Caucasus University

Friedrich Ebert Foundation

First Regional Students' Scientific Conference

Development Perspectives of South Caucasus Region

Georgia, 2-4 May, 2008

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კრებულში განთავსებულია სამეცნიერო ნაშრომები, შერჩეული პირველი რეგიონალური სტუდენტური სამეცნიერო კონფერენციისათვის **“სამხრეთ კავკასიის რეგიონის განვითარების პერსპექტივები”**, რომლის უმთავრესი მიზანია სამხრეთ კავკასიის რეგიონის ქვეყნების სტუდენტების დასაბუთებული თვალსაზრისის წარმოჩენა თავიანთი ქვეყნების განვითარების პერსპექტივაზე და ევროკავშირში ინტეგრაციის შესაძლებლობებზე, აგრეთვე ერთიანი ხედვის შემუშავება სამხრეთ კავკასიის რეგიონის წინაშე მდგარი პრობლემების გადაწყვეტის თაობაზე.

The collection contains works of the First Regional Student’s Scientific Conference “Development Perspectives of South Caucasus Region”. The major goal of the conference is to present advocated arguments from the students of the countries of South Caucasus on European integration opportunities. Here also one can find the initiative on forming entire vision for solving key problems, facing South Caucasus.

გამომცემელი: კავკასიის უნივერსიტეტი - ფრიდრიხ ებერტის ფონდისა და კომპანია პეპსი-კოლას მხარდაჭერით.

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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 utmost importance for Georgia. Apart from welfare, this is a direct way to settle in a civilized world. This kind of importance carries *First Regional Student's Scientific Conference "Development Perspectives of South Caucasus"* which will take place on May 2-4 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.

Developing Intellectual potential is utmost importance for Georgia. Apart from welfare, this is a direct way to settle in a civilized world. This kind of importance carries *First Regional Student's Scientific Conference "Development Perspectives of South Caucasus"* which will take place on May 2-4 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

Caucasus University

Already for the second 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 Regional Conference of South Caucasus. Let's wish success to all of them.

Ia Tikanadze

Friedrich Ebert Fund

Director of Georgian Branch

Student's First Regional Scientific Conference "Development Perspectives of South Caucasus Region" organized by Caucasus University and Friedrich Ebert Fund consists of two stages. On the first, preparatory stage Armenian, Azeri and Georgian accredited higher education institutions received the announcement about conducting the First Regional 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 from Azeri University, from Armenian-Russian University and from Georgian Higher Education Institutions. Totally twenty students of the region will participate in the conference.

On the second stage of the preparatory works the authors presented the full versions of their works. Selected scientific works will be published.

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.

Head of the Organizational Committee

Vice-president of Research Department of Caucasus University

Prof. Shalva Machavariani

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Wine Tourism and the strategies of the development it in one of the historical Wine region Georgia

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Instructor: Nino Shapatava Postgraduate degree
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1. Introduction

One of the world's fastest growing industries is "Wine Tourism", that is not only associated with cellar door wineries, rather all business that are involved in the wine, tourism and associated industries with the wine region. This includes accommodation houses, tour operators, gift shops and national parks. Etc.

Successful creation and promotion of tourism in a wine region is dependent upon the synergy of the following elements:

1. High Quality Wine
2. Landscape and Cultural Atmosphere
3. Hospitable People
4. Good Local Food
5. Cultural Heritage and good Climate.

Georgia certainly fulfils these criteria. It has a broad variety of distinctive and appealing **autochthonous grape varieties** and a **rich cultural heritage**. It has a great **potential to become *the* historical wine region of the world.**

Georgia is the oldest wine producing region of Europe, if not the world. Because of this, it is often referred to as "*The birth place of wine*" or *"The cradle of wine making"*. The first grape seeds were attested in Aeneolothical layers at archeological excavations, these discoveries were made in *Kartli*, speak about grape seeds the 6th-5th millennia. This permitted to declare that Georgia is the most ancient country of wine-making, proof across the whole Eurasian continent. By morphological and ampeolometric data, as well as by juxtaposition with pips of modern vine varieties, the grape pips brought to light at shulaveri come close to the cultural vine. (Vinifera L., ssp sativa D.C). Georgia has a *broad* variety (ca. 500) of distinctive and *appealing* autochthonous grape varieties. By both natural and artificial selection, they have given rise to among existing 4000 vine sorts more than 500 are indigenous grape varieties of Georgia. Only 38 varieties are mainly used to produce white, rosé, red and sweet wines as well as sparkling wines and spirits. Some of the grape varieties such as Saperavi could become Georgia's signature grape cultivated in appellation zones.Most of the vinification methods such as old tradition Kahetian style would express the country' identity as a wine region.

The concept of wine tourism is therefore strongly tied to wine marketing and must be developed in parallel.

2. Statistics of Tourism inflow in Georgia

According to the global trends, tourism is one of the most dynamic growth sectors and the demand for a quality experience is rising rapidly. Identifying and consistently delivering a unique wine experience is what each wine region must strive to achieve. In the world market this industry is the most competitive one, so there is no room for poorly planned or half-hearted approach. Planning is the most important one that helps to build the sustainable tourism and establish long-term strategy.

The World Economic Forum has launched the first-ever Travel and Tourism Index covering 124 Countries around the world. The Tourism Satellite Account Research (undertaken by WTTC) indicates that Georgia occupies 66 places out of 124 and is presented in the same group with: (61) Serbia- Montenegro, (62) South Africa, (63) Poland, (64) Argentina, (65) India, (67) Kuwait, (68) Russian Federation.

Table 1 Travel and Tourism Competitiveness Index

Rank	**Country/economy**	**Score**
1	**Switzerland**	**5.66**
2	**Austria**	**5.54**
3	**Germany**	**5.48**
4	**Iceland**	**5.45**
5	**United States**	**5.43**
6	**Hong Kong SAR**	**5.33**
7	**Canada**	**5.31**
8	**Singapore**	**5.31**
9	**Luxembourg**	**5.31**
10	**United Kingdom**	**5.28**
66	**Georgia**	**4.13**

The international visitors preferences toward the tour profiles are distributed as follows:

a. Cognitive tours - 15.7 %
b. Cultural tours - 32.8 %
c. Mountaineering / skiing tours – 27 %
d. Hiking tours - 18.5 %

e. Extreme tours (rafting) – 15 %

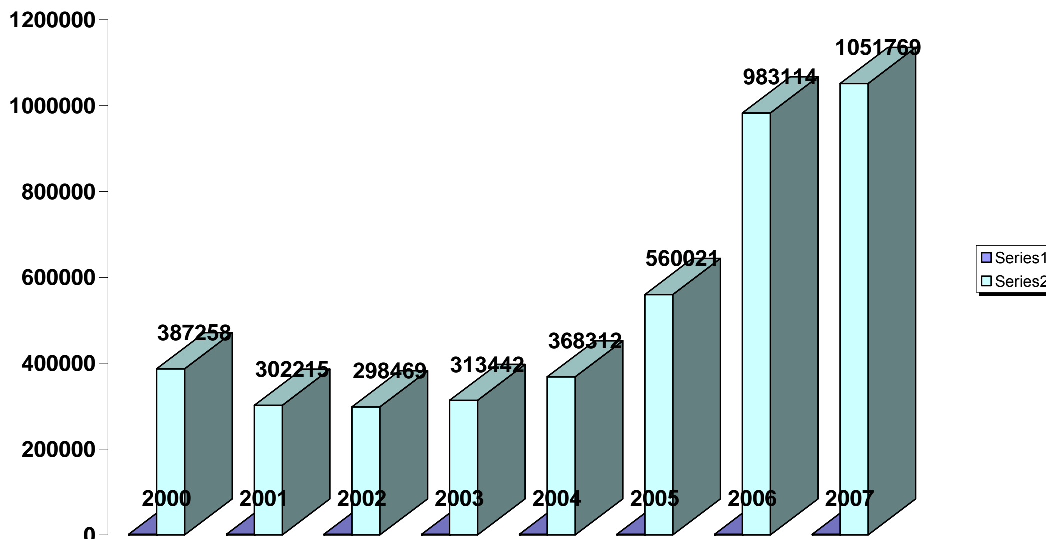
Majority of tourists come from Europe, whereas there are tourist's arrivals from Baltic States, Middle and Far East, USA, South Caucasus and CIS Countries. The Charts below will show reported arrivals by the regions and countries through 2005-2006.

The primary attractions for international tourists in Kakheti region

• Nature (agro, eco-tourism) and adventure tourism;
• Cultural heritage tourism
• Wine Tourism

Generally, the travel period in Kakheti region is not limited, however the best time to observe local traditions and customs here is the harvest time which starts at the end of September and last until mid October, tradition of wine making period.

International Arrivals to Georgia: 2000-2007



3. The weak and strong parts of Georgia as a Wine region

The main aspects why to develop wine tourism in Georgia is that

Because of the fact that Georgia is not so well-known abroad, it could have the benefits to formulate as a unique wine region, to attract the tourists, mainly through the theme of wine.

The main weaknesses of Georgian wine Marketing**:**

- Lack of communication - organisation – cooperation at a broad level
- Lack of standardised quality rules / collectively recognised wine styles
- Little control over vineyard management and cellar hygiene

- Lack of training / institutions of control / representative bodies for the different wine entities
- Dependence on external help and support
- Lack of promotional material for educating the public (wine & food)

The following aspects must be improved regarding these weak parts of Georgia

1. Infrastructure and hygien
2. Service and professionalism
3. Knowledge of local people about wine and their participation in the events

3.1. The strong points of Georgia as a Wine Region

The strong point may be considered the climate that is appealed with wine Tourists, which come from Europe.

The most important communicator of wine culture is the people themselves. Georgians are known for their hospitality (over centuries with different peoples and religions), they have an appreciation for good food and wine, which they express both in music (singing) and storytelling (legends and myths) that are associated with the people's history or wine, as well as poetic/philosophical toasts that dominate and socially structure table rounds. The variety of different grape varietals and wine styles is strongly tied to people's life and passion, and can therefore be easily conveyed to outsiders.

All this cultural heritage (combination of history/tradition/people and the region's outlook) is a treasure that should be preserved and lay the ground for creating a unique image of Georgia in order to attract visitors from the region itself as well as abroad and simultaneously help market its wines by creating a fruitful cross promotion.

3.2. The weak points of Georgia as a Wine Region

The weak point of Georgia as a wine region may be regarded the fact that Georgia is not known as a wine region. The target must be researched to build the wine tourism in Georgia. The packages that must be offered to the tourist must include the other parts of Tourism that are so many in Georgia. Also it is very important to raise the knowledge of the local population, before the wine tourism strategic must be developed, as the community is the main participant of the wine tourism. The investment of improving infrastructure is the fundamental aspect.

Wine tourism is also tied with the social hand-works, such as local souvenirs, and agricultural products that must be available during the wine tour, as the tourists could take them back home.
The most visible weak points are:

- Lack of control of professional education, public knowledge, institutions.
- Lack of promotional materials

- Lack of infrastructure
- Lack of professionalism
- Lack of service
- Lack of signage

Why the wine tourism must be developed

Tourism provides opportunity to display the cultural and unique assets while creating the employment and diversifying the regional economy. For this reason tourism must work closer to other regional economy industries, local government and community organizations, in this term tourism are integrated into the region's future.

4.The benefits of wine Tourism

Given the example of other countries, such as Australia, where the more people are employed in the tourism than in other industries, for about 10% of working population is involved in the Tourism industry, and from this comes out that the number of visitors double each year.

Besides the wine tours, the added package must be offered to visitors, that ahs also the added value. Georgia really has the opportunity to build the wine routes that is becoming more and more popular in the wine regions (which has the economical benefit also).

Other effect to the economy of the region must be that to purchase the local goods and other products is the spending new local money into the local economy. When more tourist GEL (Lari or Dollars) enter a local economy and a larger percentage is retained locally, the economic benefit is greater. So the more community is self-sufficient (i.e. resources used by the visitor are produced wholly or substantially be the local community) the greater the "multiplier effect".

Development of the Tourism (mainly wine Tourism) establish the opportunities to establish the new products, facilities and services and expand existing businesses which would not otherwise be sustainable based on the resident population.

Tourism could provide the expanded opportunities for residents through the introduction of adult education and specialised training. It could stimulate to transport services within an area and a region.

5. Planning of Wine Tourism

As mentioned beforehand, Georgia has lack of service and infrastructure and hygiene, these factors mainly influence the tourist's impressions about the region. If the marketing campaign must be done, but the tourism infrastructure and product does not meet the requirements and visitors' expectations, then the response will be short lived. Visitors may travel to the area once, but never return.

Effective promotion of a region must not only create a desire to visit an area, it must reflect the region's unique and diverse character. For this reason promotional activities

should reflect the region's current product and be in keeping with the outcomes of detailed planning phase.

The solution is the planning of tourism development which establishes a clear path to follow and provides the basis of marketing plan. This carefully planned approach ensures maximum effectiveness for every dollar invested.

The marketing campaigns must take the advices form the experienced institutions or experts, who could help to plan the strategies more effectively.

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Georgian Innovation Opportunities

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Since the fall of the Soviet Union 1991, Georgia has seen major structural reform designed to transition to a free market[1] economy. In 2006 Georgia's real GDP[2] growth rate reached 8.8%, making Georgia one of the fastest growing economies in Eastern Europe. The World Bank's[3] *Doing Business in 2007* report dubbed Georgia "the number one economic reformer in the world" because it has in one year improved from rank 112th to 37th in terms of *ease of doing business* (out of 175 countries surveyed.)

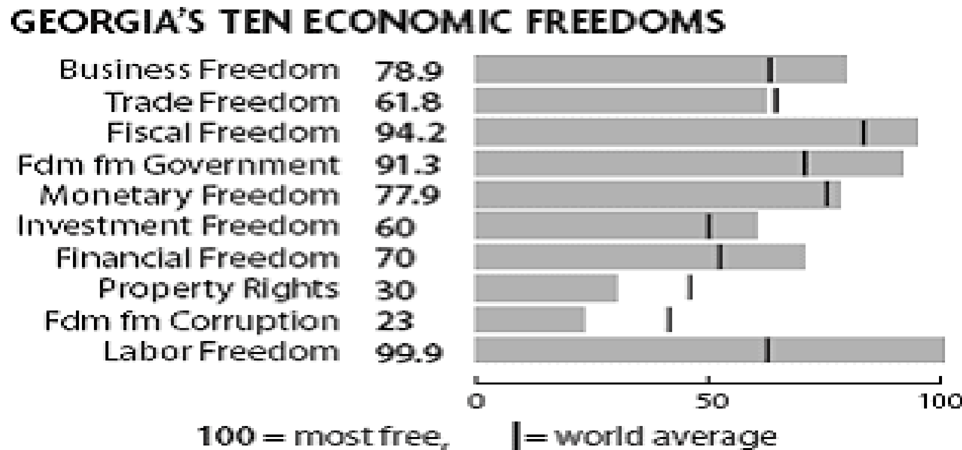

Figure 1. Georgia's ten economic freedoms

Source: Georgian National Investment Agency; http://www.investingeorgia.org/10reasons/16/

2006 estimates place Georgia's GDP (adjusted for purchasing power parity[4]) at US$13.983 million. Georgia's economy is becoming more dependent on services (now representing over 50% of GDP), moving away from agricultural sector (14.8% in 2005). After Russia cut imports of Georgian wine[5] and severed financial links with Georgia, the Georgian lari's[6] rate of inflation spiked to 10% in 2006. However, the high inflation rate was offset in

[1] http://en.wikipedia.org/wiki/Free_market
[2] http://en.wikipedia.org/wiki/GDP
[3] http://en.wikipedia.org/wiki/World_Bank
[4] http://en.wikipedia.org/wiki/Purchasing_power_parity
[5] http://en.wikipedia.org/wiki/Georgian_wine
[6] http://en.wikipedia.org/wiki/Lari

part by a high investment rate (30% of 2006 GDP) and the country maintained a solid credit in international market securities.

Table 1 provides some indicators about the changes in the economic situation in Georgia over the last few years demonstrating some economical growth trends.

Table 2

Summary Macroeconomic Indicators

		2000	2001	2002	2003	2004	2005	2006	2007, 6 month
GDP and real sector									
Nominal GDP	mln GEL	6043.1	6674.0	7456	8564,1	9824.1	11591.9	13783	7506.9
Real GDP	mlnGEL,	4618.	4840.1	5105.	5669.	6001.	6562.8	7192.	3710.8
Nominal GDP per capita	GEL	1298.6	1445.0	1625.	1880.	2166.1	2563.7	3131.	1708/1
	USD	657.5	697.0	741.4	876.9	1139.1	1415.6	1762.	1006.9
Real GDP per capita	GEL, 1996	992.4	1047.9	1113.	1244.	1323.	1451.5	1634.	844.4
GDP by sectors									
Industry	% of nominal	17.3	16.6	17.6	17.7	16.1	15.6	14.9	13/3
Agriculture	% of nominal	20.6	21.0	19.2	19.3	16.4	14.8	11.3	10.2
Construction	% of	3.7	3.9	5.1	64	8 1	8.8	6.9	6.1
Real GDP growth	% over prev.	1.8	48	5.5	11.1	5.9	9.3	9.4	12.5
Real growth by sectors									
Industry	% over prev.	3.2	-2.5	8.4	7.7	4.0	11.4	15.9	13.0
Agriculture	% over prev.	-12.0	82	-1.4	10.3	-7.9	12.0	-9.6	-0.1
Construction	% over prev.	4.0	10 3	43.1	46.6	35.9	22.3	9.8	9.5
Price indexes									
GDP deflator	1996-100	130 5	137.5	145.8	150.6	163.2	175.9	190.5	201.0
Consumer prices (year	2000=100	100	104.7	110.5	115.8	122.4	132.5	144.7	154.7
Producer prices (year	2000=100	100	103.6	110.8	113.9	119.2	128.0	142.0	151.0
Investments									
GFCF	% of nominal	25.4	27.2	25.4	26.7	27.5	26.3	25.6	26.8
Net FDI[4] inflow	mln USD	131.7	109.9	163.3	336.3	489.5	537.3	1075.	642.7
Labour market									
Population	mln	4.63	4.60	4.57	4.54	4.52	4.52	4.40	
Labour force	mln	2.05	2.11	2.10	2.05	2.04		1.97	
Unemployment rate	%	10.3	11 1	12.6	11 5	126	13.5	13.6	14.9
Wage									
Average nominal wage	GEL	72 5	82.6	99.1	101.5	116.4	149.3	190.2	225.2
	%, over prev. year	7.1	13.9	20.0	2.4	14.7	28.3	27.4	25.0
Level of poverty		51.8	51.1	52.1	54.5	52.0		23.1	
Depth of poverty		20.2	19.3	19.8	21.1	20.0	7.6	7.2	
Severity of poverty		10.7	9.9	10.3	11.2	10.6	3.6	3.3	
National accounts									
Household consumption	% of	89.4	78.6	77.0	71.6	72.8	66.9	78.4	76.2
Government consumption	% of	8.5	9 6	9.8	9.8	14.0	185	15.4	19.4
Gross capital formation	% of	26.6	28.3	26.4	27.8	28.3	26 8	26.7	27.6
Net exports	% of	-16.7	-144	-13.2	-14.6	-16.6	-17.8	-24.2	-24.0

Government finance									
Revenue	mlnGEL	639.4	740 3	905.2	933.2	1705.	2607.5	3773.	2072.2
Expenditure	mln GEL	833.9	906.4	1049.4	1207.1	1930.	2616.5	3821.	2048.7
Deficit(-) or Surplus (+)	mlnGEL	-194.5	-166.1	-224.2	-162.5	-150.6	-9.0	-48.2	+23.5
Financing of deficit									
Domestic	% of deficit	77.4	13.5	17.7	34 2	8.9	398.0	-256.0	
Foreign	% of deficit	22.6	86.5	32.3	65.8	91.1	-298.0	356.0	
Total Debt	mln GEL	4192.	4449.5	4843.	4608.	4306.	4076.0	3855.	4352.2
Domestic	% of debt	35 7	33.5	31.4	34.0	36.6	37.7	39.2	34.7
Foreign	% of debt	64.3	66.5	68.6	66.0	63.4	62 3	60.8	65.3
Monetary indicators									
M2 (year-end)	mln GEL	382.1	403.8	462.3	527.4	846.1	1069.9	1389.	1655.8
Velocity of money (M2]		19.53	17.89	17.78	16.05	11.78	10.83	9.90	11.35
Deposit rate**	% per	12.2	11.1	11.4	10.6	9.5	8.7	8.1	8.8
Lending rate***	% per	25.3	24.0	23.1	21.6	20.2	17.9	18.0	17.2
Treasury bill rate	% per	17.14	29.93	43.42	44.26	19 66	12.57		

Exchange rate (year	USD/GEL	1.975	2-0723	2.194	2.145	1.916	1.8126	1.7766	1.668
Real effective exchange	%,1995=10	110.2	108.2	102.7	94.9	107.0	110.3	109.4	111.1

Source: Department for Statistics, Ministry of Economic Development; ***Ministry*** *of Finance; National Bank of Georgia*

Presently, Georgia lags significantly behind the EU members states according to its economic development when comparing the GDP by real, nominal and per capita data, as can been seen in Table 2, Fig.2.

Table 2

Georgian GDP in comparison to EU-25 GDP

	Georgia							EU
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2006**
Real GDP growth, % compared with previous years	1.8	4.8	5.5	11.1	5.9	9.6	9.4	2.9
GNI per capita (according to buying power portfolio – Euro)	-	-	-	2308.9	2331.0	2627.8	2933.2	21353.1
Nominal GDP per capita (USD)	657.5	697.0	780.3	922.6	1196.6	1479.4	1762.9	30899.1

Source: Georgian Economical Tendencies, 2007 (www.geplac.org)

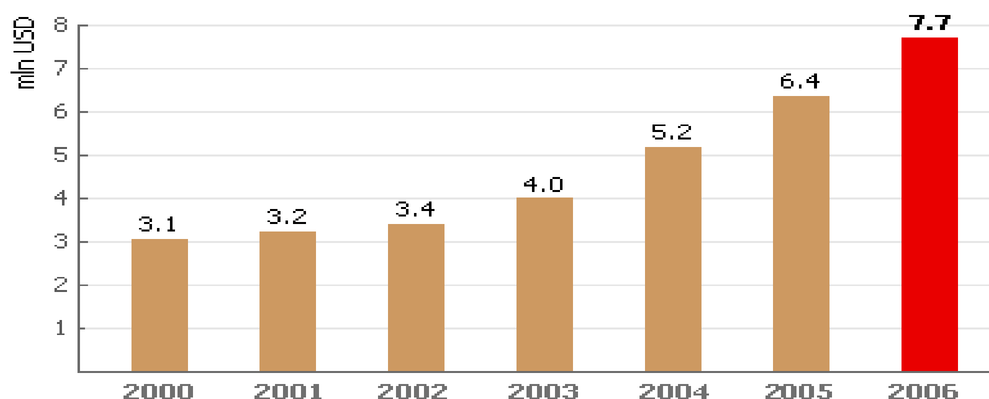

Figure 2. GDP change in Georgia, 2000-2006

Research and development

During the recent years Georgian scientific potential has undergone significant changes, the number of scientific institutions and scientific personnel employed there have significantly decreased (Tables 5 and 6).

Table 5

Number of Scientific Institutions

Indicator	2003	2004	2005
Total number of scientific institutions	120	120	99
Among them:			
Higher Institutions	23	23	19
Scientific Research Institutions	97	97	80

Source: Department of Statistics

Table 6

Number of scientific personnel according to research fields, employees

Indicator	2003	2004	2005
Total scientific personnel	**16062**	**13266**	**9186**
Among them according to research fields:			
Physics-Mathematics	1737	1420	1042
Chemistry	808	718	557
Biology	1591	1199	985
Geology-Mineralogy	410	309	209
Technical	1401	1787	1211
Agriculture	843	689	750
History	1045	885	517
Economy	913	796	556

Philosophy	403	329	164
Philology	1921	1657	1215
Geography	463	254	174
Law	297	183	83
Pedagogical	763	736	288
Medical	1402	1126	793
Pharmacy	81	65	10
Veterinary	131	178	169
Arts	224	216	139
Architecture	15	11	2
Psychology	224	189	101
Sociology	140	142	21
Other	1250	377	200
Among them			
with scientific degree / % of total	7451 (46,4)	7665 (57,8)	5892 (64,1)

Source: Department of Statistics

As can be seen from Tables 5 and 6, since 2003 the number of scientific research institutions has decreased 17% and the number of scientific personnel 43% whereas the percentage of personnel with scientific degrees has increased considerably (from 46.4% to 64.1%) which testifies to a strong Georgian human potential in research.

Concerning the volume of scientific-technical works it must be noted that the trends are considerably changing (Table 7).

Table 7

Scientific-Technical Works, Thousand GEL (rate 1$ =1, 69 GEL)

	2003		**2004**		**2005**	
	Total	**of which by own forces**	**Total**	**of which by own forces**	**Total**	**of which by own forces**
Volume of works	18635,2	12369,4	23990,6	13684,3	20519,9	15319,3
Among them volume of research-technical works (product volume)	18292,4	12116,3	23894,5	13588,0	20426,4	15225,9
Among them scientific-research works	16944,8	10736,7	23078,8	12779,9	19347,8	14154,8
Among them fundamental research	4894,9	3928,4	5411,9	4224,0	11454,1	9296,7

Volume of project constructing and technological works	1565,5	1511,7	721,8	721,8	298,2	298,3
Production of testing goods	35,5	35,5	10,0	10,0	118,2	118,2
Scientific-techn-ical and innovat-ion services	89,4	86,5	180,0	172,6	755,5	748,0

Source: Department of Statistics

In 2005, compared to 2004, we may see the following changes:

- The volume (production) of Scientific-Technical works decreased by 14.5%; Of which scientific-research activities decreased by16.2%.

The volume of project constructing and technological works was decreased - 58.7%. At the same time, the volume of some activities increased:

- Volume of fundamental research - up 52.8%
- Production of testing goods - + 91.5%
- Scientific-technical and innovation services - +76.2%

(Source: Georgian Ministry of Education and Science)

Generally, the volume of the completed scientific works decreased by 14.5%. The reason of the current situation may be explained by the lack of the interest of the government to finance scientific-technical works (among them project construction and technological works), as it is has to move in the direction of obtaining financing from private sector. Concerning the private financial support to scientific activities, there is no system to collect the corresponding data which makes it impossible to provide concrete figures. Based on expert evaluation, we can conclude that private sector financing is rather trivial.

In 2005, the total financing of research and development in Georgia was equal to 23.2 million GEL, or about 10,5 million euro which was 0.2% of the country's nominal GDP (source: Georgian Ministry of Education and Science). For comparison, the total volume of Estonia's R&D financing increased from 0.73% in 2001 to 0.91% of GDP in 2004. Yet Estonia itself lags far behind the corresponding average figure of the EU-25 (1.9% of GDP in 2004). The financing goals set in the strategy "Knowledge-based Estonia 2002-2006" were not achieved (1.1% of GDP in 2004 and 1.5% of GDP in 2006). The EU has set the goal of

increasing total R&D investments to 3% of GDP by 2010, a goal already exceeded in 2004 by Finland (3.51% of GDP) and Sweden (3.74% of GDP). Estonian business investments in R&D have been growing every year but only amounted to 0.36% of GDP in 2004, compared to the EU-25 average of 1.22%
(based on European Trend Chart on Innovation, Annual Innovation Policy Trends and Appraisal Report, Estonia, 2006[7]

Overview of the innovation legislation and governance system

The innovation activities in Georgia are generally regulated under Georgian laws "**On Science and Technologies and their development",** "**Law of Georgia on Higher Education**", **"Georgian Tax Code",** and "**Regulation of Georgian Scientific Fund**".

The **Parliament of Georgia** shall, when considering the State Budget, approve a share of funding of the development of science and technologies, define the state policy in this sphere, and control its implementation. The **President of Georgia** shall: submit to the Parliament of Georgia proposals on the state policy in the sphere of science and technologies development; determine, based on recommendations of the Georgian National Academy of Sciences, the state priorities of science and technologies development and a list of scientific-technological programs (projects) of their realization; approve responsible executors of scientific-technological programs (projects). **Georgian government** carries out the state policy in the sphere of science technologies development, for which purpose it shall: work out proposals on the volume of research and development; ensure expediency of state scientific priorities and scientific and technological programs (projects) and their organized implementation through state financial resources; promote the development of principally new technologies aimed at raising the country's export potential for manufacturing high-technology products and the employment of recognized market technologies through introduction into production of Georgian scientific and technical achievements and attraction of foreign licenses; ensure registration of the results of intellectual (research and development results) and other scientific-technological activity, including protection of a manufacturing secret (know how); ensure state examination (appraisal) of the development of science and technologies and activities of encourage private innovative activity to secure a base in the sphere of scientific production and scientific services; submit to the President of Georgia an annual report on the scientific and technological development of the country

[7] http://trendchart.cordis.europa.eu/reports/documents/Country_Report_Estonia_2006.pdf

The Ministry of Education and Science is involved in regulating the system of R&D and innovation activities. Other ministries, first and foremost the **Ministry of Economic Development**, must be involved in the innovation process and be responsible for carrying out innovation and knowledge transfer activities in the country.

Georgian Academy of Sciences had 130 members, among them 66 academicians and 64 corresponding members. One of the important assignments of the Academy of Science is to work out recommendations for the development of innovation activities, to discuss innovation projects and to evaluate them.

. **Georgian government agencies** shall be responsible for carrying out the state policy of science and technologies development in the respective sphere of state administration.

Georgian Pattent Office.The Intellectual Property protection system effective at present in Georgia comprises all the elements necessary for its functioning. Georgia is also a party to all the main international agreements concerning IPR. Intellectual property occupies a significant place in the Partnership and Cooperation Agreement between Georgia and the European Union. Thus, despite a certain discord between separate legal acts, a favourable legal framework for successful development of R&D&I is being created.

The ties between the government structures and NIS are shown in fig. 3 overleaf.

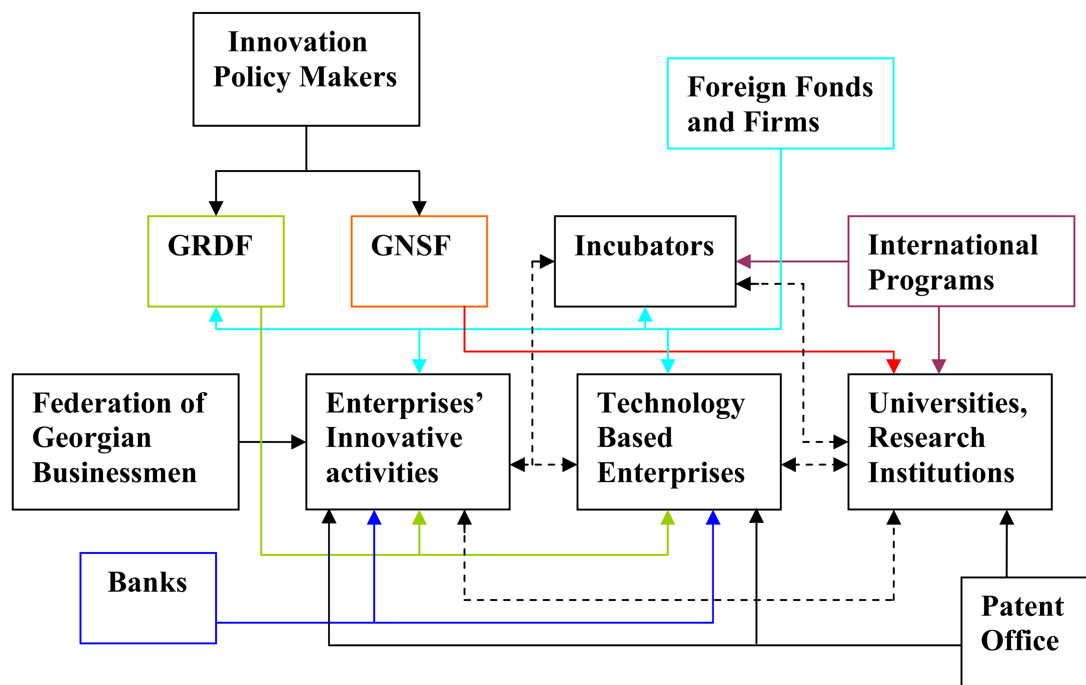

Figure 3. Organisational Chart tracing evolution lines of the National Innovation Governance System

It should be mentioned that the amendments made in this law in 2005 were done proceeding from relevant European (among them Estonian) normative acts. Afterwards, the process of implementing modern infrastructure for the development of science and technologies has started. First, we should mention the establishment of the Georgian National Science Fund. The fund is a legal public body, established on the basis of order number 653 from 17 July 2005. The goal of the fund is to give financial support to research fields[8]. The first grant competition was held in 2006, in the basis of which Council of National Scientific Fund has financed 113 scientific projects of to the total amount of 11 129 721 GEL, or about 5 million euro .. GNSF performs the same functions as **the Estonian Science Foundation (ESF),** maintained by the Estonian Ministry of Education and Research – to provide research grants to research projects. It is important to note that ESF provides only individual research grants. ESF runs four expert commissions in different research fields who decide on project financing. In 2006 the ESF financed 650 research projects with a total sum of EUR 6.12 million. It is obvious that for the present time Georgian National Fund has not too wide opportunities yet . In addition to that, Enterprise Estonia maintained by the Estonian Ministry of Economic Affairs and Communication provides funding for innovation-related activities in Estonia. Enterprise Estonia is a private person in law, like ESF, and in 2005 it provided 1 443 million EEK of support for R&D activities in Estonia[9]

The Estonian Research Council provides long-term targeted research grants to research teams in Estonia (16.8 million euro in 2006), as well as support to the Estonian Centres of Excellence programme (1.7 million euro in 2006). Additionally, the Estonian Ministry of Education and Research provides support via 3 national programmes (1.77 million euro 2006), and base-line support for the R&D institutions (5.1 million euro in 2006).

2.2. Realization of R&D&I activities at the universities and other organizations

Research and innovation activities in Georgian universities are conducted according to "Law of Georgia on Higher Education" (December 21, 2004).

This law regulates the implementation conditions for educational and research activities of higher education institutions, the principles and rules of higher education management and

[8] http://www.gnsf.ge/geo/index.htm
[9] http://www.eas.ee

financing, defines the status of all higher education institutions and the rules for their establishment, operation, reorganization, liquidation, licensing and accreditation[10].

Some Georgian universities, for example the Georgian Technical University and Tbilisi State University have launched preparatory work on the formation of technopolises. For promoting small and medium sized enterprises, the Caucasus University is engaged in the operation of business incubators. The main obstacle in this area is still the lack of necessary resources.

We should also mention such non-governmental organizations as CERMA, the leading management consultancy in Georgia. Its main occupation is the management solutions for various industries, supporting companies in personnel recruitment and skill development of managers and staff. CERMA employs highly skilled multilingual business consultants with international experience in emerging and transitional markets.

CERMA also involves the Technology Business Incubator[11].

The mission of the non-for-profit Technology Business Incubator (TBI) in Tbilisi, Georgia is to assist groups of Georgian engineers and scientists who form start-up companies to commercialize their applied research results. TBI was established by CERMA and provides the following services to its clients: business strategy and planning, marketing assistance, fundraising, technology assistance, accounting services, management and staff training, consulting and mentoring, affordable research, office and production infrastructure. Currently there are 30 projects in the pipeline. In 2004-2005 around 10 start-up technology companies were assisted. The initiative is supported by BP, the Word Bank and the EBRD's BAS project.

From non-governmental organizations we should also mention the National High Technology Center of Georgia and Georgian Branch Office of International Science and Technology center (ISTC)[12], although they are less active.

For further effective contribution to innovation activities, the above-mentioned legislative acts should be amended and their presently existing discord should be eliminated. For example, according to the law, there shall be full government support for the development of scientific and innovation activities (**“On Science and Technologies and their development”),** maximum government contribution for the development of educational and scientific processes in the government accredited universities, notwithstanding their legal

[10] http://www.mes.gov.ge/files/255_436_600942_DATOS%20FILE.doc
[11] http://www.cerma.ge
[12] http:// www.istc.ru

form. This is in contrast to the "Regulation of Georgian National Scientific Fund" which does not let Private Higher Education Organizations (even accredited ones) participate in any kind of grant project competitions.

Also, in case of import of modern technologies and equipment for technolopolises and techno parks, no relevant activities have been undertaken for waving them from custom charges or reducing them. The same concerns setting privileged taxes for those organizations and private persons that make investments for the development of innovation activities (**Georgian Tax Code**).

2.3. Opportunities for the growth of innovation potential and for the improvement of innovation management (commercialization) at higher education institutions

The efficiency of investment activities is directly defined by two main directions of the innovation process:

1) *Production of valuable scientific product,* which is one of the main purposes of a university, and

2) *Effective innovation management,* which directs innovation activities for commercial purposes.

Each component of investment activities is somehow influenced by a number of factors. In order to reach the desired result, it is necessary to take these factors into consideration.

2.3.1. Creation of valuable scientific products

The experience of foreign universities (especially of Finland and Estonia) and recent scientific activities of Georgian Higher Educational Institutions (among them Caucasus University) makes its possible to do some comparisons and draw general conclusions.

The creation of valuable scientific products is stipulated with the influence of such objective factor groups, as:

1. The potential of Universities defined by*:*

- The qualitative unity of educational and scientific-research components;
- The importance of scientific programs and the level of their integration into international projects;

- The quality of educational projects and their correspondence with international standards.
- The quality of existing resources (intellectual, financial, technological, informational);
- The level of the development of internal infrastructure.
- The level of operation with local and foreign Universities.

2. Regulation of external infrastructures:

- The level of the development of the banking services;
- The size and availability of information networks;
- The development of small, medium and large enterprises (which mainly stipulates the interest of their scientific production);
- Correctness of patent activity and copyright protection system.

3. The level of state regulation (direct influence);

- Requirements of legislative acts of Higher Education regulations;
- State development strategy and policy for the development of higher education and science;
- Educational and scientific programs ordered by the state;
- Tax requirements and privileges which regulate the implementation of educational and scientific programs in Higher Education Institutions;
- Effectiveness of promoting structures and the "activity level" of regulatory organizations;

4. Factors of indirect influence:

- Management system and management culture;
- Level of economic development;
- Industrial policy in connection with the implementation of new technologies and scientific innovations;
- Protection of private business and promotion of competition;

2.3.2. Realization of effective innovation management

Foreign and local practice shows that the progress in R&D&I fields depends mainly on the e*ffective management of innovation activities* which means (Figure. 4):

- implementing innovation strategies,
- formation of innovation portfolio,
- planning the implementation of innovation activities,

- realizing innovations, and
- exploitation of innovation products.

The **First stage**: “Formation of operation strategy” foresees:

- Determining the marketing characteristic of presumable market of innovation production consumption;
- Defining competitive status of serving company;
- Estimation the possibility of presumable consumers of innovation products;
- Estimation of competitors presumable action;
- Estimation of the risks for producing innovation products (service) and to conduct detailed, time-tabled plan.

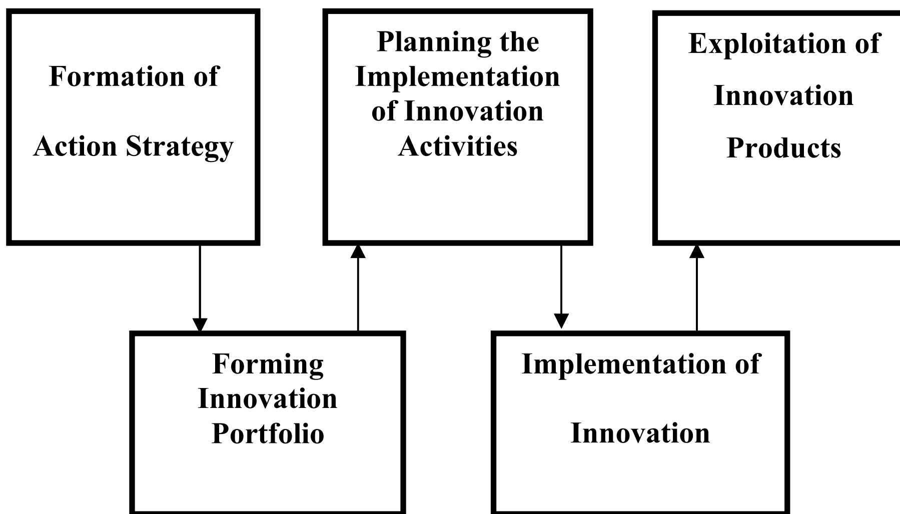

Figure 4. Scheme of implementation innovation activities

Second stage: “Forming innovation portfolio” includes:

- Innovation idea generation;
- Formation of selective criteria of innovation ideas;
- Selection of innovation ideas, to patent ideas (innovation product).

Third stage:” Planning the implementation of innovation activities” involves:

- Forming alternative versions to implement innovation;
- Selecting criteria’s of estimating alternatives;

- To estimate risks associated with alternatives;
- Choosing optimum version;
- Conducting activity program of realization;

Fourth stage:" realization of innovation ", foresees:

- Preparing contract documentation and its analyze;
- Signing contract and selling patent (license, know-how);
- Conducting work-plan and budget;
- Starting realization activities of investment products;

Fifth stage: "Exploitation of innovation production" includes:

- Training of the staff of customer organization;
- Copyright supervision;
- Assurance service;
- Implementation of exploitation phase (period);

The planned management of innovation activities must be supported by:

- Creating valuable scientific products (first component of innovation process);
- Providing innovation process with legal, resourceful and informational support;

For implementing the above-mentioned stages, in other words for the *effective innovation management in Georgia*, the following should be done first of all:

- Setting privileges in the Georgian tax code for those private organizations that make some kind of investment in innovation activities;
- universities, as well as consulting services occupied in innovation activities should create information databases and relevant web-sites;
- relevant trainings and educational courses should be conducted at universities as well as in separate innovation centers;
  - For the development of business incubators, technopolises, innovation centers and relevant infrastructures, financial resources from the state budget, local and foreign funds, also from private businesses should be used and applied for;
  - Foreign experience in the innovation management sphere (first of all of in Finland, Estonia, Israel, and Sweden) should be studied in order to generalize the results and spread them.

3. Main recommendations for the development of R&D&I activities in Georgia

1. A national R&D strategy should be elaborated taking into account the best EU and international practice in this field.

2. According to the priorities defined in the national R&D strategy, a state policy that will support the development process of science and technology should be adopted, including the possibilities for tax incentives both for public and private institutions involved in innovation and knowledge transfer activities.

3. A system should be formed that will provide coordination of R&D&I activities and its stable development:

a. *In government bodies:*

- Finnish and Estonian experience in promoting research and innovation activities suggests setting up a coordinating research and development/science and technology body /council at the Georgian Government – the Research and Development Council (RDC) with its sub-division located in the Ministry of Education and Science (R&D Policy Commission) and in the Ministry of Economic Development (Innovation Policy Commission).
- One more funding source should be established at the Ministry of Education and Science of Georgia – Education Fund. This Fund should serve for the improvement of education programs and education processes, re-training of the staff, etc.
- In the Ministry of Economic Development of Georgia, a **Georgian Development Fund** should be established with the main mission of improving international competitiveness of Georgian start-up enterprises based on innovative ideas, by providing venture and seed capital and management know-how.

b. *Legislation* that hampers the independent functioning of Scientific Institutions should be improved providing the institutes more decision-making power.

c. *For the development of high technologies and for the promotion of business incubators and small and medium sized businesses in Georgia,* the formation of technology and science parks together with universities and local governments should be promoted.

d. *R&D&I related statistical information should be improved and it should be switched to European Standards*. Current statistical standards provide no possibility to define

Georgia's innovation situation according to the EU standards (see, for example, European Trend Chart on Innovation reports[13]).

e. *Modern innovation-promoting policy support structures* should be formed in Georgia, including branch networks in Georgian regions.

[13] http://trendchart.cordis.europa.eu/reports/documents/CountryReportEstonia2006.pdf

Nanotechnology: A Perspective of Georgian Economic

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In nearest future nanotechnology - rather perspective direction in development of a science and technology - promises to get in all spheres of human activity and cardinally change the industry, economy and in general whole life as it has occurred at computer revolution in the end of the twentieth century. It is remarkable, that (according to the forecasts) these changes will be deeper and more important. Therefore it is necessary to choose in time a correct direction of our life according to these circumstances.

"Nano" designates a millionth (10^{-9}) part of some unit. Often a "nanoworld" mean the world of separate objects and connected structures for which the sizes from 0,1 nanometer to 0,1 micrometer are characteristic, that is an interval where properties of nanoparticles are not lost.

From the set of several methods poorly connected with each other, nanotechnology has turned to the important part of human life in which the developed countries are investing large funds, holding conferences and lectures. Now under nanotechnology is meant an opportunities to create artificially or to find in the nature the nanoobjects, to supervise and use them in different spheres of a life using a knowledge which is available to us in the mathematics, physics, chemistry and biology.

At a fertile tree of nanotechnology have already appeared a set of branches: nanothings, nanoelectronics, next generation computers, amazing structures to a basis of carbon - fullerenes, nanopipes, nanodrugs, nanorobots (for medicine, defense, or outer space exploration) and many other things.

What is nanotechnology? After dialogue with experts of this sphere and acquaintance with their works it's possible to conclude that this field so far is largely unexplored and the exact answer to a question, what is nanotechnology, remains unclear.

