geographical location. On the rivers of the Black Sea Pool such cities as: Sofia, Sarajevo, Vienna, Minsk, Kiev, Ankara, Ljubljana, Budapest and etc. are located. 1/3 of the Europe's territory belongs to the Black Sea Pool where the population comprises 160 million. [3 p.65]

Judging from the abovementioned we can say that Poti port has all the potential to become one of the leading ports on the Black Sea, though some problems are to be considered.

The main problem is infrastructure. These days, it's difficult to make investor interested by only tax and

administrative benefits without creating corresponding infrastructure. The research carried in 26 countries of the world proves that the expenses to be made by the government in order to attract foreign investment comprises averagely 4 \$ on every 1 \$. For example, the foreign investments made in 4 zones in China comprised 4 billion dollars, while the investments made by China itself made up 22 billion. [7, p.9]

In addition to infrastructure there is a problem with workforce. Georgia lacks very cheap workforce. India and China can be taken as the examples. Also we lack high-qualified personnel and because of this reason foreign workforce may be brought to Poti FEZ. Besides we have to take into consideration the fact that Georgia has only two ports, among which Poti has a military-strategic importance, the capacity occupies the significant place. In my opinion it would not be fair to alienate such unit even for a temporal use.

We should also consider the factor of Turkey. The issue of increasing navigation movements in Bosphorus and Dardanelle straits is very sensitive for Turkey. Judging from the abovementioned, Ankara won't be excited by creating the queue of ships in Istanbul (Constantinople) harbors on the Black Sea.

Russian federation may invest great deal of money in Poti port as well as Turkey because of strategic interests. Moscow is interested in Caucasus because of oil and has other national interest. Therefore, the country which has such kind of interest items will make investments notwithstanding the number of debts to be paid in the country.

Considering the abovementioned, we can conclude that declaring Poti as FEZ is connected to many risks, but as it has already been formed, the government will be forced to spend a lot of money to make the zone successful. If the government does not take active steps in this direction Poti FEZ will turn out to be one of the unsuccessful zones among numerous others.

In Georgia there exists the possibility of forming other type of FEZ that are not less prospective. It might be even more promising than Poti FEZ. One of such zones can be Kopitnari airport FEZ.

Kopitnari airport from the very beginning was thought to be a military base. It had functioned with this status for a long time but later it was turned into a civil aviation. When the airport was being built its location was very correctly planned. It had to be close to equatorial countries of the Black Sea and control the states in the South. In other words, in terms of military viewpoint it had a significant importance.

Due to its significant location in case of declaring Kopitnari Airport FEZ will acquire important transitive functions. Mostly flights can be performed from middle Asia towards Europe and vice versa.

In fact, it is absolutely realizable project that may bring good results. This airport is distinguished by its poor incomes and flights are quite limited. Therefore, in case of its declaration in the form of FEZ will not cause much tax losses but modernization renewal of infrastructure will be necessary. The latter has already begun. Airport will make nearby villages more alive. Its declaration and functioning at its highest capacity will encourage the development of a game business. Certainly the nearby territory of the airport should be occupied by the trade establishments, like duty-free type shops that will enable employment of local population.

Turkey's FEZ can be taken as a model. It has gained a lot of experience in this direction. A preferential custom regime may exist. The company that will land its airplane on the airport will be free from paying the fee for airport service. The rates will vary according to services, for instance technical examination and etc. However I consider the alienation or lease of the airport inadmissible. It should be maintained by the government.

Besides this zone, free transitive zone may have great potential in Georgia. Our country is situated on the boundary of Asia and Europe; consequently we can transport goods from Asia to Europe. In order to transfer goods on our territory we should meet 3 requirements: speed, price and safety.

If we declare our country as a FEZ than we will be able to meet price requirements, that means employer will have to pay less to transport goods through Georgia compared with other alternative ways. In addition benefits may refer to some products strategic for Georgia and Europe. They might be energy carriers, wheat, and etc. Besides this project will make Nabucco project more attractive for Europeans because the price of the units of energy carriers will minimally but still decrease? It's profitable for use, in political point of view as the focus of leading world countries will be drawn on Georgia that will provide us with much guarantee of safety. Increased safety implies more increased transitive importance. Implementation of Nabucco project is under the strategic interests, though it won't be fair to say that soon as we form FEZ Europe will start its implementation immediately. No! We can only play a minor role in this respect.

As for the time criteria road infrastructure is the leading factor. From this point of view government will have to spend considerable amount of money in order to implement the project. Road infrastructure, railroads, ports and etc. should be renewed.

The problem of safety is the key in Georgia's reality. That's why the acquisition of transitive functions is so important for us, concentration of the world businessmen and world country interests should be performed and consequently, it will bring safe environment. The main factor is to create transitive zone for a limited period of time that will be registered in law.

The zone will bring some negative results as well. As starting point it will significantly decrease budget incomes. There may exist a danger of transmitting contraband goods. Its creation may imply high amount of expenses.

Unsolved conflicts create the possibility to form one more type of FEZ on the territories of Abkhazia and Samachablo. Because of endless conflicts and wars, industry is destroyed and the level of living of population is very low. With the aim of developing industry and integration of region into Georgia the formation of such type of zones is possible. The safety will be secured by the coalition police forces and local governmental bodies will provide businessmen with information. This may release tension in the region that will create good grounds for attracting investments on the rest of territories in Georgia. This project has more political load for Georgia and we can request the integrity of Georgia and return of refugees instead.

In conflict zones FEZ can be created according to the existing model 'Siva' in the Ukraine that is formed in the North Crimea and has experimental nature. It's generally known that the region has severe ethnic problems. To share the gained experience will be quite beneficial for us. In my opinion, abovementioned ideas seem quite practicable and realizable. Certainly, not all of them can start working immediately; I wanted to show the best variants of the FEZ that can be formed in Georgia.

Finally, we can say that despite the fact that I have named a number of problems that may be found on the way of forming FEZ including workforce and infrastructure and etc. the main item that should be taken into consideration is forming a strategic PR. Having free economic zones with their infrastructure and etc. is not enough. A question is raised: How far can local government bodies provide investors with business information? What bureaucratic procedures will be involved to handle this procedure? Juridical base, business legislation, contract laws and etc. These issues are to be discussed first. Besides, it must be formed at an ideal level and then appropriate political support must be obtained. When the system is combined its implementation won't be much of the trouble. Without political support FEZ will look attractive only on the paper. When all abovementioned problems are solved and the system is combined in a perfect form the management process of FEZ will not be of much trouble.

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GENERAL DATA ABOUT FEZ OF DIFFERENT COUNTRIES

Country	Initiator of forming the zone	Period of zone functioning	Prohibitions	Bonification	Management
Russia	government	20 years, can not be prolonged	extracting raw material, production of goods dangerous to environment, radioactive and nuclear substances	customs fee on import-export, VAT, excise duty	federal bodies of executive government
Turkey	government	in compliance with government	–	customs fee on import-export, income tax	–
Macedonia	government	50 years (after expiration of the date can be prolonged for 25 years)	goods dangerous to environment, radioactive and nuclear substances, drugs, arms production, chemical and biological production	customs fee on import-export, income tax, money transfer fees	head office of FEZ (formed by Macedonia government)
Palestine	Cabinet of ministers	not more than 49 years	–	customs fee on import-export	council of industrial property and free industrial zones (under ministry of industry)
Iran	Cabinet of ministers	in compliance with government	–	customs fee on import-export, none visa regime	administration of free zone (formed by the government)
Uzbekistan	Parliament (<i>Olti</i> Mazhlis)	in compliance with the parliament	production of such goods that are harmful to natural resources and environment	customs fee on import-export, special currency regime	administrative council of free zone (formed by the cabinet of ministers)

Perspectives of Free Economic Zones in Georgia

Annotation

Mikheil Chikovani

Kutaisi, Akaki Tsereteli State University

Student of the fourth course of the faculty of social science

Instructor: Prof. G. Gvartadze

In 20th century free economic zones were widely spread in every corner of the world. After dissolution of the USSR, this idea became point of discussion in Georgia too. In our country were examined a lot of projects and ideas about free economic zones but today free economic zone is created only in Poti.

In this them is discussed what advantages will bring this free economic zone in Poti. Also there are introduced FEZ's perspectives in Georgia. I'll introduce free types of economic zones and will show what perspectives they have in Georgia. I'll show my ideas about Kopitnary Airport FEZ, about FEZ's in Apkhazeti and Samachablo, also free transit zone has big perspectives in Georgia.

Kopitnary Airport has strategic location at first this Airport was built for air forces. So I can say that this Airport has good location for international transit. Free transit zone effectiveness follows from geo-politic location of Georgia. By the establishing preferential duties in custom tariffs we can lead big part of goods from Asia to Europe. Free transit zone in Georgia will make Nabucco's project more attractive for Europeans. Except economic profit it will be very important for us politically.

In Georgian conflict regions because of endless wars potential of manufacture and economic activity is destroyed. The establishing preferential duties in this region can help to activate manufacture and make high the level of life. This will help the integration of them in our country.

I'll tray to prove my idea with the example of analyzing the world experience.

ON THE QUESTION OF GEORGIA'S ECONOMIC DEVELOPMENT STRATEGY

Mariam Churchelauri

*Ivane Javakhishvili State University of Tbilisi
Magistrate of the second course of the faculty Economy and Business
Instructor: Associate Professor Ineza Gagnidze*

Under conditions of the open economy, transition to the market system, obtaining a global market niche and taking a solid economic position requires a great effort for any country. Georgia does not have a proper integrated strategy and effectively elaborated government program for sustainable and safe development. Thus, definition of its function on a global market according to the fields where Georgia can achieve competitive advantages carries the special importance.

Generally, peculiarities of a country, level of development, initial conditions, traditions, the degree of market mentality, progressiveness of economic theory, innovativeness, preparedness of economists and politicians, the degree of public support for the reforms has a great influence on the direction of reforms.

Competitiveness of a country is a result of combination of its organizational model and management practices, which are the most acceptable for certain countries and competitiveness sources of certain industries. Differences in national values, culture, economic structure, functioning organizations and development history make contribution to obtaining competitive advantages. [1; 162].

I will draw attention to the cluster conception discussed in "Competitive Advantage of Nations" (1990) by M. Porter, one of the researchers of competitiveness theory. The author analyzed four year research outcomes conducted in ten countries (their total export accounted 50% of the world export) with the support of 30 local scientists. He provided competitiveness factor analysis (diamond rule) and developed clusters' theory.

Cluster conception is a new means of viewing the economy. It points out about the new role of companies, governments and other organizations in striving for competitive advantages. "In the global economy the most important competitive advantages are often originated from clusters" [1; 275].

Cluster of industrial group represents a group of geographically neighbouring interconnected companies and related organizations, which act within a certain industry and are characterized by unity of activities and mutual supplement.

Except for the above I will provide additional advantages of seeing the country's economy through cluster prism. Namely:

- Cluster conception is based on a broader view of the competition for increased productivity between firms and regions;
- Clusters influence competition in three ways: 1. increase in productivity of the engaged industries and firms; 2. Improvement of innovativeness; 3. Stimulation of new business.
- Clusters represent driving force of export growth and FDI attraction, which is one of the primary tasks of the Georgian government.
- State and private investments aiming at improving operation of clusters provide advancement for many firms simultaneously. Famous firms get interested and a specific production chain is created;
- The majority of cluster participants are not direct competitors of each other. They simply serve different segments of an industry.
- In a viable cluster the initial critical mass of firms enhances self-strengthening process. Information

is accumulated and special preparation begins in local institutions, research activities are conducted, infrastructure is developed and appropriate legal regulations are laid down. Besides, cluster becomes more conspicuous and its prestige rises.

- Cluster intersection (for example, intersection of timber cluster with printing and publishing, transport, construction and wine making clusters and at the city level with conference and restaurant clusters) show new impulses of their development which reduce business entry barriers.
- As soon as the cluster is formed, mutual support for every industry within the group will emerge.
- Producers or individuals with original ideas migrate to the growing cluster region. This will contribute to resolution of the problem of emigration from Georgia.
- Firms in the cluster can determine future development trends more quickly, than their competitor separate firms;
- Clusters may facilitate the adaptation process of local firms with changing economic conditions. This additionally reduces the risks of local economy.
- Owing to cluster membership the sense of "civil commitment" makes firms go beyond narrow private interests. As a result efficient owner is shaped.

An adequate policy to develop clusters must be based on the existing and developing domains already tested by the market. Since historical times, from the period of existence of Silk Road, Georgia has functioned as a transportation corridor. Further I will discuss the issues of the effective development and functioning of railway clusters in Georgia.

In 1820 and 1830s railways existed in five states. The idea about the building railroad in Georgia was stated in 1840s, after discovering in coal layers in Tkibuli in 1845. After 26 years the first exploitation railroad was built. In 1883 the roads of Tbilisi-Baku and Samtredia-Batumi were exploited. These roads had great significance due to its shortness and comfortableness for turnovers between Asia and Europe. The building of the railroad promoted the development of coal, fuel, metal and manufacturing industry as well as tourism.

Since 1969 Georgian railways are completely electrified. After World War II due to the development of airway, motor and pipe roads the share of the railways in passenger and freight turnovers decreased. After the collapse of the Soviet Union the situation further worsened. In case of the absence of effective development strategy for the future progress of Georgian railways, it may collapse.

Currently, the income of the Georgian railroad can be discussed as the sum of the incomes from load and passenger turnovers. In 2007 the plan envisaged the transportation of 23 025 thousand tons of the load though factual data exceeded the plan and constituted 23263 thousand tons. Despite the increased tendency of turnovers, the income was decreasing which can be explained by the average income per ton as well as the distance of transportation. In 2007 the factual data constituted 10, 7 GEL, while in 2006 – 11,4 GEL.

The changes in incomes are directly connected with the average distance of transportation. In 2007 the planned data constituted 328 km, while the factual was 312 km. (see the diagram 1)

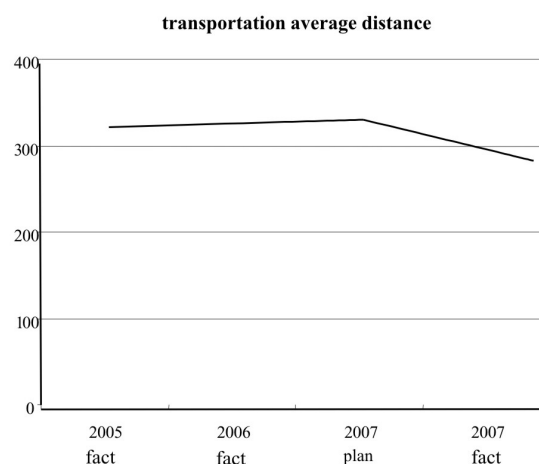


diagram 1

Transit – the income of transit turnovers constitutes the half of the whole railway turnover. The important share in transit turnover comes on oil and oil products. Consequently, changes in the amounts of transit turnovers impacts on the incomes. In 2006 it constituted 16141 thousand tons, in 2007 the planned amount was 16685 thousand tons while the factual amount – 14396 thousand tons.

The income has the same dynamics. According to 2005 data, the income from transit turnovers was 170067 GEL, 2006 – 199158 GEL, 2007 – 183385 GEL. The reason of the decrease of the income was determined by the decrease of transit turnovers which in turn was the consequence of several factors.

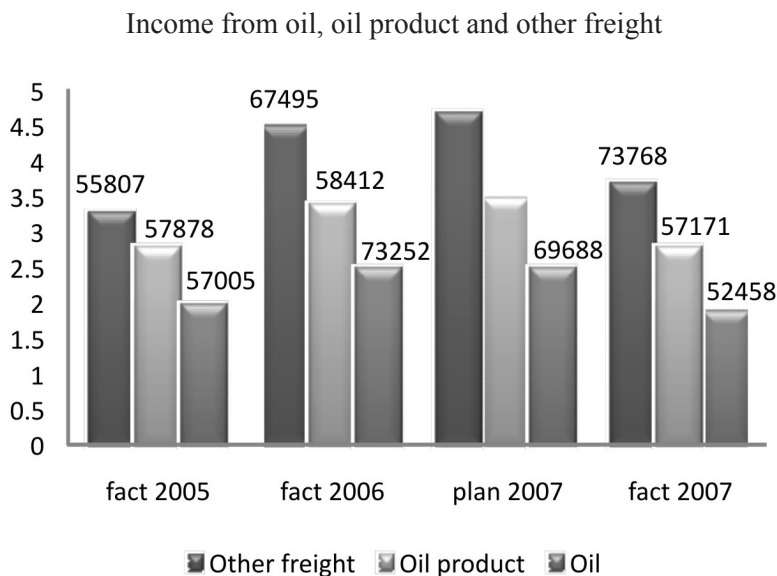


diagram 2

The income from oil in 2005 constituted 57005 GEL, in 2006 - 73252, in 2007 - 52458. The decrease is the consequence of the decline of the amount of oil. 2007 data shows much fewer numbers that predecessor year. Income from Oil product in 2005 57878 GEL, in 2006 58412 GEL, in 2007 (fact) 57171 GEL; from other Freight in 2005 55807 GEL, in 2006 67496 GEL, in 2007 (fact) 73768 GEL. (see the diagram 2).

Export – According to 2005 data export income constituted 10893 GEL/ 145 km, in 2006 12838 GEL/152 km, in 2007 – 12238/ 142 km. (see the diagrams 4, 5, 6)

Import – import has increased in 2005-2007. In 2005 – 17701 GEL, in 2006 – 223189 GEL, in 2007 (plan) 23903 GEL, in 2007 (fact) – 31611 GEL.

Local – The income form local turnovers constituted: in 2005 - 16457 GEL, in 2006 - 22534 GEL, in 2007 (plan) 23903 GEL, in 2007 (fact) – 22989 GEL. (See the diagrams 3)

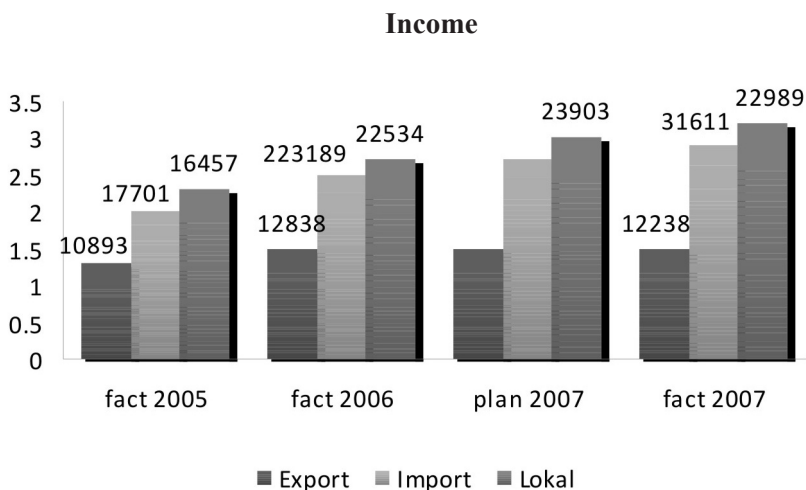


diagram 3

Approximately 5 % of the income from railway turnovers belongs to passenger transportation. The types of passenger transportation are the following: international, local and regional. The share of the passenger transportation is very little due to the competency of the means of transportation. The income from passenger transportation has increased but it did not guarantee the increase of the income generally.

As in other countries the railway in Georgia may be profitable on long distances and for long amounts of loads. The railroad of 600-700 km already becomes profitable, thus transit is the most rewarding. On the other hand, 80-85 % of our income depends on transit. Economic and sustainable development of Georgia is mostly dependent on its potential to use its advantages effectively as a transit country. From this perspective, TRASECA transit corridor gains the very significance. Political turmoil, the lack of finances and coordination made significant hindrances for implementing of certain important projects.

In 1992 the idea about creating the Europe-Caucasus – Asia transport corridor came into the light. In 1993 under the Brussels declaration the regional program TRASECA was established to develop the new transportation corridor. In 1996 another agreement came into force which guaranteed the transportation of Shavron oil from Kazakhstan to Batumi. Thus, we can consider 1996 as the starting year of the TRASECA project. Under this project 53 other projects were implemented, 14 among them concerning investments, 39 - technical support with the whole amount of 110 million Euro. Georgia participated in 7 investment projects and in 28 of the technical support. The goals of TRASECA are the following:

1. Support political and economic independence of participating countries and increase alternative ways of their accessibility on international markets.
2. Promote the development of regional cooperation between the participant countries.
3. Promote the attraction of international finance institutions and private investors.
4. Include TRASECA in Trans European transportation networks.

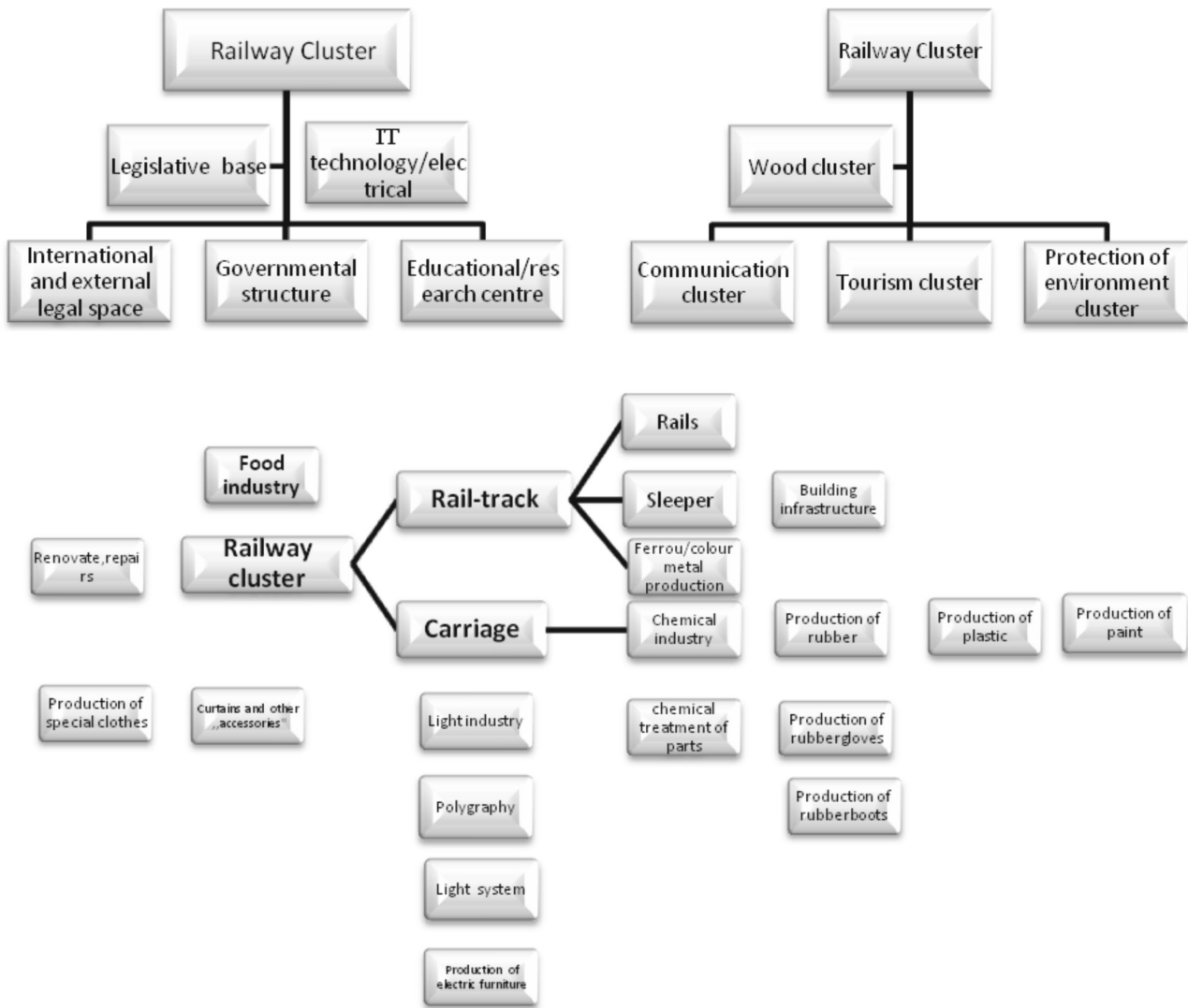
Since the functioning of TRASECA the budget income stably increases. (Approx. 20 million GELS per year) the whole contribution per year equals to 140 million US dollar and constitutes 10% of GDP. More than 95 % of turnover comes on Armenia and Azerbaijan. There is a tendency of the decrease of the importance of TRASECA due to more flexible tariff policy of other corridors crossing Iran and Russia. The whole amount of the load turnover lost for TRASECA equals to 15 million US dollar. More shares come on 1. Oil (62 million tons) 2. Oil products (1 million tons) 3, cotton (0,8 million tons) 4. Products (0, 7 million tons), 5 cereals (0, 5 million tons)

The decrease of oil transportation from Kazakhstan through TRASECA was determined by the exploitation of the CPC pipeline. Baku-Tbilisi-Cheihan pipeline is another reason. Thus the factors of sustainability of transit function are the following:

1. Market conjuncture
2. The quality of transit infrastructure
3. Policy coordination of TRASECA member states
4. Telecommunication corridor, regional tourism, banking and insurance service, etc.

TRASECA investments programs are not implemented in coordination, within one strategy. Environmental factors are not foreseen. There is an urgency to develop the special program along with international organizations for the strengthening the transit function of Georgia.

In a global economy, one of the factors for raising competency of Georgia's economy on international market is the elaboration of cluster development strategy. The formation of railway cluster system will significantly contribute the raise of effectiveness of railway operation in Georgia. The railway cluster scheme (scheme 1) shows the types of business and directions of cooperation development which may be implemented by the cluster planning in this field.



Scheme №1 Railway Cluster

Clusters often include the supply firms, specialized infrastructure suppliers; governmental and other agencies, which provide specialized learning, education, information obtaining, research and technical support (such as Universities, professional development organizations); organizations elaborating standards. Scheme №1 clearly shows that railway cluster comprises not only Railway industry but also a wide range of related industries, which provide support for the Railway development and we can see strong ties with different industry and cluster.

Cluster is a form of network within geographic regions, where closeness of firm and organization locations provides a certain form of unity and increases the frequency and power of interrelations. Cluster encourages productivity not only through purchases and deliveries of production factors, but also through mutual supplement between the types of activities of cluster participants. Reasons of mutual supplement within the cluster are related to the best planning and identifying sequence of activities. Formation of railway cluster in Georgia’s economy will be an incentive for the development of infrastructure and economic activities.

Cluster perfection policy is often changed. It takes clusters 10 or more years to attain real competitive advantage according to their historical experience - this is one of the reasons that governments (because of four year election term) are not interested in formation of clusters. Although when the experience of cluster formation is already known, a state’s purposeful effort can make desired results in much shorter period of time.

List of the applied literature:

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On the Question of Georgia’s Economic Development Strategy

Annotation

Mariam Churchelauri

Ivane Javakhishvili State University of Tbilisi

Magistrate of the second course of the faculty Economy and Business

Instructor: Associate Professor Ineza Gagnidze

Under conditions of the open economy, transition to the market system, obtaining a global market niche and taking a solid economic position requires a great effort for any country. Georgia does not have a proper integrated strategy and effectively elaborated government program for sustainable and safe development. Thus, definition of its function on a global market according to the fields where Georgia can achieve competitive advantages carries the special importance.

The cluster conception introduced by M. Porter, who is one of the researchers of competitiveness theory, is the most applicable to Georgian case. Porter provided competitiveness factor analysis (diamond rule) and developed clusters’ theory. The author analyzed four year research outcomes conducted in ten countries (their total export accounted 50% of the world export) with the support of 30 local scientists.

According to Porter, cluster of industrial group represents a group of geographically neighbouring interconnected companies and related organizations, which act within a certain industry and are characterized by unity of activities and mutual supplement. Clusters better adjust to competition character and sources of competitive advantages.

On the basis of Porter’s cluster analysis and taking into consideration the interests of Georgia’s economic development, I argue that formation and development of clusters has the key importance in country’s economic advancement and for achievement of competitive advantage on the international market. The following types of clusters can be developed in Georgia:

- transport (due to geographical location of the country this function has already been recognized by Silk Road: railway, main line, air, pipeline)
- tourism (eco-tourism, recreational and resort tourism, pilgrimage, etc),
- division of subcluster (timber, wine-making, vine growing, gardening, and other food products) within a large agricultural cluster.

1. M. PORTER - ON COMPETITION, A HARVARD BUSINESS REVIEW BOOK; HARVARD BUSINESS PRESS,1998 (Russian version; 2002)
2. P. Salen – ON COMPETITION; (Ed. by G.E. Alpatova; Russian version 2004)

INVESTMENTS AND INNOVATIONS: A MODEL OF UKRAINE'S DEVELOPMENT

Lyubov Artemenko

Lviv Academy of Commerce

Student of the third course of the faculty of International Economical Relationships

Instructor: Nataliya Cherkas, PhD in economics

Introduction

On the modern stage of the world economic evolution more and more developing countries base building of their economy system on the advanced informational technologies. Information becomes fundamental factor of social productivity, means of manufacture. Informatization and putting into practice innovations lead to increasing of affectivity of manufacture and take care of environment. In the researches of L.Melnyk [1] the information considered as the only product of production that could be multiplied without limits under conditions of decreasing of natural resources. Thus, the direct getting of the information for providing new researches of innovation products is not connected with a trespass to the nature and coincides with the theory of a sustainable development.

The branches of innovations increase world competitiveness and productivity, change and improve profit and production models. There is a great importance of support of development as high-technological branches to improve favorable development of these technologies at national level and its influence on well-being growth all over the world.

The qualitative increase of innovations could be achieved by investments. Investments are long term period monetary contribution that could be found in different spheres and branches of the national economy inside the country or abroad with a purpose to profit earning. It's supposed that investments have some benefits: introduction of new technologies by investors, especially by foreign, stimulation of development of export and reduction of import dependency and increasing employment that can serve as pledge of balance of payment [2]

Innovations and IT

Investments in innovations are very important for the well-balanced domestic growth that is one of positions declared in international agreements of sustainable development. The advantages of such approach are further confirmed by the fact of low environmental pollution, increase in efficiency of labor, relatively low production costs and virtually unlimited space for growth on the world IT markets. Development of information-technological (IT) and hi-tech spheres are related with competitiveness and influence on export and import possibilities.

According to analysis of IT international trading we can find that it helps with the process of technology development. The production of higher quality helps with using more developed technologies and has a great scientifically potential.

On the Fig. 1 and Fig.2(trend value) you can find the comparing analyze of export and import of hi-tech production 1996 - 2006 for industrial countries, developing countries, Eastern Europe, Russia and CIS countries (technical innovations includes new equipments, new knowledge and experience that form the model).

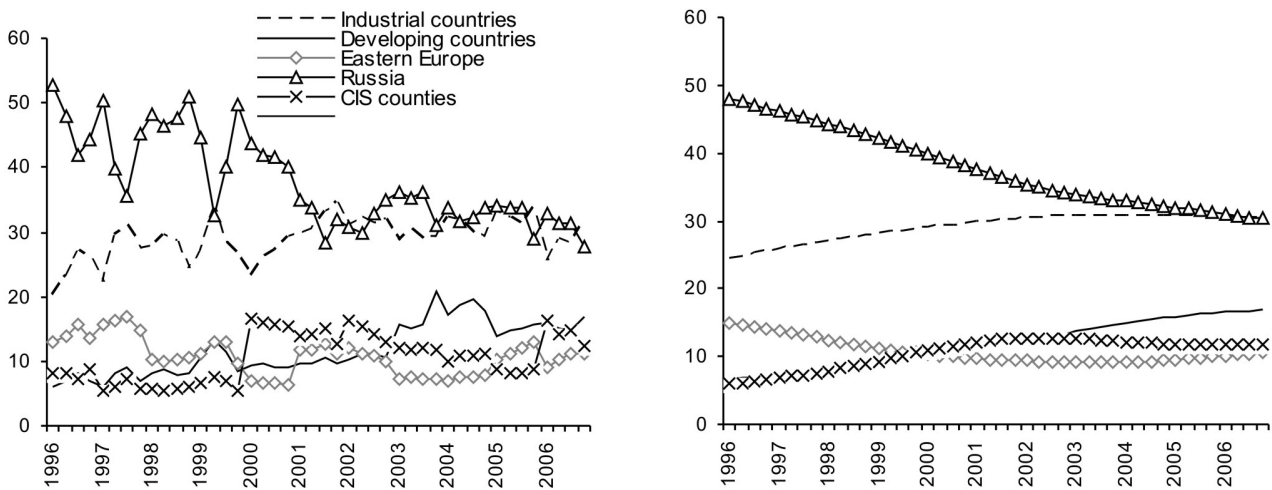


Fig.1. The share of individual geographic regions in the volume of imports (%) [3].

In the volume of imports Russia leads till 2004, since 2005 providing positions have new industrial countries. In the volume of exports Russia leads only till 1997 and since 1998, due to the strategy of development hi-tech exports, developing countries in the short terms managed to show great result of economical growth.

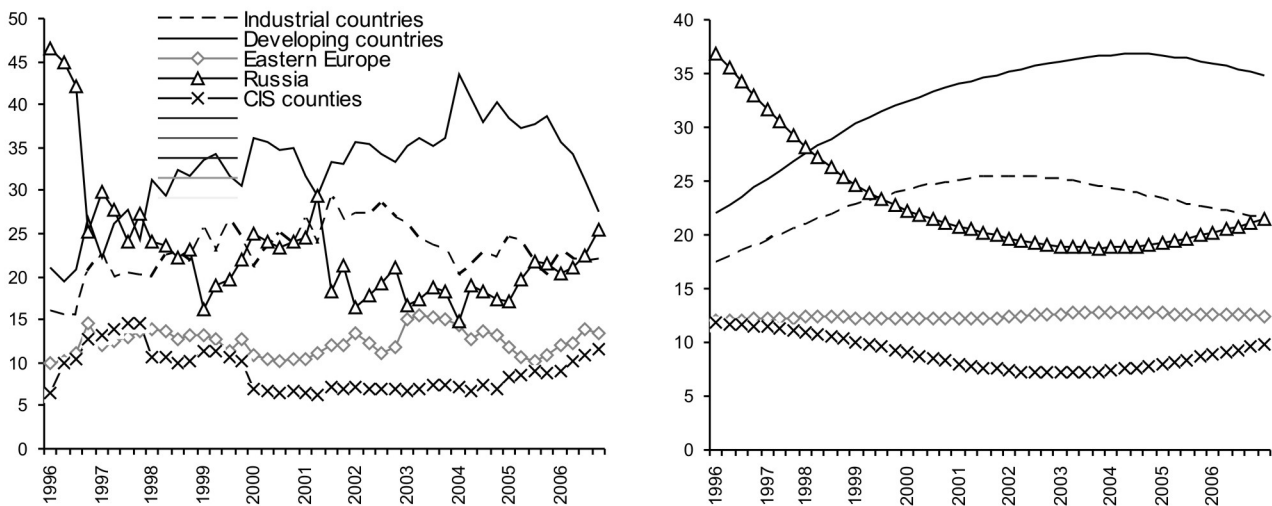


Fig.2. The share of individual geographic regions in the volume of exports (%) [3].

Trading and economical integration influence on the developing of technologies in different branched of the National economy. The imports of technical innovations have a great impact for developing countries and currently are on their way of future growth [4]. That's why it's so important for Ukraine to find its perspective in the sphere of innovations and find targeted investments to gain the productivity.

The development of hi-tech and innovations are important strategies employed to provide economic growth. Ukraine, in transformation conditions, displays lower competitiveness and productivity if compared with the other countries. Ukraine has a positive tendency in growing volume of export of information technologies, but it's still very low share in total export (around 1%):

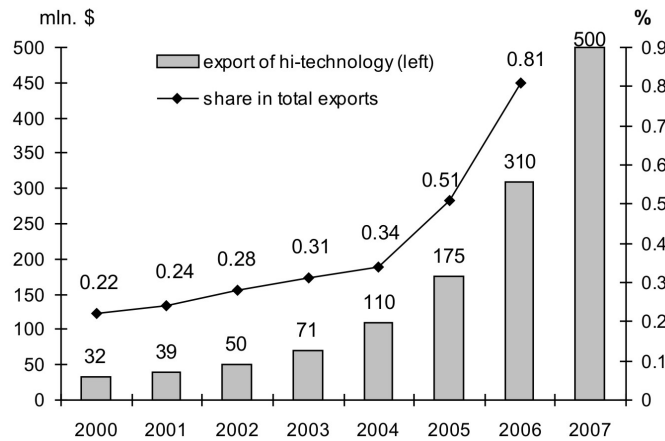


Fig.3. The volume of export of information technologies in Ukraine (million shares.)

And its share in total exports (%) [3].

Innovations and investments in Ukraine

As there's a tight relation between innovation process with investment decisions we can consider three types of investments: investments in applied research, investments in basic research, and investments in intellectual property protection. Only when basic research is performed, the effectively access incoming knowledge flows and these incoming spillovers serve to increase the efficiency of own applied research.

For Ukraine it's important to find out what are the sources of investments in innovations and find how they are realized to see what results it has for the economy system. The diagram of sources of investments in innovations in Ukraine is shown on the Fig 3.

It's easy to see that own funds of enterprises and organizations are leading with 59% and foreign investors have only 3%. The investment by government is very low and need to be increased.

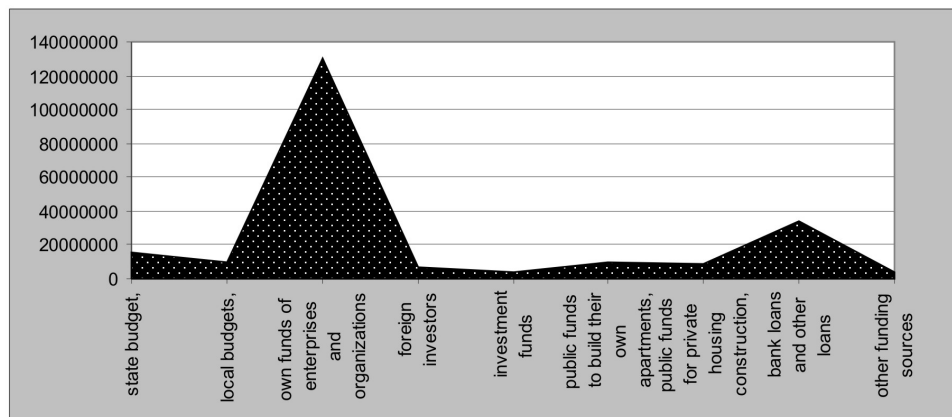


Fig. 4. Capital investments by the sources of funding, 2007

So, the role of government is such a way could be ruled to opens the international borders for new flows of the technologies, well-coordinated purchase of the new equipment and finding foreign direct investments (FDI). It could be used the model of liberating supply-fiscal policy and technological innovation.

The investigation of Ukrainian model for interdependence of GDP and other innovations could be measured by such indicators as:

- Expenses for scientific and technical works, million – ser. 01;
- Personnel's number of scientific and technical work, people – ser. 02;
- The share of firms that introduce innovations,% – ser. 03;
- Mastered innovative products, items – ser. 04.

Using the two-stage least square method and Granger causality test we can follow the next statements Tab 1 and Tab 2 (time lag is 2004 - 08):

Verifies the authenticity regression rate Durbin-Watson stat, which is 1.446130 (included in the allowable limits from 1.6 to 2.3). Adjusted R-squared = 0.957947, the figure shows how many % all independent variables determining the dynamics of dependent variable, in our case this value is 95.79% (Table1).

In the testing hypothesis we try to find out if series 1-4 does not affect on domestic growth product (GDP) in Ukraine. For the ser. 01 we can reject the hypothesis of statistical significance at 5% as there is a correlation between the getting money to provide scientific and technical works and growth of domestic product. So expenses for scientific and technical works influence on GDP with 95 %, GDP has more significant impact on expenses for scientific and technical works at 99%.

Table 1
Regression analysis

GDP=C(1)*SER01+C(2)*SER02+C(3)*SER03+C(4)*SER04				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.808035	0.110694	7.299727	0.0000
C(2)	0.767308	0.092861	8.262998	0.0000
C(3)	-0.032995	0.084563	-0.390181	0.7039
C(4)	-0.481266	0.075211	-6.398919	0.0001
R-squared	0.966959			
Adjusted R-squared	0.957947			
Durbin-Watson stat	1.446130			

As quantitative increasing of the number of employees in science has a positive impact on GDP growth we can find that for ser. 02 we can reject the hypothesis of statistical significance at 1%. As personnel’s number of scientific and technical work, people and GDP influence on each other at 99 %.

Series 3 and 4 don’t correlate with GDP. That means that the share of firms that introduce innovations and mastered innovative products don’t influence on GDP as GDP doesn’t influence on introducing of innovations and mastered innovative products too. Those two indicators are quite related and could be explained as products that are represented in Ukraine might be not competitive enough to produce significant use for the growth.

Table 2
Granger causality test

Sample: 2004Q1 2008Q4, Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
SER01 does not Granger Cause GDP	13	4.50675	0.0489
GDP does not Granger Cause SER01		10.9672	0.0051
SER02 does not Granger Cause GDP	13	20.5013	0.0007
GDP does not Granger Cause SER02		11.0690	0.0050
SER03 does not Granger Cause GDP	13	1.65074	0.2511
GDP does not Granger Cause SER03		0.47150	0.6404
SER04 does not Granger Cause GDP	13	2.70134	0.1269
GDP does not Granger Cause SER04		0.43619	0.6610

Researches have shown that there is a direct connection between the sizes of the enterprise and their level

of possibility to produce innovations. If the enterprise wishes to be innovatively active, it is necessary for it to have certain quantity of the personnel that can be engaged in researches. So the human factor is very important as a stay well-informed about the personnel, which could solve current problems. As a result Ukraine should invest more for personnel's scientific potential starting from universities that could become catalyst for Ukrainian economic growth. Also Ukraine should better not decrease the investment of innovation to provide development in the cycle time of commercialization.

Positive result of high-tech production is to transfer new knowledge and new skills and experience in other economic sectors. Innovative increases productivity, help scientific-technical revolution and the structural transformation of economy.

Investments on the regional level

In 2007 in common investments in the basic capital of Ukraine gained only 3,9 % FDI in comparison with 15% for the Eastern Europe

But the amount of investments depends also on the regional structure of dividing in Ukraine. The difference between regions could approach in 37,5 times more for the capital (Kyiv - 1006,5 \$ to Chernivecka - 26,8 \$ per 1 person).

Inspection conducted under European program CIS that gather the information includes the indicators of food, process, organizational and marketing innovations. Indicators are based on quantity of the enterprises which place in operation innovations, distinguishing innovations which are new to the enterprise, and also innovations which are essentially new to the market.

According to the statistic inspection of National Committee of statistics of Ukraine in regions has shown that level of the innovation activity in big companies is 23-49%, for middle companies – 11-29%. The highest index is in Kyiv, the lowest in Chernivecka.

To my opinion, it's important to ensure uniform distribution between regions is required to determine the prospects of their development and potential. The task for the government should be declared as researches of problems of investment innovation at regional level in Ukraine.

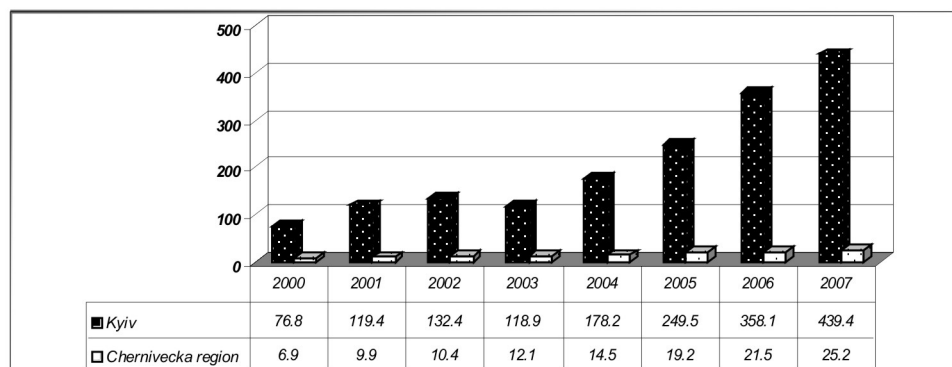


Fig.5. Availability of computer equipment (at the beginning of the year, thousand).

It's also possible to open new resource potentials for technological capacity with reducing the pressure of international borders, planned purchases of new equipment, ensuring foreign investment. Among other favorable external effects can be identified with the technologically developed trade partners, and research trends in overseas markets. Among the most favorable ways you can provide EU cooperation with Central and Eastern Europe.

The level of technology development and innovation are important elements of economic growth. To increase the research capital of our country the accumulation of technological and information innovations, created through the foreign technology-bridges of goods and services, should be considered. In this regard, I suppose that trade policy in Ukraine should be consistent with plans for technological development and the means - its targeted objectives of sustainable economic growth of our country.

Conclusions

Following the results of the paper research we can find that innovations are an essential resource of economic growth in developing countries. Analysis of trends in export volumes of information technology in-

novation points to the inefficiency of the national export capacity. It's important to correct this situation with targeting exports of high-tech products and innovative technologies.

Sources of innovation investment, the possible patterns of influence factors on the GDP growth were investigated for Ukraine. Interdependence installed for the expenses for scientific and technical works, personnel's number of scientific and technical work and GDP growth.

The researches of distribution of innovation's investment by regions show unbalanced position of the government financial policy.

Sources that provide innovative development in Ukraine are predominantly private investment, that's why government must make certain changes to the implementation and support industries innovation. Ukraine should provide broader access to innovation; allow a greater volume of deal flow, support standardization and modernization to gain better productivity.

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Investments and Innovations: A Model of Ukraine's Development

Annotation

Lyubov Artemenko

Lviv Academy of Commerce

Student of the third course of the faculty of International Economical Relationships

Instructor: Nataliya Cherkas, PhD in economics

This paper declare that investments in i nnovation must help to gain the new level of productivity as important strategy employed to provide economic growth of Ukraine, in transformation conditions.

This work is to present the current situation of investments and innovations in Ukraine, to clarify actual problems, find correlations of indicators and research their influence on domestic product growth. As there is instability on the innovation market it's very important for government to make certain changes to the implementation and support industries innovation. Ukraine should provide broader access to innovation; allow a greater volume of deal flow, support standardization and modernization to gain better productivity.

THE FINANCIAL CRISIS

“MANIA FOR HOME OWNERSHIP”

Nino Pkhikidze

Ivane Javakhishvili Tbilisi State University
Student of the third course of the faculty of Economics and Business
Instructor: Prof. M. Julakidze

The Financial Crisis is one of the major problems all over the world. It has influenced not only on banking system, but also on employment and other social problems. To say it shortly “there is no money in the world”. People all over the world try to keep the money. The numbers of business credit loans are also decreased; Nowadays the financial crisis is one of the “popular discussing” topics, because it has already spread all over the world. We don’t have to cross the borders of our countries to see the results of the global financial crisis. We see a lot of people retired from their jobs in our countries.

Overview

- **“The world consumer gives up”** - it means that the consumers don’t buy so much things as they used to buy in previous times. We see a lot of sales notifications in front of the shops and trade centers, they offer us lower prices but we actually go to shopping rarely. So the retail sales have decreased all over the world. (Graph 1)
- **The loan defaults surge** – people don’t have enough money to pay interest expenses, have residential and commercial mortgages have increased. It used to be for about 2% but now they have reached 5-6%. (Graph 2)
- **Jobless rate rises** – unemployment rate has increased. “Unemployment soars to highest level in 16 years” – The New York Times. There are many retired people in the world. (Graph 3)
- **Saving rate rise** – people prefer to save money, because they have not the hope for the future. They think they’ll be retired or their salaries will decrease. So they prefer to save money and not to spend them in high priced products. That’s one of the major reasons why people don’t use so actively holiday resorts any more. (Graph 4)
- **Construction collapses** – there were a lot of construction industries in the different countries of the world, especially in developing countries. But the financial crisis also made them collapse. For example in Georgia we can see that almost every started building has stopped. European construction collapses started in the beginning of 2007, when the rate of Euro zone residential building permits issued rate decreased and started to be under zero. And during 2008 the building permits decreased for about 25%-30%. (Graph 5)
- **Production plummets** – industrial product (ex construction) has decreased, especially in Euro zone. They don’t produce as much as they used to. But when we talk about production plummets, we should not miss those developing countries which produce those products, such as China, Taiwan, Singapore and other industrial countries. The customers who buy those products are mostly Americans and Europeans, so if they have not more money, they can’t buy as much as they used to. It’s like a “crisis chain”.

Main part

We see that the results of the financial Crisis is really harmful and aren’t finished now. It’s still continuously process, but what’s the reason of it? There are many suggestions about that:

- ✓ Most think that the reasons of financial crisis are:
 - Failure of market
 - Greed of business people
 - Lack of state control
 - Too little regulation
 - To much free trade
 - To little spending from government
- ✓ But there is also another opinion about the financial crisis – other economists think, that the real reason

is **interventionism**:

- Monetary system
 - central banking
 - fiat money
 - fractional reserve
- State intervention and guaranties
 - Cheap credit programs
 - Mortgage
 - Securities

But in my opinion the real reason of the financial crisis is “**Mania for home ownership**”. Historically low interest rates, alternative investments after the dot-com crash and the belief that housing is a safe and good investment and the imagination that “housing prices never fall” caused the mania for home ownership. John Snow the Treasury Secretary said in 2005: “the idea that we’re going to see a collapse in housing market seems to be improbable”. In that period many economists really considered that that was an ever last boom. The people who had already own their homes, bought another, refinanced, that cased the inflated prices. There were also a lot of mortgage brokers and sub-prime loans. Banks used to lend money to almost everyone who wanted to own home. So the result after the mortgages and sub-loans was that banks collected bad loans. They pooled and renamed them as collateralized debt obligations, created more collateralized debt obligations and sold those “safe” investments to pension funds, insurance companies, and other banks and to everyone.

So we can say that mania over home ownership caused overbuilding of homes, so there appeared to many homes on construction market, it means that supply was more than demand, so housing prices fall. Mortgages always worth more than homes themselves, so homeowners couldn’t pay mortgages and exactly that was the reason of default. Banks do not get paid so banks failed. Now banks do not lend money any more and the collateralized debt obligations do not get paid so that caused stock prices fall. “We have a big problem” – George W. Bush, September, 2008.

So it’s easy to understand, that the major reason of the financial crisis are bank credits, also sub-prime credits, that caused that chain of financial crisis.

And now about unemployment, that’s the most important point for us, as ordinary people, ordinary customers. That’s also major problems for Georgians, because there is a big amount of retired people, who can’t find jobs any more.

Unemployment as a result of the economic crisis is slowly becoming more and more dramatic in Georgia. All together around 6,000 employees have been fired from different banks and financial organizations in Georgia, all of whom were receiving decent salaries. The development business has also suffered seriously: if you look at the building sites around Tbilisi you see that more and more are now idle or barely operating. Around 70,000 people were being employed by developers before the August war and financial crisis. At least half of these are unemployed today. Employees of Chiaturmanganum, Madneuli (Bolnisi), Azoti (Rustavi) and other big enterprises are also losing their jobs. The food industry also suffering job losses as is the tourist sector. Many shops are also decreasing number of the people working there. Georgian trade unions say that more than 350,000 people are unemployed in Georgia today. It should be said that 35% of those employed receive a salary less than the subsistence level. The crisis has accelerated much faster than had been expected.

Jobs are being lost in different customer services units such as: beauty salons, car washes and so on. The trade unions have asked the Government to take urgent measures to grant allowances to the unemployed as this would not only assist these people and their families but also small traders, as the unemployed will thus purchase more food and essential items from the cheaper shops.

