

## Georgia

<b>Status Index</b> (Democracy: 2.2 / Market economy: 1.9)		<b>4.1</b>	<b>Management Index</b>		<b>2.3</b>
<b>System of government</b>	Presidential-parliamentary democracy		<b>Population</b>	5 mill.	
<b>Voter turnout</b>	75.86 %		<b>GDP p. c. (\$, PPP)</b>	2,680	
<b>Women in Parliament</b>	7.2 %		<b>Unemployment rate</b>	10.4 %	
<b>Population growth<sup>a</sup></b>	0.2 %		<b>HDI</b>	0.748	
<b>Largest ethnic minority</b>	8 %		<b>UN Education Index</b>	0.89	
			<b>Gini Index</b>	38.9 (2000)	
Data for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

### 1. Introduction

There is no doubt that the post-Soviet Caucasus republic of Georgia is one of those transformation societies facing especially complex challenges. Geographically and culturally, Georgia is located in a traditionally unstable geopolitical border zone between Europe and Asia. Add an ethnically heterogeneous population, two active as well as several latent secession conflicts, and the fact that Georgia has no opportunity to fall back on historic traditions of effective state coherence, and one sees that the country's process of political and economic transformation is struggling under an enormous burden.

The report makes every effort to give these circumstances due consideration, but nonetheless comes to the conclusion that the political elite have generally squandered the political leeway that Georgia enjoyed during the report period, leeway that was granted primarily in the form of massive support from the Western donor community. In reaction to the rapid loss of legitimacy clearly demonstrated in the four consecutive elections held since 1998, the political leadership, motivated by power-political calculation, severely hampered the formation of functional institutions by manipulating and invalidating the rules.

### 2. History and characteristics of transformation

From the start, the political transformation process in Georgia was marked by violent turbulence and conspicuous contradictions. At no time did the constellations of political actors follow the expectations and forecasts of conventional transition theory. The usual alliance between representatives of the

regime who were open to reform and moderate opposition members never formed. This can be explained relatively satisfactorily by referencing the socialist legacy of incorporating people into vertical distributive coalitions and the resulting difficulties with horizontal interest-aggregation.

However, contrasts between pro-independence and anti-sovereignty factions, or programmatic differences regarding each side's preferred strategies for solving secession conflicts, were rarely a relevant criterion for forming political blocs. This is curious, even in a post-Soviet context, and seems more like what one might see in Africa. It is also notably odd that the representatives of the executive branch of government were the clear winners of every election until January 2000, but that this never created authentic stability.

The end of Soviet authority in Georgia resulted from a combination of internal erosion of Communist power structures and the conquest of the political sphere by a national movement, which, although severely fragmented, received massive support from a highly politicized population committing acts of civil disobedience. The Communist Party's rapid loss of legitimacy and control after it used violence to break up a nationalist demonstration in April 1989 accelerated this process enormously.

In the months after this incident, the party swung abruptly from a hardline approach vis-à-vis nationalist opposition toward support for radical forces. The formal transfer of power began with parliamentary elections in October 1990, when a heterogeneous coalition of parties organized around the former dissident Zviad Gamsakhurdia scored an overwhelming election victory. However, the fact that many parties boycotted the election reduces the significance of this result somewhat. Despite his ingrained anti-Soviet rhetoric, Gamsakhurdia, who was elected president shortly thereafter, appointed members of the Communist cadre to key positions from the very beginning. He failed to consolidate his power. After only a year, his camp of supporters dissolved into opposing armed factions.

At the beginning of 1992, the country's first non-Communist government was overthrown in a putsch resembling a civil war. This putsch culminated in the disintegration of public order and the criminalization of state structures, which were dominated by rival paramilitary groups. Hopes for stabilization were bound up with the return of Eduard Shevardnadze, the former party secretary, in April 1992. However, it took three more years, during which competing forces within the government were played off against each other, before the first fragile signs of stability could take root, manifested in the approval of a constitution and parliamentary elections held in 1995.

Since that time, although Shevardnadze has enjoyed undisputed success in demilitarizing the resolution of political conflict, he has been unable to give his regime, which is based on flexible alliance-building, a stable institutional

foundation. In Georgia, the state is still not in a position to enforce recognition of the laws it creates. Just as it did previously, Shevardnadze's power still stems from his virtuosity in manipulating highly flexible and unstable patronage-based network structures.