There is a set definition of nanotechnology from which we will mention several of them:
Nanotechnology is a section of a science and technology which is engaged in studying of properties of objects with nanometric sizes (10^{-9} meter in SI system).
Nanotechnology is a technology of manipulation by substances at a level of atoms and molecules.
The Russian scientist Dmitry Livanov explains nanotechnology as a set of scientific, technological and industrial branches which are incorporated in uniform discipline and based on action of substance at a level of separate molecules and atoms.

Nanotechnology is an opportunity to receive milk without the cow, having an air which it breathes, water which it drinks, and ground on which the grass for the cow grows. It is a constructor of atoms and molecules by means of which it is possible to assemble virtually all forms. And this is only beginning of the evolution.

But it is difficult even to imagine nanoobjects and especially to create and use them in

practice. Many of surrounding things and even ourselves contains nanoobjects, such as DNA-s, fibers, fats, carbohydrates. They play important role in our life.

Only recently (to historical measures) human being has learned to produce nanostructural materials. For example, in Pentium-4 processor the size of details amounts to 100 nanometers (which means that in human hairbreadth with diameter of 50 microns will be located 200 000 of such elements). The real sizes of a superpure plate on which by planar technology is created a microprocessor or dynamic memory for a modern computer, are equaled to square centimeter that enables some billions of elements to place on it.

Despite of this, in many cases that amount is insufficiently and it is necessary to reduce the sizes of elements so that more of them would be placed on a chip. So what is physical border of miniaturization? It is defined by the sizes of molecules and atoms and by the processes occurring in them. Basically, it is possible to imagine all the components necessary for creation of a computer which are assembled from separate elements. Such elements are already created in laboratories. In their construction atoms play a role of bricks and the cement – role of the internuclear forces. It enables us to create technologies not from "top to down", that is by reduction of greater elements, but from "below upwards", i.e. by gathering together separate particles. Such approach promises to change our views about technologies.

Then why nanoobjects and nanostructures are so attractive? It is possible to name some reasons of it: a small amount of energy and raw material necessary for their manufacture, an opportunity of creation very compact and complex products and so on. Especially a possibility to supervise such objects by simply changing their sizes draws interest to them.

The reason of the effects dependent on the sizes in nanoobjects is that proportion of μ atoms which are located in a thin superficial layer, grows along with the reduction of the sizes of a particle because

$$\mu \sim S/V \sim R^2/R^3 \sim 1/R,$$

Where S is the surface area, V is the volume.

By various estimations, the world market of nanotechnology will reach 220 billion euros by 2010. Nowadays scientists from the different countries think of how to reduce time between sensational discoveries, to provide their manufacture as a serial product. The only recipe of success here is a close merge of business and a science.

At the German company of high technologies "Evoniks" there is a center of an innovation and technology "Creavis", located in a small town of Marl near Düsseldorf where any creative scientific idea is transformed to a serial production for three years. This experience of Germans is very interesting, as in many countries merge of business and a science only begins.

The concept of nanotechnology combines separate innovative ideas and products for which the sizes of 100 nanometers are characteristic. Imagine a difference between a football ball and the Earth. A similar difference exists between nanoparticles and a football ball.

Today researches are carried out in "Creavis" in the fields of microelectronics, organic chemistry, cosmetology, medicine. Several years ago specialists have created the newest substance for

facing a walls which does not pass a moisture, can "breathe" and does not burn. This unique material has been named by a "soft ceramics". This is the same as a paper + ceramics. The main making part of this material - nonwoven polymer - does not pass an electric current that enables to use it as an insulator. Therefore was decided to use it as a separator in accumulators. There were cases when mobile phones blew up in hands of users because of poor-quality batteries inside of them. The main reason for this was a plastic divider, which has been placed between the cathode and the anode. When accumulator is overloaded, plastic compound cannot maintain a heat that in turn causes short circuit and microexplosion. The new sort of separator does not fuses, which prohibits cathode to come nearer to the anode and so excludes complications in the accumulator's work.

Nanotechnology already contains set of subfields which we now will not list. It is enough to consider one of them to imagine the scales of nanotechnology and its value for the future of world economic.

Experts have found that by 2015 only the income of world sales of hybrid accumulators will reach 7,4 billion euros. Scientists makes no secret that this branch of technology will not be limited only to the accumulators of mobile phones and portable computers, but German experts already work on creation of a high-grade electromobile with capacity of the engine about 176 horsepower.

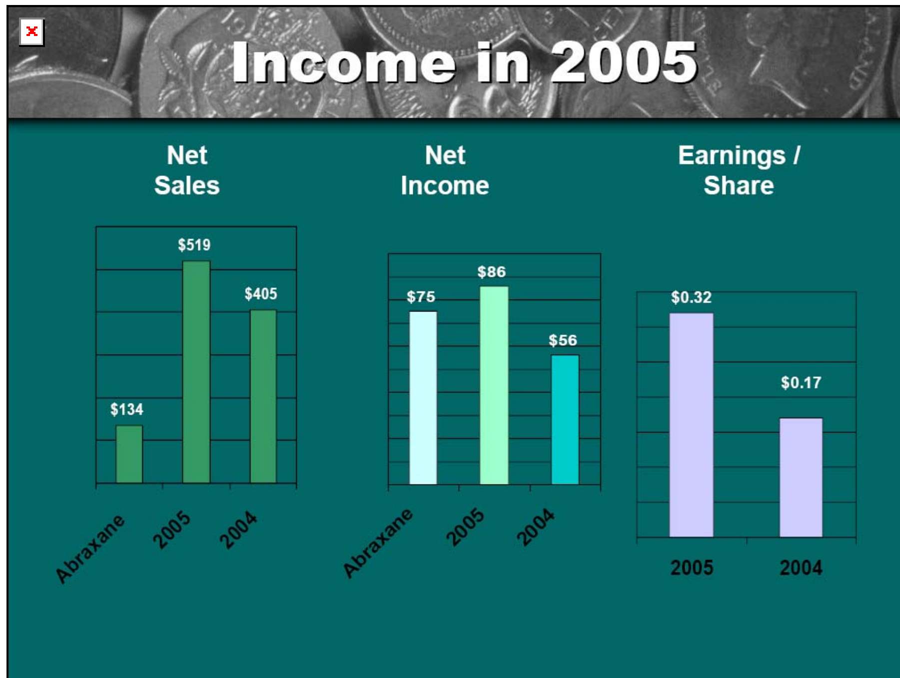
Certainly, there are a number of difficult questions: how to use already existing knowledge about nanotechnologies and apply it in the industry? Whether it is possible to completely define properties of nanoobjects? How to supervise them? Whether they may carry a threat for a society? Answers to some of these questions exist, but not on the others.

Nanotechnology already totals dozens of methods of designing nanostructures. In a brief review it is impossible even to list them. Greater prospect await computers which are created by absolutely new principle. Unlike present computers, these devices will have very high limit of so called parallel computation. It means that capacity of their processors will reach 10 gigahertz. Of course, it is unreachable level for the modern computers.

Now in the nanotechnological field it is the nanobiotechnology which is developing by the fastest rates. Nanobiotechnology implies use of nanoobjects and nanostructures of a biological origin. One of the most advanced parts of nanobiotechnology is decoding of genes of an organism, including genes of the human being. Nanobiotechnology is aimed on development of essentially new drugs, methods of their delivery in the necessary parts of the body and methods of diagnostics.

According to available information, by 2009 it is possible to create a microrobot which will be moving in human blood and restore all the damaged places in an organism.

In the USA, «Abraxis Oncology» company manufactured medicine by name «Abraxane» which is the first and yet unique FDA approved drug for treatment of metastatic breast cancer. This medicine is part of a new class of the nanotechnology, with albumin border. The medical products from this group do not contain solvents. «Abraxane» as the way of chemotherapy without solvent raises an efficiency and quality of treatment.



«2005-2006 years were very successful for us. We have distributed by the Internet good results of Abraxane tests and have sold half a billion pieces of this medicine. By means of Abraxane we have very successful business» - Patrick Sun-Shyong, the president of «American Pharmaceutical Partners (APP)» has said.

In 2004 the total amount of sales of Abraxane has been 405 million dollars, and in 2005 sales have reached 519 million dollars. The net profit in 2005 has been 86 million dollars.

American academy of sciences declares that to 2010 half of the medicines will be produced in nanotechnology.

Speaking about nanotechnology, it is necessary to mention "self-taught" robots with self-developing intelligence. Prototypes of such robots are already created and they do various useful work: cleansing territory, exploring other planets, looking after babies, participating in industrial processes and so on. They have various sensor controls for these purposes: analogues of eyes and ears … These devices are necessary for the perception of a surrounding world. Besides they have processors for the analysis of a situation and making right decisions.

On December, 13th, 2007 the official presentation of the robot which can distinguish several hundreds of wine sorts took place.

Modern robots are still not so developed. The list of tasks which they can do is short. It is desirable that robots performed all that work which potentially carry a threat to the men.

From the scientific point of view the nanotechnology is young enough, therefore actually we must hurry to enter into the researches as it promises greater prospects of economic progress. If forecasts are to be justified (and all goes to it) the changes caused by the nanotechnology will be more important than computer revolution of the 20th century. Georgia should be prepared for such developments and receive benefits from it.

Recently scientific community and officials often speak about the nanotechnology in connection with so called nuclear designing. Such terms as a nanoscience, nanotechnology, nanostructures, have become firmly established in a daily life. In the developed countries nanotechnology is now an instrument of an attraction of financial sources. For example, the program «National nanotechnological initiative» with budget in 2001 of 485 million dollars is realized in the USA. And the European Union has accepted the program of development of a science in which the nanotechnology is recognized as the most important direction.

On December, 12th, 2007 Azerbaijan has signed agreement with Germany on the use of nanotechnology.The agreement has been signed in Frankfurt and estimated in 300 000 euros. This is first license agreement in sphere of nanotechnology in Azerbaijan.

By 2007 world rating results Ukraine is on 29th place on scales of use of nanotechnology. Unfortunately, in Georgia many of us have even no idea about the nanotechnology.

In the state with market economy demand gives rise to the supply. It is strange that sometimes this principle does not work in Georgia. In past all was very simple: the state had a plan which defined the course of the economy, rigidly established program of a professional training which provided guaranteed distribution of graduates to the workplaces. Presently such form of distribution is impossible. As a result of this thousand graduates with higher education remains without work. In 90 years the majority of entrants has chosen prestigious by then faculties (for example, economic, law). Surplus of experts of these faculties is now observed. At the same time, there is a deficiency of technical workers and scientists of technical disciplines. Pending for nanorevolution it is necessary to increase a qualification of experts in natural sciences to pave the way for development of nanotechnology in our country.

In my opinion, for such country as Georgia which has no greater territory and natural resources, the main resource is the gifted and well-educated people who can adapt to the present realties, become familiar with its achievements and develop them. I think the top priority for this country should become development of a science because the investment enclosed in it will bring greater benefits in the future. Georgia does not have a luxury to spend billions of dollars on fundamental studying of new branches of knowledge as it occurs in developed countries (USA, Great Britain, Germany), but it can master and develop available scientific achievements.

In some years the nanotechnology will become the largest part of economic. It will be good times for those countries which are working in a nanotechnology field and are making nanoproducts. The nanotechnology has a potential to become the important part also for our economy if we now start to invest in this sphere. Qualified and clever specialists will play a main role in a competition between the countries. Therefore it is necessary to create a flexible system for development of nanotechnology in Georgia.

So, the science and high technologies have widely opened a door in the nanoworld. What does this new global technological ideology promises to us? While some results are easy for predicting, the others demand of more careful research.

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Regional integration of financial markets as a factor of long-run economic growth

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Abstract

Current globalization processes characterize the world economy as a complex of regional, political, economical, national, cultural and other coalitions pursuing the interests and security protection target of member countries'. Though, due to the contradictions of the interests on the international stage the formation of the present world community appears as a complicated and problematical process.

Within the framework of the research different indicators of financial sector are examined. According to it the author will figure out a model of financial integration and simultaneous economic growth in the Caucasus region.

Introduction

On the assumption of the scarcity of mineral, financial, capital and labor resources each country faces the task of resource extensive-to-intensive use reorientation, assuming their exploitation on the higher level. Within the foreign-economic and political relations as well as in the frames of a single integration system, the above mentioned factors are the basic occasions, giving us explanation of the dynamics and the directions of world economy's development. Naturally, there are a lot of claims between countries about the resource arrangement opportunities which often are often possessed by a foreign state. These motivations made conflicting sides to act more actively and aggressively. This leads to consolidation of countries, functioning according to single target parameters.

In connection with the fortification of single states' and coalitions' motivations to intervene into personal affairs of less influential countries, and to confrontation on different economical and political aspects there is the formation of a situation according to which every country focuses on the establishment of coalition structures and units to strengthen its positions. Consequently, it's a fact that in the nowadays world economy the politics of each country mainly is based on the integration processes, especially on the regionalization.

We concentrate our attention on the regional financial co-integration between the Caucasian countries – Armenia, Georgia, Azerbaijan – via the formation of a single stock market. Heretofore there
are not any economical organizations between all our countries (there're only a few exceptions regional organizations and agreements between Georgia and Azerbaijan – such as GUAM etc. where Armenia doesn't take part) and in this conditions all the endeavors to realize such project will be associated with huge complexities. The establishment of a single Caucasian financial institution will become a key precondition in the shifting of regional economic cooperation to a higher level. Our attention's especially concentrated on this financial institution's ability in the consolidation of our countries' resources in a single system in order to introduce the Caucasus as a unity of international financial relations, which will let our region attract international investors. In this terms Caucasian countries will have all opportunities available to involve foreign direct investment in the region, and pave the way to international markets if investment resources.

Thus:

- the subject of the research are mechanisms of possible integration of the financial markets of the region into a single financial unit;
- the main topics of the research are the opportunities and mechanisms of foreign direct/portfolio investments by the use of single financial market;

the main hypotheses are:

- the higher the level of regional financial integration the higher the level of economic development of the region;
- the single financial market in the region will strengthen the investment attraction of the Caucasian countries for the foreign entities as well as play the role of basic origin of international capital inflow, which will accelerate the euro integration process;

Regional organizations

Present trends of the world economic development promise that many of the countries have incentives to the establish coalition units which follow the common financial interests of member countries. Recently the number of financial unions has gone up sharply in

comparison with the organizations, proclaiming military and political cooperation, so there's a transition to a level of higher quantitative interactions.

The Caucasian region differs with multiple-factor features and characteristics which have formed on the basis of Western and Eastern civilizations and which can't be compared with other similar ones. During the long period of time the region was an attractive point for the great empires, and today's non-formal debates between Russia and The West can be considered as an evident example of their efforts to be present in the region.

Caucasus also differs by comparatively high resistibility against the external incentives which are to impose non-conventional judgment and opinions, which is deeply associated with the historical heritage of Caucasian peoples. On the one hand this positively affects the cultural, national, ethnic, historical and other values' security, from the other – leads to the negative attitude towards the import of modern western institutions, without of which the construction of market economy is not only impossible but also unwise, as the policy grounded on the imitation processes are fraught with biased indicators distorting the real economic features. Such circumstances lead the economy in unknown direction and liquidate all the possible measures to control its development and predict future fluctuations of macroeconomic figures, which are the quantitative and qualitative key-points in the achievement of targets.

In the conditions of institutional "shortage" and in terms of open economic model the weak economies of Caucasian countries become too vulnerable to the external influence, i.e. to the influence of the more developed entities of international economic relations. For the last ones these conditions are very favorable, as there are chances of intervention into the personal affairs of Caucasian countries which, from my point of view, arises as an origin of our countries' rights infringement. There's a number of examples of such interventions and the essence is that our countries de-facto are loosing the sovereignty in the economic and political decision-making system, frequently dictated by the interests of different countries and international organizations.

Therefore the construction of prosperous and robust economy becomes more necessary, rapid establishment of which will form our countries as rigorous and deserved competitors in the complicated processes of nowadays world economy.

For the recent 10-15 years by the efforts to improve the regional economic relations a number of organizations have been established – CIS, Black Sea Economic Cooperation etc. – our countries also take part in. Most often the word "improve" assumes the potential

integration of the countries on the first and second levels. Thus, the foundation of CIS followed by the post-soviet countries motivation to preserve the former economical connections based on the fully opened frontiers. At the present within CIS only between Russia, Kazakhstan and Belarus there're real integration processes, but also with complexities, concerning the regulatory agreements. This issue is also associated with the WTO joining process.

In 2002 in CIS there was found a functional board EAEC (European-Asian Economic Cooperation), among the members of which is only one Caucasian country as an observer – Armenia. For the time being the basic target of the board is the establishment of customs union between Russia and Belarus and some other countries of the Meddle East. Georgia and Azerbaijan are not included in these integration processes yet.

In 1992 EAEC was established members of which are also our three Caucasian countries. The aim of the organization is the ensuring of the four-level economic liberty appearing as a guarantee of integration processes. Though, as to recent results one can conclude that the organization as well turned out as formal unit, unable to realize certain targets.

It is worth mentioning that due to the project financial shortage makes the role of these organizations rather symbolic, because of which the efficiency of their actions leaves a lot to be desired. More often they do not have certainly formulated targets which strangely characterize the functional aspects of the organization. A striking example of this is CIS foundation of which was directed on the safety of the close economic relations, typical for the Soviet period, though as to foregoing, there's no a real result. Other mentioned regional organizations are alike target direction of which often does not match with realized tasks.

So far no regional organization has achieved its targets and this assures the necessity of newly-qualitative international economic institutions creation following the target of our countries' cooperation on the higher qualitative level. A Financial market can play such a role. The establishment of a financial organization on the union of the three Caucasian countries will be the first step to the future strengthening of economic relations, first of all, based on the financial cooperation. This organization will not suffer from the most complicated problem of every union – financial scarcity and the lack of the competent management, as financial organizations differ with relatively high disciplinary base as compared with other kinds of organizations. For the time being it is clear that the creation of the financial integration system will arise as the most efficient solution and its functioning

will ensure the acceleration and strengthening, above all, the economic relations between our countries.

Each country in own way

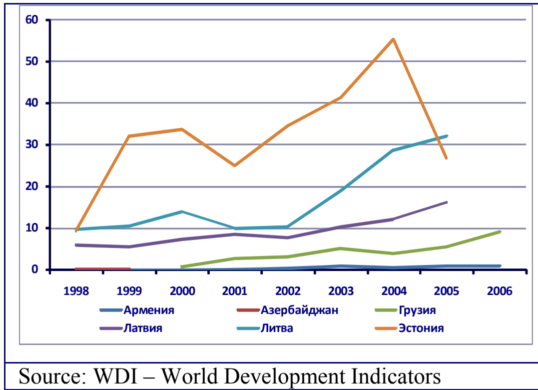
Obviously our countries, besides the national economical lag, are inferior in the international indicators leading to non-equal competition conditions in favor of the more developed ones. As there're not any real economic organizations in Caucasus, each of three countries will do any effort, by the joining the alternative – more productive structures, to be involved into the globalization processes. More often the roles of such organizations play the European organizations. The events of the last 2-3 years give us confirmation about that, even more, European countries in their turn, leading by their interests, are eager to involve our countries into their structures which makes our countries a management object.

Thereby our countries de-facto are facing the problem, because of which each them builds its international economic relations itself not leading to the regional development. Quite the opposite, this bears regional disintegration and, from the aspect of nowadays economic development, the consequences can't be positive, as that development, first of all, is based on the neighbor countries' unions.

Armenia into Scandinavia

Armenia has a lot of motivations to be integrated into European area, first all, conditioned by the economic blockade from the neighbor countries. Armenia does not take part in the large regional projects (pipelines, railways etc.), pointing the non participation in the regional processes. This factor and the one-side development of Armenian financial sector were the major reasons to the integration into the Scandinavian OMX Group which follow the target the consolidation of the five northern Europe and the three Baltic countries' stock exchanges and from the 27th of April 2007 also the Armenian stock exchange.

Figure 1. Market capitalization in Caucasus and (% to GDP)



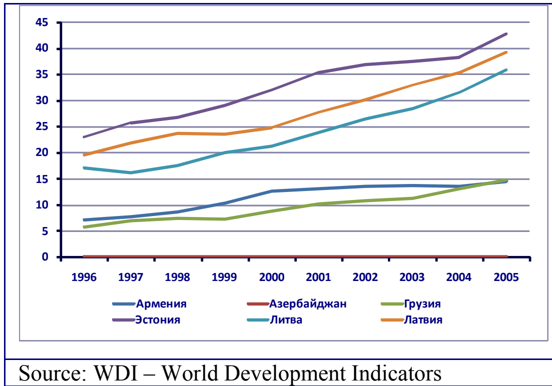
Source: WDI – World Development Indicators

In 2007 Armenian stock exchange "ARMEX" and the Central Depository of Armenia (CDA) were acquires by OMX. This assures that Armenian stock exchange future policy mostly depends on the external unit, without any doubt, more skilled and wise (OMX is the world leader in the stock exchange system management). On the Armenian capital market now there's a perspective the exchange operations amounts to increase, which will put the development of corporative management in Armenia on the right way. The problem is especially relevant as the market capitalization indicator of Armenian stock market in 2005, 2006 was 0.87% and 0.91% to GDP, and their development dynamics leave a lot to be desired (Figure 1).

For the next 5 years OMX plans to take a number of measures, such as the liberalization of the listing procedures for a certain company, promotion of ARMEX and CDO activity efficiency, realization of marketing programs and supply of the issuers and potential investors with market data information which will lead to the full-fledged functioning of the Armenian stock market, in its turn, leading to the development of the corporative institution.

During this period OMX plans the achievement to the European levels in the major indicators of financial sector – market capitalization of the stock market and the financial depth (Figure 2), which characterizes the economy's adequate provision with money. The latter is estimates as the quasi money and real GDP ratio – M2/GDP. It also evaluates the efficiency of the financial sector activity.

Рисунок 2. Финансовая глубина в странах
Кавказа и Балтии (М2/ВВП %)



Source: WDI – World Development Indicators

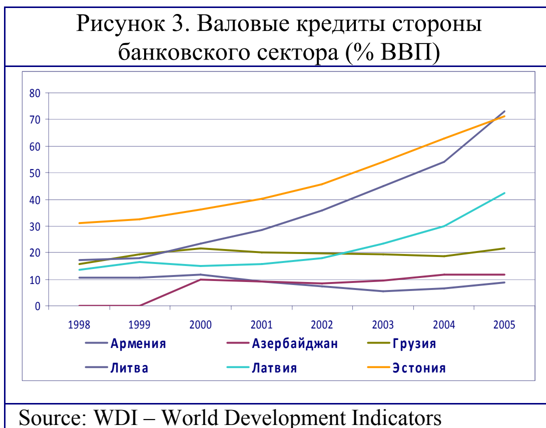
Thus, according to these two indicators in 2005 Armenia was a lot behind the relatively identical European countries, such as Estonia, Latvia and Lithuania corresponding indicators of which in 2005 are: 26% and 42%, 16% and 39%, 32% and 35%.

These countries are supposed as an example of regional integration and joint integration with Scandinavian countries.

For an unprejudiced comprehension of the financial situation in Caucasus another indicator, characterizing the level of banking sector activity should be examined – total credits from banking sector and GDP ratio. Worth mentioning that in some developed countries the indicator is above 200%, what gives us the estimation basis to say there's a high level of banking culture and high level of trust from society, as in order to credit economy with such amount banks must have in their disposal sufficient sum of passives on deposit accounts, which, mainly are formed by the assets of natural persons.

In Baltic countries this indicator is bearing a sharp increase and approaching the 80% to GDP. Only Latvia has a lag in the indicator, which in 2005 was 42.5% (Figure 3). Though we can notice on the figure that the trend in Latvia is very aggressive, as during 2002-2005 its level had risen from 18% to 42.5%.

Рисунок 3. Валовые кредиты стороны банковского сектора (% ВВП)



Source: WDI – World Development Indicators

The indicators of our countries are marking time. In Georgia it has the value of a bit more than 20%, in Armenia is about 10% and banks of Azerbaijan, particularly do not credit the economy. But, as to the figure, Armenian and Georgia were starting from equal positions as compared with the Baltic countries, noting about the identical opportunities.

Armenian banking sector is the regional leader in banking standards and the supervision institution – The Central Bank of Armenia (Megeregulator) keeps the normative indicators on the highest international levels, according to the requirements of Basel Committee.

As we can see from the Figure 3 these actions do not raise the credit amounts to the economy in Armenia. Particularly the problem is associated with great risks on the default on repayment of provided credit resources and with the lack of spheres, realizing stable profit.

Consequently the amount of credits provided by the banking sector of Armenia depends on the entire economical conjunctions to allocate assets efficiently and safely.

Though it is not wise to underuse the banking potential of Armenia. It's necessary to create the institutions du to which the large amounts of free money will start working, and the financial activity will increase in the country. From my opinion, the development of the stock market can be the motivation for banks to plan more correctly and organize activity more efficient, as stock market can absorb a certain share of assets in banking sector. Moreover the banking sector will be given an opportunity of money attraction by issuance of securities. We can't mark such processes yet, but there're all the suppositions.

Briefly resuming the above mentioned, we can say that Armenia has found a relatively wise way to the euro integration, but the attempt appears as a self-dependent action. I.e. the process in the meantime does not influence the economical relations between Armenia, Georgia and Azerbaijan. On the contrary, in a short-run period this will lead to disintegration with all the outcomes.

Georgia into The Great Britain

In 2006 The Bank of Georgia held an IPO in LIFE, as a result the company become the one of largest banks not only in Georgia but also in the region. This successful measure appeared as precondition of the future institutional development of Georgian financial sector, as in contrast to Armenian model, there're already two units – the banking sector and the stock market.

Georgia's euro integration according to this scenario looks as quite a wise project, which can be accepted by all the CIS countries as a real precedent. Most of them suffer from one-sided development of financial sector, mainly presented by banking sector. Georgian experience shows that in a short period of time it is possible to raise the quantitative and qualitative financial indicators by banking sector's issuing.

As a result of the successful IPO Georgia increased the activity level in the stock market as well as repeated the level of banking capital and assets accordingly by 440mln $ and 160mln $. These amounts deserve to be examined more carefully. The share of banking capital growth made up by 6% of GDP in 2006, whereas the market capitalization in Georgia was 668mln $ – 9.1% to GDP (Figure 1). Otherwise we can say that the share of banking capital growth is forms 65% to the entire amount of the stock market capitalization. This is a quite heavy argument in favor of the financial sector based long-run economic growth. This is

an ultimate yet a very robust push for the impetuous prosperity of the stock market as sufficient critical amount of assets is provided and the Bank of Georgia securities are circulating in Europe, which has an enormous potential of investment resources, part of which is already directed to Georgia.

As to the stock market indicators, in 2005 its turnover was valued by 100mln lari. In 2006 the indicator approached 350mln lari, i.e. it has more than tripled! For the same period the share turnover rose for two times, marking the raise of supply and demand in the market of shares. This trend, without any doubt will be a precondition for the development of bond and other security markets.

For the same period the volume of transactions on the stock market rose for 3.8 times assuring the growth of number of players and the growth of the activity level among already existing brokers and dealers.

It is significant that in 2005 the financial depth in Georgia has a similar value as Armenian – about 15% to GDP (Figure 1). Though, according to the trend in 2003-2005 and to the recent events on the Georgian stock market and banking sector, the indicator in 2006-2008 will approach the level of Baltic countries.

Table 1. Stock market indicators in Georgia (mln lari)

Indicator	2000	2001	2002	2003	2004	2005	2006
Money turnover	8,4	42,7	38,4	115	122	100	350
Turnover growth		508%	90%	299%	106%	82%	350%
Turnover of shares	7,2	24,5	21,5	65	85,5	74,5	151
Transaction volume	1508	3363	2147	2100	2397	2419	9250

Source: GIG – Georgian Investment Group

Now we can speak about the first results of Georgian integration into euro area. To the fore there's activation on the stock market, appearing as an ultimate element for the construction of market economy (Market-Based Economy). But as banking sector is highlighted in CIS countries (Bank-Based Economy), especially in Caucasian countries, Georgia have already two instruments for the attraction and mobilization of internal financial assets as well as foreign assets. Georgia appeared to use its banking potential wisely, which paved the way to universal and accelerated financial sector growth.

Events in the financial sector of Georgia also indicate that all the action are self-sufficient, and are based on the interests of only one country. Yes, the financial sector has become more definite, but there's no any correlation with the regional development.

Azerbaijan is on the energy vector

According to the foregoing indicators, Azerbaijan is also bears bad conditions. As to World Bank databases, its corresponding financial sector indicators are equal to zero, besides the Figure 3[14]. So there's similar non-involvement of financial sector in economical processes of the country, which is quite harmful due to the increasing money inflows from the oil exports. The money aggregate growth in conditions of efficient financial absorbers shortage is fraught with the raise of CPI index and other macroeconomic distortion.

But, as far as I'm concerned, oil incomes are fully invested into the economy, confirming by the active investment policy in all the spheres of economy and the non-terminating two-digit economic growth. In all mass media is spoken about the investment expenditures of Azerbaijan. Thus the gross domestic investments in 2005-2006 were 6.7 and 8.1bln $, which exceed the oil inflows for several times, valuating near 1.1bln $

Касательно финансового сектора страны, по всем предположениям, в Азербайджане за ближайшие годы не планируется кардинальных изменений в финансовом секторе. Однако, согласно неизвестному азербайджанскому источнику, Баку вскоре станет финансовым центром региона посредством провозглашения себя в качестве такового и создания единого кавказского фондового индекса. Предполагается, что все фондовые операции будут проводится именно на азербайджанской биржевой площадке, а данный индекс будет котироваться также на международном рынке капитала.

As to the financial sector of the country, by all assumptions, for the next few years there won't be any significant shifts in it. Though, according to one Azerbaijan source, Baku will soon become a financial center of the region. A single Caucasian stock exchange index will be created and, it is guessed that all the large stock market operations will take place on the stock exchange of Azerbaijan. The index will also be quoted at the international capital market.

So only Azerbaijan thinks about the regional economic cooperation and development, but in does not possess the sufficient preconditions.

Good performance. But joint efforts will bring to more

We have examined three Caucasian countries and I'd prefer to give a personal but unbiased estimation of each country's actions. What's the contribution of the events in each of the states into the formation of mechanisms of regional financial integration?

[14] The indicator's calculated according to the State Statistical Committee of Azerbaijan

This is a very tricky and complicated question as the experience of more developed Baltic and other developed countries shows that the universal regional economic development directly correlates with the quantitative economic growth (Regression 1).

For the next few years the financial sector policy of our countries won't lead to the regional development, as each of them appears as a local policy and does not assume regional cooperation.

From the other hand our answer might be positive, as we can't exclude the future possible establishment of a financial subject, for which all the necessary conditions are also available. The harmonization of the Caucasian financial sector is already in action and by the mechanisms how to improve financial sector our countries soon will appear as an example.

The development of the stock market will grow the banking sector activity level in economic processes of our countries, which is a lot behind the average international level. Regression 2 indicates the correlation between capital market and the level of banking sector development. According to the figure the higher the capital market efficiency the more opportunities for banking sector in allocation of financial assets, and more the number of initials for qualitative economic growth.

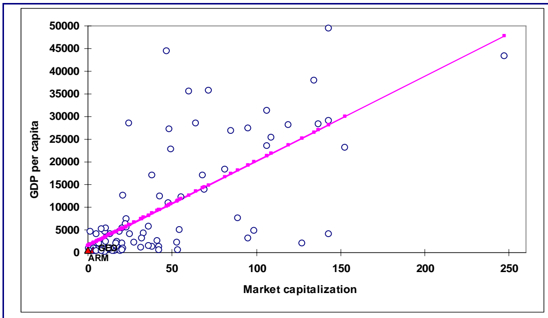
If all the stock market recourses of our countries are aggregated, the total financial potential will rise a lot, as in the international aspects Caucasian region will appear as a single subject of international economic relations.

Such circumstances could be approached by the establishment of a single stock index, which is to provide non-biased estimation of the regional activity. This will increase the level of transparency of our region, and so will raise the interest of foreign investors. The further development according to this scenario will push our countries to the more close economic cooperation not only in financial sector but also in trade and social spheres etc.

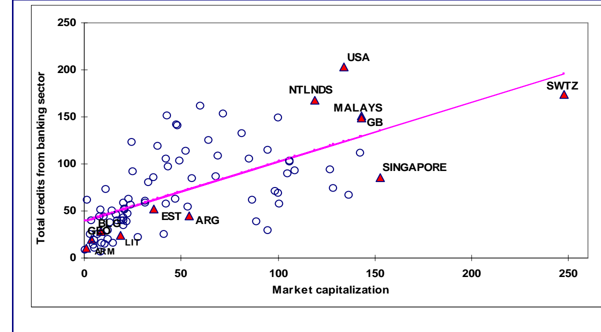
In addition, these factors might serve as a key to the solution of the major regional confrontations that create many complexities in the development of our economies.

For this stage of Caucasian development there's an existence of sharp lack of the integration mechanisms of our countries, because they are economically too weak, as compared with the rest developing countries. A consolidation of the efforts must be done in order to appear as a strong and reliable partner of international economic relations…

Regression 1. Correlation between market capitalization and GDP per capita



Regression 2. Correlation between market capitalization and total credits from banking sector



Regression Statistics	
Multiple R	*0,691619*
R Square	*0,478337*
Adjusted R Square	*0,471896*
Standard Error	*9253,138*
Observations	*83*
P-value	*0,00000*

Y = 1493,2 + 187,6 X

Regression Statistics	
Multiple R	*0,658284432*
R Square	*0,433338393*
Adjusted R Square	*0,426749305*
Standard Error	*34,73264714*
Observations	*88*
P-value	*0,00000*

Y = 38,8 + 0,6 3 X

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Promotion of regional brands in local markets

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Introduction

Southern Caucasus is a region of geopolitical importance not only for countries like Russia, Turkey, Iran and the US but also for the EU. In the regional overview and conflict assessment, Southern Caucasus is characterized as a region with economic and political problems.

The conflicts have harmed the countries' economies through the imposition of trade barriers and the loss of investment.

As a result of conflicts, Armenia's borders with Azerbaijan to the east and Turkey to the west have remained closed. This has placed greater importance on its relations with Georgia. The Armenian and Georgian peoples share a common border, history, and set of values Georgia provides Armenia's main road and rail access to the Black Sea and Russia. Relations are further complicated by the presence of a significant Armenian minority in both Abkhazia, and Javakezia. Some low-level commerce between Armenia and Azerbaijan takes place in the area of Georgia.

Georgia's products are banned in Russia, and Southern Caucasus could be, more than ever, Georgia's target market.

However the rate of monopolization and corruption are very high in this region. This can create trade barriers, which makes the export and import very difficult. There is still a need for greater economic freedom, for greater private investment, for better governance, and for the elimination of trade barriers.

How will these three countries benefit from cooperation?

Promoting brands of each country will lead to further regional trade cooperation which will help the south Caucasian nations resolve competitiveness problems, improve their participation in the world economy, and perhaps make resolution of regional antagonisms more possible. Some foreign investors and international financial institutions have already recognized the synergies associated with greater regional cooperation (for example, European Union).

Still in 1992-1993 the idea of 'Common Caucasian House' was promoted, which was later transformed into the 'Peaceful Caucasus Process' initiative. The latter carried the message of integrating the South Caucasus into the EU. To attain this goal, in compliance with the policy of the Western states, Georgia has been eager to find regional institutions that would serve the idea of cooperation and integration.

Current situation

After independence the Soviet-style industrial complex turned out to be antiquated and unable to compete in the open market. The agricultural sector also experienced a shock because of abolition of collective ownership and speedy privatization. All the former Soviet states were confronted with the urgency of restructuring their economies on their own and anew.

Since independence Armenia's major economic partner in the 'region' has been Georgia;

Armenia's foreign trade turnover with Georgia increased 41.5% and totaled $81mln in January-August 2007. Exports from Armenia to Georgia reached $55.6mln in the period – a 57% increase compared with January-August 2006. Armenia's imports of Georgian-make goods totaled $25.4mln over the period – a 16.4% increase. The imports from Georgia's territory reached $74.4mln (1.7-time increase).

The economic relations between Armenia and Azerbaijan have not been equally promising. Because of the Nagorno-Karabakh conflict Azerbaijan has imposed an economic embargo on Armenia. Officially, there is no reciprocity in trade between Armenia and Azerbaijan because of the unresolved status of Nagorno-Karabakh.

Improving regional cooperation

Removing trade barriers would improve regional integration and enhance economic cooperation and development.

Potential peace benefits are especially high for Armenia. First, Armenia could more than double its total exports if the Turkish and Azerbaijani markets were opened. This would erase almost a half of Armenia's dangerously high trade deficit and would lead to a 30 percent GDP increase. Due to a high import content of its potential exports, Armenia would generate a strong demand for imports, offering trade opportunities for regional partners. Second, considerable savings would result from straightening transport routes and switching to closer supply sources. Armenia could save over 50 million dollars a year, which would more than erase the deficit in freight services in the BOP and relieve the pressure on its domestic prices, especially energy.

Azerbaijan could increase its exports by 100 million dollars, or 11 percent of the 1999 level, reducing trade deficit by a quarter. As a result, GDP would increase up to five percent. It could also benefit from some transport savings arising from exports and imports.

Georgia might face a reduction of transit through its territory. Nevertheless, it is unlikely to exceed a quarter of the freight service surplus in the BOP, or 1.5 percent of trade deficit. At the same time, the country would benefit from the effects of regional cooperation.

Opening up the borders would bring positive systemic effects, especially in the energy sector. The regional electric power system would achieve the greatest efficiency if operated as one system.

Armenia and Azerbaijan will benefit from trading with a few commodity groups.

Taking into consideration the fact that Armenia is a fuel importing country, it can be an easy accessible market (due to low transportation costs) for Azerbaijani oil producers.

Second group is foodstuffs, alcoholic beverages and drinks. In 2003 Azerbaijan imported for more than 101 million USD. At the same time the production of this group has been developed in Armenia. In these sphere the domestic products have not only captured a

significant share of the Armenian market but also indicate growing export potential. The amount of export can be multiplied due to appropriate demand. (Companies, that produce foodstuffs and alcoholic beverages in Armenia: Tamara, Shant, Ashtarak Kat, Noyan Tapan, Vedi Alco, Erebuni Alco etc.)

A wide range of construction materials are currently produced in Armenia. The competitive advantages of the latter are high quality and low price. Tufa mining and cement production have traditionally been export - oriented branches of Armenian economy. Meantime, Azerbaijan imports construction materials from abroad for millions of dollars. Due to high transportation costs of large distances, Azerbaijan could benefit from importing from Armenia.

In 2003 Azerbaijan imported vegetable products for more than 146 million USD. There are a lot of vegetable products that are produced in Armenia.

There are a lot of commodity groups that can be mentioned. As we can see there are high perspectives in developing foreign relations between Armenia and Azerbaijan.

Besides fulfilling the markets with products that are not produced in each country they can compete with each other, which will make the businesses work hard to gain positions in the regional market. For example, both Armenia and Georgia produce alcoholic drinks of very high quality.

Another example is the creation of a capital market in Armenia which will initiate formation of an effective securities market in South Caucasus. OMX strategy in Scandinavian and Baltic countries is to create regional markets. There is a possibility of creating an effective capital market in Armenia that can become a starting point to begin negotiations with Georgia and Azerbaijan regarding the issue of forming securities markets in these countries. Thus, a regional securities market with a rather high level of liquidity will be founded in South Caucasus. It will allow raising interest of other countries in this region.

By promoting regional brands in local markets will give a chance to businesses to gain more popularity which will help to be more competitive in international markets.

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Education as the factor of integration of Armenia in the All-European economic space

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Economic integration

Integration process in world economy, intensification of economic interrelation and interdependency of countries are in progress at present time. Integration is a complex evolutionary multilevel process with various approaches, mechanisms and means of realization. In the economic literature international economic integration is often defined as "a process of economic interaction of countries leading to rapprochement of economic mechanisms, taking the form of interstate agreements and conformably adjustable by interstate bodies"[15]. There is also a definition of the international economic integration as "a process of economic-political association of countries on the basis of development of deep steady interrelations and a division of labor between national facilities, interactions of their reproductive structures at various levels and in various forms"[16].

[15] Киреев А.П. Международная экономика: В 2 ч. Ч. 1. — М., 1997. — 416 с./ 361 с.
[16] Сергеев П.В. Мировая экономика: вопросы и ответы. — М.: Новый Юрист,1998. / 21 с.

The next definition of integration can be the most acceptable one: "the international economic integration is an objective deliberate and directed process of rapprochement, interadaptation and coalescence of national economic systems having potential in self-regulation and self-development"[17].

It is possible to emphasize the basic purposes of economic integration:

- harmonious development of economic institutes;
- stable and balanced economic interosculation;
- an increase of standard of living;
- a high employment level;
- economic and currency stability.

Finally this process should lead to full freedom of transference of goods, services, objects of intellectual property, capital and labour between developed countries. Integration process in the Western Europe reached the greatest degree of maturity where in 1957 there was established European Economic Community (EEC). The contract about its formation was signed in Rome by 6 countries: Germany, France, Italy, Belgium, the Netherlands and Luxembourg. In the contract was marked that within the limits of European Economic Community there had been formed "The General (united) market " representing the space of " four freedom " that is free movement of goods, capital, services and labour. The general market means the uniform approach to foreign trade policy and is the central item of economic integration. It has been founded to create the incorporated economic territory which has not been divided neither by customs nor by trading barriers. As a result of this agreement on the European Community there was developed the plan of gradual removal of all internal duties within 12 years. However despite the developed detailed and 12-year plan of gradual transition to the General market by the end of 1969 this purpose was not reached. The only appreciable result was reached in sphere of ensuring free movement of goods by creation consumer unions which opened a way for free circulation of goods inside of Community. But in other important spheres such as free movement of services, labour and capital, freedom of establishment and liberalization of payments there was not any acceptable progress.

Free movement of goods

[17] Международные экономические отношения: Учебник для вузов / В.Е. Рыбалкин, Ю.А. Щербанин, Л.В. Балдин и др.; под ред. проф. В.Е. Рыбалкина.— 5-е изд., перераб. и доп. — М.: ЮНИТИ-ДАНА, 2005. — 605 с.__ / 304 с.

To form the general market first of all it was necessary to cancel all the customs duties imposed on import and export between the countries-participants.

To the middle of 1968, year and a half earlier of the planned term, between 6 EU countries-founders foreign trade barriers have been liquidated namely tariffs and quotas. At the same time laborious work on unification, an establishment of blanket tariffs and quotas on external borders of communities was proceeding that is import should had been carried out on uniform base conditions, general approaches to the external economic policy were fulfilled as a whole. In relation to third countries, which are not entered into EU, the Uniform customs duties of EU have been established and imported on the territory of the Community goods began to be imposed with them.

The key factor guaranteeing free movement of goods is also a reduction of tax distinctions interfering trade between countries of Community. However there are two principal causes on which tax borders should still exist. First they give a guarantee those taxes on consumption (that is indirect taxes), with which goods in a uniform market are imposed, move to that certain country of Community where they are consumed. The given system guarantees equal tax conditions for domestic and imported goods.

Secondly tax borders play an important role in struggle against evasion from taxes and prevention of shady trade. Without tax borders and the corresponding boundary control it would not be possible to check out whether goods are really exported which would give an opportunity of illegal transportation of goods as exported, and thereby compensation of indirect taxes. Accordingly it would give an opportunity to establish dumping prices for domestic goods. Therefore at present time tax borders still exist.

Free movement of capital

Accepted by the Commitee in 1960, 1962 and 1986 the first instructions concerning freedom of capital movement were directed only to decrease of restrictions on operations of foreign currency. But these attempts were still far from expanding national markets of capital.

Only after the year of 1986 was over The Commission of EU developed the first detailed plan on creation of uniform financial space for liberalization of capital movement inside of Community. The purpose was to unite all the financial markets and to release all currency and financial streams. Following the plan all the countries of Community (except Greece) were really switched to free movement of capital by January 1st of 1993. This event marks first stage of transition to economic and currency union.

Free movement of capital gives an opportunity to physical and legal persons to open accounts freely in any of the countries of the European Union, and also to translate unlimited resources from one country to another. It also means unlimited investment and financial opportunities across all Europe. Also it is possible to tell that free movement capital inevitably leads to closer economic and financial integration.

Free movement of a labour

This right was fixed in the Agreement on EU and included in the competence of the Commitee in 1968. It comprises equal rights for all nations entered into EU on employment, wages and operating conditions in any country of the Community. For citizens there is guarantee of professional geographical mobility and minimum level of social integration in any country of EU.

Geographical mobility is a human right on leaving for any country of the Community with the purpose of searching work or getting education. Professional mobility is a human right on choice of job, terms of employment and working conditions. That is to say the attitude to workers from other EU-countries on payments of wages, access to educational centers, repeated employment in case of time disability should not differ from the attitude to local workers.

Social integration is a right of workers to use all social privileges which are available in the certain country. In other words workers from all the countries of the Community should have the same rights and privileges as inhabitants of the certain country both in the way of life conditions and the way of social protection guaranteed both for workers and their families.

Freedom of service granting

A person who renders services has the right to go to a customer thus independently crossing the border to render its services in other country of the Community. A person, who wishes to receive any services, can also use the given liberty. This category comprises persons, who wish to take advantage of medical services in other country, or tourists, and people who leave for other country to receive education or to run business. This is a typical case of using such liberty.

Such freedom is also used in cases when customer and person, who render services, are each in its country, and only the given service crosses the border. TV and broadcasting can serve as an example.