And what about unemployment rate in the US? The government of the USA issued a press release saying, that unemployment rate has now reached 7.2%. But we can just consider, that unemployment rate does not count many millions of Americans who could not find a job or could not get full time employment. This is called the official rate or the U-3 rate. It really looks nice. But the government also tracks the seldom reported U-6 rate. This includes all the discouraged underemployed workers. The U-6 unemployment rate represents real world conditions and is currently 13.5%. We see that such rate of unemployment is really high, but we say that it doesn't matter because it's not like the period of the Great Depression or anything, because during the great depression the official unemployment rate was 25%, it means that every fourth of Americans – able to work were unemployed. But if the current unemployment rate were calculated like it was 80 years ago it would be 17.5%. But if we look over the Great Depression period, we can easily see that in 1930 the year after crisis, the unemployment rate was only 8.9%. That's about half of what it is today. So that means that we have to act if we want not to appear in such situation.

Banking Sector

According to the data of the National Bank of Georgia, a negative balance between the deposits and loans of the banking system by the end of 2008 constituted approximately 13% of GDP. In such conditions, banks will hardly maintain balance if the capital starts flowing out of the country. Moreover, serious problems will arise even if the in-flow of international capital in the country is suspended.

This seems to be a rather realistic scenario in light of hardest ongoing worldwide crisis, which was called by the former Chairman of the US Federal Reserve System Alan Greenspan as “the crisis, which occurs once in 50 years, or possibly, once in a century”.

Banking system, in which there is a significant imbalance between terms of deposits and loans, is especially inclined towards a banking panic described by the so-called Diamond-Dibvig model. Unfortunately, this is a very evident disadvantage of Georgian banking system (refer to table).

Conclusion

So what is the major bad news in 2009?

Crisis spreading:

- we see that the crisis influenced not only on financial and industrial structures, but also to real economy,
- households are saving
- banks aren't lending
- foreign crash drying up
- exports stalling
- commodity prices falling
- Developing countries with large deficits – in last years, when the developing countries had budget deficit, they used to borrow money from the “rich nations”, but now those rich countries don't have so much money to borrow them. So the decision is that the debtor nations will save and sell assets to pay down debt.

To mitigate the problems of a banking sector it is necessary to carry out urgent measures in order to avoid a bank panic, which may inflict a huge damage on still developing Georgian banking system by creating a systemic crisis, especially when Georgian banks already experience solvency problems. Currently, the country has an extremely weak mechanism of long-term savings and their transformation into loans.

The society still does not trust the banking system, and therefore the latter has to rely on foreign sources to fund the assets. Big share of the banks' liabilities falls on short-term deposits, whereas in recent period long-term crediting (mortgage and consumption boom) has rapidly grown mainly at the expense of international capital.

So all of us understand that the cause of the financial crisis is in the banking system. The boom only gives the illusion of growth, while it is a misallocation of existing resources – lost opportunities for growth; the boom destroys value – consumers' real preferences are not satisfied, investments in non-convertible capital are doomed to be lost; the crisis is only the recognition of errors committed in the past – no countercyclical policy could be effective in the bust; The bust, though painful, corrects past errors and marks the return to compatible decisions.

So what decisions should be made? In my opinion the most appropriate way to stop the financial crisis

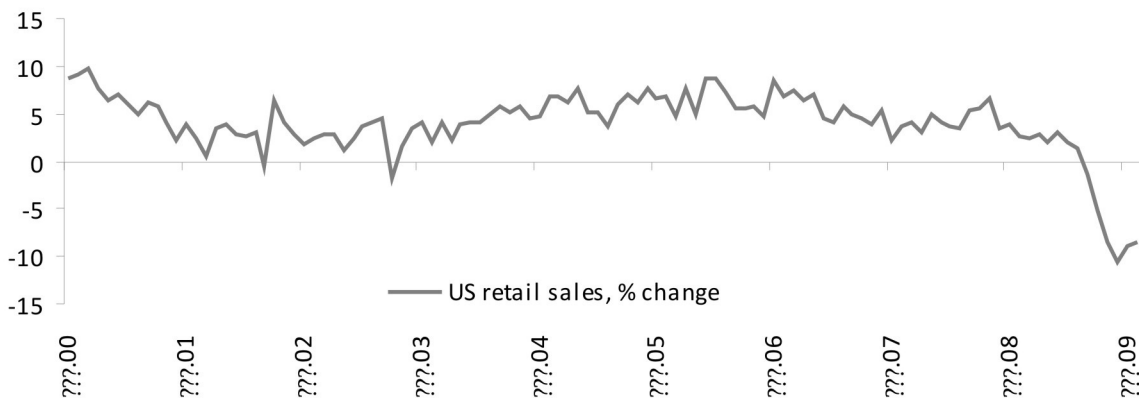
is not to have so much regulation and support the national banks to commercial banks with fiat money, the government should lower taxes - that will be the most important step for the enterprises who have started some kind of business and can't finish it, more money recourses will help to finish started business;

List of the applied literature

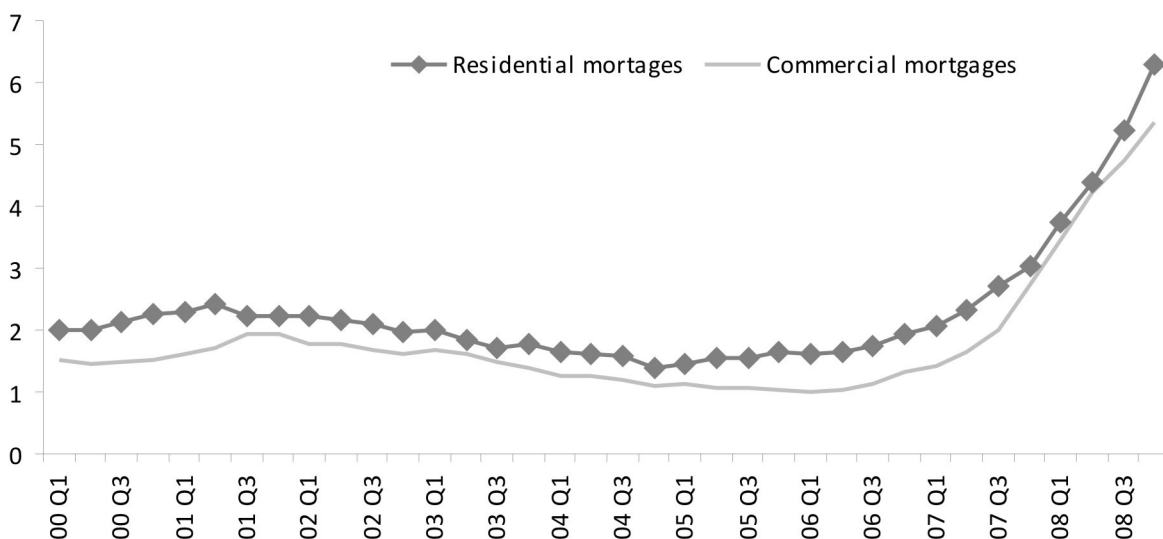
1. Asia News Reports – The straits times (Publication Date: 28-11-2008)
2. wallstats.com
3. The Economist – Economist Intelligence Unit (January/February 2009)
4. The National Bank of Georgia (nbg.gov.ge)
5. Bureau of Economic Analysis (<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>)
6. Bureau of the census (<http://www.census.gov/>)

Schemes:

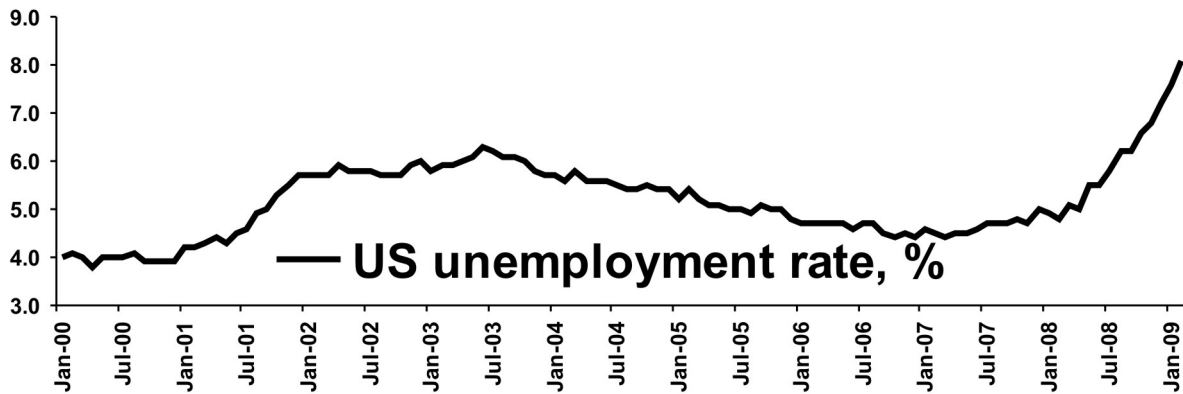
1. **Graph 1** (US retail sales, % change. Source: Bureau of the census)



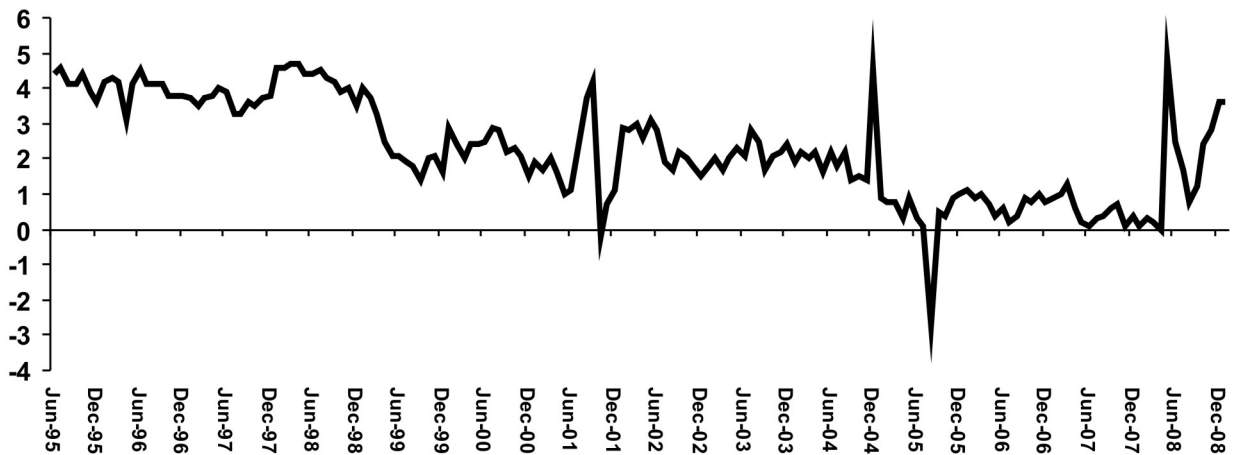
2. **Graph 2** (Default rates, %, all commercial banks. Source: Federal Reserve Board)



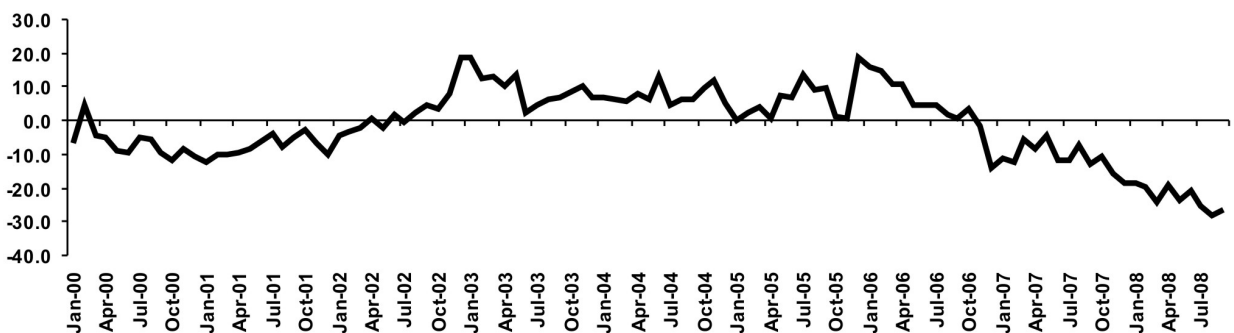
3. Graph 3 (US unemployment rate, %)



4. Graph 4 (US savings; Personal disposable income less personal spending; %Source: Bureau of Economic Analysis)



5. Graph 5 (Euro zone residential building permits issued, % change. Source: EU)



Financial crisis and its influence on Banking System

Annotation

Nino Pkhikidze

Tbilisi State University

Student of the third course of the faculty of Economics and Business

Instructor: Prof. M. Julakidze

The Financial Crisis is one of the major problems all over the world. It has influenced not only on banking system, but also on employment and other social problems. To say it shortly “there is no money in the world”. People all over the world try to keep the money. The numbers of business credit loans are also decreased; so if the financial crisis lasts some years we’ll have the terrible results.

So in my opinion the governments of the different countries should have serious attitude with that “great problem” and if the governments don’t have any anti crisis plans it’ll be much more difficult for the Free Market to solve this problem. So I think it’s important to make some kind of plan to stop the financial crisis. I’ll try to introduce the way of solving that problems detailed in my conference essay.

I think that that my essay corresponds with the subject of the conference very much, because it’s one of the actual economic issues. I think that the Financial Crisis is the major interest object not only for the governments, but also for the ordinary society. They can’t get loans without any limits, many of them are retired, and they make protests in many European countries. The world’s greatest banks have also great crisis. There’s same situation in Georgia too. One of the major examples of it is that in last 3 months most of Georgian banks have retired the stuff.

In my opinion the way to solve this problem will be very interesting for the listeners of the conference. I’m sure they’ll have many questions around this topic and it’ll cause debates among us. This is the topic which will interest not only Georgians but also other international participants.

I’ll try to get clear examples to prove my arguments about the topic. I’ll get the opinions of economic experts and add my ideas and exceed them.

My method of research is to make the research as fundamental as possible. I’ll prepare the report with: statistical information about the crisis, the situation of banking system in Georgia compared with the other countries of the world; especially developing countries.

CAUCASIAN COUNTRIES' MONETARY POLICY CONVERGENCE AS A FACTOR OF REGIONAL DEVELOPMENT

Nare Tatevosyan

*Armenian-Russian (Slavonic) University
Student of the third course of the faculty of Economy
Instructor: Spec. A. Engibaryan*

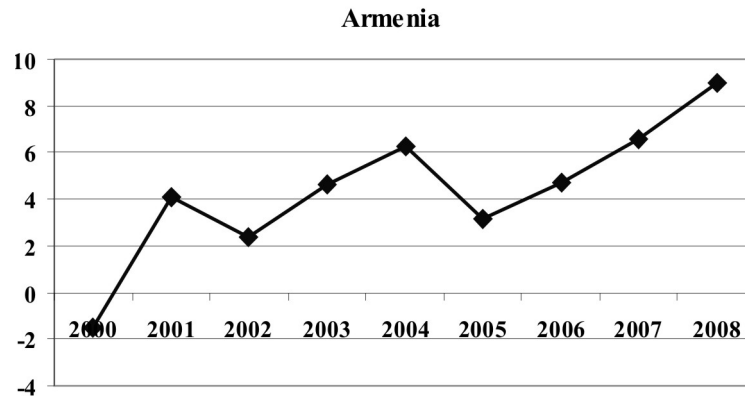
Introduction

After USSR had collapsed Armenia, Georgia and Azerbaijan like all other post Soviet countries, had passed a long way of their economies' reformation. In the first place it is related to the monetary and credit policy as it ensures the stable economic progress, lowers the speed of inflation and guarantees employment and so on. The experience of European countries showed that the basis of stabilization programs is the conservation of inflation on a level not higher than 3% yearly. But this can be reached by the help of national and foreign (international) monetary institutions, such as Central Banks and IMF consequently.

Armenia

In Armenia CB had problems with keeping the economic progress firm on its first steps to organization of money-credit policy. Macroeconomic activity was on critical levels: in 1992 the rate of GDP was (-48.1%), inflation in 1993 equaled to 3731.8%, in 1994 5273.4%, the Consumption Price Index (CPI) amounted to 1896.0% in 1993. Such a "record" haven't been seen in any other CIS country, but Georgia, where in 1992 the fall in GDP was -44.8%, the CPI index in 1993 and 1994 was 3125.4% and 15606.5% consequently. Of course, after bearing such high inflation rates the only right solution for our countries was a hard money-credit policy of CBs. The main aim was the money basis and the experience showed that this policy not only made the inflation reduce but completely disposed it as well: in 1997 it was 14.0% and in 1998 -8.7%. (see Picture 1).

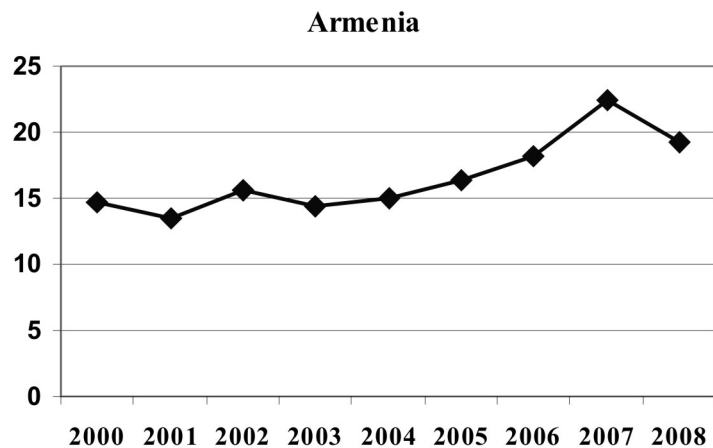
After this CB of RA developed a new policy, which had aimed to keep the inflation on a very low level congruous with advanced developed countries. This policy was used from 1999 to 2002, and was based on the assumption of a certain link between fundamental macroeconomic rates and changes in the monetary base. But there was one shortcoming in this policy, the point is that because of the openness of the economy and a huge supply of foreign capital de facto the inflation and the GDP most depend on monetary mass (see Picture 2). Of course it wasn't easy to control such an aggregate as there were some changes in banking system, the speed of crediting increased, the supply of foreign money as a transfer increased too, in consideration of this the monitoring of the money became more difficult. Besides temps of incoming transfers, in conditions of discredit to national value, made deep influence on demand for national value. This brought to depreciation of the dram and appreciating of the dollar. Though the regulation of the exchange rate wasn't CB's duty.

Picture 1. Inflation, GDP deflator (annual %)

Source: World Development indicators – Worldbank

Since 1996 CB RA had adopted floating exchange rate policy, and the official exchange rate of national value is calculated as an average indicator of intraday exchange rate derived from the open market operations. At the moment the policy of floating exchange rates is more optimal because it is very difficult to determine towards which currency to fix the course, especially in conditions of crisis, when the level of fluctuations is too high.

Since 2006 CB of RA, instead of regulation monetary aggregate, transferred to inflation target policy, main aim of which is predictable level of inflation (4 +/- 1.5% yearly). By the way the major task of CB RA is the price stability on the territory of Armenia. Taking into consideration that Armenia has a relative under-developed financial sector stability of prices must not be first-priority problem. In other hand RA is a country with an open economy, with free inflow and outflow of capital and goods, bounding of which will cancel all the opportunities of long-run development. Therefore in order to prevent a disparity appearance, the CB RA is following its own capital task.

Picture 2. Liquid liabilities (M2X) as % of GDP

Source: World Development indicators – World bank

Floating exchange rates make the process of price control without considerable interference, because otherwise, with fixed course the money mass will grow and lead to inflation. Likewise non monetary factors as reduction of agriculture production, price changes in rough production including metal and oil and construction growth reduction etc. can bring to price increase.

Besides the main aim of the CB RA percentage rate appears as an operational target, as well as:

- 1) Base instruments of refinancing – standard tender by REPO operations;
- 2) Updating instruments – fast tender by initiative of CB for smoothing of displacement;
- 3) Structural instruments – standard tender by initiative of CB for long-term development;

4) Instruments of constant facilities by initiative of commercial banks. Instruments of attraction money assets.

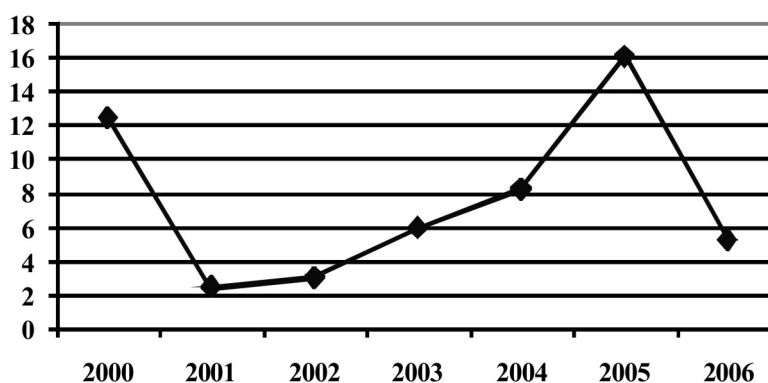
In spite of the financial sector indicators improvement after the adoption of inflation targeting policy not all the necessary instrumental resources are available. From that viewpoint we can argue that the nowadays monetary policy of CB RA is not as efficient as those of Czech, Hungary, Poland and Kazakhstan.

Azerbaijan

The chosen policy depends from strategic resources of the republic. In the past few years Azerbaijan faced large foreign capital inflow. It is connected with the sharp increase of production activity and export of oil (in 2007 current account surplus amounted 30% from GDP). Together with this the inflow of the capital to other branches increases. That's why The National Bank of Azerbaijan reacts on such high speed of inflow, combining two monetary policies that is targeting of exchange rate and inflation, with more orientation towards exchange rate due to the high level of dollarization (see Picture 4). So the course of manat relative to dollar in 2005 appreciated by 6.3%, in 2006 by 5.1% and in 2007 by 3%. NBA holds active policy on the monetary market in buying excessive foreign currency; in order not impede national currency high levels of appreciation. And that will harm the economy of the republic as a large amount of assets are in foreign currency.

Statistics show that since 2002 international reserves of NBA have increased about 5 times. In line with this, high levels of growth can be viewed in the amounts of money mass, which indicates increase of prices; for example, inflation sharply increased from 3-4% in 2001-2002 to 17% in 2005 (see Picture 3). Despite such figures in inflation the NBA follows the policy of exchange rate stability what depends on geographical and political factors.

Picture 3. Inflation, GDP deflator (annual %) Azerbaijan



Source: World Development indicators – World bank

Let's see what preconditions are there for supporting the policy of strict currency and whether the policy of floating currency is possible.

Why strict monetary policy? We can't forget about that Azerbaijan is a small country therefore it is more sensible to external shocks all the more in conditions of globalization of world economy. Starting from this it's more rational to follow strict monetary policy. Then if we continue studying the economy, we'll see nearly 50% of GDP comes on oil production. This assumes that the economy is not diversified. Even if any little change is detected in the macroeconomic environment we assume that the best policy is the fixed exchange rate. In addition of this Azerbaijanis financial system is characterized by a low level of development, what can be proved by low level of GDP per capita indicator?

Picture 4. Liquid liabilities (M2X) as % of GDP

Source: World Development indicators – World bank

Another indicator is the high level of dollarization: more than 50% of bank deposits are in foreign currency, more than 45% the share of the bank credits and more than 29% in quasi money. Taking into consideration the huge importance of relative inflation indicator over several countries we should highlight that in 2007 the inflation ratio (inflation in AZE / inflation in partner countries) is equal to 16/9, what is bad?

Why flexible monetary policy? Characterizing the level of Azerbaijan's economy's openness by exports and imports volumes, the export dominates by more than three times. But on the assumption of this economy's peculiarity non-oil sector should be treated as the above mentioned indicators' characteristics, which share in the export is too low. From this point of view the level of openness is not high and the NBA can realize a flexible exchange rate policy. Also it is worth mentioning that capital flows in the country are liberalized, so a floating regime of exchange rate is possible. Our analysis states that fixed exchange rate adoption has more reasons in Azerbaijan than floating rate, the first will be more appropriate.

NBA, in line with the exchange rate targeting policy takes actions to prevent inflation. But since in Azerbaijan the volume of the Government securities is not high, NBA offers its notes in order to reduce the money mass and inflation level and thanks them the money-credit policy of the NBA becomes more efficient due to the REPO operations possible. But NBA does not abuse this right and notes' share in the money mass amounts to 7-8%. Otherwise sharp increase in interest rate can occur.

In 2008 money mass growth rates decreased in comparison with 2007 and amounted to some 25% of GDP. Beginning from 2008 the NBA operates with double-currency basket policy which comprises also EURO, what helps to influence the nominal efficient exchange rate of the manat. As an outcome the manat exchange rate appreciated by 12% what can be abolished by the price level in partner countries.

In order to have a persistent level of liquidity some adjustment were made in the money-credit policy: benchmark interest rate was reduced to 8% from 15%, reserving rate was decreased to 6% from 12%, as well as 5%-age reserves on internal liabilities were canceled.

The NBA announced that in 2009 its policy will ensure macroeconomic stability, as a deepening of the world economic crisis is obvious. The economy will suffer badly as foreign currency inflows and investment volumes will reduce which can be treated as oil price and export plunge. The half of the economy is based on the oil sector.

Money-credit policy will react softly to the macroeconomic changes. Benchmark interest rate and instruments of banking system refinancing will be regulated permanently. Main priorities will be the banking system security as well as small and middle business development and foundation of construction-mortgage market etc.

So, the main positive issue of the money-credit policy of Azerbaijan is the possibility of competitiveness increase in the economy.

Georgia

Now let's turn to monetary policy of Georgia. The main objectives of the National Bank of Georgia (NBG)

are to attain and maintain price stability, as a factor necessary to increase the development potential of the country. And that's why NBG is oriented towards providing non-inflationary money supply (see Picture 6). For this the National Bank of Georgia uses monetary aggregates, namely reserve money, as intermediate target. The fluctuations of the exchange rate are also significant, as Georgian economy is quite open and for this high degree of dollarization can be seen. As operational targets are used the reserves of banks¹.

The NBG mainly relies on the open market operations, which include deposit certificates, governments and open auctions and REPO operations, minimum reserve requirements, overnight credits and etc. Addressing the NBG program from early 2001 we can assume that: it was realizing a strict monetary policy by operations with broad money supply targets. In 2002 the main indicators the NBG was operating were GDP growth rates and inflation. Exchange rates are floating and are under its control as well conducted by means assuming implementation of non-inflationary methods of adjustment (see Picture 5). The above mentioned will be achieved through the following:

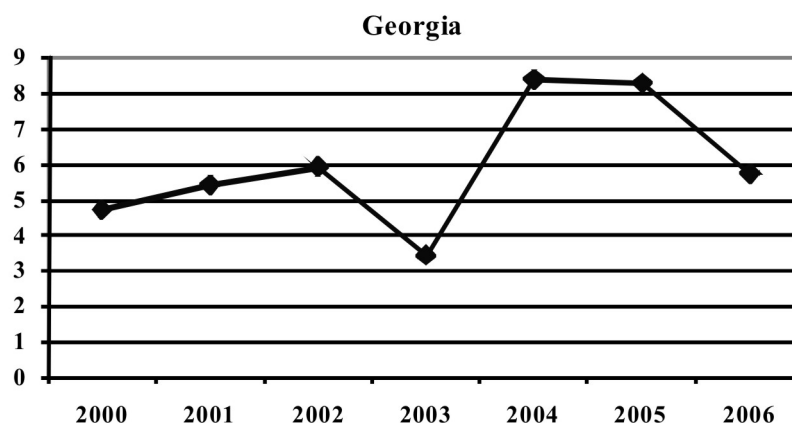
1) To facilitate further reduction in interest rates, the NBG shall promote a competitive environment in the banking system, and periodically consider appropriateness of the reserve requirement revision;

2) Together with the Ministry of Finance, NBG shall consider the issue of transforming a part of the governmental loans into long-term debt securities; the portfolio of government securities shall be used to sterilize excess money stock and to smooth fluctuations in the money market;

3) In order to facilitate consolidation of the banking system and to ensure its stability, NBG shall define the minimum level of the commercial banks' regulatory capital which shall not be less than the minimum level of the authorized capital;

4) To identify financial difficulties in the banking sector and to take appropriate timely measures, NBG shall ensure transparency of banking activities and refine mechanisms of systemic risk management.²

Picture 5. Inflation, GDP deflator (annual %)



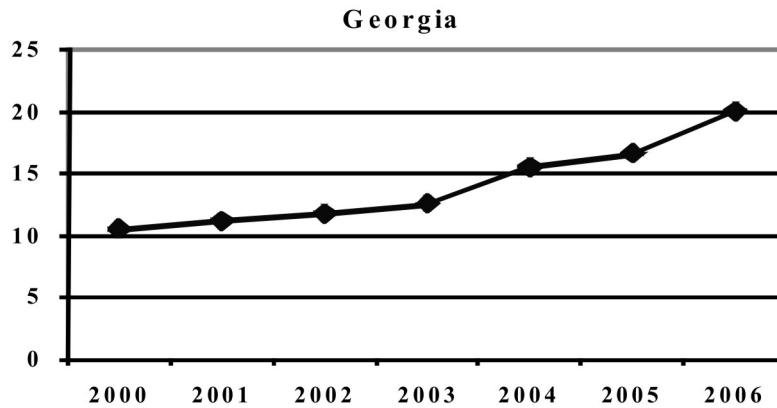
Source: World Development indicators – World bank

In 2003 the policy alters a bit: the trend of gradual demonetization of the economy should be sustained, so that the ratio of broad money to GDP increases at least by 0.5 percent, and consumer price index growth does not exceed its set rate. The reserve money should increase by 8-10 percent, mainly by accumulating international reserves of the National Bank of Georgia, to ensure the non-inflationary supply of money.

In 2004 the NBG declares the following: to further increase the efficiency of monetary policy, the National Bank's open market operations – especially repo operations - shall become more active. If the demand for the national currency increases significantly, this instrument shall be used as the alternative source of money supply. To neutralize possible excess liquidity via repo-operations, the National Bank's T-bills portfolio shall be formed with GEL 9.8 million nominal value at the year-end. Though the main target (inflation of 5%) was not achieved (see Picture 5).

1 National Bank of Georgia Programs – www.nbg.ge

2 National Bank of Georgia program, 2002 – www.nbg.ge

Picture 6. Liquid liabilities (M2X) as % of GDP

Source: World Development indicators – World Bank

Similarly to 2004 inflation in 2005 exceeds the consensus level and amounts to 8.2% what indicates the low efficiency of the policy the NBG is realizing. This can be the outcome of two reasons: the first is that the planning system is do not fit the macro environment well and the second one is that the mechanisms and instruments of such policy realization is not up-to-date. So subsequent policy must rely on more efficient units of regulation both for short-run (interest rate, open market operations) and long-run (inflation, GDP growth, money supply) targets' and anchors' modernization.

In 2009 the NBG policy was changed: the inflation targeting model is functioning. To approve Main Directions of Monetary and Exchange Rate Policies of Georgia for the year 2009 presented by the National Bank of Georgia.

At the given stage of development of the Georgian economy the average annual inflation target shall be defined at the level of 9%. In 2009 the National Bank of Georgia shall use the following main instruments of monetary policy: refinancing loans (supply of liquidity), Certificates of Deposit auctions (liquidity withdrawal), and operations with government securities, standby instruments (overnight loans and deposits), minimum reserve requirements and other instruments.

List of applied literature:

1. www.cba.am
2. www.nba.az
3. www.nbg.ge
4. www.armstat.am
5. World Development indicators – World bank

Caucasian Countries' Monetary Policy Convergence as a Factor of Regional Development *Annotation*

Nare Tatevosyan

Armenian-Russian (Slavonic) University

Student of the third course of the faculty of Economy

*Instructor: **Spec. A. Engibaryan***

One of the fundamental issues of economic regulation is the problem of elaboration of the most efficient monetary policy. Caucasian countries turned out to form relatively successful monetary system, which promoted the post-crisis stabilization in transition period. The shortcomings of adopted monetary policy are more brightly displayed with the acceleration of globalization processes, which can deny admitted rules and principles of monetary regulation. Accordingly, the *actuality* of the research implies creation of new, comprehensive mechanisms of money turnover in Caucasian countries in line with the world economic crisis, what is possible by using the whole potential of each certain country and the regions as whole. Mobilization of this potential will be a decisive factor for the development of the region in XXI century as more influential economic subject.

BANKING SYSTEM DEVELOPMENT IN THE CONTEXT OF FINANCIAL CRISIS: WAYS OF OVERCOME

Ter-Martirosyan Mariam

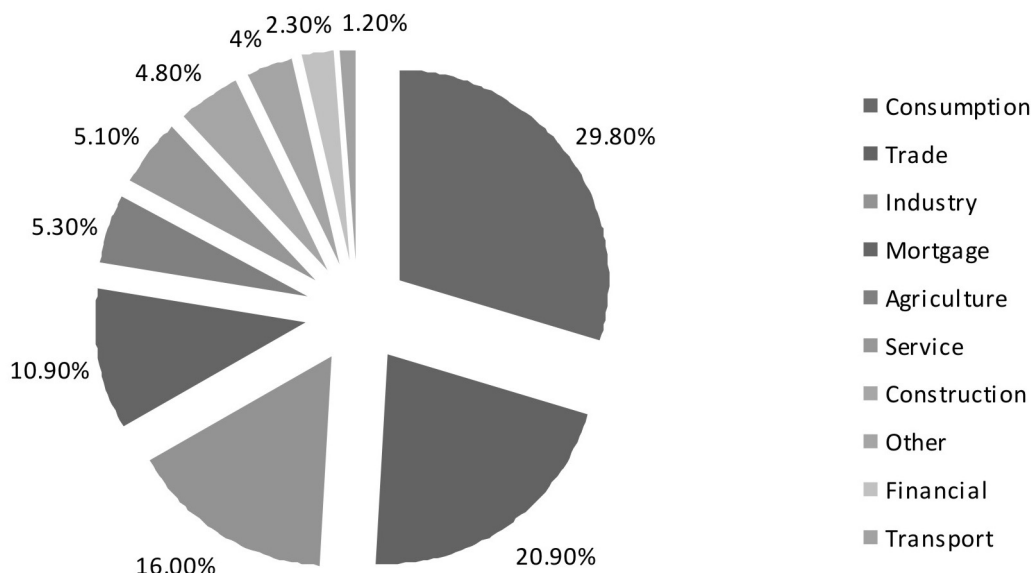
*Russian-Armenian (Slavonic) state University
Student of the third course of the faculty of Economics
Instructor: A. Yengibaryan*

2008 appeared to be the period of one of the largest financial crises which has caused destabilization of bank sector and the insurance markets, and has led the general recession of the world economy. The bank system is such sensitive sphere of services, economy in which interests of the overwhelming majority of the population are accumulated; therefore any changes in this area negatively or positively influence a life of many, especially businessmen. But for some reasons world financial crisis has not too strongly affected our country. Unlike other countries, at us “destroying” action of this crisis on our banks is not felt, any of banks has not gone bankrupt. A current problem situation in the world financial markets while has had only limited influence on financial sector. And as the basic participant of financial sectors of the countries of region is the bank sector it has more incurred losses than other elements of the financial market. Such factors as insufficiently developed financial market and small degree of integration into economic, rather low degree of dependence of internal banks from inflows of “hot” capitals promoted that initial consequences of crisis were not reflected in our countries. Though banks of republics operate in a normal mode, all processes are completely operated also are under the control, crisis has caused some changes to which number it is possible to carry delay of growth of volumes of crediting. Basically those banks which used cheap “demand lines of credit”, given out by foreign partners which in turn have felt destructive force of financial crisis have suffered. Now the main objective of the countries of region consists not only in reducing to a minimum crisis influence, but also even on the contrary, as far as possible to take advantage of the developed possibilities. On a number with the general problems at banks of Armenia, Georgia and Azerbaijan exist also specific problems which are connected with features of process of formation of bank system of each country separately. To understand the level of integration of financial sector, particularly banking system in the world economy and losses caused by crisis first of all it’s necessary to determine whole situation about position of this sector in the economy of our countries till nowadays. To overcome the situation on financial markets of our countries it’s necessary to analyze instruments and methods of stimulation of proper regulation mechanisms, to reveal what favorable conditions or disadvantages of banking system exist for creating more stable financial environment for banking.

And so we will pass to consideration of position of bank system of Armenia, its positive and negative sides which or help or constrain the further development. A basic element of financial market RA is the bank sector which own 95 % of the capital of financial sector. At present the banking sector is represented by 22 banks and 367 branches, but it does not supply sufficient financial recourses to economy. One of the reasons of the small size of bank sector basically is a consequence of considerable shadow economy, which, by estimations, makes about 30 % of gross national product though to estimate the real size of shadow economy very difficult as nobody knows precisely, how many it makes. The essential part of the Armenian business is in a shade, many are afraid to use banks as are afraid, that to tax service details of bank operations carried out by them become known. Because of these prejudices many prefer alternative variants storage of money. In Armenia the law guaranteeing confidentiality of such information, and banks can’t simply be given to tax service, this law somewhat strengthens trust to banks. Despite this factor on the average annual growth of bank system of Armenia makes 20-24 % whereas economic growth of the country makes 10-12 %. Thus level of penetration of bank system in a national economy while is low. Total assets amounted to AMD 966.1 billion(2008), 779,5 billion (2007), 536 billion (2006). These figures show, that growth of actives with 2006 for 2007 has made 31,1

%, and during the period from 2007 to 2008 already became 19,3 % that speaks influence of financial crisis. In 2007 the parity of actives to gross national product has made approximately 25 %. Though growth from year to year is observed, but Armenia all the same lags behind on the given indicator the developed countries. In 2008 this indicator made about 29 %. If compare an indicator of the relation of the size of actives of banks to gross national product of Armenia to the countries which financial sector as is focused on bank system, an indicator aloud above: about 300 % in Germany, 250 % in France, 360 % in the Great Britain. How much effectively banks use the actives and what diversified their credit investments in various branches of a national economy can be judged degree on operating ratio of capacities (K1/3). International level K1/3 is provided within 65-70 % and the less factor, the above liquidity of balance and more low potential possibility of bank to increase profit. On bank system K1/3 makes about 55 % that specifies in an orientation of banks to diversify the credit portfolio. Structure of a credit portfolio of bank system RA the following: credits in economy approximately 221,100 million dr., interbank credits-158,400 of million dr. Banks basically directed money resources to physical persons, which makes about 223,395 million dr. For consumer credits delivered about 292,63 million dr., i.e. 4.1 % from gross national product RA, (166755 million dr. on 2008 year), on hypothecary crediting are going 579,810 million dr. (1,7 % from gross national product), (54818 million for 2008 year). The small sums are directed on crediting of sphere of services and granting of financial services. In general bank credits to gross national product make about 14 %.

Figure3. Banking Loans by Sectors as of 2007



Source: UNDP – Financial Sector Deepening Program, Armenia

Events in 2008 have led to increase interest rates RA and reduction of return term, especially it has affected the most long-term credits, including the mortgage. So, if before last events the credit stood out under the rate of 14 % after it has risen in price for 2 %, and return terms were reduced since 15 years to 10. As the important making part of demand in the real estate market are foreign sources, naturally, this demand was reduced. The crisis situation in the international markets compels today investors and agents who consider the real estate market as reliable and profitable sphere, to be, whenever possible, cautious. It is also the main reason of transactions volumes reduction in the local market of the real estate lately. It is also caused by that the market of credits under purchase of the real estate used to develop basically at the expense of a rise in prices for the same real estate, and risks were neutralized thanks to presence of liquid mortgaging maintenance, and today the prices stand, and liquidity falls. The Armenian banks, being witnesses of negative consequences of the international financial crisis, began to carry out a little more cautious credit policy, including in sphere of mortgage crediting. Toughening of crediting from banks, in turn, provides as an establishment more severe constraints at delivery of credits, and certain increase of interest rates. So on rate auto credits rose from 18 % to 24 %. In the last quarter of 2008 year was reduced crediting of financial sector for 19,6 % and also for transport

for 7,7 %. But the sum which is given out to real sector has sharply raised. Only the industry has received 16 billion for the third quarter 2008 and the credit, that more than 4 times exceed the sum for the second quarter, rose with 68 billion dr. to 84 billion dr. For clearness I will notice, that in 2007 the credit has been increased by 19 billion dr., and in 2008 only for 3 months growth for the sum of 16 billion dr. As a result of these and many other things has been fixed changes in growth of a credit portfolio, in the third quarter 2008 year was reduced, it has increased by 11 % or in absolute value on 62 billion dr., and last quarter growth made 13,5 % or 65 billion other, thus the third quarter is considered the most active time of bank activity. In connection with reduction of profit on crediting factor ROA which shows level of profitability of actives, i.e. net profit shares in actives has decreased also, it in 2007 made 2,71 %, and in 2008g. - 2,53 %. But Armenia banks are not threatened with such losses as were with banks of the USA, as in the USA the greatest losses have incurred investment banks which in the portfolios had basically mortgage securities while the Armenian banks and the credit organizations specialize basically on traditional bank operations – depositary and credit. Besides, our banks give mortgage credits basically in volume no more than 70 % from real estate cost, than and insure itself against possible reduction of prices on this property. On the other hand, degree of capitalization of our bank system is at higher level. So, the standard requirement of adequacy of the capital to banks in Armenia makes 12 % while in the USA this specification is established at level of 8 %. Therefore to an occasion the true and timely decision on creation of mortgage fund with participation of the state which in new conditions will partially guarantee risks, refinance long-term investments in the mortgage was accepted. Financial crisis will be reflected most during the long-term period. It will be caused by rise in price of the proceeds of credit, which banks take abroad. Armenia tests deficiency in long-term and inexpensive means. The factor of stability of financial assets testifies to trust increase to banks and as consequence of their essential activation in a direction of attraction of urgent deposits (K2/1), 93,84 % which have made on bank system. The total volume of fixed deposits in absolute expression has made 229.8 billion dr., which make 37,2 % from a total sum of obligations, and obligations poste restante – 215.6 млрд драмов (34,9 % from a total sum of obligations). In 2008 the total volume of fixed deposits in absolute expression has made nearly 264 billion dr., obligations poste restante were about 224 billion dr.

That fact testifies to increase of trust of the population to banks, that from the specified volume of urgent deposits the lion's share is necessary on contributions of physical persons (almost 57 %). The problem of «long money» for long-term crediting while remains for banks actual. The factor of financial stability testifies to it (K2/2), characterizing degree of dependence of banks from the extra (involved) means. Recommended level fluctuates within 30-50 %. On bank system of Armenia having fixed at level of 56,81 %.

This problem can be solved at the expense of creation of financial infrastructures - developments of the insurance services, alternative pension system, the share market and the market of derivative financial tools. Pension reform will allow to accumulate 600-700 billion dr. savings which can be directed on development of the financial market. One more positive factor is that since January, 2008 our bank system has passed Basel II for what commercial banks should create analytical services to principles. Reservation specifications on possible losses on risks have been softened. Central Bank calculations have shown, that these measures will allow banks to liberate additional 25 billion dr. which can be directed on crediting. Before banks the competitive problem is put also to increase variety of given services and introduction of modern bank technologies. Despite development of bank sector RA still there are system risks, such as risk of opacity and corruption risks.

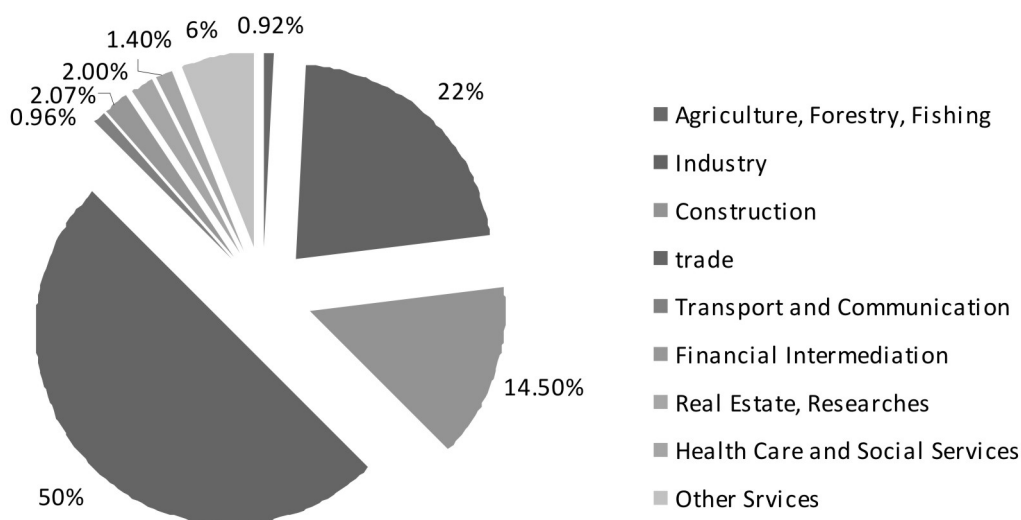
Let's pass to consideration of banking system of Georgia.

The banking-financial sphere is considered today one of the most fast-growing segments of the Georgian economy. Now in territory of Georgia 20 banks operate. For its sustainable development the correct model of institutional devices for what the principles which have developed in the international practice and standards have been as much as possible provided has been chosen. The bank legislation of Georgia, the bank policy and practice as a whole correspond to necessary norms of improvement and expansion of bank service in the country and give the maximum possibilities for introduction and development of new bank products. Throughout last five years the quantity of consumers of bank service grows in Georgia high rates, deposits of physical persons and the companies annually grow in banking sector on 25-35 %, profitability of banks on the average makes 3-5 % on actives and 14-20 % — on the capital.) . Nevertheless for Bank of Georgia and other banks of the country remain having long character operational and business risks which still influence trust to bank system and liquidity. Ratings of Bank of Georgia reflect considerable level of the political and operational

risks remaining in transitive economy of Georgia, especially in connection with the conflict between Georgia, separatist regions and Russia. They also reflect dependence of sources of attraction of means on trust of participants of the market, unstable and decreasing quality of actives, considerable degree dollarization operations and rather high growth of business of this bank which stability is not checked up by time.

Financial dollarization patterns, as measured by the dollarization of domestic loans (instead of deposits), are broadly similar. However, loan dollarization is generally lower than deposit dollarization as banks often maintain a sizable fraction of their foreign currency deposits in liquid correspondent accounts or sovereign assets abroad. The relationship between loan dollarization and deposit dollarization is less than proportional, with a 10 percent increase in foreign currency deposits resulting, on average, in a 7.3 percent increase in foreign currency loans. Dollarized financial systems are exposed to both solvency and liquidity risks. As regards solvency, the main risk results from currency mismatches in the event of large depreciations. Currency mismatches can affect banks' balance sheet directly, or indirectly by undermining the quality of their dollar loan portfolio. In view of the tight regulatory limits generally applied to banks' open foreign exchange positions, it is mainly through its indirect effect on credit risk that use of dollars generates vulnerability. From total amount on a share of credits in a foreign currency 72 % on 2008 are necessary., and the volume of deposits in a foreign currency makes 79 % if to compare to last year's indicators, considerable changes not *видем*. **The Total volume of actives of bank system of Georgia by data on the fourth quarter 2007 has made 7,2 billion gel., and in 2008 -8,8 billion gel., in connection with financial crisis growth was reduced in comparison with last years to 23 %, as in 2007 year. In relation to 2006 growth was on 42 %, and in 2008, it already a bull of 19 %. It was reflected and on factor ROA has made-2,6 %, whereas in 2007. It was 1,9 %. The Total volume of credits has reached 6 billion gel., on 2008, in 2007 - for clearness it is necessary to notice, that its growth in relation to 2007. Has made 27 % and it was reduced to 12 % of point. It is all testifies that war and global financial crisis have broken rate of crediting by Georgian banks, it promoted also by the limited access to foreign monetary resources. However, banks have not stopped giving business credits and continue them to give out though by the increased interest rate. It is necessary to notice, that the big share of a portfolio of business credits of the Georgian banks occupies trade financing. We will consider more in detail these changes. First interest rates have been increased by credits, namely approximately on 3 % of point. To the table we will illustrate distribution of credits on sectors.**

Figure 4. Banking Loans by Sectors as of 2007



Proceeding from practice of banks, it is the most frequent and in larger volume crediting is asked by trade and building spheres. And on 2007 the highest of percent rate on building of 17 % and on real estate 19 %, the lowest rate is established on financial intermediary about 9 %. After influence of financial crisis rate has raised, for example on rural economy percent has increased by 5 points, on financial intermediary - 10 %, on crediting

of other branches percent has raised on the average on 3 %. The volume of given out credits has sharply decreased, for example, if in 2007 the volume of the consumer credit made 1,036 thousand gel., already in 2008 it was reduced to 64 million gel, for correction of the given situation and attraction of clients have been lowered percent rate on short-term credits for 3,9 %. The Total volume of deposits for December, 31st 2008 has made 3,222 million gel., that on 11 % exceeds an indicator of year prescription but if compare to last year's rates of growth it was reduced to nearby 20 %. Because of the developed circumstances the population trusts banks less, hence does not put the savings on bank accounts. Banks of Georgia to correct this position have slightly raised percent rate on deposits, namely on 1 %-3 % as on deposits in national currency, and on deposits in foreign currency. The banks will be one of the institutions for overcoming the crisis. The demand line of credit from IMF was for this purpose open for Georgia. To get away from this awkward situation the EBRD Board of Directors has approved plans for a substantial increase in the Bank's investments in 2009 in response to the global financial crisis. The Bank aims to invest up to €7 billion, a record increase of over €1 billion or nearly 20 per cent above 2008. The main direction of the financial aid to the banking sector is support to agriculture, industry, small businesses and the mortgage market, as well as construction of property for the displaced. The further dynamical development of bank sector depends on the general economic processes. Accordingly, it is necessary, that in the country became more active and has improved investment and a business environment even more. Also it is necessary to involve system of insurance of bank deposits, to create a credit bureau, local independent rating agency, the existing mode of reception should improve, registration and realizations of possibilities of maintenance by loans etc. efficiency of bank supervision and quality of a corporate governance bank sector thereupon is planned to improve, development of an infrastructure of bank business; harmonization of the bank legislation of Georgia with the European Union legislation.

Let's pass to consideration of bank system of Azerbaijan.

Insufficiently developed financial market, rather low degree of dependence of internal banks from inflows of «hot» capitals and very strong position on the international reserves promoted that initial consequences of crisis were not reflected in Azerbaijan. Dependence of the Azerbaijan banks on the foreign market of the capital is very minimum. In Azerbaijan 46 licensed banks, 530 branches work. So, foreign crediting makes only 18 percent of actives of banks of republic. Besides banks actives of given country are not in a turn of world stock exchanges. Actives of bank system of the country have increased in 5 times and in 2007 year have made 6,8 billion mantas, and in the first half of the year 2008 have grown on 30 % - to 8 billion 744,65 million mantas . Actives of banks of Azerbaijan for January-November 2008 year have grown on 47,3 % and have made more than 9,904 billion mantas i.e. though also growth was, but in the second half of the year it was reduced in comparison with the first to 17 %. Nowadays the general actives of banks of Azerbaijan make approximately 60 % of bank actives of Southern Caucasus. Average profitableness of actives (ROA) in annual expression in comparison with the corresponding period of 2007 has decreased for 0,2 % to 2,7 %. In structure of actives of banks the credits which have been given out to clients have the greatest relative density: on their share on the first half of the year 2008 it is necessary 5 billion 915,07 million mantas (growth on 34,6 %), or 67,6 % of all actives of banks. On a share of correspondent accounts of banks it is necessary 928,93 million mantas (growth on 34 %), or 10,6 % of all actives, cash means - 326,65 million mantas (growth on 14,2 %), or 3,7 %, investments - 536,34 million mantas (growth on 13,5 %), or 6,1 %. Besides it, on the credits which have been given out to financial sector, and the deposits placed in the organizations of financial sector, it is necessary 385,18 million mantas (growth on 34,1 %), or 4,4 % of all actives, on other actives - 652,59 million манатов (growth on 10 %), or 7,5 %. In the second half of the year when was felt the influence of financial crisis, growth of volumes of crediting has decreased in comparison with the first. Credits and the deposits which have been given out to financial sector have made 460,76 million mantas (over 598 million dollars), growth-19 of percent in comparison with the first half of the year, credits to clients - more than 6,522 billion mantas (more than 8,14 billion dollars), growth-10 of %.