In the shadows of political chaos, the country's economic transformation was significantly delayed. Gamsakhurdia initially refrained from implementing privatization, but it was precisely this inaction that opened the floodgates for the spontaneous and criminal appropriation of state property. Shevardnadze very tentatively initiated economic reforms in 1992, but they did not really gain momentum until after 1995, and to this day, economic reform is being significantly hampered by a state that is extremely weak.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Georgia has made undeniable progress in the transformation of its political regime, particularly with respect to its formal legal anchoring of democratic structures. At the same time, there are still glaring deficits on many levels. First, contradictory legal regulations in many areas open the door to arbitrary action and informal bargaining processes. Second, Georgia has failed to establish a homogenous legal framework and strengthen state's monitoring capacities due to a lack of determination to translate formal democratic rules of the game into a coherent and efficient institutional order. The level of violence within society is still relatively high due to the deficient capabilities among formal institutions for conflict resolution.

##### **3.1.1 Political regime**

(1) *Stateness.* Twelve years after independence, the expansion of state jurisdiction over the entire territory is still not complete. The central government has not had actual control over the secession areas of Abkhazia and South Ossetia since the early 1990s. Relations between the central government and the majority-Muslim region Adjara—which attained the status of an autonomous republic after an April 2000 amendment to the constitution, and which is now known as the Autonomous Republic of Adjara—remain strained despite progress made on a formal legal level.

The primary sources of conflict are the unresolved issue of tax-revenue distribution and contrasting positions on the presence of Russian troops in the city of Batumi. For people living in the minority areas bordering Armenia and Azerbaijan, it is not an accepted fact that they are actually part of Georgia.

Armenians and Azerbaijanis overwhelmingly look to their respective home countries to realize their chances to receive an education and a job. An administrative blockade of minority-candidate registration for local elections in the summer of 2002 sparked sometimes-violent disputes, particularly in Azerbaijani settlements in southeast Georgia.

Since the second Chechnya war of 1999, the Pankisi Gorge bordering that North Caucasus republic has become a fallback area for rebels, further fanning the flames of destabilization in the region. The central government's inability to establish effective border controls is especially serious; it has led to repeated incursions by armed groups and allowed violent conflicts to flare up. The result is a power vacuum, especially in the border regions, where conditions are ideal for smuggling and violent crime to flourish. Thus, the state's enforcement of its monopoly on the use of force is incomplete. The problem is further aggravated by capricious management of the state's use of force by corrupt agents acting in the name of the state.

The separation of church and state is anchored in the 1995 constitution. Freedom of religion and worship exists. However, the state's recognition of the special historical role of the autocephalous Georgian Orthodox Church is a declaration of its affinity for the Orthodox Church. In this context, the violent attacks by radical Orthodox believers on representatives of other persuasions, and the state organs' inappropriate efforts to investigate and punish these acts are political dynamite.

(2) *Political participation*: The principles of democratic elections are sufficiently anchored on a formal legal level, but there are problems implementing these fundamentals. The election laws were changed before every election and were often the subject of severe domestic political conflict. National and international observers have repeatedly criticized the executive branch's dominance of the election commissions and the lack of transparency during the creation of voter lists and the aggregation of votes in the regional election commissions.

A further constraint on democratic principles in Georgia is the existence of presidential representatives in the regions which is not legitimized by the constitution. This vertical hierarchy was not disposed of even when the law on local self-administration was revised under pressure from the Council of Europe. This situation tilts the scales heavily in favor of the status quo and against the cash-strapped, democratically elected local authorities. There is a dense network of political and civic organizations mainly in the capital, but these organizations selectively fall victim to violent attacks. There is no evidence that indicates the state is directly involved, but it is clear that the state does not investigate these acts vigorously.

A variety of opinions is voiced, particularly in the print media, but circulation of these print media is not very high, due to the economic difficulties of the

population. There are also competing television stations, which are much more relevant instruments for shaping public opinion. However, particularly at the local level, some loyal stations are favored with a great deal of financial support. Critical reports sometimes result in violent reprisals.

(3) *Rule of law*: The balance of powers is fundamentally guaranteed in Georgia. However, there are serious problems on two levels. First, there are insufficient jurisdictional boundaries between the dual executive structures: the ministries and the state chancellery. Second, the government, which is completely focused on the president, is only partially accountable to Parliament. In some cases, this leads to an institutionalized attitude of “it’s not my responsibility.” Particularly in the area of tax laws and tariff laws, Parliament functions as a lobby for narrowly defined special interests. Extensive special regulations and regulatory exemptions are approved for certain groups of people, yet Parliament can never be held liable for the sometimes disastrous consequences in the national budget.