However in contrast to the realization of other “three freedom” the realization of freedom of service granting is connected with great difficulties. One of the problems is the mutual recognition of diplomas. The principle of the identical attitude means that for the citizen of the European Union who wishes to receive any education or render service in other country-participant there should not be established more strict requirements in comparison with local residents in sphere of education, qualification or knowledge. That is the equal in value qualification but received in other country of the Union should be recognized equal to the corresponding local qualification. But in practice entering of this freedom into the national legislation is extremely difficult and long process, and one time it was offered to bring one’s rules for each profession separately. The greatest problems arise from the professions connected with health protection. An employer can not with confidence give an opportunity of employment to an employee from other country since even presence of the diploma of a higher educational institution does not guarantee quality of the staff, and it is impossible to compare degree of qualification with standards of requirements to knowledge in the given country.

Operations on trade in knowledge and experience differ from operations on trade in material assets in a thing that as a subject of international exchange is the results of activity considered to be the "invisible" good. Hence application of standard methods of management and regulation of such process is inexpedient. It also finds reflection in concluded contracts.

Within the limits of EU-policy in sphere of education two projects were discussed - **the Package of Recommendations** (**PR**) concerning "the mobility of students, pupils of professional educational institutions, young volunteers, teachers of EU", offered by the Commission in the January 2000, focused on removal of legal, social and financial barriers, interfering the development of mobility, and **the Action plan on mobility** (**APM**) representing "the set of measures " which can be applied by government at a national level. Both initiatives have character of additions to the measures stipulated within the limits of operating projects "Socrat", "Leonardo" and "Youth".

After discussion of the **Package of Recommendations** by the European parliament there were accepted more than 50 amendments providing inclusion of listeners and teachers of postgraduate study and doctoral studies, science officers, and also students and teachers working independently outside of programs "Socrat" and "Leonardo" into the **APM;** introduction of indicators for an estimation of the results received within the limits of initiatives; strengthening of measures on social protection for reduction of losses which participants of projects (particularly double taxation) can bear; activation of citizen mobility

of the countries-candidates; perfection of the procedure of diploma and qualification recognition including creation of the European qualifying system; elimination of legal, language, cultural and financial barriers particularly through the obligatory studying of two languages of the Union at least.

Within the limits of **APM** there was discussed the introduction of certification of the best projects for orientation of investors and creation of general access system to various information resources in the field of mobility. Financing of actions within the limits of the **Action Plan** basically was in the competence of the states.

The reached results of realization of these two projects are estimated as first steps on a way to the creation of the general educational space in the Europe.

However the greatest role in integration process of a science and education has been played and is still being played by the **Bologna Declaration**.

The Bologna Process

The integration process in Europe, its spreading to the East is accompanied with forming of general educational and scientific area and designing of single criteria and standards at scales of the whole continent. The formation of all-European general educational area has more than twenty-year history. In 1984 European commission took an initiative to create a line of instruments for increasing the mobility of human capital on the European labour market. This process was called Bologna Process due to the name of the university in Italian city Bologna.

The Bologna Process was started from the Bologna Declaration, which was signed by 29 ministers of Education on behalf of their governments at the state level on 19th of June 1999 in Bologna (Italy). Member-countries have coordinated the general requirements, criteria and standards of higher educational national systems and come to an agreement about creation of uniform European educational and scientific area until 2010. In borders of this space the uniform conditions of the recognition of diplomas about education, job placement and mobility of citizens that should raise considerably competitiveness of the European labour market and educational services should operate.

The basic principles of the Bologna Declaration:

1. Creation of the system of accurate and commensurable degrees including through the statement of the European Diploma Supplement.

2. Transition to two-level system of training: bachelor and master's degree (professionally qualified specialist). At the same time it is assumed that access to the second cycle will require successful completion of the first one (with duration not less than three years). In the view of qualification degrees awarded since the first cycle is over must meet the requirements of the European labour market.
3. Introduction of System of Credits regarded as supporting method of student large-scale mobility. Students should have an opportunity to gain such credits and also outside higher educational establishments (including continuous education) provided that corresponding universities recognize organizations which grant them.
4. Assistance to European cooperation for guarantee of educational quality, elaboration of comparable criteria and methods of quality rating.
5. Clearance heading toward effective mobility. At that it is necessary to place special emphasis on the thing that students could have possibilities for teaching and training available, could possess an access to all corresponding services; lecturers, scientists and administrative staff could take place in All-European studies and teaching without prejudice to one's rights, and European cooperation could develop in such trends as elaboration of criteria and methods of quality rating, making programs and cooperation of educational institution, development of mobility scheme and integrated programs of education, training and research.

The revolutionary forces currently impacting on European education represent huge difficulties and challenges for all involved in educational and training. These forces include globalisation and advances in information technology that are leading to rapid adjustments in national education systems.

However during the realization of above-stated principles of the Bologna Declaration there are opportunities of the decision of such problems. It is explained that it will be easier for students to adapt the knowledge received by them for a changing demand on a labour market furthermore competitiveness of higher educational systems in the European space of higher education will become stronger.

The special role among all attributes of the Bologna Declaration can be given to the creation of the European Community Credit Transfer System (ECTS). Introduction of such credit system as ECTS is effective way of large-scale student mobility. ECTS is a constantly corrected system applied now as a translation between national systems of a recognition of educational results. Use of the system simplifies for high schools a recognition of students'

educational results through application of mechanisms which are general and clear for everyone - credits.

Objectives of ECTS as a credit transfer system:

–to facilitate transfer of students between European countries, and particularly to enhance the quality of student mobility in ERASMUS and thus to facilitate academic recognition;

–to promote key aspects of the European dimension[18] in Higher Education.

Objectives of ECTS as an accumulation system:

–to support widespread curricular reform in national systems;

–to enable widespread mobility both inside systems (at institutional and national level) and internationally; to allow transfer from outside the higher education context, thus facilitating Lifelong Learning and the recognition of informal and non-formal learning, and promoting greater flexibility in learning and qualification processes;

–to facilitate access to the labour market;

–to enhance transparency and comparability of European systems, therefore also to promote the attractiveness of European higher education towards the outside world.

As a credit transfer and accumulation system, the key goals of ECTS are:

–to improve transparency and comparability of study programmes and qualifications;

–to facilitate the mutual recognition of qualifications.

Learning is becoming more student-centred and flexible as credit based systems are developed. These changes fundamentally challenge our notions as to how, what, whom and where we teach as well as how we assess. Those who fail to confront and adapt to these questions face a difficult future.

Education as a factor of integration of Armenia in EU

Integration processes in the higher educational sphere, which are roughly developing in the European Union from the date, when the Bologna Declaration was accepted, gradually extend out of EU limits. Particularly the Republic of Armenia having signed the Bologna Declaration in May 2005 has also joined the Bologna Process. For those countries which are aspiring to economic and social development and eventually to an introduction into the European Union

[18] *cf* the *Memorandum on Higher Education in the European Community, 1991:* this refers to student mobility; cooperation between institutions; Europe in the curriculum; the central importance of language; the training of teachers; recognition of qualifications and periods of study; the international role of higher education; information and policy analysis; dialogue with the higher education sector.

it is difficult to find an alternative to the Bologna Process. In this connection the step made by Armenia in May 2005 is simply necessary for integration into a world education system and increase of competitiveness of higher education institutes in the country. It is significant that for today the majority of higher education institutes of Armenia have already introduced credit-rating system of organization of educational process.

The general estimation of using the European Community Credit Transfer System in the European Union during six years, i.e. during 1999-2005, has shown that it is an effective tool both for creation of a transparency of curricula and for simplification of the academic recognition. In addition to it this system has allowed to increase mobility of students, and also to promote more effective exchange, conception and discussion of used curricula.

Probably, high schools of Armenia will be able to receive the same interesting and inspiring results. If the course of this experiment is successful, the country can enter into a huge region, which doesn't have analogues - "the European educational area ". The idea of occurrence of the European educational space begins with association within the limits of a certain joint activity. The reform of existing educational systems according to the Bologna Declaration is one of the most reliable tools to promote the integration of Armenia into the all-European space.

Also it is worth to remember that at the moment of signing the declaration the European Ministers of Education have taken on their commitment not only to reform structures of corresponding systems of higher education for moving to the side of rapprochements but also thus to keep fundamental values and a variety of systems which exist in the countries. Integration into uniform educational space does not mean full standardization of training systems. On the contrary it is necessary to combine and compare positive aspects of various educational systems for what mutual recognition and "understanding" of norms, rules and forms of teaching, assessing and in general all process of training is necessary.

The problems of the introduction of Armenia into the European educational space

Position of Armenia favorably differs because due to the Soviet heritage the human capital here is developed enough. But there are some signs that standards of education decrease which can lead to a sharp decrease in a level of the human capital if there are no undertaken measures. Acceptance and realization of the European educational programs are one of most effectual measures.

However integration processes of Armenia in sphere of higher education develop in quite slow rates. In this connection it is possible to allocate two principal causes:

- problems of a recognition of documents and equivalence of educational programs are not solved; higher education institutes independently solve a problem of their accreditation in the international organizations;
- inconsistency in realization of the state educational standards, requirements to preparation and certification of experts is kept.

Considering a priority role of education in the decision of social and economic problems in development of Armenia for preservation and development of a mental potential of the country:

1. Government authorities should:

- improve legislative base of education in case of accreditation of educational programs at the international level and promote development of uniform educational space.
- study experience of the advanced higher education institutes and expand sphere of introduction of the credit-systems for all educational levels with the purpose to increase student academic mobility and efficiency of educational process.

2. Heads of higher education institutes should:

- continue work on development and introduction of intrahigh institute system of quality as integral part of the credit-system and control systems of higher education institutes;
- develop cooperation between universities in the field of development of the credit-systems, information supply and communications;
- improve work on development of university management;
- continue work on development of modern technologies in education with application of credit and modular systems as an element of the open education:

a) Remote training;

b) Asynchronous training;

c) Information technologies in training.

During the realization of the given recommendations there probably can be an increase in rates of integration of Armenia into the European educational space so in some measure into the European Union.

Conclusion

From the end of XX and till the beginning of XXI centuries the world entered a stage of deep transformation. Fundamental changes in economy and social structure of a society, increase in interdependence of the countries, the largest breaks at the key directions of scientific and technical progress lead to reconsideration of the place and the role of education and knowledge in economy of the separate countries and the world as a whole.

People are rod element of a control system of economy. Any country needs professionals who should possess essentially new qualities. In the modern world any country which is able to create favorable conditions for the maximal growth of intelligence and mental potential of the population as a whole can develop with fast rates. First of all it is necessary the skill of integrating intelligence of people.

The universal decision of such problem is the Bologna process which provides one of the "four freedoms" stipulated with formation of the uniform market, - freedom of service movement including knowledge movement.

For the countries with transitive economy such as Armenia connection with the Bologna process is an exclusive chance to make the big step on a way to integration into the European economic space. Integration into a sphere of education has great value for competitiveness of people who train at the world market of work, increase of an educational level in opinion of other countries, increase in a role of the country on a global scale and the further attraction of investments into the human capital. By integration into the European educational space a country can take part in global integration processes.

Thus through maximal use of that tool, which at the moment is already accessible for Armenia, i.e. through the introduction of the All-European educational system, it is possible to promote occurrence of the country into the European economic space.

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Analysis of Consumer Sentiment Index for Azerbaijan

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1. *Introduction*

This paper is about the calculation and analysis of Consumer Sentiment Index (CSI) for Azerbaijan

Different countries all over the world are constantly trying to learn the changes that happen or will happen within their national economies. Therefore they use different ways of country development forecast.

One of the forecasting methods is to track changes within national economy from the perspective of ordinary people. This method called Consumer Sentiment Index.

Nowadays CSI index is developed according to the people's perception and became variable that shows the way that national economy develops in. Succesful development of the country is firstly interesting not only for the government but also for the people either, who lives in this country and feel economical changes on themselves. CSI index one more time proves the saying "People's eye is balance". And based on these changes people became pessimistic or optimistic oriented. Therefore Consumer Sentiment Index was identified for Azerbaijan. This index lets us develop short and long-term prediction.

All information and materials have taken from the research.

2. *Research methodology*

CSI index reflects opininions of respondents concerning to the past, current, future financial position, about inflation, current and future employment opportunities and etc.

Different approach and methodologies are used in calculation of CSI index. In calculating of the index the main attention is paid to indicators that play dominant role in country economy and according to these indexes the total index is made. In different countries the quantity of these indexes are different. Thus, in the United States of America the number of indicators is equal to 5; in Malaysia it is 10, in France it is 6. Sample size is determined according to the quantity of population of the country and the sphere of activities. After determination of the sample size it is necessary to determine the type of research to be conducted.

There are two types of surveys: Quantitative and Qualitative surveys. Among these types it is necessary to determine the appropriate survey which will be in accordance to the mentality of the region where the survey is carried out. The questions that used at index calculation are related to qualitative questions. In some cases Qualitative questions are replaced by questions with Quantitative elements. Replacement is determined by a few response intervals and respondents are offered to choose one of them as response variant. For example, for identification of an answer to the question about present financial situation the question should be an open ended, that is respondent should point approximate number after some calculations. But it is not real at all. That is why in this case the fixed variant intervals are determined as response variant. Questions requiring mathematical analysis are very complicated for responding. The practice shows that respondents avoid answering to qualitative questions. The reason is that, respondents do not want to promulgate their financial status or other living aspects.

One of the most substantial parts of the survey process is to define the techniques of conduction survey. Face-to-face survey, telephone survey, e-mail survey types are more popular. American and European countries basically prefer surveying by telephone; Asian countries prefer surveying by letter.

Calculation of index is carried out by beforehand defined methodology after completion of survey process. In the countries where CSİ index is used, Aggregate or Diffusion methods of calculation are preferred. Each method reflects different approaches and calculations. Aggregate method is calculated as average of answers of every question of index.

If to look behind at history, importance of CSİ index was detected in the middle of XX century and for the first time CSİ was applied by Catano (1960) known as propagandist of "Psychological Propaganda". According to Catano (1960) the spending decisions and at the

same time the saving aspects of people are determined as the main factor that defines in which direction the countries economy will develop. Initially Katona built CSI index on base of 5 variables.

For the first time in Azerbaijan CSİ index was calculated in 2005 by “Khazar” University. As author I am the member of research group of that university. During selection of survey process it was closely studied practices of different countries in this sphere and summarizing all of this, action plan for Azerbaijan was made. The first and one of the most important steps is to define the list of indicators required for index building. Due to conducted researches it was confirmed that the number of these indicators are 3 and survey process move to the next stage. Mathematical calculation of CSI index prepared for Azerbaijan was carried out by diffusion method. At the first stage of survey we introduce notion of base year. Thus, comparison increase and decrease of index is carried out according to the base year. Base year is taken as etalon during first two years of calculation.

4. *Calculation methodology of CCI index*

The Index is computed based on three components which are resulted from the questions number two, three and five in the consumer survey questionnaire. These are questions about present and future financial position of the household and expected employment outlooks in the next six months.

CSI calculation does not take into consideration negative answers, double weights are given to the positive answers, single weights are given to the neutral answers and zero weights are assigned to the negative answers. To calculate CSI, the diffusion method is used. For this purpose, 3 indicators of diffusion are to be established. These indicators are:

The indicator of current financial position of household CFP (Q1)
The indicator of expected financial position of household EFP (Q3)
The indicator of expected employment outlook EEO (Q5)

For each indicator of diffusion total percentage of positive answers is divided by sum of all responses (percentage of positive, negative and neutral answers), times 100 then times 2. The same procedure is applied for neutral answers but neutral answers times 1. Finally, the calculation results are summed up to get the index. Putting them into the formula:

Indicator = (((number of positive answers / sum of all responses)*100)*2) +
+ (((number of neutral answers / sum of all responses)*100)* 1)

Each of the three indicators of diffusion is calculated on the way shown above, then summed up and divided by the number of indicators, the result is divided to CSI of base year and multiplied by 100.

CSI = ((CFP + EFP + EEO)/n)*100/base year

t – Is the six months under the review

CFP – current financial position

EFP – expected financial position

EEO – expected employment outlook

n – Number of indicators; in our case we have 3 indicators.

It is necessary to note that minimum value of the CSI may be 0, maximum 200 points. 100 points and above show consumers' optimism, less than 100 points show their pessimism.

5. *Results of CSI study in Azerbaijan*

The net value of CSI index for the first half of 2007 is 123.7. In comparison with the base year CSI index has increased and the value is 111.3. The high value of CSI index in comparison with the last year shows that the population have more optimistic look to the future. This optimism can be related with high rates of economic development.

Great share in speedily development of national economy has oil sector. Taking out of Caspian oil to the world market within the "Century's Agreement", millions of dollars investments directed to the country , though partially, lead to increase of incomes of the population. The oil sector develops and as result stirs up other spheres of non-oil sector. It means that the favorable employment opportunities will lead to increase of incomes of people working in non-oil sector.

Figure 1. CSI and Its Components

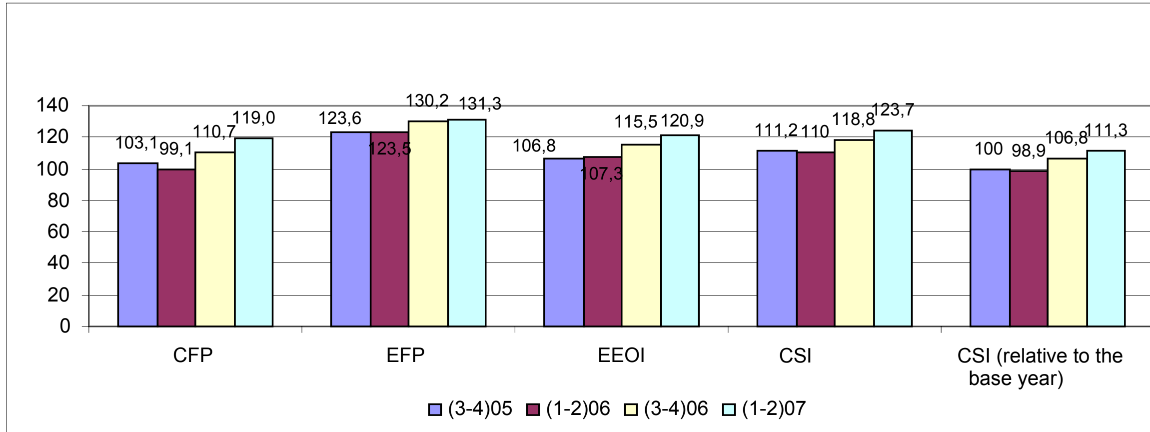
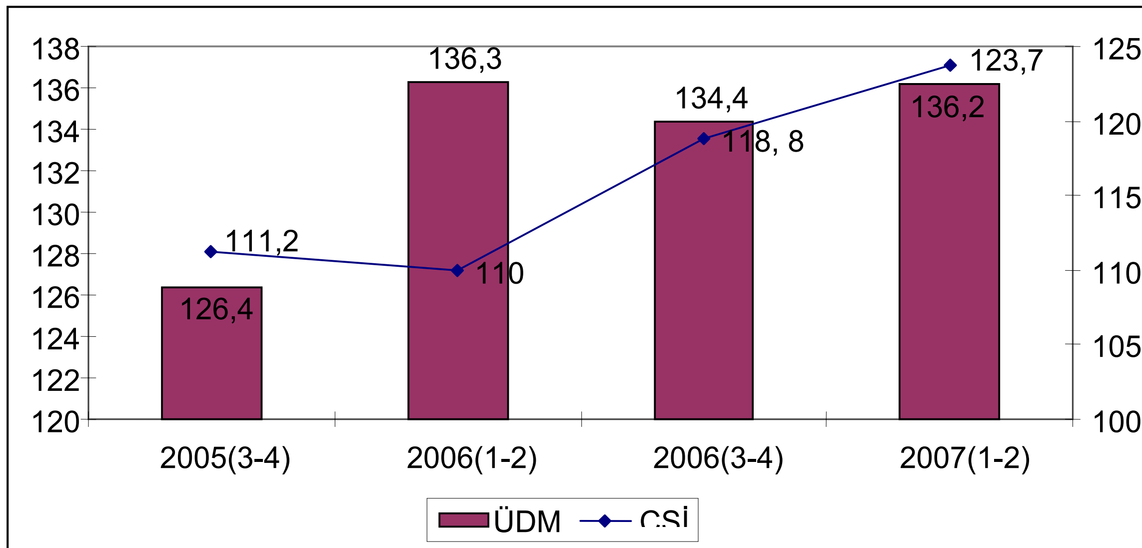
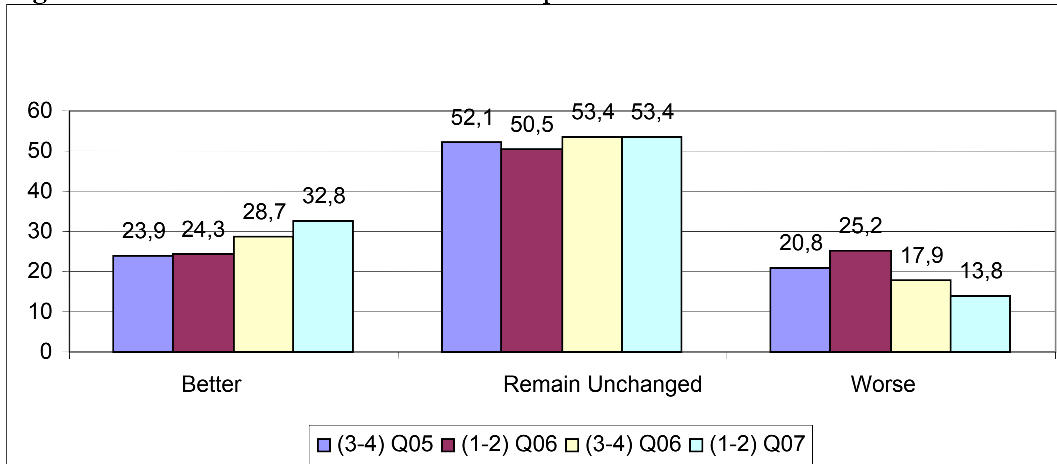


Figure 1.1 GDP and CSİ relation



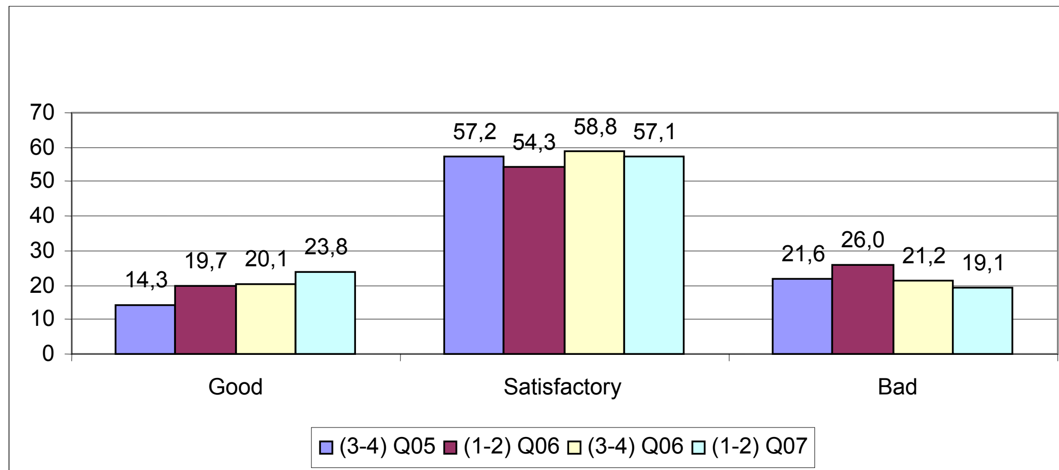
Questions concerning financial position is irreplaceable part of CSİ index. So, such kind of questions are devided into 3 types. This questions are about past, current and future financial position of household.

Figure 2. Current Financial Position in Comparison with the Past Six Months



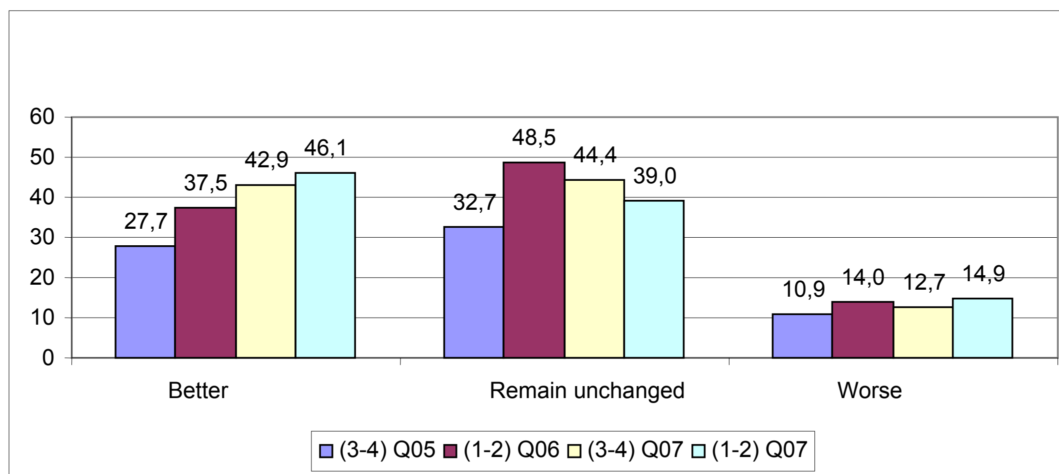
One of indicators used in calculation of CSİ index is financial position of household in comparison to the last 6 months. In this indicator we can see positive changes in comparison with last periods. Thus, in the first half of 2007 the number of respondents saying " Worse" reduced by 4.1% in comparison with the second half of 2006. The number of respondents saying that their financial position increased by 8.9% in comparison with base year.

Figure 3. Current Financial Position



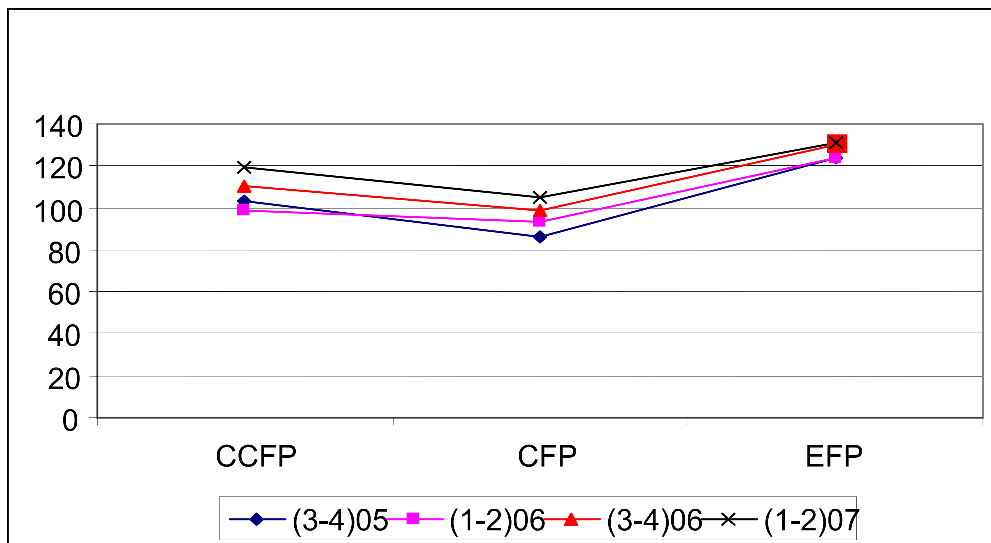
As we see from **Figure 3**, the number of respondents saying that their present financial position is "Good", increased by 9.5% in comparison with base year.

Figure 4. Expected Financial Position



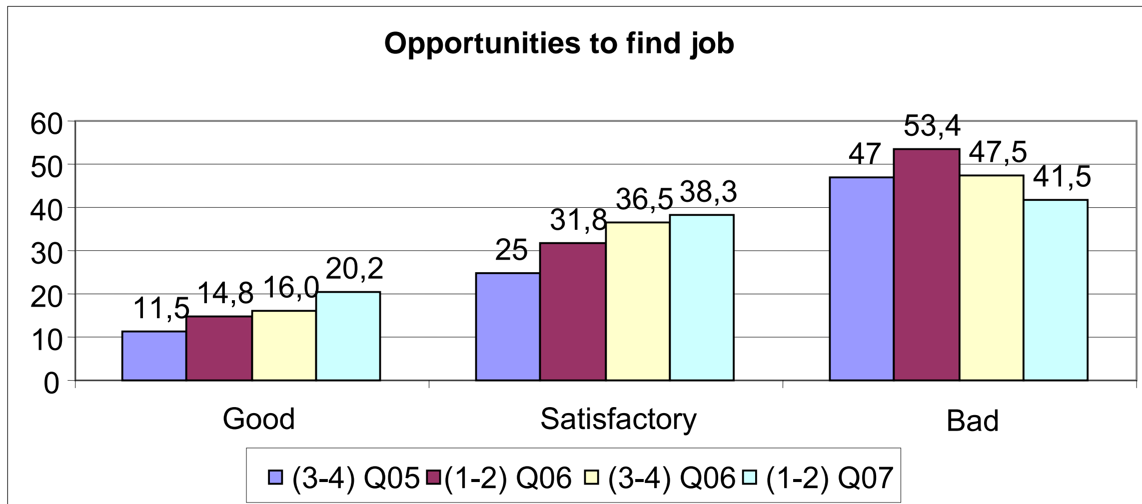
The number of respondents saying that their future financial position will be better, increased by 3.2% in comparison with last year. It can be associated with the development of economy in positive direction. At the same time the number of respondents saying that their financial position will be worse, increased by 2.2%. This can be associated with end of summer seazon. Thus, during the latest 2-3 years Azerbaijan government payes big attention to development of tourism sphere. The most employees working in this sector work on terms of seasonal contract base.

Figure 5. Financial Position's Indicators



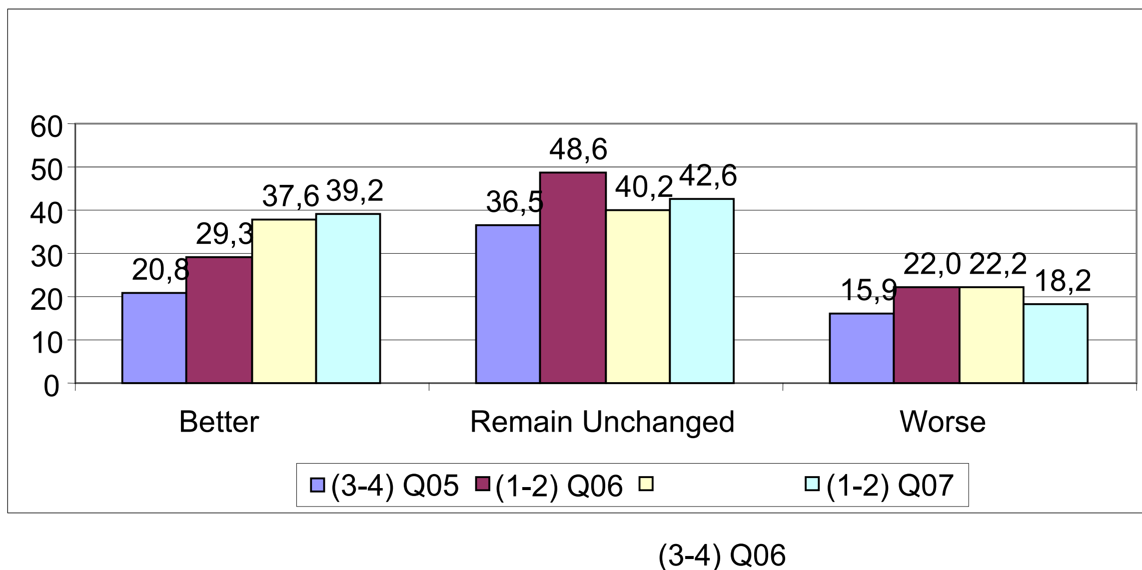
In **Figure 5**, we can see positive change of all three indicators.

Figure 6. Current Employment Opportunities



We can see that this indicator has positively changed in comparison with last period. Coefficient of respondents appreciating present employment facilities as "good" has increased by 4.2%. But after all we should note that 41.5% of respondents emphasized that the situation in labour market is not so good.

Figure 7. Expected Employment Outlook



Information on that the next 6 months employment opportunities "will better" has increased by 1.6% in comparison with last period. Generally, there always was optimistic opinions on that, the employment facilities in the labour market will better. The number of respondents saying " Worse" reduced by 4%.

Figure 8. Current and Expected Employment Opportunity Indicators

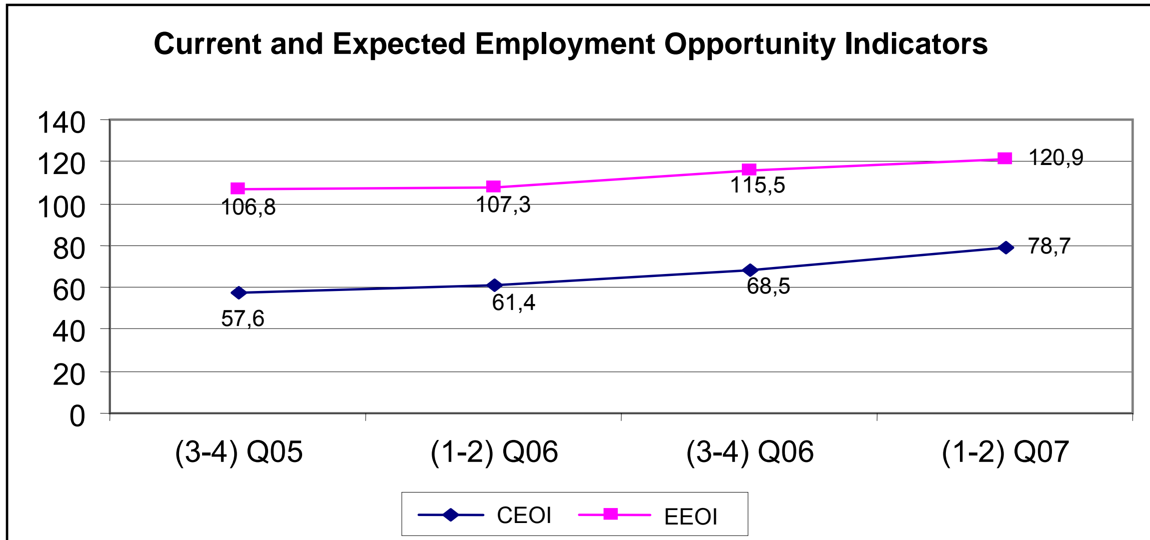


Figure 8.represents the comrarison analysis of Current and Expected empoloyment opportunities
CEOI – current employment opportunity indicator
EEOI – expected employment opportunity indicator

Figure 9. Changes of Prices

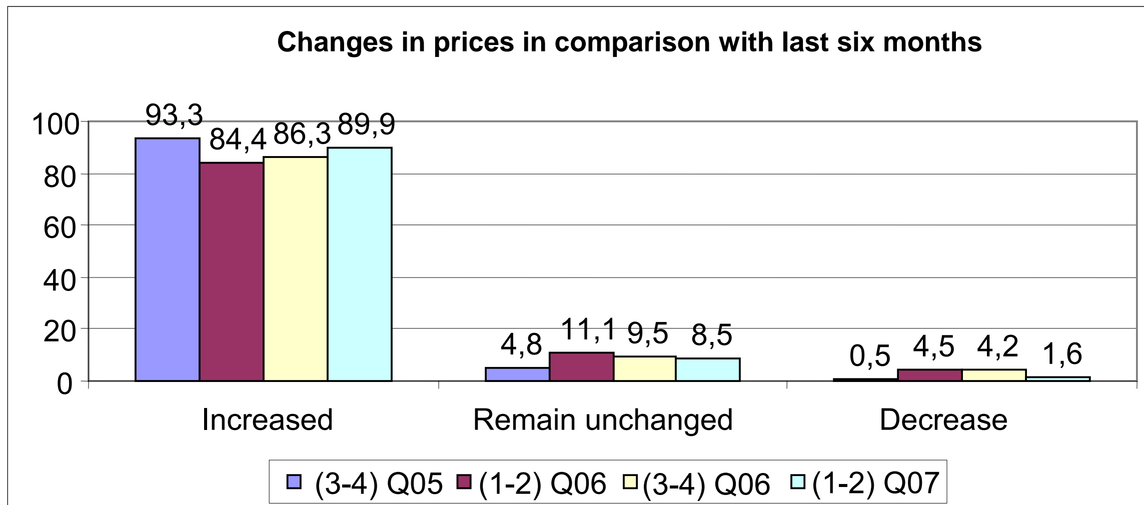
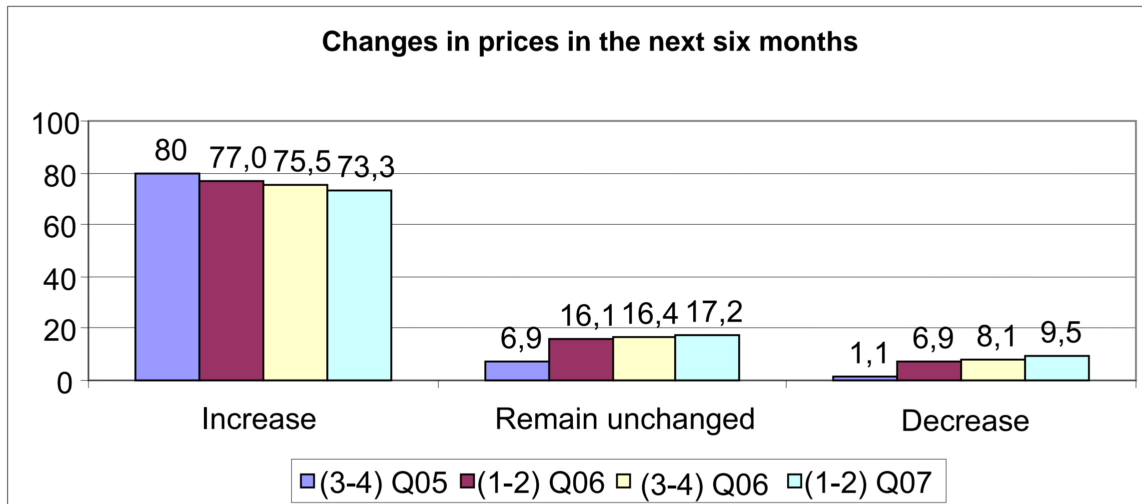
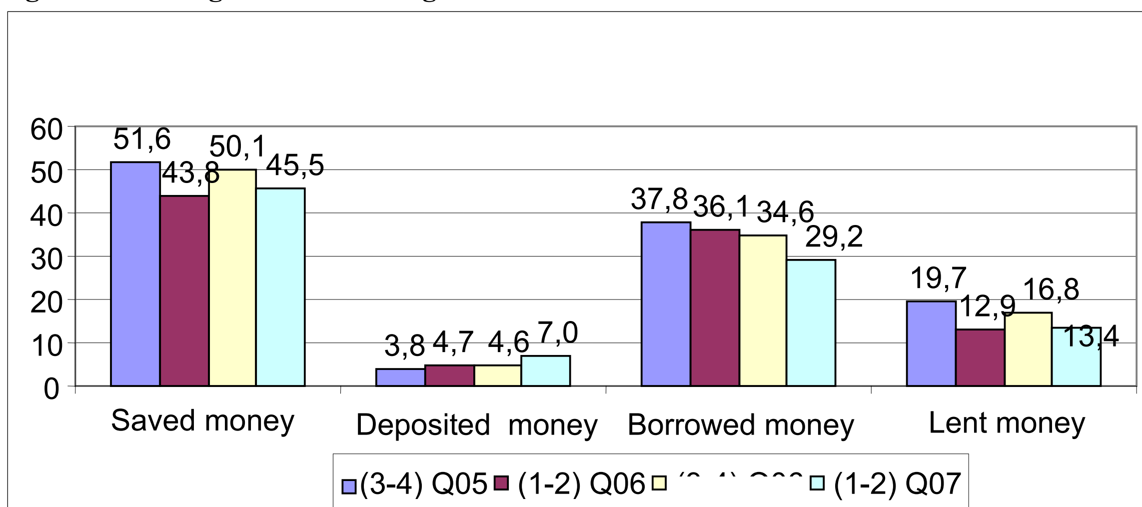


Figure 10. Expectations about Prices



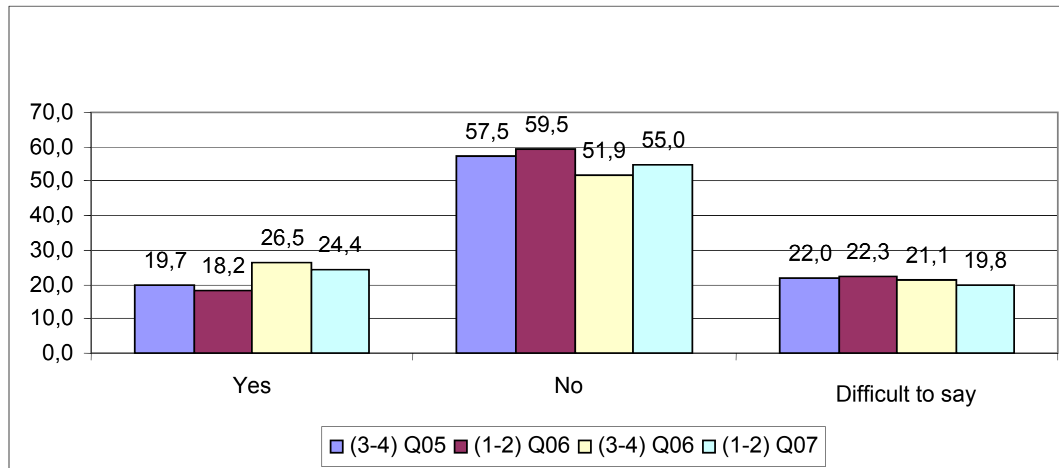
In Graphic 1.8 it is possible to see changes trends in prices in comparison with last 6 months. 89.9% of respondents said that the prices have increased comparable with last 6 months, it exceeds indicator of the last period by 3.6%. The question about "how the prices will change in the next 6 months" (**Figure 10**) 73.3% of respondents answered "Increase". Speedily increase of inflation in the country means proportional increase of the prices. So, according to the official state statistics for the period, when survey was conducted in the country, coefficient of inflation was measured by two figures (11,4% in 2006). But according to unofficial sources the level of inflation was 13-15%. Some factors, such as flow of billions of oil dollars, increase of expenses of state budget, M2 can be considered as main factors giving a stimulus to increase of inflation in the country.

Figure 11. Savings and Borrowings



The question “What have you done during last 6 months among followings?” reflects complicated and important choises of respondents on their expenditures during last 6 months. Thus, 45.5% of respondents economized their money, 7% of them put their money in bank, 29.2% of them incurred debt and 13.4% preferred to lend their money.

Figure 12 Appropriateness of the current position for durables purchase



As we see from **Figure 12**, respondents think that now it is not suitable period to buy durables for long-term utilization.