In present conditions banks to deliveries of credits approach more cautiously, that is in present conditions there was a necessity a little conservatively to approach to this question. It becomes with a view of improvement of execution of bank obligations, reduction of credit risk. Because some of local banks depend from taken for a boundary of «cheap demand lines of credit», problems which their foreign supporters worry affect and these banks. However, the National Bank opens demand lines of credit to banks which require it and, thereby, prevents aggravation of this problem. In structure of credit investments of banks as of July, 1st, 2008 on a share

of trade and sphere of services was 1 billion 501,3 million mantas (24,3 % of all credits), power, chemical and sector of natural resources - 899,3 million mantas (14,5 %), agriculture and processing - 242,5 million mantas (3,9 %), building and the real estate - 456 million mantas (7,4 %), the industry and industrial sector - 365 million mantas (5,9 %), transport and communication - 359,9 million mantas (5,8 %), households - 2 billion 171,3 million mantas (35,2 %), other means have fallen to other sectors of economy of republic. For second half of 2008 year credit sums diverting to building and real estate were reduced nearly 30%, it's also referred on crediting of householders.

If we talking about population investments to banks there was an intensity. People collecting labour savings, have saved them for maintenance of the future, have put up money in banks. And hearings about destiny of these contributions, naturally, create certain intensity in a society. And last time some investors show haste for withdrawal from banks of the enclosed contributions. By data for November, 1st, 2008 the volume of contributions of the population of Azerbaijan in banks has made 1 billion 794 million mantas, that on 34,3 % more than during the corresponding period of last year. Thus 950,6 million mantas (53 %) contributions are made in national, and 843,4 million mantas (47 %) – a foreign currency, growth in comparison with the similar period of last year in 1,8 times and on 3,3 % accordingly. Thus 66,1 % means are enclosed by 1 billion 186,4 million in private banks. Now in bank system of Azerbaijan the liquidity problem is not necessary. Approximately 23 percent of actives of banks make liquid savings, and it is sufficient volume of the money necessary as a whole for return by banks of all contributions of the population. Stimulating action for development of financial sector is the general pension reform and creation of private pension funds. Growing reserves of the local insurance companies can be one more internal source of financing. In present conditions of world financial crisis in the near future it is not necessary to count on external investors seriously. The national Bank for the purpose of neutralization of foreign brave factors has lowered a discount rate from 10 % to 8 % (bank decreased its prime lending rate from 10 percent to 8 percent), and the top limit of a percentage corridor from 15 % to 13 %. These measures create conditions for preservation in bank system of high level of liquidity and quality of actives, and on the basis of it still more deepening of financial stability. Maintenance in bank system of level of liquidity at comprehensible level provides stability of credit activity of banks.

As a conclusion we can assume that the financial crisis didn't affect our countries banking system as it did to developed countries. This affect accurse due to the lower level of bank's penetration into our economies as well as into foreign economies what reduces the probability of risk appearance. Although we don't declare that the low level of activity of our banks must be treated as condition of restriction for future crisis tendencies. Therefore the challenges of our countries banking systems is to be involved into the nowadays economic processes but by less risky means.

List of applied literature:

1. www.cba.am
2. www.banker.am
3. www.fsdp.am
4. www.nbg.ge
5. www.nba.az

Banking system development in the context of financial crisis: ways of overcome*Annotation****Ter-Martirosyan Mariam****Russian-Armenian (Slavonic) state University**Student of the third course of the faculty of Economics**Instructor: A. Yengibaryan*

The global crisis influence on financial system of many countries becomes more and more actual, as it positively but more negatively affects all the spheres of countries' activity. The issue is not an exception for Caucasian countries. But in contrast to other countries we in fact do not feel the destructive effect on our banking system. Some Central Banks decreased their prime lending rate, leading some banks to fail from the «cheap credits» from foreign creditors, which in their turn were influenced by the failure of debtors. As a result a sharp decline of the volume of credits led to the contraction of money supply.

These and other results of crisis are analyzed in the work. The problems of integration of financial sector, particularly banking system in the world economy and losses caused by crisis are to be analyzed in the research. The instruments and methods of stimulation of proper regulation mechanisms are viewed. They create favorable conditions to provide high liquidity level in banks and asset quality. Coordinating by these principles, countries can create more stable financial environment for banking. The main idea of this work to bring out the disadvantages of banking system, such as shortage of long-term money, shadow economy and etc., the influence of global financial crisis, also to reveal the preferences which can be a good stimulating mechanism for prosperous banking system.

As an ultimate conclusion of the research some suggestions will be proposed about how the Caucasian countries' banking system should act to overcome this problem, relaying on perspectives of banking sector, and how to correct drawbacks which can impede the further progress. There is also described the financial environment where banks operate and viewed their part in economics.

We intend to involve a great amount of qualitative, as well as quantitative materials from the leading international financial system units.

ACCESS TO FINANCE IN SOUTH CAUCASUS

Diana Khachatryan

*Armenian-Russian (Slavonic) University
Student of the third course of the faculty of Economy
Instructor: **Spec. A. Engibaryan***

Introduction

There is a growing recognition that increasing access to formal financial services has both private and social benefits. Extending the breadth of financial service availability in a given population causes economic growth and can improve income distribution. And the poor benefit disproportionately from financial development. Monitoring and measuring levels of access to formal financial services can therefore contribute to achieving goals of growth and poverty alleviation. In this work we shall examine the importance of finance for economic well-being at all. Although finance can be very beneficial, we shall see that universal usage of financial services is far from prevalent in many countries, especially developing countries. At the same time, universal access to financial services has generally not been a public policy objective and is surely not easily achievable in most countries. Countries can, however, undertake many actions to facilitate access to financial services, including through strengthening their institutional infrastructures, liberalizing and opening up their markets and facilitating greater competition, and encouraging innovative use of know-how and technology. Government attempts and interventions to directly broaden the provision of access to finance, however, are fraught with risks and costs. This work concludes with possible global actions aimed at improving data on access especially in South Caucasus.

We realize that access to finance is important for each country, but it is clear, however, that access is still very poorly measured. Unlike then, there are now the beginnings of a coherent framework for identifying whether access in a country is severely repressed or moving towards full inclusion. So we shall make a macro and micro analysis of access to finance in three Caucasian countries: Armenia, Georgia and Azerbaijan. We shall concentrate our attention especially on access of households, examine the main system, which is providing access in our countries (banking system), also the services that banks provide, and try to give some kind of explanation of the problem, or just a model of increasing the access in our countries.

Thus:

- **The subject** of the research is mechanisms of making the access to finance wider.
- **The main topics** of the research are the opportunities that access can provide.
- **the main hypotheses** are:

➤ The ability of financial intermediaries in mobilization of savings in economy will make access to finance wider.

➤ The long term funds in each region will increase the opportunities of providing long term money (credits), which will lead to solving the problem of access.

Problem definition

Access to finance is the possibility of getting finance. It refers to the availability of a supply of reasonable quality financial services at reasonable costs and at reasonable terms. Access to finance can be measured in terms of access to certain institutions, such as banks, insurance companies, pension funds, and stock exchange or microfinance institutions; or in terms of access to the functions that such institutions perform, or the services that they provide, such as payments services, savings or loans and credits. Yet another approach would be to look at details on the uses of specific financial products, e.g., debit cards, credit cards, life insurance, home

mortgages, etc., but these are highly country specific and do not lend themselves to easy comparability. So as we can note access differs from usage. It is often pointed out that people may have access to finance, but may not wish to use it.

As we said, access covers a spectrum of institutions, from the **more formal to less formal**. At one end of the spectrum are banks or near banks which for the present purpose we define as **formal** financial institutions which can provide multiple financial services to their clients, including deposits, payments and credit services. Other formal financial service providers are all other legal entities licensed to provide financial services. These institutions may be more narrow and specialized in function and may vary across countries in terms of structure, form, oversight, and hence, comparability. **Informal** providers of financial services are other organized providers of financial services that are not registered as financial intermediaries. Moneylenders, pawnshops and check cashing outlets which are not regulated financial institutions would belong to this category.

Depending on this classification the population is also classified **from captured to excluded**. The five indicators of access measure the access of the adult population to the financial system in its broad sense, i.e. both formal and informal. These indicators are:

1. Percent of the adult population that say they have one or more financial product provided by a formal financial institutions. These people are said to be **financially captured** by the formal financial sector. This is not exclusive formal financial product usage. People using formal and informal products will be in this segment.
2. within those that are financially captured the percent of the population that have a bank product (formal bank). Again this is not exclusive as this also captures those that may have other financial products including non-bank products and informal services. Bank products are any products offered by first tier commercial banks.
3. Within those that are financial captured, the percent of the population that do not have a bank account, but have a non-bank product (formal-other) from organizations such as microfinance institutions, insurance companies, retailers etc.
4. Percent of the adult population that is exclusively using informal financial services. This represents a segment called the **Financial Frontier**. Informal services are provided by entities that may be recognized but not reporting to any legal authority such as savings clubs, un-registered microfinance providers, village banks etc.
5. Percent of the adult population that say they do not have any financial product from either formal or informal providers. This represents a segment called the **Financially Excluded**.

The five indicators are placed within the three segments, **Financially Captured, Financial Frontier, and Financially Excluded** and form the **Access Strand**. The third indicator can be divided into two groups: **voluntary and non-voluntary excluded**. So we shall examine presently the third indicator. Non-voluntary excluded segment is the percent of the adult population that just don't have access to various financial recourses. Voluntary excluded is the percent of population that have access to finance, but do not wish to use it. Here we can infer the difference between the access and usage, as access not always assumes using. Some kinds of services are not used, but they are accessible.

To summarize, what should be looked for if an institution's accounts are to be considered accessible, we shall look through these barriers of access:

- **Physical accessibility**. This is the distance and time to a point of service. Consumers need to get to a financial services provider within a reasonable time and along a reasonable distance. Without this, access is constrained.

- **Affordability**. A service can be physically accessible but not affordable in terms of the transactions costs associated with getting to the point of sale, as well as the cost of the service itself. Having access to a product/service is thus determined by its affordability. However, often affordability is less of constraint, when there is lack of choice.

- **Usable/acceptable**. A service needs be designed and offered in such a way that it can be used and

meets the needs of the consumers. So even if the other dimensions of access are not a constraint, there may be barriers to access caused by product and service design features such as minimum balance, requirements to open an account, office opening and closing hours, payment/withdrawal conditions, product terms etc.

So there is growing a question: “What will happen if all these barriers are denied?” or “What is the result of increased access?” As we know each economic system is first of all based on its financial sector distributive and risk reduction functions, and for its further development and growth it needs circulation of free finance. Increasing access to finance can solve many other problems as well, like decreasing the level of unemployment and poverty, raising the level of national output as well as export and etc. In addition access to finance can decrease the government’s social burden by ensuring formation and subsequent development of self-sufficient small and middle business units.

Developing countries with undeveloped financial systems

There are many parallels between initiatives being made in the developed and developing world to encourage parts of society to make greater use of financial services. Obviously, many developing countries have substantially underdeveloped financial institutions and systems with a much greater part of the population not having access to financial services, like Armenia, Georgia and Azerbaijan. Lack of access is one of the factors that make all these countries similar, as there are almost the same problems in our countries.

Now let’s try to make analyses for finding the original cause of problem occurrence in each country. As the banks are the main and almost the only institutions, that provide financial services in our countries, I think it is important to start our research from banking system of each country. By the amount of banks Azerbaijan is the leader, as there are 45 banks, 22 in Armenia and 21 in Georgia. The amount of branches located in all territory of Armenia is 380, in Georgia – 286, and finally in Azerbaijan this indicator is 567. So it is not difficult to count up quantity of banks and branches coming on 1000 persons and 1000 sq km (see Table 1).

Table 1 Amounts of banks, branches, ATMs coming on 1000 persons and 1000 sq km, 2008¹

	<i>Units providing banking services on 1000 persons</i>	<i>Units providing banking services on 1000 sq km</i>	<i>The amount of ATMs coming on 1000 persons</i>	<i>The amount of ATMs coming on 1000 sq km</i>
Armenia	0.125	13.5	0.13489	14.5
Azerbaijan	0.073	7.06	0.185	17.8
Georgia	0.054	4.4	0.0215	1.76

As we see just 0.125 of all banks and branches are coming on 1000 persons in Armenia, 0.054 in Georgia and 0.073 in Azerbaijan. The second column shows us the amount of banks and branches coming on 1000 sq km in each country, as we see the results are also not very satisfactory: 13.5 in Armenia, 7.06 in Georgia and 4.4 in Azerbaijan.

There is a very interesting data on the amount of ATMs too. Azerbaijan where there are 1545 ATMs is the leader again; only 433 ATMs there are in Armenia and 123 in Georgia. In table we can see the amounts of ATMs coming on 1000 persons and 1000 sq km in each country. As we see even if the amount of ATMs in Azerbaijan is much more than in Armenia and Georgia, but the amount of ATMs coming on 1000 persons is just 0.185, in Georgia - 0.0215, in Armenia – 0.13489. And finally we can see the amount of ATMs coming on 1000 sq km in Armenia –14.5, in Georgia – 1.76, in Azerbaijan – 17.8.

As a result we can say that all these indicators are not even comparable with the same indicators in developed and in some developing countries.

In international practice there are several basic indicators estimating the level of development of national banking system. We shall examine just three of them: ratio of cumulative actives of banks to GDP, ratio of cumulative credits to GDP and ratio of cumulative deposits to GDP (see Table 2).

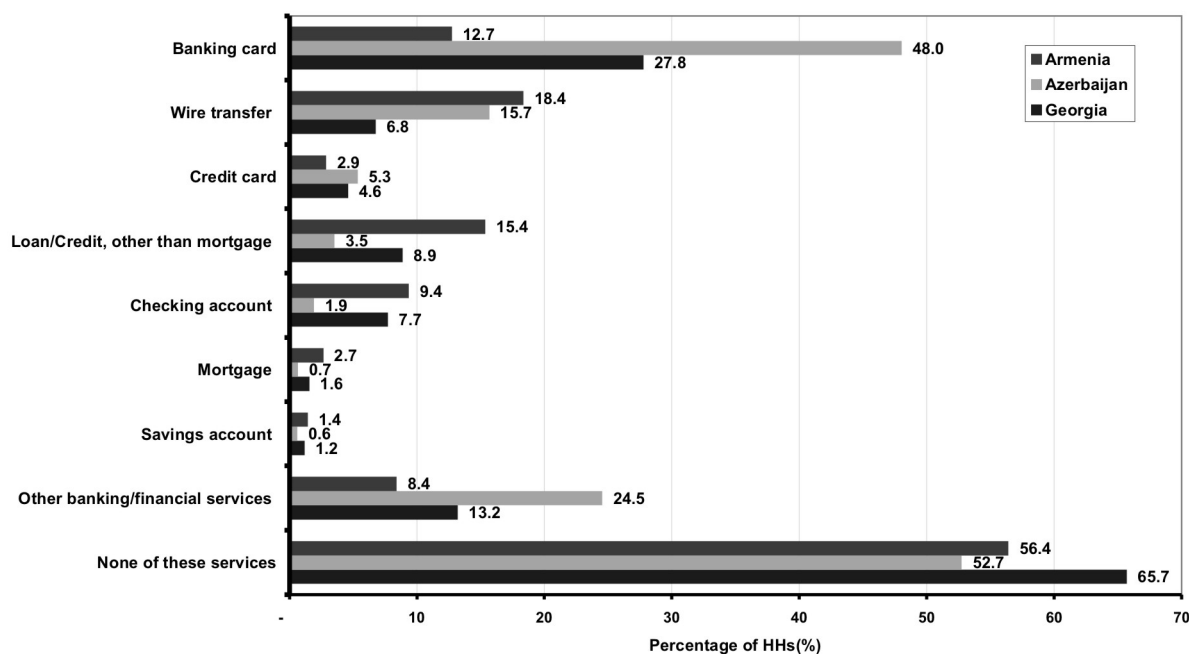
¹ <http://www.bankofgeorgia.com/ge/eng>, <http://www.cba.am>, <http://web.worldbank.org>

Table 2 Three basic indicators of banking system, 2008²

	Actives/GDP	Credits/GDP	Deposits/GDP
Armenia	34	14	13.5
Azerbaijan	20	13.83	14.6
Georgia	29	24	17

In this case Georgia is leading in all indicators: actives/GDP – 29%, credits/GDP – 24%, deposits/GDP – 17%. In Armenia these indicators are not very low too: actives/GDP – 34%, credits/GDP – 14%, deposits/GDP – 13.5%. And finally in Azerbaijan: actives/GDP – 20%, credits/GDP – 13.83%, deposits/GDP – 14.6%. Again we can say that these indicators are much more lag behind the same indicators in developed or even several developing countries.

Now we shall analyze the types of financial services used by households (HHs) in target countries (see Figure 1). The portion of population **not using any financial services** is above 50% in each country: **65.7% - in Georgia, 56.4% - in Armenia, 52.7% - in Azerbaijan.**³

**Figure 1. Usage of financial services (percentage of HHs, %)**

* Multiple choice answers.

Azerbaijan has the highest position in usage of financial services: 48.0% use banking cards, 0.6% have savings accounts, 5.3% have credit cards and 0.7% use mortgages.

In Armenia 12.7% of people have banking cards, 1.4% - savings accounts, 2.3% have credit cards and 2.7% use mortgages.

Georgian HHs' usage level of financial services is the lowest: 27.8% of HHs in Georgia use banking cards, 13.2% have savings accounts, 1.2% have credit cards and 1.2% mortgages.

It is also necessary to consider South Caucasus countries households' sources of largest loans. As we can see from the figure 2, the main source of loans are "banks or other organizations with interest" and "individuals without interest": 55.4% of Georgian HHs get large loans from banks, 36.9% borrow from individuals without interest, 6.9% take loans from physical persons with interest. In Azerbaijan, the observed indicators differ: 65.0%

² <http://web.worldbank.org>

³ E. Karapetyan, "Social-economic, living and financial conditions of households in South-Caucasus countries on bases of DI Survey", (2008).

of HHs take loans from individuals without interest, 17.6% take loans from the banks, 11.8% take loans from individuals with interest and 4.7% make loans from other sources. In Armenia, the main sources of loans are: 46.9% - individuals who provide loans without interest, 38.9% - banks, 12.6% - Individuals who provide loans with interest. The share of organizations that provide loans without interest is very small in each country.

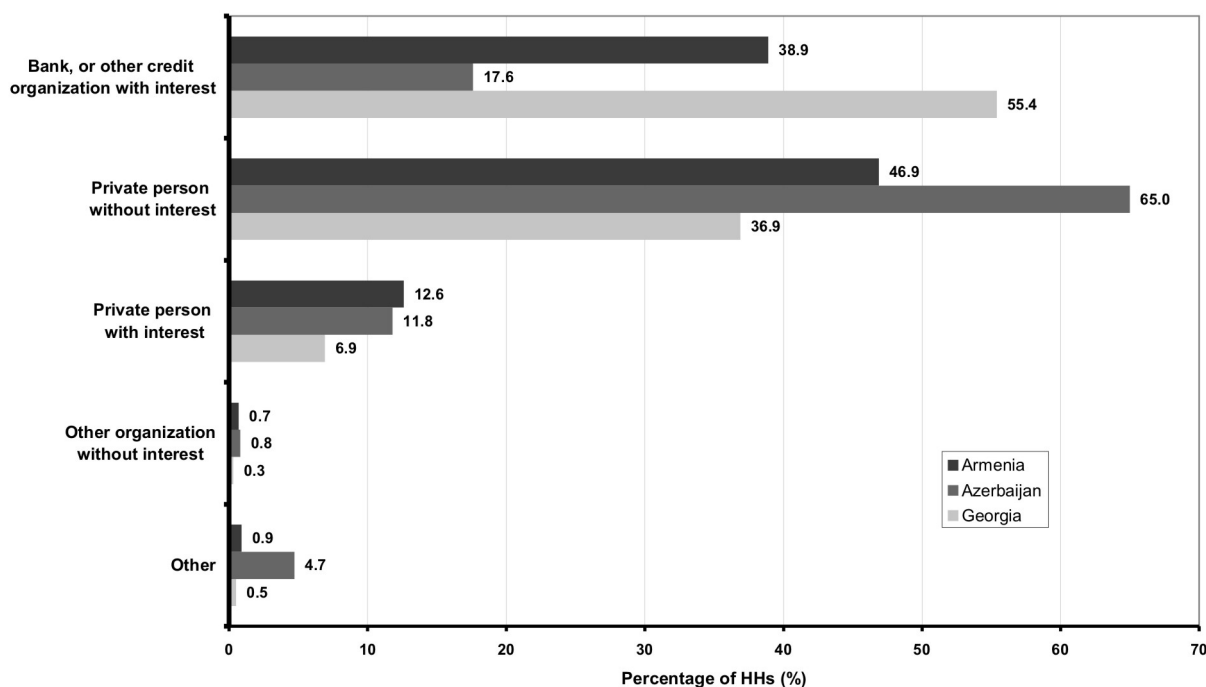


Figure 2. Source of largest loan (percentage of HHs, %)

As we see only 38.9% of HHs use credits of banks in Armenia. It means that another part of population, the most part (61.1%) uses services of other informal institutions. There are worse data in Azerbaijan: only 17.6% of HHs uses credits of banks, 82.4% - other informal. Only in Georgia most of HHs use credits of banks (55.4%), and the less part (44.6%) – other informal. What does these data tell us?

On the way of formation of market economy each country has faced one very serious problem, typical to all transitive countries. It is the formation of formal institutions on the foreground of informal institutions. Among people the informal relations based on mutual aid which is the outcome of began to develop. As a result of these informal relations certain groups of people managed to generate optimum conditions for development of the business. And that's why access to finance is more widely provided by informal institutions, than banks, insurance companies, pension funds or some other formal institutions. The reason is clear, the banking system is a formal institution, it's functioning on the formal laws conducting by the legislative authorities, and small and middle business is operating in a less formal field. Hence, the bank system and small and middle business go different roads. We can say that almost in each of our three countries banking system is the most developed, but, being formal, it cannot enter into mutual relations with those structures which do not operate in the same formal field.

I think there are some reasons of existence of not formal institutions:

- Lack of confidence to the formal institutions.
- Lack of investment culture of such institutions.
- Very high levels of acknowledgment and uncertainty, because of partial covering of information (asymmetry of information, especially information about the activities of the banks).
- High levels of risk.

From here follows the problem of voluntary excluded, i.e. access can be provided, but some conditions will not be satisfactory yet, so people will refuse bank services. For example credits can be refused because of inconsistency between the term, the sum and the cost of credits.

Equally bad or differently well

Equally bad

We have talked about the access much and said that it is always beneficial. It causes economic growth, income distribution, reduces the level of poverty, unemployment and so on. We also said that increasing access must be involved into the objectives of government, what is not achieved in many countries. So we can insist on the opinion that access is always just a positive phenomenon. **But...**

Let's not forget about the financial crisis. The **Global Financial crisis** of 2007–2008 initially referred to in the media as a “credit crunch” or “credit crisis”, began in August 2007, when a loss of confidence by investors in the value of securitized mortgages in the United States resulted in a liquidity crisis which prompted a substantial injection of capital into financial markets by the United States Federal Reserve and the European Central Bank. Although America's housing collapse is often cited as having caused the financial crisis, the financial system was vulnerable because of intricate and overleveraged financial contracts and operations, the US monetary policy making the cost of credit negligible therefore encouraging such over-leverage, and generally a hypertrophy of the financial sphere.

“**Bubbles lead to booms.** The cause of the problem was located in the fundamental defect of the free market system regarding its capacity to distinguish “enterprise” and “speculation” and hence, in its tendency to become dominated by speculators which were interested not in the long-term yield assets but only in the short-term appreciation in asset values.”¹

After affecting banking and credit, mainly in the USA, the financial crisis evolved into a global general financial crisis verging on a systemic crisis. Mechanical phenomena such as domino effect, and also psychological contagions, made it spread at the same time worldwide and into many financial and economic areas including:

1. Financial markets, stock exchanges and derivative markets in particular, where it developed into a market crash.
2. Various equity funds and hedge funds that went short of cash and had to get rid of assets.
3. Banks, insurance activities and pension funds, facing a receding asset portfolio value to cover their commitments.

Now we can say that the original reason of financial crisis is too increased and spread access to financial services. So access is a good phenomenon just with some assumptions.

Differently well

By all means each of our country needs to broaden access, so let's try to give a model, and answer the question how we can reach this objective.

Time factor is represented to one of the major aspects of activity of financial intermediaries as characterizes extent of credit relations. Growth in our countries is connected with development of retail crediting and crediting of small and average business, and population at all. However active development of these services for local banks is complicated by sharp shortage of long-term resources. Thus the inconsistency of financial sectors of our countries is in many respects caused by impossibility of attraction long-term financial resources as there are difficulties for long-term crediting of economy.

As it is often said after the crisis the world will be changed and each country will have to rebuild its economic system. On our deep belief, modernization of financial sector first of all should be interfaced to creation of memory kinds of financial institutions that are based on long-term accumulation of the capital. The last should be considered in two aspects: first, accumulation will occur in the most financial sector in the form of potential proceeds of credit, secondly, by means of introduction of these means in the basic and current industrial activities funds in real sector with corresponding lifting of manufacture will increase.

As among financial institutions there is enough accurate specialization and differentiation concerning accumulation and distribution of financial resources, formation of funds is a prerogative of accumulating funds,

¹ Prabaht Patnaik, Centre for Economic Studies and Planning at India.

instead of the bank or other not bank institutions which activity more concerns distribution process.

Among memory kinds of institutes – pension funds, the insurance companies, and various investment funds – essential distinction in mechanisms of escalating of funds is also observed. If it is possible to apply essential methods to primary growth of the pension and insurance companies (the obligatory form of the pension insurance, some kinds of other insurance) concerning the investment companies such approach is not obviously possible because of a principle of the voluntary participation dictated by efficiency of their activity. But the differentiation on it does not come to an end, as pension funds, unlike insurance companies, at the beginning of development have no current obligations on pension payments that give the chance escalating of funds in geometrical progression at the expense of current payments and the long-term investment policy. The insurance companies deal with constant current outflows on insurance payments, which breaks the possibility of expanding investment policy, hence slows down growth of their free reserves in long-term prospect. Therefore **pension funds** represent itself as the most effective generators of long-term financial actives, as concerning the sizes of accumulated funds and short terms of their accumulation, so long duration of the period on use of these actives in the investment purposes. For a present situation these funds become some kind of an innovation for financial sector of our countries, the following stage of which assumes the active policy of investment of the saved up means in a national economy and consequently expanding access to finance for HHs, SMEs and our population at all.¹ So creating pension funds will broaden the access to finance and in each country it will find its different reflexion, different, but well.

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2. Stijn Claessens Senior Adviser, World Bank Professor, University of Amsterdam (2005), “Access to Financial Services: A Review of the Issues and Public Policy Objectives”
3. Stijn Claessens (2006), “Access to Financial Services: A Review of the Issues and Public Policy Objectives”
4. Santiago Carby (2005), Edward P.M. Gardener and Philip Molyneux, “Financial Exclusion”
5. Ashot Engibaryan, (2008) “Formation of long-term financial resources market by creation of cumulative systems of pension insurance in Armenia”
6. Edgar Karapetyan, (2008) “Social-economic, living and financial conditions of households in South-Caucasus countries on bases of DI Survey”
7. <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/EXTFSECON>
8. http://www.cba.am/CBA_SITE/financial_system_
9. <http://www.bankofgeorgia.com/ge/eng>

¹ Ashot Engibaryan, “Formation of long-term financial resources market by creation of cumulative systems of pension insurance in Armenia”, (2008).

Access to finance in South Caucasus

Annotation

Diana Khachatryan

Armenian-Russian (Slavonic) University

Student of the third course of the faculty of Economy

Instructor: Spec. A. Engibaryan

Access to financial services has been identified as a major problem experienced by many countries over the years, especially in developing countries, where the quality of life, living standards and levels of income of poor people, are very low. Nowadays, increasing globalization has constrained the power of states, especially developing countries, to intervene in markets and financial system; while the power of firms and of markets themselves has grown as they have expanded and integrated across national boundaries.

There is much evidence today for a strong and causal relationship between the depth of the financial system on one hand and investment, growth, poverty, total factor productivity, etc. on the other hand. Over the last decade, finance has been recognized as an important driver of economic growth. Finance influences growth through many channels. Finance helps growth by raising and pooling funds, allowing more and more risky investments to be undertaken; by allocating resources to their most productive use; by monitoring the use of funds; and by providing instruments for risk mitigation.

Although high and sustainable economic growth is central to poverty reduction, a study by Asenso-Okyere et al. (1993) reveals that promotion of efficient, sufficient and widely accessible rural financial services is the key to achieving pro-poor and poverty reduction goals. Access to financial services plays a critical role in helping the poor widen their economic opportunities, increase their asset base, and diminish their vulnerability to external shocks.

So despite the benefits of finance, the use of financial services is far from universal in many countries, especially developing countries. Universal access to financial services has not been a public policy objective in most countries and would likely be difficult to achieve. Countries can, however, facilitate access to financial services by strengthening institutional infrastructure, liberalizing markets and facilitating greater competition, and encouraging innovative use of know-how and technology.

Despite of all, we must remember, that access to finance, first of all, is improving.

First we need to analyze what access to finance means, how access differs from usage of financial services and, finally, what is the impact of financial system on poverty. Measures of access fall into two broad categories, those based on the providers' information, such as banks and other service providers, and those based on users' information – individuals, households or firms. Even if it can be measured, access may not be the right indicator or tool. In contrast to access, usage by poor people of a good or service is a more robust measure. However, while usage may be superior to access in practice, as an indicator of working for the poor, usage alone is not a sufficient criterion. In particular, it can be difficult to separate the lack of access to a product from a choice not to use it.

We shall also analyze a spectrum of institutions (from the more formal to less formal), which access covers, three main dimensions of effective access:

- ❑ geographic access
- ❑ affordability
- ❑ product features affecting access

And, at last, we shall look for ways and approaches for to guide pro-poor economic policy making in the Caucasus. We shall also analyze how access to finance impacts the development. Nowadays there have been signed many agreements to improve access to finance for micro and small enterprises in Caucasus. These projects will help provide access to loans for micro and small enterprises in all sectors and improve financial intermediation. This will have positive, lasting effects on private investment, job creation, and the socio-economic conditions.

POVERTY IN SOUTH CAUCASUS REGION OVERCOMING OUTLOOK AND METHODS FUNCTIONS OF THE INTERNATIONAL ORGANIZATIONS

Marine Dadzhunts

*Russian-Armenian (Slavonic) University
Student of the third course of the faculty of Economy
Instructor: **Khachatryan Marina***

Introduction

Nowadays the threat of the impoverishment is a global social danger. Unemployment, economic and social instability intensify the process of the society marginalization. Poverty makes the society unable to realize its potential capacities, e.g. to develop. That's why poverty is often relates to the regress in social development.

The purpose of this work is revelation of the negative influence of poverty on the economy of each country and the region as a whole.

The object of the research is poverty as a factor that prevents from the prosperous economic and political development in the South Caucasian region.

The subject of the research is analysis of the ways of poverty overcoming policy development in the South Caucasian region and establishment of friendly economic and political relationships.

The hypothesis of the given work is based on the assumption, that the reduction of poverty volume in the South Caucasian region can faster the development of stronger economic and political mutual relations, and it will have a favorable influence on the process of the countries regional integration and economic growth of each country separately.

Problem of poverty appears as a result of social reproduction proportions infraction: activity proportions (correlations of non-uniform types of work, of population occupied and unoccupied in social production), proportions of conditions (population differentiation by the level of social, material and spiritual goods, correlations between the elements of well-being and the phases of its reproduction), proportions of relations: person – society – nature, person – social group – class- society. The basis of all these is the key proportion between productive and consumer power of the society. Expression of the power is correlation of working hours and free time. Poverty is a state of need, lack of vital factors that don't allow satisfying the pressing needs of individuals or families. It is considered to be one of the most acute social problems of the modern society. The problem of poor people has always existed and it is a kind of inhibitive factor of countries and regions development. Proceeding from these we set the problem to develop the mechanisms against the poverty that will stimulate the development of countries and strengthening of economic relations in our region¹.

There are two forms and poverty: "steady" and "floating". The first one is connected with the low level of social security, leads to the deterioration of health, disqualification, deprofessionalization and in the end to the degradation. The second form can be met very seldom and is connected with the fact that the poor sometimes make impossible efforts to jump out of the their social and closed circle adapting to the new conditions defending their right to better life. With reference to practical needs of social policy crucial importance has one more difference: poverty of "the weak" and poverty of "the strong". The first one can be called social poverty directly conditioned by social-demographic properties of the certain population categories (invalids, less able-bodied, ill...). The second one can be designated as a productive and labor or economic poverty emphasizing

¹ «Мировая экономика» под редакцией Булатова А. С., Москва «Юристъ» 2003.

thereby its direct crisis situation conditionality in the economy when the worker doesn't get earnings of general scale.

Three components are necessary for the calculating of poverty indicator. First it is necessary to choose the appropriate unit of measure and indicator of well-being. Secondly it is necessary to define the poverty line e. g. threshold value that will be the indicator for poor people and households to be classified as poor. Thirdly it is necessary to choose the indicator of poverty that will be used for drawing up a report about the whole population or for only its subgroups. As for the not monetary poverty parameters they are health, education, assets and their typical source is examination of households. Measuring poverty with monetary parameters we use income or consumption.

Now let's pass to poverty lines that divide poor and not poor. There are two basic ways to define the poverty line – relative (is defined relatively to the general allocation of income or consumption through the country) and absolute (attached to some absolute norms of households' counting for the satisfaction of their basic demands).

Poverty estimation itself is a statistical function that transfers the comparison of well-being indicator of households and chosen poverty line into a total figure for the population as a unit and for one of its subgroups. There too many poverty indicators but only a few of them are often used. Here they are share of poor people (index of the poor number) – it is a share of population the income or expenditure of which are below the poverty line; poverty depth is an indicator that estimates the whole value of the resources and it is necessary to raise all the poor till the poverty line (divided in the number of population), severity of poverty (mean-square depth of poverty), this indicator takes into account not only the distance till the lines of poverty but also (depth of poverty) but also inequality among the poor².

Thereby poverty has many negative consequences. Poverty is a factor of social tension. Fighting against the unfair in their opinion allocation of income the poor are prone to commit a crime and forcible methods of political struggle. Even though the poor don't commit the act of violence towards the other people the society where they live sustain anyway. A poor person can't rigorously participate in public life, his creative potential is not revealed and it disappears fruitlessly. The poor who live in the countries of the "third world" suffer from intisanitary conditions, epidemic diseases are spread in the environment that surrounds them and later even rich countries can suffer from the same diseases.

Analysis

The percentage of the poor in Georgia was 44,4% in 2007. Despite the raise of the real consumption in nearly every Georgian family in 2007 still nearly 30% of the population can be considered as poor. The most important factors in Georgia are employment and possession of the factors of production. All those who are not able to work (older persons and invalids) or have no job (unemployed people) are more doomed to impoverishment³.

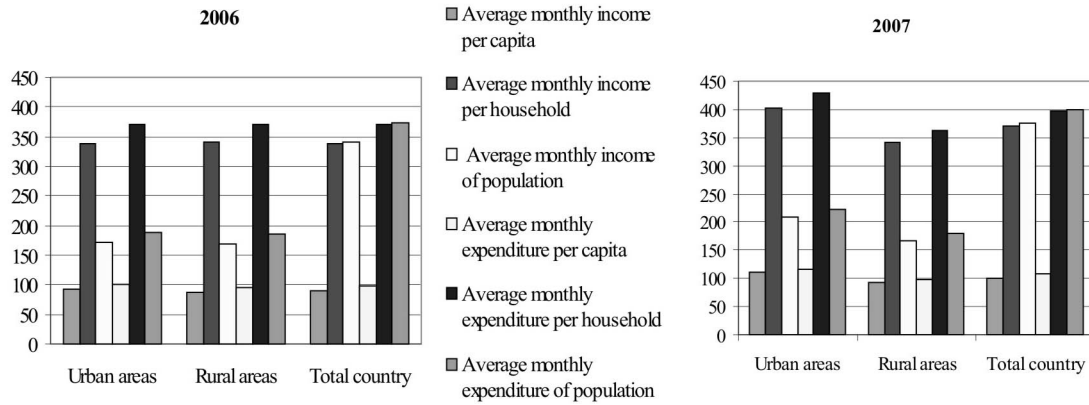
Fig.1 shows that in comparison with 2006 in 2007 average monthly income growth per capita on the average was 12% (1GEL=0.584641\$)⁴ and the average monthly income growth per households on the average was 9,7%, average monthly income of population – 10%. Dynamics of expenditure is the following average monthly expenditure per capita on the average increased on 8,7% during the examined period, average monthly expenditure per household – 6,7%, average monthly expenditure of population – 7%.

2 Черников Г.П., Черникова Д.А. «Мировая экономика», Москва «Дрофа» 2003.

3 Statistics Georgia - www.statistics.ge

4 National Bank of Georgia, www.nbg.gov.ge

Fig. 1. Average monthly income and expenditure of population in Georgia 2006-2007

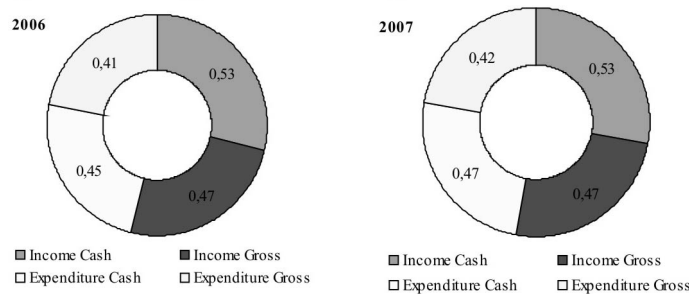


Source: Statistical Yearbook of Georgia, 2008

Observing separately the ruptures of income and expenditure increase we can conclude that income increased with faster rates than expenditure. At first sight it testifies the growth of population well-being and the positive policy for the poverty reduction.

While examining Gini coefficient the situation develops in another way.

Fig.2. Gini coefficient in Georgia



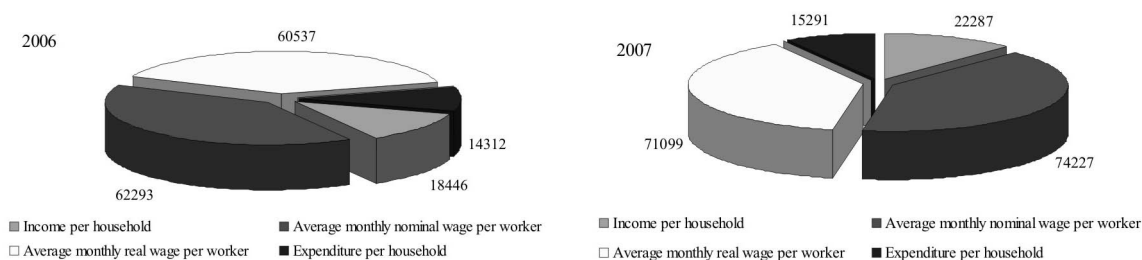
Source: Statistical Yearbook of Georgia, 2008

On Fig.2 we can see that Gini coefficient by Income cash and Gross cash in 2006 and 2007 doesn't change and by Expenditure cash and Expenditure in 2007 increases in comparison with 2006. Thereby we come to the conclusion that not only population well-being grew but also the inequality increased more. Can it be called positive results of the government policy for the poverty and inequality reduction.

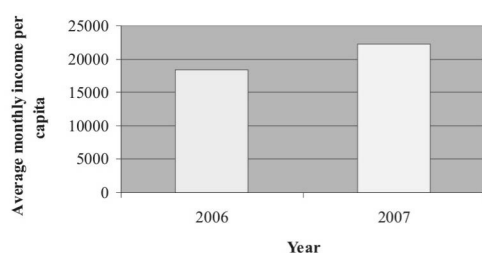
As for Armenia where in spite of the poverty decrease from 27% in 2006 to 25% in 2007 it is still widely spread and almost nothing affected the distribution of abject poverty¹.

Results of the study showed that the main groups of the poor are large families especially with lots of children, pensioners and/or invalids, unemployed people and workers with low income, lonely pensioners and/or invalids. Despite the fact that prevalence and high level of poverty are often met among unemployed people a very big part of poor consists of employed people. Because of the low level of income in state sector, lots of workers being on administrative vacation with no payment and dominance of not full-time employment the presence of work does not guarantee the income enough for the keeping the family. Education remains as a relatively weak guarantee against poverty because those who have high level of education don't have more chances of avoiding poverty. Geographical position is one of the most important concomitant factors of poverty.

¹ National Statistical Service of the Republic of Armenia - www.armstat.am

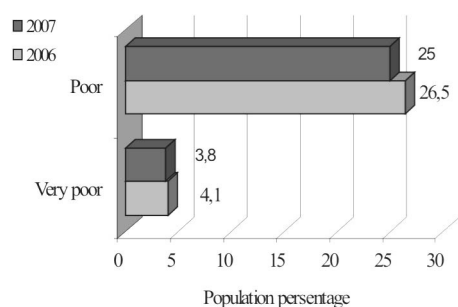
Fig.3. Income and expenditure of households and workers in 2006-2007 in Armenia (AMD)

Source: PRSP in Armenia, 2008

Fig .4. Average monthly income per capita

Source: PRSP in Armenia, 2008

situation as in Georgia. Before drawing a conclusion let's turn our attention to the picture of poverty in Armenia.

Fig.5. Indicators of poverty in Armenia

Source: PRSP in Armenia, 2008

differs from the similar situations in the South Caucasian countries.

Poverty in Azerbaijan has its historic roots. Even in the Soviet times, being along with Russia one of two non-subsidy republics, Azerbaijan occupied only 10-th place out of 15 for its welfare. In spite of the fact that in the 1970-s the welfare level of population doubled, in 1990 an average salary in Azerbaijan was 1.5 times lower than an average in the USSR.

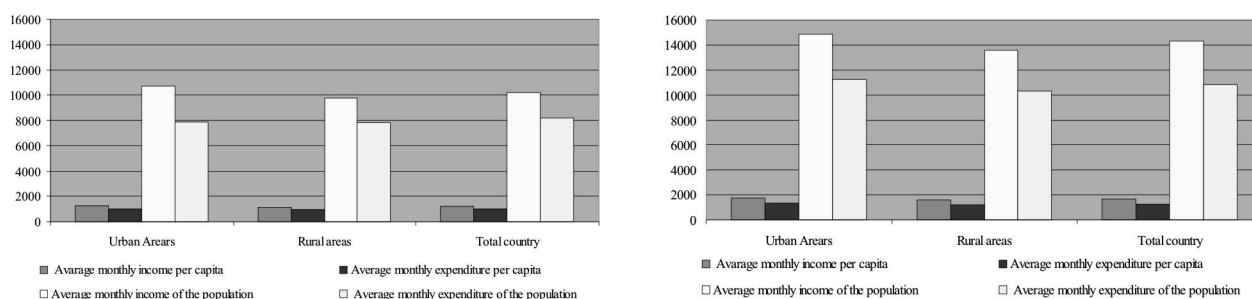
Taking into account that then salaries and wages made about 70% of incomes, the statistics of 1990 show that more than 35% of the republican population have incomes lower living wage. And in the verge of the USSR collapse Azerbaijan had a really high poverty starting point³.

2 Central Bank of Armenia – www.cba.am

3 National Institute for Statistics and Economic Studies www.insee.fr

Now let's study present situation in Azerbaijan. Logic of the analysis is similar with the analysis in Armenia and Georgia.

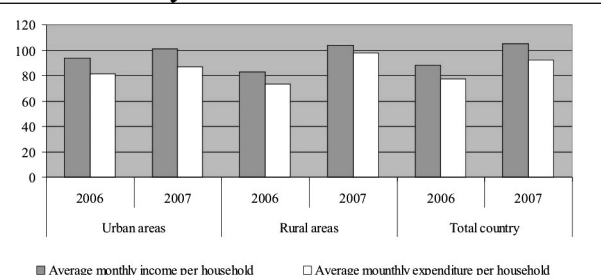
Fig. 6. Average monthly income and expenditure of population (manat)



Source: The State Statistical Committee of the Republic of Azerbaijan - www.azstat.org

As it is showed on Fig.6 income of population in 2007 increased on 38% (1manat =1,141878\$) in comparison with the same indicator in 2006 and it equaled 1677 manat against 1216 in 2006. As for the dynamics of population expenditure indicator here we also have increase on but on approximately 30%. In 2006 this indicator was 979 manat but in 2007 – 1268 manat. And now we'll observe the indicator of population income. Here we have the growth on 40% and it corresponds to the level of 14305,6 mln manat in 2007 against 10198,4 mln manat in 2006. Analogically the situation is for the expenditure of population. Here we have growth on 32% that equals 10819,5 mln manat in 2007 at that time when it was 8208,1 mln manat in 2006. Proceeding from the data we can draw a conclusion that the general well-being of the population in Azerbaijan in 2007 improved in comparison with 2006. Rupture between the percentage of the increased income and expenditure of population on the average is not exceeding 10% and it testifies that the living level there has improved.

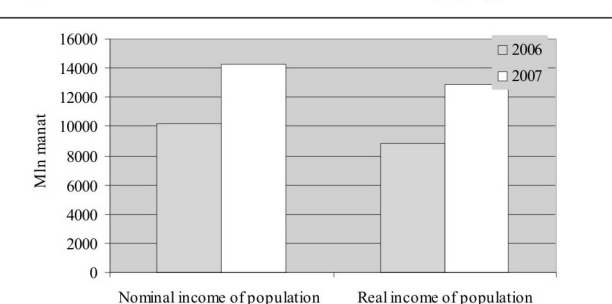
Fig.7 Average income/expenditure per household in urban areas, rural areas and total country



Source: The State Statistical Committee of the Republic of Azerbaijan - www.azstat.org

92,2%, but in 2006 – 77,6%. The analysis shows that during one year from 2006-2007 indicators of solvency have improved and it proves the increase of population well-being.

Fig.8 Nominal and real income of population



Source: The State Statistical Committee of the Republic of Azerbaijan - www.azstat.org

Now let's focus on the on households. On Fig.7 it is clearly seen that income of households grew on 17% in 2007 and the indicator was 105,2% but in 2006 it was 88,1%. The growth of population income leads to the increase of well-being level of population and it in its turn attracts the gain of consumption. So expenditure of household in 2007 grew on 15%. The following data testifies it: expenditure in 2007 – 92,2%, but in 2006 – 77,6%. The analysis shows that during one year from 2006-2007 indicators of solvency have improved and it proves the increase of population well-being.

For building the whole picture of poverty in Azerbaijan let's pass to the observation of nominal and real income of population.

From 2006 to 2007 nominal income in Azerbaijan has increased on 41% at that time when real income grew on 35%. Dynamics of the mentioned above indicators is the following: nominal income in 2007 – 14305,6 mln manat against 10198,5 mln manat in 2006 and what about real income here we have 11020,3 mln manat in 2007 in comparison with 8184,2 mln manat in 2006. E.g. solvency of population has increased during the examined period and as it has already been showed on the Fig.6 expenditure

per capita have grown on 30% therefore there is a positive dynamics of poverty reduction. As to Gini coefficient in Azerbaijan then statistics say it was 0,36 in 2005 and 0,365 in 2007,2008. Summing up the analysis of Azerbaijan we can say that during the time from 2006 to 2007 there is a positive tendency of poverty reduction but the polarization of the society remains nearly the same e.g. there is the following situation in Azerbaijan: increase of income extends more on the rich than on the poor.

Thus being based on carrying out in three countries we can draw the following conclusion: during the last 3-4 years indicators testifying the presence in the examined countries have reduced therefore the number of the poor reduced too. At the same time the polarization of the society didn't decrease but increased and it is testified by Gini coefficient. So we see that the rich became richer in these countries and the poor had probably improved their conditions. During already 17 years triple of the South Caucasus region have been fighting against poverty but obviously none of the countries have achieved positive results in this field. We know if that the country that has many poor people and its population has low social-economic level the idea of freedom, democratization, freedom of speech, freedom of choice, solution of corruption problems and raising the status of the country in global scale in general are under the threat. South Caucasian countries should immediately take certain steps to reduce the poverty in their countries because global economic/financial crisis generated new problems which are not only preventing the struggle against poverty but are also contributing its development and impoverishment of the whole population. All these can be testified by the statistics. For example from 2006 to 2007 the level of unemployment in South Caucasus region has increased on the average on 25%-30% and in 2009 this indicator has passed the level of 35%. It firstly affects the less protected level of population in these countries especially those whose income is lower than the medium. Their number is more than 50%.

Role of the International Organizations

The problem of poverty interests not only the governments of the countries but also many international organizations such as IMF, World Bank, UNO...

In June 2004, the World Bank adopted its new Country Assistance Strategy (CAS) for Armenia for 2004-2008. The CAS was developed in close partnership with the Government of Armenia, and was based on the participatory developed Poverty Reduction Strategy Paper (PRSP)¹.

The main priorities envisaged in the CAS are: promoting private sector led economic growth, making growth benefit the poor, reducing non-income poverty, maintaining infrastructure, improving the targeting of expenditures for social protection and education.

According to a joint IMF-Government of Armenia progress report on implementation of the 2003 Armenia Poverty Reduction Strategy Paper (PRSP), Armenia has generally followed the agreed PRSP action plan, and has made steady progress in reducing poverty. While in 1998-99, 56% of Armenians were below the poverty line, by 2004 this figure was reduced to 35% and provisional indications are that it dropped to 30% in 2005. However, the IMF notes that while economic growth has passed all expectations, it has not lead to an adequate increase in social spending. In 2004, the most recent year for which statistics are available, only 4.5% of GDP was spent in the social sector. Spending on health and education services, while increasing in absolute terms, remain well under 4 % as a percentage of GDP. Armenian economists think that PRSP is promoting successfully as a whole though there are both strong and weak sides of the program. The strong side is that level of poverty in the country is really reducing. In 1998-1999 56% of the population was under the poverty line but in 2004 this indicator reduced to 35% and in 2005 – to 30%. It is important to say that the program has been overdone from the point of view of target reference point – leading up the level of poverty to 44%.

PRSO program has been begun in Georgia since 2005 and it consists of four annual subprograms. The PRSO reform program focuses on four critical reform pillars: strengthening public sector accountability, efficiency, and transparency; improving electricity and gas sector services; improving the environment for private sector development; and improving social protection, education, and health care services. The reforms aim at developing a dynamic and competitive private sector as the main engine of growth, with the state playing a supportive role by providing basic public goods and services. PRSO is a central in the cooperation strategy with the World Bank which was confirmed by the management of the Bank on the 15th of September, 2007 and provided allocation of 143 mln dollars during 2006-2009. However during the first three years of fulfilling the strategy Georgia had got as soft loans and grants 166 mln dollars.