Individual ministers can present themselves as advocates for the interests within their areas of authority without worrying about losing parliamentary support. Some ministries engage in bitter competition characterized by aspersions hurled back and forth. The government undergoes frequent personnel changes and lacks the office of a prime minister with real power to shape policy. Thus, the government’s actions are characterized by a lack of coherence. In relationships between the central government and regional authorities, informal bargaining processes play a more important role than clear legal regulations. The judicial system is basically independent, but it tends to avoid taking a clear position when ruling on local-level conflicts arising from unclear jurisdictional boundaries between the executive and legislative branches.

Inconclusive proceedings seriously weaken the rule of law. Furthermore, concerns about short-term stability often influence judges’ rulings in cases involving politically motivated crimes of violence. Corruption is a key problem in Georgia. All elected officials regularly demand, at least verbally, that corruption be fought. The problem is that although corruption is constantly stigmatized from all sides, corrupt actions have no consequences. A series of corruption scandals have been uncovered, but not one high functionary has been prosecuted and held responsible for corrupt acts. The president has prevented the passage of a law that would require politicians to reveal their sources of income. This discredits the dramatic corruption rhetoric in the eyes of an increasingly fatalistic population and reduces it to background noise for regular cadre rotations reminiscent of the Soviet era. Administrative actions outside the scope of law regularly violate citizens’ civil rights.

### 3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Georgia's institutional stability is relatively low. Economic and political crises during the report period sparked several drastic regroupings of Parliament and government that had little or no recognizable programmatic or conceptual consistency. The acceptance of democratic institutions is severely hampered by the dominance of informal decision-making processes outside the scope of formal proceedings and by the coexistence of decision-makers with overlapping areas of authority.

(2) *Political and social integration*: The instability and inefficiency of democratic institutions is also due to the fact that a clearly delineated party system as an instrument of rational interest aggregation has not yet developed in Georgia. The degree of party-system fragmentation is relatively high, despite certain consolidation successes since the 1999 parliamentary elections. The parties are still going through a constant process of decay and reconstruction. Even the demarcation line between the government and the opposition is blurred, and it shifts constantly as the result of tactically motivated splits and short-term alliances.

The barely stable contours of political trench-warfare follow the structures of personality-centered, patronage-based networks. In Georgia's strongly personality-oriented political system, interest groups have no real influence and tend to splinter, just as the parties do. Trade associations pull very little weight in an economy that suffered near-complete collapse of its production sector, and where economic success depends a great deal on one's ability to mobilize the capital inherent in one's political connections. Labor organizations also play a minor role in a country where high unemployment and constant nonpayment of wages to employees are the norm and where informal employment structures dominate.

The lack of reliable institutions to balance opposing interests leads to the violent airing of conflicts on the one hand and to a preference for informal, case-by-case solutions to problems on the other. Such solutions are sometimes successful in preventing escalation, but at the same time, they also bear within them the seeds of future conflicts about distribution, and they reward potentially violent behavior. Civic organizations are often artificial, plastic facades designed to attract foreign money. They rarely have any significant anchoring in a population that counts on informal patronage-based networks in order to pursue its interests.

## 3.2 Market economy

Georgia has still not been able to overcome the dramatic slump in its economic performance following the breakup of the USSR and the violent conflicts at the

beginning of the 1990s. The main causes for the country's economic weakness are structural. Due to poorly implemented fiscal discipline, the state lacks the necessary resources to finance an infrastructure that would promote growth. Constant interruptions to the power supply are a logjam to industrial growth.

The underdeveloped property market and the complete breakdown of the antiquated irrigation system prevent the agricultural sector, which has now become the country's primary source of jobs, from expanding. Because the banking system is underdeveloped, the development of a capable small and medium enterprise (SME) sector is impossible. However, it can be generally said for all sectors that the roots of the country's economic woes lie in the capricious behavior of an underfinanced, and thus easily corrupted, administrative bureaucracy. By creating a climate of constant uncertainty regarding government behavior and expectations, the bureaucracy blocks entrepreneurial impulses and has contributed decisively to the development of a parasitic, rent-seeking economy that is dependent on external resource streams.