Figure 13 Durables Purchase

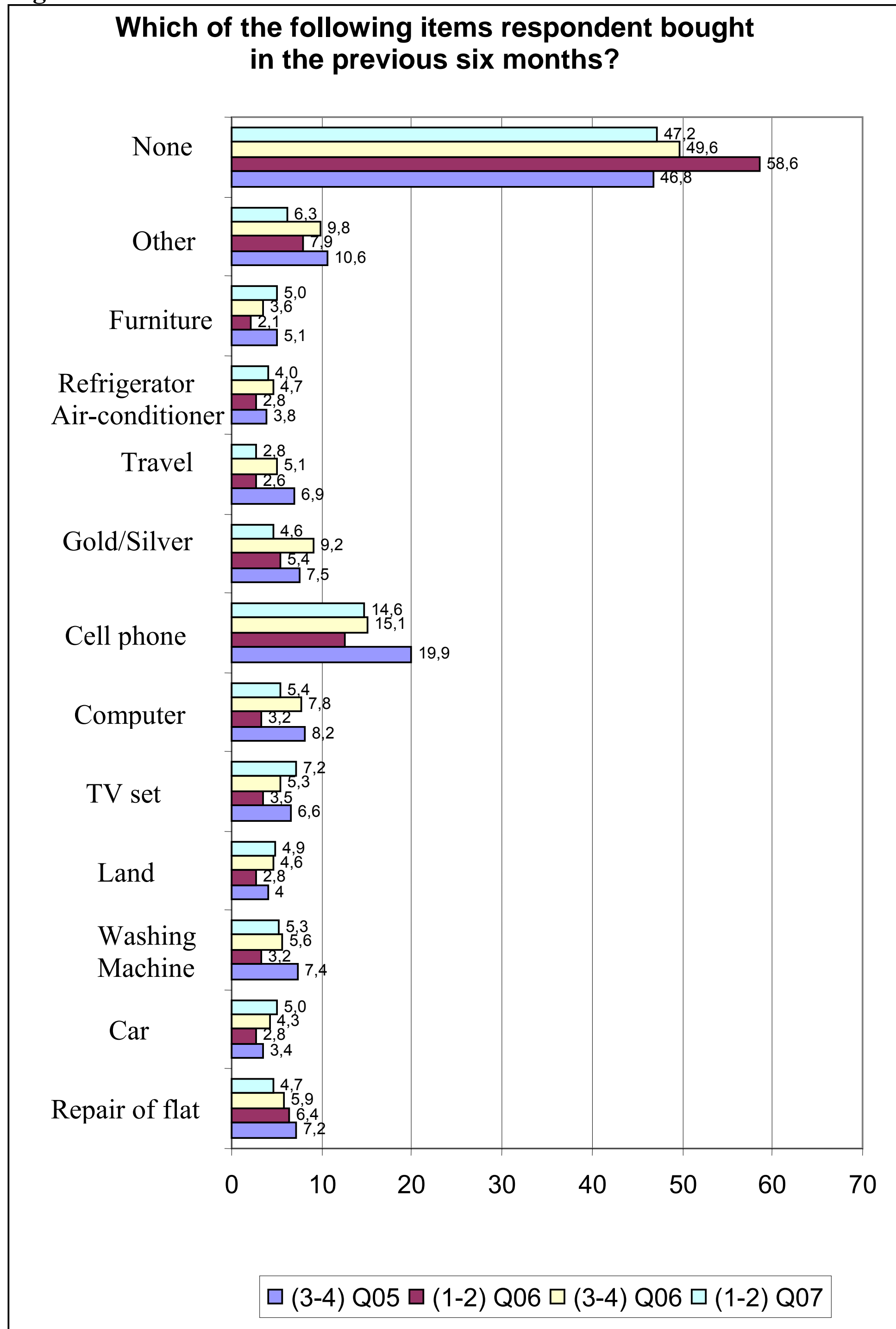
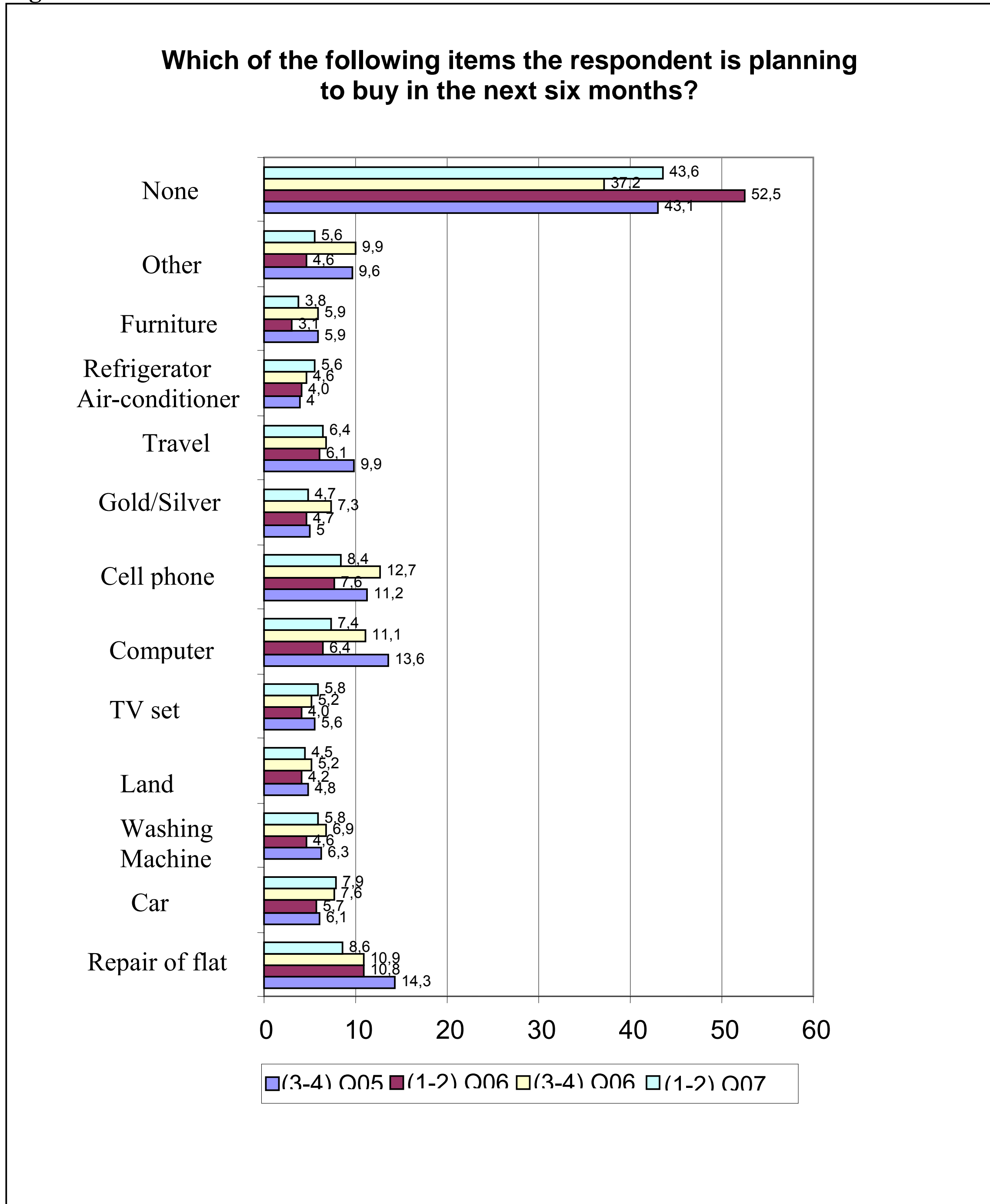


Figure 14 Durables Purchase Intentions



In **Figures** 13 and 14 shows the analysis of question about which things respondents bought or going to buy during last and next 6 months correspondingly. The most popular answer is related with mobile phones. Thus, during last 6 months 19.9% of respondents bought mobile phones and 11.2% plan to buy mobile phone. Interest of the population to information

technologies is increasing day by day, thus, the number of persons planning to buy computer is 13.6% and this indicator has increased for 7.2% with comparison to the last 6 month.

6. Conclusion

Importance of CSİ index is noticed in many countries of the world and these countries see CSİ index as variable of consumers' status in making of consumption and is added to variables measuring traditional financial status. Thus, low level of index reflecting questions on financial status, indicates that it will have significant influence on expense choices of people in the future. This should be investigated by related organizations and the sources of low level of indicators must be revealed.

Consumer Sentiment Index (CSI) calculated for the first half-year of 2007 is 123,7%. This is suffucuently high and positive value of indicator. In comparison with survey of the second half-year of 2006 CSI of the first half-year of 2007 increased by 4,9% what indicates increase of positive opinions of consumers.

Concerning financial position of the population, despite increase of incomes in comparison with 6 months, present financial position does not fully satisfy respondents, but at the same time respondents believe in that during the next 6 months their financial position will increase.

Respondents are also not satisfied with present employment outlooks, as they do in financial status. But they believe that in next 6 months employment outlooks will be better. Concerning increase of prices the majority of respondents confirm increase of prices in last 6 months and they also expext increase of prices in the next 6 months. At the same time, they hope that, the increase of the prices will be less.

Comparison of indicators of the index calculated for Azerbaijan with indicators of GDP proves that in some points index is effective means for forecasting.

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Global information society, digital divide and digital Opportunities of south Caucasus Region

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The postindustrial society of the 21st century is characterized with the irreversible processes of globalization and stepwise entering into the *Global Information Society (GIS)* the outlines of which are explicitly manifested in kind of the Internet, mobile telephone connection, SDH, WiMax, Triple and Quad Play and other cutting-edge technologies.

The special summits, conferences, workshops have been devoted to the issues of the stepwise formation, criteria of GIS, leading role of the infocommunication industry and the services within it. The most significant events were the World Summit on Information Society (WSIS) held in Geneva and Tunis in 2003 and 2005 accordingly, "Green Paper on the Convergence of the Telecommunication" by the European Commission, "Five Challenges to the Telecom's World" by Al Gore and other [1, 2].

These trends, processes and some solvable problems are given on Fig. 1.

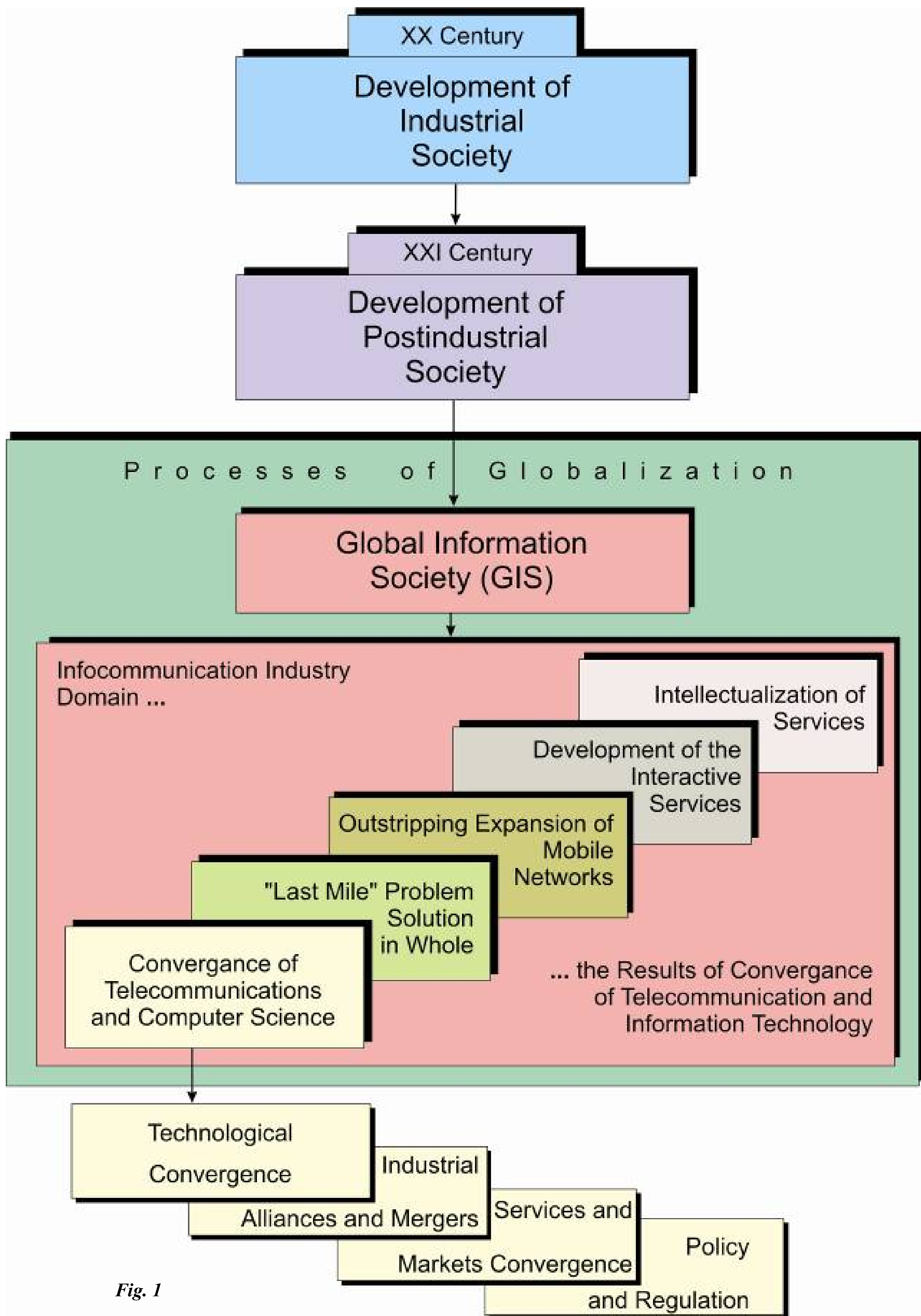

Fig. 1

The first definition of the term of *postindustrial society* as the society of services was given by Daniel Bell [3] as far as in 1973. Having used the three-sector model of economy (manufacturing, agrarian sector and service sector) he identified the *postindustrial society* in the beginning of 21st century as the *society of services*. This forecast has been coming true in full. According to the World Bank data, as far as in 2001 the share of service sector constituted 66 % of the total GDP of 31.1 trillion USD of the world community, and for the EU countries this share constituted 69% of the total GDP of 6.1 trillion USD.

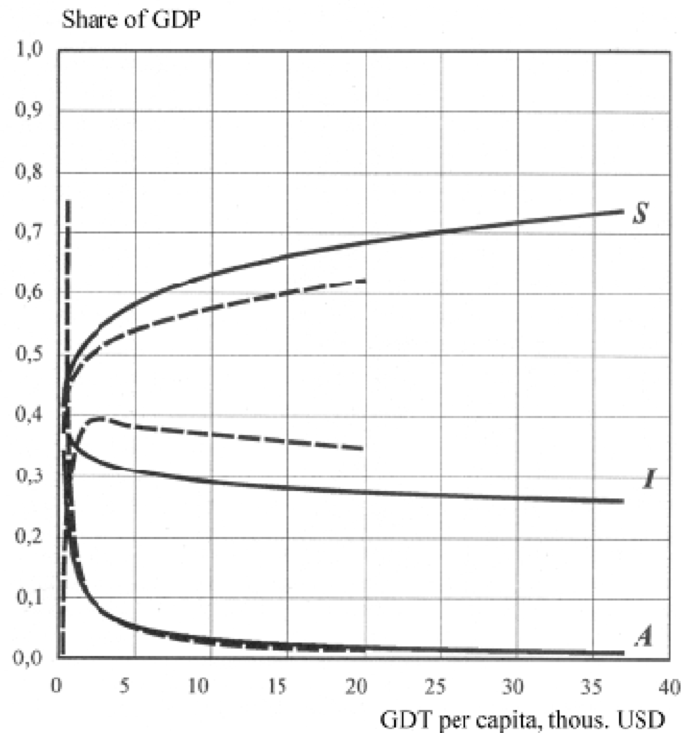

Fig. 2. Three sectors of economy with the time interval of 17 years

________________ 2004

---------------------- 1987

On Fig. 2 are given the curves of shares of three sectors of the world economy (Agrarian – *A*, Industrial – *I* and Services – *S*) in the total GDP per capita worldwide in average, with the time period of 17 years.

Based on these charts we can see that for this period *A* and *I* have been decreasing and *S* - increasing along with the growth of GDP. Besides, during 17 years almost in all countries GDP per capita and the share of service sector have increased by 10 % [4].

It is quite reasonable to refer to the *postindustrial society* (that means GIS as well) as the *society of service* because of:

- The average share of services in the world economy is equal to about 66 %, and this value much exceeds the dominant value of 50%;
- Out of 152 countries the service sector prevails in 112 (i.e. 74 %);
- The economy of postindustrial countries makes up 92 % of the world economy;
- Out of 63 large countries 58 (i.e. 92 %) are postindustrial countries where 60 % of total world population lives.

GIS is based on the global infocommunication complex, i.e. the global infocom - GIC, which can be represented in kind of the sandwich pyramid structure which foundation represents the integrity of terminals of subscribers (fixed and mobile telephones, faxes, PCs and other), the second layer is the different networks of access: PSTN, Mobile, Internet (Intranet, Extranet), Broadband. Then comes the layer of local transport communication networks (RRL, fiber-optic and others). And at last comes the layer of global information infrastructure consisted of the global satellite communication system and global network of transcontinental fiber-optic backbones (the so called Global Digital Communication Loop).

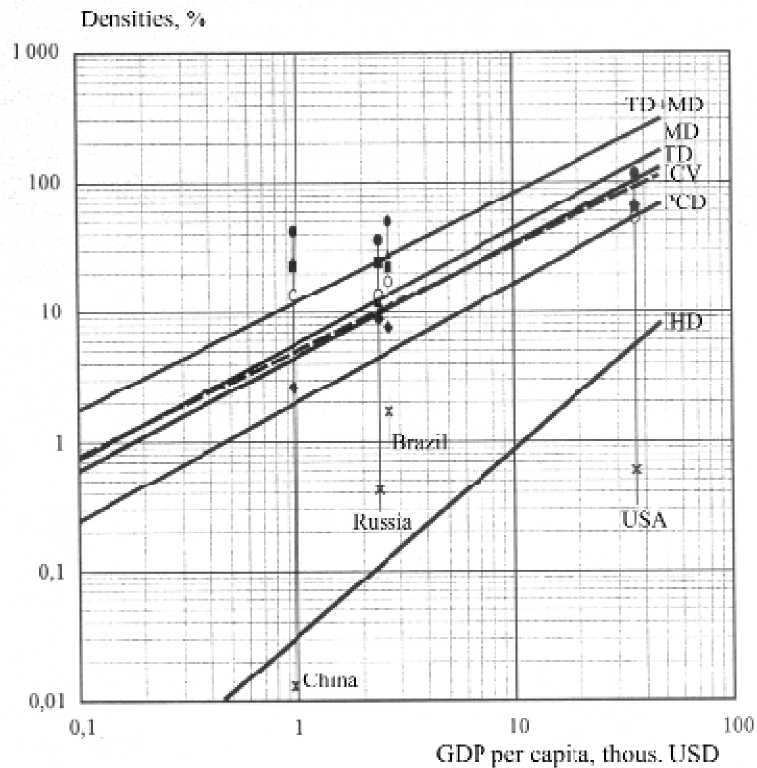

Fig. 3. Correlation dependencies of infocommuncations indikators-densities from GDP per capita (2003)

• - TD+MD – total density of fixed and mobile communication

▲ - MD – density of mobile communication

■ - TD – density of fixed communication

○ - ICV – density of infocommunication vector

◆ - PCD – density of personal computers

× - IHD – density of Internet hosts

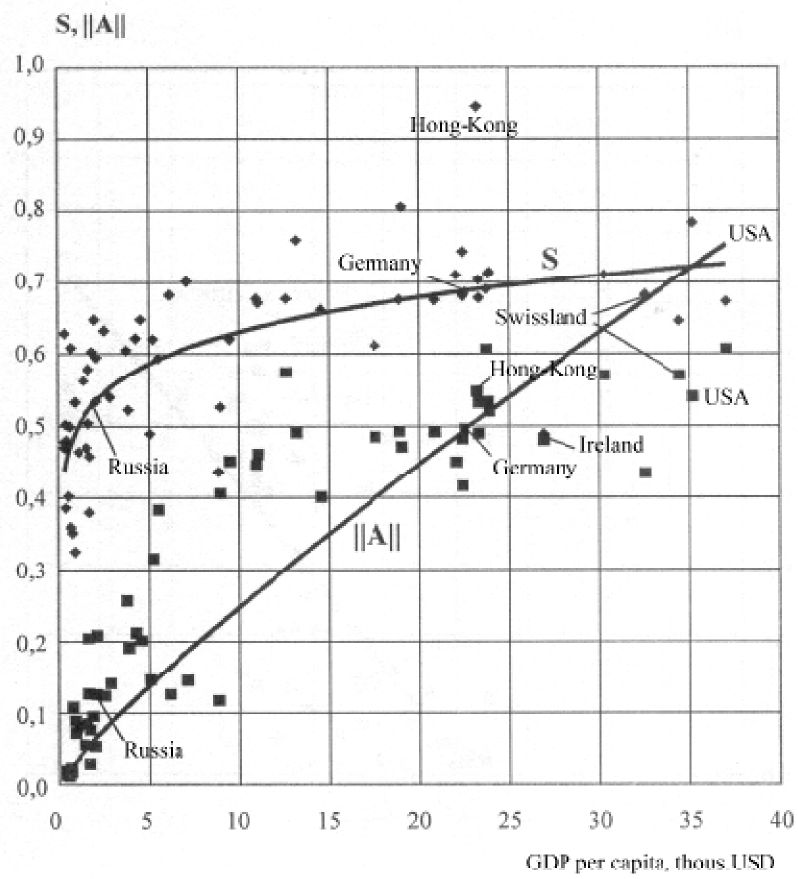

Fig. 4.

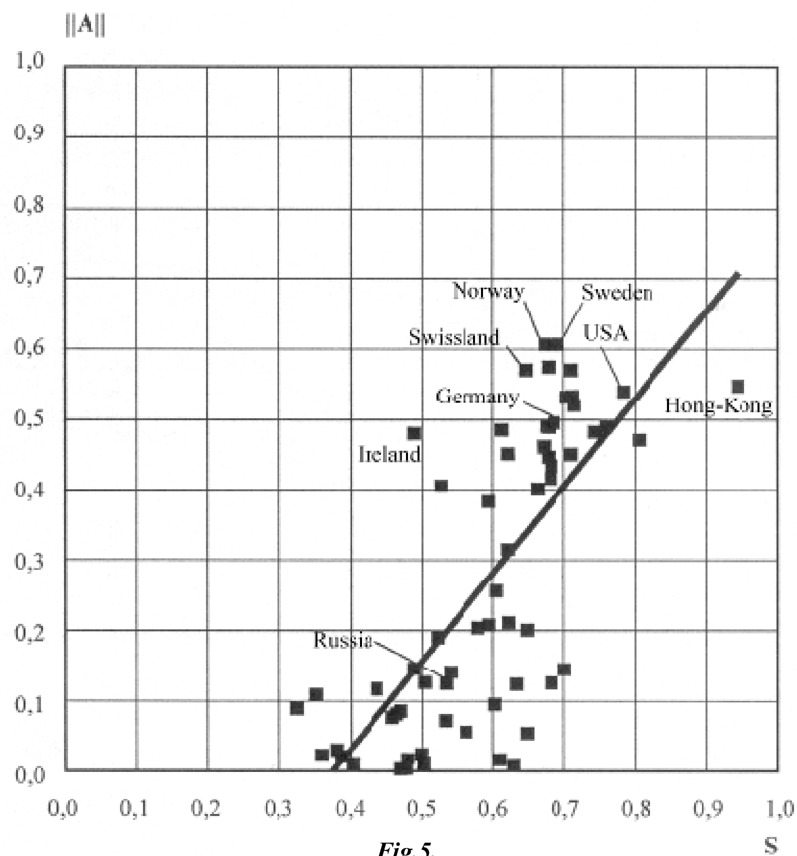

Fig.5.

It is evident that the basis of this infrastructure is the subscriber's terminals as in the long run their availability determines the accessibility to the world information resources. For this reason the basic indicator of development of info communication is taken as the quantity of these terminals per 100 inhabitants (i.e. the *density*): TD and MD – fixed and mobile telephone density, PCD – personal computers density and IHD – internet hosts density.

Of course, the higher is GDP of a country, the better is developed its telecommunication infrastructure and the services provided by this sector are more affordable and available for population [6].

Such regularity is represented as Jipp's Diagram which determines the correlation between GDP per capita and telephone density (TD) since 1963 [6]. On Fig. 3 are given modern Jipp's diagrams made by the International Communication Academy (ICA) on the basis of the statistical data ITU [4]. These correlation dependencies in kind of straight lines given in the logarithm coordinates are increasing with the growth of GDP per capita as the curve S on Fig. 2.

According to the ICA methodology to gain a better insight of GIS the multi-parameter task was reduced to the single-parameter task and was introduced the so called *multidimensional info communication vector (ICV)* for any country (region) as

$$\|A\| = \sqrt{\frac{1}{n}\sum_{i=1}^{n} a_i^2} \,,$$

Where $\|A\|$ is its module (length, norm), a_i - i-coordinate of this vector, i.e. the above-mentioned density (TD, MD etc.), n – the number of parameters of correlation dependence.

On Fig. 4 are shown the correlation dependencies ICV and the share of services S from GDP per capita for 63 large countries, adopted from [4] and on Fig. 5 is presented the situation in the countries in coordinates ICV-S as given in the same source.

The difference in these parameters between the developed and developing countries, in particular between the big cities and rural regions of those countries is evident. The obligatory prerequisite for formation of GIS is to overcome the so called *Digital Divide* in provision of the population with the up-to-date info communication services.

Of course, the overcoming of the digital divide is directly related to the dynamics of the economic development of a country and its diversification, the so called *Country/Economy Profile*.

Table 1 show in brief the statistical (*Source: ITU*) and estimated (*Source: ICA*) data for 2004 by some countries, including the South Caucasus Region (SCR) which points to the considerable digital and economic divide worldwide (the detailed data cover 182 countries). The countries are ranking by the estimated value of ICV and divided into 4 subgroups: high (H), upper medium (UM), lower medium (LM) and low (L) levels. Noteworthy is that out of the former Soviet republic only the Baltic countries appear in the UM level subgroup. SCR countries, Russia, Ukraine, Belarus and Moldova appear in LM group and the countries of Central Asia – in L group. Out of the former socialist countries only Czech Republic and Slovenia appear in H group (21 and 22 places respectively).

Table 1

Ranking According to ICV	Country	GDP per capita (thou USD)	TD	MD	PCD	A (ICV)
High Level (1 to 32)						
1	**Luxemburg**	**47255**	**0.797**	**1.001**	**0.594**	**0.750**
2	**Sweden**	**26864**	**0.736**	**0.889**	**0.621**	**0.715**
3	**Island**	**26613**	**0.660**	**0.906**	**0.451**	**0.712**
4	**Norway**	**42194**	**0.734**	**0.909**	**0.528**	**0.689**
11	**Germany**	**24122**	**0.659**	**0.785**	**0.431**	**0.604**
14	**USA**	**36221**	**0.621**	**0.542**	**0.659**	**0.596**
Upper Medium (33 to 60)						
35	**Estonia**	**4732**	**0.351**	**0.650**	**0.210**	**0.418**
55	**Bulgaria**	**1992**	**0.368**	**0.333**	**0.052**	**0.251**

56	**Turkey**	**2722**	**0.277**	**0.408**	**0.045**	**0.251**
Lower Medium (61 to 112)						
84	**Russia**	**2370**	**0.242**	**0.120**	**0.089**	**0.144**
91	**Iran**	**5876**	**0.220**	**0.051**	**0.075**	**0.123**
93	**Ukraine**	**827**	**0.210**	**0.084**	**0.019**	**0.177**
105	**Georgia**	**637**	**0.133**	**0.107**	**0.032**	**0.088**
109	**Azerbaijan**	**697**	**0.114**	**0.107**	**0.018**	**0.080**
111	**Armenia**	**623**	**0.148**	**0.030**	**0.016**	**0.078**
Low Level (113 to 182)						
	Average	**6351**	**0.200**	**0.285**	**0.109**	**0.203**
	maximum	**47255**	**0.797**	**1.108**	**0.709**	**0.750**
	minimum	**65**	**0.001**	**0.001**	**0.000**	**0.002**

The existence of the digital divide is the particular manifestation of a more common problem such as the unequal distribution of income, technology and services. This problem is very actual for the worldwide community as it opens the problem of *security* and *integrity* of the global problems of the contemporary society, its progress and evolutional transition to GIS.

Indeed, the existence of the significant economic inequality (and, consequently, the infocomunication, education and other divide of the society) between the richest and poorest parts of the world population is far-reaching. The negative consequences of such gap (poverty growth, striving for redistribution of property and income, jaundicing) can sometimes result in the violence, conflicts and even in hostilities of local or larger scale.

These trends are of great concern of the UN and other international organizations, leaders of various countries and NGOs. The matters of the infocommunication inequality (the “digital divide”) are actively covered by ITU. A part of this activity is the program of “*universal access*” to the basic infocommuncation services (the so called Universal Service Obligation).

All countries among them the countries of SCR are supposed to participate in the above-mentioned global process by developing telecommunication infrastructures, contributing to the proper functioning of the telecom markets and carrying out necessary regulatory procedures.

The external factors including the geopolitical situation are also very important in the integration process of the global “infocommunication” environment. Georgia and the South Caucasus are good examples of successful realization of the advantageous geopolitical locations.

Historically, the important trade roads went through SCR (*Fig. 6*). Noteworthy are the well-known Great Silk Road and the backbone built in the second half of the 19th century (1865-1870) by Siemens. It was the largest project by that time which connected London and Calcutta and passed through Tbilisi. This telegraph line was operated even during the World War II.

At present, the geopolitical factor is also a widely applied, strategically important issue. Today the modern telecommunication, energy and transport highways (Trans-Asia-Europe (TAE) fibre-optic highway, Baku-Tbilisi-Ceyhan oil pipeline and other pipelines, TRACECA – transport corridor Europe-Caucasus-Asia) are passing through SCR. Other telecommunication highways passing through Georgia are shown on *Fig. 6*, including: fibre-optic links operated by Georgia Railways and the company Foptnet, the digital microwave link of Telecom Georgia and some others.

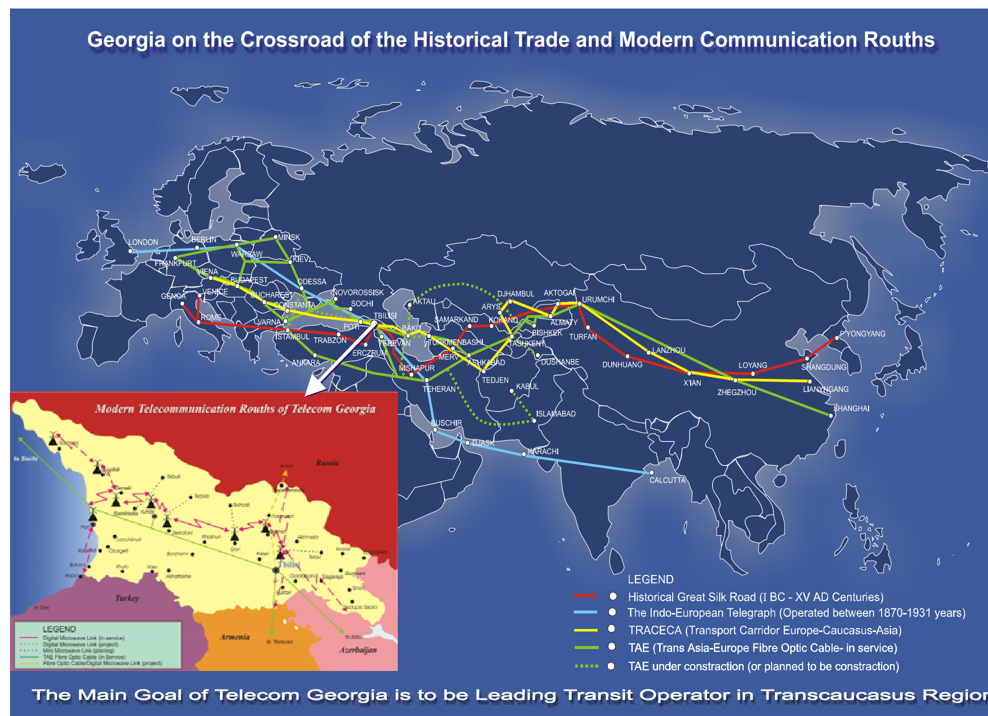

Fig.6

It is also worth to mention as an example that the formation of the Georgian telecommunications market could be characterized by the main trends taking place worldwide:

- The market, like in the most developed countries, is fully liberalized. For example, in 2005 was completed the privatization process of the largest state-owned PSTN company with the significant market power - "Georgian United Telecommunications Company";

- The most up-to-date mobile technologies and networks are developing very fast. For example: the Georgian mobile operators have already offered third generation (3G) mobile communication services to their customers. At the same time, in 2003 the number of mobile customers exceeded the number of PSTN customers, as it usually happens worldwide. The mobile communications sector generates about 65 % of the total telecom revenues, which amounted to 650 million GEL in 2006;
- In 2000, Georgia was one of the first countries in the post-Soviet area where the regulatory body – "Georgian National Communications Commission" (GNCC) was established. GNCC played an important positive role in the development of the telecom industry by undertaking flexible and adequate regulatory activities, increasing trust and accountability between telecommunication companies and customers, contributing to the establishment of highly attractive and stable business environment;
- In 2005 was adopted, the "Law on Electrical Communications" harmonized with the European legislation and ITU recommendations.

To illustrate the dynamic development of the Georgian telecommunication market for the past some years below is given some market showings based on the statistical data of GNCC. Such dynamic development enables to hope of the considerable decrease in digital divide in a few years.

For the years 2000-2006 the revenues of the telecom industry increased almost 5 times from 211 million GEL to 1001.4 million GEL [7]. This is the clear manifestation of the successful reforms undertaken in this field of the economy. It is worth to mention that year 2006 was characterized with the trends of significant growth. The overall revenues increased by 28.6 % as compared with the previous year and amounted to 285.9 million GEL (*Fig. 7).*

For the last six years, the telecom revenues as the share of GDP were also characterized with the increasing trend. In 2000 this share made up 3.52% of GDP, in 2006 the industry's overall revenues more than doubled and made up 7.49 % of GDP (*Fig. 8*)

According to the data of International Telecommunication Union (ITU) in the developed countries the share of telecom revenues makes up 2-3% of national GDP.

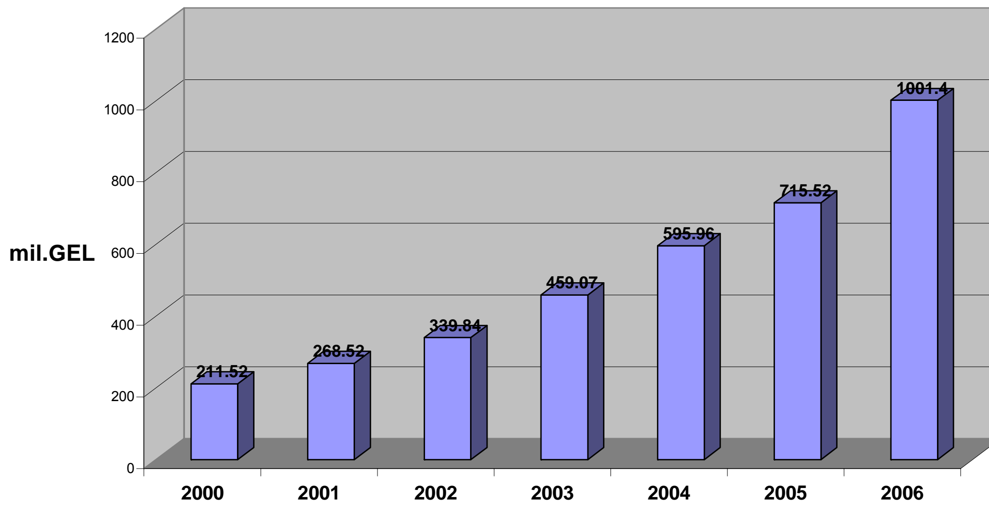

Fig. 7

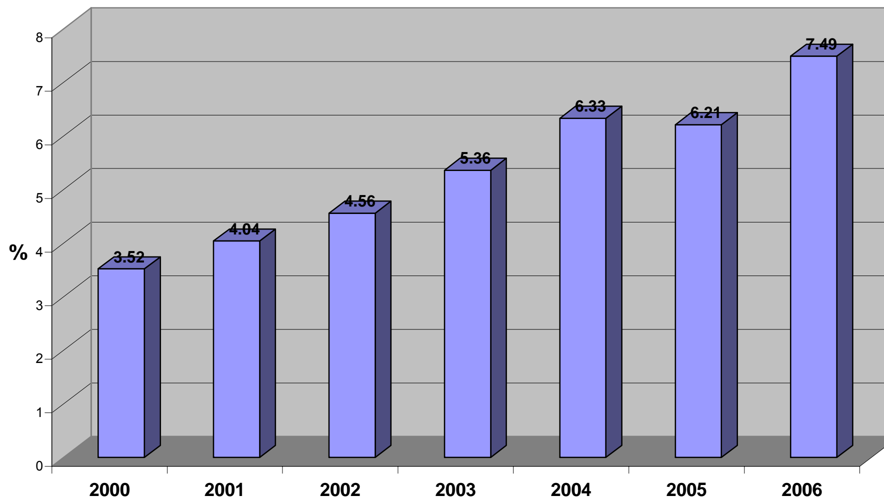

Fig.8

The shares of different segments in total revenue structure of Georgian telecommunication sector vary much: the leading place is held by the mobile telecommunication segment, the second place is held by the fixed line segment, and the third by the international gateway facility operators (IGFO) (*Fig. 9*).

Georgian Telecommunication Market Share According to the Revenue of its Segments in 2006

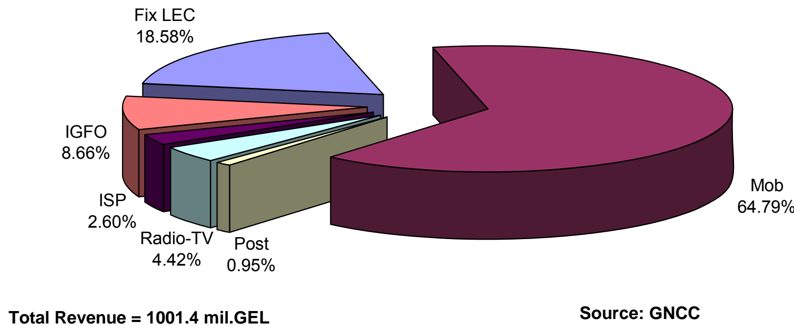

Fig. 9

In year 2006, 65 % of total telecommunication sector revenues came from the mobile telecommunication sector. From year 2000 to 2006 the share of fixed line operators in total telecommunication market revenues decreased from 42% to 18.64 %. The above mentioned facts can be explained by propensity of telecommunication services customers to mobile services and show the beginning of the convergence processes of fixed and mobile networks.

In conclusion we will note that along with the digital divide the advanced technologies provide the so called digital opportunities and SCR countries are involved in the process.

The trend of successful employment of advanced Digital Opportunities (such systems as *e-learning, e-government* and so on) within the framework of implemented special projects and programs funded by the governmental and private investments with the example of Georgia is demonstrated.

In particular, in this year already will be operated the submarine optical-fibre cable connecting Varna and Poti for transmission of terabyte Internet traffic to Georgia and neighbouring countries and further to the East. The project is implemented by Internet provider Caucasus Online jointly with the American investors.

Noteworthy are two large projects in progress in Georgia with participation of the public and private structures. The first one concerns provision of the reliable Internet access for all educational institutions all over Georgia with the option of implementing of e-learning principles. The second one concerns the e-governnace project implemented by the mobile operator MagtiCom which has won the tender announced by the government of Georgia.

In the end it should be noted that in general in spite of some drawbacks the telecommunication sector of SCR countries is developing in the right direction. For example, the forecast made by GNCC several years ago proved to be correct and the total telecom revenues exceeded 1 billion GEL as early as in 2006. So, the gradual integration of SCR countries into GIS is quite realistic.

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Veil of Incorporation

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Introduction

The purpose of this work is to arise a question about the existing problems of Georgian legal system, give the arguments why the legal issue is in need of improvement and offer the ways to solve the problem. The subject of discussion will refer to the legal issues of Corporate Law of Georgia. Especially, there will be shown the negative sides of Georgian Corporate law system in reference with mechanisms of legal defense.

The main subject will be the corporate veil, used by the company directors for acting illegally. The meaning of the corporate veil and the main purpose of its use will be given in detail in the following paragraphs.

The problem is the fact, that the Law of the Republic of Georgia "On Entrepreneurs" keeps silence when it comes to legal defenses in the case of corporate veil. Therefore, it is not surprise, that such situation results in committing frauds by numerous company directors. In addition with the failure of legal defenses from corporate veil, in many cases it is hardly possible to prove, that veil of incorporation existed and that, there was illegality behind the veil. Therefore courts are not able to identify the wrongdoers in many cases.

The above mentioned issue will be compared with English Corporate Law. In contrasting this legal problem of Georgian Corporate Law with the UK Corporate Law, it will be clear that problem of corporate veil exists in such country as the UK, too. Indeed, the corporate veil problem is one of the actual issues in the sphere of English Corporate Law, nowadays.

Therefore, as the same problems can be identified in both countries, it will be more interesting to compare the issue of corporate veil of two different legal systems, of continental and common law countries. The problem between these two countries may not be exactly the same, because of the difference in legal systems, however the results are roughly homogenous and dangerous and required to be eradicated.

The main question is how to solve the problem and what are the recommendations which be useful for legislators. The aim of this work is to find the ways for improving legal

base according to modern requirements and the possibilities to overcome the current problems of legal base in Georgia. Comparative analysis of two different legal system countries will be helpful in finding the conformable ways for conducting right reforms in Corporate Law of Georgia.

Law should have defensive mechanisms for effective struggle against the veil of incorporation. In order to bring these mechanisms in action there should be amendments in the the Law of the Republic of Georgia "On Entrepreneurs" with reference of defensive devices.

Therefore, these are the issues which will be discussed in this paper.

Veil of Incorporation under Georgian Corporate Law

There are many cases of veil of incorporation in Georgian Corporate Law. These cases of corporate veil take place while reorganization of enterprises, which include the cases of within- structural reorganization or liquidation.

The rule of reorganization, especially about transformation, merger, separation and liquidation of enterprises is given by the the Law of the Republic of Georgia "On Entrepreneurs". However, the transformation of enterprises is not the real purpose of reorganization in all cases. Often there are other purposes that company directors are trying to receive by reorganization. These results of such activities can be expressed either materially or immaterially. Many cases are brought in the court on those above mentioned basis. There are not only civil and administrative, but also criminal law corporate veil cases. Such crimes, as forgeries are committed related to the incorporation as well. There are many fraud examples in English common law, related to corporate veil. Not only one famous case has been brought in action in the English courts on the basis, of one company transferring its property or assets to the newly-formed company or subsidiary for the purpose of committing the fraud. In many cases both, in Georgia and in England, frauds were committed for the purpose of avoiding taxes by the tax payers or being freed from other kind of liability.

The Criminal Code of Georgia gives the definition of the forgery: "Forgery, i.e. taking possession of other's object for the purpose of illegal appropriation or receiving a property right through deception."

One of the famous English law cases *Adams v. Cape Industries Plc*, is exactly in accordance with this meaning. This case will be discussed in detail in the following

paragraphs. There were the elements of forgery in this case, however court refused to lift the veil.

There is a separate chapter in the Criminal Code of Georgia with reference of "Crime against entrepreneurial or other economic activity."The definition of false entrepreneurship is given in this Code, which covers the elements of the forgery.

However, among the most well-known corporate veil cases are not only the ones, where the purpose was fraud, but also those ones, where the real reason was to dismiss employees from the job.

Therefore, it is obvious, that behind the incorporation different intentions of company directors can be found both in Georgia and in Britain.

In order to show the more precise meaning of corporate veil, one of the famous cases should be discussed, which began in 2004 between "Georgian State Electricalsystem" Ltd and its employee. In this case plaintiff was the defendant company's employee. She was working as a cashier in Guria branch office of "Georgian State Electricalsystem" Ltd. She was noticed about the possible dismissal from work. Later, plaintiff was given an order about dismissal and its reason was liquidation of Guria branch office. As a result of reorganization, liquidation of branches occurred, including Guria branch office, in which one plaintiff was working. She was demanding to be restored to the equivalent post in structural subdivision, which was formed on the base of Guria branch. The decision of first instance court was appealed by the plaintiff. Appellant was admitting, that court should not have identified liquidation of branch with the liquidation of enterprise, when there were only within structural changes in the enterprise. Indeed, structural reorganization could not have been regarded as cessation of enterprise work, because there was not liquidation of Ltd.

The noticeable fact is also, that "Georgian State Electricsystem" Ltd required to be changed by " United Georgian Energy Company of Distribution" by presenting the relevant solicitation.

Defendant was admitting, that by the order of " Industry Management Agency" 110/35 KW voltage nets and substations were taken out from the common stock of Ltd , which resulted in annulling work places and whole transformation of structure- reorganization. It was uncertain, whether transfer of enterprise took place from one organization to another's subordination.

Defendant was considering, that liquidation was the direct reason for employee's dismissal and was not taking into account the fact, that the branch is not independent legal organizational form of enterprise.

According to the Article 28 of Civil Code of Georgia and the Article 16 of the Law of the Republic of Georgia “On Entrepreneurs”, branch is the component part of the enterprise. It does not enjoy legal personality. In the above mentioned case, liquidation of one of the branches of enterprise resulted in within- structural reorganization.

In this case, there was not only the plaintiff, who was fired from the job, but also all the other employees, who were working in Guria branch. Ltd was obliged to provide the coworkers of liquidated branch with workplaces in newly formed structural entity. In the case if there was not enough number of staff unities, the problem of workers selection should have been solved by clearing up the issue of preferential selection. The fact, that no one from the Guria branch coworkers was employeed in the newly formed structural entity, lifts the veil and shows the real purpose of reorganization. As far as, structural reorganization of enterprise, with its structural results, does not mean the liquidation of an industry, this could not be regarded by Ltd as the reason for dismissal of a plaintiff.

In order, to satisfy plaintiff’s demand in this case, plaintiff had to pass through three instances of the court, because it was Supreme Court, who at list lifted the veil of reorganization. The highest court had annulled the decision of the Appellate Court and returned the case for revision to the Tbilisi Appellate Court.

However, on the bases of existing materials , establishing the truth of the case would have been much more easier, if the Law of the Republic of Georgia “On Entrepreneurs” gave the definition of within-structural reorganization, the resulting outcomes and the mechanisms of legal defense from it. Currently the Law of the Republic of Georgia “On Entrepreneurs” , is defining only external reorganization and is silent when it comes to within structural reorganization. As far as, within structural reorganization could be used as instrument for reaching the illegal purposes, it would have been better if legislator gave us the definition of within structural reorganization and formed the security mechanisms from it.

The remarkable fact is that, the above mentioned case was brought to the court on 24 August in 2004. The New Georgian Labor Code came into force only on 25 May of 2006. Till this date, Labor Code of 1973 was in force. By the Code of 1973 dismissed worker’s right for labor was guaranteed by providing with job in the same enterprise, establishment or organization. Under the Code of 1973, reorganization was not the reason for dismissal, because they should have been noticed about the possible dismissal. However, according to Code of 2006, there is no more security system from dismissal on the bases of reorganization. This kind of defenses is necessary, because the workers are exactly those ones, who become victims of incorporation in the most cases.