¹ The World Bank. IBRD & IDA: Working for a World Free of Poverty - www.worldbank.org

A credit at a rate of 40 mln dollars has been approved in Georgia in 2007 within the limits of additional financing of the project "Poverty Reduction Support Operation (PRSO)". The council of chief executives of the World Bank approved allocation of the last fourth tranche at the end of May 2008 in the limits of the project "Poverty Reduction Support Operation (PRSO)"¹.

Most of the existing fragmented social and health care assistance programs are being consolidated into targeted poverty benefits. In 2006, Georgia introduced a poverty benefit program targeting the extreme poor who represent about 11 percent of the population. This is the first social assistance program that targets the extreme poor and is not based on status.

The government of Azerbaijan prepared a State Program on Poverty Reduction and Economic Development (SPPRED), which was approved by the World Bank Group and the International Monetary Fund in July 2001. The "State Program on Poverty Reduction and Economic Development 2003-2005" was approved by a *Decree of the President of the Republic of Azerbaijan* in February 2003. Cultural policy issues within the SPPRED program was concentrated on 3 main areas: stimulating cultural workers, increasing their professionalism and information provision; improvement of the capacities of cultural and arts institutions and objects in order to provide equitable use by all of the population; and preserving cultural heritage and establishing new cultural tourism roots in order to open new workplaces.

As a result of the "State Program on Poverty Reduction and Economic Development 2003-2005", the poverty level in the country, being 46,7% in 2002, was considerably reduced to 29,3% in 2005 and 15,8% in 2007. Implementation of the new "State Program on Poverty Reduction and Economic Development 2008-2015" started by *Decree of the President of the Republic of Azerbaijan* on 15 September 2008.

Besides the achievements in economic growth, there still remain unsolved problems in the socio-economic life of the country, especially in the areas of development and employment in the regions. The main directions of state support and policy, regarding factors accelerating economic development of different regions in the years of 2004-2008, were determined within the State Program on the Socio-economic Development of the Regions of the Republic of Azerbaijan. Social policy in the regions consists of meeting the social needs of the population, improving their living conditions, regularly increasing pensions, paying special attention to disabled people, war veterans, young families and vulnerable sections of the population. The strategic objectives of the measures in the cultural sector consist of protection and development of cultural potential, resources and traditions of the country, a systematic increase of budgetary financing of culture, and the development of the physical, technical and information infrastructure in the cultural sector. Development of the regions, in the directions mentioned above, and implementation of measures considered in the State Program, is an important stage in the socio-economic development and improvement of the well-being of the population.

And now I'd like to fix your attention at the ways out of the present situation in our region.

Even though we develop at a quick rate as we do are doing now we'll be able to reduce half of the poverty (on the average) in seven years only. Thus taking into account the inequality of the regions development – poverty indicators here fluctuate from 20% to 70% of the population living there. In some regions they are still at a rate of 60% of the whole population.

So nowadays we have very deep social-economic stratification of our society and the root of such deep deformations lies in the allocation mechanisms and relations area. We'll never move to better state if we don't readjust it all to more or less better indicators of inequality even though we divide everything equally. If we talk about certain indicators of differentiation then in developed countries they fluctuate for the decil groups from 12 to 14 (for the USA) and even less. As for the countries with Protestant ethics these indicators are from 6 to 7. In Finland it is said that social comprehensible norm of the social differentiation coefficient is being at the level-3.

In fact the scale of poverty decreased minutely by official data. Radical decrease of poverty scale in terms of fast increase of real income of population didn't take place because the general income inequality didn't decrease and the aggregate growth of real income took place because of the augmented income increase of the more procured level of population which substantially leveled the results of low wages and pensions increase.

Thus if we can limit the income growth rate of the rich level of population in a year e.g. at the level of inflation or a little more then we'll be able to reduce poverty to 10% in 6-7 years. It means to delete it in essence as a social phenomenon which can lead to very serious political consequences now. At the same time we don't connect it with either additional investments or hope on help or credits of their countries.

1 Council of Europe/ERICarts, "Compendium of Cultural Policies and Trends in Europe, 10th edition", 2009

However such adjustment, setup must be complex. Simultaneously we should in organizational order liberate small business so that it can fast and easy to respond to the additional demand that will arise after the income increase of the poor level of population – namely its demand is guided by local cheaper goods.

Then it is necessary to solve the problem of smoothing the arisen disproportions. We have been moving by the way to capitalism, escalating of private poverty and so on for already 10-15 years. Many people after privatization of flats, lands and so on have serious enough privacy. Then can we consider a person who uses only social benefits and makes ends meet but has appreciable enough privacy to be a poor person. This is a question about who is poor and who is not. Real value of this privacy can reach a few thousand dollars. In all developed countries the level of privacy taxation is approximately from 0,5% to 1,5% from its market cost. And as for our region this level is too low and it equals a few thousands of the percent. We have the lag more than in 100 times in comparison with developed countries.

Why is it bad? It is bad not only because of the fact that our budget could be considerably bigger (by some facts even in a few times) but also because the active capital being removed from active economic activities and that boom of buying flats that has been forced for a few years already shows that the capital is being deduced in real estate because 50% of the flats are empty. People just keep them and think that the money invested in the flats bring or will bring them much income that the participation of this money in any economic process. If we turn our attention to the experience of Europe and the USA the same situation is hardly possible. You can't have 5 or 10 flats if you don't create lease or maintain them in another way otherwise you'll ruin. And if you try to buy or sell a flat by the price lower than the market one at least on 10% then Inland Revenue inspection will visit you and say that you underestimate the price to get additional income.

At the same time we have no idea about the real size of the riches we have but the privacy taxation is too insignificant because of the underestimation of the real privacy.

One more fact. It's not a secret that not official economy has big relative density. By different statistics it is from 30% to 60%. Our economists tried to see its influence on the income and expenditure of population.

In the regional scale our calculates show that income and expenditure of population are higher on 30%-32% than the other estimation and it leads to very substantial changes in estimation of the scale of economic inequality.

These circumstances are the source of the abnormally high differentiation of expenditure on buying not food goods and service payment. 20% and more of procured population consume about 60% of all not food goods. It is 47 times more than 20% of less procured population do. They also consume 65% of all payable services that is 65 times more than 20% of less procured population do. The last one uses only 1% of it. In fact expenditure of more procured population on real estate and savings are 70%. Thus hidden and negligible incomes don't smooth the poverty picture as not official incomes' lion's share is received by the rich and it increases the inequality and incomes of the real estate and entrepreneurship make the real underlying reason of our population's social-economic polarization that is sharply seen in the interrogation of public opinion.

Conclusion

Ending the reasoning about the direction of distributive relations reforming I want to underline that already famous but forgotten method of tax discrimination could be very effective in our region if it is used in the correct way. Wage increase could be stimulated by radical decrease of united social taxes in combination with tax discrimination of profit depending on the share of wage in added value (or in the price of the final output). The last one means that the company with underestimated share of wage in added value or in the price of the final output had to pay higher profit taxes than the companies where this share is higher. Besides tax privilege on investments should be restored and the decrease of united social taxes compensate by the increase of real estate taxes. So social taxes could be entered as certain additional part of privacy taxes, privacy income, secondary operations with the real estate and other kind privacy. Flat profitable taxes make liquidated taxes compensate income inequality. Discrimination taxes on sales which would include only expensive types of not food goods and services could be used on social purposes that would partly compensate income inequality. These preliminary sketches need working out. However radical allocation of taxes loading that doesn't enlarge the total volume of this loading but relaying it on the rich in any situations when they don't use their riches for the increase of the production could substantially decrease economic inequality enlarging at the same time incentives of the economic growth.

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Poverty in South Caucasus region Overcoming outlook and methods Functions of the international organizations

Annotation

Marine Dadzhunts

Russian-Armenian (Slavonic) University

Student of the third course of the faculty of Economy

*Instructor: **Khachatryan Marina***

The results of the latest research about the problem of poverty indicate the availability of the high level of this indicator in the whole world especially in the third world countries (the average indicator is not less than 27%) and in the countries with transition economy. Nowadays 20% of the world populations are poor and in our region the average indicator of poverty is more than 18%. These indicators prove the necessity of serious study of this problem because poverty is one of the most important indicators that characterize the economy of the country and the region as a whole. The purpose of this work is revelation of the negative influence of poverty on the economy of each country and the region as a whole.

The object of the research is poverty as a factor that prevents from the prosperous economic and political development in the South Caucasian region.

The subject of the research is analysis of the ways of poverty overcoming policy development in the South Caucasian region and establishment of friendly economic and political relationships.

The hypothesis of the given work is based on the assumption, that the reduction of poverty volume in the South Caucasian region can faster the development of stronger economic and political mutual relations, and it will have a favorable influence on the process of the countries regional integration and economic growth of each country separately.

The necessary methods of this question regulation are provision of stable economic growth, implementation of equal distribution policy directed at the more vulnerable groups of the population, improvement of the country governance system including effectiveness increase of the activity of the state run public authorities. Thereby in order to explore and show the existing range of problems both in each country of the South Caucasian region and in the South Caucasian region itself it is necessary to analyze the state of the existing problem in each country and between the countries, study the conditions and opportunities of the countries to solve the present problem, the resources and the volume of financing, efficient allocation of cash facilities based on numerous analyses of different international organizations. It is also important to find out basic causes of poverty, study new problems and find practical solution of the problems mentioned above that will certainly lead to the development and prosperity of the South Caucasian region.

CAUCASIAN COUNTRIES' SECURITY'S SECONDARY MARKET DEVELOPMENT AS A FACTOR OF INVESTMENT ATTRACTION ENHANCEMENT

Asya Balasanyan

Russian – Armenian (Slavonic) university

Student of the third course of the economy faculty by management specialty

Indicator: Ashot Engibaryan, diplomated specialist, lecturer

Stock market is one of the most efficient indicators of an economy's financial health. It indicates the mood of investors in a country. Thus, stock market development is essential for investment climate, consequently, for entire economic activity and growth. This paper examines the impact of secondary market tendencies on stock market functionality as a whole, by addressing the two measures of stock market development: stock market liquidity and attractiveness both for internal and external investments. So the main discussion of the paper will be concentrated on the issues characterizing the above mentioned issues of stock market.

Introduction

The growing importance of stock market in the region reinforced the belief that stock market is an important ingredient for increasing the investment climate as of the countries separately so of the region in total. Nowadays in the condition of shortage of financial resources' each country in the world needs to increase the investment attractiveness of its financial market, so opening new ways of growth.

From the point of view of *Greenwood and Jovanovich* (1990); *King and Levine* (1993), a new stock market can increase economic growth by aggregating information about firm prospects, thereby directing capital to investment with returns. And these effects on the stock market increases its productivity.

In principle, a well-developed stock market should increase saving and efficiently allocate capital to productive investments. Stock markets contribute to the mobilization of domestic savings by enhancing the set of financial instruments available to savers to diversify their portfolios and so they provide an important source of investment capital at relatively low cost (*Dailami and Aktin*, 1990).

Stock markets help investors to cope with liquidity risk by allowing those who are hit by a liquidity shock to sell their shares to other investors who do not suffer from a liquidity shock. So the stock market should undertake its main function of temporarily free capital reallocation, and do it as efficient as possible. Under stock exchange development we should imply both the primary and secondary stock markets' enhancement which are too high extent connected with each other.

The primary market ensures the first allocation of securities, and the secondary market executes two main functions: bring together investors and issuers (guarantee the liquidity of securities) and promote the smoothing of demand and supply.

The developed secondary stock market is one of the most important conditions of attraction of investors-their confidence that their issues can give them interest at any moment. And they basically connect this expectation with the secondary market.

Nowadays most of our problems concerning stock market are connected with low level of investment attractiveness of secondary market, particularly with its establishing in our countries. As one of the main targets of secondary market is to attract investment, so we must choose such mechanisms which will be able to increase the efficiency of functioning of infrastructures and which can guarantee transparent and effective stock market, making it possible to attract both direct and indirect investments by stock market mechanisms.

So we concentrate our attention on development of secondary stock markets of Caucasus countries – Armenia, Georgia and Azerbaijan – establishing favorable conditions to stimulate participants' interest on operat-

ing in secondary stock market.

Thus:

- The main topics of the research are the opportunities of increasing investment climate of Caucasus countries by development of secondary stock market.
- The main hypotheses are:
- The higher the level of development of stock market the higher the investment climate of the country;
- The development of stock market depends on tendencies of secondary stock market.

Armenia

It is a fact that Armenian stock market is developing and this process is accelerated integration into the European area. However our stock market volume is in low level yet, which is the outcome of the secondary stock market absence.

One of the important measures of developing of stock market is the number of companies in stock market, which argue about its attractiveness.

Table 1. Number of companies traded in stock market

Number of companies	2005	2006	2007	2008
Armenia	199	37	35	9
Azerbaijan	27	10	9	9
Georgia	257	231	161	153

Source: Statistical services of Caucasus countries

As it is pointed in the table 1, by companies traded their securities in stock market since 2005 supervise sharp cut of companies (5 times) in Armenian stock market, which is connected with the toughening of listing procedures and rules of trading. And this tendency was going on during 2006 and 2007, as many companies reduced the supply of their securities because of low level of demand and high level of risks, and so increasing capital concentration of our companies. They do not want to provide information about company and reduce the investors' incentives to provide financial assistance.

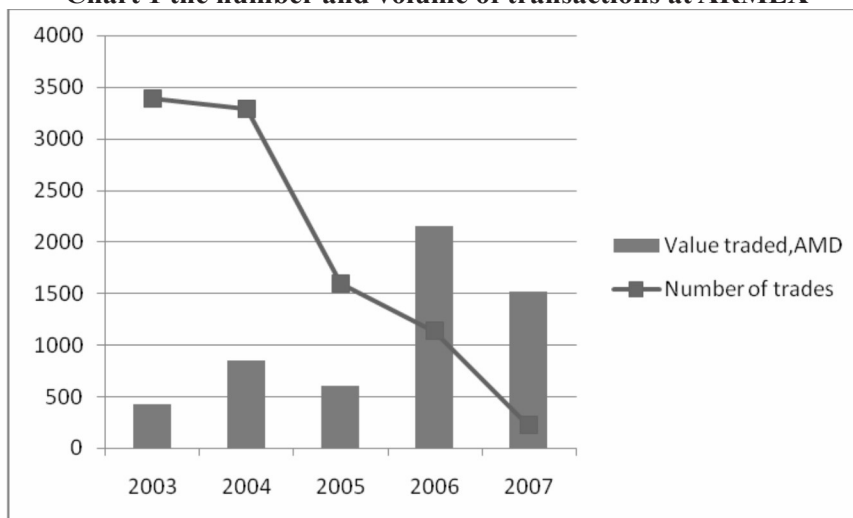
This mean that the stock market of Armenia cannot be characterized as stable, transparent, or liquid, and does not efficiently perform its main function of consolidation and distribution of financial resources, which makes the Armenian stock market not attractive for foreign issuers, investors and professional participants. The transactions are performed with the three types of securities, namely, stocks, government bonds and other securities. The overwhelming volume of securities transactions still remains with government securities. The reasons of this phenomenon are relatively low risks and acceptable interest rates associated with the government securities, as well as, absence of corporate bonds in the market. Their absence without any doubt brakes the efficient of stock market, as the corporate bonds have the highest level of quotation.

The transactions with the stocks in 2004 amount to 5% and the transaction with other securities to 0.05%. As it illustrated in the table below the volume of trades is increasing, while the number of trades are reducing still 2006, in 2007 the value traded decreased 29% and number of trades 80.5%. Such bulk of total volume of transactions is represented by few large transactions.

In 2007, about 55% of the total volume of transactions was performed with government securities, though, it is obvious, that since 2004 the number of securities is decreasing on average 29%. As compared with the previous year, the number of trades and value traded in bonds increased by 2.11 and 1.47 times, accordingly. The reasons of this phenomenon are relatively low risks and acceptable interest rates associated with the government securities, as well as, absence of corporate bonds in the market. Basically, stocks are the major corporate securities in the market; however, there is no demand for these securities taking into account the general economic factors as well as lack in transparency and financial disclosure. Foreign investments in the capital market of Armenia are performed mostly through the direct investment. Portfolio investments are lim-

ited mostly to government securities. *Table 2* below demonstrates international investment position of RA from 2003 to 2006. Particularly such passive position of Armenia is associated with great risks of our securities. That's why a great deal of international investment comes to government bond though the transactions with the stocks increase every year.

Chart 1 the number and volume of transactions at ARMEX



www.armex.am

As the table 2 show in 2006 the direct investments abroad increased 66%, while the portfolio investments reduced about 12%. Comparatively high are investments into Armenian economy.

Foreign investments in the capital market of Armenia are performed mostly through the direct investment. Portfolio investments are limited mostly to government securities.

Basically, stocks are the only corporate securities in the market; however, there is no demand for these securities taking into account the general economic factors as well as inefficiency of transparency, financial disclosure and corporate governance systems. As a result, the stocks cannot ensure certain profitability, as there is no regular market for them. Besides, there are no mechanisms of quick trade in Armenia, which is one of the heavy reasons of unattractiveness of our market especially for international investment.

Table 2. International Investment Position of Armenia (million US dollars)

	2003	2004	2005	2006
Direct investment abroad	0.39	2.67	10.27	15.54
Portfolio investment abroad	4.43	4.61	5.94	5.26
Direct investment in Armenia	793.38	1037.93	1298.29	1774.37
Portfolio investment in Armenia	6.38	4.87	5.47	15.96

Source: www.armstat.am

Armenia has found a relatively wise way to develop its stock market and this way is integration in Europe which will help us to accelerate the execution of reforms, which will enhance the investment climate of our country. But this process is rather long while our country is still backward. So our aim is to establish secondary stock market which will provide favorable conditions for participants to act in secondary stock market.

Georgia

A lot of legislative changes took place in 2006 and fixation of deals was introduced, which was directed to make trade in market easier and decrease the costs, increasing the activeness of the stock market of Georgia.

One of the important decisions was the IPO in the London Stock Exchange and as a result Georgia now (in contrast to Armenia) has already two units of financial market - the banking sector and the stock market,

increasing the activity level in the market. This was a very robust push for the impetuous prosperity of the stock market and this trend repulsed not only on the main indicators of Georgian stock market but also in investment attractive of it.

Table 3. Georgian Stock market indicators (mln lari)

	2003	2004	2005	2006	2007
Total turnover	115	122	100	350	167
Stock turnover	65	85	74	151	84
Number of deals per year	2100	2390	2419	9250	7856

Source: Georgian Investment Group

As to stock market indicators in 2005 its turnover was 100 mln lari, in 2006 this indicator approached 350 mln lari (three times increased) but in 2007 this showed downward tendency of the volume and the reason is also the new legalization rules, which cut down the traded securities so decreasing the total volume of transactions. At the same time number of traded companies decreased by 4.1 times as a lot of them did not satisfy new rules and so their shares were not quoted in stock market.

Georgian stock market characterizes by two kinds of securities – government bonds and stocks, Let's notice that Georgian stock market as Armenian has not corporate securities which are more attractively for investors than other instruments, as they are more profitably and less risky. That's why investment position of Georgia is also passive as in Armenia.

In 2006 net foreign investments increased 51% (they were 539 mln US\$ in 2005 and approached 1.04 mln US\$ in 2006) of which the growth of portfolio investment is about 12% and the growth of direct investments 40%.

In spite of intended increase the stock market of Georgia is not attractively for investors particularly foreign (such as Armenian one), testified about it the volume of investments particularly portfolio.

Taking into consideration the estimated situation in Georgian stock market we must also note that it has a great potential for growth.

Azerbaijan

Last years it observes two-digit economic growth. In spite of the fact that Azerbaijan stock market is more developed than Armenian and Georgian ones, however this market is also characterize as low level of functioning of secondary market. If we look to the *table 1* we can see that Azerbaijan yields other two Caucasus countries in number of companies traded in the stock market. In 2007 9 companies are issued their securities in stock market against 35 of Armenian and 161 of Georgia. In spite of this the total volume of transactions on Azerbaijan stock market is 87% high than in Armenia and 49% than in Georgia, and this differences are associated with the high volume of bond transactions and other kinds of securities that are absent in our markets.

Table 4. Total volume and number of transactions (mln. \$US)

	2005	2006	2007
Total turnover	534.21	2346.53	6283.78
Stock turnover	82	146	272
Number of deals per year	66.1572	285.0965	267.2844

Source: www.feas.org

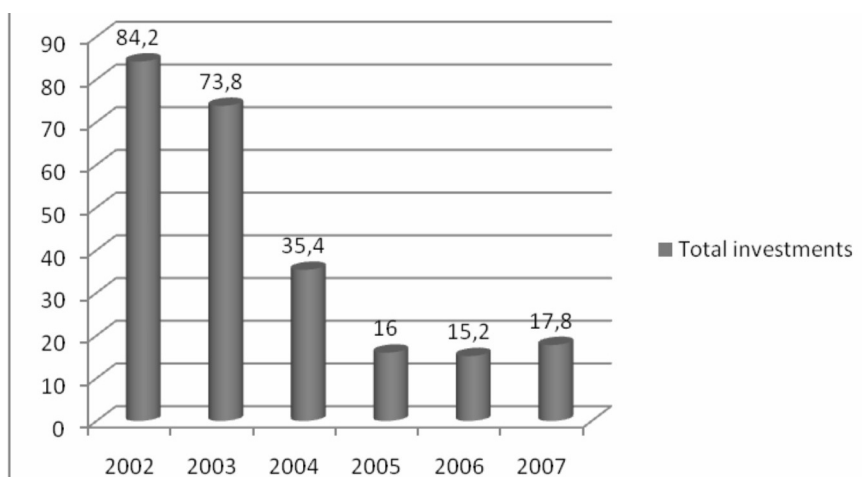
The stock market of Azerbaijan in contrast Armenia and Georgia has more kinds of securities including corporate securities, though their volume in total is rather low. The number of transactions with corporate stocks in 2007 was 137 issues and volume 272 mln. US\$ (795 mln. manat) which is 2.3 times more than in 2006 and several times exceed the same indicator in other two Caucasus countries.

In Azerbaijan carry active actions to stimulate both internal and external investments. In this market also, as in other two Caucasus countries, prevail foreign investments, which are 60% more than domestic investments in the total volume. Thus, the gross domestic and foreign investments are, correspondingly, in 2006,

3085 mln. US\$, 5052.8 mln. US\$, in 2007 this correlation is persistent, but the total volume of investments are reducing.

The chart below demonstrates the growth of total investments of Azerbaijan. As we can notice since 2003 the total investments sharply cut and their growth value 35.4%, the tendency was going on also in 2004-2005. Only since 2007 the volume of investments begins to increase, but their temps are quite low, which argue that Azerbaijan economy become more and more unattractiveness for investors.

Chart 2 Total investment growth in Azerbaijan (%)



Source: National Bank of Azerbaijan Republic

Though we must notice that Azerbaijan stock market is developing and this country has a lot of scopes to continue these tendencies. Azerbaijan stock market has potential for development due to which he can improve the investment climate by improvement of condition of its stock market.

Conclusion

Thus we have examined the three Caucasus countries and I'd prefer to give unbiased estimation of each stock market.

The main problem of our countries' stock markets is the absence of secondary market, which guarantees its primary functions accomplishment – reallocation of capital, and the most efficient mechanisms to attract investment.

In order to establish secondary stock market we must create frameworks for realizing two main functions of secondary stock market: bring together investors and issuers (guarantee the liquidity of securities) and promote the smoothing of demand and supply.

Key features of a successful secondary market platform:

- Transparency of the market information about the companies;
- Liquidity of the traded securities;
- Accessibility of the market for large group of participants;
- Speed of circulation and reliability of securities;
- Cost effectiveness

1. One of the main problems of our secondary stock market is the transparency. The companies issue their securities in the stock market in order to fall into certain normative, but not for distribution of capital via stock market mechanisms, that's why our companies do not prefer to provide much information about the condition of companies.

2. Our secondary markets characterize by high level of unstable and non-liquidity, and correspondingly by sharp fluctuations in trades and panic of investors.

3. Our markets are not accessibility for the investors because on one hand they provide very poor information about their functioning; on the other hand, there are a lot of transaction costs in the way to enter and operate there (legislative, technical and institutional).

4. The velocity circulation of our securities are very law and they are also unreliability as for investors so

for issuers. The main reason is that there are very few kinds of securities in our markets, while one of the essential benefits of liquidity of secondary market for investors is the possibility to diversify their instruments.

So, in order to establish effectively functioning secondary market we should take into consideration above-listed characterizes of secondary stock market. First of all we must provide the market with supply and demand for securities by creating critic volume of securities in the market. The main way of realizing this aim is the interest of issuers to offer their securities in secondary stock market which entirely supplies their rights as well as the rights of investors. Besides, it is very important for an issuer that the level of access to his security to be high in order to attract more potential investors. Investment decisions are closely associated with transaction costs, which are quite high in our stock markets and create barriers for free functioning of secondary stock market. They include:

1. Difficulties of connected with intermediaries, as in order to offer their securities issuers and to invest their recourses investors have to produce a lot of procedures, which are quite resource-demanding and time-taking;
2. Differences in information technology and functioning of clearing and settlement providers;
3. The differences in the legal treatment of netting. These differences may lead to the distortion of a simple regime of providing financial instruments as well as cash, hereby affecting the netting process.

As we have seen the transaction costs connected with functioning of secondary stock market include wide range of spheres. There are several mechanisms for decreasing them. One of these mechanisms is the transition into Electronic - based market, which will ensure high development either of secondary stock markets of Caucasus countries separately or the single electronic market in the region.

Electronic system allows instantaneous dissemination of information and remote access from other geographical regions. Thus the decision about electronic trading system is one of the first factors of efficiency of secondary stock market. Especially important is the common electronic trading system for region, as there are no any regional organizations uniting our countries and the "Internet-based market" of the region will simulate conditions for attraction of our stock markets, especially secondary market.

Electronic trading system is substituting the traditional methods of trading because of simultaneously access to multiple our markets transparency, speed, possibility to operate from offices, reduce the costs of order execution and other factors. These reductions come through lower development and operating costs, as well as important liquidity advantages arising from the greater transparency of electronic system of the region. In this condition only that market can stand, which allow effectively and with minimal costs to trade in different financial instruments within the framework of one system.

Nowadays the most developed markets are Electronic-based markets and they choose these mechanisms because of its undisputed advantages. Information in computing and communication make possible electronic order routing broad dissemination of quote and trade information and new types of trading system. Finally, improvements in trading technologies enable faster routing and market data transmission to a much larger of participants of the market. It will allow our markets to execute transactions much faster, to get information which allow investors assess market condition better and optimize their strategy.

Electronic trading system is especially important for such markets as ours, as it decrease costs of trades and the other barriers in the way to trade. So the electronic-based market will ensure the quick and efficient mechanisms for the all participants of the market and it will push the development of the other elements of the infrastructure of secondary stock market:

- Dealers offer internet based services to their clients. Single-dealer systems allow investors to execute transactions directly with a specific dealer through third-party providers, via internet and/or via proprietary networks. Dealers normally act as principals, in their own name;
- Cross-matching systems generally bring both dealers and institutional investors together in electronic trading;
- Auction-systems enable participants to conduct electronic auctions;
- Inter-dealer systems allow dealers to execute transactions electronically through the fully anonymous services of brokers and etc.

What will give Caucasus countries the common electronic system of trading?

1. First of all it will be an investment in modernizing their secondary stock market infrastructure and stock market operations, on the other hand it will avoid any barriers for trading among Caucasus countries, increasing the volume of transactions and investments.

What is our benefit from realizing these mechanisms?

2. No need to have harmonized trading and settlement rules, regulations and operational procedures;
3. Investors will have access to a broader range of securities for investment purposes;
4. It will increase liquidity on the market, particularly on the secondary market;
5. Create understanding and motivation for consolidation of our markets;
6. Accelerate financial markets development and improve the investment climate as at national level, so on regional level.

In addition, these factors might serve as a key to the establishment and further development of secondary stock market that will increase the attractiveness of our countries for not only domestic but also for foreign investors!

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Caucasian countries’ security’s secondary market development as a factor of investment attraction enhancement

Annotation

Asya Balasanyan

Russian – Armenian (Slavonic) university

Student of the third course of the economy faculty by management specialty

Indicator: Ashot Engibaryan, diplomated specialist, lecturer

In the conditions of the World Economic globalization security market development to a high extent significant and necessary, as the financial market acts as the core intermediary unit of each economy, and its development is closely associated with the enhancement of Security Market. Though there have been established the fundamental grounds for stock market functioning and its supervisory principles in Caucasian countries, the capitalization dynamics in our countries do not match the trends of nowadays World economy.

The main aim of this work is to evaluate the Caucasian countries’ security market extension in the context of world economic fluctuations, promote its durability and elaborate ways of capital flow acceleration. So the basic subject of the research is the secondary security market as a unit of qualitative and quantitative values. Thereby, as the main hypotheses of the work will be:

- the higher the level of development of security market the higher the investment attraction of the country;
- The development of the security market depends on the tendencies of the secondary market.

The main problems of the research are the estimation of the main tendency of the Security Market development in the Caucasus and also making ways of its initial development.

The solution of these problems is connected with the necessity of investors’ rights’ protection, the level of the corporative management, with the conditions of the open pricing – price, which is based on supply-demand core in security market. The solution of the delivered problems will be linked with the security market development in total. That will lead to the elevation of the investment at the Caucasus. Informative provision of the research is based on the statistic and analytic materials of the Caucasus government, statistic service, stock markets, the materials of the conferences and articles.

The prospects of the development in the XXI century in the context of the regional cooperation countries in the Caucasus we connect with the creation of the high liquidity secondary security market, as the one of the most effective origins of the attraction of the long-term investments.

THE MECHANISMS OF OVERCOMING THE WORLD'S FINANCIAL CRISIS CONSEQUENCES IN CAUCASUS COUNTRIES

Lusine Harutyunyan

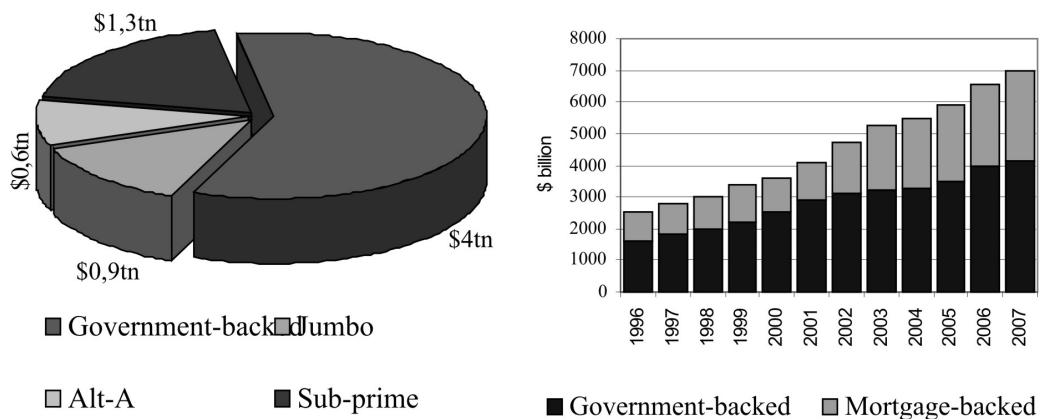
*Armenian-Russian (Slavonic) University
Student of the third course of the faculty of Economy
Instructor: Edgar Karapetyan, Ph.D*

As I have already mentioned in my application before suggesting mechanisms and channels of overcoming the world's financial crisis at first I'll analyze its causes and consequences for the world.

The origin and consequences of the financial crisis

Nowadays the whole world and USA particularly is captured by the global economic crisis, which has seriously affected many spheres of the planet's economic life. The USA sub-prime mortgage crisis has led to dropping property prices, a slowdown in the world economy, and billions of losses by banks and other financial institutions. It stems from a fundamental change in the way mortgages are funded. The matter is that traditionally banks have financed their mortgage lending through the deposits they receive from their customers and this has limited the amount of mortgage lending they could do. However during the recent years, banks have moved to a new model where they sell on the mortgages to the bond markets. This has made it much easier to fund additional borrowing. Along with this the private sector expanded its role in the mortgage bond market, which had previously been dominated by government-sponsored agencies like Freddie Mac.

Figure 1. Structure and rise of mortgage bond market



Source: Federal Reserve Bank of England, SIFMA

They specialized in new types of mortgages, such as sub-prime lending to borrowers with poor credit histories and weak documentation of income. They also included “jumbo” mortgages for properties over Freddie Mac’s \$417,000 mortgage limit. The business proved extremely profitable for the banks, which earned a fee for each mortgage they sold on. And so the mortgage bond market, worth \$6 trillion, became the largest single part of the whole \$27 trillion US bond market, bigger even than Treasury bonds.

The underlying rationale for these loan sales was a transfer of risk to the ultimate buyer of the security, backed by the underlying mortgage loans. These securities could then be pooled again and new instruments would be created and so forth. But it has also led to abuses as banks no longer have the incentive to check carefully the mortgages they issue. And so regulatory oversight missed the build-up of vulnerabilities induced

by this process on the account that risks were being transferred to the unregulated segment of the market. Further on owing to nonpayment of credits by unreliable borrowers these mortgage-backed securities fell in price and new releases didn't find buyers. As a whole in the market arose a lack of liquidity.

The crisis reached a global dimension as it became obvious that foreign banks, mainly European, had also played a significant role in the demand for these mortgage-backed securities.

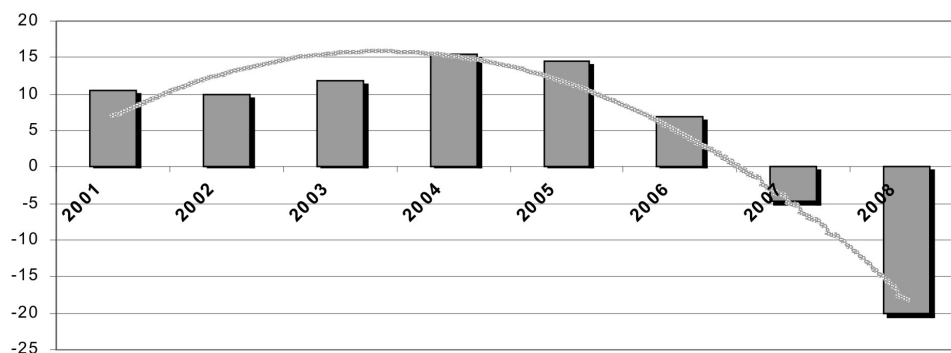
Banks and other financial institutions have so far lost more than \$500bn from the credit crisis as mortgage-backed assets have lost most of their value. And as the International Monetary Fund (IMF) points out global losses can reach the point of \$1 trillion¹.

Nowadays crisis has passed from financial sector to production. This stage of crisis causes many problems as well. Bankruptcy of automobile, electric engineering, light industry, stagnation in real state markets in many countries are factors leading to mass unemployment.

Here are some of the most notable consequences of the global financial crisis are:

- **Collapsing housing markets.** Underlying the financial market wobbles is a real decline in US house prices nationwide for the first time since the 1930s.

Figure.2. US House Price, per cent change, year ago

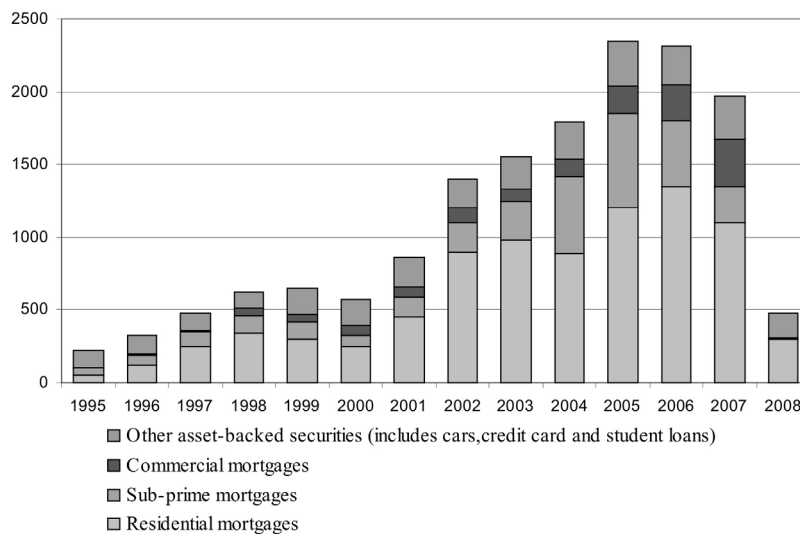


Source: S&p/Case-Shiller

- **The food, oil and other commodities squeeze.** In June 2008 the prices for the key food items increased by nearly 10% as compared to the same period in 2007. For the previous 9 months the oil price has dropped by 70%, the aluminum and copper price-by nearly 55%². Due to these abrupt changes we may expect a significant slowdown in world economic growth, which inversely affects economic prospects for all commodity exporters.

- **Frozen credit markets.**

Figure 3. Global Issuance of Bonds Backed by Mortgages (\$ billions)



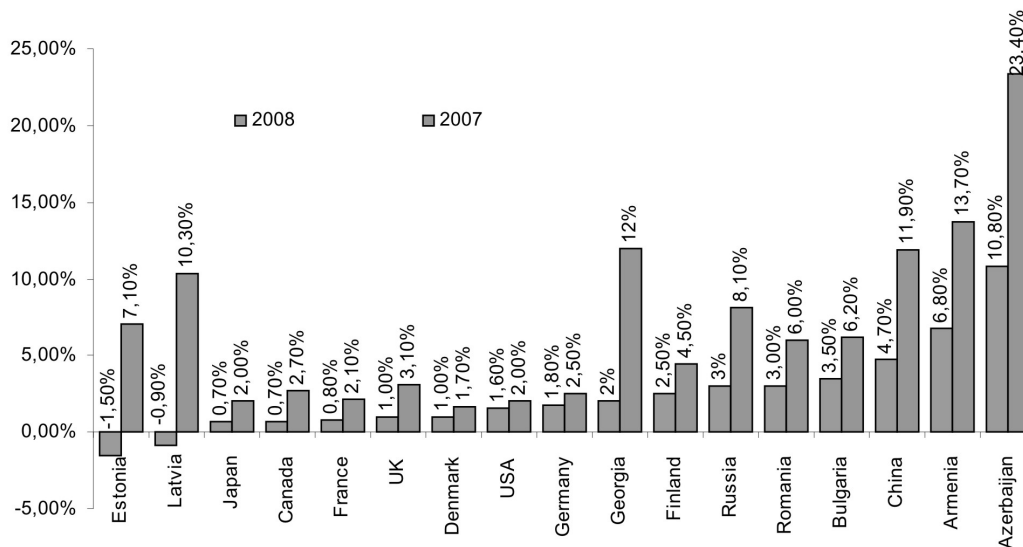
Source: Bank of England

1 International Monetary Fund

2 BBC-www.bbc.co

• Low rates of real GDP growth.

Figure 4. Real GDP growth



Source: IMF

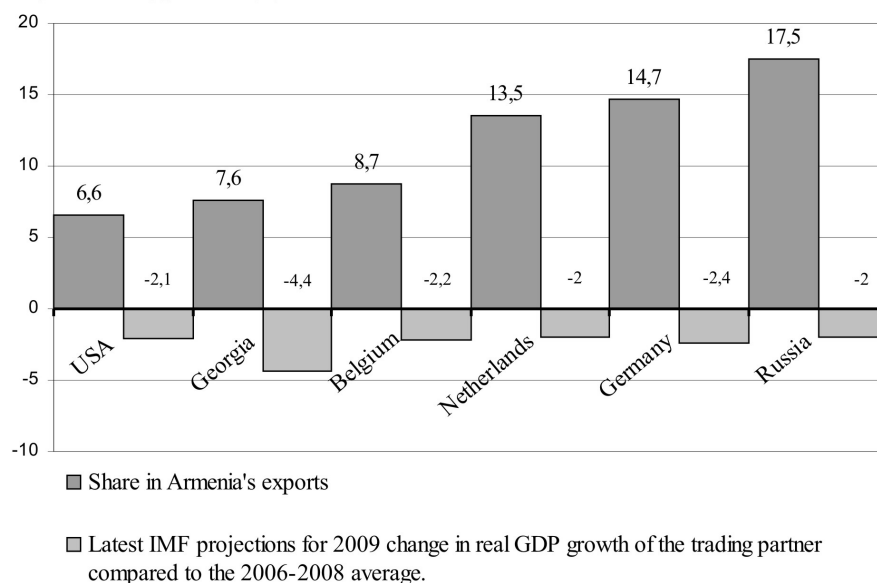
Despite originating in the advanced economies, the crisis is unlikely to let many countries stay on the sidelines and remain unaffected. This is also likely to be true for a peripheral economy like Armenia's as well as Georgia's and Azerbaijan's, regardless of how isolated their relevant sectors are from the rest of the world.

Implications of the world's financial crisis for Caucasus countries

As for Armenia the main channels of implication are the following;

▪ **Reduction in trade and investment.** The concentrated structure of Armenia's exports—six countries account for nearly 70% of the country's exports(see Fig.)—increases the country's vulnerability to a negative impact arising from a shock to a major trading partner. And so as all of Armenia's major trading partners are likely to be affected by the financial crisis, demand for Armenia's exports is also likely to drop notably as a result.

Figure 5. Armenia's Exports and Projected Economic Growth of Major Trading partners (%)

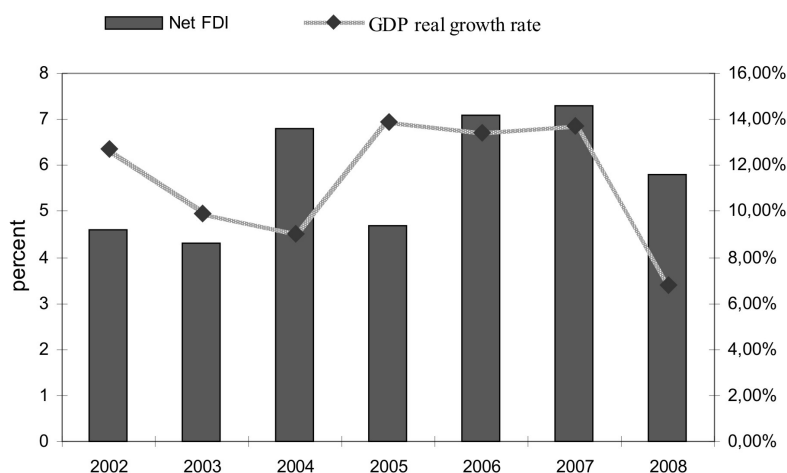


Source: IMF World Economic Outlook database

Decline in demand for Armenia’s exports is also likely to coincide with a significant terms of trade shock due to falling copper, molybdenum, and gold prices, important categories of the country’s exports making more than 50% of Armenia’s export¹.

By the same token, the global slowdown is also likely to reduce foreign direct investment (FDI) flows to Armenia. With a sharp slowdown in most source countries (most notably Russia, which in addition to a general slowdown is hit by dramatically falling oil prices) FDI inflows to Armenia are likely to slow down in the near term (see fig.). As a result economic growth will slow down and, in the absence of a countercyclical (fiscal and monetary) policy response, it will lead to higher unemployment cutting households expenditures, at a time when more spending would be advisable. A combination of slower growth, higher inflation, and less government spending will likely result in heightened social pressures and more poverty.

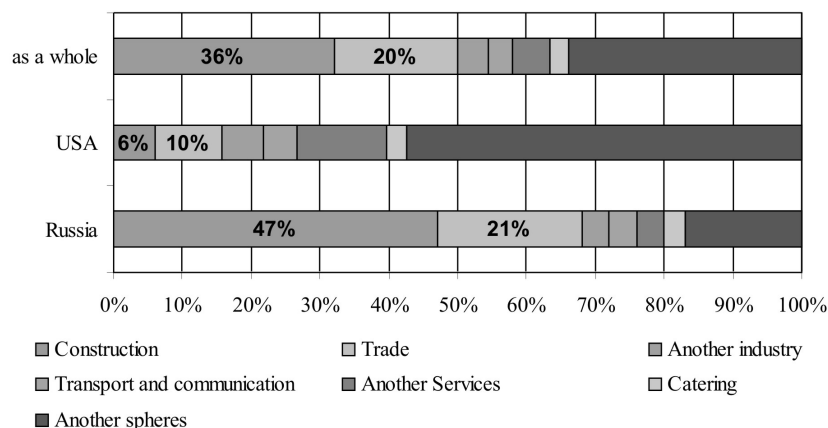
Figure 6. Economic Growth and Foreign Direct Investment in Armenia



Source: IMF , National Statistical Service of the Republic of Armenia

▪ **Decline in Remittance Flows.** Households in Armenia receive remittances to the tune of 20 % of GDP. A considerable share of remittances comes from Russia and mostly depends on the financial condition of the sender and developments in Russia as a whole, particularly, two sectors of the Russian economy, trade (20%) and construction (36%)². And as it’s well known that these are the mostly hit two sectors by the crisis the impact of it on Armenia is likely to be felt soon. Implications of reduced flow of remittances on Armenia’s economy could be really dramatic. It’s evident that they contribute to economic growth rising consumption or investment and so their slowdown will have implications for Armenia’s economy growth prospects. In addition, since a sizable portion of these transfers are directly financing subsistence-level consumption, a reduction in transfers will have direct implications on poverty.

Figure.7. Remittance Flows to Armenia by main sectors and countries



Source: CBA of Armenia

1 National Statistical Service of the Republic of Armenia-www.armstat.am

2 CBA-2006

▪ **Financial Sector Channels.** Due to the relative isolation of Armenia's financial system from the world markets, the banking sector's exposure to foreign loans and obligations is not very large. Only about 4 % of its total liabilities (including equity) are liabilities to foreign entities³. However this doesn't mean that there'll be no implication for Armenia's financial system. Numerous Armenian companies are export-oriented large companies while others have direct exposure to foreign financial institutions. In the event that these companies' export earnings or ability to service their foreign debt drop, this will have an implication on their ability to service their domestic loans, with direct implications for the banking sector. Armenia's financial system may also be affected by the deterioration of the credit portfolio extended to both corporate and household sectors due to abrupt slowdown in economic growth caused by any of the factors outlined in earlier sections.

As mentioned earlier, slowing down remittances flows and worsening export performance —other things equal—lead to depreciation of dram vis-à-vis the dollar by nearly 20%, the main currency of transfers and export receipts to Armenia. With the Armenian dram devaluating sharply due to the retrieval of the CBA floating exchange rate policy, the U.S. dollar exchange rate this year is expected to range from AMD 360 to AMD 380 per \$1. As an aftereffect the prices of several key food products and fuel have risen significantly following the sharp depreciation of the national currency.

Let's now consider the impacts of the crisis for Azerbaijan's economy.

Despite the fact that the crisis has caused many problems in many countries, weak impacts of crisis are observed in Azerbaijan. According to the experts of World Bank (WB) the situation in Azerbaijan is more favorable in comparison with other countries. And it is mainly connected with some features of Azerbaijan's economy.

First of all the main export product of the country-oil-is not competitive and so is always in stable demand in the world and so are agricultural products-the second category of export according to the existing debugged system of goods marketing in neighbor countries.

Secondly Azerbaijan's economy is poorly involved in a world financial system: the largest enterprises are not public and do not bargain at the western stock exchanges, the financial system and the republic industry basically do without large loans of foreign banks. By-turn it means, that rise in price of credits and the general mistrust in the global financial market should not considerably affect the further development of the republic economy.

As a whole, following the results of 2008 external debts of banks of Azerbaijan make \$2 billion, but it critically does not influence the general level of the banks liquidity, making 60-70%, that 2 times exceeds a liquidity minimum level. Besides, the high prices for oil during the period to the middle of 2008 have allowed a republic management to accumulate considerable financial assets in the State oil fund of Azerbaijan which is used by the government for economy stabilization.

The transport sphere and transit potential of republic, slightly depending on financial crisis, is becoming one more strong link of Azerbaijan's economy. Already now through Azerbaijan's territory and infrastructure is annually transported from 10 to 12 million tons of the Kazakh and Turkmen oil. Further on these volumes will only increase in connection with the involvement of Kazakhstan to an oil pipeline Baku-Tbilisi-Ceyhan and creation of a corresponding infrastructure. The construction of the railway Baku-Tbilisi-Kars is also started.

However opinions with regard to the issue differ in Azerbaijan. Financial-insurance companies consider the crisis has not slackened yet. Reduction of automobile sale alongside with sale of apartments impacted the activity of insurance companies during last period as well. Presently, companies attempt to bring new products to markets to protect themselves from the impacts of the above-described problems.

Decrease of means allocated by international funds and donor organizations as well as their cautious behaviour has dropped tens times the speed of loan portfolio of the local non-bank organizations. They do not allocate loans to the organizations which did not receive loans from them before. The target now is reducing impact of these problems to production. Big companies of the country underline that production has dropped 25% as a result of the financial crisis. Entrepreneurs themselves have prepared a rescue packet to escape from the situation.

At the same time oil remains one of the weak spots. It is known, that the contribution of oil branch to GDP of Azerbaijan is considerably above, than in Russia and Kazakhstan (nearly 20% of GDP in 2008. Along with this oil sector revenues make more than 60% of total revenues which carries certain risks for the economy in

3 National Statistical Service of the Republic of Armenia-www.armstat.am

the conditions of further reduction in oil prices¹.

Other serious risk is connected with reduction of remittance flows from the Azerbaijanians working in other countries mainly in Russia as according to the most conservative estimates only in Russia live about 2 million Azerbaijanians. Therefore value of money sent by them is very great for social and economic stability in republic. Let's notice that decline in remittance flows has already affected rates of growth of building branch: demand, especially on habitation and premium-class offices, falls; hence projects are frozen or postponed for uncertain term. And as an aftereffect unemployment rate in Azerbaijan has increased notably during the last year in comparison with Georgia and Armenia (see fig.).

Figure 8. Unemployment rate (%)

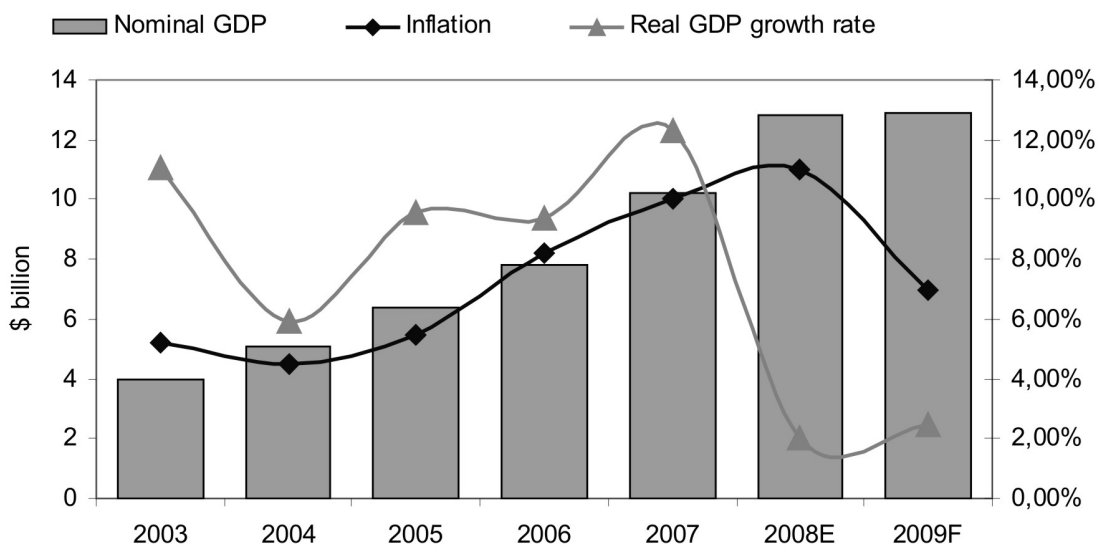


Source: the official site of Internet's most complete country profiles-www.indexmundi.com

Thus, summarizing weaknesses and strengths of Azerbaijan's economy, we may assert, that losses from crisis will generally depend on its duration and depth in basic economies of the world, and also from the efficiency of republic's management steps directed to the economy stabilization.