### **3.2.1 Level of socioeconomic development**

Georgia's level of socioeconomic development has the unmistakable hallmarks of a traditional Third World country. The average wage is only 74 percent of the official minimum amount needed to live. More than 51 percent of the population lives below the poverty line. 70 percent of all households rate their food supply as "uncertain." One cannot discuss freedom of choice in a society where most people are fighting a day-to-day battle for their physical survival. At the same time, social inequality continues to grow. At 38.9, the Gini index is approaching Latin American levels. There are also significant regional differences.

What is noteworthy is that there is no rhyme or reason to social exclusion; there is no reliable correlation between poverty and gender, ethnic heritage or education. The only factor with any power to predict a person's opportunities in life is his or her inclusion in informal relationship-based networks. This shows yet again that the government clearly has no creative latitude whatsoever when it comes to fighting poverty or achieving distributive justice. On the contrary, state action can be more counterproductive than helpful when corrupt civil servants have to be bribed before they will pay out pension money.

### **3.2.2 Market structures and competition**

On a formal legal level, the fundamentals for free-market competition are present. However, a lack of political will to implement legal requirements—and, even more important, the high level of corruption within the administration—consistently causes distortions of competition. The fact that nearly all owners of

major businesses hold political office or are running for political office shows that business success depends to a large degree on one's ability to mobilize political connections.

Even more suspect is the fact that many ministers became active businesspeople in the very industries for which they were responsible. In this system, outsiders' chances are slim to none. Officially, loans are granted only for very short terms at horrendously high monthly interest rates. A lack of corporate governance makes investment in companies unacceptably risky if one does not have political backing. Government regulations with blockade power interfere at even the lowest levels of micro-business. Potential owners of small businesses can be tripped up by regulations, some of which date back to the Soviet era, or be forced to subordinate themselves to politically powerful business owners.

The variety of formally independent competing businesses that the naive observer thinks she or he sees, particularly in the retail sector, is very deceptive. As a rule, these businesses are members of informal trade networks whose reach extends into government offices and ministries.

### **3.2.3 Stability of currency and prices**

Inflation and exchange-rate policy is one of the few areas where Georgia can point to clear successes during the report period. After soaring to quadruple-digit levels in the early 1990s, inflation has declined steadily since 1995. This trend was interrupted only briefly in 1998 by the devaluation of the lari during the Russian economic crisis.

The continued strengthening of the national bank's independence and a reduction in new state debt achieved primarily via pressure from the international community have contributed to macroeconomic stabilization. Georgia's external debt exceeds \$1.6 billion, representing 53 percent of the country's GNP. However, the lion's share of this debt is old debt, from the period before 1994. Nonetheless, there are still serious deficits in fiscal policy. Taxes are very low, accounting for roughly 15 percent of GNP.

### **3.2.4 Private property**

On a formal legal level, property rights are sufficiently defined. There has been definite progress on the privatization front since 1995. More recently, however, the reform process has stalled. On the one hand, there are few potential buyers for the antiquated state-owned enterprises, which are often saddled with debt and are public companies in name only. On the other hand, corporate-governance deficits and the lack of a securities market prevent further progress.



Furthermore, the privatization authority's nontransparent and sometimes irregular actions create disastrous incentive structures. Again and again, lucrative state property is sold to insiders at "pseudoauctions" for ridiculously low prices. At the same time, the small number of international investors is increasingly put off by constant meddling from the state bureaucracy. An American company that in 1998 bought a 75 percent stake in the company that supplies power to the capital, Tbilisi, had several major disputes with the regulation authority before it was able to raise electricity rates in 2002, to a level that at least approximated the costs of generating the electricity.

### **3.2.5 Welfare regime**

In reality, Georgia does not have a functioning state social system. Family-based solidarity networks and international humanitarian organizations pay the costs of a minimum level of social support. However, humanitarian organizations have been complaining more and more frequently about state obstruction and corruption. There is a massive demand for social services, in contrast to the rudimentary supply. The official urban unemployment rate is approximately 25 percent, while the official rural rate stands at 6 percent.

However, the reality is considerably more dramatic. First, there is no incentive for people to register as unemployed, since unemployment assistance effectively does not exist. Second, everyone who participated in the 1992 land distribution is listed as "self-employed" in the official statistics. Thus, the agricultural sector is the largest employer in the country, providing 56 percent of all jobs, but it accounts for only 21 percent of GDP. Furthermore, having a job in Georgia is no guarantee of social safety. The average monthly wage of approximately \$50 is very low, but food prices are approaching world-market levels.