As it was above mentioned, the purpose of reorganization may be avoiding from some kind of legal responsibility. One of such purposes can be to avoid the duty of paying taxes. There were security mechanisms from such activities under the Tax Code of Georgia. According to paragraph 9 of Article 61, "In the case when one or several enterprises (organizations) are separated from an enterprise (organization), the separated enterprises (organizations) do not become legal successors in respect of the reorganized enterprise (organization) with regard to satisfaction of tax liabilities, if the purpose of such reorganization is not to avoid satisfaction of tax liabilities by the reorganized enterprise (organization). If the Tax Agency has a reasonable doubt that the enterprise (organization) was separated for the tax avoidance reason, then the tax agency shall be authorized to assess, taxes due as well as fines and penalties on this and separated enterprise (organization)."

Despite the difficulty of approvement of the fact, whether or not the real purpose of reorganization was avoiding paying taxes, there were security mechanisms considered in the Tax Code of Georgia. However, according to the amendments, adopted in 2007, the already mentioned paragraph was taken out from the Tax Code of Georgia and therefore, security mechanisms annulled as well.

It is really difficult to understand whether or not avoiding taxes is the real reason of reorganization. To understand the problem, we can consider one of the famous cases as an example, where a claim arose between "Coca-Cola Bottlers Georgia" Ltd and Tax Department of Ministry of Finance of Georgia. The Appellate Court is still proceeding the case. In this case, "Ramko" Ltd, "TMT" Ltd and "GC" Ltd were unified with "Coca-Cola Bottlers Georgia" Ltd. After this, "Coca-Cola Bottlers Georgia" Ltd was obliged to pay VAT in an amount of 4387763 GEL.

According to the plaintiff's allegations, defendant was linking the unpaid VAT with 986860, 1500809 and 1900000 GEL, which should have been paid by "TMT" Ltd, " GC" Ltd and "Ramko" Ltd, respectively.

After unification of "Coca-Cola Bottlers Georgia" Ltd and "Ramko" Ltd, the surplus of 1900000 GEL were added to the personnel account card of VAT of "Coca-Cola Bottlers Georgia" Ltd. This operation was regarded as a suspicious one. The above mentioned surplus derived from the transfer of 1900000 GEL from the personnel account card of "Fortuna" Ltd to the personnel account card of "Ramko"Ltd. There was a surplus of 3402840 lari on the personnel register card of "Fortuna" Ltd, from which 1900000 was tranferred to the personnel account card of "Ramko". The legal base of that transferr was the contract made between " Ramko" Ltd and "Fortuna" Ltd signed on 5th June of 2003.

As a result of unification of “Coca-Cola Bottlers Georgia” Ltd with “TMT” Ltd, surplus of 986960 lari was transfered from personnel account of VAT of “Ramko” to personnel account card of VAT of “Coca-Cola Bottlers Georgia” .On April 24 of 2003 “GC” Ltd unified with “Coca-Cola Bottlers Georgia” Ltd. After that this last one received 1500803 surplus on the personnel account card of VAT. This sum was received from “Saba” Ltd , however the testimony about the true source of this money could not be found. Plaintiff was demanding to restore the accounting of VAT. The defendant, the tax department of ministry of finance of Georgia was admitting that “Coca-Cola Bottlers Georgia” Ltd was the legatee of reorganized enterprises, therefore it was obliged to pay taxes of these enterprises, whether or not the company was aware of any obligations. According to the paragraph 5 of article 61 of the Tax Code of Georgia, “In the case when an enterprise (organization) joins another enterprise (organization) the enterprise (organization), which the first enterprise (organization) joined shall be recognized as the legal successor with regard to satisfaction of tax liabilities of the joining enterprise (organization).”

“TMT’ Ltd, “Ramko”Ltd and “GC” Ltd were companies unified with “Coca-Cola Bottlers Georgia” Ltd and this last one was liable for tax obligations of these enterprises, as “Tax liabilities of a reorganized enterprise (organization) are fulfilled by its legal successor(s)” - according to the article 61 of Georgian Tax Code.

The origin of this surpluses has not yet been defined, and neither is clarified the fact whether these origins were legitimate, nor what was the purpose of “Coca-Cola Bottlers Georgia” by this unification. The Appellate Court has not received the final decision.

The General Procurator is continuing the investigation about the legitimacy of 1500803 GEL surplus transferred from “Saba” Ltd and “GC” Ltd to “Coca-Cola Bottlers Georgia”.

After the discussion of this case it gets clearer that the truth is quite difficult to be found when we face those kinds of problems.

Veil of Incorporation under UK Company Law

It is impossible to discuss the problem of corporate veil according to United Kingdom’s company law and not to mention the principle of separate legal personality of a company. This principle was illustrated by the leading case of company law *Salomon v A Salomon and*

Co Ltd [19]. Under this case, it was held that individual directors and shareholders are separate from the company and this last one has a separate legal personality.

Salomon principle was the basic of the company law, judges were relying on. However, the coin has two sides and in this case also company directors were able to interpret it in a different way. Salomon principal became instrument for many company directors for committing the fraud, sham. They have started using it to avoid personal liability, as by this principal it is the company itself, which could be held liable for the company's wrong and not its directors or members. Therefore, thanks to the existence of *Salomon v A Salomon and Co Ltd* , the concept of company's separate legal personality was used by many directors for illegal purposes, which led to undesirable results. However, the results were not unwanted for directors, who were obtaining the funds dishonestly, reducing the tax liability or committing the fraud in a different way.

However, exclusions occur everywhere and numerous of fortunate exceptions were made by the courts to the rules defined by *Salomon v A Salomon and Co Ltd* as well. It is not the frequent practice though, when court agrees to lift the veil. One of the biggest difficulties is the fact, that there are no certain principles court should rely on when arguing about the corporate veil. Therefore, it is still uncertain to distinguish the circumstances in which veil of incorporation can be disregarded by the court. The question arises, what are those established situations, where the court will lift the veil of incorporation. "Is it not time to know just when a company is a 'sham' and when the veil of corporate personality can be torn aside?"(Wedderburn 1985)

After incorporation, there must be a distinction between company and its directors. In the event that company commits a wrong, this is the company who is liable and not its members. Distinguishable feature of corporate personality is that, company's property is owned by the company itself, as a separate person and not by its members. This is one of the reasons, why members are not liable for the company's wrong. There is barrier, veil of incorporation, between the company and its members or shareholders. The veil of incorporation follows the Salomon principle. By the veil principle, directors and shareholders can be freed from liability, whereas they are directly liable for committing a wrong. It is a sham, façade, by which director transfers property or assets to quickly newly formed company or the company is an agent of another or does even a minor fraud, in order to avoid liability. In such a case, it is to the judge, whether a veil of incorporation should be lifted or

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[19] *Salomon v A Salomon and Co Ltd* [1987] AC 22, HL

not. Judges can stretch the meaning of the words if they think it is appropriate. The veil of incorporation is “a tactic used by the judiciary in a flexible way to counter fraud, sharp practice, oppression and illegality”.[20] If the veil is lifted, then the true control of the company may be identified. After this there are no more barriers between the company and its directors. So a company ceases to have separate corporate identity and directors may be held responsible for the committed wrongs.

The question arises ‘when should the veil be lifted’? Court refused to lift the veil in several cases. One of the most significant is in *Adams v. Cape Industries Plc*.[21] The court relied on the fact, that ‘there is no general principle, that all companies in a group will be treated as one and that there is no presumption of agency relationship between a parent and subsidiary company’[22]. There was some injustice in the court’s decision, which has significantly narrowed the ability of the courts to lift the veil of incorporation.

As the Salomon principle dominates this principle, court could not just overrule it. So it can be said, that Salomon principle has played the important role in many of the court’s decisions, where the veil was not lifted.

However, in some cases, courts have lifted the veil solely in order to achieve justice. Some examples of lifting the veil are: *Jones v. Lipmann*[23], *Gilford Motor Co Ltd v. Horne*[24] etc.

In *Jones v. Lipmann,* defendant tried to avoid the sale of his house to Mr. Jones by conveying it to a company incorporated for that express purpose. The company was owned and controlled by the plaintiff himself. Court has lifted the veil in that case and the company was described as “a sham, a mask” by the judge.

The question arises whether the veil would have been lifted by the court if Mr. Lipmann conveyed the house to another company? Mr. Lipmann had interest to this house. Therefore, this was the reason why he conveyed it to his own company. Court would have found it difficult to lift the veil, if plaintiff had transferred it to another company, which had not even got knowledge about the contract between Mr. Jones and Mr. Lipmann. In *Gilford Motor Co Ltd v. Horne,* there was an attempt also to avoid an existing obligation by forming a company as a device to mask the evasion. But Lord Hanworth lifted the veil stating in his

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[20] Smith &Keenan, *Company Law,* 7th edition (1987), p. 19.
[21] *Adams v. Cape Industries Plc* [1990] 1 Ch 433, CA
[22] Chris Shepherd, *Company Law: 150 leading cases*, (2004), p.4.
[23] *Jones v. Lipmann* [1962] 1 WLR 832
[24] *Gilford Motor Co Ltd v. Horne* [1933] Ch 935, CA

decision that "at any rate one of the reasons for the creation of that company was the fear of Mr. Horne that he might commit breaches of the covenant in carrying on the business."[25]

It is interesting when court lifts the veil and when it refuses to do it. If we return back to the famous case *Adams v. Cape industries*, there was really a minor fraud, when Cape sold business and had no more formal assets in US, just in order to avoid liability. Therefore there was nobody to sue in US. But court has refused to lift the veil to achieve the justice. All the arguments by which it was thought to make Cape liable were rejected by the court.

If court continues in future to refuse to lift the veil, the judiciary will lose its meaning. This will encourage the directors of the company to commit a fraud, when there will be more and more evidence of not lifting the veil.

One of the main problems that remains is that, it is still uncertain the main principles, that court should focus on to lift the veil. It must be the House of Lords, which should make it clear.

Conclusion

The purpose of this paper was to discover existing problems in Georgian legal system, which is in need of improvement. It is also crucial to emphasize a need for alterations in Georgian legal system and find the ways of solving the existing difficulties.

One of such existing problems was the failure of defending mechanisms from the results of incorporation/reorganization in Georgian Corporate Law. As far as the target of such activities is the dismissal from workplace or tax avoiding, I have examined Tax Code of Georgia and Georgian Labor Code in the relation to the defending mechanisms. Many cases have been given as an example of corporate veil both from Georgian and UK law practice.

Unfortunately, the following has been detected: instead of the reinforcement of the security mechanisms by amendments, vice-versa in both, Georgian Labor Code and in Tax Code of Georgia, defensive mechanisms were absolutely annulled. Therefore, as neither the Labor Code, nor the Tax Code or the Law of the Republic of Georgia "On Entrepreneurs" gives the legal means of defenses, directors of industries or organizations are not restricted to make some corporate veil activities behind the incorporation. It can be said, that the failure of such defending mechanisms even encourage the directors to act behind the incorporation

In Conclusion , following issues can be established which are in need of improvement. These are: 1) To make amendments in the Law of the Republic of Georgia "On

[25] LS Sealy, *Cases and Materials in Company law,* 7th edn (Oxford University Press, 2004). P.67.

Entrepreneurs" about the defending mechanisms while reorganization. 2) To make amendments in the Labor Code of Georgia about the defending mechanisms from dismissal during reorganization/incorporation. 3) To be restored paragraph 9 of article 61 of Tax Code of Georgia, which was establishing defending mechanisms from avoiding taxes as well.

With reference to the same problem in the United Kingdom, I think it should be the House of Lords, who should establish those principles on which court would focus on during corporate veil cases.

Therefore, in these above mentioned changes I can see the ways for solving the existing problems in Georgian Corporate Law, which are sufficiently slowing down the process of building legal state of Georgia.

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Computer Crime

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Introduction

Throughout the past several decades there have been numerous advances in electronic resources. Technologies such as cellular phones, pagers, home computers, the Internet, websites, and palm pilots have added another dimension to crime. That dimension involves increased methods at criminals' disposal to commit certain crimes along with increased locations in which crimes can occur. For example, property crimes no longer have to involve face-to-face contact between the criminal and the victim. In the past, property crimes usually involved a criminal breaking into a victim's house or grabbing a purse from a person on the street. Today, criminals can commit property crimes from the comfort of their own homes against people who live on the other side of the world through the use of computers.

Computer Crime had been defined broadly, though most text books agree that it is a criminal act that has been committed using computer as the principal tool. It is a very broad term. It could mean anything from a total invasion by a hacker into the federal government or just the simple fact of one person letting another borrow a copy of his favorite flying game.

The World Wide Web and Internet are great places to study, work, or even play. But there is an ugly side of cyberspace. Cyberspace reflects the real world and some people tend to forget that. Cyber stalking and harassment are problems that a large number of people are realizing.

> Just because an individual owns a computer and has an Internet account do not assume that person is considerate or respectful. There are just as many stalkers in cyberspace as anywhere else.
>
> Computer crime poses a daunting task for law enforcement agencies because they are highly technical crimes. Law enforcement agencies must have individuals trained in computer science or computer forensics in order to properly investigate computer crimes. Additionally, states must update and create legislation, which prohibits computer crimes and outlines appropriate punishments for those crimes. Computer crimes will likely become more frequent with the advent of further technologies. It is important that civilians, law enforcement officials, and other members of the criminal justice system are knowledgeable about computer crimes in order to reduce the threat they pose.

There are no precise, reliable statistics on the amount of computer crime and the economic loss to victims, partly because many of these crimes are apparently not detected by victims, many of these crimes are never reported to authorities, and partly because the losses are often

difficult to calculate. Nevertheless, there is a consensus among both law enforcement personnel and computer scientists who specialize in security that both the number of computer crime incidents and the sophistication of computer criminals are increasing rapidly.

Recognizing the emerging problems resulting from computer crime, I am going to talk about: The definitions of computer crime, The different types of computer crime, The scope of the national and regional problem, The legislation that was created to punish offenders, The professional organizations that combat computer crime, The resources that are available to educate the public about computer crimes, and the underlying reasons for law enforcement agencies successes in combating computer crime.

In my article I want to survey shortly all the novelty in this area of law and try to substantiate how important is it for the Caucasus Region to be carefully with this kind of crime.

The definitions of computer crime

Computer crime, cybercrime, e-crime, hi-tech crime or electronic crime generally refers to criminal activity where a computer or network is the source, tool, target, or place of a crime. These categories are not exclusive and many activities can be characterized as falling in one or more category. Additionally, although the terms computer crime or cybercrime are more properly restricted to describing criminal activity in which the computer or network is a necessary part of the crime, these terms are also sometimes used to include traditional crimes, such as fraud, theft, blackmail, forgery, and embezzlement, in which computers or networks are used to facilitate the illicit activity. Computer crime can broadly be defined as criminal activity involving an information technology infrastructure, including illegal access (unauthorized access), illegal interception (by technical means of non-public transmissions of computer data to, from or within a computer system), data interference (unauthorized damaging, deletion, deterioration, alteration or suppression of computer data), systems interference (interfering with the functioning of a computer system by inputting, transmitting, damaging, deleting, deteriorating, altering or suppressing computer data), misuse of devices, forgery (ID theft), and electronic fraud.[26]

it is very important to make some kind of uniform definition about computer crime, it will make easier to work against this crime. By examining several existing definitions of computer crime, as well as elements suggested as essential to a uniform definition, a better understanding of what computer crime entails will be created. Some have defined computer crime as any offense that uses or somehow involves a computer. The Department of Justice

[26] http://en.wikipedia.org/wiki/Computer_crime

has defined computer crime as "…any violation of the criminal law that involves the knowledge of computer technology for its perpetration, investigation, or prosecution."[27]

Other definitions have employed limitations to a broad definition to more narrowly define the term. The working definition for the National Institute of Justice was created by incorporating the idea that computers can be used as the means to commit a crime, be the target of the offense, or act as a storage receptacle for the offense. Using these parameters, they defined computer crime as offenses committed in an "electronic environment" for economic gain or to cause damage or harm to others (U.S. Department of Justice, 2001).[28] An additional definition has utilized existing criminological theory to clarify what is meant by computer crime. Gordon, and colleagues adapted Cohen and Felson's Routine Activities Theory – which says crime occurs when there is a suitable target, a lack of capable guardians, and a motivated offender – to determine when computer crime takes place. In their interpretation, computer crime is the result of offenders "…perceiving opportunities to invade computer systems to achieve criminal ends or use computers as instruments of crime, betting that the 'guardians' do not possess the means or knowledge to prevent or detect criminal acts."[29]

A number of sources highlight important elements they believe essential to defining computer crime. Examining these suggested elements and considering them in a unified context would be beneficial in the creation of a uniform definition of computer crime. As defined by the California Penal Code, those who "…knowingly and without permission uses or causes to be used…" any element of a computer or its service can be held liable of committing an offense.[30]

In outlining computer crime, the inclusion of an element that clearly describes the unauthorized use of computer resources is a reasonable first step. Additionally, a uniform definition should be comprehensive enough to cover the different roles a computer may take in the offense, be it the target of the offender, the instrument used to commit the offense, or simply incidental to the crime. The definition should also be designed to protect and indicate violations of the confidentiality, integrity and availability of computer systems.[31] Thus, it should safeguard against unauthorized access to computers and the data stored on them, not

[27] U.S. Department of Justice. **http://www.internetfraud.usdoj.gov**/ (accessed 12 October 2004).
[28] U.S. Department of Justice. National Institute of Justice Research Report. ElectronicCrime Needs Assessment for State and Local Law Enforcement. National Institute of Justice, March 2001

[29] Gordon, GR, Hosmer, CD, Siedsma, C, Rebovich D. Assessing Technology, Methods, and Information for Committing and Combating Cyber Crime.**http://www/ncjrs.org/pdffiles1/nij/grants/198421.pdf** (accessed 3 November 2004).
[30] National Security Institute. California Codes.**http://nsi.org/Library/Compsec/computerlaw/Californ.**txt (accessed 3 November2004
[31] Goodman, M. "Making Computer Crime Count". FBI Law Enforcement Bulletin. August 2001:10-17.

allow that data to be altered, and ensure it remains fully accessible and properly functioning when needed by the authorized user. Using these parameters, the uniform definition for computer crime should clearly outline what constitutes an offense. Compiling these resources leads to the following working definition: using or causing the use of a computer resource for the purpose of illicitly gaining goods or resources, or causing harm to another entity. The definition should be flexible enough to apply to situations where the computer resource is the instrument of the perpetrator, the victim, or auxiliary to the crime. The definition should also be adaptable to the rapidly changing face of the digital world.

Computer Crime Types

There exists a constantly expanding list of the forms computer crime and computer fraud can take. Fortunately, these crime types fall into overarching groups of criminal actions. Many traditional crimes, such as fraud, theft, organized crime rings, prostitution, stalking, and child pornography have been incorporated into the digital world. Offenders may find new opportunities to perpetrate their crimes using this new digital medium. The National White Collar Crime Center notes, "…computers can be 'used as tools to commit traditional offenses." This means that the functions specific to computers, such as software programs and Internet capabilities, can be manipulated to conduct criminal activity."[32] Additionally, computer crimes can also be grouped into categories in which computers themselves are either the target or victim of an offense, or simply incidental to the act itself. Aside from traditional crimes that have been adapted to utilize electronic resources, there are also a number of offenses that exist specifically due to the accessibility of computer resources.

Traditional Crime Types

Some of the traditional crimes now taking place on computers include **fraud, theft, harassment, and child pornography**. Computer fraud consists of crimes such as online auction fraud, identity theft, financial and telecommunications fraud, credit card fraud, and various other schemes. Theft crimes, as related to computer crime, include categories such as monetary, service and data theft, and piracy. Harassment offenses include online harassment and cyberstalking. Child pornography crimes include both the transmission of media that exploits children, as well as solicitation to commit sexual crimes against minors.

[32] National White Collar Crime Center. WCC Issue: Computer Crime: Computer as the Instrumentality of the Crime. **http://www.nw3c.org/** (accessed 3 November 2004).

Computer Fraud

Computer fraud is one of the most rapidly increasing forms of computer crime. Computer fraud is also commonly referred to as Internet fraud. Essentially, computer/ Internet fraud is "any type of fraud scheme that uses one or more components of the Internet-such as chat rooms, e-mail, message boards, or Web sites to present fraudulent transactions, or to transmit the proceeds of fraud to financial institutions or to others connected with the scheme".[33] There are multiple forms of Internet fraud. One type of Internet Fraud is the **Nigerian e-mail fraud**. In this particular crime, the victim receives e-mail from an alleged son of a deceased Nigerian head of state, who happens to be the heir to millions of dollars that are hidden in accounts all over the world. The e-mail recipient is lead to believe that they are to receive some of the fortune. All that is asked in exchange is a lawyer's fee of several thousand dollars in order to claim the money. The people who fall prey to this crime send their money and never receive their expected fortunes. An example of this form of fraud can be found in the appendix. Be sure to notice that the example isn't the Nigerian e-mail fraud as the e-mail has apparently been sent from someone of Asian descent. The Nigerian e-mail fraud seems to be spreading to different parts of the world. The Internet Crime Complaint Center has identified several other forms of Internet fraud crimes. **The additional forms include:**

1. **Advance Fee Fraud Schemes**-in, which the victim is required to pay significant fees in advance of receiving a substantial amount of money or merchandise.
2. **Business/Employment Schemes**-typically incorporate identity theft, freight forwarding, and counterfeit check schemes.
3. **Counterfeit Check Schemes-** a counterfeit or fraudulent cashier's check or corporate check is utilized to pay for merchandise.
4. **Credit/Debit Card Fraud-**is the unauthorized use of a credit/debit card to fraudulently obtain money or property.
5. **Freight forwarding/Reshipping-**the receiving and subsequent reshipping of an on-line ordered merchandise to locations usually abroad.
6. **Identity theft-** occurs when someone appropriates another's personal information without his or her knowledge to commit theft or fraud.
7. **Investment Fraud-** an offering that uses fraudulent claims to solicit investments or loans, or that provides for the purchase, use, or trade of forged or counterfeit securities.
8. **Non-delivery of Goods/Services-**merchandise or services that were purchased or contracted by individuals on-line are never delivered.
9. **Phony Escrow Services-**in an effort to persuade a wary Internet auction participant, the fraudster will propose the use of a third-party escrow service to facilitate the exchange of money and merchandise.
10. **Ponzi/Pyramid Schemes-**investors are enticed to invest in this fraudulent scheme by the promises of abnormally high profits.

[33] U.S. Department of Justice. National Institute of Justice Research Report. Electronic Crime Needs Assessment for State and Local Law Enforcement. National Institute of Justice, March 2001.

11. **Spoofing/Phishing-** a technique whereby a fraudster pretends to be someone else's email or web site. [34]

Phishing

The Anti-Phishing Working Group defines Phishing as "a form of online identity theft that uses spoofed emails designed to lure recipients to fraudulent websites which attempt to trick them into divulging personal financial data such as credit card numbers, account usernames and passwords, social security numbers, etc."[35]

Theft Computer Crimes

Computer crimes involving theft are very diverse. The gaining of access and removal of property through the use of electronic resources generally defines theft computer crimes. This property may include money, service, programs, data, or computer output, and computer time. In addition, altering computer input or output without authorization, destroying or misusing proprietary information, and the unauthorized use of computer resources (theft of computer time) can be considered theft-related computer crimes.

Unauthorized Access

Unauthorized access is a prerequisite to many forms of computer crimes and computer fraud. This form of crime amounts to electronic intrusion, or gaining access to resources via a computer resource without permission. Unauthorized access may occur both on individuals' personal computers, as well as in the workplace. One major form of unauthorized access is known as hacking. Hacking is "…the act of gaining unauthorized access to a computer system or network and in some cases making unauthorized use of this access." As stated previously, unauthorized access may be a gateway to commit other offenses.[36]

Denial of Service

A denial of service attack is a targeted effort to disrupt a legitimate user of a service from having access to the service. This may be accomplished through a number of methods. Offenders can limit or prevent access to services by overloading the available resources, changing the configuration of the service's data, or physically destroying the available connections to the information (CERT, 2001).

Computer Invasion of Privacy

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[34] National White Collar Crime Center. IFCC 2002 Internet Fraud Report: January 1, 2002- December 31, 2002. **http://www.ifccfbi.gov/strategy/2002_IFCCReport.pdf** (accessed 12 October 2004)

[35] Anti-Phishing Working Group. Anti-Phishing Working Group. **http://www.antiphishing.org** (accessed 28 November 2004).

[36] Rushinek, A, Rushinek, SF. "Using Experts for Detecting and Litigating Computer Crime". Managerial Auditing Journal. 8.7(1993):19-22.

Computer invasion of privacy is another form of computer crime proscribed in state legislatures. Virginia Code title 18.2 chapter 5, article 7.1 section 152.5 declares:

> "A person is guilty of the crime of computer invasion of privacy when he uses a computer or computer network and intentionally examines without authority any employment, salary, credit, or any other financial or personal information relating to any other person. "Examination" under this section requires the offender to review the information relating to any other person after the time at which the offender knows or should know that he is without authority to view the information displayed."

Unauthorized Use of a Computer, Computer System, or Computer Network

Another form of computer crime that is prohibited by most states is unauthorized use of a computer, computer system, or computer network. The state of Maryland outlines this crime in Maryland Annotated Code Article 27 section 146:

> "a person may not intentionally, willfully and without authorization access, attempt to access, or cause access to a computer, computer network, computer software, computer control language, computer system, computer services, computer data base, or any part of these systems or services. (2) A person may not intentionally, willfully, and without authorization access, attempt to access, or cause access to a computer, computer network, computer software, computer control language, computer system, computer services, computer data base, or any part of these services to (i) cause the malfunction or interrupt the operation of a computer, computer network, computer software, computer control language, computer system, computer services, computer data base, or any part of these systems or services; or (ii) alter, damage, or destroy data or a computer program stored, maintained, or produced by a computer, computer network, computer system, computer services, computer data base, or any part of these systems or services. (3) A person may not intentionally, willfully, and without authorization: (i) identify or attempt to identify any valid access codes; or (ii) distribute or publicize any valid access codes to any unauthorized person."

Harmful Content Crimes

The National Institute of Justice groups offenses with an intent to cause harm to others as harmful content crimes. Included in this category are child pornography and exploitation crimes, harassment, stalking, and malicious programs and use of computer resources.

Online Pornography

Online child pornography is defined by pedophiles using computer resources to distribute illegal media of and to minors, as well as engaging in actions to sexually exploit children. "According to 18 USC 2252 and 18 USC 2252A, possessing or distributing child pornography is against federal law and under 47 USC 223 distributing child pornography of any form to a minor is illegal.[37]

Online harassment

Online harassment is unwanted contact by offenders that may negatively impact a victim's livelihood, well-being, and mental or emotional state. One of the most common forms online harassment takes is Cyberstalking.

Cyberstalking

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[37] Business Software Alliance. Play It Cyber Safe. **http://www.playitcybersafe.com/cybercrime** (accessed 22 November 2004).

In the loosest sense of the term, cyberstalking is using a computer in the perpetration of the traditional crime of stalking. The traditional crime of stalking usually involves "harassing and threatening behavior that an individual engages in repeatedly, such as following a person, appearing at a person's home or place of business, making harassing phone calls, leaving messages or objects, or vandalizing a person's property"[38]. Cyberstalker involves the use of a computer in the perpetration of those acts. People can cyberstalk others by sending harassing or threatening messages through e-mail, instant messaging, or by posting messages on websites/chat rooms. However, there are other, unconventional ways to cyberstalk an individual. sment takes is that of cyberstalking.

Spam

Another form of computer crime is spam mail. Spam mail is the distribution of bulk e-mail that offers recipients deals on products or services. The purpose of spam mail is to make customers think they are going to receive the real product or service at a reduced price. However, before the deal can occur, the sender of the spam asks for money, the recipients' credit card number or other personal information. The customer will send that information and never receive the product nor hear from the spammer.

Malicious Programs and Computer Resource Use

In addition to traditional crimes occurring on the electronic resources, there are crimes that exist explicitly due to the availability of technology. These crimes, which include denial of service attacks, malicious programs, viruses, and instances of cyberterrorism are designed to disrupt and negatively impact entities in both the digital and real world. As explained in the FBI Law Enforcement Bulletin, "…crimes which represent traditional offenses, perpetrated in new and, perhaps, more effective ways, differ from pure-play computer crimes, which involve a computer system as the direct target of attack."[39]

Malicious Programs/Viruses

Viruses and malicious programs can potentially impact a massive amount of individuals and resources. These programs are intended to cause electronic resources to function abnormally and may impact legitimate users access to computer resources. For instance, the "Melissa" virus released in early 1999 contaminated 1.2 million computers used by U.S. businesses,

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[38] United States. U.S. Sentencing Commission. Computer Fraud Working Group. September1993. **http://www.ussc.gov/publicat.cmptfrd.pdf** (accessed 12 October 2004).
[39] [39] Goodman, M. "Making Computer Crime Count". FBI Law Enforcement Bulletin. August 2001

impacted computer resources throughout the U. S. and Europe, and is estimated to have created eighty million dollars in damages worldwide[40].

Cyberterrorism

Cyberterrorism is the adaptation of terrorism to computer resources, whose purpose is to cause fear in its victims by attacking electronic resources.

> ..."Cyberterrorism is generally understood to mean unlawful attacks and threats of attack against computers, networks, and the information stored therein when done to intimidate or coerce a government or its people in furtherance of political or social objectives. Further, to qualify as cyberterrorism, an attack should result in violence against persons or property, or at least cause enough harm to generate fear.[41]"

What Has Been Done to Combat Computer Crime

Legislation

Perhaps the biggest efforts that have been taken to combat computer crime come in the form of state legislation that outlines different computer crimes and punishments. each country in the Caucasus Region should work on the their own computer crime legislation. it is important to use the expеrence of the western well-developed countries such as USA, GB, France, and e.t.c. for example: **The USA PATRIOT Act** passed in October 2001 provided several sections which expanded the capabilities of law enforcement officials in investigating computer crime. **Section 217** allows victims of computer trespassing to have law enforcement officials monitor the computer trespasser(s). **Section 220** allows law enforcement officials to seek nationwide warrants for e-mail. **Section 814** provides penalties for cyberterrorism. Finally, **section 816** calls for the development of computer forensics laboratories and training for law enforcement officers in computer-crime related investigations.

Internet Crime Complaint Center

It is important to make some kind of organization witch will work in this way. for example we can talk about The ICCC.In May of 2000, the FBI with the assistance of the White Collar Crime Center opened the Internet Crime Complaint Center or as it was formerly known, the Internet Fraud Complaint Center. Since its inception, **the ICCC** has developed in to the main collection center for Internet fraud complaints. When complaints are made online to the

[40] Computer Crimes and Intellectual Property Section. Computer Crimes Policy and Programs. **http://www.cybercrime.gov/ccpolicy.html** (accessed 22 November 2004).

[41] Denning, DE. Cyberterrorism: Testimony before the Special Oversight Panel on Terrorism Committee on Armed Services U.S. House of Representatives. http://www.cs.georgetown.edu/~denning/infosec/cyberterror.html (accessed 22 November 2004).

ICCC, "supervisory Special Agents, along with Internet fraud specialists review those complaints when they come in and they link those complaints with others that may have been previously received." Subsequently, the ICCC disseminates all pertinent information to the appropriate law enforcement agencies on the Federal, State, and local level. During its first year, the ICCC received roughly **30,500 valid** criminal complaints concerning computer/Internet fraud. Of these complaints, the ICCC was able to submit "545 investigative reports encompassing over 3,000 complaints to 51 of 56 FBI field divisions and 1,507 local and state law enforcement agencies. ICCC has also referred 41 cases encompassing over 200 complaints to international law enforcement agencies. The ICCC has received complaints of victims from 89 different countries". The ICCC has continued to help law enforcement over the past couple of years.[42]

Professional Organizations

There exists a number of professional law enforcement organizations designed to provide training and investigative resources for computer crime and computer fraud. These agencies work independently, as well as with regional law enforcement. Many of these organizations are elements of federal law enforcement agencies. The Department of Justice's Computer Crime and Intellectual Property Section maintains the National Cybercrime Training Partnership. This purpose of this group is to "…provide guidance and assistance to local, state, and federal law enforcement agencies in an effort to ensure that the law enforcement community is properly trained to address electronic and high technology crimes."[43] Here is the list of some organizations whose work in this way:

Community Education and Protection organizations

1. The National Institute of Justice's National Law Enforcement and Corrections Technology Center (NLECTC)
2. The Internet Fraud Initiative (IFI) and the Internet Fraud Complaint Center (IFCC)
3. The Business Software Alliance (BSA)
4. The Computer Crime Research Center, and the Cyber Security Policy and Research Institute
5. The National Consumers League's National Fraud Information Center and Internet Fraud Watch (NFIC)
6. The Anti-phishing Working Group (AWG)

Conclusions

As a result of the literature review and discussion with representatives in the field, a number of conclusions regarding the future of law enforcement's efforts towards computer crime and

[42] *"Computer Crime and Computer Fraud" University of Maryland Department of Criminology and Criminal Justice Fall, 2004*

[43] National White Collar Crime Center and the Federal Bureau of Investigation. "IC3 2003 Internet Fraud Report". January 2004

computer fraud can be drawn. By synthesizing and creating some recommendations from this information, the efforts of law enforcement will be better prepared to address this crime type. i've make the following recommendations, and each is discussed below:

- **Uniform definition**
- **Statistical records**
- **Jurisdictional issues**
- **Training and available resources**
- **Crime reporting**
- **Legal review**
- **Further research**

The creation of a **uniform definition** for both computer crime, as well as computer fraud, is the most immediate need for addressing this form of crime. As can be seen in both the literature and the intensive interviews, the definitions currently in place are varied and limited. Without a standard way to define these forms of crime, agencies cannot be sure they are consistently addressing the same topics. Additionally, the lack of clear and consistent definitions compromises the ability to track the nature and extent of computer crime and fraud. Statistical data and a recording system are required to determine the change in trends of this form of crime, as well as to grasp a greater understanding of its characteristics.

Another issue frequently seen involves **jurisdictional issues** inherent to computer crime investigations. Law enforcement agencies dealing with computer crime are hampered by jurisdictional limitations. Computer crime investigations essentially require agencies to cooperate with representatives from other regions to complete their work. Realizing these issues exist, a review and reevaluation of the ability of agencies to operate outside of their jurisdiction – such as in the execution of out of state subpoenas – would help law enforcement to more easily conduct these forms of investigation. In the event that no changes can be made to the jurisdictional limitations currently in place, and as a general good practice, law enforcement needs to continue to encourage interagency collaboration in addressing these issues.

Training and resources available to law enforcement must also be improved. It is recommended that comprehensive computer crime investigation and electronic crime scene training be a requirement for all law enforcement agencies. This will allow officers to be prepared to handle issues and complaints regarding computer crime and fraud, will provide all law enforcement to better understand the issues they are facing, and will ensure these investigations are handled in a standardized way. While some areas have a geographical advantage in available training resources, other agencies need to provide additional resources

to ensure this training is offered. Overall, there needs to be consistent managerial support for officers addressing these forms of crime.

Furthermore, a consistent finding is the low level of **victim reporting** and sporadic community awareness and reporting outlets. The efforts currently in place should be continued, and there should be a focus on computer crime and fraud awareness for both law enforcement and organizations in the future. Despite the best efforts of investigators, much of the responsibility lies in victims being able to identify their victimization, and knowing to whom and how to report the incident.

In regards to the laws and statutes currently in place, there are mixed reactions to their adequacy in addressing computer crime and computer fraud. An examination of the legal infrastructure should be conducted to see which laws currently in place can be adapted to handle these forms of crime, as well as what areas are not covered by existing legislation. This should allow lawmakers, law enforcement, and prosecutors to have a better understanding of the options available to them.

In general, **continued research and publications** should be created that specifically address computer crime and fraud issues. These efforts will allow the subject to be more fully researched, and will keep those involved in its prevention, investigation and prosecution abreast of emerging trends, as well as noteworthy cases, relevant legislation, and significant efforts being undertaken. This work will also help validate this crime type, and will encourage its research and efforts taken to address it. Moreover, a resource of relevant contacts should be created, maintained, and distributed. This resource should include area contacts with specialized knowledge of specific areas of computer crime and fraud, as well as computer crime contacts for different jurisdictions. This could be an invaluable source of information for investigators in the future.

Computer crime and computer fraud are increasingly becoming a major crime threat. However, as can be seen in the efforts to mediate this threat are varied and faced with challenges. These topics should be a major focus of law enforcement in the future, matching the resources in place today with specific suggested improvements and adaptations. Law enforcement agencies can take advantage of the opportunity to expand their efforts to address computer crime and computer fraud in order to keep pace with this emerging crime category.

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Role of courts in formation of a lawful state

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Introduce

Legislative warranting of independence of judges is an obligatory element of a lawful state. The lawful state is such form of the organization and activity of the government in which dictatorship of the right is inherent. What role of judges in construction of a lawful state? Any offence from the state, the legal or physical person, is authorized from court and by that stability and the law and order is reached. How court will be better to work, the right will be better protected. And about the country where the right is protected is possible to speak as about a lawful state in which the priority is given protection of the rights and freedom of the person. Therefore it is so important to guarantee independence of judges that they could manage justice free. Despite of so importance of the given institute, nevertheless in national legal systems of some countries defects and blanks are observed.

One of the basic attributes of a lawful state is that the government in it is limited. It is a question not of objective limitation of any state economic or geopolitical factors, and about an establishment constitution and the current legislation of limits of the government which last cannot be overcome by the legal image.
Restrictions of the state intrusion into sphere of an individual autonomy of the person it is carried out by means of recognized for person and the citizen of inalienable laws and freedom who cannot be broken or limited by the state.

Human rights and the citizen - not gift of the state, they the integral property of the human person. Owing to these rights - economic, social, cultural, and also civil and political - the government not only is limited on spheres of the display and ways of influence, but also becomes sub legislative.

Lawlessness of the person and the citizen - a fertile field for growth of an administrative arbitrariness and police violence. Presence at the individual of the guaranteed rights and freedom transforms it in " the equal in rights partner " the states, capable to show to the last

legal claims which validity establishes court and by that promotes the statement of legality in activity of the state.

Known Russian jurist B. A. Kistjakovsky wrote, that consecutive realization of legality demands as the addition of freedom and the rights of the person and in turn naturally follows from them as their necessary consequence.

The judicial authority plays a special role, in a lawful state. The irreplaceable role of court is defined by that he is an arbitrator in disputes on the right. In a lawful state only the judicial authority can administer justice. Judicial authority - the specific, independent branch of the government which are carried out by public, emulative, joint consideration and the sanction in judicial sessions of disputes on the right.

The role of judicial authority in the mechanism of division of authorities consists in restraint of two other authorities within the limits of the constitutional legality and the right and first of all by realization of the constitutional supervision and the judicial control over these branches of authority. The judicial authority is the basic guarantor of the rights and freedom of the person

Legal guarantees of independence of judges

To carry out justice leaning only on the letter of the law and proceeding and internal belief to courts and judges a certain mechanism, which delimit them from representatives of other branches of authority is indoubtedly necessary. One of elements of such mechanism is the principle fixed in the constitution - a principle of independence of judges. What from itself represents the given principle, what "plus" at it and "minuses"?

With a view of effective performance of the duties independence is necessary for courts. This independence should be provided in attitudes with other state bodies - Parliament and the Government, and also the organizations, economic corporations, separate persons and group of citizens.

In a general sense, independence is extremely important for realization by courts of the powers. It is dictated by necessity of maintenance of trust from the public to courts that is the extremely important for a recognition a society of legitimacy of courts. At a practical level, the most

important likely is independence of courts of the government. The court should depend only on laws, instead of from the parties of process.

I wish to remind you an essence of this principle in brief. It consists that " if legislative and executive authority are concentrated in hands of one person or in hands of one body, freedom cannot be, as always there is a fear of that that, this monarch or the senate having published the most severe image them will execute severe laws. Also it is impossible to speak about freedom if there is no division of judicial authority from legislative and executive.

In spite of the fact that have passed centuries, this principle has stood tests of time and continues to take leading place in structure of authority as is specified in the Constitution. Construction of a lawful state, implementation of idea of leadership of the law, and the most important maintenance of the rights and freedom of the person and the citizen is the main condition of idea of division of authorities.

When in 80th years of the last century discussion about necessity of carrying out of judicial reform has begun, on the foreground there was a problem of independence of judges and courts. About necessity of the statement of original independence of courts spoke and lawyers, journalists, politicians wrote..., to tell the truth, this problem did not seem to Judges main. Judges spoke: construct to us good buildings of courts, give the decent salary, buy computers, the modern equipment, enable to employ qualified personal, and for the independence ourselves we stand. We then did not distinguish independence of the judge and independence of court, and it not identical concepts though they are closely interconnected. To tell, about independence of court more truly, we then did not dream of judicial authority, and each judge having self-respect, the respecting law, defended the independence as could.

However very soon we have understood, that independence - a key problem at an estimation of a

condition of justice, and have actively joined in struggle for it, we struggle till now and we shall defend independence because this main achievement for years of reforms and, that the necessary condition impartial, objective is very important, i.e. real justice.

And today this problem is actual, because struggle for independence is not campaign, and constant process. This problem is actual for the majority of the countries of the world. Everywhere legislative and executive authority periodically try to limit independence of authority judicial.

Moreover, it is obvious, what even the basic guarantees of independence of judges have undergone to the certain erosion. Here only the most convincing examples:

1) Terms. The judges appointed for lifelong term, possess the greatest independence. The more service life of the judge, the is less opportunity, that the judge will be influenced with its interest in reception of the next purpose.

2001 in Russia judges were appointed for life. In 2001 the age limit for the judge - 65 years, and term for chairman of court and assistants - 6 years, and also an interdiction on purpose of these officials more than 2 times is established successively.

2) Irremovability. It is impossibility of displacement of judges from a post differently, than for the acts dishonouring honour and advantage of the judge, or belittling authority of judicial authority. The qualifying board of judges has the right of deprivation of a judicial cloak only.

After the changes brought per 2001, the judge can be displaced from a post for fulfilment of a minor offence and infringement of positions of the Code of judicial ethics, and chairman of court and assistants - for inadequate execution of the duties. Thus, the list of the bases for displacement of the judge from a post considerably

3) Inviolability. Per 2001 are entered the disciplinary and administrative responsibility of judges which was not earlier.

4) Compensation. In item 9 of the Law " About the status of judges in the Russian Federation " it is written down, that the state gives to the judge material and the social security corresponding its high status.

A number of privileges which had judges, now from the law are excluded, on turn some more similar bills, and under the salary for today of the judge which concern to civil servants of a category "And" (most the maximum), have far lagged behind officials. In item 9 of the mentioned law as one of guarantees of independence the system of bodies of judicial community (congresses, advice of judges, qualifying boards) is named. The right of judges to creation of the professional associations also admits the international documents, called to represent and protect their interests. Investigating the given question it is necessary to notice, that all of them are directed on to take away from judges, in something them to limit. Unfortunately, new initiatives of Council of Federation, the government are sustained in the same spirit.

Thus the legislator ignores laws which itself and accepted. In item 5 of the Federal constitutional law (" About judicial system "), i.e. the law possessing the highest force (after the Constitution), it is written down, that in the Russian Federation laws and other statutory acts cancelling or belittling independence of courts, independence of judges cannot be published. The Council of Federation in the bill brought in the State Duma offers:

- First, to reduce number of judges in qualifying boards of all levels, i.e. judges there will be less half; - secondly, in general to deprive with judges of the right to choose the representatives in these bodies. It will be done by legislators. They will exclude judges from boards for offences. Unless it not belittling of independence of judicial community?

Let's recollect, that since 1989 till 2002 the structure of qualifying boards included only judges. Such offer contradicts not only to the national legislation, but also international.

The European Charter of judges demands, that for acceptance of any decision concerning selection, acceptance for work, purpose, service or the termination of functions of any of the judge by the status participation independent from executive was provided and legislature of instance, not less which half of members are made by the judges selected by the colleagues.

The abundance of legal means of maintenance of a principle of independence of judges present at the legislation nevertheless does not mean that it is realized to the full and the best image. This problem is connected not so much with absence of enough of guarantees of this principle, how many with a problem of correct understanding of its essence.

In particular, there is a question on, whether and the court should be independent of a society also? The analysis of a normative material convinces that the legislator is inclined to solve it positively. Hardly it is possible to agree with it. Judicial authority as one of branches of the government has the right of people as the unique basis and, as well as other authorities, it is necessary, that it would remain is under control to it.

The opposite opinion leads to perception of court as certain out-of-country the body which directly has been not connected with will of people and scooping source of the authority in. Such independence of judges in practice turns around their absence of control.

Undoubtedly, that independence of court in a considerable measure is defined by order of its formation. The current legislation goes on a way of purpose of judges, giving to Council of Federation the right of purpose of judges of the maximum courts on representation of the President, and the President the right of purpose of all other judges, on representation of chairman of corresponding court. Apparently the right of formation of judicial bodies is divided between executive and legislative authorities. Hardly such order will correspond to

the theory of division of authorities as it transforms judicial authority into authority of the subordinate to two other branches of authority and dependent on them. Possibly similar joint order of purpose of judges, by its founders should guarantee absence of cleanly political interests at purpose of this or that of the judge, actually it puts procedure of purpose of judges in the center of political strike between two branches of authority.