As for Georgia in October 2008, global financial crisis impacted on Georgia's macroeconomic outlook through decreasing real GDP growth and other related indicators.(see fig. 9)

Figure 9. GDP and Inflation



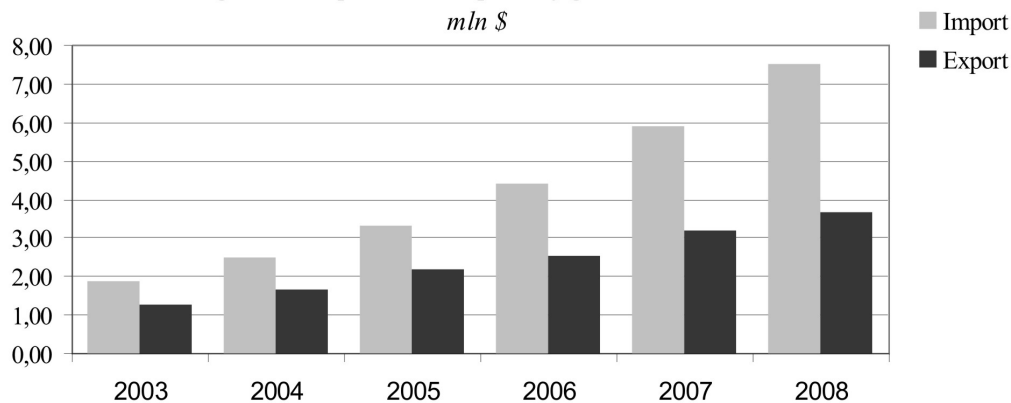
Source: Department of Statistics of Georgia, Ministry of Finance of Georgia

A permanent change of the country's *export-import structure* in favor of import demonstrates that the terms of Georgia's trade are permanently deteriorating also: prices on Georgia's chief export goods are reduced,

1 International Monetary Fund

and a majority of enterprises producing them is either closed down or operates in a slow mode.

Figure 10. Imports and Exports of goods & services, mln \$



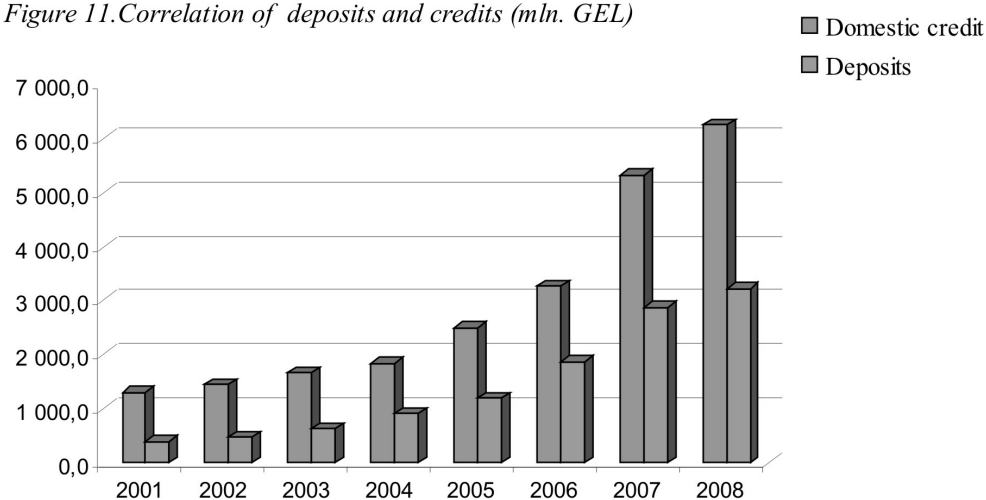
Source: National Bank of Georgia

Threat of termination or reduction of investment flows. It is remarkable that in recent years a volume of foreign and particularly direct investments increased in Georgia. However global financial crisis has already led to restriction of international capital flows. On a massive scale, funds are transferred from securities and assets to cash, and in most cases capital abandons risk markets. For investors, developing countries in general including Georgia still do not represent a portfolio of high-class capital investments. Therefore, against the background of more expensive capital and stricter regulations in the near future, maintenance of existing level of in-flow of foreign resources in our country should not be expected longer in nearest several years. As a result of global financial crisis Georgia may lose one of the chief sources of capital formation and maintenance of stability of balance of payment.

Risks in the banking sector and dependent on foreign factors. Georgian banks have already felt negative impact of the August war and a global financial crisis: interest rates increased sharply, loan terms were made significantly harsher, and a volume of “bad loans” increased, which was reflected in a growing number of written-off loans. Due to the mentioned, entire banking system saw the first significant loss in last 10 years - worth 215 million GEL.

Big inconsistency between the average volume of deposits and loans is especially dangerous. Average loan exceeds an average deposit by almost three times. In such instance banks will have to announce banking holidays or restrict withdrawal of deposits.

Figure 11. Correlation of deposits and credits (mln. GEL)

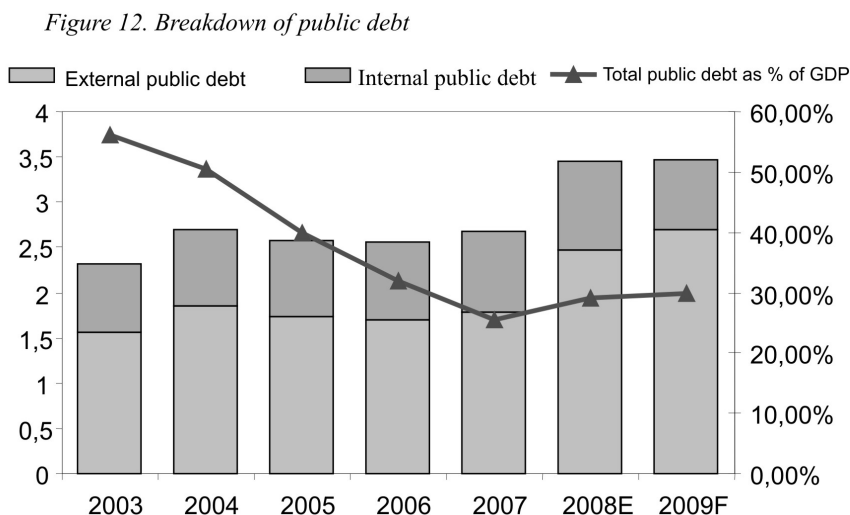


Source: the official site of Statistics Georgia

Threat of reducing the volume of transfers. In 2009 it is expected that a volume of money remittances that constantly grew until recently will reduce. Global crisis already had its impact on all states, which secured largest monetary in-flows in Georgia by transfers.

Risks associated with increasing foreign debt. Due to structural and other type of problems existing in the economy, Georgia might be obliged to take loans under much more severe terms, which will further deteriorate country's foreign economic state. Assuming that moneys transferred to Georgia by donors are spent in entirety for its development and approximately 2 billion USD from these funds are loans, the rate of country's debt increase will considerably exceed the rate of GDP growth. The ratio of foreign debt to GDP by the end of 2009 will reach approximately 30%.

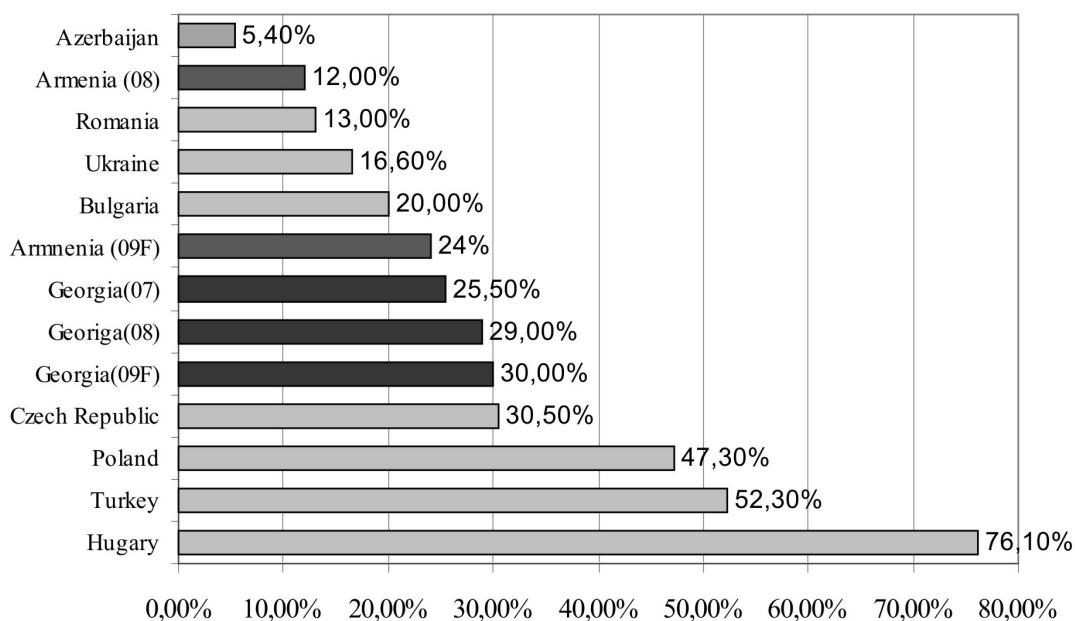
Figure 12. Breakdown of public debt



Source: Ministry of Finance of Georgia

As figure 12 shows the amount of foreign debt is notably higher in Georgia in comparison with Azerbaijan and Armenia.

Figure 13. Foreign debt as % of GDP



Source: Ministry of Finance of Georgia

In the end let's turn to the main issue of this article: which are the possible channels of overcoming the ongoing financial crisis in Caucasus countries, what recommendations should be put forward?

The mechanisms of overcoming the crisis consequences in Caucasus countries

Given the fact that economic stability in above-mentioned countries to the great extent depends on efficient and stable functioning of greater economies, such as USA, UK, Germany etc. it's important first of all to mention the further steps and arrangements taken by G20 countries to restore global growth and support lending, and reforms to strengthen the global financial system.

It is settled to coordinate actions by 2 basis directions:

❖ **Restoring global growth** by taking decisive, coordinated and comprehensive actions to boost demand and jobs. Along with these, what is more important, G20 countries commit to fight all forms of protectionism and maintain open trade and investment. The key priority from now on is to restore lending by tackling, where needed, problems in the financial system head on, through continued liquidity support, bank recapitalization and dealing with impaired assets, ensuring the soundness of systemically important institutions.

❖ **Strengthening the financial system** by ensuring that all systemically important financial institutions, markets and instruments are subject to an appropriate degree of regulation and oversight, and that hedge funds or their managers are registered and disclose appropriate information to assess the risks they pose. It's also important that stronger regulation is reinforced by strengthened macro-prudential oversight to prevent the build-up of systemic risk.

Let's now consider the problem for each sector separately

➤ **Banking Sector.** As I have mentioned above the integration of Azerbaijan's financial and banking systems as well as Armenian's into the global financial system is low. And this is the main reason why the global financial crisis impact will be minimal on Azerbaijan's and Armenian's financial sector. Besides Azerbaijan has enough foreign exchange reserves, and what is more important according to IMF experts' opinion the Azerbaijan National Bank responded quickly and appropriately to the situation. As to the Armenian banking system in fact it is in a rather unique situation, as the banks are solvent well above the usual adequacy standards, which makes their bankruptcy highly unlikely. At the same time, they have little foreign debt, which makes them independent of the crisis-hit world financial markets. But still it is important to strengthen regulatory oversight of banks and financial institutions, so as to avoid their further bankruptcy to which a great number of world systemically important institutions have so far been exposed.

As to Georgia to mitigate the problems of a banking sector it is necessary to carry out urgent measures in order to avoid a bank panic, which may inflict a huge damage on still developing Georgian banking system as a negative balance between the deposits and loans of the banking system by the end of 2008 constituted approximately 13% of GDP. Banking system, in which there is a significant imbalance between terms of deposits and loans, is especially inclined towards a banking panic. In such case the banks will have to announce banking holidays or restrict withdrawal of deposits. Overall, under the model, such action will inflict further damage on the banking system and may well become a reason for apparent banking crisis. Introduction of institute of deposit insurance, which exists in many countries worldwide, is a way to avoid crisis development of events. The following mechanism may be developed for this: depositors, which request immediate withdrawal of monies from the bank, will have their deposits insured less portion-wise compared to those who trust the banks more.

➤ **Foreign Trade.** A drop in prices for important Armenian and Azerbaijanian exports goods is one of the main risks to Armenia and Azerbaijan emanating from the global crisis. As by September-October, the prices for copper and molybdenum had dropped by 50% from the level of early 2008 and this has already resulted in a reduction of their production in Armenia and a loss of some 2,000 jobs. As to Georgia the transition to a free-trade regime with the EU and a cancellation of double taxation, taking into account the commitment of EU countries to promote open trade and investment, is of vital importance for Georgia because Georgian imports are four times greater than exports. It is believed that by executing these treaties only Georgia will be provided an opportunity to penetrate markets of leading states.

At this juncture the recommendations are the following:

- Some expenditure reallocation within the budget envelope will be required. Specifically, expenditures on line items of secondary importance (excluding social spending) and waste during public procurement should be reduced to free up room for a more targeted fiscal response aimed at exporter support.

- The governments of Armenia, Georgia and Azerbaijan should envisage providing loan guarantees and subsidies to the companies which products are still in demand in the world despite the worldwide reduction in consumption.

- In collaboration with international partners, design and launch a guarantee facility to ensure uninterrupted trade financing (particularly for critical commodities) for these countries. Creation of this facility does not have to be expensive (with a potential downside of acquiring contingent liabilities for the government), but could be an effective way of signaling intentions and ability to handle shocks.

➤ ***Small and Medium enterprises (SME)***. Largest corporations should not receive public funding since their sizable profit margins from previous years are likely to be sufficient to help weather shocks on their own and with the help of their (concentrated) shareholders. In addition, assisting some of these large companies—monopolies and near-monopolies in their respective fields—will be a poor choice politically, given the issue's propensity to create public resentment.

Instead, the focus should be on SME, especially those engaged in export. Government of each country should take serious steps for improving the business environment for SME, a sector providing more jobs than large companies. This is the best way of reducing the unemployment rate, which is one of the basic problems of global financial crisis. As for me generally unemployment is the central issue which requires a great attention and timely measures because labor force is the principal basis of any economy. But for workers no industry would operate, no flow of money from one sector to another would be noticed and as a whole the economy functioning would be distorted.

In this case the following recommendations are appropriate:

- Create a lending facility for SME to provide targeted and easy-to-access loans to viable SME in need of emergency financing. The loans should be channeled by a specialized financial institution, as opposed to a government agency, to minimize the scope for abuse.
- Undertake a review of barriers for business operations and make credible steps to eliminate some of those barriers in the near term.
- Take measures to reduce the monopoly price-setting powers of key import companies.
- Review and enhance existing unemployment insurance and provide assistance to employees that have lost jobs due to crisis-related closures and downsizings.

In the final analyses I'd like to put forward my suggestion of the crisis overcoming mechanism with maximum efficiency and minimum losses for Caucasus countries. Existing complicated circumstances require coordination in each of the above-mentioned countries between relevant agencies—the Central Bank and line ministries—to be improved dramatically in order for the top policymakers to receive comprehensive and in-depth picture across the key economic sectors. This could be implemented by establishing a definite team, a Crisis Averting Group (CAG) as a high-level policy advisory body to the governments of the countries. Reporting directly to the Prime Ministers, the CAG should consist of economists and financial sector professionals as well as of other specialists with strong reputation and experience in dealing with crisis countries. To be seen credible it should also involve Diaspora and what is more important it should be non-partisan. In addition to analyzing daily developments in their country and around the world, the CAG will liaise with Diaspora, and key investors and stakeholders, as necessary. What is even more important the establishing of such group will ensure more favorable conditions for Caucasus countries to liaise with other international agencies and organizations for the further agreement to act together in a decisive and comprehensive way in order to restore confidence and proper functioning of the financial system, and aiming at restoring appropriate and efficient financing conditions for the economy as a whole.

Along with this, taking into account that some of the operations undertaken will be particularly complex in accounting terms and will reflect the institutional features involved (national legislation, characteristics of the financial institutions involved, the situation of the institutions – types of liabilities, etc), it would be advisable to establish a single accounting body-Caucasus Statistical System(CSS). The recent exceptional evolution of the financial markets and its consequences require the CSS to deliver an urgent and coherent reaction that ensures consistency across time and across countries of the statistical treatment of such operations as the provision of capital injections, loans, guarantees, debt assumption/cancellation, financial defeasance through a new or existing structure, etc. The CAG together with CSS needs to safeguard the principles of the existing surveillance framework, taking into account, at the same time, the amplitude and the nature of the current turmoil in each country separately. It is equally evident that the CSS has to ensure transparency in the application of the rules and effective communication. This means that, following a general statement of the statistical principles to be followed, a case by case interpretation will have to be prepared, as well as adequate

communication. Caucasstat activity must be based on the following principles:

- Transparency is provided on the argumentations, underlying the accounting choices
- Similar occasions are treated in a similar way
- The co-operation between the CSS and the national statistical authorities will need to be strengthened
- Member States on their part will need to ensure that reliable and complete information is provided to statistical authorities, and enhance their capacity to react.

Thus the coordinated actions of CAG and CSS with various authorities of different countries as well as with international organizations (IMF, UN etc.) on acceptance of timely measures will likely contribute the ongoing crisis overcoming.

List of the applied literature

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12. The Brookings Institution-Policy Brief-Conference Report №12, July 2002
13. Does Regulatory Governance Matter for Financial System Stability?
14. An Empirical Analysis from IMF-Udaibir S. Das, Marc Quintyn and Kina Chenard

The mechanisms of overcoming the world's financial crisis consequences in Caucasus countries

Annotation

Lusine Harutyunyan

Armenian-Russian (Slavonic) University

Student of the third course of the faculty of Economy

*Instructor: **Edgar Karapetyan, PhD***

The choice if this subject can be grounded by the fact that financial system, being one of the most important branches of the economy, plays a prominent role in attaining efficiency in economy. For example, financial system provides the developing sectors of production with funds and hence reduces the level of unemployment and promotes the high level of prosperity and economic growth as a whole. Therefore financial crisis can lead to irreparable consequences such as the population incoming reduction caused by the multiple increase of the level of unemployment, the liquidity loss and as an aftereffect inefficient operation of economy which results in distorting the neutral balance in economy and entails economy to the collapse. And what is more important in the conditions of globalization and financial markets integration any shock of the financial sector of one country inevitably affects the other countries. That is financial crisis doesn't occur within just one country but gradually covers more and more areas penetrating into various spheres of economy.

As a whole the essence and the purpose of this work can be expressed through the following hypothesis: only the coordinated actions of various authorities on acceptance of timely measures can contribute the ongoing crisis overcoming.

The **object** of the research are economic crisis: their reasons and consequences in Caucasus countries, particularly in Armenia, Georgia and Azerbaijan and the **subject** are the mechanisms and channels of overcoming these consequences in above-mentioned countries.

For achieving the delivered purpose first the causes and consequences of the world financial crisis will be shortly analyzed, then we'll observe the impactions of the crisis for Armenia, Georgia and Azerbaijan and in the end we'll suggest the main probable channels of overcoming the crisis.

As to an urgency of the given issue there can't be any other opinion that, being the basic object of latest meetings and conferences discussions on a global scale, it demands a considerable attention. Besides adequate measures must be taken in order to prevent the hard condition in which most of the developed and developing countries are nowadays, economy of which is characterized by instability of financial markets, high level of unemployment, negative rate of economic growth, reduction in consumer prices, lack of liquidity, that is-inefficient functioning of the economy as a whole which leads to decrease in population welfare.

LABOR MARKET AND UNEMPLOYMENT PROBLEM IN THE TRANS CAUCASIAN REGION

Hasmik Parsadanyan

*Russian-Armenian (Slavonic) University
Student of the third course of the faculty of Economy
Instructor: Marina Khachatryan*

«Anyhow, but any true success on the earth is success of work».

Ivan Ilyin

The present stage development considers a labor as on one of the key resources of the economy. This new sight - the certificate of real growth of a role of the human factor in the conditions of a technological stage of a scientific and technological revolution when direct dependence of results of manufacture on quality is available, motivation and character of use of labor as a whole and the separate worker in particular.

Increase of a role of the human factor in manufacture is confirmed by results of economic researches of leading American scientists. Since 1929 the main source of growth of labor productivity and the national income of the USA in a triad «work - the earth - the capital» has been the first factor covering set of educational, qualifying, demographic and cultural characteristics of a labor.

On a labor market we deal with supply and demand functions. Only in this case firms are buyers, and households - suppliers of work. In a price role act, the so-called rate of the real salary, and on a place of the goods and services - a labor.

The given work is devoted to the consideration of a labor market and an unemployment problem in the Transcaucasian region, in the condition of employment particularly in Armenia, Azerbaijan and in Georgia will be investigated in more details.

Armenia

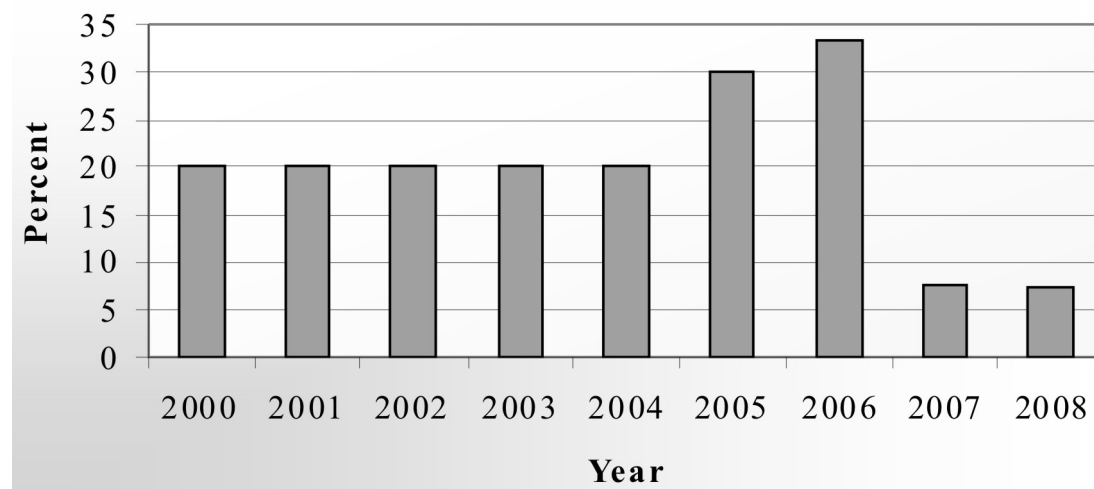
Armenia (RA) is located in one of the most important geopolitical areas of the world. During the years of existence of the USSR in Armenia, as well as in other republics, the employment marginal level has been reached almost. Labor activity of women and men of adult age was balanced. In the first years of independence Armenia appeared in the deep economic depression condition by war in Nagorno Karabakh and the consequences of devastating Spitak earthquake. After disintegration of the USSR, social and economic position of the Armenian population has sharply changed, in the country there were sharp social and economic problems. Events during the years of independence of Armenia had the influence on social and economic position of both floors: The manufacture volume (more than in 2 times in comparison with 90th year) decreased, and received development its shadow forms (by different estimations, it makes from 40 to 70 % of gross national product), the labor demand was reduced, and unemployment (on official data, in the country 10 % of economically active population had the status of the unemployed) increased, consumer ability of the salary fell, poverty, including among the persons having work but whose salary did not provide even the minimum living wage increased.

It is essential (on 5-7 %) that the rate of unemployment in Armenia was above, than in other states, with the expressed tendency to its increase till 1999 and to some reduction further. Across other CIS countries the rate of unemployment differed not so strongly.

Unemployment in Armenia has basically the «female» person. And in recent years (even before crisis), namely by position of December, 31st, 2006 the rate of unemployment in Armenia has made 7.2 % against 7.7 % at the beginning of last year. In the scales of the republic of 70 % of the unemployed make women, and in Yerevan this indicator reaches 80 %. For today the right to unemployment benefit reception has an order

of 12500 citizens against 8645 for last year. In this connection we will consider on the schedule indicators on unemployment for the recent years:

Picture 2. Unemployment rate of Armenia (%)



Sours: www.armstat.am

As all of us already know worldwide global financial crisis is observed, which has already left (and continues to leave) a big trace on many spheres of economy of various countries, and Armenia, here, is not an exception. Several months ago many experts predicted, that the given crisis will practically bypass Armenia, explaining that our country is not integrated with the world community so tightly, that it influence on our country, and also became defined сылки on the Armenian steady bank system.

Armenia resisted to the first wave of the world financial crisis without a special damage. Various risks were possible to avoid, thanks to the high level of capitalization and liquidity of banks.

So, we will consider a condition of a labor market of Armenia during the crisis period in more details.

Consequences of the world financial crisis on a labor market of Armenia were those, for example, that many Armenian businessmen have rejected plans to expand manufacture. However, they have managed to keep valuable experts, to avoid their consumer reduction. But it is necessary to notice, that in connection with crisis volume of production which was observed before crisis was reduced, hence to making less production and accordingly decreasing workplaces. By various calculations in 2009 250000-300000 persons will arrive back to Armenia who has no permanent job and the majority of them without a residence.

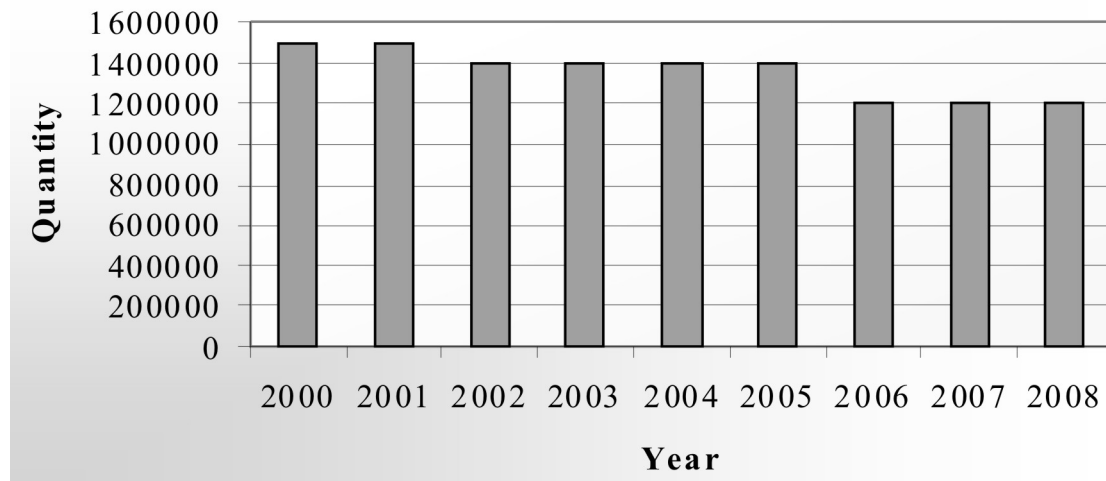
Most strongly crisis has struck on the enterprises exporting production. First, mining industry has suffered. The prices for nonferrous metal at world stock exchanges have sharply fallen. The Armenian businessmen had to choose: either to reduce workers, or to reduce the salary. Many, but not all of them, have chosen the 2nd variant. Therefore, employees of the centers of employment of Yerevan hardly cope with the flow of the people who have lost work. The quantity of the unemployed has increased approximately of 1/3 (basically, those people who worked at the small enterprises without official registration of papers concern).

Let's return to the crisis period. Following the results of 2008 the official rate of unemployment in Armenia has made 6, 3 % (75000 people). Judging from the changes this number can not but increase.

And besides, according to experts, crisis is mainly hurts the small enterprises it is hard to them to realize production. Those who wished to increase the business and to employ new workers, have decided not to risk. As to the forecast for the beginning 2009, businessmen do not promise business expansion, was wait for financial assistance from the state. The centers on employment, in turn, calm down: large reductions are not planned.

On the figure we will consider labor indicators for the past several years:

Picture 1 Labor force of Armenia



Sours: www.armstat.am

Azerbaijan

Azerbaijan - the industrially-agrarian country with the advanced industry and diversified agriculture. The major place in the economy of Azerbaijan occupy petro-and gas, oil refining, chemical (mineral fertilizers, synthetic rubber, automobile tyres, etc.), machine-building, mining industry (extraction of iron and alumit) and nonferrous metallurgy, various branches food (canning, tea, tobacco, wine industry) and light (cotton, silk, woolen, carpet) the industry. Azerbaijan - the country of Transcaucasia richest with natural resources (considerable stocks of oil, natural gas, iron ore, nonferrous metals, aluminum).

What situation is observed in Azerbaijan in labor market and unemployment sphere?

If to consider a condition of a labor market of the country since the period of collapse of the Soviet Union it is possible to notice, that social and economic position of these people has considerably changed, that in the country there were social and economic problems: the manufacture volume has decreased, the labor demand was reduced, and unemployment has increased, poverty has increased, consumer ability of the salary has fallen.

In the 90s number of the employed population in the majority of the CIS countries was reduced and, if to compare here with yhe chanein Armenia, rates of reduction in Armenia were the greatest, in Azerbaijan - the least.

In economic transformations the number of economically active population in the CIS countries was reduced, especially quickly - since 1994 (an exception of the general rule Uzbekistan made only). For Azerbaijan positive rates of a gain of economically active population (except for the period of 1994-1995) were characteristic.

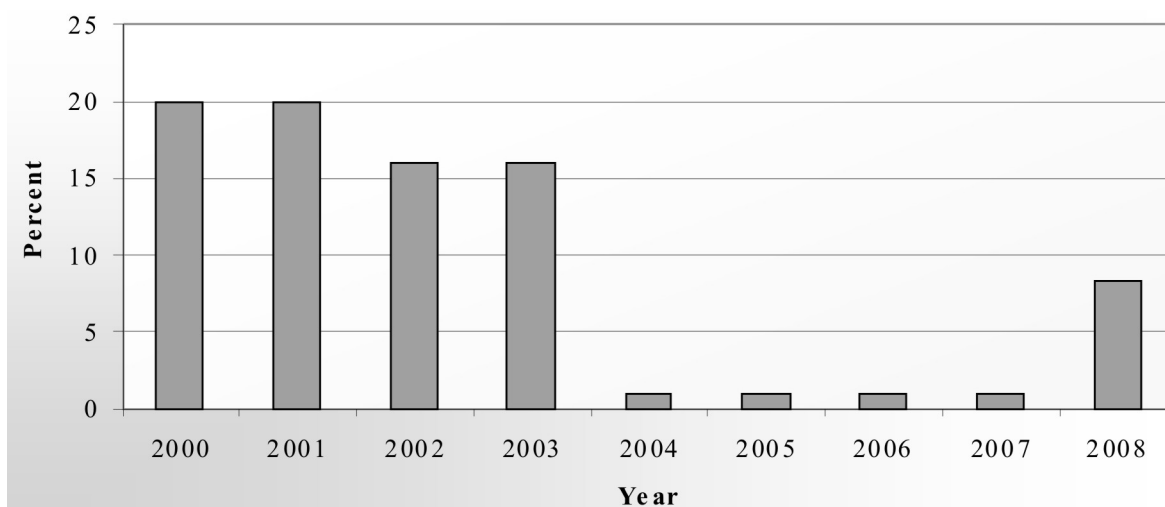
The share occupied in the industry in the CIS countries was reduced during 1990-2000 to 20 % (and there were almost 30 %). The increase in number of the employed in separate branches of the economy, naturally, could not compensate completely its reduction in other spheres that was expressed as in leaving of people from a labor market and reduction of number of economically active population (about what it has been told above), and in increase of a rate of unemployment.

As to the country condition it is literally for the last years according to forecasts of the government of Azerbaijan, the country population by the end of 2008 has reached 8 million 723 thousand persons. Thus the population of the global age will make 5 million 838 thousand persons. However, what quantity from them will be provided by work in the homeland and how many begin to search for earnings outside of Azerbaijan, anybody cannot tell with accuracy. On a labor market there is a severe, ruthless selection of the most capable, enterprising. Weak and incapable the market does not spare. But at the same time it stimulates highly skilled work, promotes creation of rigid interrelation between the contribution of everyone and the received concrete result.

In modern economy of Azerbaijan the leading part belongs to the following five branches: to an oil recovery and natural gas (52,9 % of gross national product), to sphere of social services (8,4 %), building (7,1 %), transport and communications (6 %), agriculture (5,9 %), trade, hotel business and public catering (5,9 %).

Bent for to money suits Azerbaijanians in the countries where, according to a certain layer of economically active part of the population, it is possible to grow rich faster rather, rather than in a native land. In Azerbaijan today are registered about 10 thousand working foreigners which work mainly in oil and building spheres.

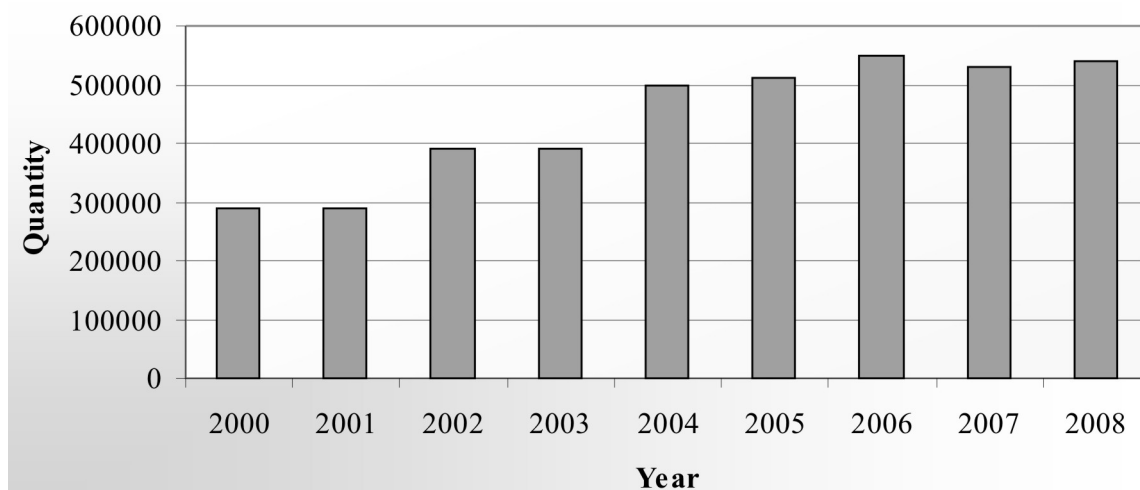
Picture 4. Unemployment rate of Azerbaijan (%)



Sours: www.indexmundi.com

At the end of 2008, according to CIS member countries, unemployment in Azerbaijan made 1,1 %. Now in Azerbaijan 156 establishments operate with 52,1 thousand enterprises, from them, in each of which work over 1 thousand persons, about 50 thousand enterprises have on 100 employees. On the schedule it is possible to see labor indicators for the recent years:

Picture 3 Labor force of Azerbaijan



Sours: www.indexmundi.com

According to various Azerbaijanian experts in the economic economy sphere Azerbaijan has all the opportunities to avoid both mass reductions, and negative consequences of homecoming of labor migrants (because of crisis). Especially, in the 5 years there are enough of workplaces in the country which, is opened, will probably help in the World crisis.

The organization of the incorporated nations has published the report "the World economic situation and plans for development" (WESP) 2009 in which data about unemployment are cited.

According to the report, for last year unemployment in Azerbaijan has decreased with 1, 2 to 1,1 % that the indicator in the CIS after Uzbekistan (0,2 %) and Belarus (1 %) is the best. Most badly the situation is in Georgia where the rate of unemployment makes 13, 3 %.

Georgia

As a part of the USSR the economy of Georgia developed fast rates.

Till 1990 unemployment presence officially did not admit, but in the latent form it, of course, existed always.

For the CIS countries in пореформенный the period intensity increase on a labor market, expressed in employment reduction, growth of unemployment and combined with changes in branch structure of the occupied population was characteristic. Further in the majority of the CIS countries of the tendency of reduction of employment and unemployment increase have been substantially overcome.

In 1992 manufacture as a whole was reduced to 40 %. The Output in the industry decreased for 48 %, and in agriculture - on 32 %. Expenses outlined by the government on 1993 almost four times have exceeded expected incomes.

At the beginning of the considered period (the period of 1990 years) the rate of unemployment (officially registered by national services of employment) in all considered states, except for Armenia, was low, but subsequently it sharply enough raised. However, probably, that low number registered in national services of employment of the unemployed in the beginning of the considered period speaks lack of information of unoccupied citizens on existence of service of employment and on specificity of the services given by it, the limited possibilities of employment with its help.

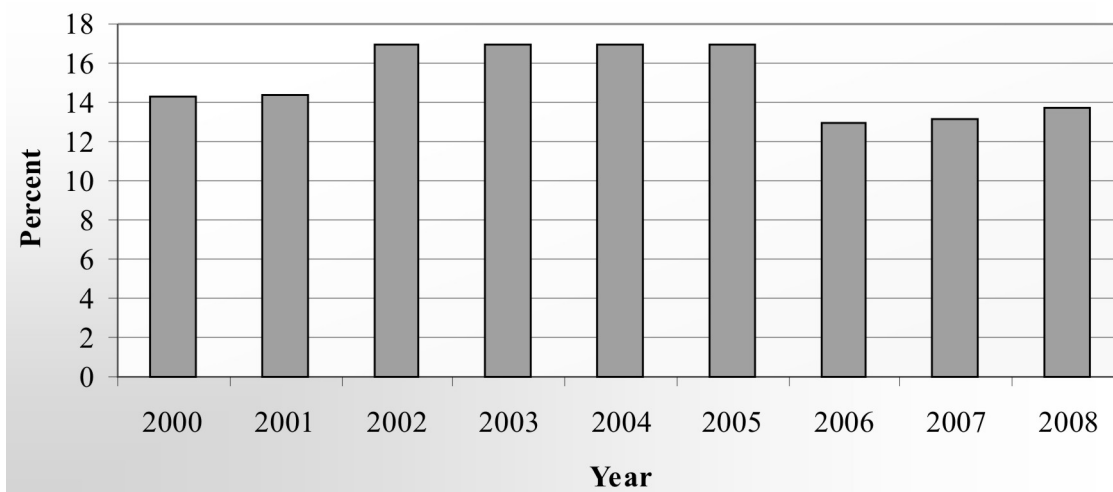
Considerable growth of number of the unemployed further, along with the economic reasons, is connected with strengthening of a role and financial security of services of employment, and also that the lack of the corresponding information has been substantially overcome.

In first two months 1993 level of official unemployment has reached 7 %. In 1996 it has been registered over 30 thousand private enterprises. The aggregate number occupied in 1996 was estimated in 2, 2 million persons, from them in the industry and building - 31 %, rural and a forestry - 25 %, other branches - 44 %.

Officially registered unemployment in 1997 remained low though the most part occupied any more did not work in public sector. The private sector gave over 50 % of gross national product.

Condition of unemployment from 2000 year we will consider on the schedule:

Picture 6 Unemployment rate of Georgia (%)



Sours: www.indexmundi.com

What is observed in the country for last years?

The most actual during the given period a question - the World financial crisis, has not bypassed also this country too.

In spite of the fact that the government of the country by methodological replacements could lower a rate of unemployment, the situation with employment in Georgia following the results of United Nations research for the present remains very difficult.

The United Nations have published the report on a rate of unemployment in the world - WORLD ECONOMIC SITUATION AND PROSPECTS - 2009 (as already it has been noted above) judging by which in 2008 the rate of unemployment in the developed countries has made 5,8 %. In 2009 the increase in this indicator to 6, 7 % is predicted. In the Euro zone countries this indicator makes 7, 6 %, but in 2009 this figure will reach 8, 6 %. As to

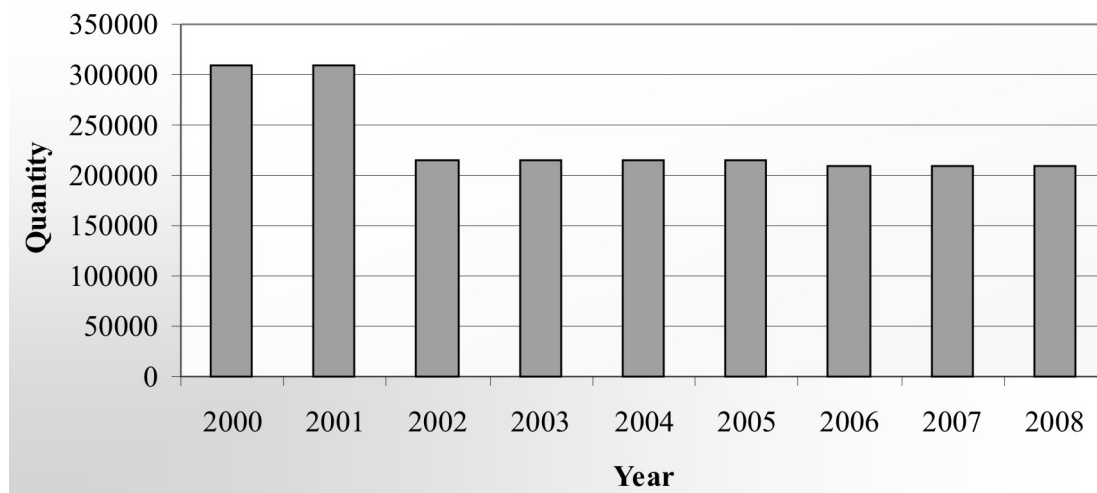
Georgia, in comparison with the CIS countries, this country has the worst indicator-13, 3 %.

The state intends by 2012 to create 200 thousand new workplaces and under the program of the government of Georgia, in the country there will be no poor, no less than unemployment.

The Georgian trade unions demand to confirm new unemployment benefits and to increase the size of single payments for the dismissed people. Such in trade unions have counted about 300 thousand.

Last year there has been fixed 260 thousand unemployed in Georgia. In the third quarter 2008 number employed in industrial establishments of the country has made 329 712 persons among whom women make 39, 6 %. The Total of the employed is distributed so: the large enterprises - 60, 3 %, the average enterprises - 18, 5 %, small enterprises - 21, 2 %.

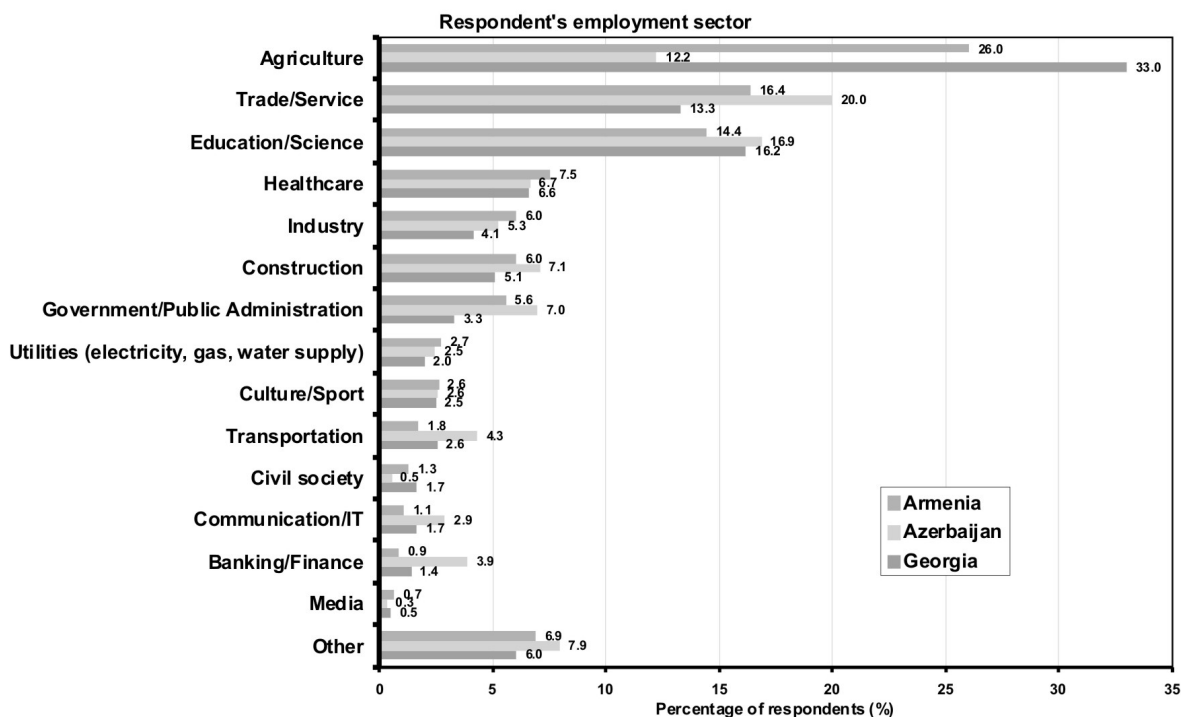
Picture 5. Labor force of Georgia



Sours: www.indexmundi.com

In the end too it would be desirable to give to your attention сравнительный the analysis in the form of the schedule of sectors of employment of three countries:

Picture 7 Employment sector



Sours: E. Karapetyan - "Social-economic, living and financial conditions of households in South-Caucasus countries on bases of DI Survey 2007".

Apparently from fig. 7, in Armenia the most part of the occupied population work in agricultural sector, from all the occupied 26 % of the population are in agricultural sector. The following sector in Armenia is trade and services, where the occupied 16, 4 %. Третий the sector where the population is the most able-bodied is science and education where the occupied population makes 14,4 %. Other population basically is occupied in public health services sectors - 7,6 %; the industry - 8 %; building - 8 %; state and the municipal device - 5,6 %; utilities (an electricity, gas, water inclusive) - 2,7 %; culture and sports - 2,8 %; transport - 1,8 %; social sector - 1,3 %; communication and IT technologies - 1,1 %; financial sector - 0,9 %; mass-media - 0,7 % etc.

In Azerbaijan a little bit other structure of employment. On the first place on population employment occupies trade and service sector - 20 %; science and education - 18, 8 %; agricultural sector - 12, 2 %. All other occupied population makes 49 % and are occupied in public health services - 6,7 %; the industry - 6,3 %; building - 7,1 %; state and the municipal device - 7 %; utilities (an electricity, gas, water inclusive) - 2,6 %; culture and sports - 2,8 %; transport - 4,8 %; social sector - 0,6 %; communication and IT technologies - 2,9 %; financial sector - 3,9 %; mass-media - 0,3 % and other sectors - 7,9 %.

As to Georgia the first sector on employment in the given country as well as in Armenia is agriculture and makes 33 %; science and education - 16,2 %; trade and servants - 18,8 %. Other occupied population is made by 52 %. Public health services - 6,6 %; the industry - 4,1 %; building - 6,1 %; state and municipal the device - 3,3 %; utilities (an electricity, gas, water inclusive) - 2 %; culture and sports - 2,6 %; transport - 2,6 %; social sector - 1,7 %; communication and IT technologies - 1,7 %; financial sector - 1,4 %; mass-media - 0,6 % and other sectors - 8 %.

Thus, the structure of employment of the South Caucasian region has more agricultural-industrial inclination that is characteristic for not developed and for the bottom echelon (level) developing countries where the occupied society shares at 70:30. As for Armenia and Georgia more granting of services, rather than manufacture it is necessary to restructure priorities the countries concerning development of sectors in particular is characteristic, that is more accent should be made on development of sphere of services.

For Azerbaijan as the sphere of services, and industrial sector can be the basic directions of development of the country. Thus, depending on economy structure the structure of the occupied population, that is for Armenia and Georgia it 30:70, and for Azerbaijan 50:50 varies also.

In the conclusion we will consider what measures it is necessary to undertake for minimisation of a problem of unemployment particularly in the Trans Caucasian region, that is, that it is necessary to change or add in economy of the given countries to reach the given purpose. First, it is necessary to try not to lose those real workplaces which for today exist. For preservation of workplaces it is necessary for private financial sector to optimize the resources for optimum reception of final «product». It is necessary to raise qualifying level of the population, to create stimulating mechanisms in those areas of economy where there is the least quantity of the occupied population, and to create in these area new products, but to choose such spheres where expansion of the given sphere is real will promote improvement of well-being of the population.

List of applied literature:

1. E. Karapetyan - *“Social-economic, living and financial conditions of households in South-Caucasus countries on bases of DI Survey 2007”*.
2. www.armstat.am
3. www.indexmundi.com
4. A. Mkhitarian, G. Oganesyán – *“The problems of Armenian labour market”*.

Labor market and unemployment problem in the Trans Caucasian region

Annotation

Hasmik Parsadanyan

Russian-Armenian (Slavonic) University

Student of the third course of the faculty of Economy

Instructor: Marina Khachatryan

The problem of the given research has actual character in modern conditions and theme urgency is caused by the development that without a labor market and overcoming of a problem of unemployment the further advancement of the countries on a way of market reforms is impossible.

At the present stage of development the human capital becomes one of the basic recourses of economic development, and one of the main challenges for all developing countries is to overcome with high unemployment level. The current issues are very actual for labor markets of South Caucasus countries.

In this scope, **the object of the research** is to analyze the labor market's conditions and the problems of unemployment in this region.

The subject of research is the main mechanism of unemployment reduction in the scope of sustainable economic development in the Southern Caucasus countries.

In this regard will be analyzed the following issues:

- Studying the theoretical aspects and different approaches on selected objectives;
- Analysis of the current situation in labor market of the region;
- Designation of the tendency of development of subject "the Labor market and an unemployment problem in the South Caucasus countries".

Hypothesis of the research is following: **during the given period the unemployment problem becomes more and more sharp because, in spite of the interstate reasons of occurrence of unemployment, has increased also the world financial crisis which has undoubtedly left and continues to leave the trace on a labor market and unemployment increases. By results of research disclosing of a theme of a labor market and an unemployment problem in the countries of Southern Caucasus is expected, conclusions besides are drawn on necessity of the further studying of the given question.**

ECONOMICAL AND SOCIO-PSYCHOLOGICAL PROBLEMS OF YOUTH

Aliyeva Khayala

Azerbaijan University

Student of the first course of the faculty of Literature of Foreign Countries

Instructor: Prof. G. Guliyev

This work deals with the unity of the economical, socio-psychological problems of modern young. Position and place of young in modern society, influences of society to them is reflected in the article. Adjoining with economical problems of young, their social and psychological problems are shown in this work. Unemployment which has spread among young, the influence of economical crisis to them, from social psychological problems of strength, suicide, narcotism, HIV/AIDS have taken part in the article. Also sell and its influence to young is reflected in the article.

Young organize the important part of the society. 1 milliard 200 million young lives in the world at present. They are basic part of the development of the society. Youth is considered namely indicator parameter of the developing society. Their position in society shows itself by all superiorities. Young organize the part of the productive worker strength on world. Adjoining with being transportation of the innovations, they differ from people of previous generation with new thoughts that they bring to work (business, affair). But it is impossible to deny that their ability is possible and becomes real namely thanks to observation of the experiment (experience) of the previous generation, and thanks to work (business, affair) that have shown by them.