Rapid social impoverishment, manifesting as malnutrition and a medical care system that probably reaches less than 15 percent of the population, is an enormous source of potential political destabilization. The situation only promises to get worse over the intermediate term. First, the population has nearly exhausted the residual wealth it had under the old socialist system. Second, debt service payments are coming due, which means that the government will have to make even greater cuts to the already meager social budget.

### **3.2.6 Strength of the economy**

Georgian economy's performance is moving on a very low level. Despite short-term stabilization in the mid-1990s—primarily due to large-scale international projects to expand the pipeline system—that yielded double-digit growth rates,

there is no end in sight for the deep economic crisis triggered by the collapse of the USSR and the chaos of the war.

Georgia hopes for an economic upswing by the construction of the Baku-Tbilisi-Ceyhan pipeline system (in progress since 2002). At the end of the 1990s, the growth rate fell back below 2 percent, since 2000 the growth rate has risen to over 4 percent, starting from a very low level. The economy is currently experiencing a rapid trend toward deindustrialization. Industrial production, which now only constitutes approximately 14 percent of GNP, has come to a near-total collapse.

The disappearance of the Soviet market has generally been used to explain the decline of industry. For Georgia, this explanation is doubly militating because the separation of the breakaway region of Abkhazia makes it logistically impossible to even reach these markets. However, several other factors are equally important, including fatal institutional incentive structures; Georgia's meddlesome, intrusive bureaucratic apparatus; and the deliberate preferential treatment given to members of one's own patronage group. Many new owners prefer the fast profit they can make from selling property purchased for fire-sale prices to the risk of a long-term investment in a situation characterized by legal uncertainty.

Further complicating the recovery of production is the "import mafia" represented in the government and Parliament. This import mafia is flooding the domestic market with cheap, tax-free, duty-free goods smuggled into the country. This also has a negative impact on agriculture, which is producing at approximately 70 percent of the 1990 level, despite the fact that twice as many people are now employed in the agricultural sector.

### **3.2.7 Sustainability**

Not even a single aspect of the Georgian development model can claim any level of sustainability. After more than a decade of blatant underfunding, the relatively highly developed Soviet-era public education and health systems are about to collapse. Public institutions are increasingly being pushed aside in favor of private institutions accessible only to a privileged few. A mere 2 percent of Georgians account for 50 percent of all expenditure on private education. The same is true for many other aspects of public infrastructure, such as water service and waste disposal.

One cannot expect a corrupt government that is barely able to assert itself in many parts of the country to push its citizens to comply with environmental standards. Ecological concerns regarding the construction of the Baku-Ceyhan oil pipeline through the Borjomi-Karagauli National Park can barely be voiced because the Georgian state is utterly dependent on the transit fees. Nevertheless, a number of NGOs initiated protests and law-suits.

#### 4. Trend

(1) *Democracy*: After Georgia was able to demonstrate clear success in stabilizing the country between 1993 and 1996, as it struggled to deal with the consequences of secession conflict and civil war, one cannot describe the developmental trend during the report period as anything other than regressive. Despite continuity in key political leadership positions—Shevardnadze was elected president for the second time in 2000, and the presidential party emerged as the winner of the 1999 parliamentary elections—the dominant trend since 1998 has been toward continuing disintegration and destabilization.

The same mechanisms and strategies that had an integrating effect during the battle to overcome chaos and violence—e.g., the clever divide-and-conquer strategy and the preventive co-optation of opposition figures—proved to be a heavy burden in the effort to consolidate democracy and the rule of law. Shevardnadze, undaunted by setbacks or losses, continues to stick with his supposedly proven techniques in an increasingly desperate attempt to retain his grip on power. This has further weakened the legitimacy of state structures and their ability to act.

The defining characteristic of Georgian politics is its lack of direction. The president reacts to large-scale protests against the growing energy-supply crisis by making the energy minister a scapegoat and replacing that minister with increasing frequency. After the 1999 parliamentary elections, a highly heterogeneous alliance of opposition parties was able for the first time to gain a dramatic increase in their vote totals. Shevardnadze appointed these young politicians to high offices in ministries, only to stab them in their backs as they tried to deal with the old, corrupt power elites.

Immediately after the April 2000 presidential election, in which Shevardnadze could participate only after a constitutional amendment was passed especially for this purpose, an embittered battle to succeed him broke out. This battle soon caused the presidential party to disintegrate, and it splintered the reformers. As a result, important reform projects such as the introduction of the office of prime minister and the revision of the law on local self-administration, which is characterized by strong tendencies of centralization, have been left by the wayside or watered down due to excessive tactical maneuvering. Spurred by hysterical anticorruption rhetoric that has nonetheless had no political consequences, internal political polarization is on the rise.