The most perspective way of maintenance of independence of judges such order of their purpose looks at which people accepts in it the most direct participation, namely election of judges as the population. High cost of such elections hardly can be considered as argument at the sanction of a question on that what order corresponds to the theory of a lawful state.

In close communication with a considered problem there is also a question on perceptivity of introduction of a jury of assessors. Indisputable advantage of a jury is what in it is expressed such important feature of a civil society as its self-adjustability. It provides direct participation of citizens in government, insinuate new forms of communication between the state and a society.

The jury has and undoubtedly higher educational value, bringing up citizens in spirit of respect of the law and intolerance to its infringement. The jury raises a level of legal literacy, the sense of justice promotes formation mature, raises trust of people to court, promotes increase of interest of citizens to actual problems of legal proceedings.

At last it provides also fuller realization of a principle of publicity of civil process. That the problem of independence did not seem only theoretical I would like to cite as an example the story of one woman, a citizen of the Russian Federation:

In September, 2003 I have submitted to world court the statement of claim in connection with that Management of housing and communal services Kirov, according to the contract rendering to tenants of service on maintenance service of habitation, held some houses of our micro district of one and a half years month without hot water, with the sealed up gas water heaters.

Under all existing federal and local specifications (in business there are x-copies of five such documents), repair of flues and газоходов it should be carried out within day. As direct executors of repair in our house have testified on court, all 16 flues have been repaired by them for two working days.

According to item 1 of clause 27 of the Law " About protection of the rights of consumers ", " the executor is obliged to carry out performance of work (rendering of service) in time, established by rules of performance of separate kinds of works ". In connection with excess of

normative terms of repair of my flue in forty with superfluous time me are declared and carefully document claim requirements the penalty and compensation material (charges on a laundry, transport, etc.) and mental cruelty.

Already at the first session it became clear, that the judge, young the man, does not approve the claimant, dared to compete with such important organization. My reasons were completely ignored. The judge never addressed to the text of the Law " About protection of the rights of consumers ", not guided at all in the materials of business presented by the claimant, and the statement of claim uncertainly (it is visible, that for the first time) read aloud only at the second session.

All efforts of the judge have been directed on unsuccessful searches clue for the justification of arbitrariness. In the end of the third judicial session instead of leaving for acceptance of the lawful decision, the judge has declared, that now it does not know, what decision to bear. And without any necessity has appointed new judicial session to December, 8th, 2003 Witnesses of all described there was a representative of antimonopoly committee and the journalist who did an audio record.

Eventually, having received the written conclusion of antimonopoly committee, the judge has been compelled " to satisfy partially the claim ", but the motivation of its decision is represented to me unpersuasive and nonprofessional, and undisguised animosities in relation to the claimant testifies to inadmissible partiality for the judge. The biased, biased court cannot be considered as justice.

The country will not get out of poverty and authority of underworld without the laws providing real security of judges from influence "from above". Speech not about increase to judges of the salary. In conditions legal lawlessness special material security of judges and their privileges and unequivocally negative factor.

Professionally not the self-assured judge so is afraid to lose highly paid work, greater pension and so on, that is ready to please the heads against the conscience and the law.

Conclusion

I see what complexities, how they should be overcome? First, in our country two beginnings constantly as though compete: on the one hand aspiration to provide the law and order and stability, with another, how much thus the rights and freedom of the person are observed. Secondly, aspiration to become the full European nation, conscious accepting value and ideals, on which founded this culture, from other complexity of overcoming civilization distinctions.

The judge is a usual citizen of the country. It should know problems of the country in which lives and works. The good judge is the best citizen of the country bringing the contribution to construction of a new society. Correctly speak, that everything, that the judge has, is a trust to it from a society. Honesty and a neutrality should not cause any doubt. I think, what exactly the combination of professional qualification and human qualities defines the maintenance of the judge as persons.

The judge is limited by law, procedures which serve legality. At the same time impartiality of the judge demand from it advantage and high culture. Judges work and live in the glass house, of them observe. That who acts in the unseemly image outside of court, will lose trust of a society that it will act in the appropriate image in a building of court.

One of the most global problems - a problem of corruption of court. It is thought, that the role of a society and the control over its party causes confidence of overcoming this problem. Anyway we should discuss frankly it and search for ways of overcoming of this tragedy.

Lawyers, as well as judges, participate in realization of justice. The lawyer, figuratively being expressed, prepares for ground, sometimes sows it, and the judge reaps a crop. Without strong and independent legal profession plowing will not be made, i.e. justice does not take place. For a long time the society supporting a freedom of speech is told, that, should be ready to suffer and that unusual, that from this freedom inevitably results.

The Supreme Court of the USA already in first half XX centuries in the decision on one of affairs has established, that abusings of a free press, at all inconveniences, them generated, is non-comparable are less dangerous, than a destructive role of the state censorship, sweep all democratic institutes. Therefore judges should support a freedom of speech, cooperate with press, become embittered on sometimes absolutely correct it.

About one fact of common knowledge. John Kennedi called Americans to reflect, that each of them has made for the country. Each of us should think of it, be it the judge, the lawyer or the journalist. In this connection I recollect words which in XI century the Catholic monk has left in the book reached up to now. It should be a lesson for generations."

When I was the teenager, - it wrote, - I the at times irrational efforts aspired to change all world; when I became the young man, I did not regret forces to change the city; having matured, I tried to make better the family; when I have grown old, I needed to improve only myself, feeling, that I have not reached anything from conceived.

Then I have realized, that having changed myself in early years, I that would change also the family; that, becoming better, would make more absolutely and city in which we lived, and it,

in turn, would lift also all world on a new step of cleanliness and perfection ". Apparently the monk has lived a life to like understanding of that should serve for us as a lesson.

Let's reflect together on our role in a society, about to what we serve. I think, that our discussions serve it. I, as well as my colleagues, we shall be proud and happy, if have brought any contribution to development of a discussed problem, about independent judicial authority and its authority. I thank all participants of conference, its organizers.

Some Issues of Improvement of Legal Bases of Tax System

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The main financial foundation of the existence and functioning of any country are financial (budget) resources mobilized by tax authorities. Tax incomes, as the mean of implementing of authority priorities, come from ancient history. Moreover, some authors think that it comes from the time when the first countries were formed.

According to the existing sources, taxes and tax systems were formed together with the process of forming and developing the state systems. Authors believe that making sacrifices at the early historic stage can be considered as a kind of tax. In ancient Greece, in 7th-6th centuries B.C., taxes were established to hire armies and build fortifications. Taxes existed in ancient Rome too. A chronicler highlights that the citizens of Rome paid taxes according to their income. Paying taxes had its procedures. Namely, residents submitted information about their properties to the censor. This procedure can be considered as an embryo of the income declaration. The existence of a proper tax system in the history of Georgia can be found in *Dasturlamali,,* a law book created by the King Vakhtang 6th, and dated by 1707-1709. Tax issues are widely discussed in the book.

During the long historical experience of the tax existence, tax systems and tax legislations were different in different countries. Tax systems were formed according to the historical development and national originality of countries. Peculiarities of history and social-economic developments have influenced on the formation of tax systems and tax legislation. Hence, the researchers' opinions on the difference of the tax system peculiarities in the USA, Japan, Germany, France, United Kingdom and other countries are absolutely logical. Irrespective the above mentioned differences, the majority of the researchers also note the similar and resembling character of tax variety.

It is well known that the system scientific research was begun in the mid of 18th century. The founder of the scientific research of these issues is Adam Smith, a Scottish scientist. In his historic work, *An Inquiry into the Nature and Causes of the Wealth of Nation,* published in

1776, he explained the nature of taxes, defined their role in industrial life and formed the principles of tax-payment. According to the scientist, the right of the state to establish taxes and to oblige residents to pay them is stipulated by the inevitability of the state-societal needs to have state institutions. Smith's interpretation of taxes is very interesting. According to him, a tax is a load introducing of which, as well as defining its payment options, is possible just by law and this process is an affair of state's highest authorities. The scientist's opinion on the delegation of the power of establishing taxes just to the state has no alternative. Up today in all developed countries taxes are established by state's highest authorities.

According to the above mentioned, it is absolutely logical to have special state approach to the problems in the tax sphere. As in world's civilized countries, according to the second part of the article 94 of the constitution of Georgia, a structure and establishing rules of taxes and state fees is defined only by law.

There are the similar opinions concerning the nature of taxes in the society as well as the same opinion on defining the plenipotentiary authorities to establish taxes. Nowadays the majority of tax sphere specialists consider any country's tax system as a bearer of two main functions: fiscal and regulatory. Hence, the correctness of the existence of any tax should be characterized by the optimal harmony of these two principles. Irrespective of serious difference between fiscal and regulatory functions of the taxes, it is highly important to have these function vastly linked to meet the societal demand.

The fiscal function (according to its Latin name : fiscus – state treasure) should guarantee allocation of some portion of financial resources existing in the society to meet society's common interest. The main goal of the allocation should be accumulating funds in the state budget and paying back to the society by strengthening country's defense, developing education, science, culture, assistance of socially vulnerable population and using for other societal goals.

Because of importance of fiscal role, it's important direction to care about its development. At the same time to care seriously about the fiscal role should not ignore the role and importance of the second main function of taxes: regulatory role. This can be a very difficult task because regulatory function of taxes implies to stimulate actual tendencies of country's social-economic life in different stages. This, as a rule, demands to liberalize existing

administrative barriers for entrepreneurs and introduce preferential duties which itself reduces indicators of tax mobilization. Thus, it is very difficult to make decisions to harmonize these two functions of taxes.

Irrespective the difficulties, in the real life, the most important national interests stipulate making this kind of decision. Existence of the income tax and analyzing legislative norms of paying the income tax can be considered as an example of the above mentioned.

As it is mentioned, according to the Constitution of Georgia, establishing taxes can be made only by a law. Therefore there is the Tax Code adopted and functioning in Georgia.
Fore the relatively short periods from 1995, when the norm of the constitution was adopted, till today the government of the country introduced the second tax code. The first tax code was adopted on June 13, 1997 and was terminated in January 1, 2005 by the second tax code adopted on December 22, 2004 that is functioning up today. It is very important to note that for ten-year historical period from 1997, along adopting two tax codes, there were continuously maintained the process of additions and corrections. During six years and six months of existence of the first tax code adopted in 1997, there were made numerous, often contradictory, corrections-additions in it by 81 laws. Simple math is needed to calculate that there were made addition every month in the tax code during its eighty-month existence. Unfortunately, there is a very high indicator of alterations of the new tax code adopted in 2004. From January, 2005 when the new tax code came into effect quite numerous corrections have been made in it by 27 special laws.

Dynamic character of the economical process and adequate alterations in the legislation is fully understandable for us but if we consider the fact that it's very important to have stable environment to develop the economy, frequent alterations of legislation indicates about non-predictable business environment and hence shows the problems in governmental structures activities.

Along with the above mentioned general problems of the Georgian tax code, the special attention should be paid to the analysis of existing state of optimal correlation between fiscal and regulatory functions of the income tax that is extremely important for all economically active citizens.

It should be noted that 12% rate of income tax existing today in Georgia is stimulating tax payments compared to that 20% rate of income tax existed according to 1997 tax code. This is considered as an important fact not only for activating of tax stimulating social function but also it known as a great achievement for business environment liberalization and a main argument to attract investors to the country.

According to the representatives of the state authorities, one more step to maximally liberalize business environment and strengthen tax stimulating social function is the decision of the Georgian Parliament by July 11, 2007 to unify social and income taxes and introduce united income tax at 25% rate.

According to this decision, irrespective of positive tendencies of reducing number of taxes and total expenses (taxes) on paid salaries for employers, it is obvious that from January 2008, income tax will be increased from 12% to 25%. It should be mentioned that termination of the social tax for employers allow them to make savings that enables them to increase the salaries and so it will not reduce net salary for employees. This is a very important prerequisite but there are no legislative guarantees of this. At the same time, while making corrections in the tax code, specification of grant-funded and diplomatic missions' employees' salaries were considered differently and the income tax was left at the old 12% rate for them.

Recently made corrections didn't apply to some taxpayers and their interests weren't considered. For instance: new rate of income tax will incur losses for physical persons who get their income from lending apartments or commercial areas. If we consider that this kind of income is a main source for the majority of country's population, it's absolutely obvious that stimulating function of the tax is being limited. It's also obvious that this circumstance will make an important impulse for increasing renting prices of apartments, offices and commercial areas that will finally worsen existing inflation tendencies in the country.

To overcome the existing situation, we think, it is necessary to make correction in the Tax Code to maintain 12% income tax rate for all categories of physical persons mentioned above.

For majority of country's population paying for medical treatment and higher education is very painful. To neutralize this problem and to activate regulatory function of the taxes, we

recommend possibilities of subtracting from income-taxable amount the sum spent for health care and higher education (establishing top-limits). This way of reduction of taxable amounts will help working people to receive health care and/or to study at masters or doctorate level. Also it will not be problematic by fiscal standpoint as declaring these expenses will help tax authorities to tax fully easier the fee-receiving institutions.

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Guarantees of Independence of Control Bodies

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Independence guarantees of Control body

Perfect functioning of management at any stage of existence of the state, is based on the perfect functioning of the control system[1]. Scientists have declared, that "Management is the least precise science from social sciences"[2]. It is very easy to imagine how non-precise it could be without control system. The existence of control system is very important, and organizing of control in a right way is vital. Control is an integrated part of the state life regulation. Its aim is to reveal all deviations from standards, protecting the principles of justice and effectiveness and economy of spending of material resources[3]. Control system is an important mechanism for maintaining state financial, economical and political stability.
All authority bodies are involved in control activities. All of them have their profile of activities and general aims and they implement control too. Such bodies are called controlling bodies in legislative literature. Controlling body is the Parliament of Georgia, which according to the 48th article of the Georgian constitution "is the supreme representative body of the country, which implements legislative authority, determines general directions of the state's internal and foreign policy, controls the activities of the government".
Control body is the control chamber of Georgia. Its activities are also determined by Georgian constitution:» Spending of state finances and other materials is monitored by Control Chamber of Georgia". (Article 97-1)
Control bodies are different from each other by their name, history and method of their creation, constitutional basis of their activities, limits of control acclivities and level of independence. The latter is important as it shows one of the main principles of control bodies – fairness. Fairness of control together with its systematic character, universality and effectiveness are important points of control [4]. Implementing of its obligations, freedom [5]of activities within its competence and achieving the aims of control is impossible without high level of independence of the body, which implements the control. We can bring three examples in order to confirm it: 1. Independence of control of

1. Given opinion was made by professor Otar Melkadze durin the lecture
2. Kunts; O'Donnel System management and analysis of management function pg45

3. Lima's declaration about control principles, international organization of supreme body of inspection (INTOSAI) Lima, (Peru) 1997, article 1. (www.ach.gov.ru)

4.. Lima's declaration about control principles, international organization of supreme body of inspection (INTOSAI) Lima, (Peru) 1997. (www.ach.gov.ru)

supreme body from controlled organization is a guarantee of impartial monitoring as the supreme control bodies can implement their obligations fairly and effectively only in case when they are independent from those organizations, which are controlled and when they are protected from outer influence. Dependence of control bodies on other units creates partiality. In case of existence of partiality, there is no effectiveness of activities.

2. Supreme body of control is juridical protected from the influence of political forces during the process of monitoring, which gives it an opportunity to make decisions in connection with given issue on the basis of analysis of existing reality and facts, which were obtained at different stages of control. Juridical protection includes guarantee statutes of independence and protection, which are enforced by the constitution. These statutes are regulated in details by special laws[6].

3. One of the most important arguments is that the trust to management of state finances increases, when spending of state finances carried out not by some state body but independent bodies. In democratic states, where mass media, civil society and levers of their influence are very strong, the importance of public opinion and attitude of society on evaluation of different issues, events and activities of different bodies is beyond doubt.

The second, very important demand to control body arises during discussing the issue of independence. This demand is legitimacy. At first sight, it seems that legitimacy and independence fill each other, but in reality, existence of one of them can hinder existence of the other. In case if the body is independent from the three branches of the government, what is the source of legitimacy? And if the control body is formed by legitimate government, we can't talk about absolute independence. The best way to solve these problems is mixing the norms of independence and legitimacy.

The most important rule is that control bodies must be protected by the constitution, which includes existence of guarantees of isolation of control bodies from making political decisions. Only supreme

5.. Lima's declaration about control principles, international organization of supreme body of inspection (INTOSAI) Lima, (Peru) 1997. articles 5-1(www.ach.gov.ru)

6. Lima's declaration about control principles, international organization of supreme body of inspection (INTOSAI) Lima, (Peru) 1997. articles 5-3(www.ach.gov.ru)

7. Otar Melkadze, organization of state control/ pg17

bodies of control, which are protected by the constitution, can represent fair and critical conclusions about financial operations of the state. On the other hand independence must not exclude implementation of those demands by supreme body of control which are obligatory for legitimate body and is integral part of is activities. The example of it is an obligation of the Chamber of Trade to represent an annual report about its activities to the Parliament of Georgia, its right/obligation to give materials of inspection/control to the Parliament of Georgia, its right to inspect activities of the Chamber of Trade by the commission created by the decision of the Parliament etc. All above mentioned rights are included in Georgian legislation "about Chamber of Control" (articles: 60, 61, 63). According to them Chamber of Trade is obliged to give report to the Parliament (article 97-2), these and other factors establish interconnection between control and legislative bodies. They can also limit independence of control bodies. But not existence of them could not only limit the control body but hinder full realization of its objectives and tasks.

We can conclude that complete independence of bodies of supreme control is impossible. The objective of constitutional protection of control bodies isn't creation of a body, which is completely independent but guaranteeing the terms of personal, financial and operational independence in order to enable the supreme bodies of control to carry out their obligations, which are determined by the legislation. I think that the problem of independence of control bodies is very urgent in Georgia, especially if we recall so called "forged" control acts. Incompliance between guarantees of the independence of the body and solving of important competent tasks of the Chamber of Control in Georgian legislation created a wish to analyze guarantee terms of independence of financial control in the spheres of personal, financial and operational independence. For this purpose I decided to study Georgian legislation of financial control. After comparing negative sides and the best experience of the foreign leading countries with Georgian legislative system I have decided to give my opinion about some topics.

Direct and indirect factors of protection of independence of control bodies are lined out in juridical literature. Direct factors are rules of formation of control bodies, legislative status of its members, their personal protective immunity etc. Indirect factors are incompliance of position of control body members and periods of authorization. The following is differentiated according to classification: 1. Factors determining personal independence. 2. Factors determining financial and organizational independence 3. Factors determining operational

independence; I will try to describe independence of control bodies according to this classification.

Guarantees of personal independence

The authority of the body plays an important role in functioning of the supreme body of control. For this purpose a great attention is paid to those factors, which determine personal independence of the authority of the supreme body of control. There exist many factors but at this stage I will line out five of them, which are widely spread in legal literature:

a) Rule of election/appointment of the authority of supreme body of control:

Controller in Ireland is appointed on a position by representation of him/her by the Lower Chamber of Parliament and by the decree of President. In Germany federal government is included in this tandem: Bundestag and Bundesrat choose the head of supreme body of control from the candidates represented by federal government and he/she is appointed on their position by the president of Germany.

Control Chamber Chairman chooses the Parliament after he/she is introduced by the chairman of the Parliament according to the 2nd paragraph of the 97th article of Georgian constitution. Deputy chairmen of Control Chamber are introduced by Control Chamber Chairman. Because of collision of norms of the Georgian law about “Chamber of Control” it isn’t shown clearly whether introduction is made to the parliament or to the chairman of the parliament (articles 13 and 14) but he/she is appointed on this position by the chairman of the Parliament (article 13).

This model of election/appointing of the head of the Control Chamber, when everything is based on the interests of the Parliament, doesn’t help strengthening of independence of Control Chamber of Georgia. In legal literature it is declared that the most independent bodies are those bodies authority of which isn’t appointed only by one branch of the government. Only one branch of the government participates in appointing of the president of Control-Inspection Office of Japan. In case of Japan a very interesting fact is that this branch is represented by executive authority. Appointing of the president of the office by the ministry (only one branch of the government) has one more negative side: it is well known that ministries are those units, which spent great amount of state finances. Consequently the aim of Control body is supervision of executive body. And in case when authority of control body is appointed by the ministry fairness

8. Institute of legislation and public politics “Comparative constitutional review” 3(48)2004, pg. 121

9. Japanese law about “control-inspection unit”, 1947, article 3

and competence of control of the government by this body is under doubt. Japanese legislation about control-inspection office has one interesting characteristic: elections of commissars always precede appointing of president by the Ministry. It can be a positive factor for strengthening of legitimacy and independence of the president of control body.
I think that using of one of the foreign alternatives would be very good for Georgian law-makers as the way of appointing of the Control Chamber Chairman of Georgia Doesn't exclude the fact that he/she will become puppet of the Parliament.

b) The issue of resigning from the position:

Chairman of Chamber of Italy, General Prosecutor and advisors can't be dismissed. It can be made only after issuing special decree of the president. Relevant decision of mixed commission must precede the president decree. The members of mixed commission are chairmen of both chambers and deputy chambers. We see that in Italy decision-making process is connected with difficult procedures and involvement of two branches of government in the process, which also ensures independence of authority of Control Chamber. We can also bring an example of post soviet Litva: State controllers can be dismissed after decision of a court.

c)Period of authorization of the head of control body:

In this case level of independence depends on the period of authorization. The longer is the period of authorization the higher is the level of independence. It is important that the period of authorization of the supreme body of control must be identical to the period of authorization of the body which has appointed it. The period of authorization of the chairman of Chamber of Control of Georgia is 5 years, which is far from existing practice: Head of Austrian Chamber of Control is elected for twelve years without right of electing for the second time. The president and vice president of German Chamber of Control stay on the position for 12 years, but they can't stay on the position not later than they achieve retirement age. In Georgia the period of authorization is very short. The right of his/her reelection also diminishes the independence of the chairman. It would be good to increase the period of authorization for 10 years and limit the right of reelection in the law about "Chamber of Control".

d) Personal immunity of heads of control bodies and its ordinary members: In many cases protection mechanism of independence of financial control bodies is the immunity of judges. Such mechanism is used towards the members of Federal Chamber of Control of Germany. In Albania and in Cyprus only chamber chairmen are protected by the immunity of Supreme Court. In Georgia like in Poland lower chamber members have Parliament member immunity.

The immunity is only spread on chairman of Control Chamber. Ordinary members of Georgian Chamber of Control can't have the same kind of immunity as the chairman but deputy Chairmen of Chamber of Control, Chairmen and deputy chairmen of Adjarian and Abkhazian Chamber of Control, members of presidium of Chamber of Control and chairman of bureau must have this immunity.

e) Nothing is said about ***demands of incompliance*** in Georgian law about "Control of Chamber" while speaking about the chairman of Chamber of Control and deputy chairman of Chamber of Control. Majority of foreign states make list of those positions and business, which have some level of incompliance. For example member of Austrian Chamber of Control must not participate in management of any kind of enterprise, which is profitable. But the chairman of the Supreme Chamber of Control of Poland must not occupy any other position except the position of the professor of high school. He/she must not be a member of any political party or professional union. The demands are very strict in Russia: here attention is paid to kinsman connections with the president of Russia, Chairman of Duma or federation council or chairman of courts.

I think that norms of incompliance must be determined in Georgian law of "Chamber of Control". At the beginning the norms about incompliance with membership of political party must be envisaged.

f) One of the indirect factors of determining the personal independence of heads of supreme bodies and members is ***demand of professional education and experience.*** Georgian law about "Chamber of Control" envisages a demand of professional education and experience only in case of chairmen and deputy chairmen of Chamber of Control (article 16). On the basis of this norm people who have no higher education and minimal knowledge of control can become ordinary workers of Control Chamber. The demand for chairmen and deputy chairmen of Chamber of Control is very nominal, as "professional experience of working in the fields of state management, state control, economics and finances" can't be an indicator of a competence of a person for working in the field of financial control. If a person has not enough experience and knowledge it's easy to have an influence on his decisions. These demands aren't spread on the chairmen and deputy chairmen of Adjarian and Abkhazian Chamber of Control and members of presidium.

10. law of Russian federation about "Report Chamber", 1994, 5 article(www.ach.gov.ru)

In Chamber of Control of Russian Federation higher education and professional experience in the fields of state control, economics and finances is obligatory not only for the chairman of

Chamber of Control but for auditors too. Financial control is rather specific and problematic sphere and the experience of ordinary fantasist or economist isn't enough. I think that in Georgian law of "Chamber of Control" the demand about 6 month obligatory internship of a staff at any structural unit of Control Chamber" must be included.

Guarantees of operational independence

By the guarantee terms of operational independence an attention must be paid on constitutional-legislative regulation of control rights.

a) ***Constitutional framework principles*** strengthen competent, impartial and effective fulfillment of authorization. Austrian constitutional framework norms show a general nature of legislative nature of Austrian Control of Chamber. But carrying out of financial control includes many nuances and constitution solves them by means of federal law about Chamber of Law. Federal law gives a precise list of spheres, which are under the control Chamber of Control. These spheres are: Budged financing and federation activities, including its property and enterprises; juridical person of federal level in the frames of public legislation: organizations of social insurance and lands, if they receive state donation or if they are protected by federation guarantee obligations; federal activities in enterprises with private legislative status, where the state has partial participation, activities of juridical persons who have private legislative status.

Georgian Constitution also determines general directions of activities Chamber of Control: These are using of state finances and supervision on their spending, also inspection of other bodies of financial control and representing of statement about improving of tax legislation to the Parliament of Georgia (articles 97-1). In Georgian law about "Chamber of Control" this detailed list of obligations of the Chamber of Control is given (articles 5, 7, 8). The list is complete and it can be considered as a positive factor as existence of indefinite authorization can diminish the independence of control body.

b) An important factor for functioning of supreme body of control is ***publicity of conclusions.*** Publicity includes not only the fact that conclusion will be given to relevant state bodies as it is envisaged in Georgian constitution: "Twice a year - during representing of preliminary and complete budget report to the Parliament. At that time Chamber of Control gives a report to the Parliament about state activities and once a year it gives a report about its own activities" (article 97-3). It also envisages the fact that this report will be accessible to the society. Ensuring of publicity, which is one of the principles of control according to international organizations of financial control, is very important. It must be made in constitution but in case when the general legislation of the country doesn't make definition of financial control

like Georgian constitution, society must have an opportunity to get acquainted with the results of control by specific law, which isn't possible by Georgian law about "Control Chamber". Accessibility of control results and their publication by means of relevant media prevents cases of infringement in controlled units, it also limits forging of conclusions by interested bodies and opportunity of debased interpretation.

Guarantees of financial and organizational independence a) an important indicator of operational independence of control bodies is ***approving of its independence on constitutional level.*** In the 97th article of the constitution it is indicated that "Chamber of Control is independent in its activities". It states that the "authorization, organization and rules of activities are determined by the law". Georgian law about Chamber of Control has the same text as the constitution and advices us to seek guarantees of independence of Chamber of Control in constitution and other legislative acts. At this time even the constitution of Bangladesh states that "general auditor is independent from any person, body or their control during implementation of its functions". German constitution determines that federal Control Chamber and its members are independent from other bodies and are protected by the immunity of judges. In Georgian reality situation is complicated. And the reality is that independence of Chamber of Control, which was twice declared, has a nominal nature.

b) Supreme control body, which has strong levers of influence on state events, must have a ***budget,*** which will cover all financial demands of this body for implementation of its functions. I think that Chamber of Control must give own variant of budget to legislative body. Neither Constitution of Georgia nor Georgian law about "Chamber of Control" envisage participation of head of Chamber of Control in the process of formation of the budget of the chamber. In Georgian law about "Chamber of Control of Georgia" it is only mentioned that the chamber is financed from the state budget and the budget is approved by the Parliament of Georgia (article 78). The fact that the chamber doesn't participate in formation of chamber budget has a negative impact on its compliance with financial demands of a chamber.

c) ***The rule of formation of control body*** is a direct factor, which has an influence on organizational independence. According to formation Chamber of Control of Georgia is of a parliamentary model. It is different from outer parliamentary model, when legislative authority doesn't participate in the process of formation. Such model is in Greece and Portugal. There exists a mixed model, when the

11. Otar melkadze, Financial control in European countries, 1999, pg23

process of formation is carried out by the cooperation of the head of the state or the parliament. In Georgian reality decisions about formation of Control body are made by the

Parliament of Georgia, which gives a little guarantee of independence, as the Parliament chooses the staff from the beginning and the agreement of any unit or a person isn't needed for approving them on this position. It creates fair of losing their positions in authorities of the Chamber and they obey the Parliament, which is violation of norms of constitution.

Conclusion.

According to above given classification describing of criteria, which determine the independence of Control bodies is important, but these criteria can't be complete and perfect. The focus on formal independence. Informal factors are beyond their scope of attention. Such factors can be personal characteristics of the authority of Chamber of Control, their relation to controlled unit or state body. I want to mention that existence of all indicators of independence, which were mentioned here and creation of all conditions for their implementation by the state will put Control Body or its head in such legislative reality where limitation of their independence will be difficult.

I think that for implementation of those tasks which were given to Chamber of Control by Democratic Republic of Georgia, it will be necessary to envisage all directives given by international organizations of financial Control and experience of foreign countries.

All countries have their individual political, social or financial attitudes and it wouldn't good if Georgia would deliberately copy everything from legislation of foreign countries, but guarantees of independence are very important and vital. It can improve the level of independence of Georgian Chamber of Control.

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Delineation of Administrative (Public) Contract from Civil (private) Contract

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Introduction

An administrative contract means a contract concluded between an administrative agency and a natural or a legal person or another administrative agency. Administrative contract is an instrument for administrative bodies to accomplish their public authority and it is regulated by administrative code of Georgia. As for the Civil contract it is a bilateral will which is directed to establish, modify, or terminate legal relationship and it is regulated by Civil Code of Georgia. According to Georgian legislature Administrative bodies are using both civil and administrative contacts for appliqué its power,[44] which in turn brides the problems in legal practices and since there in not much written concerning this issue I want to drew you attention to several factors that could help us to identify main differences between administrative and civil contracts.

In this paper I will pay more attention to the Administrative Contract, since the problems stated in this document derives mainly from the nature of the contract in question.

Main Part of the paper

a) Brief overview of the Georgian legislation on Administrative code

The existing Georgian legislation does not provide sufficient criteria to draw the clear lines between administrative and civil contracts. Meaning that it requires only two prerequisites for the development of administrative contract:

a) Administrative agency must be contractual party and

b) Administrative agency must exercise its executive authority.

These criteria are not enough to clearly differentiate administrative contract from civil one, since administrative bodies use both contracts to exercise their authority. Therefore, the main problem for lawyers representing one of the contractual parties is to identify the type of contracts they are dealing with. For this reason it is sometimes difficult for the lawyer to apply to the relevant court and use the appropriate code for regulation of the contract/case.

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[44] P.Turava, N.Tskepladze, "Administrative Law manual", 2005, Tbilisi, pg.68

An administrative contract is developed by Administrative body within the scope of its legal public authority. This means that while making the contract the administrative body has no autonomy to act like a natural or a legal person, since it is bounded by law and has strictly defined authority. The problem is that the term "Public Authority" is very vague and not well defined. In addition, there is no sufficient literature in Georgia to learn more about this issue.

Main Features of the Civil and Administrative Contracts in Georgia

A **contract** is a legally binding exchange of promises between parties, an agreement between two or more parties for performing, or refraining from performing, some specified act(s) in exchange for lawful consideration. It is expressed bilateral will which is directed to establish, modify, or terminate legal relationship. Georgian legislature is familiar with private law contract (civil contract) and public law contract (administrative contract). We can see that these two kinds of contracts are used in different fields of law.

Civil contract is concluded in private law and regulates private relationships. Civil contract is entered between two private parties only when one party makes an offer for a bargain and another accepts; this is called concurrence of wills. Parties in civil law are generally not limited by law, they can enter in contract freely and determine content of the contract, unless explicitly prohibited by law. Parties can even enter in contract which is not foreseen by law but does not violate acting legislation.[45] Therefore, we can conclude that the criteria for civil contract are as follows: willingness of the parties and that it is not against legislation. Civil contract can be either in oral or written form. Parties in civil contract are equal and there is no subordination between them. Civil contract is regulated by Civil Code of Georgia and in case of dispute the case will be heard by Civil court.

An administrative contract is a contract which binds an administrative agency and a natural or legal person or another administrative agency. In Georgia, administrative contract is innovation. This concept was modified by virtue of amendment of 24 June 2005 to the General Administrative Code of Georgia. Before that we had administrative transaction, as we know transaction can be unilateral, bilateral or multilateral, as for contract it needs at least two parties to be entered. All contracts are transactions but not all the transactions are contracts. The core reason for the modifications was that administrative transaction expressing will of one party (generally administrative agency) of the contract without agreement of another

[45] Civil Code of Georgia, June 26,1997

party to exercise some action. because of that administrative transaction was wrongly interpreted, for example in the decision of the Grand Chamber of supreme court (case # 3g/ad-82-k-01) citizen claimed that said that he was dismissed from his position by unlawfully administrative act and demanded reimbursement of loses, how ever grand chamber interpretered it and said that in this case order on dismissal is not an administrative act but administrative transaction , and the subject of the case should be administrative transaction and not administrative act.[46] Of course we can not consider this decision of the chamber to be lawful, because we know that in this particular situation (concerning dismissal order) we are definitely dealing with administrative act, because order is unilateral expression of the will of administrative agency. And the deference between administrative act and administrative transaction is that the first one expresses unilateral will of administrative agency and the latter one is the expression of the bilateral will. This practice to be eliminated the changes were made in administrative code and administrative agreement was replaced by administrative contract. The legal definition of administrative contract is prescribed as follows: "Administrative contract means a civil law contract concluded between an administrative agency and a natural or legal person or another administrative agency in order to exercise public authority by an administrative body".[47] The 5th chapter of General Administrative Code prescribes rules that regulate administrative contract. It is obvious that according to Georgian legislation a contract where an administrative agency is one of the parties is considered to be an administrative contract. Here I would like to emphases that in the administrative contract the administrative body has a dominant power over another party of the contract.

As mentioned, one of the parties in administrative contract should be an administrative agency. Term administrative agency (body) is defined in General Administrative Code of Georgia: "Administrative agency" means any state or local self-government agency or institution, a legal person of public law (except for political and religious unions) as well as any person that exercises public authority in accordance with law."[48] So to have administrative contract we should have one of those entities mentioned above (state, local self-government agency or institution, a legal entity of public law or any person exercising public authority) as a party to an agreement.

[46] http://www.supremecourt.ge/georgian/3G-23-02.doc

[47] General Administrative Code of Georgia, June 25, 1999
[48] General Administrative Code of Georgia, June 25, 1999, article 2

When we have a civil contract where an administrative agency is a party it has a capacity to act as an entity of civil law and this kind of contract is regulated by Civil Code of Georgia. But in case of administrative contract administrative agency can act only in the scope of its authority, it does not have the private autonomy as private parties usually have. For example civil contract can be concluded regarding property, while in case of administrative contract property issues are limited by statute[49].

Administrative body in its contractual relations should follow Georgian legislation and adhere to administrative and civil codes. It should not violate human rights and freedoms; for example the municipality of the city cannot refuse a person to rent an apartment from the municipality just because of his color of the skin[50]. Georgian legislation does not classify administrative contracts; however we can highlight two groups of administrative contracts:

a) contracts which are envisaged by General Administrative Code of Georgia and

b) contracts which are envisaged by other statutes, directly indicating to a possibility of concluding contract between administrative and private person on a particular issue.

For an administrative contact to be lawful, it should be based on bilateral will of parties, i.e. offer by one side and acceptance from another is required to enter a contract. According to the legal literature contract signed by a private person is an offer and needs to be signed by an administrative agency to be accepted, and thereafter it should be sent to the private person. If the signed contract was not sent to the private person it means that contract has not been entered.[51] If an administrative contract limits third person's rights or imposes responsibilities, this kind of contract will be valid only if the third person provides a written consent.

Administrative contract should be in written form. It is necessary because the duties of each party must be clear. If this demand is not executed the contract maybe deemed void. Administrative contract may be declared void according to the Civil Code of Georgia; In addition, General Administrative Code of Georgia establishes basic principles, violating of which can become a basis to invalidate the contract. When the dispute emerges the case will

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[49] V.Loria "Georgian Administrative Law", 2004, Tbilisi, pg.314

[50] Z.Adeishvili, G. Winter, D. Kitoshvili, "Comeents on General Administrative Code", 2002, Tbilisi, pg.63

[51] P.Turava, N.Tskepladze, "Administrative Law manual"2005, Tbilisi

be brought to the Administrative court. The interesting thing is that in Administrative procedures the judge is more involved, for example he/she has right to request information or to present the evidence which is unlike to civil procedure code where parties should gather evidence and get the information by themselves. This authority of the judge serves to somehow balance parties, because administrative agency has all the power and natural or legal person not to be disadvantaged it helps parties to gather the evidence to withdraw the information. the Although, an administrative contract is signed by a representative of the administrative agency, the liabilities are assumed by the State.

Contract to be regarded as an administrative one, it should be addressed to observe norms of administrative law; it should include responsibility of issuing an administrative act or implementation of other public authority and it should establish citizen's public law rights and responsibilities.[52] Main point regarding administrative contract is that the subject of the contract is administrative relation, which is regulated by administrative law and which is addressed to establish, modify or terminate administrative rights and duties.
So we conclude that contract is administrative if:

- It derives from public law rules;
- It is defined by legislation;
- Includes responsibility to issue an administrative act or to accomplish public act;
- Regulates natural or legal person's civil rights and responsibilities;
- Is regulated by administrative law;
- In the case of dispute, case will be brought to the administrative court.[53]

c) International Experience

Contract between administrative body and other persons is defined differently in Common Law State and Continental Law States. For example, according to the United States of American legislation contract in which one party is an administrative agency is regarded as a civil contract and is regulated by private law[54]. The problematic issue in this case is that we can never consider administrative agency and natural person to have the same position; hence,

[52] P.Turava, N.Tskepladze, "Administrative Law manual", 2005, Tbilisi, pg.87
[53] M.Kopaleishvili, "Administrative transaction", 2003, Tbilisi, pg.28
[54] Z.Adeishvili, G. Winter, D. Kitoshvili, "Comments on General Administrative Code", 2002, Tbilisi, pg.61

applying private law to such contract is against principle of administrative law, which tries to bind administrative bodies by establishing for them the scope of authority.

In **Russian administrative law administrative** contract is a problematic issue, because according to the Russian jurists administrative contracts varies sp much according to the different cases that it is not sufficient for formulating a uniform definition. In Russian legislation a contract in which administrative agency and privet person act as parties is called administrative law agreement.

German administrative law didn't recognize a public law contract between administrative agency and a natural person for a long time. For example one of the founder of German Administrative Law Otto Mayer in his book "*Theorie des französischen Verwaltungsrechts*" stated that parties in this kind of contract cannot be equal because state has full power and since contract can be entered only between two equal parties, which don't defend each other, this kind of contract cannot exist.[55] Another well-known jurist Hans Kelsen stated that the contract, where administrative agency is a party, is not either entirely in public law nor in private law system, but it is neutral.[56]

German legislation has adopted administrative contracts in 1976 after long years of discussion. Today German legislation considers a contract with administrative agency as one of the party to be a civil contract if it refers to private laws and others—to be an administrative contract. According to German legislature, difference between administrative and civil contract is the subject of the contract. The subject of the administrative contract is administrative relations, which are regulated by administrative law and which establish, modify and terminate administrative rights and responsibilities German administrative law emphasizes several forms of administrative contract: coordinative and subordinated, obligatory and ordering.

Difference between coordinative and subordinate contract is the relationship between parties. For example, coordinative contract is one in which parties are equal, like two administrative agencies. In case of subordinate contract, it implies that the counterparts are in subjection to each other. This kind of contract can be enacted between administrative agency and private

[55] I.Pikhter, g.F. Shupert, "Judicial Practice in Administrative Law", 2005, Moscow, pg.319
[56] M.Kopaleishvili, "Administrative transaction"2003, Tbilisi, pg. 12

party. As for obligatory contract, it is a contract in which both parties have duties and each of the party can demand another to fulfil his/her responsibility. Regarding ordering contract, it aims to complete responsibilities which are established in statute and envisages modification of legal relations.[57]

According to French administrative code administrative agency can use either administrative or civil contract to exercise its authority. To define the nature of the contract whether it is administrative or civil, French are using case-law, which established following criteria for administrative contract:

1) it should exercise public authority, and

2) it should contain terms which are out of scope of privet law.

If we have one of these criteria it means that we are dealing with the administrative contract.[58]

According to the first criterion, if one of the parties' objective is to carry out public activity by himself then we are having an administrative contract. This relates to contracts in which a private person is not only involved in the contract but he also ensures solving the public problems. The second criterion is challenging, because it is difficult to determine which terms are out of scope of private law. According to the case-law these kinds of terms we don't find in private law contract. Even if the goal of the contract is not to exercise public activity it will be considered as an administrative contract if it contains terms which are beyond the scope of private law.

The main issue concerning administrative contract is to distinguish which contract is administrative and which is civil contract. It is important in case of dispute concerning the contract that we should know which contract we are dealing with and as mentioned before, to know which code to use—Administrative or Civil, to regulate this issue. It is difficult to draw a line between private law and public law contracts, but since administrative contract is the instrument to execute public authority, it has certain characteristics which are typical to it.

Main difference between civil and administrative contracts

1. Goal of the contracts
    a. Administrative contract: to satisfy public interest
    b. Civil contract: to satisfy private interests
2. Division of public and private law

[57] Maurer, H., "Allegemeines Verwaltungsrecht" pg. 559

[58] M.kopaleishvili, "Administrative Transaction", 2003, Tbilisi, pg.7

a. if the State participates in a contractual relationship as a representative of a public authority, we are dealing with an administrative contract,
b. if the State participates in the contract as a legal person, then we are dealing with a civil contract.

3. Regulations
    a. civil contract is regulated by Civil Code of Georgia,
    b. administrative contract is regulated by civil law and in addition by administrative law
4. Subject of the contract
    a. Legal relationships which are regulated by administrative law and which establish, modify and terminate administrative rights and responsibilities.
    b. Legal relationships which are regulated by private law and which establish, modify and terminate civil rights and responsibilities.
5. Court
    a. Argued in Administrative Court
    b. Argued in Civil Court

Conclusion

I presented 4 countries experience in using administrative contract practice and compared with Georgian existing reality (please see attachment 1). The main findings of the comperison are as follows:

1) Since US does not use administrative contract practice and Russian is doing an assent steps in that direction these two countries experience is not relevant to compare with Georgian experience in this field.

2) France and Germany have the same main principles for administrate contract, the difference is in criteria which defines administrative contract.

Georgian experience is very close to the French and German models and it is relevant to compare Georgian experience with those countries. The basic principals (subject, regulation) in all three are the same but the criteria are differing. The criteria are better defined in France and Germany. For instance in France case-law is used to define weather contract is administrative or civil, the Germany emphasize the subject of the contract to define the type of contract. The weakness of Georgian criteria is that it does not give sufficient clarity to identify the type of the contract and gives a lot of space for interpretation. Not enough to make a distinction between these contracts, because even in the administrative contract

parties' interests are balanced. Concluding administrative contract by itself is the interest of private person. Administrative agency is obliged to protect individual's interest when it executes public authority this is the idea of administrative contract.

Recommendations

Recommendation: Georgia should extrapolate the best practice already in place in EU member countries, like German and France. Namely:

a) "Public authority" should be defined and explained what did lawmakers meant in particular under that term;
b) To use case-law which will give extra help to define the type of contract;
c) To add extra criteria for administrative contract, like goal or subject of the contract to differentiate.

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	Key features of the administrative Contract			
Countries	**Criteria**	**Division of public and private law**	**Regulations**	**Subject of the contract**
USA		it is not divided		
Russia				legal relationship which establish, modify and terminate administrative rights and responsibilities
Germany	contract is an administrative , if it does not refer to privet laws norms	It is divided	Administrative code and if necessary by Civil Code	legal relationship which establish, modify and terminate administrative rights and responsibilities
France	it should exercise public authority, and it should contain terms which are out of scope of privet law	It is divided	Administrative code and if necessary by Civil Code	legal relationship which establish, modify and terminate administrative rights and responsibilities
Georgia	Administrative agency must be contractual party and Administrative agency must exercise its executive authority.	It is divided	administrative contract is regulated by civil code and in addition by administrative law	legal relationship which establish, modify and terminate administrative rights and responsibilities

South Caucasus[59] – European organizations[60]. Modern challenges, real interests

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Introduction

Choice of this theme is caused by its urgency and great importance for South Caucasus republics and european community as well. In this article we don`t have for an object to show relations between three South Caucasus republics European organizations firstly taking under consideration scantiness of the volume. Our main goal is by comparative analyze to show relations between SC republics and most important European organizations as from the viewpoint of the relations between European organizations and each SC country as European organizations – SC region, and bring to light real interests of the republics of the region in cooperation with them and vice versa. In this article we give importance exactly to this model of the region (Armenia, Azerbaijan, Georgia and Nagorno Karabakh), which we consider has not alternate. Today each country of the region considers itself within the framework of other regions. And there is a question: is South Caucasus a region? Unambiguously yes. Because Europe considers it as a region, using complex approach to the three countries and building its policy concerning them reasoning from that approach. There no relations between two countries of the region (between Armenia and Azerbaijan) because of Nagorno Karabakh conflict, furthermore there is a closed border between Armenia and Turkey. These realities prevent the regional integration (firstly economic integration), which in its turn dose not let use the whole potency of the region and in the end appear in the system of international affairs as a region in its classis concept, with its joint interests. And it is reasoning from the interests of the South

[59] There are no unambiguous borders of South Caucasus. Among the analytics circles There are some approaches concerning this question. In this article under South Caucasus we consider four countries: Armenia, Azerbaijan, Georgia and internationally not recognized Republic of Nagorno Karabakh, which's factor is appreciable in the regional developments. On account of its non-recognition we`ll not consider Nagorno Karabakh as an individual element.