One of problems stand in the head of all problems is economical problems of young. Principal cause of this economical problem is unemployment. Unemployment increases very speedy in the world. Growth the number of the unemployed happens in the background of the world economy. The general number of the unemployed is 195 million persons in the world at present. 15-24 adults organize approximately half of the unemployed in the world; although labour their part does not pass 25 percentages among labor gifted people. If we take into account the time that we live, sharp changes happening in the economy influence most of all increase of the problem of unemployment of the young. So that the exemption, going in the inside of work (business) of the structure changes, absence of necessary opportunities causes of arising economical difficulties of the young. The problem of unemployment shows itself in all countries. There are 95 million unemployed young people in the world at present, but 300 million young live in the poverty condition. According to the information gave by International Labor Organization, it is registered of the poor young with be daily spend below 2 dollars. But the number of unemployed young will reach as count of the International Labor Organization to the milliard forthcoming during 10 years. Growth of the unemployment causes for losing hopes among young concerning to life join different groups for the perpetrating a crime, spreading of the narcotism and a number of illnesses, increase family internal conflicts. And it is necessary increase in the each country of the organizations on employment, be interested closely with young, to inform them in detail about being of the employment offices and the addresses such kind of offices in each region.

And it is possible to see clearly that young live with a number of problems about work (business, affair) connected with crisis being in the world economy at present. I would want to bring to your attention opening them of other direction in spite of difficulties showed to young of economical crisis. So that young being inclined to cities, to do better work there, to be inclined to work in the area of light industry, construction, culture causes diminish the number of young cadres in the development of the agriculture. As to happening of the economical crisis, for not meeting with unemployment, if young incline to the agriculture, simultaneously not only the problem of unemployment will liquidate partial, but also with earning young cadres it would be possible to get satisfactory results forward the development of the agriculture. Work of publicity which should be carried out in this aspect will bring forth to successful results in this area. It is necessary to apply to the help

of the MASS-MEDIA, to carry out meetings for this purpose among young.

Existence of the economical problems brings arising socio-psychological problems of young. Therefore socio-psychological problems of young are the most important problems worrying the world. And one of cardinal and main problem in the row of socio-psychological problems is strength. Strength is the beginning of each socio psychological problems. It is possible to see strength in different directions. Approximately 1.8 million people lose lives because of strength every year. It happens either to them, or in the result of collective crime. When comes to age level, the most death circumstances be between 15-44 ages in the world. Event of 2 million crimes has been registered in 2008 on world. In the European region crime happens more than 10 people of each 100 000 in Albania (30), Russian Federation (20), where social and economical changes took place speedily. But low indicators have been registered in the West- in France (0. 6s), Germany (0. 8s), the United Kingdom and Northern Ireland (0. 9s). Indicators of crime among women are down from indicators of crime among men in every place.

One of problems worrying the world is spreading of the suicide among young. Nearly 1 million people lose their lives in the result of suicide in the world. Suicide events among young have increased thrice rather than 10 previous years. According to statistics, 1 person commits suicide in every 40 seconds. According to the reckoning, numbers of people which attempt suicide are much more than people who died at wars or by other ways. Suicide is more than 20 people of each 100 000 in Japan, France, Germany, Finland, Switzerland, and more than 10 people of each 100 000 in USA and England. Death by suicide is much more than death in road catastrophe today. To statistics, 90 percentages of the persons which commit suicide are persons which suffered from depression, are people which have been carried away to narcotic matters. Undergone a cure depression brings to the suicide. 15 percentages depression ill lose lives in the result of suicide. Initiative to suicide among young has different reasons, such as, misunderstanding in families, spiritual strength of families to young, family internal conflicts, becoming estranged of society to young, unemployment, loosing positions in society, being disturbed in the physical or sexual aggression, being rejected by comrades, disturbing relationship among beloved and so on. Suicide happens in these or those cases. Mutual relation must be between young and families for preventing suicide. Because the main reason of suicide is minority of spiritual love. If spiritual relation arise, it is possible to remove young from suicide. Apparently, suicide is connected with much more social problems. Suicide is met among young which haven't seen sufficiently love from their families. These are those young that are not loved by their family and are driven into corner by their family. Sometimes young which haven't done tasks successfully, for not being criticized they commit suicide. These cases happen in the result of the wrong construction of family internal relations. According to statistics, in spite of majority of women in the effort to suicide, death circumstances are much in the suicide of the men. In general, if we take into account that spiritual hunger stands in the root of suicide root , it is possible to prevent an effort to suicide. But how can we do it? For this purpose it is necessary to increase attention and care of young in the family, to involve young in sport and to participation in public works, to direct them to having intercourse with friends and acquaintances, to inspire them by beauties of life.

A part of young inclined to suicide are those which believe to sell. Young inclined to sell is more increasing in the present day. At first young look at sell as entertainment and fall in it with different way, but then it is impossible to move off from this "entertainment". According to all theses putting against to all religions by sell, cause for disappearing of religious, national-moral joining of young. Young will be able to be one of them turning to sacrifice of sell by computer and Internet, by some books, CD and recordings, by holding entertaining parties and by another ways. Suicide has been spread widely among young in sell. To die for Satan or to take into account death in some cases is the most holy deaths to sell. To commit suicide is indicator of attachment and faith to Satan also. For this reason, young died for Satan show sincerity to him and maintain themselves. One of the main reasons of initiatives to suicide is to be far from the educational of them leant to spiritual values and having fragmentary ideas about responsibilities. It is necessary to elucidate for young of the negative features of sell, to make speech about the existent religions and national-moral values in inside the family or at educational institutions.

One of important problems of young is spreading of HIV/AIDS. It is very difficult to fight with this illness scared of world. 7 500 people are infected to the HIV every day. 40 million people live with HIV/SPID illness. 17.7 millions of them are men, and 37.2 millions of them are women. HIV virus has spread in all countries today and 60 million people will have been infected to this virus until 2015 according to the information of the

UNAIDS organization. Young are the strongest group between women and men undergone of the influence of this virus. As count of the UNAIDS, half of all infections have spread between 15-24 age people. There are 60 percentages of all new infections in a number of countries between 15-24 ages; this is in the comparison of 1:2 between 15-19-years-old girls and boys. Women are infected to the HIV virus immediately and in younger ages than men. According to the information of 2006, when this epidemic began approximately 17 million women have been infected to HIV virus. It is expected that 28 million women will be infected to this virus and 6 million of them will die from it until 2015. Why girls and young women are sensible to HIV infection? Women are weak from biological, epidemiological and social point of view. Southern and south-eastern Asia is widely spread region of HIV. 8 million people live with HIV/AIDS virus in this region. As to count, it is supposed that 1.7 millions people have been infected to HIV/AIDS in Eastern Europe and Central Asian. But the number of people caught the virus is about 500 thousand in the region of Middle East and Northern Africa. 1.950 million People in Latin America and Caribbean surrounding countries, and more than 1.5 million people in North America and Western Europe are carrier of HIV/AIDS virus. Half Sahara Africa undergone to the heaviest region with 24.7 million carriers of HIV. Heterosexual infection between men and women take superiority in the comparison of 5:6 before and at present. More than 6 million women have been infected to this virus in the pregnancy period. Half Sahara Africa has lost more than 3 million people by reason of AIDS up to this day.

Taking into account spreading of the HIV/AIDS in the world, especially most of all among young, it is necessary holding discussions constantly about protecting from this virus either in secondary schools, or in higher schools. Responsibility of the parents must justify itself in this affair. Conversations in this theme carry out in wide range between families and young in the West, but it is passive in the East, especially in some Islamic states. Expanding of these kind of measures will help enlightenment of young in this theme not only inside the countries, but also will help world to solve this great problem.

Narcotism has been turned to one of the most painful problems of the society. Increasing of the number of people captivated to narcotism gives ground to think about this problem as human misfortune. Spreading in the any place of the world of the narcotism shows helpless of society in front of such kind of misfortune. Narcotism as a universal problem has been spread much more among young and there is great number of young using narcotic this day. More than 190 million people use narcotic in the world. Majority of them are young and it shows that the future of society is under the danger. I would want to bring it to your thought that several times of using narcotics make dependence from it. The same people are turned to captive of the narcotism, they are isolated from world, and some changes in their organism, such as weakening and falling from the strength are observed. There are two features of dependence from narcotics: physical and psychical. Physical dependence is observed with the state of changed activities of the man organism in the time of the first periods of taking of narcotics. In that case, man organism demands constantly taking narcotics. But psychical dependence liquidates in itself putting an end definite sense and excitement, and showing the raising of spirits. Persons taken narcotics try to feel pleasure from the surroundings and to forget the difficult situation for a moment that they got into. Some characteristics changes in people which have been carried away by narcotism. They can be in the changeable spirits, do unexpected behaviors, they don't sober from depression and sleepiness, but their brain are always hazy. Heavy face, reddening of the eyes, losing weight and growing thin, being thoughtful and lack of will is observed in the physical views of such people. Narcotism causes to spreading of the virus of HIV/AIDS, stealing, robbery, killing men and some other kind of crimes. In spite of carrying out of the work connected with the harms of usage of the narcotic means, insufficiencies show itself in this area. Mostly today narcotic means are used by those young that don't see any care and attention from their family. Sometimes society isolate narcotic users, but it is completely wrong step. Society mustn't remove them from himself, but it is necessary to help the same young bringing them to compact places of people. Only treating medically of narcotic users in a hospital does not give positive results. It is necessary to give them back to sound thoughtful society. Young men used narcotics even one time, can return to it again. Therefore, we must be support to them. We must not allow them to destroy their health. Because each of us is a piece of the society and is dependent one by one. Joining hands each of us must say "end to narcotism". Carrying out popular actions of the propaganda, providing secondary and high schools with materials against narcotism, carrying out different ceremonies of mass media together with youth can cause to positive changes connected with the movement against narcotism.

Having psychological difficulties gives reason to above mentioned problems. Psychological problems show themselves from period of maturity of youth. Economical crisis, pressing by the family, family internal conflicts, dissemination of harmful values given on informational media, hopelessness to future causes to psychological problems of young. Suicide events have increased among them by this cause. Being in the correct level of the family internal relations is the basic solution that stands in the root of this. So that family organizes the nucleus of the society and every family having internal rules plays great role in the formation and development of the society as a system. Family is basic prop and assistant of young living psychological problem. Father and mother organize basic composition of the family and their kind intercourse with each other, being comprehensive and careful affectionate young, causes arising and development of healthy spiritual qualities in them. Also parents developing themselves can be supporter of their children in life and in this case parents can help them in the having any problems.

List of applied literature:

1. Rubinstein, L. N (2002) 'Bases of the general psychology'
2. Gulnar Tofigli (2008) 'White death'

Economical and socio-psychological problems of youth

Annotation

Khayala Aliyeva
Azerbaijan University

Student of the first course of the faculty of Literature of foreign countries

Instructor: Prof. G. Guliyev

This work deals with the unity of economical and socio-psychological problems of modern youth. The role of the young and their position in the society, their socio-economical interests are shown in this work. It is talked here from the social of the young in the society, and their social problems. The influence of the society to youth is elucidated in this work. Both psychological influence of social and economical problems and Psychological problems arising from this aspect are shown in this work.

Here is reflected participation of the young in different groups and its negative influence in them. So that there some groups that are acted in stealing, killing, etc. As we know these are criminal groups.

Negative and positive influences of the global economical crisis to the young will be reflected in the work.

DEVELOPMENT OF SOCIAL CAPITAL AND ONLINE COMMUNITIES

Elena Artemenko

Lviv Academy of Commerce

Student of the fifth course of the faculty of International Economical Relationships

Instructor: Prof. Victor Artemenko

Introduction

Social relations and social structures, which form different forms of social capital, facilitate developing of economy. Social capital can be “define as an asset that inheres in social relations and networks” (Leana and Van Burren. 1999). Actors establish relations purposefully and continue them when they continue to provide benefits. The main aspect of these relations is trust. The most useful way of producing interpersonal trust scientists see in different social organizations. These organizations provide affiliation of citizens in society and integration. That’s why conception of social capital can explain many aspects of political culture in cross-national measurement. So, high level of social capital qualitatively influence on economical development and other fields of society.

In modern society widely spread informational-communicational technologies, which exist in another scale, than few years ago. And these cause condition changes for informational interaction between people, as result, there are also some changes in institutional structure (in economy too). To react for all these changes in society and grow social capital in a proper way we use Internet technologies. Online communities – is one of the most useful way – relations between people during their informational interacting, which based on Internet technologies. Its singularity lays in intensive informational exchanges between members of community of type “everybody share information with everybody” in informational interacting.

Online community is a part of theoretical picture of modern social-economical world. That’s why it is so relevant. And it is very important to use respective principals and mechanisms of interacting of online communities participants. Also coordination and regulation methods of their collateral activity.

Online community, like the research object, related to the class of complex social systems, which consist of big number of active and independent elements.

These issues are elaborating for last 10 years. Many modern scientists work on them. Parinov S., J. Coleman, P. Burd’è, Djecman and Miller, Milern, Kalner, F.Fukuyama and others.

1 Part – Modern aspects of developing of the Social capital

The economic stream flies in the face of empirical reality: persons’ actions are shaped, redirected, constrained by the social context; norms, interpersonal trust, social networks, and social organization are important in the functioning not only of the society, but also of the economy.

In economics, Yoram Ben-Porath has developed ideas concerning the functioning of what he calls the “F-connection” in exchange systems. The F-connection is families, friends, and firms, and Ben-Porath, drawing on literature in anthropology and sociology as well as economics, shows the way these forms of social organization affect economic exchange [4]. Oliver Williamson has, in a number of publications, examined the conditions under which economic activity is organized in different institutional forms, that is, within firms or in markets. There is a whole body of work in economics, the “new institutional economics”, which attempts to show, within neoclassical economic theory, both the conditions under which particular economic institutions arise and the effects of these institutions (i.e., of social organization) on the functioning of the system [6].

There have been recent attempts by sociologists to examine the way social organization affects the functioning of economic activity. Baker has shown how, even in the highly rationalized market of the Chicago Options Exchange, relations among floor traders develop, are maintained, and affect on their trades. More generally, Gra-

novetter has engaged in a broad attack on the “under socialized concept of man” that characterizes economists’ analysis of economic activity[7]. Granovetter first criticizes much of the new institutional economics as crudely functionalist because the existence of an economic institution is often explained merely by the functions it performs for the economic system. He argues that, even in the new institutional economics, there is a failure to recognize the importance of concrete personal relations and networks of relations – what he calls “embeddedness” – in generating trust, in establishing expectations, and in creating and enforcing norms. The main idea of embeddedness may be seen as an attempt to introduce into the analysis of economic systems social organization and social relations not merely as a structure that springs into place to fulfill an economic function, but as a structure with history and continuity that give it an independent effect on the functioning of economic systems.

If we begin with a theory of rational action, in which each actor has control over certain resources and interests in certain resources and events, then social capital constitutes a particular kind of resource available to an actor.

Social capital is defined by its functions. It is not a single entity but a variety of different entities, which two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Like physical capital and human capital, social capital is not completely fungible but may be specific to certain activities.

The value of the concept of social capital lies first in the fact that it identifies certain aspects of social structure by their functions, just as the concept “chair” identifies certain physical objects by their function, despite differences in form, appearance, and construction. The function identified by the concept of “social capital” is the value of these aspects of social structure to actors as resources that they can use to achieve their interests [2].

By identifying this function of certain aspects of social structure, the concept of social capital constitutes both an aid in accounting for different outcomes at the level of individual actors and an aid toward making the micro-to-macro transitions without elaborating the social structure details through which this occurs.

The concept of social capital allows take different resources and show the way they can be combined with other resources to produce different system-level behavior or, in other cases, different outcomes for individuals.

An important form of social capital is the potential for information that inheres in social relations. Information is important in providing a basis for action. But acquisition of information is costly. At a minimum, it requires attention, which is always in scarce supply. One means by which information can be acquired is by use of social relations that are maintained for other purposes.

A prescriptive norm within a collectivity that constitutes an especially important form of social capital is the norm that one should forgo self-interest and act in the interests of the collectivity. A norm of this sort, reinforced by social support, status, honor, and other rewards, is the social capital that builds young nations (and then dissipates as they grow older), strengthens families by leading family members to act selflessly in “the family’s” interest, facilitates the development of nascent social movements through a small group of dedicated, inward-looking, and mutually rewarding members, and in general leads persons to work for the public good. In some of these cases, the norms are internalized; in others, they are largely supported through external rewards for selfless actions and disapproval for selfish actions [3]. But, whether supported by internal or external sanctions, norms of this sort are important in overcoming the public goods problem that exists in collectivities.

So, we can say that effective norms can constitute a powerful form of social capital. Norms are very important because all social relations and social structures facilitate some forms of social capital. Actors establish relations purposefully and continue them when they continue to provide benefits. Certain kinds of social structure, however, are especially important in facilitating some forms of social capital.

2 Part – Online communities and economic networks

In modern society widely spread informational-communicational technologies, which exist in another scale, than few years ago. And these cause condition changes for informational interaction between people, as result, there are also some changes in institutional structure (in economy too). To react for all these changes in society and grove social capital in a proper way we use Internet technologies. Online communities – is one of the most useful way – relations between people during their informational interacting, which based on Internet

technologies. Its singularity lays in intensive informational exchanges between members of community of type “everybody share information with everybody” in informational interacting.

Online community is a part of theoretical picture of modern social-economical world. That’s why it is so relevant. And it is very important to use respective principals and mechanisms of interacting of online community participants; also coordination and regulation methods of their collateral activity.

Online community, like the research object, related to the class of complex social systems, which consist of big number of active and independent elements.

A virtual community, e-community or online community is a group of people that primarily interact via communication media such as newsletters, telephone, email, internet social network service or instant messages rather than face to face, for social, professional, educational or other purposes. If the mechanism is a computer network, it is called an online community. Virtual and online communities have also become a supplemental form of communication between people who know each other primarily in real life. Many means are used in social software separately or in combination, including text-based chat rooms and forums that use voice, video text or avatars. Significant socio-technical change may have resulted from the proliferation of such Internet-based social networks.

Social networks have for several years been the toast of new media. Their principal strength has been an ability to gather tens of millions of unique users. Their main shortcoming, however, has been the inability of several social networks to monetize their volumes of signed-up users.

Online communities do not necessarily mean that there is a strong bond among the members, although Howard Rheingold, author of the book of the same name, mentions that virtual communities form “when people carry on public discussions long enough, with sufficient human feeling, to form webs of personal relationships”. An email distribution list may have hundreds of members and the communication which takes place may be merely informational (questions and answers are posted), but members may remain relative strangers and the membership turnover rate could be high [1]. This is in line with the liberal use of the term community.

Virtual communities may synthesize Web 2.0 technologies with the community, and therefore have been described as Community 2.0, although strong community bonds have been forged online since the early days of USENET. Online communities depend upon social interaction and exchange between users online. This emphasizes the reciprocity element of the unwritten social contract between community members. Some of the earliest forms of web 1.0 virtual community websites included Theglobe.com (1994), Geocities (1994) and Tripod (1995). These early communities focused on bringing people together to interact with each other through chat rooms, and share personal information and ideas around any topics via personal homepage publishing tools which was a precursor to the blogging and social networking phenomenon [9]. The web 2.0 wave of online community arrived in the early 2000s and is essentially characterized by virtual communities such as Flickr, Facebook, and Del.icio.us. A similar trend is starting to emerge within businesses where online or virtual communities are taking hold. These communities can be organizational, regional or topical depending on the business. From a technical perspective, software tools abound to create and nurture these communities including Yahoo Groups, Google Groups, LISTSERV, Microsoft Sharepoint and Lotus Connections.

The explosive diffusion of the Internet since the mid-1990s has also fostered the proliferation of virtual communities. The nature of those communities is diverse, and the benefits that Rheingold envisioned are not necessarily realized, or pursued, by many. At the same time, it is rather commonplace to see anecdotes of someone in need of special help or in search of a community benefiting from the use of the Internet.

Different virtual communities have different levels of interaction and participation among their members. This ranges from adding comments or tags to a blog or message board post to competing against other people in online video games such as MMORPGs. Many communities that are operated by Homeowner Associations utilize homeowner’s association websites to facilitate all communications, business transactions, and social endeavors of any kind [5]. Not unlike traditional social groups or clubs, virtual communities often divide into cliques or even separate to form new communities. Author Amy Jo Kim points out a potential difference between traditional structured online communities (message boards, chat rooms, etc), and more individual-centric, bottom-up social tools (blogs, instant messaging buddy lists), and suggests the latter are gaining in popularity [8].

The embeddedness of virtual community in the experiences of everyday life and its reflection of and in-

fluence on the communication practices and patterns of identity formation make online community a colossal research enterprise which requires continuous investigation and theorizing.

3 Part – Project “International Student Society”

Technology is the handmaiden of globalization, yielding economies of scale, flattening supply chains and increasing the mobility of manufacturing, services and capital. In the past decade, however, no technology has had the impact that information technology has. The spread of high-speed digital technology and the Internet protocol is fuelling the convergence of telecommunications, cable television and the World Wide Web, and with them the entertainment and communications industries. The Internet has become host to a new world with new way of communication and relations between people. One of the main forms of network-life is online-communities. Kind of online-community, which consists of big number of active and independent elements, is our project which cold “International Student Society” (ISS). This community was created by us for make better contact between students from Caucasus University (Tbilisy, Georgia), Lviv Academy of Commerce (Lviv, Ukraine) and Warsaw school of economics (Warsaw, Poland).

ISS concord will exist as users of social network, created due to blogs, e-mails, personal profiles, and mainly to the site – which is the basic mestome of accumulation and generating various information. This site should enable users accept rapid decisions in relation to various questions, to create new projects, generate new and qualitative ideas and ideas on widespread local and global questions, exchanged information with other countries, institutes of higher and organizations. On the site should be utilized the method of the Brain Storm, which is an innovation in such type of scientific collaboration.

We named this project the International Student Society. It should purpose development of international social capital.

Tasks of the project are:

- 1 – Creation of decision models for local and global questions
- 2 – Creation of platform for international projects, co-operation work
- 3 – Discussion on important daily questions
- 4 – Creation of additional base for scientific activities.

For providing basic tasks for the project, activities will pass on a site, in the followings forms:

- 1 – Virtual Brain Storming
- 2 –exchanging information about universities projects
- 3 –the forum
- 4 – Scientific activity.

An international student society (virtual concord of active people) has the following working structure:

The members of association are all interested people which passed registration on the site (name, country, University, electronic address, specialization, photo).

Workings aspects:

«Fresh news» is news with the rating system of selection.

- Economy
- Business
- Culture
- Policy
- Universities News (there is separate page for each of them, on which the news of institute of higher will be)

«Blogs» are pages with specific information from the participants of association. Will be utilized for more effective work of method of Brain Storm.

«Forum» - will functioning, as an ordinary forum on which it is possible to discuss and make decisions. It will have the followings subsections:

- Art and philosophy
- Policy and economy
- Sport and trips
- Projects
- Other

«Articles» - students and research workers will be able to lay out the works, for distribution of the information studied by them, and receipt of comments and reviews (for students), in relation to the articles. The articles can be utilized also for more effective decisions for the questions, which were put during the Brain Storm. It will have next themes:

- Art and philosophy
- Policy and economy
- Sport and trips
- Projects
- Other

«Projects» - on this page information will be presented on one – to three actual (that started acting already, whether will start acting in the nearest time) projects. News, in relation to these projects, and also three points:

- past (projects which took place already, to obtain information about that, how it is needed and not needed to do projects)
- present (those projects which pass presently, here will be more information about projects which are specified on a top page et al, that is not very important, however can be interesting for others)
- Future (here will be ideas for projects, discussions, in relation to their lead through). This point will be linked with the same theme on the forum.

The subject of this part will be about projects for student exchanges, seminars, forums, summer schools. These projects can be the results of discussions or Brain Storm, in relation to the decision of some problem.

So, this is model of such kind of site, which should be like a spine for network society, or in our paper we could it online-community. The great potential of online-communities is obligatory. To show it better, we made SWOT analysis for ISS:

Strengths

1. Project organized with the support of large and well-known universities.
2. Practical application of the project.
3. The website of the project designed according to highest standards.
4. Unique website structure.
5. Professional working group.
6. Motivation system for participants.

Weaknesses

1. Lack of appropriate and stable financing source.
2. Experimental nature of the project.
3. Working language foreign to participants.
4. Lack of advertising and PR activities.

Opportunities

1. Increase in the number of participating universities.
2. Possibility of political lobbying
3. Advancing the educational level of the universities.
4. Closer cooperation of participating universities.
5. Creating new high-quality exchange programs, conferences, forums etc.
6. Development of international cooperation on the basis of common social capital gained in this project.
7. Promoting and enhancing economic globalization.

Threats

1. Ineffective motivation system.
2. Low students' interest in academic work.
3. Already existing social networks, e.g. Facebook, Vkontakte, LinkedIn, GoldenLine.
4. Ineffective cooperation.
5. Lack of further financing.
6. Cracking/hacking attacks.

Conclusion

So, from this analysis, we can see that there are some difficulties and questions for realization such king of network project, but online-community has great potential source and all consumptions could be cover for times. Social capital, which based on online-communities work, brings great benefits in all economic questions, on all levels. That's why correct and effective use of online networks are so important for nowadays.

By this paper I wanted to show great importance of social capital for international relations, scientific work, interpersonal co-operation, economy and any trade relations. And how IT and online communities can contribute to building social capital. For East European countries this is a especially important source. That's why it's so important to use it.

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Development of social capital and online communities

Annotation

Elena Artemenko

Lviv Academy of Commerce

Student of the fifth course of the faculty of International Economical Relationships

Instructor: Prof. Victor Artemenko

Social relations and social structures, which form different forms of social capital, facilitate developing of economic growth. Social capital can be “define as an asset that inheres in social relations and networks” (Leana and Van Burren. 1999). Actors establish relations purposefully and continue them when they continue to provide benefits. The main aspect of these relations is trust. The most useful way of producing interpersonal trust scientists is seen in different social organizations. These organizations provide affiliation of citizens in society and integration. That’s why conception of social capital can explain many aspects of political culture in cross-national measurement. So, high level of social capital qualitatively influence on economical development and other fields of society.

In modern society widely spread informational-communicational technologies, which exist in another scale, than few years ago. And these cause condition changes for informational interaction between people, as result, there are also some changes in institutional structure (in economy too). To react for all these changes in society and grow social capital in a proper way we use Internet technologies. Online communities – is one of the most useful way – relations between people during their informational interacting, which based on Internet technologies. Its singularity lays in intensive informational exchanges between members of community of type “everybody share information with everybody” in informational interacting.

Online community is a part of theoretical picture of modern social-economical world. That’s why it is so relevant. And it is very important to use respective principals and mechanisms of interacting of online communities participants. Also coordination and regulation methods of their collateral activity;

Online community, like the research object, related to the class of complex social systems, which consist of big number of active and independent elements. For building imitational models of such kind of systems, for last time they use methods of “agent” modeling and some other methods. More detailed they will be show in the paper.

These issues are elaborating for last 10 years. Many modern scientists work on them. Parinov S., J. Coleman, P. Burd’e, Djecman and Miller, Milern, Kalner, F.Fukuyama and others.

PERSPECTIVES OF MOBILE COMMERCE DEVELOPMENT IN GEORGIA

Giorgi Kochlavashvili

Gori University

Student of the second course of the

Faculty of Social Sciences, Business and Law

*Instructor: **Teacher of Gori University G. Kazishvili***

On the modern stage transfers of technologies have got great value as a result of fast development of scientific and technological progress. In the late years there is already real boom of electronic payment all over the world which mainly realizes through the internet or cash dispensers though number of owners of electronic cards and personal computers cannot be compared to the number of people using mobile phones every day. Nowadays mobile phone is accessible for everyone and it is no longer object of luxury.

Mobile phone is a modern attribute of modern communication. Such competitive brandies as Nokia, Samsung, Sony Ericsson and Motorola take the great part of mobile phone market. Memory of mobile phones is also being developed; new more important and acceptable functions are added to old ones. Producing of modern apparatuses made profitable conditions for developing mobile commerce.

Mobile commerce is actually continuation of electric commerce. Development of electronic commerce has made possible to make contracts, to pay taxes, to transfer sums, to take part in auctioneers without going out etc.

Nowadays all the foresaid activities can be realized by a mobile phone as well.

According to the explanation of global finance corporation *Lehman Brothers Holdings* founded in 1850: "Mobile commerce is an opportunity of communication, entertainment, receiving and sending of data and making deals using mobile portable gadgets which are turned on in private or in common telecommunication networks".

The worldwide mobile operators and banks have already suggested wide assortment of services for late several years. Buying flowers or airplane tickets, booking theatre tickets or hotel rooms, searching for news, sport results and other information through a mobile phone become the undivided parts of users' everyday life.

Nowadays the market of mobile commerce is divided into four main parts. These are:

- 1) authentication,
- 2) Banking,
- 3) Pay and buy,
- 4) Money transaction services.

Authentication (on-line and off-line) first of all serves to identify consumers using different services. Authentication is mostly used for tax payments when ID code existing in mobile phone is used instead of a quittance.

Banking means services created by request of banks. Bank itself determines content, price and forms of identification of provided services. In this case content-provider is defined with technological realization. Banking services became especially imposing at the end of the 90-ies of 20th century when important part of commercial banking was financial services.

In 1998 more than 90% of European banks offered users mobile banking services. The pioneer in this sphere was the western bank *Meritanordbanken* which still in 1992 introduced mobile account services. Nowadays mobile banking is used by the most of the banks in the world.

Pay and Buy service means buying material and non material (different kinds of information, traveling or

concert tickets, polyphonic melodies, java games etc.) products as well. The foresaid service became popular with users from the very beginning. The given service is mostly used for buying tickets. For example, more than 20 000 tickets from 45 000 on the concert of Robbie Williams were sold using a mobile phone.

Owner of a mobile phone can execute bank options through his own phone, he can also control and manage his accounts, accomplish money transfers using service of *Money Transaction*.

Nowadays as a result of improvement of mobile phone's multimedia features mobile commerce has become one of the most profitable (for example: colored pictures, polyphonic melodies, mobile videogames, horoscopes and other means of entertainment).

According to the data of *Jupiter-Research* Group analysts by 2009 in the world scale the income gotten from downloading polyphonic melodies or so called ring tones must consist 430 million dollars and the income from java games must be 724 million dollars. Such a rapid growth of incomes is conditioned with the considerable amount of mobile phones turned on in the internet. Nowadays throughout the world the number of mobile phones with internet service is more than number of computers turned on in the internet.

Mobile commerce displays its mightiness in advertising too. New concept in advertising of commodity and services is used in software offered by an American company *Bay Area*. It's called *mworks*. Company wishing advertising of its activities creates a special mobile application using this software and offers the users different kinds of contents free of charge.

Lexux Company created mobile application for a model of Lexux in 2006. This application together with the advertising information delivers colored pictures, polyphonic melodies, weather forecast etc. free of charge to the potential car buyers.

Belgian operator of mobile connection *Proximus* set a new system of payment which gives ability to the consumers to pay communal taxes, buy different types of software and other digital content through a mobile phone. System of mobile payment PayPal is set in the United States. The users of the PayPal can transfer money and buy different kinds of production on the territories of USA and Canada.

The greatest attention is paid to the security measures. The example of this is Trusted Mobile Platform, which was worked out by NTT Docomo, IBM and Intel. Its basic purpose is to protect mobile commercial service from viruses and hacker attacks.

Japan presented the highest index of mobile commerce abilities. In the country of the rising sun 50% of inquired population expressed the desire of using this sort of services. In Europe this index is about 46%, in Asia and USA correspondingly 43% and 38%. On the modern stage the usage of mobile phones for payment purposes is not very popular. Analysts designate that the interest towards SMS increased very quickly. 80% of consumers use this service in Europe.

In technological forecast compiled by the specialists of *Pricewaterhouse Coopers* is marked that wide international network has unlimited potential to change business management.

In spite of users' skeptic attitude of using a mobile phone as a mean of purchase the specialists of A.T. Kearney are sure that trustiness to the mobile transactions will gradually rise up. It's also necessary to note that during the certain period in the mobile commerce users were based on SMS technology. Nowadays in the mobile commerce are also used old technologies, such as SMS, MMS and GPRS.

From positive degrees of the mobile commerce is noticeable:

1. Possibility of localization or determination of location and provide him with necessary information about his location.
2. Function of payer; mobile phone executes the function of payer. e.g.: A person has to go abroad and hasn't enough time getting home, packing up luggage and booking a ticket at the same time. Mobile phone gives opportunity to book an airplane ticket without going out.
3. Mobile phone gives user opportunity to search for desirable partners and establish business links with less expenses etc.

Together with preferences mobile commerce has its defects, for example, small size of mobile phone, discomfort of entering text data, but this problem has been partially solved with appearance of pocket computers _ PDA (so called Personal Digital Assistant), but their quantity is rather smaller than mobile phones' one. 2. Chaotic and informative overburdening, mobile internet offers users various number of wap services and quite different size of information.

Mobile commerce is getting based in Georgia too. The clear examples to this are various kinds of banking

services and fun and informational content of large quantity, which is available for subscribers of “Magti”, “Geocell” and “Mobitel”.

The foresaid companies have already instilled very interesting and various services for their subscribers. *Magticom* and *Geocell* are leaders in this sphere. As for *Mobitel* (Beeline) its services are comparatively poor. Though we hope that in the future the denoted companies will offer many interesting services what will positively act on development of mobile commerce in Georgia.

Development of mobile commerce is directly connected to the development of mobile phone market. The newspaper “Banks and Finances” published an interesting article about this¹. According to the article: “In Georgia new shops of mobile phones are opened every day where is possible to buy mobile phone of any firm and model. Prices hesitate from 100 to 2500 GEL though customers buy phones of price from 300 to 600 GEL. The most of the sellers buy commodity locally but there also are exceptions, importing phones from Europe and Dubai.

According to the demands of customers from the most required phones were determined three categories: a mobile rich with photo functions, a mobile for music fans and just a durable mobile. People under 25 prefer the mobiles of the first two categories and people over 25 mostly choose them buy resistant, so called working phones and change them more seldom than teenagers.

In order to study the given question better we have conducted a questionnaire inquiry. 500 respondents have been inquired in Shida Kartli _ 268 of them men and 232 women, Among them 342 are higher educated and 158 have a secondary education. By the results 97% of inquired people own a mobile phone. 65% of them marked that they use mobiles of the second generation, 27% of them have mobiles of the third generation and 8% use the first generation mobile phones. 73% used or would use the internet for entertainment, 24 % didn't use wap service at all. 28% used wap once a week, 9% 2-3 times a week, 38% _ seldom, 1% _ every day. The question “have you ever heard about the mobile commerce?” had a negative answer from 93% of inquired people and 7% answered positively.

According to the getting data and inquiries conducted by us we consider realizing such kind of activities as:

1. Inform and provoke an interest of population with mobile commerce. Mass media (press, radio, television) can play a great role to popularize it with users;
2. To increase Georgian wap recourse, constant updating and perfection of wap sites.
3. Ease access of usage of wap sites. And it's necessary for subscribers to have a mobile phone with wap function to access the foresaid service etc.

So from all foresaid is followed that number of users in Georgia increase day by day. Georgian society little by little begins making purchases through a mobile phone what makes us think about perspectives of mobile commerce development in Georgia.

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The perspectives of mobile commerce development in Georgia

Annotation

Giorgi Kochlavashvili

Gori University

Student of the second course of the

Faculty of Social Sciences, Business and Law

Instructor: Teacher of Gori University G. Kazishvili

Mobile commerce is continuation of electric commerce. Discovery of electric commerce has made possible to make arrangements, pay taxes, transfer sums and take part in auctions right at home. All the foresaid activities can be realized by a mobile phone as well.

By a mobile phone with activated internet services is possible to receive any kind of information. Because of the impossibility to be in constant touch with PC or office computer users prefer smaller portable instruments which provide with constant connection. The strong side of mobile commerce is the possibility of localization. That means that it's possible to fix the user's location and provide with the adequate information. Together with preferences mobile commerce has its defects: mobile phone has a small screen and it's not comfortable to enter text information. This problem was partially solved with appearance of pocket computers (so called Personal Digital Assistant), but their quantity is rather smaller than mobile phones' one.

Mobile commerce is getting based in Georgia too. The clear examples to this are various kinds of banking services, Fun and informational content, which is available for subscribers of "Mag-ti" LTD, "Geocell" LTD and "Mobitel" LTD. These companies have already instilled very interesting and various services for their subscribers. Magticom and Geocell are leaders in this sphere.

Inquiries conducted by us and by the getting data we consider realizing such kind of activities as: 1. Inform and provoke an interest of population with mobile commerce. Mass media (press, radio, television) can play a great role to popularize it with users. 2. To increase Georgian wap recourses, constant updating and perfection of wap sites. 3. Ease access of usage of wap sites. And it's necessary for subscribers to have a mobile phone with wap function to access the foresaid service.

In this work are estimated positive and negative sides of mobile commerce, the Existing situation in this sphere in Georgia and perspectives of its development, is presented the point of view of author in solving the main problems and recommendations

PARTICULARITIES OF THE MANIFESTATION OF POSTTRAUMATIC STRESS DISORDER DURING THE AUGUST CONFLICT IN TSKHINVALI REGION (2008)

Ketevan Gogitidze

*Batumi Shota Rustaveli State University
Student of the second course of the faculty of Faculty of Social Sciences
Specialty of Psychology
Instructor: **Guram Chaganava.**
Doctor of Psychological sciences*

During August intervention of Russian military forces in Tskhinvali region in Batumi and in its vicinity were temporarily found refugees from adjoining to Tskhinvali zone towns and villages (Gori, Kareli). Either as was expected, between many of them were fixed typical manifestations of **Anxiety Disorders** - Psychological disorders connected with anxiety as the general feature. As a symptom, anxiety occurs in many different psychological disorders: **Generalized Anxiety Disorder (GAD), Panic Attacks and Panic Disorders, The Phobias, Agoraphobia, Social Phobia, Obsessive-Compulsive Disorder (OCD) and basically Posttraumatic Stress Disorder (PTSD)** (Baumann, U., Perres, M. 1998; Harold, I., Sadock, B. J. 1996; Hockenbury, D.H., Hockenbury, S. E., 2007).

Anxiety is a familiar emotion to all of us-that feeling of tension, apprehension, and worry that often hits during personal crises and everyday conflicts. Although it is unpleasant, anxiety is sometimes helpful. Anxiety has both physical and mental effects. As your alarm system, anxiety puts you on physical alert, preparing you to defensively “fight” or “flee» potential dangers. Anxiety also puts you on mental alert, making you focus your attention squarely on the threatening situation.

You become extremely vigilant, scanning the environment for potential threats. When the threat has passed, your alarm system shuts off and you calm down. But even if the problem persists, you can normally put your anxious thoughts aside temporarily and attend to other matters. In the anxiety disorders, however, the anxiety is maladaptive, disrupting everyday activities, moods, and thought processes. It is as if you are dealing with a faulty car alarm that activates at the slightest touch and has a broken “off” switch. Three features distinguish normal anxiety from pathological anxiety. First, pathological anxiety is irrational. The anxiety is provoked by perceived threats that are exaggerated or nonexistent, and the anxiety response is out of proportion to the actual importance of the situation. Second, pathological anxiety is uncontrollable. The person can not shut off alarm reaction, even when he or she knows it is unrealistic. And third, pathological anxiety is disruptive. It interferes with relationships, jobs or academic performance, or everyday activities. In short, pathological anxiety is unreasonably intense, frequent, persistent, and disruptive (Hockenbury, D.H., Hockenbury, S. E., 2007).

It is necessary to note that the majority of the refugees experienced panic attack when suddenly in their villages appeared Russian soldiers and they recalled about their emotional experiences- pounding heart, rapid breathing, breathlessness. Practically all they experienced tremble, lightheadedness, chills, hot flashes.

Posttraumatic stress disorder, abbreviated PTSD, is a long-lasting anxiety disorder that develops in response to an extreme physical or psychological trauma. Extreme traumas are events that produce intense feelings of horror and helplessness, such as a serious physical injury or threat of injury to you or to loved ones.

Originally, posttraumatic stress disorder was primarily associated with direct experiences of military combat. However, it's now known that **PTSD** can be also developed in survivors of other sorts of extreme traumas, such as natural disasters, physical or sexual assault, random shooting sprees, or terrorist attacks. Rescue workers, relief workers, and emergency service personnel can also develop **PTSD** symptoms. Simply witnessing

the injury death of others can be sufficiently traumatic for PTSD to occur.

In any given year, it's estimated that millions of adults experience PTSD. There is also a significant gender difference more than twice as many women as men experience PTSD after exposure to trauma. Children can also experience the symptoms of PTSD, both during childhood and later, upon reaching adulthood. There core symptoms characterize posttraumatic stress disorder:

First, the person frequently recalls the event, replaying it in her mind. Such recollections are often intrusive, meaning that they are unwanted and interfere with normal thoughts;

Second, the person avoids stimuli or situations that tend to trigger memories of the experience and undergoes a general numbing of emotional responsiveness;

Third, the person experiences the increased physical arousal associated with anxiety. He may be easily startled, experience sleep disturbances, have problems concentrating and remembering, and be prone to irritability or angry outbursts.

Posttraumatic stress disorder is somewhat unusual in that the source of the disorder is the traumatic event itself, rather than a cause that lies within the individual. Even well-adjusted and psychologically healthy people may develop PTSD when exposed to an extremely traumatic event.

Terrorist attacks, because of their suddenness and intensity, are particularly likely to produce posttraumatic stress disorder in survivors, rescue workers, and observers.). For example, four years after the bombing of the Murray Building in Oklahoma City, more than a third of the survivors suffered from posttraumatic stress disorder in survivors suffered from posttraumatic stress disorder.

Almost all the survivors had some PTSD symptoms, such as flashbacks, nightmares, intrusive thoughts, and anxiety Even so, people with a prior history of trauma tended to fare worse in follow-up studies a few years after the bombing.

However, it's also important to note that no stressor, no matter how extreme, produces posttraumatic stress disorder in everyone. Why is it that some people develop PTSD while others don't? Several factors influence the likelihood of developing posttraumatic stress disorder. First, people with a personal or family history of psychological disorders are more likely to develop PTSD when exposed to an extreme trauma. Second, the magnitude of the trauma plays an important role. More extreme stressors are more likely to produce PTSD. Finally, when people undergo multiple traumas, the incidence of PTSD can be quite high (Hockenbury D.H., Hockenbury S. E.,2007).

The symptoms of posttraumatic stress disorder can apparently last a lifetime. More than 60 years after the close of World War II, thousands of veterans, now in their eighties, still suffer from nightmares, anxiety, and other PTSD symptoms. Some experts estimate that as many as 200,000 World War II veterans may continue to suffer from the symptoms of posttraumatic stress disorder (Hockenbury, D.H., Hockenbury, S. E., 2007).

It is well known that the aftermath of terror surveys of Manhattan residents have found that up to 20 percent suffered symptoms of posttraumatic stress disorder symptoms of posttraumatic stress disorder in the month following the terrorist attacks of September 11, 2001. People who lived near the World Trade Center or lost a family member or friend had the highest rates of trauma-related symptoms. However, people across the United States experienced symptoms of PTSD, especially those who spent a great deal of time viewing television images of the attacks and their aftermath (Hockenbury D.H., Hockenbury S. E., 2007).

Originally, posttraumatic stress disorder was primarily associated with direct experiences of military combat. However, it is now known that PTSD can also develop in survivors of military combat. Three main symptoms characterize POTS were found between refugees: The person frequently recalls the traumatic event; the person avoids situations that trigger memories of his experience and numbing of emotional responsiveness; the person experiences feels associated with anxiety experience; The person experience sleep disturbances, have problems concentrating and remembering and be prone to irritability.

1. Our attention attracted confabulation devoted to the wide-spread standpoint amongst refugees that at period of the conflict in Tskhinvali region, ostensibly amongst the service men of the Russian army were found two-headed soldiers. Such standpoint on our opinion, was a total confabulation because the population was not able thoroughly protect itself and that caused such unusual belief about Russian soldiers that gave the refugees a possibility to take out of themselves the responsibility, since rendering the resistance to such enemy looked senseless.

2. Certainly the two-headedness of the Russian soldiers was a factor of significant psychological frus-

tration that was figuratively expressed in two-headiness of the Russian soldiers, as summation of the strong psychological stressful voltage of the population which was in the zone of combat action that figuratively expressed in the two-headiness of the Russian soldiers. We think that in this case there existed peculiar process of transposition of the psychological meaning and the image of the content of the Russian state coat of arms in the manner of the two-headiness of the eagle on soldiers of the Russian army.

This case, of course is an index of the significant psychological traumatic manifestation in the psyche of the refugees ;out of zone of the conflict that figuratively was expressed in transposition of the symbolic contents of the Russian state coat of arms with two headed eagle on the Russian soldiers personification the Russian state.

3. We think that our supposition about relationship between the symbol of the Russian state (the two-headed eagle) with the confabulations of the refugees about the two-headiness of the Russian soldiers absolutely reasonable assumption since defenseless of the Georgian population of the conflict zone which had not real possibilities to defense themselves had figuratively carried on the Russian soldiers the phenomenological content of the coat of arms (two headed eagle).

4. During the research was used method of the questioning of the 45 refugees from the conflict zone and among them 15 persons were sure that between Russian soldiers there were two-headed persons though nobody of them personally saw such soldiers.

Nobody from polled itself did not see such soldiers, but they were sure of true of their own words and together with this did not want to recognize the absurdity of their opinion. Moreover they all power tried to prove the possibility of such admission. They denied the possibility of the influence upon their psyche of the Russian coat of arms with two headed eagle, which could be present at uniforms, the documents or on technical facilities of the Russian army. They also denied the influence of the newspapers, where there were published about such confabulations.

We all certain that in this instance, as obligatory component of posttraumatic stress disorder (PTSD) has caused exaggeration, obviously unusual for ordinary inhabitant of rural areas of Georgia symbol of Russian state - an two headed eagle, which psychologically was transformed and personificated into Russian soldier. We have also take into account that majority of our respondents were a men, which on established traditions were to protect their own building rather then to run away.

Certainly it is understandable that in this case function of protection of the peace people is doubt, as men, undertook certain share of responsibility for retreat of the Georgian troops before outnumbered military power of the Russian army that has compelled them to abandon from their own place of residence.

We came to conclusion that person usually making enemy supernatural, inhuman creature (for instance, mythological monster) thereby as if excuses himself, since, in such event, he leads the fight not with like with him and so equal on possibility persons but with supernatural being, before which retreat can be not used for rebuking him. Something like, probably, has come of our respondents, which identifies Russian soldier with twoheaded unnatural creature as if excusing themselves for forced abandoning of their own dwelling place.

List of the applied literature:

1. Baumann ,U., Perres, M. (1998), *Klinische Psychologie-psychotherapie*, Verlag Hans Huber, Bern
2. Harold, I., Sadock, B. J. (1996), *Pocket Handbook of Clinical Psychiatry*, Williams & Wilkins, Baltimore
3. Hockenbury, D.H., Hockenbury, S. E.(2007), *Discovering Psychology*, Worth Publishers, New York.

Particularities of the Manifestation of Posttraumatic Stress Disorder during the August Conflict in Tskhinvali region (2008)

Annotation

Ketevan Gogitidze

Batumi Shota Rustaveli State University

Student of the second course of the faculty of Faculty of Social Sciences

Specialty of Psychology

Instructor: Guram Chaganava.

Doctor of Psychological sciences

1. The basic subject of the scientific article is devoted to the wide-spread standpoint amongst refugees that at period of the conflict in Tskhinvali region, ostensibly amongst the service men of the Russian army were found two-headed soldiers. Such standpoint on our opinion, was a total confabulation because the population was not able thoroughly protect itself and that caused such unusual belief about Russian soldiers that gave the refugees a possibility to take out of themselves the responsibility, since rendering the resistance to such enemy looked senseless.

2. Certainly the two-headedness of the Russian soldiers was a factor of significant psychological frustration that was figuratively expressed in two-headedness of the Russian soldiers, as summation of the strong psychological stressful voltage of the population which was in the zone of combat action that figuratively expressed in the two-headedness of the Russian soldiers. We think that in this case there existed peculiar process of transposition of the psychological meaning and the image of the content of the Russian state coat of arms in the manner of the two-headedness of the eagle on soldiers of the Russian army. This case, of course is an index of the significant psychological traumatic manifestation in the psyche of the refugees ;out of zone of the conflict that figuratively was expressed in transposition of the symbolic contents of the Russian state coat of arms with two-headed eagle on the Russian soldiers personification the Russian state.

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THE INVESTMENT CLIMATE OF CAUCASIAN COUNTRIES AND THE IMPACT OF ECONOMIC FREEDOM ON FDI INFLOWS

Kristine Sahakyan

*Russian-Armenian (Slavonic) University
Third year student of Department of Economics
Instructor: Edgar Karapetyan, PhD*

ABSTRACT

At the present stage of economic development the overwhelming majority of the countries stimulate foreign direct investment (FDI) inflow in conditions of strengthening of globalization, liberalization and competition processes. The necessity of mobilization of FDI is extremely actual for the countries of the Southern Caucasus as without FDI it is inconvenient to conclude market re-structuring, to provide continuous, sustainable economic growth and to be integrated into the global markets. This report investigates the impact of Economic Freedom on FDI inflows to the countries of the South Caucasus. Ten forms of Economic Freedom were tested as variables determining FDI inflow. The general positive sign of the significant variables confirm our hypothesis regarding the positive effects of Economic Freedoms on FDI flows. According to it we suggested investment climate improvement as means of attracting more FDI flows to South Caucasus.

INTRODUCTION

In modern conditions planning of economic growth in developing countries is impossible without an opportunity of the foreign capital admission in a national economy. Beneficial influence of the foreign capital on developing facilities will positively affect in all cases irrespective of the form it interferes in national economy. With the FDI the countries get

- ✓ pure gain of national riches;
- ✓ foreign experts and experience of management;
- ✓ newest technologies;
- ✓ rise of a technical and cultural level of the country;

The foreign capital involved in national economy and used effectively renders positive influence on economic development, helps to overcome backwardness, and to be integrated into world economy what is very important for the countries of the South Caucasus. Though we cannot but notice that on the other hand the attraction of the foreign capital imposes the certain obligations, creates diverse forms of dependence of the country, and causes sharp growth of an external duty, which is very dangerous in stage of international economic volatility.

So, what is FDI? FDI are capital investments with the purpose of gaining long-term economic interest. IMF defines FDI as “such form of investment when the investor possesses the administrative control over object in which it is invested the capital”¹. Investments which cover more than 10 % of the share capital are considered as straight lines and entitle the control over the enterprises. As there is the sharpest competition in FDI world market the governments of the countries of South Caucasus (as well as the other countries’) raise the role in this area developing various mechanisms for attraction of the foreign capital. The countries requiring “catching up” development have the limited resources and, naturally, apply a maximum of efforts to involve them. Results of last decades convincingly testify that FDI flows promote development and well-being of the countries to which manage to involve them. During three decades the stock of FDI around the world has increased significantly from \$13 billion in 1970 to \$1306 billion in 2006. Although this FDI has mostly been flowing between developed economies, the developing countries have also seen a considerable increase in

1 International Monetary Fund - <http://www.imf.org>

FDI: from less than \$4 billion in 1970 to almost \$380 billion in 2006². And in 2008 as a result of financial crisis global flows of FDI fell by 21% and total to 1.45 trillion USD. According to UNCTAD FDI flows are likely to keep dropping in 2009.³ But how do they have to attract FDI? The first thing to what the foreign investors pay attention is the investment climate of the country. So the main aim for the countries of the South Caucasus is the improvement of their investment climate in order to attract as much FDI inflows as possible.