A significant increase in the level of violence in Georgia has paralleled the increase in political polarization. Politically motivated acts of violence are becoming more frequent, as is violent crime committed or tolerated by functionaries of the state.

2) *Market economy*: With respect to both quantitative indicators of economic performance and the consolidation of the institutional fundamentals of a market economy, Georgia's level of development has generally been very low, and matters have taken a slight turn for the worse over the past five years. The problem lies not only in declining growth figures, but also in the nature of the country's economic growth. Seventy-five percent of real growth between 1997 and 2000 was concentrated in the three sectors: communication, transport and banking—sectors that employ less than 5 percent of Georgia's work force. Low growth levels have caused private consumption to decline.

Selective successes in reducing the trade deficit are not yet indicative of a structural change; they are actually the result of *ad hoc* measures, such as the elimination of taxes on scrap metal exports, and drastic austerity measures. State spending in 2000 was at its lowest level since 1995. The government's single-minded focus on macroeconomic stabilization threatens to perpetuate the vicious cycle of falling state revenue, increasing corruption, and long-term economic crisis because of the breakdown of the national infrastructure. At the same time, it drags its feet on enacting structural reforms and pays little attention to creating fair, free-market competition in the goods and services markets.

## **5. Transformation management**

### **5.1 Level of difficulty**

The level of difficulty of the transformation has to be considered extremely high in light of the many roadblocks in Georgia's way. These include (1) the violent ethno-territorial conflicts in South Ossetia and Abkhazia, which are also being manipulated by Russia; (2) the high levels of ethnic and religious heterogeneity; (3) the country's geographical proximity to current areas of war and conflict in the North Caucasus and Transcaucasia; (4) the near-total destruction of transportation and production infrastructure due to war and civil war; and (5) the near-total absence of historical traditions of sovereignty combined with a strong tendency toward violent conflict at the periphery of competing empires.

The fact that the Georgian state has managed to survive at all in such a conflict-ridden environment should be considered a minor success in itself. As in all post-socialist states, the introduction of a market economy struggled under the burden of an economic structure that targeted the administration of the Soviet market and was hardly capable of competing on open world-markets. However, this heritage affected Georgia less than it affected most other former Soviet states because the Soviets did not force the development of heavy industry to the same degree in Georgia, and because Georgia underwent deindustrialization as a result of the war.

Thus, market economy reforms are rarely held up by the stalemate-oriented interests of a “Red” directors’ lobby. However, developing a capable economic structure that can compete at an international level continues to be difficult due to the problematic economic environment that offers neither attractive sales markets nor potential nearby investors. The Russian crisis of 1998 and two catastrophic droughts also had a negative effect on economic development during the report period. The high educational capital remaining from the Soviet era will soon be exhausted if the constant underfinancing of educational institutions continues.

## **5.2 Reliable pursuit of goals**

The implementation of a consistent reform policy is clearly failing with respect to democratization and a market economy due to the state agencies’ lack of determination and their inability to act. On a formal level, it is true that increasingly ambitious projects are in the works, in part due to pressure from international donor organizations. Such projects include the restructuring of the tax apparatus and the financial apparatus and the costly evaluation of justice system employees. The overriding need to stay in power forces state officials to incorporate special interests who lobby loudly and are capable of taking action. Consequently, special provisions at the technical-implementation level regularly undermine codified regulations.

Ignoring the increasingly critical budget crisis, Parliament continues to pass special provisions and complicate the tax code in a way that openly invites citizens to sidestep the rules. Orders to cut personnel from the bloated administrative bureaucracy are circumvented by hiring freelance personnel on a contract basis and by constantly forming new departments and sub-departments. As a result, the system takes the interests of privileged insiders into consideration and achieves a kind of stability that is as fragile as it is short-lived. Over the long term, this approach threatens to extinguish any semblance of legitimacy by permanently ignoring the public interest, which is not represented by any political actor capable of getting things done.

In the area of economic transformation, opaque regulations open the door to capricious bureaucratic acts. Combined with solidifying the unreliability of expectations, this capriciousness becomes a veritable roadblock for the entrepreneurial spirit, particularly when potential economic actors have no “political umbrella” to shield them.