[60] In this article from European organizations we have taken up European Union (EU), Council of Europe (CE), Organization of Security and Cooperation in Europe (OSCE) and North Atlantic Treaty Organization (NATO). OSCE and NATO are not European organizations, they are euro Atlantic organizations, but reasoning from that fact that European security system is based on them we considered them conditionally to name them European organizations in this article.

Caucasus countries, but, unfortunately, it is not realized by the three countries (especially by Armenia and Azerbaijan), which we consider to be the principal challenge for the region.

This article is consists of two chapters. In the first chapter, which is titled “Euro integration. The only way or an alternate”, we have considered just European organizations EU and CE. Here we tried to analyze the role of euro integration in the foreign policy priorities of each regional country, their activities within euro integration processes, also interests and policy of European organizations for the (united) integration of the South Caucasus region. In the second chapter, which is titled “Security of South Caucasus and euro Atlantic organizations” are considered euro Atlantic military-political organizations OSCE and NATO. In this chapter we have tried to analyze cooperation of regional countries with military-political organizations in the most important for them sphere of military security, also interests of all parties in cooperation in this sphere and in its in deepening.

Analyzing the policy of the European organizations we arrived at a conclusion that they are interested in the united, stabile and integrated region. This strategy firstly is reasoning from the yet unrealized interests of each regional country. Causes of such situation are so called frozen conflicts (Nagorno Karabakh, South Osetian, Abkhazian) and geopolitical interests of regional and global powers which rely on single regional countries for achievement of their goal in SC.

In this article we have used material from the official websites of the considered organizations, basic strategic documents and strategic research centers.

Euro integration. The only way or an alternate

After the collapse of Soviet Union by the southern borders of Europe appeared new countries which were fraught with the treat for stability and security of European familys is fraught with the treat for European stability and security having high degree of conflict risk and being an immediate neighbor of Europe from the geographical viewpoint. Firstly by this fact we can explain the aspiration of European countries to keep an aye on the region. Later on appeared new reasons which propose deeper degree of cooperation with the region. After winning independence the regional countries chose the way of democratic development, putting euro integration among their strategic goals. That means that the presence of Europe in the region rode with the coincidence of reciprocal interests. In the first period significance of cooperation with European organizations for the three countries lied in the welfare, later there were developed complex programs of cooperation with bilateral obligations which are directed to

systematizes relations between European organizations and South Caucasus republics also European organizations – region relations as well.

In this chapter we`ll consider two most important for our region European organizations: EU and CE. Cooperation with them in the Concepts of national security of the regional countries are denoted as one of the main tasks for consolidation of main democratic liberties, liberal market relations within each country and also stability and peace in the region[61]. CE, as a political organization, whose main goals are protection of human rights and enlargement of democracy; cooperation over main questions of right, culture, education, information, preservation of the environment, health protection; rapprochement of all European countries, has a great importance for the regional countries firstly from the viewpoint of state building. The three countries of SC are members of this organization but it doesn't mean that its main goals, especially concerning democracy and main rights and liberties, are completely inculcated in the regional countries. It is, per se, long-term process and the membership in this organization lets the regional countries to carry out reforms with the aid of jointly drawn programs in which are taken into consideration all the characteristic properties of each one. From this viewpoint are very important reforms carried out in the spheres of right and structural and working procedures of state institutions[62], the results of which will be obvious subsequently. And this will let Europe have more stabile and predictable region. Besides, the membership in CE is important for the SC countries from that viewpoint that they have an opportunity to take part in discussions over various questions equally with developed European countries, having franchise and effluent from that right to veto.

CE has a great importance for the regional countries also from the viewpoint of discussions in its various bodies over our local issues. For example, many there were discussed just local, our regional issues, presented reports concerning the regional conflicts in the framework of Parliamentary Assemble of Council of Europe (PACE). Nevertheless PACE is an advisory body and has not legislative credentials, but it is another important platform for the regional countries to inform the European community about regional developments and to form favorable for them opinion. Besides, PACE is another opportunity for meeting and mediate negotiations for Armenian and Azerbaijani delegates.

Concerning European Union, it is a greatest political-economical union. It has a confederative character and in contrast to CE , there is an economic factor in this organization which dominates and serves as an integration link. And from this viewpoint relations with EU

[61] National Security Concept of Armenia, p. 17; National Security Concept of Georgia, p. 8; National Security Concept of Azerbaijan, p. 8

[62] The results of joint work between SC republics and Venice commission are constitutional reforms held in each regional country, the goal of which is the adaptation of their mother constitutions with European standards.

are very important for SC republics. Analyzing relations between the regional countries and EU one must be guided by the complex principle: consider relations between EU and each regional country in the context of EU – SC relations, as EU is guided by this principle moldings its relations with Armenia, Azerbaijan and Georgia.

Relations between SC republics and EU took their start just after collapse of Soviet Union, but the start of official relations we fix 22 April 1996, when with some delay, which was concerned with the regional conflicts and political instability in the three countries, in Luxemburg were signed Partnership and Co-operation Arguments with them during the meeting of the leaders of SC countries in the framework of EU. This document fixed the principles of co operations between the regional countries and EU, it is a complex program with bilateral obligations where are noted the spheres in which partner-countries and EU would cooperate. Agreements signed by the three countries are almost equal from the viewpoint of their common principals, goals, contents and cooperation tools[63], but at the same time each Agreement has its peculiarity which mirrors specificity of international position and internal development of each country. For a long time relations between SC republics and EU were developing according to the points of Partnership and Co-operation Agreements which was replaced by a new program which offers higher level of cooperation.

1 May 2004 European specialists conceder to be a historic day: widening its borders EU got close to the Caucasus maintains[64]. In parallel with enlargement of its geographical borders EU acquired new neighbors and had some closer to old ones. These circumstances created both opportunities and challenges. The European Neighborhood Policy was response to this new situation[65]. In parallel with its enlargement EU got closer to SC which supposed increased interest against economy, stability and security of the region, and a new level of cooperation with the regional countries and the region. Following a recommendation made by the Commission, the Council on 14 June 2004 decided to offer Armenia, Azerbaijan and Georgia the opportunity to participate in the ENP, inter alia stating: “This marks a significant step forward in the Unions engagement with the region. Each country will be given the same opportunity to develop its link with the EU, including through action plans, and will be treated in its line with the general policy

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[63] Almost all PCAs are based on bilateral obligations: respect basic principle so democracy and human rights, realize peaceful policy and have good-neighbourrelations with neighbouring countries. PCAs provide for political dialogue, development of economical and cultural cooperation and also help of EU in carrying out political and economical reforms in the partner-countries. **“Armenia – EU relations and perspective of their development”**, Yerevan 2005, p. 5

[64] “South Caucasus in the context of European Neighborhood Policy of EU ” – article. Harry Kamarainen

[65] Communication from the commission. **European Neighborhood Policy** strategy paper. Brussels 12.05.2004. p. 2

of the ENP..."[66] Armenia, Azerbaijan and Georgia signed their Individual Action Plans with EU in the framework of this new initiative on 14 November 2006. Signing of this document the regional countries got an opportunity to carry out comprehensive packet of reforms which will open a road for signing agreements of higher level. IAPs give the three countries an opportunity to develop active cooperation with EU in the spheres of policy, economy, security and culture, which contain points of social, economical and political character, and also concerning the freedom of speech and human rights. Signing their IAPs the regional countries stepped into a new level of cooperation with EU, and as mentioned Minister of FA of Armenia V. Oskanyan, IAPs gave an opportunity to the three countries from the level of close cooperation with EU to step into the level of integration.

But how feasible are the points of IAPs at this stage of development of the region? The effectiveness of cooperation over various points is different: there are points over which cooperation works completely, partly or dose not work at all. Working points, per se, are those concerning domestic reforms, but what concerning the regional cooperation and regional integration, these points work partly if do not all. There are no relations between the two republics of the region (Armenia and Azerbaijan), because of Nagorno Karabakh conflict, dissolve ness of which dose not let work completely, per se, the most important for the region and EU points and use the whole potential of the region, which in its turn proceeds from the unrealized interest of the region. This moment is clearly realized by EU and has found its reflection in IAPs of Armenia and Azerbaijan, which are almost equal and differ only in the points concerning Nagorno Karabakh issue[67]. And at the same time we should mention that the texts of IAPs in the framework of the ENP almost do not differ from the texts of the PCAs.

The importance of cooperation with EU for the each SC republic consists of that fact that this organization considers them as a single whole and builds its relations with them proceeding from that logic. United Europe considers our region as its integral part, proceeding from the potency from the viewpoint of economy (transit and communication potency) and security. That's why Europe is interested in the united, stabile and economically integrated region. In our opinion such approached is the most viable for the development and stability of the whole of SC. This approach also proceeds from the interests of the each regional country which, unfortunately,

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[66] "European Neighborhood Policy", Country report **Armenia.** Brussels 02.03.2005, p. 3

[67] In the preamble of the IAP of Azerbaijan there mentioned that cooperation between official Baku and EU is based on the principals like reservation and respect of the sovereignty, integrity and inviolability of internationally recognized borders. In the document signed by Armenia there are not mentioned such principals. Thas already in the preambles of these documents EU has displayed maximum diplomacy depriving Armenia and Azerbaijan of the opportunity of bilateral pressures. At the same time parts of the documents concerning Nagorno Karabakh issue, per se, have declarative character, and is obvious at in this question EU lets the whole initiative to the OSCE Minsk group, demanding only from Armenia and Azerbaijan peaceful settlement of this issue.

is not realized yet because of the conflicts (for the realization of that regional interest Nagorno Karabakh prevents to a greater extent, as the conflicts within Georgia do not so influence on the regional cooperation) and also because of the individual powers which have their own geopolitical interests in the region. The policy of Europe against our region is directed to the forming and realization of that regional interest, for which are to serve functioning and being in the stage of projection programs in the framework of EU. We have emphasized programs TRACECA[68] (Transport Corridor Europe-Caucasus-Asia) and INOGATE (Interstate Oil and Gas Transportation Systems). These two programs are directed to the economical integration of the region, and they suppose and demand the involvement of three countries in them. But these and other economical programs do not work completely in our region because of the up mentioned reasons. Presence of such issues in the region lead out on the first place for the SC republics the problem of military security. Taking into consideration this fact we decided also to consider relations between the regional countries and European military-political organizations.

However, taking into consideration goals and activities EU in SC, in our opinion, euro integration has not an alternate from the viewpoint of the development and stability of the region. As EU dose not rely on individual countries but the region. In opinion, forming of the regional interest is the most important precondition for development of the region, but it s not realized yet, and the policy of Europe is directed to the realization of that. It is very important for each SC republic to realize that the role of individual countries of the region as economical partner for EU is very little but from the geographical viewpoint the role of the whole of the region is great. SC has a transit and communicational significance for EU and West as well. And the integration (economical) of three countries its is very important for using of this potency completely which will bring to the stability and deeper integration with EU, which proceeds from the interests of EU and each regional country.

Security of South Caucasus and euro Atlantic organizations

Up today SC continues to be non stabile because of so called frozen conflicts and domestic non stability in the regional countries. Nonstability of the region lets the regional and global powers, which have mutually exclusive geopolitical interests, to play their own game here and that makes the region more non stabile. Because of this the problem of military security leads out on first

[68] The multilateral Treaty about international transportation for the development of the transport corridor Europe-Caucasus-Asia was signed in 1998. Azerbaijan signed this treaty with the reservation that will not take part in the initiatives in which Armenia takes part in the framework of TRACECA. **“Armenia – EU relations and perspective of their development”**, Yerevan 2005, p. 22

place for the three countries, which they try to guarantee firstly with the strategic partnerships with the regional and global powers and secondly with the cooperation with regional military-political organizations.

In this chapter we`ll consider two military-political organizations (OSCE and NATO), on which is based the whole European security system, integral part of which is SC itself. These two organizations have an important role as in provision security and stability in the region as in guaranteeing military security of the each regional country.

Armenia, Azerbaijan and Georgia are members of OSCE and this organization is officially involved in the peaceful settlement processes of the regional conflicts, there are formed definite formates which are officially engaged in the peaceful settlement processes of the Nagorno Karabakh, Southosetian and Abkhazian conflicts. The main goal of OSCE is the guarantee of the security in the area from Vancouver to Vladivostok, almost all the countries of the nor then part of the Earth are members of this organization. And its vulnerability not high degree of effectiveness lies on its large scales, as there are many countries in this organization that have their geopolitical interests in this area, especially in our region, which usually come across. And that means in its turn usual absence of the agreement, settlement concerning many important questions, as all the decisions in the OSCE are reached by consensus. OSCE, per se, has an advisory character and has not viable instruments for achievement of its main goal.

We are more interested in the effectiveness of providing stability in our region and peaceful settlement of the regional conflicts. Us we marked upper peaceful settlement processes of the Nagorno Karabakh, Southosetian and Abkhazian conflicts pass in the formats in the framework of OSCE in which participate parties of the conflicts[69] and interested countries. Processes of peaceful settlement of the regional conflicts are lasting for a long time. There are considerable results but their settlements at least in the short-term perspective seem unrealistic, as SC has a great geopolitical importance and there are many interested powers fighting for this region.

I A E, taking into the consideration all the mentioned difficulties, cooperation with OSCE has a importance for the regional countries from the viewpoint of forming some elements of regional stability, security and reciprocal confidence. And it is also very important for the three republics to keep the processes of peaceful settlement of the conflicts in the framework of OSCE,

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[69] OSCE Minsk group is officially engaged in the process of peace settlement of Nagorno Karabakh conflict. In this format the negosiating parties are mediator-countries (Russia, France and USA), Armenia and Azerbaijan. Unfortunately Nagorno Karabakh is not an official party of the negotiations, which is not fair, as Nagorno Karabakh is the real party of the conflict. And in our opinion, its very important to return Nagorno Karabakh to the negotiation process for the final settlement of the conflict, as in the negotiations is being decided destiny of future status of Nagorno Karabakh

as Armenia, Azerbaijan and Georgia are members of this organization and have franchise and effluent from that right to veto. That`s very important, because all the decisions in OSCE are reached by consensus. Many times the three countries used their rights to veto during discussions in the various bodies of OSCE; during adoption of the resolution of summits; during discussions over the points of the reports on the regional conflicts, not letting the points and expressions contra ring to their national interests take place in the official documents adopted in the framework of OSCE.

The next military-political organization which we give great attention to is the North Atlantic Treaty Organization (NATO). The main goal of this union is provision of security in the euro Atlantic region. After the collapse of Soviet Union and Warsaw Pact Organization and the end of "cold war" NATO suffered enormous changes going over his goals and the area of its action.

Relations between NATO and SC countries started just after the collapse of Soviet Union and winning the independence by the three countries. In the first period of relations between NATO and the regional countries were not remarkable for activity and were limited with the cooperation in the framework of the Council of North Atlantic cooperation. Passivity of the relations in the first period is described by the following reasons: borders of NATO were far from SC from the geographical viewpoint, there were Middle and Eastern European countries between NATO and our region which were the immediate neighbors of the Alliance and active cooperation with them was one of the main goals of NATO in that period; besides Yugoslavian issue was on the agenda. Higher level of cooperation ween NATO and the regional countries started in 1994 when the three republics joined the large-scale initiative of NATO – program partnership for Peace[70]. In the framework of this program Armenia, Azerbaijan and Georgia signed jointly engineered with NATO Plans of Individual Partnership.

An important step for the development of relations and cooperation between SC republics and NATO was the operation of NATO in Kosovo, putting aside its accordance with the international law: that was the first peacekeeping mission experience for the three countries in the framework of KFOR. After Washington summit in April 1999 cooperation between SC and NATO started to increase. In this summit Poland, Hungary and Czech Republic joined NATO. During the next three years the Generally Secretary of NATO five times visited the region. After 11 September attention to the region and also level of the cooperation with it started to increase. There is an opinion that it is the direct influence of that they. Of course, that could be due to that

[70] The program Partnership for Peace is a large-scale initiative which was put forward in January 1994. The goal of this program. The invitations to join this program were sent to all the participant-countries of The Council of North Atlantic Cooperation and other member-countries of OSCE that are able and want to have their own contribution to this program. **NATO handbook, Brussels**, 2006, p. 187

developments but it is very often being appealed to. The cooperation between the countries of the region and NATO was increasing day by day and that was the logical continuation and evolution of the partnership. The summit held in Prague in 2002 was also within that logic: there was presented the new instrument of cooperation which was an alternate for the countries unable to start Membership Action Plan with NATO – Individual Partnership Action Plan (IPAP). Several new Middle Eastern European countries were invited to join the Alliance during the Prague summit which joined NATO in 2004.

Almost all the European countries now are members of NATO, the Alliance has become an immediate neighbor to the former Soviet republics and our region from the geographical viewpoint. This circumstance supposes an energization of the NATO policy against the regional countries. Today the level of cooperation between NATO and SC republics is rather high: the official document forming relations of NATO with Armenia and Azerbaijan is the Individual Partnership Action Plan. And what concerning Georgia, this country is at stage of Intensified Dialogue in its relations with NATO. But such high level of institutional cooperation between Georgia and NATO does not mean that in the short-term perspective Georgia will become a member of the Alliance as it is much talked about. Firstly the stage of ID does not mean that candidate-country must join NATO in short-term perspective or generally, as there are important criteria which candidate-country must correspond to[71]. Secondly ID paper text almost do not differ from the IPAP texts of Armenia and Azerbaijan and dose not give any guarantees, especially in the sphere of military security of Georgia.

Analyzing the situation I the region a in a real way, it'll become clear that NATO today is practically absent in the region. NATO nowadays doesn't play a big role in the region and doesn't play an important one in the guarantee of military security of particular countries of Southern Caucasus. The countries of our region provide their military security by strategic partnerships with individual countries. For instance, an important guarantor of military security for Armenia occurs to be strategic partnership with Russia, as for Georgia and Azerbaijan these guarantors are the strategic relations with Turkey and the USA. Sometimes these strategic relations of Georgia and Azerbaijan with Turkey and the USA are considered in the aspect of their relations with NATO, which gives a false picture of the situation. NATO is an organization which includes above all states having common goals but apart from these goals the USA and also Turkey have their own geopolitical goals in the region. I A E, the partnership with NATO for the countries of the region is very important and three countries cooperate with NATO in the

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[71] Georgia has already carried out many reforms in the social, political, military and other spheres. The results are obvious but its enough, Georgia has much work to do. The most important problems of Georgia still stay dissolved – Abkhazian and Southosetian frozen conflicts, which are the first barrier on the Georgia's NATO membership.

spheres in which The Alliance can give them something: it's the development of peacemaking culture, the sphere of military education, reforms in military sphere and so on. However NATO has a perspective significance for the Southern Caucasus, as the Alliance also considers it as one whole body and always tries to hold the parity in relations with the regional countries (primarily in relations with Armenia and Azerbaijan). As we've mentioned in the first chapter such an approach is the most viable for achievement stability in the region: the participation of three countries of the Southern Caucasus region in one collective security system, which could become a real guarantor of peace in the region. And it must be within the interests of the regional countries to cooperate with that power which can offer it.

Conclusion

In this work we have considered the relations between the European organizations with the Southern Caucasus region, as from the point of view of each particular country's relations with these organizations, as within the format European organizations - the region in general.

Our main purpose in the given article is to show the real interests of European organizations in their relations with the Southern Caucasus region and visa versa. Our region has a great significance for the European community, both from the viewpoint of economy and security . In these sense the European community is interested in forming a stable and integrated region. This forming a stable and integrated region derives as well from the interests of the countries of the region, which, unfortunately is not realized. The realization of this regional interest is hindered by the conflicts (especially the Nagorno Karabakh conflict, as there are no relations between Armenia and Azerbaijan because of the unsettlement of this issue), and also controversial geopolitical interests of global and regional powers in our region. The peaceful settlement of these conflicts do not have an alternate. These processes are officially undertaken by OSCE, however their final resolution is hindered by the difficulties mentioned in the first chapter. For the achievement of the final goal - the settlement of the regional conflicts and the use of potency of the region (transit and communicative) – there is a need in other instruments, directed to the economic integration of the Southern Caucasus countries and forming the united regional economic interest. From the viewpoint of forming and realization of that union regional economic interest, an important role plays the cooperation of these countries with EU as the economic programs in the framework of this organization are directed to it. However these programs work not completely because of the mentioned problems and, per se, don't serve their goal.

It is very important for each SC republic to realize that the role of individual countries of the region as economical partner for EU is very little but from the geographical viewpoint the

role of the whole of the region is great. The economic integration of all the countries of the region will be the key to the solution of regional problems, and the solution of regional problems will allow to get the maximum of the potency of the region and to appear in the international relations' system as a single actor with single interests (economic). Of course the development according to this screenplay may look unrealistic today firstly because of the geopolitical interests of global and regional powers in our region, but to our opinion, for the achievement of stability and peace in the region it doesn't have an alternative. This will lead to huge investments, which today are almost absent because of the high level of risk. For the realization of such difficult and important goal the significant role must play the wills of each SC republic (especially of Armenia and Azerbaijan), and also there is a need in the social sphere in the three countries to set up a regional thinking in their societies.

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Monopolization And Corruption As Hinders For The Prosperous Development Of The South- Caucasian Region

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Nowadays the issue of corruption and monopolization of economy is very urgent in the countries with transition economy, as far as in those countries the development of formal institutions is on such a low level that it brings to the solution of the problem through formal mechanisms, in particular, bribes, human ties and the like. The high level of state corruption, in its turn, brings froth such negative outcomes as shadow angle, market concentration, monopolization, and the most negative, oligarchization. In this respect, the distortion of the above-mentioned aspects brings forth such results under which any attempt to realize economic transformation aiming at increasing economy's efficiency turns out to be of an "artificial" nature; the latter does not support the development of economy and the well-being of the population.

Now I would like more thoroughly to present the reasons and consequences of corruption and monopolization of economy, as well as the mechanisms to solve those problems.

Any economic system is defined with certain structural distortions; be they of economical or non-economical nature, they influence market mechanisms of the functioning economy, generate externals, and, consequently become the reason for insolvency of market mechanisms. Nevertheless, they are typical for transition markets, where market institutions are partially established or substituted for non-market mechanisms.

Today the issue of corruption, as a compound part of transaction expenses, defined as structural distortion, is one of the most urgent ones.

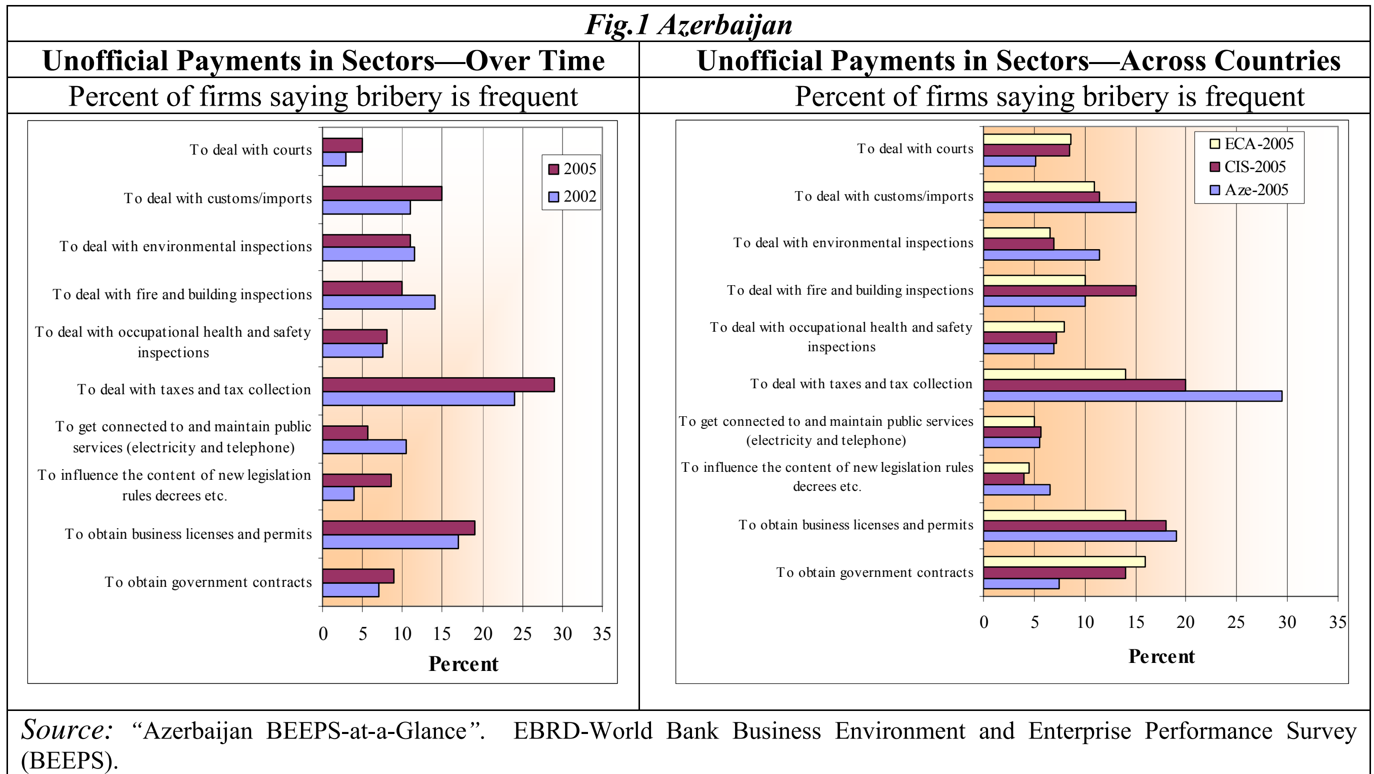
Monopolization of economy can also be considered a compound part of transaction expenses defined as structural distortions thereby nowadays turning out to be a menace both for a short-term as well as for a long-term economic development. Monopolization of economy results in very many negative outcomes as a stumbling-stone in the development of economy.

A number of independent experts disiguish two types of monopolies in a country. The first type is formed by some state bodies meanwhile involved in social activities and giving out licences for it. They are mainly communication and transportation spheres. In the second type of monopoly the leaders of local state bodies as well as law-enforcement bodies are indirectly involed in activites banned by law. Some authorities

believe that “monopolization” is mainly highlighted through import in Azerbaijan. Moreover, a number of statesmen claim that some state leaders backup monopolization. Due to official data, there exist 117 true monopolists, out of 215 economic subjects of monopoly in Azerbaijan, whereas 98 were officially registered and hold 35% shares in goods market. Alongside with officially registered monopolies, there are figures involved in some entrepreneurial activities that artificially hinder business development while carrying out monopolistic activities. In other words, shadow economy is unequivocal in broad and narrow rates in the country. For instance, “Azercell Telecom” joint enterprise, being in control of the three fourth of cell-communication market, is excluded from the list of monopolists due to “market specifics”. Antimonopolistic bodies also connive at monopolization of retail trade inner market with mineral oil in which one company is in control of whole cities. On the other hand, a number of state departments are striving to meet halfway with monopolies. Thus, in 2004 the Ministry of Communication and Information Technologies was consulting operators about a joint tariff. The Ministry drew a number of companies and Internet-prividers into the process, “Azeurotel” being the first company to start with. The new tariff scale had appeared by September 2004 but caused no profound changes in tariffs. Communication costs are still extremely high in Azerbaijan. State bodies are aware of the difficulties against monopolies, underlying mainly the sphere of import, although real steps are not taken in this respect. Iinstitutional consolidation of state apparatus against monolpolization is de facto underway, though it is quite a formal step. However, in 2004 the Department of Antimonopoly Policy renewed its methods of defining monopolistic status of a business entity. Different scientists and international specilists from financial institutions were ingaged in the creation of the new methodology. At the same time the Deparment put into operation a self-dependent market monitoring, whereas before, conclusion on market shares were drawn only on the State Committee database due to the statistics and general knowledge on the issue.

As it has already been abovementioned before, monopolization is closely connected with the prosperity of corruption in the country. International Bank evaluates rating authority being the most corrupt state institutions in Azerbaijan, hereby highlighting 30% of corruption rate in 2005 in comparison with the year 2002. Then the authorities providing business licenses hold the second place due to the corruption level; 17% - in 2002, and about 20% - in 2005, i.e. a vivid increase.

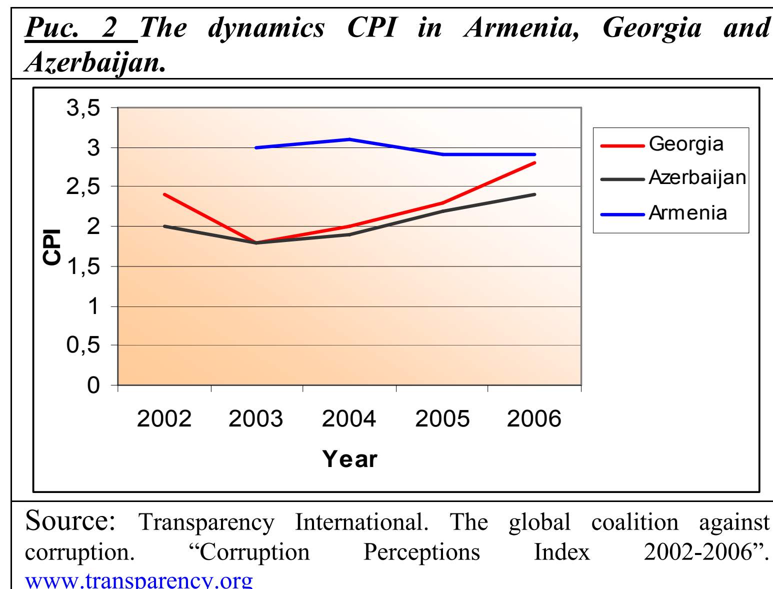
Fig.1 Azerbaijan



Source: "Azerbaijan BEEPS-at-a-Glance". EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

According to other sources of Transparency International (TI) Azerbaijan is one of the corrupt countries in the world. Due to the CPI (Corruption Perceptions Index) of 2002, it took the 87th position in the range together with the Ukraine, out of the 90 investigated countries. And in 2006 it was on the 130th position, alongside with Burundi, Central African Republic, Indonesia, etc., out of the 160 investigated countries. See the dynamics of CPI[72] changes in Azerbaijan in fig. 2.

***Puc. 2** The dynamics CPI in Armenia, Georgia and Azerbaijan.*



Source: Transparency International. The global coalition against corruption. "Corruption Perceptions Index 2002-2006". www.transparency.org

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[72] CPI Score -relates to perceptions of the degree of corruption as seen by business people, risk analysts and the general public and ranges between 10 (highly clean) and 0 (highly corrupt).

So, the following can be concluded about the level of monopolization and corruption in Azerbaijan. There exist high concentrated markets in the country; all import is particularly monopolized and government monopoly exists in the country, and, all in all, the whole business sphere is concentrated in the hands of concrete people, which results in oligarchization of the country when merged with the state; the process is already underway.

Another situation is in Georgia. Today in Georgia the problem of concentration of markets or monopolization, is not so urgent in general. But there exist high concentrated markets in Georgia as well; for instance, in the sphere of power generation, as a natural monopoly. The main players in wholesale markets of power generation are wholesale generating companies, formed from the greatest electric power stations. Currently the main part of electric power stations is in control of holding, 52% shares of which belong to the Government.

The holding JSC "UPS of Russia" power stations produce more than 70% of energy in the country. And another concern of Russian Power Station produces approximately 10% of energy, completely controlled by the government. The rest of the energy is produced by the independent producers – mainly "Bashkirenergo", "Tatenergo", which are in control of states authorities, and as well as "Irkutskenergo", "Novosibirskenergo", controlled by private companies[73].

The other market considered highly-concentrated is a pharmaceutical market. There are three large-scale distributors today, approximately 75% of the market is in their hands, and the remaining 25% allot to 60 small subjects.

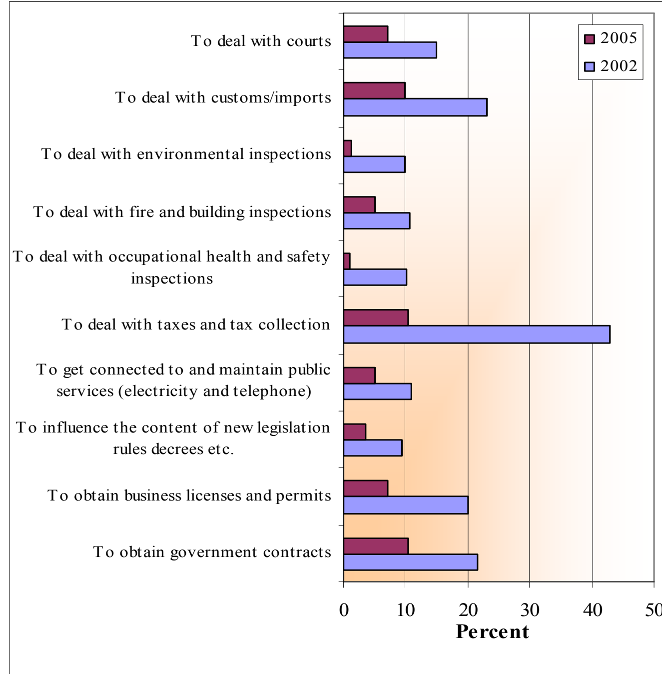
The situation in regards with monopoly formation slightly changed, after changing the state elite aiming at elimination of monopolies in the country. It has been declared that the advantage of Georgia towards other countries is that the government does not make money, and does not provide any chance for machination. It has been also mentioned that the government has to create a healthy competition in all spheres; the healthy competition always bears competition in prices.[74]

However, according to the analysis of the World Bank Georgia was one of the most corrupted countries in the world in 2002. But in the year 2005 reduction of corruption was significant in Georgia. In fig. 3 you can observe the level of unofficial payments (bribes) in different institutions of the country.

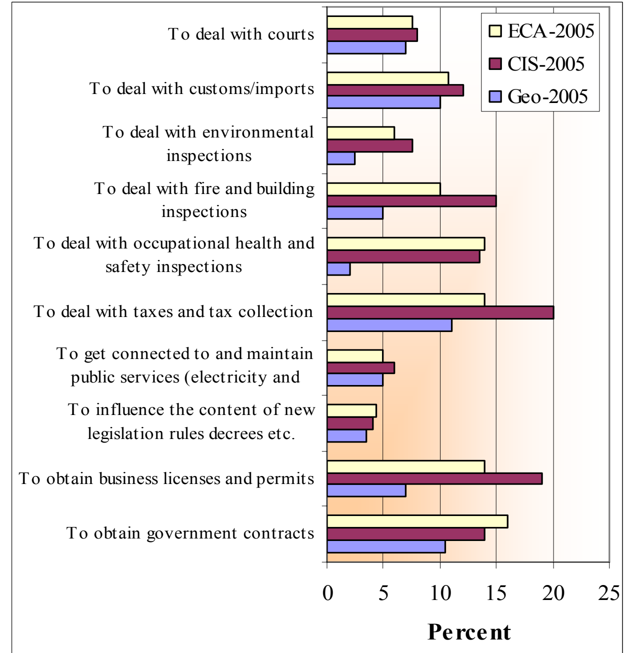
[73] www.regnum.ru/news
[74] www.ng.ru./archive/part/www.ng.ru.cis

Puc.3 Georgia

Unofficial Payments in Sectors—Over Time
Percent of firms saying bribery is frequent



Unofficial Payments in Sectors—Across Countries
Percent of firms saying bribery is frequent



Source: *"Georgia BEEPS-at-a-Glance"*. EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

As it can be noticed from Fig. 3 very radical changes occurred in the sphere of corruption in Georgia in 2002-2005. In 2002 the most corrupt institute was the tax institute, but within 2-3 years the corruption in that institute reduced for several times. And in comparison with CIS and ECA the lowest level of corruption is in Georgia out of the mentioned institutions (see Fig. 3 above).

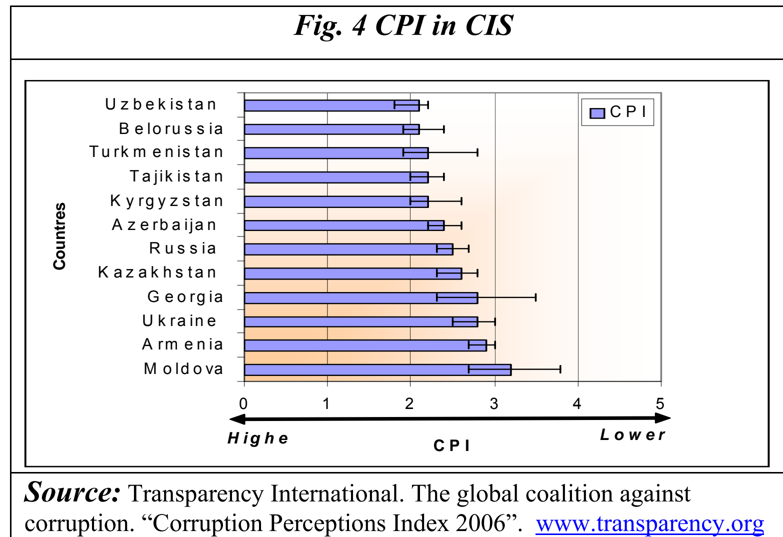
According to TI the CPI in 2002 Georgia was in the 85th position, out of the 120 investigated countries, with 2,4 CPI. In the year 2006 with the same CIP Georgia was in the 99th position alongside with Mali, Mongolia, the Ukraine, etc. with index 2,8. See the dynamics of CPI changes in Georgia, Armenia, and Azerbaijan in Fig. 2.

As we can observe in Fig. 2, due to CPI, Georgia is making progress and since 2004 CPI growth has been noticed. However, we are to underline that the quantity of investigated countries depending on CPI, as well as the quantity of investigated countries, the position of Georgia, differs according to the range. For instance, in 2003 the country was on the 124th position, out of 133 investigated ones, with the CPI of 1.8, but in 2006, out of the 163 investigated countries, it took the 99th position with the CPI coming to 2.8. Thus, the position occupied by a country does

not only depend on the CPI, but on the number of the investigated countries, as well. This comment refers also to Azerbaijan and Armenia.

In comparison with CIS countries, Georgia was in the fourth place due to the CPI in 2006. The leading countries in this group are Moldova, Armenia, the Ukraine, whereas Azerbaijan occupying the seventh place.

Fig. 4 CPI in CIS



Source: Transparency International. The global coalition against corruption. “Corruption Perceptions Index 2006”. www.transparency.org

So, the following can be concluded about in Georgia. The level of monopolization in Georgia is not so high, though there exist some concentrated markets. Georgian government is seriously concerned about the existence of monopoly groups in the country. Those monopoly groups are under a strict control of government institutes, such as taxation bodies, state standardized institutions, judicial systems, etc. Because of antitrust legislation which is also a means for reducing antitrust legislation breaches, there operates the system of high level bans. Thus, as stated above, there act corrupt institutes in Georgia, though the level of corruption in the country reduces from year to year.

In Armenia there is somewhat different situation than in Georgia and Azerbaijan. In Armenia, as compared with Georgia, there is a high level of concentration of different goods markets. The levels of monopolization of some goods markets (cigarette, bear, diesel oil, petrol) in Armenia were counted by the author and it was marked that the average level of concentration of those markets makes up 75%, which corresponds to the level of a high concentration.

As it was found out, for the last 6 years these branches from the average level of concentration have turned to a higher level which means that the level of monopolization in these two branches

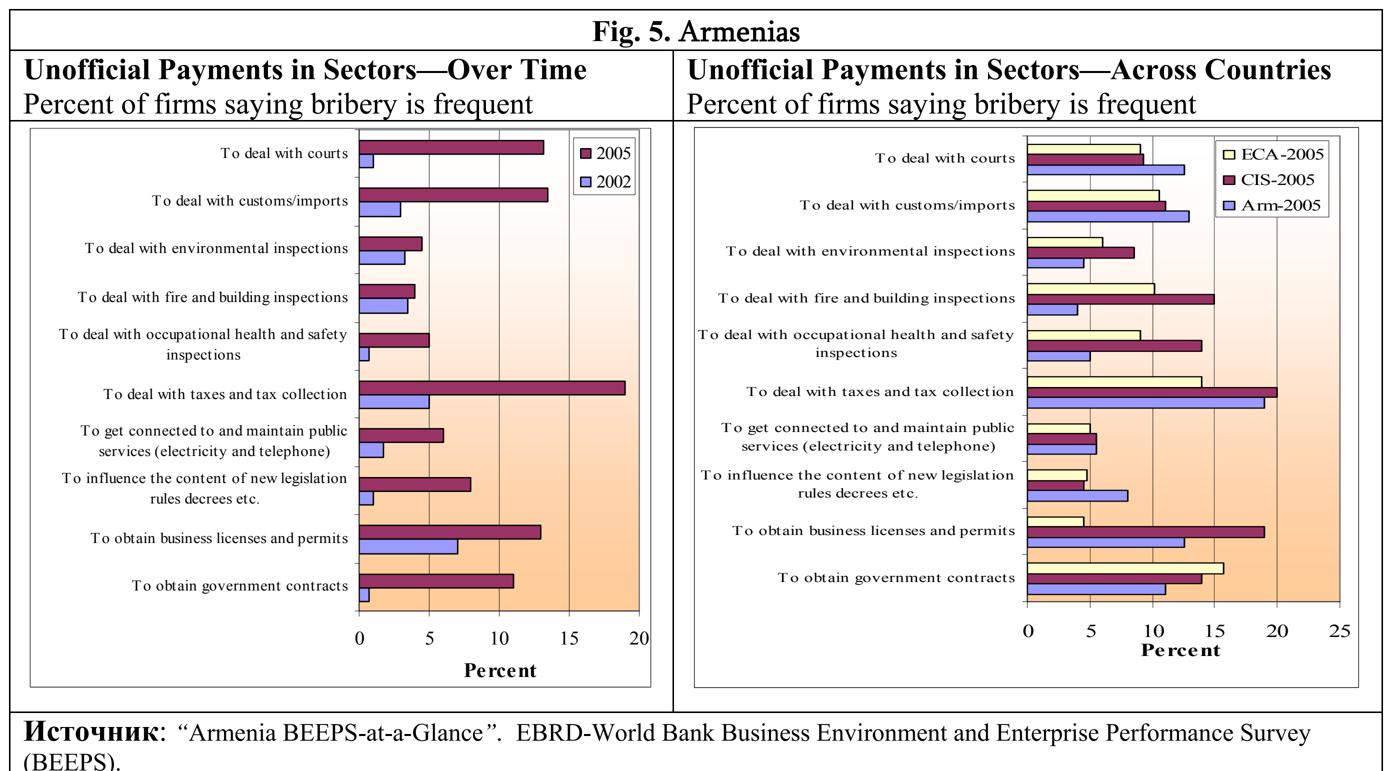


Fig. 5. Armenias

Источник: "Armenia BEEPS-at-a-Glance". EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

has increased.

Separate branches of economy were also investigated, particularly in industry. So, it turned out, that concentration of 81,5% of the Armenian industry makes up 82,47%. Concentration of 40% of import came to more than 75%.

There acts a "Law of ownership" in Armenia, according to which the State Committee of economic competition reveals the breaches of firms-monopolists and applies all the possible measures to extirpate them.

For the last 2-3 years the State Committee of economic competition of Republic of Armenia brought actions, the causes of which were abuses of the dominant position and big fines were imposed, directed to the budget later.

The World Bank estimated an increase in corruption of Armenia during 2002-2005. Corruption rate has increased to 5-10% in the institutes, the latter proving a corruption prosperity in the country. See Fig. 5 for the institutions studied by the World Bank, as well as the percentage of the corruption growth in the corresponding institutions.

Fig. 5 underlines the fact that in 2005 the most corrupt institute was taxation bodies. As compared to the year 2002, corruption rate has grown in 15 percent points. The second corrupt agency after taxation bodies is judicial system; corruption level here from 2002 till 2005 grew in 13 percent points. Thus, till 2005, according to the World Bank research, the corruption increased. In comparison with ECA and CIS in the investigated institutions of Armenia a higher level of corruption is underway than, for instance, in Georgia.

The analysis of another international organization TI mentions that due to the CPI, corruption level in Armenian has a tendency to decrease, as compared to 2002, even more than in Azerbaijan and Georgia (See Fig. 2). Due to the CPI of 2006, it took the 93rd position, in the range together with Argentina, Syria etc., with index 2,9.

Hence, three countries of South-Caucasus: Armenia, Georgia and Azerbaijan were analyzed in this work. Monopolization and corruption situation were investigated of these countries. So, the following can be concluded: monopoly level is very high in Armenia and Azerbaijan; there are high concentrated markets as well as monopolized import, what we cannot say about Georgia. Though there also exist high concentrate markets, there are fewer than in Azerbaijan and Armenia.

In general we can also state that monopolization leads to the following processes, which can impede long-term economic growth and economic relations among the above mentioned countries.

1.***Increased prices of goods and services***. As a result, people provide the inflow of large sums of money to market for consumption of relevant goods and services, but in return, receive, firstly, not in the necessary amount, due to high prices and lack of money, and the secondly, get low-quality goods and services, which have no alternative in the market.