Thus, the *subject of research* is the investment climate of Caucasian countries based on 10 Economic Freedoms and their impact on FDI inflows. The main *hypotheses of research are*

- the higher the Economic Freedom Score is the higher FDI inflows are;
- **as there are similar challenges of Economic Freedom in Caucasian countries it will be easier to solve the puzzle of investment climate improvement by coordinated efforts.**

1. FDI inflows to the South Caucasus

As there is underdeveloped financial market which could not effectively convert internal savings into the investment, foreign direct and foreign portfolio investments play defining role in financing of economic development of the Caucasian countries. In view of practical absence of the capital markets in the countries of the Southern Caucasus foreign portfolio investments' streams are insignificant, while the saved up volumes and streams of FDI are significant. FDI are the important source of financing of the Southern Caucasus' development, what on the other hand specifies the problems existing in mobilization of internal savings for financing of the economy. Nowadays FDI role in formation of the capital in the countries of Southern Caucasus is essential above than in the majority of other countries, including the transitive and developing countries, and also the countries with the high income (even excluding last huge FDI streams to Azerbaijan and Georgia for construction of an oil pipeline of Baku-Ceyhan). Owing to this construction, relative volumes of FDI streams to Azerbaijan (% of gross national product) in 2002-2004 were one of the highest if not the highest in the world. In addition, owing to stocks and an oil recovery FDI volumes and share in Azerbaijan for last 10 years were considerably above than in Armenia and Georgia and basically have been enclosed by transnational corporations.

Let's explore each country separately and more advanced.

In 2001 IMF approved a three-year PRGF (Poverty Reduction and Growth Facility) program for Azerbaijan. The Government also implemented the World Bank's Structural Adjustment Credit program. The projects of these programs were development of

- the Azeri-Chirag-Guneshli (ACG) oil fields, which are operated by Azerbaijan International Operating Company (AIOC)⁴;
- The large Shakh Deniz gas and condensate field.

These projects were important for Azerbaijan's ability to export oil and gas. The AIOC made significant investment contributing to the construction of the South Caucasus Pipeline, the Baku-Tbilisi-Ceyhan Pipeline and are currently discussing construction of a Trans-Caspian Oil Pipeline between Kazakhstan and Azerbaijan. Investment in manufacturing, transport and telecommunications and the services sectors continues to be low. Azerbaijan has huge and very attractive resources of hydrocarbons and offers attractive exploration potential for additional discoveries. Besides enormous potential in energy sector which have emerged as the key sector attracting foreign investors, Azerbaijan also has potential for development of agriculture and processing of agricultural products. The country has attracted a large amount of FDI, including investment of reputed international investors which could bring with them financial resources, know-how and best international practices. Through backward linkages the capacity of local companies and managers could be substantially improved. Combined with the advantages of being at the crossroads of transit routes, Baku has the opportunity to be the regional office for professional and trade service firms, and in the longer term may be developed as a key financial centre and capital market for the region.⁵

More than 80 % of FDI flows in Azerbaijan are concentrated in oil and accompanying sectors, while in Georgia and Armenia they are more diversified. FDI streams to Armenia and Georgia can be divided in two

2 United Nations Conference on Trade and Development - <http://www.unctad.org> – World Investment Report 2008

3 UNCTAD – <http://www.unctad.org>

4 AIOC is a consortium of currently 10 petroleum companies that have signed extraction contracts with Azerbaijan.

5 http://en.wikipedia.org/wiki/Azerbaijan_International_Operating_Company

types. The first type is caused by large-scale privatization of the state enterprises, especially in the food-processing industry, telecommunications and distribution of the electric power, prevailing in '90s. The second one are FDI streams in a new private sector, especially in bank sector, construction, the food-processing industry and tourism which became intensify since 2000. However participation of transnational corporations in Armenia and Georgia was considerably more limited both on volumes and on a share, than in Azerbaijan. Majority of FDI flows to Armenia has been given or provided by Diaspora.

Georgia receives large amounts of assistance from the United States, the European Union and international institutions. U.S. assistance has focused on the goals of improving the rule of law, governance and the administration of government economic and financial institutions, improving critical physical infrastructure, enhancing private sector competitiveness and promoting the growth of a free market economy. In 2006, Georgia's clear-cut commitment to reform earned it one of the first compacts with the U.S. Millennium Challenge Corporation, which supplied \$295 million in infrastructure investments and investments in small and medium enterprises engaged in tourism and agriculture. Since 2006, Russia has subjected Georgia to economic sanctions, but GDP growth remains high at around 8.8 percent. The government has under-taken several privatizations and structural reforms, such as streamlining trade tariffs and taxes. Corruption remains one of the country's most difficult problems despite efforts to control it. Georgia has benefited from completion of the Baku–Tbilisi–Ceyhan oil pipeline from Azerbaijan to Turkey, which provides oil transit revenue. American and Arabian investors are expected to be the leading in the volumes of investments in 2009. The volume of investments from 2003-2007 has increased on 490 %.¹

2. Caucasian Investment Climate

So participation activity of the country in the given market and readiness of investors for capital export depends on an investment climate in the country importing the capital. *The investment climate* represents set of economic, political, legal and social factors which predetermine a degree of risk of FDI and an opportunity of their effective utilization in the country. The investment climate is complex concept and includes a number of parameters: the national legislation, economic conditions (recession, rise, stagnation), a customs mode, the currency policy, rates of economic growth, rates of inflation, stability of a rate of exchange, a level of external debts, etc.

The representatives of the international business circles and experts confirm that estimation of its dynamics is unequivocally positive. But if we consider an investment climate of the countries on an absolute scale of the international criteria, here it is necessary to work much to finish it to the European standards. Of course, this difference decreases with the lapse of time. But nevertheless for bringing an Caucasian countries' investment climate to the European level of favor it is necessary to make the certain volume of work on appropriate business – infrastructures creation and administrative and subjective barriers removal.

There is an important and widespread *Index of Economic Freedom* published by the Heritage Foundation and the Wall Street Journal. Let's consider what economic freedom is. *Economic freedom* is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume and invest in any way they please, with that freedom both protected by the state and unconstrained by the state. In economically free societies, governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.²

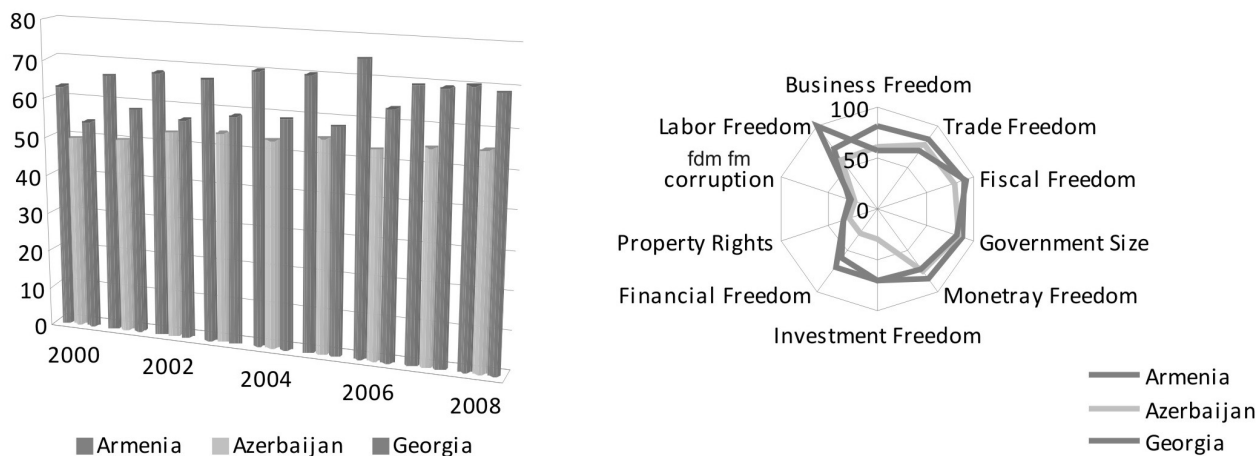
According to the research undertaken by the Heritage Foundation and Wall Street Journal in 2008, *Armenia's Economic Freedom score is 70.3 percent (28th place among 157 countries), Azerbaijan's score is 55.3 percent (107th place), and Georgia's - 69.2 percent (32nd place)*. Overall score of Azerbaijan is 0.5 percentage point higher than last year; Georgia's overall score is 0.1 lower than last year, and Armenia's overall score is 1 percentage point higher. By the same assessment Armenia is 15th freest among the 41 countries in the European region, and its score puts it above Europe's average—an impressive feat for an impoverished landlocked country. Azerbaijan is ranked 18th out of 30 countries in the Asia–Pacific region, and its overall score is below the world average. Georgia is ranked 18th out of 41 countries in the European region, and its overall score is equal to the regional average. The top-5 countries are Hong Kong (90.3), Singapore (87.4), Ireland (82.2),

1 Georgian Business Week - <http://www.gbw.ge>

2 <http://www.heritage.org/Index/>

Australia (82.0) and USA (80.6). Cuba, Zimbabwe and North Korea are on the last places. Let's consider the dynamics of Economic Freedom of Caucasian countries and their current positions.

Fig.1. Dynamics of Index of Economic Freedom / Fig.2. Ten Freedoms for each country (2008)



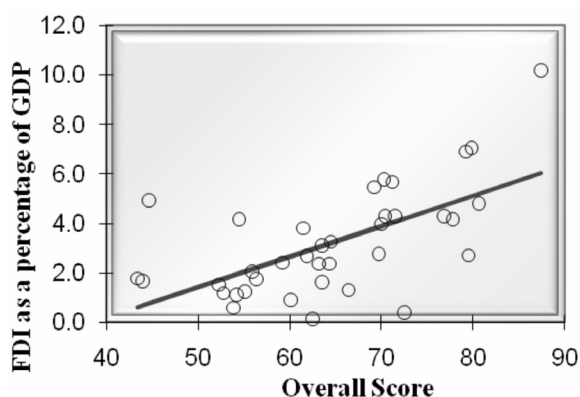
Source: www.heritage.org – 2008 Index of Economic Freedom

How is Economic Freedom measured? There are ten components of Economic Freedom; each of them is assigned a grade using a scale from 0 to 100. Then the component scores are averaged to give an overall Economic Freedom score for each country. The ten components of Economic Freedom are: *Business freedom, Trade freedom, Fiscal freedom, Government size, Monetary freedom, Investment freedom, Financial freedom, Property rights, Freedom from corruption, and Labor freedom.* Some of these freedoms show economy's openness to trade and investment while the others indicate the Economic Freedom on an individual level.

Let's investigate how Economic Freedom scores affect FDI inflows. Let's consider FDI as a percentage of GDP as a dependent variable and Overall Score as an independent variable of a linear model.

Fig. 4. Overall Score Line Fit Plot and the regression statistics

Multiple R	0,619311
R Square	0,383546
Adjusted R Square	0,365933
Standard Error	1,72026
Observations	37
P-value	0,00004
Y = -4,723 + 0,123 X	



Source: Calculated by the author using data from Central Intelligence Agency Database, Heritage Foundation Database and UNCTAD Database

Fig.5. Correlation matrix between variables

	FDI as a percentage of GDP	Overall Score	Investment Freedom	Financial Freedom	Freedom from Corruption	Business Freedom	Government Size
FDI as a percentage of GDP	1,000						
Overall Score	0,619	1,000					
Investment Freedom	0,455	0,420	1,000				
Financial Freedom	0,525	0,545	0,834	1,000			
Freedom from Corruption	0,442	0,497	0,764	0,696	1,000		
Business Freedom	0,422	0,390	0,789	0,679	0,770	1,000	
Government Size	-0,298	-0,356	-0,542	-0,608	-0,595	-0,416	1,000

According to regression results we can notice that a 10 unit increase in Economic Freedom overall score would on average increase FDI as a percentage of GDP by 0.123. And R^2 is rather significant.

As we can see there is a high correlation (higher than 5% significance level) between variables. The highest one is between Financial and Investment Freedom. So the results of the regression which we can see refer to the multicollinearity.

Fig.6 The results of the regression between FDI as a percentage of GDP and 5 Economic Freedoms

Multiple R	0,540850366		
R Square	0,292519118		
Adjusted R Square	0,178409298		
Standard Error	1,958187013		
Observations	37		
		Coefficients	Standard Error
Intercept		1,49228442	2,421939795-
Investment Freedom		-0,00940471	0,037667519
Financial Freedom		0,058642821	0,03565757
Freedom from Corruption		0,015000363	0,025224324
Business Freedom		0,009319005	0,039006582
Government Size		0,006185501	0,016963833

Apart from one case (Investment Freedom), the general positive sign of the coefficients confirms our hypothesis regarding the positive effect Economic Freedoms on FDI flows. We can also see that the regression between Investment Freedom and FDI as a percentage of GDP is positive.¹

Now let's look through each subcategory of Ten Freedoms for the Caucasian countries.

¹ See appendix – fig. 3.

2.1. Business Freedom

The national regulatory environments of the Caucasian countries protect the overall freedom to start, operate, and close a business. It is quite easy to start a business and it takes only a few days, considerably less than world average of 43 days (in Armenia it takes 18 days, in Azerbaijan- 30, and in Georgia- 11 days), closing business as well is relatively easy. Obtaining a business license in Azerbaijan requires more than the global average, and in Armenia and Georgia it requires less than the world average. The World Bank recognized Georgia as the world's fastest reforming economy in its 2007 "Doing Business" report, and its 2008 report ranks it as the world's 18th easiest place to do business. However, the impediments of business environment are the poor implementation; application of business legislation; the lack of transparent regulations and inconsistent enforcement of existing laws.

2.2. Trade Freedom

Georgia has made significant progress toward liberalizing its trade regime, but agriculture subsidies, an inefficient customs process, and other barriers continue to add to the cost of trade.² There is a similar situation in Armenia and in Azerbaijan - unpredictable customs valuation, a weak legal regime, improper implementation of the customs code, inefficient customs administration, and customs corruption add to the cost of trade. An additional 10 points were deducted from each country's trade freedom score to account for the non-tariff barriers.

2.3. Fiscal Freedom

Armenia and Georgia have relatively lower tax rates than Azerbaijan. The top income tax rate is 12 percent in Georgia, 20 percent in Armenia, and 35 percent in Azerbaijan. The top corporate tax rate is 20% both in Armenia and Georgia, and 22 percent in Azerbaijan. Other taxes include value-added tax (VAT) in all countries and vehicle tax (in Armenia), property tax (in Azerbaijan), tax on interest and tax on dividends (in Georgia). In the most recent year, overall tax revenues as a percentage of GDP in the Caucasian countries were 17.3 percent (Armenia), 16 percent (Azerbaijan), and 19.7 percent (Georgia).

2.4. Government size

Total government expenditures in the Caucasian countries (including consumption and transfer payments) are low. The government spending in Armenia equaled 21.3 percent of GDP, in Azerbaijan it amounts to 23.9 percent of GDP, and in Georgia – 25 percent of GDP. And what about privatization? In Armenia it has accelerated over the past two years in sectors like mining and metals; in Azerbaijan privatization of small and medium-sized enterprises is almost complete, but privatization of large-scale enterprises has been limited. And in Georgia privatization of state-owned enterprises has been substantial.³

2.5. Monetary Freedom

If we speak about the inflation, we must notice that in Armenia it is relatively low, but in Azerbaijan and Georgia it is moderately high. But in Armenia there is a distortion of prices in some sectors (such as electricity, gas, and public transportation) because of government subsidies and regulation policies. The similar situation is in Azerbaijan as the government continues to control prices on the most energy products and operates a number of state-owned enterprises. The government of Georgia also provides subsidies for agricultural products and energy.

2.6. Investment Freedom

The major impediments to foreign investors of Armenia are: weak implementation of business legislation; corruption in the bureaucracy; not transparent privatization.

The government maintains several incentives (such as tax holidays) for investors but the regulation system is still not transparent. The IMF reports that there are no restrictions or controls on the holding of foreign exchange accounts, invisible transactions, or current transfers and no repatriation requirements. Although the government of Azerbaijan has issued some formal decrees to improve the business environment, its regulatory agencies continue to act non-transparently and arbitrarily. Poor infrastructure also has a negative effect on foreign investment, as does the bureaucratic obstacles that companies face. The government prohibits investments in national security and defense sectors and restricts investment in government-controlled sectors like energy, mobile telephony, and oil and gas⁴. Corruption and legal reform are proceeding rapidly in Georgia. There are

² See reference 7.

³ See reference 7.

⁴ The reason for this is that the most investment is driven by the oil and gas sector, aside from which FDI is very low. See the

no restrictions on ownership of domestic companies, stocks, bonds, or other property, and local participation in businesses or investments is not required. Simple commercial registration and some licensing requirements do apply, however. Foreign firms may participate freely in privatizations, though transparency has been an issue. Residents and non-residents may hold foreign exchange accounts. There are limits and tests for payments and current transfers; capital transactions are not restricted but must (like investment) be registered.

2.7. Financial Freedom

Armenia's underdeveloped financial sector is dominated by banking. Following a banking crisis in the 1990s, the government embarked on a process of privatization and regulatory reform that included adopting International Accounting Standards. Though Azerbaijan's financial system is underdeveloped it is growing. Georgia's small financial sector has undergone substantial liberalization. Beginning in the 1990s, the central bank assumed a supervisory role and imposed stringent reporting and capital requirements that led to the closure or merging of a number of banks. In 2001, there were 31 banks; by the end of 2006 there were 21, and now there are 22 banks in Armenia. All of them are privately owned. The central bank has intervened in the market to encourage dram transactions, but without much success. The central bank of Azerbaijan, independent since 1995, has overseen a process of closures, consolidation, and privatization under which the number of banks has fallen from 210 in 1994 to 43 in 2007; and now there are 46 banks (one is state bank). There were 21 banks at the end of 2005, down from 247 in 1995 and now there are 20 banks in Georgia. The eight largest banks of Georgia account for about 90 percent of assets. The banking sector of Azerbaijan is dominated by two major state-owned banks, which together account for about 60 percent of assets; provide financing for most government departments and many of the state-owned enterprises, often at below-market rates; and stunt the growth of private commercial banks.

The Central Bank of Armenia regulates the small insurance industry (in 2008 only 0.3% of GDP). Foreign insurance companies and banks are permitted. In 2008, the active stock exchange of Armenia had a market capitalization of \$154 million, with 10 countries listed. The central bank of Azerbaijan has raised minimum capital requirements, but many commercial banks are undercapitalized. Foreign banks have a minimal presence. The stock exchange, founded in 2000, is very small. Foreign bank branches are welcome in Georgia, and foreign investors are majority owners of several banks. The government does not have a stake in any bank. Non-performing loans are a problem for some banks, which are generally risk-averse and prefer to issue most credit-financing trade. Significant informal transactions contribute to the weakness of the banking sector. The insurance sector includes significant foreign participation. The stock exchange is small and underdeveloped.¹

2.8. Property Rights

Armenian law provides substantial protection for intellectual property rights and is in compliance with the World Trade Organization's Trade Related Aspects of Intellectual Properties (TRIPS) Agreement. The government has increased enforcement of IPR (Investment Policy Review) laws. The judicial system is still recovering from underdevelopment and corruption—legacies of the Soviet era that substantially impede the enforcement of contracts. In November 2005, the constitution was amended to increase judicial independence, but it remains to be seen how this translates into practice. The judiciary in Azerbaijan remains corrupt and inefficient and does not function independently of the executive. The poor quality, reliability, and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business. Politically connected business interests benefit from their control of lucrative sectors of the economy. Judicial corruption in Georgia is still a problem despite substantial improvement in trying to raise the level of efficiency and fairness in the courts. Both foreigners and Georgians continue to doubt the judicial system's ability to protect private property and contracts. Enforcement of laws protecting intellectual property rights is weak. Among the specific achievements for which the IFC credits Georgia is strengthening investor protections by amendments to its securities law that eliminate loopholes that had allowed corporate insiders to expropriate minority investors.²

2.9. Freedom from corruption

Corruption in the Caucasian countries is perceived as widespread. Petty corruption is pervades Armenian

previous source.

1 <http://www.heritage.org>

2 <http://www.state.gov> - Investment Climate Statement 2008

society. Armenia ranks 93rd, Azerbaijan ranks 130th, and Georgia ranks 99th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Azerbaijan remains plagued by arbitrary tax and customs administration that creates opportunities for graft, regulatory regimes that favor monopolies, and corruption at all levels. Because of widespread corruption in Georgia thousands of civil servants and police were fired, and several high-level officials had been prosecuted for corruption-related offenses. In connection with this the World Bank's "Anti-Corruption in Transition 3" report places Georgia among the countries showing the most dramatic improvement in the fight against corruption, due to implementation of a strong program of economic and institutional reform.³

2.10. Labour freedom

The Caucasian countries' labour market operates under relatively flexible employment regulations that hinder employment creation and productivity growth could be improved to enhance employment and productivity growth. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is relatively costless. The high cost of laying off workers creates a risk aversion for Azerbaijan's companies that would otherwise hire more people and grow. The overly generous unemployment insurance program diminishes the incentive to work. Rules on the number of work hours are very flexible in Georgia. Georgia leads the world in labor market freedom.⁴

SUMMARY

FDI plays a vital role in the development of the country's economy. For transformation of regenerative growth in the countries of Southern Caucasus into the long-term economic growth based on investments and expansion of export there is a necessity in essential advancing growth both domestic and foreign investments. The result of the economic growth is constant expansion of volumes and directions of enterprise activity. Quality of the enterprise environment, in particular effective and predicted system of protection of the property rights, and also ease of access to credit resources has paramount value for investments attraction. **The freer and less constrained economic climate is the more attractive is to investment by both domestic and foreign investors.**

We have used the Economic Freedom scores from the Heritage Foundation as quantities measures of the investment climate and find out that Caucasian countries have very similar strong points (freedoms) which influence to each countries investment climate as a whole. They also have similar problems. Therefore it will be more logically to consider these gaps of investment climate as general for the countries of the Southern Caucasus and try to find the coordinated decision which will be the most effective for each of them!

Let's summarize which are these major challenges:

✓ The *inefficient and corrupted law-enforcement system and lack of property right* which is the most essential obstacle for investments into the Caucasian countries (as well as practically in all transitive and developing countries). It is a challenge demanding the long-term decision and constant improvement of legal system and which should be addressed in wider context of public service modernization and effective struggle against corruption;

✓ The *quality of tax administration* (in particular exporters' problem of VAT return). The following measures are necessary for its decision:

- *tax bearers' transaction costs reduction;*
- *procedures simplification and steady following to them;*
- *arbitrary tax and customs administration;*
- *a weak court system;*
- *Burdensome and incoherent taxes and arbitrary collection procedures.*

✓ Need of simplification of *customs clearing procedures* and reduction of time necessary for this, and also precise application of customs of clearing procedures in the sequence they are described in national customs codes (corresponding to WTO requirements);

✓ Need is *minimization of civil servants intervention* in business of investors and businessmen. The effective solution of this problem is minimization of possible personal contacts of business and civil servants by stage-by-stage introduction of electronic management's mechanisms and procedures (that now is in rather

3

4 <http://www.scribd.com/doc/7625732/2008-Index-of-Economic-Freedom-the-Heritage-Foundation>

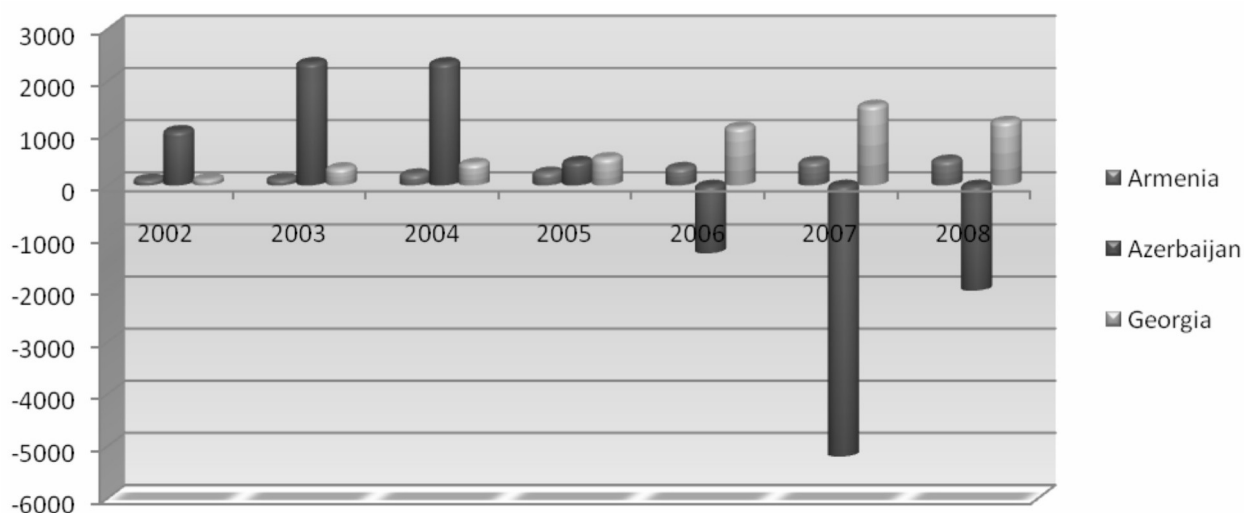
preliminary stage in the countries of Southern Caucasus).

List of applied literature:

1. Index of Economic Freedom: Link between Economic Opportunity and Prosperity;
2. The Impact of Economic Freedom on FDI Inflows to Developing Countries: The case of the Middle East - JÖNKÖPING International Business School, 2008;
3. Foreign direct investment in Central Asian and Caucasian Economies: Policies and issues – United Nations Economic and Social Commission for Asia and the Pacific (ESCAP);
4. FDI and the Investment Climate in the CIS Countries – IMF Policy Discussion Paper, 2003;
5. Transition Report 2008: Growth in transition - European Bank for Reconstruction and Development (EBRD).

Appendix

Fig.1. FDI, net (mln, USD)



Source: United Nations Conference on Trade and Development - www.unctad.org - World Investment Report (2005, 2008)

Fig.2. FDI as a percentage of a gross fixed capital formation (percentage)

Country	1997	2000	2005	2006	2007
<i>Armenia</i>	19.6	30.8	16.4	20.0	16.9
<i>Azerbaijan</i>	76.1	12.9	30.7	-9.6	-81.8
<i>Georgia</i>	67	27.4	25.2	51.0	60.2

Source: www.unctad.org - World Investment Report (2003, 2007)

Fig. 3. Investment Freedom Line Fit Plot

***The investment climate of Caucasian countries and the impact of
Economic Freedom on FDI inflows***
Annotation

*Author: Kristine Sahakyan
Russian-Armenian (Slavonic) University
Third year student of Department of Economics
Instructor: Edgar Karapetyan, PhD*

At the present stage of economic development the overwhelming majority of the countries stimulate foreign direct investment (FDI) inflow in conditions of strengthening of processes of globalization, liberalization and competition. The governments raise the role in this area developing various mechanisms for attraction of the foreign capital. FDI being essentially important factor of economic growth simultaneously strengthen processes of integration and internationalization.

I cannot disagree with the opinion of researchers that the foreign capital involved in national economy and used effectively renders positive influence on economic development, helps to overcome backwardness, and to be integrated into world economy. But I must notice that on the other hand the attraction of the foreign capital imposes the certain obligations, creates diverse forms of dependence of the country (the borrower form the creditor), and causes sharp growth of an external duty, which is very dangerous in stage of international economic volatility. Thus, for national economy the foreign capital can have ambiguous consequences.

However, as there is underdeveloped financial market in the countries of the Southern Caucasus which could not effectively translate internal savings into the investment, foreign direct and foreign portfolio investments play defining role in financing of economic development of these countries. In view of practical absence of the capital markets in the countries of the Southern Caucasus foreign portfolio investments' streams are insignificant, while the saved up volumes and streams of FDI are significant. FDI are the important source of financing of the Southern Caucasus' development, what on the other hand specifies the problems existing in mobilization of internal savings for financing of the economy.

Hypothesis of research – *the necessity of mobilization of FDI is extremely actual for the countries of the Southern Caucasus as without FDI it is inconvenient to conclude market re-structuring, to provide continuous, sustainable economic growth and to be integrated into the global markets.*

Object of research *is the current economic development of the countries of the Southern Caucasus, particularly role of foreign capital in it. **Subject of research** is the institutional mechanism of attraction and an effective utilization of FDI in the scope of economic growth intensification in the countries of the Southern Caucasus.*

In the research will be performed analysis of theoretical approaches, practical opportunities and the mechanism of attraction of FDI, and also an investment climate of each of the country and ways of its improvement. The problem of FDI mobilization can be considered as the general for the countries of the Southern Caucasus ant they can find the coordinated decision which will be the most effective for each of them.

AGEING OF POPULATION IN GEORGIA: TRENDS, PROBLEMS, PERSPECTIVES

Nato Pitskhelauri

*Ivane Javakhishvili Tbilisi State University
Student of the sixth course of the Faculty of Medicine
Instructor: Associate Professor, Dr. Nino Chikhladze*

Introduction

World society celebrates rising life expectancy in many regions of the world as one of humanity's major achievement. The world is experiencing an unprecedented demographic transformation.

The increase will be greatest and most rapid in developing countries where the older population is expected to quadruple during the next 50 years.

This Demographic Triumph and the fast growth of the population in the first half of the twenty-first century mean that the number of persons over 60 will increase from about 600 million in 2000 to almost 2 billion in 2050 and the proportion of persons defined as older is projected to increase globally from 10 percent in 1998 to 15 percent in 2025.

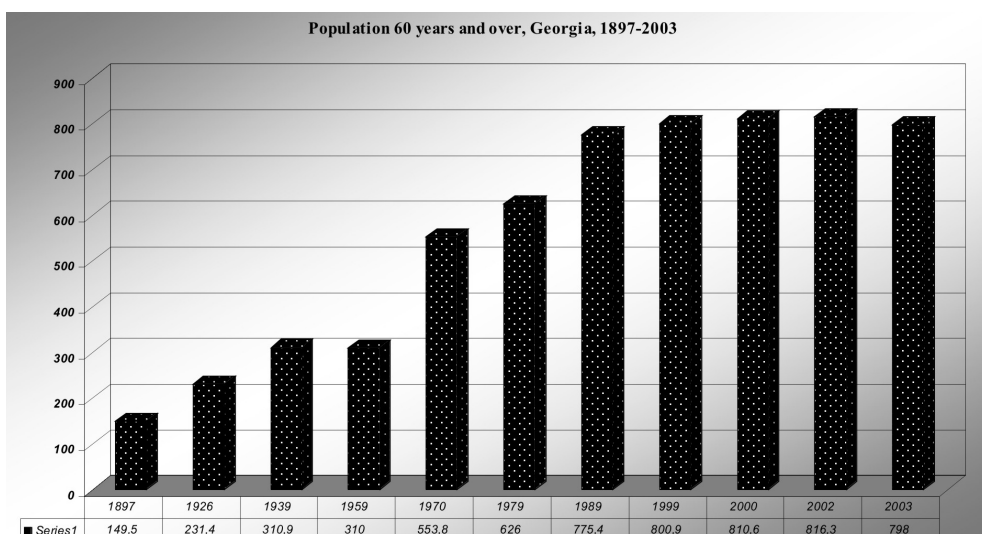
Such a global demographic transformation has profound consequences for every aspect of individual and community.

Every facet of humanity will evolve: social, economic, medical, psychological, cultural and spiritual.

Demographical conversion in Georgia

As a result of society's evolution we use demographic transition theory to characterize historic sequence of the change of types of population reproduction. According to this concept, all countries and nations pass the same stages on their demographic history way, each having a certain type of population reproduction.

Economically Georgia is a developing country; demographically it is attributed to the developed countries. As in economically developed country, in Georgia birth rate decreases, age of woman matrimony lowers, number of two-child families increases. As a result, in a whole population there is decrease in young and increase in over 60 years age groups part, i.e. the population becomes demographically old.



This process was especially shown during the last decade, despite the socio-economic and political crises in Georgia. An absolute number of long livers go up, their share in the population's general structure is still

high, and these tendencies are still the most prominent in indigenous Georgian population.

Thus, the Georgian population in the shortest period of time during demographic development – ten years – has reached the developed level of demographic aging; Georgia is still considered the country of the highest level of long livers in the world.

Population's ageing statistical tendencies in Georgia

In 1970-2007 population under 15 years was decreased by 1/3, from 31% to 17,4%, and share of the elderly population (65 and over) increased from 8% to 14,6%.

Tabl.1, Basic population structures, Georgia, 1970-2007

	Population by age (percentage)			
	0-14	15-24	25-64	65+
1970	31	15	46	8
1979	26	18	47	9
1989	26	15	50	9
2002	21	16	50	13
2007	17,4	16,2	50,6	14,6

Until 1989 share of the elderly population was increasing comparatively slowly. In 1979 the index was 9, 2%, in 1989 – 10, 8%. As we can see, the difference is not great – only 1, 6 points. The next years an aging rate increased twice. In the elderly contingent, compared to the long livers, a sharp increase was not mentioned. If in 1989 the aging index was 2,9%, in 2003 it was 3,8%. Index of the Georgian population longevity was stable in 1989-2007 and constituted 0,8%, this rather high index.

Fastening of demographic aging is also indicated by the population's average mediate age, which increased in 2003 compared to 1989 from 30, 7 to 34, and 7. In 1989-2000 share of those aged 60 years and over in the whole population increased from 14, 3% to 18,6%.

The process has not influenced yet the demographic load index, stable from 1979.

By calculations of the State Statistics department in 2007 in Georgia an expected average life expectancy at birth were 75, 1 year, for men – 70, 5 years, women – 79, 4 years. So, in 2007 a sex difference for expected average life expectancy was 8, 9 years, while in 2002 the index was 7, 7 years.

In 2002 in Georgia an expected average life expectancy at birth was 71,5 years, for men – 68,0 years, women – 74,8 years. So, in 2002 a sex difference for expected average life expectancy was 6,8 years, while in 1999 the index was 7,7 years.

According to the World Healthcare Organization data, expected healthy life expectancy for the Georgian population is 58, 2 years, which is 13, 3 years less than the expected average life expectancy. For women this index is 60,2 years, this is 14,6 years less than expected average life expectancy in women, for men the index is 56,1 years, this is accordingly 11,9 years less than the expected average life expectancy in men.

Sex difference in healthy expected life expectancy was 4, 1 years, this is 2, 7 years less than difference between average expected life expectancy in women and men.

Table. 2 Healthy life expectancy and y life expectancy by sex, Georgia, 2002

	life expectancy	healthy life expectancy
Total population	71,5	58,2
Males	68,0	56,1
Females	74,8	60,2

In the structure of morbidity high share have: disease of the circulatory system, disease of the respiratory system, disease of the musculoskeletal system and connective tissue, disease of the nervous system, disease of the digestive system and disease of the genitourinary system.

In the structure of cause of death very high share have disease of the circulatory system and neoplasm.

As we mentioned above, the new index developed by the WHO is an aggregation of different measures in the same way as the HDI is an aggregation of indices for life expectancy, education, and income per capita. Dividing the WHO index into its different components reveals some interesting results. Dissects Georgia's unified index for overall health care system performance according to the index's different components: the disability-adjusted life expectancy (DALE), responsiveness level, fairness in financial contribution, overall goal attainment, health expenditure per capita, performance of health level, and overall health system performance. Out of all the factors considered, Georgia ranks best (44th) in the DALE index. Note, however, that the difference in Georgia's DALE index and the other indices is significant. While the DALE index ranks Georgia 44th out of 191 countries, the index for the "responsiveness" of the health care system ranks Georgia way back at almost the end of the list in 166th position. The index for "health expenditure" per capita ranks the country 125th while the index of "fairness" in health care financing improves things a little, ranking Georgia 105th.

The difference between the DALE index and the unadjusted index for life expectancy is substantial. The average Georgian's life expectancy at birth is 71.5 years; when adjusted in terms of the number of years of ill health (DALE index). The difference between the DALE's of males and females is also noticeable. Females have a DALE of 69.4 in contrast to 63.1 for men. These numbers show that Georgian males live for a relatively long time but that they also suffer from bad health for a number of years. No surprise if one considers the level of alcohol and cigarette consumption in Georgia. In fact, Georgians spend, on average, as much on cigarettes as they do on health care.

An increase in old contingent (75-85) of the elderly population is connected with the increase of average life expectancy; however, they (60-75) constitute the largest age group. In the structure of 60-years-old and over age group, alongside with the age interval increase, the share of the mentioned group decreases. For example, in the structure of 60-years-old and over, the highest share has population of 60-64 years age groups (5,9%), the lower – the population of 100-years age group and over (0,01%).

Table. 3 60 and over population's structures, Georgia, 2002 -2007

Years	Population (total)		As percent of total	
	2002	2007	2002	2007
60-64	257,8	148,2	5,9	3,4
65-69	202 ,4	211,7	4,6	4,8
70-74	175,9	179,9	4,0	4,1
75-79	104 ,8	136,7	2,4	3,1
80-84	43,7	76,9	1,0	1,8
85+	29,5	37,7	0,75	0,9

According to years, in each sub-group of 60-85 age groups there is the following tendency: in the first sub-group, after the peak of 1989, the number of elderly people decreases; in the second group, on the contrary, after the recession of 1989 the dynamics is stably increasing. The number of third sub-group, in general, 65-74 years old population (average 128%). Insignificant, but a stable increase in the fourth sub-group can be marked (within 5%). Concerning the fifth and sixth sub-groups, against the 90-s background an increase was mentioned twice in 80-84 age groups: in 2003 (1,4%), for 85+ age sub-group in 2002 – 5,3%.

Interesting tendency is in the process of study of sex structure of 60-year and over age group. In 2002 this age group was constituted of women for 60%, 40% - men. With increase of the age interval, women's share

also increases. If in 60-64 year age group men were 43,21%, women 56,9%, in 100-year and over age group men were only 11,2%, women – 88,8%.

Tabl.4 population structures be sex, Georgia, 2002

Years	Males		Females	
	Total	%	Total	%
60-64	111 150	43,1	146 675	56,9
65-69	87 403	43,2	114 956	56,8
70-74	72 530	41,2	103 350	58,8
75-79	36 238	34,6	68 533	65,4
80-84	11 563	26,4	32 168	73,6
85-89	4 841	24,1	15 216	75,9
90-94	1 523	22,1	5 361	77,9
95-99	300	15,9	1 583	84,1
100 +	73	11,2	577	88,8
Total	325 621	40,0	488 419	60,0

Tabl.5 population structures be sex, Georgia, 2007

Years	Males		Females	
	Total	%	Total	%
60-64	66,2	3,2	82,0	3,6
65-69	86,7	4,2	125,0	5,4
70-74	73,5	3,5	106,4	4,6
75-79	52,5	2,5	84,2	3,7
80-84	25,6	1,2	51,3	2,2
85+	8,1	0,4	29,6	1,3

In 1999-2007 against the decrease of population background, a number of 60-85 age group increases insignificantly, this is reflected in the dynamics of the group (average annual growth rate is 101, 2%). During the 20-th century the group has increased 5 times, and an uneven growth begins from the 60-s. During the considered period the following appropriateness is kept for each age group: in the 60-85 age groups the share of 60-64 is the highest, then 65-69 and 70-74. Little changes are between the second and the third sub-groups in 1897 and 1925 years.

The difference between numbers of demographic aging in urban and rural population needs attention.

Tabl.6 Demographic aging index (%), Georgia, 1959-1999

	Total population	urban population	rural population
1959	11,0	8,9	12,5
1970	11,8	10,4	13,1
1979	12,5	11,2	14,0
1989	14,4	12,9	16,2
1999	18,8	16,9	21,3

In city the share of those over 60-years is 16, 4%, in country - 21%. Compared to the country, a share of active able bodied population is high in the whole city population.

Table. 7 Proportion of urban and rural population by efficient age, Georgia, 1959-1999

	Urban population			Rural population		
	Total	Males	Females	Total	Males	Females
Population of efficient age	1518888	728380	790508	1265722	656530	609190
Population of over the efficient age	300070	80929	219141	353893	112633	241260

In 1989-2007 the correlation of pension age population to the able-bodied has increased from 23,6 to 33,8. According to 2007 data, in Georgia the number of 65 and over age men reached 247,3 thousand, women – 395,8 thousand, in sum 643,1 thousand. The mentioned situation creates serious problems for the society, because expenses, allocated for healthcare and social protection of the contingent are laid as hard burden on the country's economy.

Conclusion

In 1989 the Georgian population was at the medium level of demographic aging (14,4%0, during a very small period (5 years), in particular, in 1994 the index has reached the developed level of aging (16,2%). From 2000 the very much developed level of aging (18,4%) was evident. The mentioned process increases up till now.

Increase of the elderly people number brings a sharp question of the main recourse. If the developed countries are concerned with unemployment and problems of pension systems stability, in the developing countries analogous problems are shown quickly.

According to the Program of economic development and poverty reduction, and elimination of indigence for population 60 years and over is possible by reduction of the probability of poverty risk, by facilitation of poverty consequences which can be attained with the help of purposeful and target systems of material and nonmaterial allowances , by alleviating the impact of possible poverty risk, which should be reached by means of elaboration and development of efficient and financially steady systems of retirement, health, social, and other types of social insurance.

On purpose to overcome poverty and eradicate extreme indigence throughout the country it is necessary to carry out special measures in the following directions: reform of social insurance, improvement of the system of social assistance, improvement of the system of social assistance.

Concerning the Caucasus long livers phenomena, Georgia even in the beginning of XXI century is the hearth of traditionally long liver population and reserves one of the leading places in the world twenty of long livers populations. The fact needs in-depth study, in the difficult economic and social situation of transition period a complex research of the Georgian long livers contingent, taking into account medical, social, economic, and psychological factor of their life.

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Ageing of Population: Trends, Problems, Perspectives

Annotation

Nato Pitshelauri

Ivane Javakhishvili Tbilisi State University

Student of the sixth course of the Faculty of Medicine

Instructor: Associate Professor, Dr. Nino Chikhladze

The article provides a description of global trends in population ageing and includes a series of indicators of the ageing process in the world, European region and Georgia.

We used the official dates of WHO, European Health for all database and NCDC.

From 2000 the very high level of aging was evident and continuous to increase up till now. An absolute number of long livers goes up, their share in the population's general structure is still high, and these tendencies are still the most prominent in indigenous Georgian population

The results of statistical analysis shows that population ageing is unprecedented, without parallel in human history—and the twenty-first century will witness even more rapid ageing than did the century just past and the population ageing has profound implications for many facets of human life.

Increase of the elderly people number brings a sharp question of the main recourse. The mentioned situation creates serious problems for the society, because expenses, allocated for healthcare and social protection of the contingent is a hard burden to the country's economy.

Geriatric practice in older population increase risk of morbidity and polypathology. For the life of older population Health Care Issues are very important.

Concerning the Caucasus long livers phenomena, Georgia even in the beginning of XXI century is the hearth of traditionally long liver population and reserves one of the leading places in the world twenty of long livers populations. This fact in spite of the difficult economic and social situation of transition period needs in-depth study-complex research of the Georgian long livers contingent, taking into account medical (especially Mental Health-Mild/Vascular Cognitive Impairment), social, economic, and psychological factor of their life.

MEDIA VIOLENCE

Phiruz Bolkvadze

*Rustaveli State University
Student of the Second Course (Masters Degree)
Department of Social Sciences, Business and Law
Instructor: Prof. Guram Chaganava*

Introduction

Violence in media is the very important problem of the modern world. There are many ways of getting information in civilized countries, but we must think about its influence on human's life. Unfortunately, many materials published in newspapers and journals also heard and seen by humans from TV and radio are demonstration of using brute force. We are seeing or hearing violence not only in films but also in news, video games, music etc.

The main subject of our work is analysing the level of violence in modern media and learning its influence on society, especially on children. Method of our research is case study, research method that gives us ability to explore some problem by analysing facts and not need conducting experiments.

The questions discussed in our work are:

- Violence in Media.
- Kinds of Media Violence
- Influence of Media Violence on Society.
- Influence of Media Violence on children.
- Restrictions to Defence Society from Media Violence.
- Media Violence in Georgia.
- Politic to Defence People from Media Violence in Georgia.

The materials used in work are facts of media violence influence on people published in journals as in Georgia as an abroad.

Violence in Media (Abroad)

Violence in TVs

Between 2000 B.C. and 44 A.D., the ancient Egyptians entertained themselves with plays re-enacting the murder of their god Osiris - and the spectacle, history tells us, led to a number of copycat killings. The ancient Romans were given to lethal spectator sports as well, and in 380 B.C., Saint Augustine lamented that his society was addicted to gladiator games and "drunk with the fascination of bloodshed."

Violence has always played a role in entertainment. However, there is a growing consensus that, in recent years, something about media violence has changed.

For one thing, there is more of it. Laval University professors Guy Paquette and Jacques de Guise studied six major Canadian television networks over a seven-year period, examining films, situation comedies, dramatic series, and children's programming (though not cartoons). The study found that between 1993 and 2001, incidents of physical violence increased by 378 per cent. TV shows in 2001 averaged 40 acts of violence per hour.

Francophone viewers experienced the greatest increase. Although physical violence on the three Anglophone networks in the study increased by 183 per cent, on their francophone counterparts it increased by 540 per cent. One network, TQS, accounted for just under half (49 per cent) of all the physical violence on the

networks studied.

Paquette and de Guise also identified a disturbing increase in psychological violence, especially in the last two years. The study found that incidents of psychological violence remained relatively stable from 1993 to 1999, but increased 325 per cent from 1999 to 2001. Such incidents now occur more frequently than physical violence on both francophone and Anglophone networks.

In 2001, only a quarter of the most violent television shows, and two-fifths of the most violent movies, were rated R. The majority were rated PG or PG-13.

(Source: *Center for Media and Public Affairs*, 2001)

American programming also heavily influences Canadians. Paquette and de Guise found that over 80 per cent of the TV violence aired in Canada originates in the U.S. They speculate that francophone networks and stations may have a higher incidence of violence because they broadcast more movies, and this, in turn may be due to lower production budgets. Canadian-made violence is most likely to appear on private networks, which broadcast three times as many violent acts as public networks do. Overall, 87.9 per cent of all violent acts appear before 9 p.m., and 39 per cent air before 8 p.m. -- at a time when children are likely to be watching.

Other research indicates that media violence has not just increased in quantity; it has also become much more graphic, much more sexual, and

much more sadistic.

Explicit pictures of slow-motion bullets exploding from people's chests, and dead bodies surrounded by pools of blood, are now commonplace fare. Millions of viewers worldwide, many of them children, watch female World Wrestling Entertainment wrestlers try to tear out each other's hair and rip off each other's clothing. And one of the top-selling video games in the world, *Grand Theft Auto*, (so called GTA), is programmed so players can beat prostitutes to death with baseball bats after having sex with them.

On average, children in the 23 countries surveyed watch television three hours each day, and spend 50 per cent more time watching the small screen than they spend on any other activity outside of school.

(Source: *UNESCO*, 1998)

Concerns about media violence have grown as television and movies have acquired a global audience. When UNESCO surveyed children in 23 countries around the world in 1998, it discovered that 91 per cent of children had a television in their home -- and not just in the U.S., Canada and Europe, but also in the Arab states, Latin America, Asia and Africa. More than half (51 per cent) of boys living in war zones and high-crime areas chose action heroes as role models, ahead of any other images; and a remarkable 88 per cent of the children surveyed could identify the Arnold Schwarzenegger character from the film *Terminator*. UNESCO reported that the *Terminator* "seems to represent the characteristics that children think are necessary to cope with difficult situations."

The notion of violence as a means of problem solving is reinforced by entertainment in which both villains and heroes resort to violence on a continual basis. The Center for Media and Public Affairs (CMPA), which has studied violence in television, movies and music videos for a decade, reports that the «good guys» commit nearly half of all violence. Less than 10 per cent of the TV shows, movies and music videos that were analyzed contextualized the violence or explored its human consequences. The violence was simply presented as justifiable, natural and inevitable -- the most obvious way to solve the problem.

Incidents of sexual violence and sadism doubled between 1989 and 1999, and the number of graphic depictions increased more than five-fold.

(Source: *Parent Television Council*, 1999)

Busy parents who want to protect their children from media violence have a difficult task before them. The CMPA found that violence appears on all major television networks and cable stations, making it impossible for channel surfers to avoid it.

Nightly news coverage has become another concern. In spite of falling crime rates across North America, disturbing images of violent crime continue to dominate news broadcasting. As news shows compete with other media for audiences, many news producers have come to rely on the maxim: "If it bleeds, it leads." Violence and death, they say, keep the viewer numbers up. Good news doesn't.

As well, movie ratings are becoming less and less trustworthy in terms of giving parents real guidance on shows with unsuitable content. PG-13 movies tend to make more money than R-rated films, and as a result, the industry is experiencing a “ratings creep”: shows that the Motion Picture Association of America would once have rated R are now being rated as PG-13, in order to increase box-office profits and rental sales.

In movie theatres, there is some control over who watches what. However, at home, there is little to stop children from watching a restricted movie on one of the many emerging specialty channels. Kids may also have access to adult video games at the local video store. In December 2001, the U.S. Federal Trade Commission reported that retailers allowed 78 per cent of unaccompanied minors, ages 13 to 16, to purchase video games rated “mature.”

To make supervision even more problematic, American children often have their own entertainment equipment. According to the Annenberg Public Policy Center, 57 per cent of kids aged 8 to 16 have TVs in their bedrooms, and 39 per cent have gaming equipment.

While many parents are concerned about the graphic violence and put-down humour in many kids’ shows, there is a growing subculture of violence that parental radar often misses.

Violence in Music and Music Videos

Music and music videos are pushing into new and increasingly violent territory. When singer Jordan Knight, formerly of the popular New Kids on the Block group, released a solo album in 1999, Canadian activists called for a boycott of the album because it included a song advocating date rape.

“Don’t you get it, bitch?
No one can hear you.
Now shut the fuck up,
and get what’s comin’
to you... You were
supposed to love me!!!!
(Sound of Kim choking)
NOW BLEED,
BITCH, BLEED
BLEED, BITCH,
BLEED, BLEEEEEED!”

(Source: From the song
Kim, by Eminem)

And when the controversial rap artist Eminem came to Toronto in 2000, politicians and activists unsuccessfully called for the government to bar him from the country, on the grounds that his violent lyrics promoted hatred against women. For instance, his song *Kim* graphically depicts him murdering his wife; and *Kill You* describes how he plans to rape and murder his mother.

In spite of (or perhaps because of) his promotion of violence, Eminem continues to be a commercial success. His *Marshall Mathers* release sold 679,567 copies in Canada in 2000, and was the year’s best-selling album. In addition, *The Eminem Show* topped Canadian charts for months in 2002, selling, at one point, approximately 18,000 copies a week.

Eminem’s success is not exceptional. Extremely violent lyrics have moved into the mainstream of the music industry. The Universal Music Group, the world’s largest music company, lists Eminem, Dr Dre and Limp Bizkit all of whom have been criticized for their violent and misogynist lyrics among its top-grossing artists. Moreover, Madonna’s 2002 music video *What It Feels Like For a Girl* contained such graphic violence that even MTV refused to air it more than once.

Violence in Video Games

Violence in general and sexual violence in particular, is also a staple of the video game industry. The current trend is for players to be the bad people, acting out criminal fantasies and earning points for attacking and killing innocent bystanders. Although these games are rated M, for mature audiences, it is common knowledge that they are popular among pre-teens and teenaged boys.

For example, players in *Grand Theft Auto 3* (the best-selling game ever for PlayStation 2) earn points by carjacking, and stealing drugs from street people and pushers. In *Carmageddon*, players are rewarded for mowing down pedestrians - sounds of cracking bones add to the realistic effect. The first-person shooter in *Duke Nukem*

“As easy as killing
babies with axes.”