## **5.3 Effective use of resources**

The state in Georgia has failed at its most important political transformation task: the establishment of a stable and efficient institutional infrastructure for the

development of democracy and a market economy. This failure is not merely a result of the resource paucity already described at several points in this report, but also the result of disastrous mismanagement of said resources. The use of meager financial resources rarely follows clearly formulated strategic priorities. Spending generally occurs as a result of tactically motivated, *ad hoc* decisions or the desire to pacify well-placed special interests.

Throughout the reporting period, state budgets were passed after long delays due to fierce infighting between individual ministries. The budgets then needed to be supplemented and amended on a regular basis because of politically motivated and unrealistic revenue forecasts. Still, the spectacular failure of political decision-makers on matters relating to budgetary policy has had no political consequences. State Minister Avtandil Jorbenadze announced his resignation several times in 2002, but never actually resigned.

The problem is further exacerbated by extremely poorly developed controls on public spending. Between 1997 and 1999, only 12 percent of the funds budgeted for schools and preschools were used appropriately. According to estimates, 30 percent of funds budgeted for hospitals in Tbilisi in 1999 disappeared. The picture is similarly negative where the handling of personnel and organizational resources is concerned. The accelerated rotation of leadership personnel and the restructuring of various authorities have further weakened the efficiency of already incapable political institutions. These actions fail to display any clear direction in policy.

The performance of administrators has not improved. In fact, their performance has been very poor for some time. This poor performance is due to blatant patronage-based recruiting, which clearly contradicts the principles of a meritocracy.

#### **5.4 Governance capability**

The ability of the government to consciously shape political and economic development has clearly declined during the report period. Political actions are less and less likely to follow clear programmatic objectives. Retaining power is much more likely to be the primary consideration underlying decision-making, and decisions are dictated by the requirements of short-term crisis-management. Under the leadership of Aslan Abashidze, chairman of the Supreme Soviet of the Autonomous Republic of Adjara, the heterogeneous opposition alliance gained an increasing number of votes in the 1998 local elections, the 1999 parliamentary elections, the 2000 presidential elections and the 2002 local elections. The 2002 local elections were postponed several times. President Shevardnadze's supporters reacted to the sweeping loss of legitimacy with increasing confusion.

Contradictory *ad hoc* measures resulted first in the disintegration of the presidential party, and later in its political isolation; the party quickly lost political control. The main cause of this development was a zigzagging personnel policy motivated by an opportunistic interest in neutralizing political competition, but this policy was ultimately unsuccessful and had an extremely negative effect on the party's ability to act. In this context, the presidential party's attempts to win over opposition leader Abashidze, who was considered an increasing threat, could be considered symptomatic. Abashidze steadfastly refused to "sell out" politically and rejected repeated offers of an appointment to the yet-to-be-created office of prime minister with additional powers. However, before the presidential elections, he agreed to withdraw his candidacy in exchange for informal assurances of economic privileges for his autonomous republic.

The price that presidential supporters paid to neutralize Abashidze went beyond the loss of essential state revenues: This maneuver punched several additional holes through the already highly heterogeneous national rule of law and order. Despite the failure of this policy—the presidential party lost even more votes in the next election, and in the 2002 local elections they took just 2.25 percent of the vote in Tbilisi—the president continues to cling to this behavior pattern.

## 5.5 Consensus-building

The discrepancy between the lip service paid by the political elite toward the ideals of democracy and a market economy on the one hand, and the tactical political power games motivated by naked greed and constant contraventions of the law on the other hand, has become more and more jarring. This discrepancy has managed to permanently undermine the societal consensus on the necessity of reform that existed at the end of the civil war. Under President Shevardnadze, the political leadership has squandered its political capital.

The government's unwillingness to enforce meaningful sanctions against omnipresent corruption is only thinly veiled in deliberately staged rhetoric highlighting the regime's own weakness. Citizens are constantly confronted with an administration that rarely makes available any public commodities and subscribes to a philosophy of unbridled plundering. These factors, combined with the total absence of distributive justice, have confirmed the population's view of the state as an enemy.

This attitude has catastrophic implications, because this experience will cause the population to revert to a historically proven behavior pattern of removing itself from the state's reach to the greatest extent possible. The fact that this situation has not yet caused the political leadership to be ejected from power is due primarily to the weakness of the opposition. Opposition representatives have allowed themselves to be drawn into corrupt distributive mechanisms and have

been subsequently fragmented or neutralized. For this reason, they are not truly anchored in society.

Recently, there have been more indications that the political apathy that long guaranteed a certain level of stability is giving way to a willingness to indulge in violence. Soaring crime statistics give weight to fears that Georgia will revert to the open anarchy it experienced in the mid-1990s. Against this backdrop, the political leadership sent dangerous signals last year by pardoning members of paramilitary groups who had been given long prison sentences for murder and terrorist attacks. The pardons, which were supposedly a signal of the government's willingness for reconciliation, were issued without consulting the appropriate parliamentary committees. Some observers consider this step to be a misguided attempt by those in power to shore up their precarious position with their willingness to resort to violence.

## **5.6 International cooperation**

The Georgian transformation process has received massive support from multilateral and bilateral donors since 1995. However, the external actors' initial confidence in the willingness of political leaders to enact reform has been noticeably shaken during the report period. The 2000 presidential election did not yield the hoped-for break in the reform logjam. Since that time, the IMF and the US Agency for International Development (USAID) in particular—the dominant bilateral source of funds—have been sharply critical of the government's lack of determination in fighting corruption, its use of loans for consumption purposes, and its ineffective measures to increase its tax-collection capacities.

For this reason, the IMF did not provide any loans at all to Georgia in 2000. Payment of tranches was delayed several times for a poverty-reduction and growth facility (PRGF) loan approved in January 2001 with a three-year term. Widespread doubt as to Georgia's ability to repay its debts—payments totaling \$460 million are due in 2004, but the state budget is less than \$350 million—has already caused the amount of money lent to drop precipitously. During the report period, there were several times of severe crisis in Georgia-Russia relations, sparked by armed battles between Georgian partisans and forces from the secessionist republic of Abkhazia, as well as the incursion of Chechen rebels into the Pankisi Gorge.

In this, the Caucasus republic is clearly the victim of hegemonic Russian foreign policy: For years, Moscow has been deliberately encouraging destabilization in Georgia by manipulating ethnic conflicts. After September 11, 2001, the Putin administration tried repeatedly to accuse Tbilisi of supporting terrorists—accusations made so that Russia would have an excuse to expand its sphere of influence into the southern Caucasus region. Nonetheless, it must be noted that



although the Georgian government's inconsistent and contradictory actions were due in part to poor coordination, they were also motivated by the desire to divert attention from domestic political crises and to incorporate political actors who favored using force in Abkhazia. In this fashion, Georgia also contributed to the escalation spiral.

Furthermore, the government's inability to achieve an effective monopoly on the use of force in the Pankisi Gorge seems to stem from cooperation, motivated primarily by economic factors, between government ministry employees and armed groups.

## **6. Overall evaluation**

To summarize the results presented thus far, this report comes to the following concluding evaluation:

The originating conditions were extremely difficult in Georgia. Even during the Soviet era, Georgia undermined its formal institutions by using informal, patronage-based networks, made corrupt practices routine and developed a political culture whose higher-than-normal willingness to resort to violence set it apart from other post-Stalinist, former Soviet states. When the Soviet system of rule imploded, these residual burdens gave rise to a dangerous dynamic that led to the disintegration of the state's monopoly on the use of force, a sovereign state's most basic prerequisite.

In the shadow of secessionist conflicts and civil war, it was nearly impossible to even consider taking on political-transformation activities, in the real sense of the term, until the mid-1990s. For this reason, the status of the transformation achieved lags to some extent behind that of some other post-socialist societies. With respect to Georgia's evolution during the reporting period, aside from a few successes relating to stabilization, the country failed to introduce structural change and overcome the extreme incompetence of formal institutions in taking action and exercising control.

In light of these facts, one must issue a negative evaluation concerning Georgia's performance in transformation management. The political leadership has woefully neglected its responsibility to strengthen state lawmaking capacities in favor of serving special interests and securing its own grip on power. Therefore, it is not just valuable time that has been squandered over the last five years, but also the confidence and trust of the population. This trust is especially relevant for building capable state institutions, and it is already a scarce resource in transformation societies.

## **7. Outlook**

For a long time, President Shevardnadze was considered a guarantor for a basic level of political stability in Georgia. Two years before the end of his term, the chances of developing a regime that can promise a basic level of consistency in its behavior and reliability of expectations seem very slim indeed. A more likely course of events would involve the stabilization of a para-governmental power structure characterized by areas of lawlessness and violence and dominated by criminal interests who desire to accumulate power and wealth. Meanwhile, the majority of the population would sink further into poverty and become excluded from political and economic opportunities to participate in society.