(Source: Advertising copy
for the game *Carmageddon*)

hones his skills by using pornographic posters of women for target practice, and earns bonus points for shooting naked and bound prostitutes and strippers who beg, “Kill me.” In the game *Postal*, players act out the part of the Postal Dude, who earns points by randomly shooting everyone who appears

- including people walking out of church, and members of a high school band. Postal Dude is programmed to say, "Only my gun understands me."

The level of violence in the gaming habits of young people is disturbingly high. In MNet's 2001 study *Young Canadians in a Wired World* (which found that 32 per cent of kids 9 to 17 are playing video games "every day or almost every day"), 60 per cent cited action/combat as their favourite genre. Stephen Kline of Simon Fraser University reported similar findings in his 1998 study of over 600 B.C. teens. Twenty-five per cent of the teens he surveyed played between 7 and 30 hours a week and when asked for their one favourite game, their choice was "overwhelmingly" in the action/adventure genre.

Violence in Electronic Media

Virtual violence is also readily available on the World Wide Web. Children and young people can download violent lyrics (including lyrics that have been censored from retail versions of songs), and visit Web sites that feature violent images and video clips. Much of the violence is also sexual in nature.

For example, the site "Who Would You Kill?" allows players to select real-life stars of television shows, and then describes how they would kill them off in the series. The entries frequently include bizarre acts of degradation and sexual violence. Murder is also a staple of the Web site newgrounds.com, which features a number of Flash movies showing celebrities being degraded and killed. When MNet surveyed 5,682 Canadian young people in 2001, the Newgrounds.com site ranked twelfth in popularity among 11- and 12-year-old boys.

Other popular sites such as gorezone.com and rotten.com feature real-life pictures of accident scenes, torture and mutilation. In 2000, the FBI for posting photographs depicting cannibalism investigated rotten.com.

Many kids view these sites as the online equivalent of harmless horror movies. However, their pervasive combination of violence and sexual imagery is disturbing. Gorezone's front-page disclaimer describes the images on its site as "sexually oriented and of an erotic nature" and then warns viewers that they also contain scenes of death, mutilation and dismemberment. The disclaimer then normalizes this activity by stating, "my interest in scenes of death, horrifying photos and sexual matters, which is both healthy and normal, is generally shared by adults in my community."

Anecdotal evidence suggests that gore sites are well known to Canadian schoolchildren, although parents and teachers are often unaware of their existence. In MNet's 2001 survey, 70 per cent of high school boys said that they had visited such sites.

The presence of violence, degradation and cruelty in a range of media means that children are exposed to a continuum of violence, which ranges from the in-your-face attitude of shows like *South Park* to extreme depictions of misogyny and sadism. Young people generally take the lead when it comes to accessing new media but the MNet survey found that only 16 per cent of children say their parents know a great deal of what they do online. This is particularly problematic, given the results of a 1999 AOL survey which found that online activities are emerging as a central facet of family life; and that a majority of parents believe that being online is better for their children than watching television.

Violence in Media

In April and May of 2007 year, Broadcasting Company "Rustavi 2"'s two information programs ("Kurieri" and "P.S.") reporters made 32 subjects about criminals by minors. The frequency and quantity of subjects was so many that in the society raised opinion that new generation characterized high level of aggression.

(Source: "Illumination of Questions Related Children and Ethics of Media in Georgia – Location Analyze." By Media Expert Zviad Koridze Under the Orders of UNICEF.)

(Georgia)

Situation in Georgia is practically the same. Many Georgian broadcasting companies are airing films with bloody scenes. About heavy situation and high level of violence in Georgian media, speaks newspaper "Akhali Versia" (New Version). In article named "Pools of Blood, Dismembered Jacks..." journalist Nino Kobakhidze proves, that in spite of active fighting of Georgian government against criminals, the number of criminal actions still increases. Nino Kobakhidze thinks that main cause of growing aggression in the country is

showing victims of violence by TVs. “Everyday or almost everyday the main subjects of the daily news are killings. Showing of murdered men and dismembered jacks causes irritation one part of society. But other part of society thinks that broadcasters must pay attention to facts of violence.” – Wrights she. The opinion of citizens of Georgia about that question is the same. Let us listen to them.

Nana Chachua, Psychologist: “Showing of violence by TVs do not may often. Expressing of aggression in humans is after-effect of learning. Learning happens then, when the results of violence are awarded. I mean cases when humans are getting financial or economical privileges by the way of violence. We must tell society about criminals but we must do it so that do not get negative feedback from people as a results of learning.”

Iza Orjonikidze, Director of Literary Museum: “It’s not expedient to show violence in news everyday. There are poorness and other many problems in society and showing acts of violence affects on humans oppressively. We must speak about criminals openly, but showing of bloody scenes by TVs isn’t necessary.”

Vakhtang Khmaladze, Expert and Former Member of Georgian Parliament: “Our TVs are overloaded by scenes of violence. The most part of information programs contains criminal facts. It affects on humans oppressively. After watching of such scenes persons think that he or she may be next. By broadcasters opinion showing pools and dismembered bodies is a way to attract viewers. That is wrong. We must take care about psychic of our citizens.”

Liana Asatiani, Actress: “Unfortunately, the level of violence is growing up in our country. What happens around us is terrible. I think that media must talk about everything. We must not hide truth from the society.”

“520 Million People In The World, Annually, Are Victims of Interpersonal Violence.”

(Source: Georgian Parliament. Report About Defence of Human Rights By Nino Makhashvili Which Is Director of NGO “Global Initiatives In Psychiatry.”)

Vakhtang Kakhidze, Bandmaster: “Paying attention to criminals by media is good thing not only for society, but for police too. We must know what happens around us in fact, that defence ourselves more effectively. In addition, the TVs are independent and they have right to show everything, what they wish.”

The opinions presented above, clearly shows that a level of violence in Georgian media is undesirable. The situation is more dramatic in electronic media (I Mean Music, Music Videos, Video Games and Web Sites) which is almost uncontrolled.. Adults can buy, listen, watch, play and brows any type of music, videos, games and web sites. What does the government of Georgia to defence society from harmful influence?

Defence Politic From Media Violence in Georgia

Many countries’ Governments and NGOs support strategies to defence society from media violence. The government of Georgia is not exception between them. Main method of fighting is restrictions spreading harmful materials. For example, in many countries is forbidden to show films with bloody scenes by TVs during the daylight.

Twentieth march of this year, the Georgian National Communications Commission (GNCC) approved the Code of Conduct for Broadcasters in Georgia. According to this document, all Broadcasters in Georgia shall defend the principles of equality, variety and tolerance. The Broadcasters shall also protect minors from harmful influence, as well as the private life of any person.

The elaboration of this normative act took several years. Besides the GNCC, the experts of the Council of Europe participated in the process of elaboration of the Code of Conduct. Also the following TV companies: “Rustavi 2”, “Imedi”, “Public Broadcaster”, ”Kavkasia” and “Mze”, as well as the representatives of the society: “The Union of Orthodox Parents”, ”The Institute of Freedom”, “The Union of Teachers”, Union “Iberiana”, “Media Council”, The Public Defender’s Office and citizen Giorgi Kipiani.

Pursuant to the “Georgian Law on Broadcasting”, Article 50, the GNCC was charged with the elaboration of the Code of Conduct based on consultations with the functioning broadcasting companies and different representatives of the society. The document passed the legal examination at the Ministry of Justice of Georgia.

This fact verifies one more time that problem exists and needs making effective decisions. Another document, which defences society and minors from harmful influence, is above-mentioned “Georgian Law on Broadcasting.” This law appeals holder of broadcasting license, to protect society from harmful influence based on Code of Conduct for Broadcasters. These two normative acts approved Georgian government and defines national politic of Georgia to protect society from media violence.

Conclusion

It is difficult to say how effective and properly works “Georgian Law on Broadcasting” and “Code of Conduct for Broadcasters.” A fortiori then, when the “Code of Conduct for Broadcasters” was approved only several days ago. Results must show time. If criminals decreased after active defence of main principles of Code by media, it means that goal is reached. Anyway, we must take into consideration that no one of us is ensured from harmful influence. Facts discussed above shows that in society still stay the sources of information, which we cannot take under control, for example, internet, music, music videos and video games. Therefore, we must take care ourselves and defence everybody around us from harmful influence.

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2. *Parent Television Council.* (1999)
3. *Centre for Media and Public Affairs,* (2001)
4. *“Violence between Children and Adults – Several Views about Resolving Problem.”* By Nino Makhashvili (2007)
5. *UNESCO,* 1998
Also Following Web Sites:
 - <http://www.wikipedia.org>
 - <http://www.media.ge>
 - <http://www.parliament.ge>
 - <http://www.gncc.ge>

Media Violence

Annotation

Phiruz Bolkvadze

Rustaveli State University

Student of the Second Course (Masters Degree)

Department of Social Sciences, Business and Law

Instructor: Prof. Guram Chaganava

Ways of getting information in civilized countries, but we must think about its influence on human’s life. Unfortunately, many materials published in newspapers and journals also heard and seen by humans from TV and radio are demonstration of using brute force. We are seeing or hearing violence not only in films but also in news, video games, music and etc.

The main subject of our work is analysing the level of violence in modern media and learning its influence on society, especially on children. Method of our research is case study, research method that gives us ability to explore some problem by analysing actual facts and not need experiments.

The questions discussed in our work are:

- Violence in Media.
- Kinds of Media Violence
- Influence of Media Violence on Society.
- Influence of Media Violence on children.
- Restrictions to Defence Society from Media Violence.
- Media Violence in Georgia.
- Politic to Defence People from Media Violence in Georgia.

The materials used in work are facts of media violence influence on people published in journals as in Georgia as an abroad.

KOSOVO ISSUE AND ITS INFLUENCE ON REGIONAL CONFLICTS

Rustam Rahimov

Azerbaijan University

Student of the forth course of the faculty of International Relations

*Instructor: **Prof. Khaladin Ibrahimli***

Introduction

Conflicts are much disputable issue in the modern international relations. The reason is that no any country ensured itself from conflicts even developed countries. In this case appears the need to manage conflict or the features which could lead to conflict further.

The last declaration on independence of Kosovo makes some inconveniences in the multiethnic states. There is one truth that this kind of approach of leading states to the conflict could cause many wars, casualties and economic collapses of states. In order avoid such kind of dangerous situation all states should follow the general principles agreed upon UN Regulation. Nobody should consider that the process runs somewhere far away because the effect so close to each of us as it wasn't so far. Regarding to this importance I would like to make a short survey and review with you and get an outcome of it.

Personally I decline the existence any kind of ethnic conflict in South Caucasus. These conflicts are much more occupation wars commenced by neighboring state rather than "independence war of ethnic minority". It became general in modern diplomacy to abuse international law in favor its own benefit. The most dangerous question is abuses of imperative norms of international law like "jus cogens" norms. Breaches such kind of norms got usually "thanks" to Russia and USA.

Actually, some scientists explain the conflict as the alarm to the country about its economical and political instability. The thesis which I mentioned about instability concerns the initial turn of relations clash between majority and minority. In this case it is impossible not to mention about "Authorized Intervention". Authorized intervention considers the intervention just only the State concern in emergency case like massively violation of human rights authorized international forces could intervene the situation. Other kind of intervention considers and has to be considered as an aggression to the territorial integrity of State. The second important issue about how intervene to the Conflict zone. The desired intervention to the Conflict zone of State Concern is without any violation and casualties. It is at least for to be approved by international community. Most researchers consider impossible such kind of intervention to the conflict area.

One of the crucial points is internationalization of conflicts. This point considers mediation activities of influential states or international organizations. In this case the participated state possesses its own interest to solve the problem or become a key factor and make an obstacle in the way of solution of conflict. Depending on the interest of participating state or states participation could lead positive or negative consequences in the conflict settlement. Taking into account that the international organizations are just comprises from the states, then it will be clear that the decision adopted in their meetings won't be utterly objective at every time.

Ethnic Conflicts

The similarities between the conflicts in South Caucasus and in Kosovo are spiritual and military support by neighboring country which affected in the both regional conflicts. But because of Kosovo conflict which is considered much more ethnic conflict I would like to introduce you the classification of scientists on ethnic conflicts.

According to the scientists ethnic conflicts usually identifies with following types all over the world and they are:

- (a) Ethnic groups within a state which identifies itself as being multi-ethnic or multi national. Such groups

may be based on language (as Belgium and Switzerland), religion (as do Muslims and Hindus in India, Christians and Muslims in Lebanon) nationality (Former Yugoslav Republic), race (South Africa). In such cases, ethnic groups which are different from dominant nationality may or may not enjoy special legal status and they are usually in non-dominant position.

(b) Ethnic groups within a state which does not formally recognize its own multi-ethnic composition, such as France, Japan, Indonesia, Turkey, Portugal and numerous African countries. Here minorities based regionally like Bretons and Corsicans in France, Scots and Welsh in Britain, religious (Copts in Egypt), linguistic as Berbers in Algeria and etc/

(c) National minorities which identify with their ethnic kin in a neighboring state in which they may have majority status (such as Hungarians in Rumania, Turks in Bulgaria, Albanians in Yugoslavia, Armenians in Azerbaijan).

(d) Multiple ethnic groups within a state in which none enjoys a particularly dominant position, specifically in recently independent, formerly colonial countries, in which the state itself is a relatively weak, artificial construct. This situation tends to prevail in Africa south of Sahara.

(e) Ethnic minorities which straddle international boundaries and with minority status in each one of the countries as in frontier areas in Southeast Asia, the Basques in Spain and France, and the Kurds in the Middle East.

(f) Ethnic immigrants and refugees resulting from extensive migrations, particularly from the Third World countries into industrialized states.

(g) Finally, Indigenous or tribal peoples constitute a special case of ethnic groups, generally being regarded as minorities because of the historical circumstances like in Americas, Australia and New Zealand.

According to its features the Kosovo conflict is included to the group (C). But meanwhile we could include it to the group (b) where the minority may and may not use enjoy legal status.

What does Kosovo independence stand for?

Kosovo conflict is one of the crucial challenges of Europe where the whole Europe have been tested. But unfortunately the aftermath of this testing wasn't sufficient. The solution of Kosovo conflict by means of its independence indicated that the Europe still doesn't possess any kind of practice, ability and will to settle the problem in frame of rule of international norms. As a matter of fact they breach several orders which included even the order adopted by them in terms of territorial integrity of FRY. In order to bring some clearance to my point of view I would like to recall some terms from the international documents in the. They are followings:

1. "Jus Cogens" norms of International Law considering "the principle of Territorial Integrity of States which was submitted at Helsinki Final Act in 1975;
2. Rambouillet Agreement admitted in 15th of March, 1999 by Contact Group;
3. Resolution 1244 adopted by UN Security Council at its 4011th meeting, on 10 June 1999;

Albanian lawyers and diplomats alleged that Kosovo independence based on the principle of International Law which considered "The right to Self-determination of nations". But the element which is absolutely wrong is to take into account minority as the nation. Because the principle mentioned above applies just only the nations or majority population of state which used to be under the management of strange nations. The minority has the right to the cultural autonomy but not any more like independence. In this case the unilateral declaration of independence should be considered as a breach to the "jus cogens" norm adopted in 1975 which recalls all UN members to respect the "Principle of Territorial integrity of States".

The second document is Rambouillet Agreement which is said in the Article I: "*The national communities shall be legally equal as specified herein, and shall not use their additional rights to endanger the rights of other national communities or the rights of citizen, the sovereignty and territorial integrity of Federal Republic of Yugoslavia.*" Or in the Chapter 1, Constitution Division of the same Agreement said: "*Desiring through this interim Constitution to establish institutions of democratic self-government in Kosovo grounded in respect for the territorial integrity and sovereignty of Federal Republic of Yugoslavia.*"

The last one as I mentioned above is Resolution 1244 of UN Security Council on Kosovo issue. In the 8th paragraph of Annex 1 to this Resolution is said: "*A political process towards the establishment of an interim*

political framework agreement providing for a substantial self-government for Kosovo, takes full account of the Rambouillet accords and the principles of sovereignty and territorial integrity of the Federal Republic of Yugoslavia. Strengthening this idea in the 5th paragraph of Annex 2 is said: "Establishment of an interim administration for Kosovo as a part of International Presence under which the people of Kosovo can enjoy substantial autonomy within the Federal Republic of Yugoslavia, to be decided by Security Council of UN."

As result of this survey we discovered together that the independence of Kosovo hasn't got any kind of law base. It is just stands for interests of some Sates.

Harmful Independence

Kosovo independence is one of the evidences of modern approach to conflicts of retired leading States. There are two assumptions that how could and couldn't impact the Kosovo independence to the conflicts of all over the world. The first is interested countries on the regional conflicts will try to solve the conflict an easy way like the West did in Kosovo and get advantage income of it. During the realization of their interests interested country or countries will use Kosovo independence as precedent even creators of this independence decline future usage of Kosovo issue as a precedent.

There another assumption is about impossibilities of utilization of Kosovo issue as a precedent. Because everybody knows that situations could be more similar but in different regions with different source possessed conflicts don't have the same solution. The impact of Kosovo independence to the conflicts in South Caucasus is irrefutable. Regarding this feature I would like to emphasize some points. At first it would be better to give some clarification to the particularity of the regional conflicts. As far as we know there are exit lots of regional conflicts in the world but I am gone to touch especially the conflicts in the South Caucasus. There are including Upper Karabakh conflict between Armenia and Azerbaijan, South Ossetia and Abkhazia conflicts between Russia and Georgia. But meanwhile these conflicts more and less are different as well.

The Karabakh conflict were exacerbated in 1989 by local Armenian minority by means of spiritual and military support of Armenian Government and resulted with the violation territorial integrity of Azerbaijan Republic. The war lasted up to 1994 and resulted with cease-fire between Armenia and Azerbaijan in Bishkek. In spite of mediation of "super powers" – France, Russia and USA within OSCE Minsk Group still no result achieved for solution.

The history of Abkhazia and Ossetia conflicts are a little bit older than Karabakh conflict but the exacerbation of the conflict was the same date with other regional conflicts in South Caucasus – 1989. Under the Russian auspicious Ossetia and Abkhazian separatists were activated. In spite of cease-fire agreement between the sides in Sochi July 27, in 1993 the separatist's wars didn't stop. Finally, being special mediation group "Group of Friends of Secretary – General (FGSG)" could not solve the conflicts and prefer just to call the conflicts "frozen" as usual.

The South Caucasus region in its current situation is one of the volatile regions in the world. In this region each conflict plays important role in the interest of opposite great powers. The last annoying situation in South Caucasus was around Georgia. Being different from Kosovo issue the European states and USA preferred to keep silence. Instead of meet the raising expectation of Georgians, NATO left Georgia out of its care. And it gave opportunity to Russia to realize its ugly wishes and take revenge for Kosovo independence.

Kosovo independence as mater of fact impacted not only the political situation whole Caucasus and the Europe, but meanwhile, its influence was felt even in the energy supply of world market. Russian behaviors in Caucasus endangered the energy supply from Azerbaijan through Georgia to Europe. This kind of behaviors weren't satisfactory for displeased Russian government who felt lost and in order to show dissatisfaction Russia several times made attacks on States like the Ukraine, Georgia who has real inclination to integration to the European values like democracy, rule of law and etc. by means of economic sanctions, cutting energy supply.

The same time there are some more characteristics of South Caucasus conflicts which differ from Kosovo situation and liquidated the application of Kosovo independence as a precedent for the solution of these conflicts. At first neither conflict zone located country like Azerbaijan nor Georgia committed genocide against its minority population which such commitment done at FRY. The second there is no any feature which constituted exception for living together with minorities in these countries.

Conclusion

As we witnessed above the Kosovo independence with it's the worst example more and less impacts on the solution of regional conflicts. It is not just only inability and feebleness of modern diplomacy. The same time it is needed to pay an attention to the role of United Nations which becomes an invalid after cold war. If we consider the resolutions of Security Council of UN we certainly will meet the mass of unimplemented resolutions. Such kind of four (4) resolutions were adopted for the settlement of Upper Karabakh conflict in 1993, this indication for Abkhazia and Ossetia conflicts are totally 34 but as usual remained unimplemented.

The one of the reasons which affected Conflict expansion in modern society is not to follow international conventions and norms. In this context I would like to mention the convention on Conventional Armed Forces in Europe (CFE) signed in 1991. The convention of CFE banned any kind of arm smuggling to the potential conflict zone which it had happened in Kosovo, in Ossetia and Abkhazia and in Karabakh as well. Moreover, the CFE convention considers limitation of military expansion of Russia to the South. During the last attack of Russian troops to Georgia Russia pretended the postponing of it's participation in this convention. Such vulnerable issues gradually make its influences to the conflicts.

In order to revive the international rules and norms it is needed to take following measures:

- Enlarge the range of permanent members of UN Security Council
- Charge the Group of Temporary Members of UN Security Council to control the implementation of adopted Resolutions
- Convene the additional meetings of UN General Assembly and UN Security Council in order to review the international norms and rules.
- Finally, involve to the conflict solution groups only the states who distinguish with its impartiality and who don't possess any kind of disputes with another member of the solution group.

The final point stands on current solution or mediation groups which comprised of the countries who loathe each other like within the Minsk Group – Russia and USA.

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Kosovo issue and its influence on Regional Conflicts
Annotation

Rustam Rahimov

Azerbaijan University

Student of the forth course of the faculty of International Relations

Instructor: Prof. Khaladin Ibrahimli

The scientific work which I am working on is about the influence of Kosovo independence on international relations, particularly, regional conflicts. In this work I try to discover some hidden features which became the reason of Kosovo conflict and later on its independence. As we know this conflict appeared between – Serbian Albanians and Serbs. In this case it is impossible to call Serbian Albanians like Albanian nation because the particular fundamental principle of International Law – Self-determinations of the nations is addressed to the nations like Albanians who lives in Albania or Serbs who lives in Serbia. But within the country if the representative of another nation doesn't contains of majority of the population in this case it can only be called like minority rather than nation. And considering this argument it becomes obvious that the role self-determination of Kosovo Albanians had to be terminated.

Even today, after obtaining the independence of Kosovo there are exist some historical disputes which reflects XIV century (1389) history of the Kosovo. What about influences of this issue to the regional conflicts one thing has to be said that or in South Caucasus, either in somewhere else the Kosovo conflict could be precedent for the solution of other conflicts. If it will be, then this precedent will jeopardize all over the world countries.

SOME REGIONAL CHARACTERISTICS OF FINANCING OF SMALL BUSINESSES

Sesili Liluashvili

*Akaki Tsereteli State University
Student of the second course of the faculty of Social Sciences*

Doctor of Economics, Full Professor, Nikoloz Chikhladze

Small businesses have great importance and sometimes, as the world experience shows it plays decisive role in state's economic.

In post Soviet area the process of rushing to huge businesses has finished. Nowadays agenda includes necessity of development and support of small and medium businesses. For most of States, even though in periods of deep economic crisis, small business always was supporting the employment of people, satisfaction of market interest formation of country's financial resources, acceleration of economic reforms and technical innovating processes. So, to paraphrase Darwin's known thesis, viable and with great chance of survival are becoming not big firms, but small companies with their ability to get accustomed to changes.

We aren't discussing all advantages of small businesses. I will only notice that category of "small business" in conditional and it defines recording to state's size, its economic strength, and economic potential and so on. (e.g. In USA businesses small with employees from 10 to 500 men, in Italy from 20 to 100 hundred men, in France from 10 to 50 men, in Great Britain -to 100 hundred men and in German to 50 men and on).

As far, regional features, in developed countries regional authorities are most interested in business supporting their areas in order to receive more income. Besides, they are trying to attract business by using competitive methods, such as different favorable terms, preferences and so on. On the real stage of development it is impossible for us to create such environment and it is only chance to legalize easy payment terms, what is prerogative of local municipal authorities.

The other way includes the privatization of objects under municipal subordination with privileged conditions.

In the process of market relationships formation when market becomes the main indicator and state - regulator, it is particularly important to rush to small economic subjects to take best condition place of certain market part. In 1999 the law, about supporting of small and medium businesses, was received which unfortunately couldn't work. (Law was cancelled on 26.05. 2006y.)

In current research work connected with small businesses criteria from this law are reasonable.

Businesses in Georgia are divided: Large, medium and small businesses

Small and medium businesses include all types of businesses with their organizational and legal forms, where amount of average annual workers and annual finance circulation isn't preceded to these limited sizes:

For small businesses - 20 workers and 500 thousand lari;

For medium businesses - 100 workers and 1500 thousand lari;

For large businesses - more than 100 workers and more than 1500 thousand lari

Circulation is main indicator of economic activity in given period, what is related with unit's volume of realization of goods and services. Circulation includes all payments and taxes and all expenditures (transportation, packing and so on.) which pays purchasers.

All circulation in Georgia is distributed according to the sizes of businesses: Medium businesses - 60,3 percentages, small business - 39,7 percentages.

Table N-1

	Thousand GEL			Percentage	
	Total	Medium	Small	Medium	Small
Georgia (total)	545539.4	348224.4	197315.0	63.8	36.2
Tbilisi	346087.2	233844.2	112243.0	67.6	32.4
Abkhazia	411.6	411.6	-	100.0	-
Adzara	41696.0	24674.7	17021.3	59.2	40.88
Guria	6068.1	4162.4	1905.6	58.6	31.4
Imereti	38333.6	18968.0	19365.5	49.5	50.5
Kaxeti	18888.0	12948.0	5940.1	68.6	31.4
Mckheta-Mtianeti	5948.1	3547.9	2400.3	59.6	40.4
Racha-Lechkhumi and Kvemo Svaneti	1769.8	1137.4	632.3	64.3	35.7
Samegrelo-Zemo Svaneti	25258.2	11109.2	14149.0	44.0	56.0
Samtskhe-Dzavakheti	8007.9	3930.0	4077.9	49.1	50.9
Kvemo Kartli	34554.2	22668.8	11885.4	65.6	34.4
Shida Kartli	18516.7	10822.2	7694.5	58.4	41.6

By official data, total circulation of small businesses is 411, 8 (8, 1 percentage of business sector's total circulation.) Total output of production is 197, 3 million GELS. (It is 7, 3 percentage of total production output of business sector). Total purchases of goods and services in small businesses is 321, 7. (It is 7, 7 percentage of business sector.) Purchases of resale goods and services - 222, 3 (It is 8, 6 percentage of business section.) The share of total investments in fixed capital is 8, 1 million GEL (3, 7 percentage of business sector.)

Total amount of employment in small business is 66569 people. (It is 920, 3 percentage of business sector employment), from which 43 % women and 57 %-men. Among occupation are applied for work 51908 person.) (It is 16, 7 percentage of business sector employment). Total expenditures on personnel in small business is 47, 6 million GEL, (9, 0 percentage of business sector) and their average month earnings are 252, 0 million lark. (Among them for women is - 176, 0 million GEL).

Table-2

	In the middle and small businesses, units		In the middle businesses		In small businesses	
	Total	Among them women	Total	Among them women	Total	Among them women
Georgia (total)	138437	60775	71867	32157	66569	28618
Tbilisi	62433	29635	36262	17539	26171	12097
Abkhazia	101	2	101	2	-	-
Adzara	12023	4297	6587	2153	5436	2144
Guria	2919	1152	1134	353	1785	799
Imereti	17930	8270	8168	4161	9762	4109
Kaxeti	8068	3017	3842	1279	4226	1739
Mckheta-Mtianeti	3258	1556	2039	1030	1220	526

Racha-Lechkhumi and Kvemo Svaneti	1303	744	713	403	590	341
Samegrelo-Zemo Svaneti	9852	4017	3843	1837	6008	2180
Samtskhe-Dzavakheti	3706	1438	1341	336	2365	1103
Kvemo Kartli	10563	4122	4960	2006	5603	2116
Shida Kartli	6279	2525	2876	1060	3403	1465

According to their activities in total circulation of small businesses leading places are taking such branches as: “Trade; repairing of automobiles; production of living facilities and things of personal consumption” in following order: - “Trade, repairing of automobiles, production of living facilities and things of personal consumption” – 56,2 percentage,» manufacturing industry” – 14,2 percentage, “operations with real capital, rent and consumer services”, - 10,3 %, “Transportation and communication” – 5,6, “construction” – 4,4 %.

Tbilisi takes first place among regions by its share of output in small businesses’ total output (56, 9 %). Other regions are following in this order: Imereti – 9, 9 %, Adzara – 8, 6 %, Samegrelo-zemo Svaneti – 7, 2 %, Kvemo Kartli – 6%.

Table N-3

	In the middle and small businesses		In the middle businesses		In the small businesses	
	Total	Among them women	Total	Among them women	Total	Among them women
Georgia (total)	304.5	197.0	343.2	212.8	252.0	176.0
Tbilisi	407.3	248.5	450.7	253.0	341.1	241.7
Abkhazia	733.6	375.0	733.6	375.0	-	-
Adzara	248.2	161.4	275.4	162.1	203.0	160.6
Guria	150.2	111.4	202.9	146.8	99.1	90.3
Imereti	163.6	128.9	171.5	133.1	154.7	123.8
Kaxeti	184.0	129.4	213.0	136.5	143.5	122.3
Mckheta-Mtianeti	258.6	285.6	272.9	338.0	225.6	134.6
Racha-Lechkhumi and Kvemo Svaneti	157.1	107.7	170.2	114.9	123.8	87.8
Samegrelo-Zemo Svaneti	242.5	147.8	233.8	162.2	249.7	131.6
Samtskhe-Dzavakheti	168.2	104.2	249.1	172.3	110.2	78.7
Kvemo Kartli	251.5	154.9	280.6	191.2	210.6	108.9
Shida Kartli	187.8	100.3	224.7	130.8	147.7	74.4

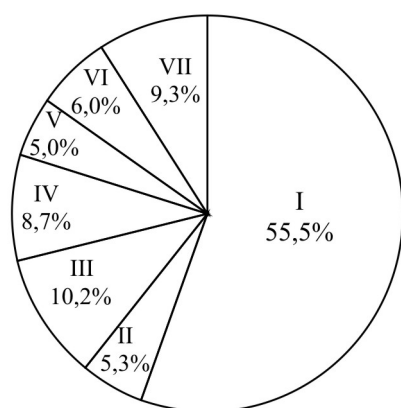
In order to balance regional social-economic levels, small business can make active, positive influences. It is obviously on examples of some Georgian regions, particularly on Imereti region example. It is very important, that during the 1997-99 years there were certain law vacuum with small business. Business law recognized as small business firms with 10 persons. At the same time economic authorities recognized– with 50 persons). Only in 1999 year the law “about supporting of small businesses” was received. According to this law, with changes last year, small business is defined as economic subject with 20 persons and 500 thousand GEL annual circulations. Even though superficial analysis of Imereti region shows following: Several years

ago Soviet Union subordinated huge industrial factories had their great share in total production. Accordingly results were negative: Loss of markets, destroying of traditional relationships, high permanent costs, and unemployment problems and so on).

So, production produced by small businesses is increasing in the region and in the whole country.

Branch structure analysis of small businesses is very interesting. We have chosen 125 small business aggregate from region centre – Kutaisi. Production volume is 3429 thousand GEL. 80 percentage of active businesses are producing only 15, 2 % of total output. In business sector exists difficulties, which are typical for whole region.

So, 91 percentage of produced by small businesses in Kutaisi comes on 6 branches. Food production (particularly bread-baking production) takes main place among them. Other businesses include meat, wine, alcohol and nonalcoholic drink production. Aggregate includes little part such branches as Furniture, transport equipment production, textile production and polygraph business.



Branch structure of Kutaisi small businesses aggregate (%)

- I food production
- II chemicals
- III rubber and plastic production
- IV metallurgy and metal products
- V other businesses
- VI electrical energy
- VII other branches

It is necessary to activate State role and use regulating levers in order to increase efficiency of small businesses, to improve indicators of employment, fiscal and economic processes. These levels include starting favorable terms, legal provision, and easy credits and so on.

It is natural, in those conditions when local budgets are deficient and they are filled in with transfers from central budget, local budget has social character. (It is 75-85 % of total costs). Obviously, it is not intended small business measures in local budgets; their direct or indirect finances.

In our opinion, central government and local authorities must foresee finances in local budget for development of small businesses in towns with comparative more incomes. In order to distribute these finances we should use 2 expedient methods:

1. Local and municipal authorities must form rules for banks giving loans for development of small businesses on security of authority's meditation guarantees.

2. Local authorities must form favorable, easy payment terms for those small business objects, which are subordinated to municipals, such as it is foreseen by "cheap credit" conditions.

Local authority plays mediator's role between banks and those firms, which cannot satisfy banks' demands concerning with business risks. Example of this is privatization with favorable terms: In order to support small businesses, local budget makes privatization of those objects, which privatization became impossible after 50-75 % bargain sales. It is natural, that it must be foreseen budget volume of local unit, level of development, main priorities of economic and social development.

Unfortunately, due to chronic deficient of circulating capital and lack of having access to bank credits, almost do not use leasing possibilities in order to develop small businesses.

Leasing accomplishment gives chance to small business, avoids buying those equipment, which utilization will not be expedient after decreasing demands on particular production. Leasing does not demand investments from businessmen and gives them chance get free internal financial recourses.

Accordingly companies can use their own money for other purposes. So, leasing is the best way to support small businesses. It makes acceptable new-technologies in condition, when equipments are moral worn out in a short period of time.

It would be expedient in order to support small businesses to create programs for local and regions and to define "regional quotas" in the "cheap credits" programs.

So, all these measures will stimulate development of small businesses in local units and regions.

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Some regional characteristics of financing of small businesses

Annotation

Sesili Liluashvili

Akaki Tsereteli State University

Student of the second course of the faculty of Social Sciences

Doctor of Economics, Full Professor, Nikoloz Chikhladze

The world's experience reveals that small businesses have important potential and sometimes these types of business can take the decisive role in country's economics.

In the process of forming the market striving for getting the best conditions and place of the definite part of the market the law about the support of small and middle-sized industries, which was taken in 1999 in Georgia, wasn't worked out, unfortunately. But we can say that the criteria named in the law towards these types of industries are taken during the researches.

Small business can affect positively on the process of social-economic level balancing of the region. It is clearly shown on the example of some regions of Georgia. Among them is Imereti Region.

Even the brief economic analysis of Imereti Region shows that the high specific share of the gigantic industries was always determined. It affected negatively on many processes.

It is especially interesting branch structural analysis of small businesses. That's why, 125 small business aggregate of Kutaisi was chosen. The volume product was 3429, 1 GEL. 80% of small businesses are producing only 15,2 % of whole product. It means that in business sector we have the same picture as in whole region.

So, 91% of production produced in small businesses in Kutaisi, is distributed on 6 sectors. Among others main place takes baking bread, other part includes the production of meat, meat preserving, wine, alcoholic and nonalcoholic products. Aggregate also consists of unimportant part of branches as furniture, transport equipment, textile and polygraph production.

In our opinion, it is necessary to find out reserves for development of small businesses in towns and regions with relatively incomes and put it in local budgets. There's must be two methods of distribution of resources: 1. local authorities give guarantees to banks for short-term credits and 2. in order to develop it is necessary to create slight conditions of activate those small businesses which are under subordination of local authorities programmers.

Unfortunately, all the possibilities and opportunities of leasing aren't used by small businesses. Using of operative leasing saves small business from purchasing of superfluous equipments.

It's reasonable to create regional programmes in order to support small businesses, besides, there's need to define "region quotas" in "cheap credit" programmes.

DEVELOPMENT AND PERSPECTIVES OF THE ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION

Georgi Ivanov Michev

*New Bulgarian University
Student of first year master programs of
“Diplomacy and International relations”
and “National and international security”
Instructor: R. Stefanov*

The Organization of **Black Sea Economic Cooperation (BSEC)** and the themes related with these are interested for me because this is a new organization but have strong positions and good relations with other international organizations as EU, OSCE, UN, UNDP and others. In my report I will first explain for founding and evolution of organization, after that I will stress on relations with international organizations and I will present my opinion and suggestions for future of Organization of Black Sea Economic Cooperation.

On 25 June 1992, the Heads of State and Government of eleven countries- Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine signed in Istanbul the Summit Declaration and the **Bosporus Statement** giving birth to the Organization of **Black Sea Economic Cooperation (BSEC)** and the organization has become a symbol for a new regional cooperation model. With the accession of Serbia (then Serbia and Montenegro) in April 2004, the Organization’s Member States increased to twelve¹. BSEC observers are seven EU Member States, the United States, Egypt, Tunisia and others, while the partner organizations include the European Commission and the Energy Charter. BSEC has a number of specialized bodies such as the BSEC Parliamentary Assembly, the Black Sea Trade and Development Bank, the International Centre for Black Sea Studies and the BSEC Business Council. It came into existence as a unique and promising model of multilateral political and economic initiative aimed at fostering interaction and harmony among the Member States, as well as to ensure peace, stability and prosperity encouraging friendly and good-neighbourly relations in the Black Sea region. BSEC supports and coordinates the regional cooperation across a wide range of areas – trade, banking, communications, energy, transport, agriculture, healthcare, protection of the environment, combating organized crime, etc.

The BSEC Headquarters - the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) - was established in March 1994 in Istanbul.

The Black Sea Economic Cooperation is based on the principles laid down in the Helsinki Final Act, the follow-up Conference on Security and Cooperation in Europe (CSCE) documents and, particularly, in the Paris Charter for a New Europe and on shared values such as democracy, human rights and fundamental freedoms, prosperity through economic liberty and social justice and equal security for all the Participating States. The goals and principles embodied in the Summit Declaration of the Black Sea Economic Cooperation are in full conformity with the provisions of the United Nations Charter. As a unique and promising model aimed at fostering interaction and harmony among the Participating States, the BSEC will undoubtedly contribute to

¹ Permanent International Secretariat. “About BSEC”. Black Sea Economic Cooperation (BSEC). http://www.bsec-organization.org/main.aspx?ID=About_BSEC. Retrieved on 2008-02-23. “With the accession of Serbia and Montenegro in April 2004, the Organization’s Member States increased to twelve.”

the creation of a future Europe-wide economic zone and promote mutual understanding, peace and security in the region. One of the basic objectives of the BSEC, proclaimed in the “Summit Declaration”, is to ensure that the Black Sea becomes a sea of peace, stability and prosperity, encouraging friendly and good-neighborly relations.²

With the entry into force of its Charter on 1 May 1999, BSEC acquired international legal identity and was transformed into a full-fledged regional economic organization.

The Organization of the Black Sea Economic Cooperation (BSEC) established in 1992 as an informal intergovernmental meeting on Black Sea Economic Cooperation and it was converted into an international economic organization on 1 May 1999, with the coming into force of its Charter signed in June 1998 in Yalta.

The BSEC has its headquarters in Istanbul and is composed of twelve member states (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldavia, Romania, the Russian Federation, Serbia, Turkey and the Ukraine). Apart from Serbia, all of the current 12 member states were founding members. The enlargement of the Organization was decided upon in the Council of Ministers of Foreign Affairs of the BSEC member states, with the inclusion of Serbia and Montenegro as well as FYROM. Serbia-Montenegro acceded to the Organization on 14 April 2004. Montenegro withdrew from the Serbia-Montenegro federation and therefore no longer participates in the BSEC as a member state. It has, however, submitted an application to be granted observer status, thus indicating its interest in taking part in the Organizations proceedings. The BSEC has also sent an invitation for accession to FYROM, under its UN-recognised name, but this invitation has not been met with a response to date.

The following countries and international organisations have been granted observer status: Austria, Belarus, Croatia, the Czech Republic, Egypt, France, Germany Israel, Italy, Poland, Slovakia, Tunisia, the US, as well as the International Black Sea Club and the Energy Charter Secretariat Black Sea Commission. Due to Turkey's persistent refusal, it has not been possible to grant Cyprus observer status.

Although the founding texts of the initial intergovernmental cooperation between the Organizations eleven founding members, as well as the BSEC Charter, include references to the UN Charters general principles, the OSCEs texts, and the principles of good neighbourly relations and peaceful settlement of disputes, the philosophy governing the BSEC initiative is limited to achieving the Organizations objectives of economic rather than political cooperation.

The BSECs work is based on procedural rules providing for decision-making with specific types of majority, depending on the subject, although the general view is that efforts are made for BSEC decisions to be taken unanimously. The Organizations working structure is flexible and includes:

- The Intergovernmental component, coordinated under a rotating six-month Chairmanship (undertaken by the member states in alphabetical order) and including both ordinary and extraordinary Councils of Ministers of Foreign Affairs of the BSEC member states, meetings of the Committee of Senior Officials, as well as meetings of its Working Groups and Ad Hoc Groups of Experts. Serbia currently chairs this component, for the period 1/11/2006-30/4/2007.
- The Interparliamentary component, under a rotating six-month Chairmanship (undertaken by the member states in alphabetical order) with the following bodies as its basic organs: the BSEC Parliamentary Assembly (PABSEC), the Standing Committee, the Bureau, and individual parliamentary committees. Bulgaria currently chairs this component, for the period 1/11/2006-30/4/2007.
- The Business component, which through the BSEC Business Council reflects the importance attributed by

² WHY BSEC?, Article from the Turkish Ministry of Foreign Affairs, <http://www.photius.com/bsec/bsec.html>

the Organization to improving the business environment and extending cooperation across the Black Sea region. Serbia currently chairs this component, for the period 1/11/2006-30/4/2007.

- The Black Sea Trade and Development Bank, which is the Organizations funding mechanism, is based in Thessaloniki.
- The International Center for Black Sea Studies (ICBSS), headquartered in Athens, whose establishment was spearheaded by Greece. It is acknowledged as the Organizations de facto think-tank. The ICBSS also covers cooperation between scientific and academic communities of the BSEC member states, and its promotion through other similar foundations and organisations. Within this framework, the ICBSS carries out studies on particular issues upon request and organises relevant conferences and lectures. The ICBSS plays an influential role in shaping positions on promoting relations between the BSEC and the EU, as well as the implementation of scientific and technological achievements in certain fields of multilateral cooperation.

The ICBSS is according to the Greek legislation governing its operation status a foundation of an international nature governed by private law. During the Ministerial Meeting under Ukraines Chairmanship (Kiev, 25/4/2002), ICBSS was acknowledged as a de facto related body. By Decision of the Ministers of Foreign Affairs of the BSEC member states (Istanbul, 25/6/2004), it was also recognised de jure as a related body of the Organization, with the addition of Article 24 to the BSEC Charter. Under Greek Chairmanship (1/11/2004 -30/4/2005), the decision was taken to entrust ICBSS with the coordination the Ad Hoc Groups of Experts on institutional renewal and good governance, as well as BSEC-EU relations. This task was successfully completed, as the foundations were laid, on the one hand, for the first process to evolve into a dynamic field of cooperation with the establishment of a Working Group on Institutional Renewal and Good Governance, and on the other hand, with the adoption of a common position on strengthening relations between the BSEC and the EU. The ICBSS has also been assigned to examine the framework for extending cooperation between the Organization's member states in the field of regional security and stability, in accordance with the Declaration of the Heads of State and Government of BSEC member states on the occasion of the celebration of the Organizations 10th anniversary (Istanbul, 25/6/2002) and the Ministerial Councils recommendation (Durrës, 25/10/2002). In 2001, the Economic Agenda for the Future was drawn up by the ICBSS and is the basis for developing WG proceedings.

The Project Development Fund is another valuable tool for developing regional economic cooperation, entrusting groups of member states with carrying out preliminary feasibility studies for development projects.

The above-mentioned activity of the BSEC (through its intergovernmental component) is coordinated and administered by the Permanent International Secretariat (PERMIS) seated in Istanbul.

The Chairmanship of the Council of Ministers of Foreign Affairs is held by the member states by rotation in alphabetical order (following the English alphabet).

In my opinion, intergovernmental cooperation within the BSEC focuses principally on the fields of energy, transport, communications, trade and economic development, banking and finance, institutional renewal and good governance, combating organised crime, environmental protection, agriculture, cooperation in healthcare issues, emergency assistance, research and development, education, tourism, culture, facilitating the transport of goods and customs procedures, exchange of statistical data and the promotion of SMEs.

Relations between the BSEC, the UN and the UNDP:

The transformation of BSEC into a full-fledged international organization gave an additional impetus to the BSEC-UN cooperation. BSEC obtained the status of observer in the UN General Assembly by Resolution 54/5 of 8 October 1999.

The Black Sea Economic Cooperation Organization is a valuable partner of the United Nations system across a broad spectrum of issues. It is active in the fight against organized crime, corruption and terrorism. It has promoted cooperation to protect the region's resources and fragile ecosystems. And it has pursued wide-ranging economic, social and democratic reforms as the basis for stability and progress.¹

Under the mandate given by the Heads of State and Government of the BSEC member states during the Yalta Conference (June 1998), the then Greek Chairmanship (May-October 1999) took the necessary actions to ensure the BSEC observer status at the UN General Assembly.

On 29.11.2006, the BSEC signed an agreement with the United Nations Development Programme, for the joint implementation of the Black Sea Trade and Investment Promotion Programme. This pioneering programme is funded jointly by Greece and Turkey (each country contributing 500,000), with a symbolic financial contribution from the BSEC.

BSEC-OECD-OSCE relations:

The BSEC completed negotiations with the OECD Development Center on implementing a programme entitled Black Sea and Central Asia Outlook jointly with the OECD and OSCE. This programme was put forward by the OECD and concerns a cooperation framework already agreed upon with the OSCE. BSEC-OECD cooperation under this programme was approved at the BSEC Foreign Ministers Meeting in Moscow (1/11/2006).

The development of BSEC relations with these organizations, with encouragement from our country, is now a new BSEC priority. The Secretary General of the BSEC Permanent International Secretariat took part in the proceedings of the 14th OSCE Ministerial Council (Brussels, 4-5/12/2006). Moreover, our country has submitted a request for partial recognition of the BSEC and its related bodies as recipients of official development assistance (ODA) from the OECD Development Assistance Committee (DAC).²

Relations between the BSEC and the Stability Pact for Southeastern Europe:

Within the framework of the 1st meeting of BSEC Foreign Ministers (Thessaloniki, 1999) a Decision was adopted, on Greece's initiative, regarding the Organizations contribution toward achieving the objectives of the Stability Pact for Southeastern Europe, and particularly with regard to the activities of the second and third Working Table on economic reconstruction, development, justice and internal affairs.

Relations between the BSEC and the European Union:

Bulgaria led efforts to strengthen ties between the BSEC and the EU, with the other member states of the BSEC looking to Bulgaria, Greece and Romania as the only members of the Organization that is also an EU member state to promote relations between the two organisations.

The relations between BSEC as the most representative regional organization in the Black Sea region and the EU as a player with an increasingly important role and considerable number of policies in the region will be of decisive significance in the years to come. The recent Communication of the European Commission on the Black Sea Interaction Initiative defines BSEC as a major partner. The details of the cooperation between the two organizations are yet to be agreed upon and Bulgaria is prepared to take active part in the process in coordination with the other two EU Member States in BSEC – Greece and Romania. Ten years after the establishment of their initial contacts BSEC and the EU are on the threshold towards a really functioning dialogue and identification of joint cooperation spheres.

The central focus of Greek Chairmanship of the BSEC (1/11/2004-30/4/2005) was bringing the BSEC

1 <http://www.unis.unvienna.org/unis/pressrels/2003/sgsm8673.html>

2 <http://www.osce.org/>

closer to the EU. It is within the framework of this objective that all the Ministerial Meetings and Working Group meetings were held; that the Extraordinary Meeting of the Committee of Senior Officials took place in Brussels (11/4/2005); and that the 15th Meeting of the Council of Ministers of Foreign Affairs of the BSEC member states adopted the Komotini Declaration.

The abovementioned extraordinary meeting in Brussels (11/4/2005) marked the beginning of a qualitative transformation of the development of EU-BSEC relations, introducing the albeit informal institutional dialogue between the two organisations. The promotion of this cooperation is confirmed by the European Commissions express interest in deepening cooperation in the field of know-how transfer as well as the development and implementation of European programmes jointly with BSEC member states. Following this meeting and the Komotini Declaration a special mandate was given to our country Council of BSEC Foreign Ministers (Chisinau, 28/11/2005) to proceed to the necessary consultations with the organs of the EU and to examine the potential for creating a new EU regional Dimension in the wider Black Sea area, along the lines of the Northern Dimension.

In September 2006, the European Commission made a positive recommendation for strengthening EU-BSEC relations and announced the drawing up of a new Communiqué with the regard to EU regional policy for the Black Sea region and the future role of the BSEC in implementing this policy. Greece has played an important role in changing the climate in relations between the EU and the BSEC. The Commissions communiqué entitled Black Sea Synergy A New Regional Cooperation Initiative (COM [2007]160 final) was issued on 11 April 2007 and may form the basis for future BSEC cooperation. The BSEC is awaiting specific details regarding this proposed cooperation and invited the EU (Troika) to take part in its Summit Meeting celebrating the 15th anniversary of the Organizations founding, with a possibility of adopting a joint statement.¹

The future of organization is dependent from the policy of member states and also of the chairmanship of the particular state. I think that for prosperity of organization is to create duty free zone between the member states. This will increase circulation of goods and without taxies national economies will be stronger from now. We know that the countries lose a lot of money from contraband trade with abovementioned measure I am surely that this will be change.

Bulgaria views the future BSEC development in several key elements: reform of the organization itself with a view to its greater efficiency; implementation of specific projects of regional importance; bolstering of the BSEC-EU relations; more active cooperation with other regions such as Danube, Central Asia and the Caspian Basin.²

BSEC has good relations with other international organizations and this is reason for future evolution of BSEC and maybe enlargement with new member states. I think that for future some of member states of BSEC would be member states of European Union, and the process of their integration in the Union will be very shorter because they have experience from BSEC.

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Development and Perspectives of the Organization of the Black Sea Economic Cooperation

Annotation

Georgi Ivanov Michev

New Bulgarian University

*Student of first year master programs of
“Diplomacy and International relations”
and “National and international security”*

Instructor: R. Stefanov

The Organization of the Black Sea Economic Cooperation (BSEC) has very important geopolitical role in South East Europe and particular in the Black sea region. The members of organization have different status (members and non members of the European Union). The people pursue various religions (Christians, Muslims etc.) Despite differences they successfully manage to achieve the aims of the organization. **The organization** of the Black sea Economic Cooperation came into existence on 1 May, 1999 as a unique and promising model of multilateral political and economic initiative aiming at fostering interaction and harmony among the Member States, as well as to ensure peace, stability and prosperity encouraging friendly and good-neighbourly relations in the Black Sea region.

The issue of the scientific research is actual since it conveys information and analyses about the collaboration and policies concerning European Union and regional affairs and the progress of the nations. The BSEC promotes cooperation to protect the region’s resources and fragile ecosystems. It pursues wide-ranging economic, social and democratic reforms as the basis for stability and progress in the region. In an age of interdependence and cross-border cause-and-effect, the quality of cooperation will be a key factor in achieving the OBSEC goals.

Bulgaria and Georgia plays important roles in the work of the Organization.

The result scientific work is to research and reach conclusions on perspectives of the Organization of the Black Sea Economic Cooperation (BSEC). The analyses are based on the relevant materials and work of the organization from its establishment.

The scientific article presents difficulties and challenges faced by BSEC. The final conclusions focus on the perspectives and the main priority spheres for future cooperation of BSEC with other countries and international organizations.

The author’s personal opinion is incorporated in the scientific article concerning the future crucial role of BSEC for the successful development of the Black Sea region and the organization that has had a key position in Europe.

The main source of research used is the web site of the BSEC, scientific magazines and books as well as resources from the Bulgarian Ministry of Foreign Affairs.



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