2.***Rise of inflation level***. As monopolists are always interested in rise of prices for their goods and services, meanwhile no reverse tendency exists.

3.***Capital markets and stock exchange do not develop***. Neither monopolist wants to share his property and super-profit, thus monopolized firms do not issue securities.

4.***Distortions in allocation of foreign direct investments.*** In the presence of monopolized sectors, foreign investments are allocated to those niches, protected from the competitiveness.

As was mentioned above, in those countries (Azerbaijan, Armenia) where monopolization level is very high, the corruption level is higher. In its turn corruption brings forward the following negative economic and social consequences.

Economic consequences:

1. Shadow economy enlarges. This leads to decrease of tax revenues and budget weakening. As a result, government loses financial leverages; social problems intensify because of failure to fulfill budget liabilities.

2. Competitive mechanisms of market are disrupted, as far as often the winner is not the one who is more competitive, but the one who managed to gain advantages through paying bribes. This leads to a decrease in the effectiveness of market and discredits the idea of market competitiveness.

3. Appearance of effective private holders slows down, first of all, because of violations during privatization process. The consequences are the same as in point 2.

4. The prices rise, due to the "overhead costs", related to corruption, and as a result, the consumers suffer from that.

Social consequences:

1. Property inequality and poverty of the most part of population is locked and increased. Corruption urges unfair and wrong reallocation of amounts in favor of thin oligarch groups at the expense of the most vulnerable groups of population.

2. The right as main instrument of regulating governmental and social life is discredited. The idea of population defenselessness against both criminality and authorities is formed in public conscience.

3. Corruption in law-enforcement bodies leads to strengthening of organized crime. The latter, merging with corrupted groups of bureaucrats and entrepreneurs, is strengthened even more, due to broader access to political power and the opportunities of money laundering.

In its turn the high level of monopolization and corruption in the country brings to the oligarchization, which has its economic and social consequences.

Oligarchization promotes to the enlarging of **shadow economy**, conditioned by favorable state of oligarchies, who might avoid paying taxes with impunity.

As it was abovementioned, oligarchization and monopolization also lead to the **distortion of competitive mechanism of market**; as the oligarch not only keeps his monopolistic position, but also captures new markets through bribes and abuse of official powers. As a result, not only inefficient business unit comes forth, but also **inefficient private owner**, because his behavior is not dictated by the effective use of assets, but by their savings from expropriation. To our mind, on exactly this conditioned building boom was caused during the last years, i.e. the safest way of transferring "illegal cash" into the legal form, i.e. construction being their "money-laundering".

In the environment of distortion of competitive mechanisms **the development and enlarging of SME do not appear.** Thus, natural process of generating innovations and modernization which happen to be the major factors of long-run economic growth doesn't appear.

As a result, the use of **monopolistic position** as well as taking into consideration corruption and other overhead charges, the prices on the becoming commodities raise too high, providing owner-oligarch with super-profits, of course, at the expense of consumers.

The most terrible thing is that the given system **regenerates by itself** not allowing healthy economic, social and political institutes to arise and develop thus leading to more impoverishment of precarious groups. Redirection of state recourses (financial, administrative, and human) for securing the regeneration of policy which guarantees the safety of oligarchic order of economy and oligarchic political system.

All the outcomes mentioned above **estrange and isolate the economy of investigated countries from external markets and from good cooperation between them**.

We suggest the following mechanisms for solving the situation emerged in these countries. The following methods are suggested for solving the problem of monopolization and economy corruption:

- ✓ Creating conditions for competition development in potentially competitive forms of activity and the following deregulation of these forms of activity (the classics would say "*The basis of market economy is a competition, which is the main source of economic growth."*);
- ✓ *Stimulating the development of the SME* through long-term credits, which is impossible without appropriate development of financial market;
- ✓ For the further development of antimonopoly regulation it is necessary to regulate relationship of antimonopoly agency with these of executive power. There are lots of matters at the same time covering different agencies of executive power (the so-called frontier
- ✓ matters). In such cases one should avoid dubbing actions, harmonize regulations of joint actions of different administrative structures, co-ordinate their normative documentation and so on.
- ✓ Perfection of laws, particularly the ones referring to monopoly;
- ✓ It is necessary to reduce administrative obstacles (when getting licenses, permissions, certificates, during registrations, etc.) as well as the interference of judicial and controlling authorities should also be reduced.

Thus, if the above-suggested points are applied the "structural distortion", economy monopolization and corruption will abruptly decrease. Some producers will appear in one sphere, corruption will be reduced and inner-regional economic relations Armenia-Georgia-Azerbaijan will stronger; the latter will favour the growth of economy in each country.

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State and Democracy

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Introduction

Democracy (literally "rule by the people", from the Greek δημοκρατία-demokratia *demos*, "people," and *kratos*, "rule") is a form of government by the will of the people.

Today, the term *democracy* is often used to refer to liberal democracy, but there are many other varieties and the methods used to govern differently.

Liberal democracy is a representative democracy (with free and fair elections) along with the protection of minorities, the rule of law, a separation of powers, and protection of liberties (thus the name *liberal*) of speech, assembly, religion, and property Conversely, an illiberal democracy is one where the protections that form a liberal democracy are either nonexistent, or not enforced.

1.Foreword

In theory, Democracy is the form of Government in which the supreme power is vested in the people and exercised either directly by them (Direct Democracy) or by their elected representatives or by some numbers of people. That is Representative Democracy.

With the regard to its practical understanding, Democracy is a set of laws, procedures and terms determined to ensure the legal, free competition between different public organizations and movements, political parties and elite, which represent diversified government conceptions on the way of development of interests of
society and different parts of society. This is the liberal formulation of the organizations, groups and parties, so called “Social Elevator” possessing the perspective of coming to political elite.

Direct form of Democracy was not common to very big countries. The State Theory by Plato was the ancient form of criticism of Direct Democracy. The example of Direct Democracy Government was Republic of Novgorod in Russia that practiced this form of government for only 400 years. The direct Democracy was substituted by Monarchy.

Nowadays, democratic form of government has been transformed into the form of Western European representative democracy called “Liberal Democracy”.
The theoretical founders of Liberal Democracy are considered to be: Jean-Jacques Rousseau (1712-1778), John Lock (1632-1704) and Montesquieu (1689-1755).

The development of mass communication means and automatic processing of information arose the interest to the direct forms of Democracy.

Liberal Democracy does not refer only to the majority rule but to the legal state. It is a form of Representative Democracy in which the ability of the elected representatives and majority to exercise decision-making power has to be used for protecting the rights and interests of various minority groups - whether political, national, ethnic, social, cultural, also separately the rights and interests of each individual. The rights

and liberties of each individual have more priorities than the rights and liberties of groups (groups, nationalities, minorities etc.) to which each individual belongs or does not belong and which in the whole represent public and state interests [1].

The stated liberal laws are enforced in the supreme legislation such as constitution that itself is the supreme law in the most of the countries (for example, in Georgia).
The constitution of Georgia is the state supreme law. All other legislative acts have to be in correspondent with the Constitution. The legislation of Georgia meet widely acknowledged principles and standards of International Law. The international treaty or agreement of Georgia, if it is not against the Constitution of Georgia, Constitutional Agreement, takes the legal precedence over interstate normative acts [2].

Contemporary perception of Democracy also means:

- Freedom of speech
- Freedom of confession.
- Separation of religion from State and separation of schools from religion.
- Freedom of press and mass media (including television).
- Depoliticization of army, police, state security departments, Prosecutor's office and court, other (non-political) state authorities and governing party.
- Civilian, public and parliamentary control over the army, police, state security offices and other law enforcement structures.
- The right of the citizen freely acquire and utilize the full and true information on the activities of the government and governing offices.
- The freedom of creativeness and creative self-realization and namely freedom of speech.
- Freedom of peaceful assembly, manifestations and peaceful march.
- Freedom of unions, organizations and political parties.
- The right of the citizens to be freely affiliated into any public movements, unions and political parties.
- Personal immunity.

In the contemporary global world, Democracy limits the sovereignty of the national state and the government for the benefit of the international organizations that themselves guarantee protection of general democratic rules, standards and procedures, the human rights and liberties. To call the international observers for observing the election process or to sign the convention on human rights can be served as the examples.

[1] Merkel W. Embedded and Defective democracies//Democratization – 2004 - vol.11, # 5 – p.33
[2] Constitution of Georgia, August 24, 1995

The right of life, freedom, security etc.

The state restricting the sovereignty but still declaring itself as the democratic state, is considered to be the so-called "imitating democratic state", the most known in the practice as authoritarian or partly authoritarian regimes.

1. *Liberal Democracy*

Liberal Democracy is the public-political arrangement form of the legal state based on the representative democracy in which the will of the majority and the power of the elected representatives is limited for the benefit of the rights and liberties of minorities and each individual. The goal of the liberal democracy is to ensure the equality of

all the citizens before the law, private property, personal immunity, freedom of speech, freedom of the assembly and confession. The supreme laws (such as constitution or statute or the precedent decisions made by the Supreme Court) strengthen these liberal laws.

2. *Structure of Public-Political Setup*

Democratic setup of the state is strengthened mainly in major laws and supreme precedent decisions that the constitution is comprised of. The aim of the constitution is to restrict the exceeding authorities of the officials, law bodies and the majorities by using the number of tools the most important of which are: rule of law, independent administration of justice, separation of government that makes one part of the government be accountable to the other part. The activities and actions of the government representatives can be considered valid in case if they are in correspondent with the legislation and published in writing.

3. *Rights and Liberties*

The basic criteria Liberal Democracy possesses are the human rights and liberties. The majority of these liberties were derived from the various developments of Liberalism and obtained the functional meaning:

- The right of life and protection of dignity
- Freedom of speech
- Freedom of mass media means and access to the alternative sources.
- Free expression of confession and religion concepts.
- The right of affiliation into political, professional and other organizations.
- Freedom of assembly and public debates.
- Academic freedom.
- Independent administration of justice.
- Equality before the law.
- The right of keeping appropriate legal procedures in terms of rule of law and etc.

Some liberties mentioned above are restricted. Herewith, all the limitations have to meet three terms: they strictly should be in correspondent with the legislation, be fair, necessary and adequate for achieving the goal. The laws setting the restrictions must not be ambiguous and must offer the opportunity for argument. Protection of reputation and dignity, national security, public order, intellectual property rights, health and moral refer to legitimate goals. Some restrictions are compulsory for not weakening the liberties of others by the rights of one person.

Generally, the free elections themselves seldom ensure the liberal democracy and practically often bring us to "Defective" democracy in which the citizens are deprived from the election right or the elected representatives don not have the power to influence on entire policy of government or legislative and legal government subordinates to the executive government or the justice is incapable to guard the constitution. The latter is the most widespread problem.

Till the middle of XIX century, Liberalism and Democracy were in contradiction.

The basis of society for Liberalism was the individual with property and with the need to guard his property and who didn't have to make the choice between survival and protection of his civic rights.

Liberals believed dictatorship was the big danger for property and for personal freedom . This fear particularly grew after the French revolution.

After the revolution of 1848 and coup d'état by Napoleon III in 1851, the liberals acknowledged more the necessity of democracy. The liberal regime turned out to be unstable without participation of masses of people in the public negotiations and realization of the ideology of liberalism – to be utopia. At the same time, the social-democratic movements emerged who denied the possibility of building the legal society based on the private property and free market.

The representatives of this movement thought the ideal democracy could exist only in the frames of socialism where all the citizens were equal.

The most of social democrats rejected the revolution when they became convinced of the highly growth of middle class representatives and decided to participate in the democratic processes, to implement the legislative reforms and hence to make the velvet revolution for the benefit of socialism.

At the beginning of the twentieth century the western social-democrats achieved significant successes. The reforms were implemented and the right of electoral society expanded that increased the level of social protection of people.

At the second half of twentieth century, the principles of open society, rule of law, equality before the law, liberal freedoms have become of priorities for the countries fighting against fascist and communist ideologies. Finland, Spain, Slovenia, Estonia, Cyprus, Canada, Uruguay and Taiwan, countries different in culture and economy, today belong to social-democratic regimes.

The Islamic Fundamentalism is nowadays considered to be the main hostile ideology of Liberal Democracy. The majority part of population of democratic countries view the threat to their personal and national security in the modern Islamic movements. In our times, only two Islamic countries – Indonesia and Mali have the contours of liberal democracy

4. *Liberal Democracy In The World*

Freedom Houses – According to experts, the countries in which the form of democracy is set by the system of governing, face the difficulty to change the government through the way of elections.

The part of organizations and political scientists conduct the rate researches of the level of Democracy in the different countries of the world. The most interesting of all is the Democracy index produced by Freedom in the world and the magazine "Economist". There is general agreement that Japan, the United States, Canada, Australia, South Africa, New Zealand and India are liberal democracies. .

The number of African countries and former Soviet Union republics declare themselves as democratic but actually the ruling elite of these countries have a strong influence over election outcomes.

5. *Types of Liberal Democracy*

The liberal democracy is defined as the form of government where the principles are realized and the above discussed standards are in correspondence with the ruling regime of the country. For example, Canada is Monarchical country but is in fact ruled by a democratically elected Parliament. In the United Kingdom, the sovereign is the monarchy but the monarchy in these nations is almost entirely ceremonial rather than political.

The Scandinavian nations simultaneously belong to the forms of liberal-democratic and social democratic countries. This fact is caused by the high level of social life of the population, free secondary education system and healthcare, high participation of the government in economy and high taxes.

7. *Liberal Democracy in Russia*

For example, Russia has never been a liberal democracy. According to rate research of "Freedom in the World", in 1990-1991 Soviet Union was considered as partly independent countries, since 2005, Russia has taken its place among the countries who are not independent.

In Russia, the part of population mistakenly associate the principles of liberal democracy with the Ultra national Party[3].

The outcome of Liberal democracy is the human investment, low rate of inflation, reduced political and economical nonstability, and minimized participation of the state in the entrepreneurs' businesses. The number of researchers think, this form (particularly economic liberalism) supports the economical development and increases the economic level of life of all the population.

Although, some of the liberal-democratic countries, in spite of the high growth of economical rates, still belong to the number of poor countries (for example, India, Costa Rica, Estonia). The authoritarian countries, on the contrary, are economically flourished, for example, Brunei.

Practice has shown that the liberal democracy more efficiently uses the existing resources than the authoritarian regime.

Therefore, Liberal Democracy is more characterized by high longevity and less death rate despite the level of democracy, not equal income and the size of the state sector.

8. *Negative Side*

Liberal Democracy is a form of representative democracy and is often criticized by the followers of Direct Democracy. They think, in Representative Democracy, the will of majority is seldom expressed in the process of the election and referendum. The real power is consolidated in the small number of representatives. With regard to this point of view, liberal democracy is closer to Oligarchy. That time, when the development of technology, the increased level of education of people and their involvement in public life has created the precondition for passing the authority to people.

Thus, we discussed Liberal democracy as the form of public-political setup of the legal state on the basis of representative democracy with its positive and negative aspects; It offers us not only the rule of majority but also the legal state on the bases of representative democracy, in which the power of the elected representatives will be used for the protection of the rights and interests of various minorities.

Georgia has recently developed the civil society because much time was spent for the development of the state. Therefore, the introduction and development of the democratic principles is of big importance for Georgia in order to achieve those high development levels which other democratic countries have already reached.

Thus, Democracy is one of the contemporary forms of governing the state and hence its role in the development of country is significantly important.

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Reasons and factors impeding the settlement of the Nagorno-Karabakh conflict process.

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Summary

Nowadays the Nagorno-Karabakh conflict is one of the most actual collisions on the post Soviet space and in the whole world. There are essential factors for blocking of the conflict:

1) Absence of political will of the conflicting parties to cooperate with one another to resolve the conflict.
2) The issue of two principles of international law - principle of territorial integrity and safety of the state, the right of the nation and people for self-determination.
3) Use of the Nagorno-Karabakh conflict by the developed countries to achieve goals based on their geopolitical and economic interests.

All these factors radically influence the process of conflict settlement and decrease the efficiency of the decisions to achieve the coordination of the contradictory parties around Nagorno-Karabakh.

These are the research resources and methods which will be used for the current work: books on the above subjects, the resolution of the United Nations, reports of co-chairmen of MG of OSCE, official documents, the Internet-resources, a method of the analysis and comparison.

Reasons and factors impeding the settlement of the Nagorno-Karabakh conflict process.

Nowadays the Nagorno-Karabakh conflict is one of the most actual collisions on the postSoviet space and in the whole world. This conflict is getting more and more protracted interstate and international problem without clear prospects of development. After disintegration of the USSR two neogenic states (AR and RA) have appeared to be involved in a confrontation practically from the very first days of their independence. Military operations were stopped only in May, 1994. However, despite the efforts of both parties of the conflict and numerous international intermediaries the political consensus was not achieved. The situation of «neither war, nor peace» is rather dangerous, as conceals constant risk of military actions renewal. Even at rather small probability of such scenario, still too much anxiety remains. First, both countries incur significant economic losses because of preservation of the conflict

for uncertain period of time. Potential economic partners - Armenia and Azerbaijan - are forced to address to other partners because of their mutual isolation. Delay of the conflict settlement or even absence of small progress in the process of its settlement still impedes the researches of ways to resolve it.

The summer of 1992 within the framework of OSCE had been created the Minsk Group aimed at:

- Prevention of renewal of military actions.
- Aiming of all the efforts on development of suggestions directed on settlement of the Nagorno-Karabakh conflict exclusively by peace.

3 main options of the resolving of the conflict were offered by Minsk Group of OSCE.

1) «The Batch plan» was offered in July, 1997, which supposed to resolve the conflict by final definition of Nagorno-Karabakh status in structure of Azerbaijan (with granting an autonomy) and solution of other problems in aggregate. This offer was not in interests of the Nagorno-Karabakh Republic for the following reasons:

a) Nagorno-Karabakh has never voluntary been a part of Azerbaijan and always was the primordially Armenian land.

b) Even by inclusion of Nagorno-Karabakh, and granting a wide autonomy in structure of Azerbaijan there was a danger of pressure on Nagorno-Karabakh, based on the right of «non-interference of the states and the international parties to internal policy of the State». This caution has its grounds, considering an aggressive policy which was adopted by Azerbaijan in relation to Nagorno-Karabakh people in structure of the USSR.

As a result the parties did not manage to come to the mutual agreement on acceptance of a batch plan as the decision of the conflict. But owing to efforts of MG of OSCE in 6 months the stage-by-stage variant on settlement has been developed.

2) «The Stage-by-stage variant» was offered in December, 1997 which supposed to consider the decisions of the conflict stage by stage, i.e. primary questions were withdrawal of troops, return of refugees, adjustment of communications. The question of Nagorno-Karabakh status was not considered. Also it was supposed to create the Armenian-Azerbaijan Intergovernmental Commission (AAIC) for assistance of boundary incidents prevention between Armenia and Azerbaijan, implementation of communication between boundary armies and other corresponding forces of safety of both countries and supervision and assistance to actions on opening roads, tracks, communications, pipelines, trading and other relations. But this variant was also rejected by both parties. The basic problem for Nagorno-Karabakh was c withdrawal of troops within 1988, it was a mandatory condition for both batch and stage-by-stage variants. In this case the withdrawal of troops for Nagorno-Karabakh would mean loss of a position to achieve the right of self-determination of the nation while the status was not certain and remained in doubt.

3) «The Common state» was put forward by MG of OSCE in December, 1998. It was, in effect an attempt to find «not conventional» decision where the basic requirements could be formally combined whenever possible: AR - about its territorial integrity and NK - about self-determination. The most important points of this variant, published in press, are the following:

- NK is the state and territorial formation and makes single state together with AR in its international-recognized borders.
- Own Constitution and laws of NK operate in its territory. Laws of AR act on territories of NK in case they do not contradict to Constitution and laws.
- NK will be qualified to carry out direct external communication lines with the foreign countries in spheres of economy, trade, education and culture.
- NK will have National Guard and police forces. They cannot operate outside the borders of NK.
- Army, forces of security and police of AR will not have the right to enter the territory of NK without the consent of last[75].

For conservation of NK's relation with an external world the following form was offered: AR leases the zone of humanitarian Lachin corridor to OSCE and OSCE controls it «in cooperation and interaction» with NK authorities and at the cost of the human resources presented by the official Stepanakert together with observers from OSCE. In that case NK would loose the opportunity to conduct independent foreign policy and wouldn't have an independent banking and financial system. However, this territory was proclaimed a free economic zone with unlimited entry of any foreign currencies. The offered variant was accepted by Yerevan and Stepanakert as a basis for negotiations, but Baku, referring to the standards of international law and national interests, rejected it.

Activity of MG of OSCE after non-acceptance "the General state" principle by both of the parties, was stopped till 2006 when co-chairmen practically managed to reach mutual consensus of two presidents of RA and AR about the status of NKR, but this initiative was not justified. The failure of negotiations again has revealed an inefficiency in the development strategy of various concepts on the Nagorno-Karabakh conflict settlement and shows that the quintessence of the conflict is much deeper. In this case the efforts of MG should be directed to revealing the quintessence and a certain strategy should be developed, based on the international standards and aimed at resolving the conflict.

There are number of essential reasons of impeding the conflict which are listed below:

1) Absence of political will of the contradicting parties to cooperate for settlement of the conflict. Unfortunately, in our countries there is «steady image of the enemy», and power-holding

[75] Legal folder of Ministry of Foreign Affairs of Nagorno-Karabakh Republic (MFA of NKR) "Comprehensive agreement on Nagorno-Karabakh conflict settlement". "Common state" suggestion of Minsk Group OSCE co-chairmen, December 1998.

structures and Baku, and Yerevan also promote strengthening of this "image". But it is necessary to understand, that it first of all negatively influences the mutual trust, being a basis of any negotiations on search of reconciliation ways. Process of settlement will not begin until the psychological mechanism is cocked when the parties start to hear (to listen to) each other, while prospective settlement does not consider searches of rapprochement between people, which are not ready to be pulled out from the fetters of their own historical myths. International law, the international institutes and intermediaries stand on the place as do not try to understand at all the initial reasons of their permanent failures. If the parties of the conflict are not focused on the agreement, but on winning the opponent at any cost, and the international law, informational space, international intermediaries, and democratic rhetoric and so forth are used only for these purposes, in that case it is impossible to count on finding the comprehensible decisions. Modern political technologists do not adjoin in any way nationalist myths, not taking them into consideration. But efficiency of political technologies both for the Nagorno-Karabakh conflict, and for other regional conflicts in the world means that comprehensible decisions should be found not for presidents (politicians), but for the raised mass consciousness impregnated by nationalist myths, which has strong influence not only on press, but also on politicians. All it has led to such deep opposition of two nations, that any compromise is perceived as national treachery.

2) The Dilemma of two principles of international law - the right of the nation and people to self-determination and a principle of territorial integrity and safety of the state. In the first case, the right of the nation and people to self-determination still in 60-70 years became a basis for wreck of colonial system and for that period was the most c acceptable, even it is possible to say that it was only variant in connection with an aggravation of mutual relations of the states, the reason of which was the struggle for influence above colonies[76]. The second variant was the uncompromising tool of the United Nations for the settlement of conflicts on Southern Caucasus and besides for that period of time was the most comprehensible variant which is equitable to interests of the basic players on Southern Caucasus. In case of the Karabakh conflict the basis for settlement had been took territorial integrity of the state. It is natural that the state which had influence on territory where the conflict was formed has enough levers of pressure for settlement of the developed situation. Proceeding from these reasons and understanding, that in case of taking for a basis «the rights of the nation to self-determination» conflicts on Southern Caucasus can develop from a local problem into regional, the Security Council (SC) has decided the United Nations, that it is the most expedient to take for a basis territorial integrity of the state to the detriment of the right of the nation to self-determination though, proceeding from International law, these two principles of international law are equivalent. Confirmation to this was served with 4 resolutions published (SC) the United Nations (822, 874, 853, 884). At what in each of resolutions for a basis territorial integrity of the state was undertook. «Again confirming respect and the sovereignty and

[76] Manasyan A. “Karabakh conflict: key conceptions and chronics”, p. 182

territorial integrity of all states in region. Again confirming also indestructibility of the international borders and inadmissibility of application of force for purchase of territories... »[77].

«... Demands the immediate discontinuance of all military actions and hostile acts with a view of an establishment of strong cease-fire, and as immediate withdrawal of all occupying forces from area Kelbadjhar region and other, recently occupied areas of Azerbaijan »[78].

«... Demands the immediate termination of all military actions and an immediate, full and unconditional withdrawal of participating in the conflict of occupational forces from area Agdam and all other, recently occupied areas of Azerbaijan»[79].

«... Calls the government of Armenia to use the influence with the purpose to reach observance of the resolution by Armenians of the Nagorno-Karabakh region of Azerbaijan 882, 853, 874 and to provide the involved forces with funds for continuation of their military company»[80]. From the above-stated is possible to draw a conclusion, that the International law cannot develop universal laws which will work at all times and it is necessary to search for new approaches and decisions constantly. Only by constant search and perfection of International law, probably it is possible to develop the system responding to realities and based on rights and freedom of the person.

1) 3) Utilization of Nagorno- Karabakh conflict by developed countries aimed at reaching the initiatives, based on geopolitical and economic interest thereof. Present politic of Russia collides with many problems, related to loosing the influence power in the region of South Caucasus. While Russia concentrated resources on strengthening internal politic stability after disintegration of former USSR, western countries, including USA consolidated in this region, set up the conditions, which afterwards brought to complications for Russia to achieve its goals. In this context it is suitable to note that:

a. Economic factor – interest of Great Britain in Caspian oil, supplied by Azerbaijan;

b. Political factor – revolutions in Georgia and American support to Georgia, creation of a zone, separating Russia from Armenia and NKR;

c. Military factor – actions of USA in relation to Iran.

It's necessary to note that despite the real contradictions, at present Russia and Iran are forced to become tactical allies, seeking to resist undesirable huge ambitions of the West to include vast regions of South Caucasus and the Central Asia into the sphere of its political and economic influence.

[77] www.un.org Resolution dated April 30, 1993 (822, 874, 853, 884) of Security Council of UN

[78] Archive of Ministry of Foreign Affairs of Nagorno Karabakh, "Legal folder" Resolution N822 of Security Council of the United Nations, April 30, 1993

[79] Archive of Ministry of Foreign Affairs of Nagorno Karabakh, "Legal folder" Resolution N853 of Security Council of the United Nations, July 29, 1993

[80] Archive of Ministry of Foreign Affairs of Nagorno Karabakh, "Legal folder" Resolution N886 of Security Council of the United Nations, November 12, 1993

All these factors and many others as well have significant influence of the decisions of Russian regarding settlement of Nagorno Karabakh conflict. Current situation is created with the purpose of pushing away and minimizing all the undertakings and initiatives of Russia in this region, generally, and in Karabakh conflict, particularly. Taking into account all the circumstances, Russia manages to restrain the political pressure of Western countries and influence the process of regulating Karabakh conflict. Considering the process of settlement through the lenses of strong states' interests, it's necessary to note the strengthening of two states – Russia and USA – in the region. According to rather spread opinion, USA are interested in the earliest possible settlement of Karabakh conflict, which will allow them, being economically and politically powerful, to hasten the process of involving the republics of South Caucasus region into the sphere of their influence. Proceeding from this, it is supposed that the opponent of conflict settlement appears to be Russia, which is concerned about full loss of influence in this region and implements alternate pressure on both Armenia and Azerbaijan, through the unresolved conflict between them. Though, despite the fact that USA are really interested in the settlement of Karabakh conflict, we would like to make an essential proviso: unless USA resolve the range of important for them military, political and economic programs in the region, premature settlement of the conflict can become an obstacle in realization of these programs. With regard to that it is necessary to note that due to the frozen conflict, USA, being economically and militarily powerful and playing important part in conflict settlement, managed to resolve the following tasks:

Realize the projects Baku-Tbilisi-Jeykhan (BTJ) and Baku-Tbilisi-Eruzrum (BTE), which supply oil and gas bypass Russia. It is clear that this will allow both Azerbaijan and Georgia to become partially or fully independent in terms of energy and to hasten the process of their integration into NATO. Involve the republics of South Caucasus into close cooperation with NATO through the Individual Partnership Program (IPAP). To involve a military contingent of Azerbaijan, and then and a humanitarian contingent of Armenia in operation on the Balkans, in Iraq and Afghanistan. Now in Iraq are 151 Azerbaijan 46 Armenian military men (unlike Azerbaijan, the Armenian contingent consists of sappers and doctors); To create the alternative CIS and directed against military-economic dictatorship of Moscow regional organization GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova; later Uzbekistan has declared an exit from this organization). The USA understand, that the resolution of conflict in the near future will lead to that at once will be involved automobile and railway lines which by virtue of the geographical position will connect Russia with Armenia, Iran, Nakhichevan, Turkey and Georgia that will allow to begin Russia the process of restoration of the positions in region. Proceeding from the balanced policy in relation to the conflicting parties and as co-chairman MG of OSCE, Russia permanent declares the consent to any variant of the decision(resolution) which will suit Armenia and Azerbaijan. However, in case of achievement of the consent between the contradictory parties, hardly Moscow will adhere to a similar position concerning the mandate and areas of deployment of

peacekeeping forces. According to the statement of Minister for Foreign Affairs of Azerbaijan Almara Mamediarowa in the agenda there is «an offer according to which in structure of peacekeeping forces contingent there should not be representatives of the states - members of the Minsk Group of OSCE»[81].
If after the parties come to the agreement, Mamediarow's offer remains in force exception of the Russian contingent from the structure of peacekeeping forces will be a serious defeat of Russia on Southern Caucasus. In spite of the fact that both French, and the American peacekeeping forces will not be placed in a zone of the conflict, however, such situation will be gathered first of all against Russia as any peacekeeping forces will represent interests of NATO where the leading part play the USA.
All these factors radically influence the process of the conflict settlement and lead to the reduction of efficiency in decision-making on achieving coordination of the contradictory parties around Nagorno-Karabakh problem.

[81] New Times, May 31, 2007

Human Relations following Turkish translation of “I see the Sun” by Nodar Dumbadze

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Each nation has its own culture, tradition, customs and etc., which either corresponds to the culture of other nation or not. In the world, a human being is the most worthy creature. This statement has also Biblical foundations: God created a man, at the same time He determined how he should live. In short, we would like to say that culture, traditions and customs of a particular nation are determined by religion. Being of the nations of different faith can certainly be different, although often much coincides. For example, Christianity and Islam – both preach kindness, well-being of a human and etc., therefore a person cares as much as possible to arrange a desired life for him or her. Proceeding from that, because of the inconsistency of the traditions of other nation with one’s own traditions, there is, unfortunately, sometimes disagreement and dissidence between humans. This should not happen, since the whole world was created by God for human being and he should value this.

The culture, traditions, and customs of Georgian and Turkish nations having historical, geographical and political relationships with each other are very similar to each other. From this point of view the Turkish translation of the *“I see the sun”* novel of a prominent Georgian writer of XXth century N. Dumbadze is interesting (the translator – M. Kara-oren). In the novel, the life of Georgian people during the Second World War, the needs of people, mutual aid, care is described… In the background of very interesting events, the writer makes us familiar with the character, courage, talents, culture, traditions of Georgian people. The Turkish translation of this novel easily enables the Turkish reader not only to learn spiritual world of Georgian people, but also to compare it with his/her own culture and traditions. As a result of a comparison is that there is more similarity than difference between the two nations.

To prove the similarity between the culture and traditions of two nations it is enough to discuss the opinion of the Turkish readers. In spite of the fact that they get in touch with Georgian world only through this novel, still they certainly speak on this topic: “It didn’t seem to me while reading that I was reading a foreign novel. The writer made me feel that the events retold in this novel were dear to the Turkish people. It can be said that the everyday culture is close to each other. In the novel there are many facts peculiar to our culture. In particular: hospitality, mutual aid, patriotic feeling, respect, not forgetting the deceased, negative attitude toward the evil… The examples of fighting the evil described in this novel are the same as it happens in our country, Turkey. The example of that is when the deserter Datiko’s aunt Keto kicks him out of the home with her Finnish dagger. Datiko is

aware of his guilt and therefore cannot appear to people. He prefers to live in the forest as an outlaw (Demet Eshmekaya, Pedagogue of the Language School, Ankara University) (M. Kiri, 2008).

One of the most distinctive features of Georgian people is hospitality, respect.

Hospitality is expressed differently in different societies. The tradition of guest-hostship in Georgia was established from time immemorial. The essence of this tradition is well understood in the expression "Guest is from God".

In Georgia, they meet a guest warm-heartedly, generously treat him with the best meals possible, and, if the guest stays at the host's, they put him in the special place to sleep. In a Georgian family, a guest feels himself safe, secure and worthily (The Culture of Georgia, 2004, p. 111).

In the novel of N. Dumbadze, all of this is well-expressed on the example of Anatoliy: he is brought injured to the alien house. Despite the fact whether they knew that Anatoliy was enemy or a friend, still they brought him home and started curing him. They did everything to save the injured Anatoliy, treated him sometimes by herbs, sometimes by vinegar water. They brought even the doctor of the village. When he needed milk, which was difficult to get in that poverty, Sosoia and Khatia managed even that. They started walking to the neighbors' houses, door by door, to get milk. In the end they were forced to go out in the daylight and started to milk the goat of another family on the sly. They were carrying the milk to the house in a way that a single drop didn't fell. For this action they were condemned at the kolkhoz (collective farming) meeting, but still they were happy, because Anatoliy recovered exactly because of the milk brought by them.

In this case the similarity between the two nations is evident. An Anatolian opens the door to a stranger, invites him to his home. He might remain hungry himself, but he will share the last loaf of bread with a newcomer. Let us recall one more episode from the Georgian novel: Sosoia and Khatia get to neighboring village, alien family:

" – I bring the guest, Kakano, and take care of us, if you are a woman.

- Welcome, Sir" (p.346)

The hosts make them sated, rested, and to the great joy of the children see them off with plenty of presents.

In the same way, mutual respect and care is peculiar for all nations. Therefore the relationship between Sosoia and Khatia is understandable both for Georgian and Turkish reader. Sosoia renders particular care to blind Khatia, doesn't allow her to make one step alone. Sosoia, equipped with highly humane features, takes her by hand and brings her to school, to catch fish in the river, to neighbors, friends. He doesn't make Khatia feel that she is in a hardship, that she is alone. Even more, the devoted and kind attitude of Sosoia not only makes Khatia happy and joyful, but also gives her the hope of returning of her eyesight. The relationship between Sosoia and Khatia reflects the devotedness of a Georgian man to a Georgian woman. This, generally, is a great feature of Georgian

people. In the society women are given the privilege. Maybe it's just a very simple example, but it is really worth to value that inside the bus or mini-bus a man doesn't distinguish between young and aged woman, he gives place to both equally. In Georgia, the tradition of a particular respect for a woman is historical. The good example for this is when a woman casts her hat when men are fighting. This rule cannot be avoided by any brave fellow (The Culture of Georgia, p. 111).

It is true, they put great respect for a woman in the society, but a woman does not abuse this respect. She knows her place, mission and she shows her worthiness by her modesty.

Interceding for, defending the oppressed is a duty of every human being. With this spirit Bezhana intercedes for Anatoliy and sacrifices himself in the fight with Datiko. In the same way, selflessly, Sosoia defends the aunt from the stone-hearted Datiko: "The aunt didn't resist, she stood and tears were flowing from her eyes. I got afraid, I reached Datiko from behind and bit him so strongly on the shoulder that I felt humidity on my lips" (p. 346).

Relationships between people are not determined by material things. In the novel of Dumbadze *"I See the Sun"* there is an interesting episode: Sosoia took his father's fur coat and boots and went together with Khatia to another village to trade corn. They went to Babilo's family. When they got informed that this family lost two children, their hearts filled with compassion. In spite of the fact that they were there for trading, Khatia nevertheless presented the gun to Babilo free of charge.

" – It's Khatia's gun and she presented them to you, uncle Babilo. She will be offended if you don't keep it… - said I and looked at Khatia. Khatia nodded her head" (p.351).

Every person had a teacher in his life. The teacher always holds a distinctive place in the society. In the novel, there are places of showing the respect for the teacher:

" – Are you busy with anything, teacher, I can help you! – said Khatia.

– No, my Khatia, I have nothing for you, - said the aunt.

– You must have corn to crumble!" (p.234)

In the novel of N. Dunbadze, love and devotion to motherland is felt from the beginning till the end. The facts showing patriotism are confirmed by the people who gather in the yard of regional club before the start of the war. Except for one or two kids and an old person all the others go to defend motherland. Parents and relatives express the devotion to motherland by seeing them off to the army. They trust not only army, but also the old people and children staying in the village with the faith that if army wouldn't win, then each woman and man of the village would become a solder:

" – The whole Europe is working for them, grandfather, whether France, or Austria…

– And who works at ours'?

– At ours' we work, - said uncle Gerasim" (p.236).

The information about the war come to the village, the situation at the front is tense. The approaching of fascist Germany, Hitler makes people think:

“ – If he comes till winter, what would you do? – Lukaia was trying to find out from the aunt.

– We shouldn’t let him come!

– Who – you and me?

– You and me” (p.238)

Let us listen to the Turkish reader again:

The events described in the novel are not alien at all for the nation having fought and won against imperialism. The people involved in the honorable battles for the protection of Anatolia were in harder conditions. Bitterness and distress became the part of these people. If we put our ear to the land of Anatolia, we will hear the story about how people managed to transform heartbreaking bitter, dark days into sunny days. The events described in the novel *“I See the Sun”* are of the same fate. Therefore, how can we not understand and evaluate them?

“During such similarity between people and nations small, tiny differences are lost” (Zekeria Dokmen – Teacher of Mathematics, the city of Bursa) (M. Kir, 2008)

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Tax liability

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In modern world taxes are the main resource of state finances. None of the state can exist without its financial resources as it leads to its development and further success.
It is very important to have the well defined and harmonized structure of taxation in order to have the balance between state interests and tax payers' rights protection.

The importance of good administration has long been as obvious to those concerned with tax policy in developing countries as has its absence. it is not possible to ignore the administrative dimension of tax reform, to assume that whatever policy designers can think up can be done, or to assume that any administrative problems may easily and quickly be remedied. As a rule, the real tax system facing people and businesses in most developing countries is not what a quick reading of the tax law might suggest but rather results from how that system is actually implemented in practice. How a tax system is administered affects its yield, its incidence, and its efficiency. Tax administration is simply too important to policy outcomes to be neglected by tax policy reformers.[82]
Developing countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations but also taxpayer attitudes toward taxation and toward government in general as well as many other environmental factors. Attitudes affect intentions and intentions affect behavior. Attitudes are formed in a social context by such factors as the perceived level of evasion, the perceived fairness of the tax structure, its complexity and stability, how it is administered, and the value attached to government activities, and the legitimacy of government. Government policies affecting any of these factors may thus influence taxpayer attitudes and hence the observed level of taxpayer compliance. Both the complexity of the tax structure and its stability are thus important factors to be weighed in assessing tax administration

The legal environment is crucial to tax administration. Enforcing a bad tax law well is usually not a good idea. For a law to be enforced properly, it should both be appropriate to the environment and enforceable: good enforcement requires good tax law. it is easy to attempt to incorporate too many objectives of social and economic policy in tax policy, thus resulting in complexities with which neither taxpayers nor tax administrations can easily cope. Voluntary

[82] Administrative Dimensions of Tax Reform , Richard M. Bird, 2003. pg 25

compliance (self-assessment) cannot work where taxpayers find it hard to figure out their obligations correctly. Similarly, withholding (and its verification) also encounters problems when the tax base is ill-defined or when there are many exemptions and deductions

this is obvious that for good tax administration and for protection of taxpayers right the tax law in the country has to be fair and well defined. my concern is that in Georgia, the tax code of Georgia that is enforced is far from being fair and has a lot of problematic issues from which the most important to my mind is the issue of tax liability.

The tax system of Georgia comprises:

a. legal conditions of the parties of relations defined by the Georgian Tax legislation, their rights, obligations and responsibilities;

b. taxes, rules of their establishment, amendment or elimination ;

c. rules, forms and methods of tax payment, tax control, providing satisfaction of tax liabilities

d. Rules for appeal and resolution of disputes arisen from relations defined by Georgian tax legislation;

Before we discuss the matter of tax liability, let's define what tax is and what the definition of tax liability is in general.

_____As provided by the tax Code of Georgia, a tax is a mandatory, unconditional cash payment to the state, autonomous republics of Abkhazia and Osetia and local budgets of Georgia, which shall be paid by a taxpayer, having a mandatory, non-quid-pro-qwo and gratuitous nature of payment.

1. What is tax liability?
2. A tax liability shall be considered a taxpayer's/tax agent's, other responsible person's duty to pay a tax established and/or introduced under legislation. it means that tax liability is the duty concerning the tax relations with the state and one's obligation to pay a tax.

In this case it is very important to have the high quality mechanisms for taxpayers rights protection in the process of taxation.

In Georgia there are two kinds of matters that to my mind need to be discussed.

1) the problematic issues of tax liability and the need for changes in tax code
2) Determine the existence of tax liability separately from other kinds of liability which are administrative, criminal and civil.

Liability in general may be defined as a person's obligation to be responsible for breaking a law and having done an unlawful act.

It is important to determine the differences between tax liability and other forms of juridical liabilities.

For instance for criminal liability comes in action only when one commits criminal act concerning tax law. But when one breaks the tax law but no criminal act is done, it has to be tax liability that comes in existence.

There is also difference from discipline liability, as it is concerned with labor law breaking and not tax law.

The difference from civil liability and tax liability is noticeable also. Civil liability guarantees treaty obligations arisen from civil law, when tax liability guarantees the protection of tax code and tax obligation.

Some of the scientists consider tax liability alike to administrative liability some consider it as part of financial liability as its specific variety. We may conclude that tax liability is a variety of financial liability and is itself an independent type of juridical liability. [83]

The Tax code states that "The basis for creating, changing and canceling the tax liability, as well as the procedures and conditions of its performance shall be regulated exclusively by this Code and/or other normative acts of the tax legislation."

Tax liability is remedy for tax code enforcement.

It comes into existence when one breaks the tax law.

A taxpayer/tax agent and other responsible person shall be responsible for tax liabilities from the moment the circumstances providing for payment of the tax as established by the tax legislation arise.

It is associated with moral and material loss for person who commits infringement of tax legislation.

The subjects of tax liability are a taxpayer/tax agent and other responsible person

The penalties for infringement are depended on the tax type and quantity and the term when it had to be paid.

In order for tax liability to come, there shall be the article in the tax code that states some rule and one as to break it. When this two exist authorities determine the penalty for such infringement of tax legislation.

[83] Zviad rogava, tax liability. pg. 10

When talking about tax liability we need to know the meaning of infringement of tax legislation.

rticle 123. Concept of Tax Legislation Infringement.

Unlawful action (or negligence) of a taxpayer, tax agent and other person for which certain liability is stipulated by the code is considered as infringement of tax legislation.

From the definition it is clear that tax legislation infringement has two aspects: action and its unlawfulness. Let's discuss each of them.

When the law makers stated that action of a taxpayer, tax agent and other person may be considered as infringement it meant that action contains two meanings: one when person commits an unlawful act by some activity and second when person commits an unlawful act by not doing the activity he was obliged to do. So this means that some unlawful acts maybe done my activity and some on the contrary by being inactive.

Second aspect of infringement of tax legislation is its unlawfulness. the unlawfulness of action means that no act requires penalty unless it is defined in tax legislation. so for an action to be punishable it has to be defined in tax legislation. some act may be alike to the ones defined in tax code but if they are not committed with infringement of tax legislation they cant be punished.
The most problematic and unfair issue that needs to be regulated is the issue of tax legislations infringement definition. It states only actions unlawful nature but says nothing about ones intention when committing this act. So the tax liability comes in action without taking in consideration ones intention. Why is this issue so problematic? Let's discuss two examples.
A person that had obligation to pay taxes knew that he owed this obligation to state and he intentionally did not pay the tax when the time for the tax payment came. In this example it is clear that a person abrogates the law on purpose and abolishes the interests of state for better use of his own. so one committed unlawful action and tax liability comes in action, but now lets discuss another case. There is the article in the tax code concerning tax return delaying which states the further:

. "Violation of terms for filing the tax returns to the tax agency as defined by the tax law by the taxpayer/tax agent or other responsible person results in fining by 5 percent of the payable amount on the basis of this tax return, on each delayed complete (incomplete) month, but not less than 200 GEL for each complete (incomplete) month."

so If one could now file the tax return because he was in hospital and it was impossible to file the tax return and he had no intention of breaking the law still the tax liability comes in action and the legislation states no difference between person who is criminal and who steals money from

government and its country by intentionally not paying taxes and between a person who could not pay the tax because of unconquerable force and the situation that he could not change.

In criminal liability there is the principle that states that there is no crimes if no intention, fault.

In Georgian tax code this principle is ignored and it serves for abrogating taxpayers rights.

It is impossible to create the fair tax system in the country by not defining the difference between ones who abrogate tax law intentionally and ones who not. there has to be a difference between guilty act and Unintentional one.

One very important issue is also the nonexistence of the situations of Release from Responsibility. If one had no guilt and it was impossible to act in accordance of tax law for instance to pay a tax because unconquerable force, it has to be the reason for release from tax liability, unfortunately Georgian tax code doesn't state this.

One very interesting issue also is the fact of juridical mistake. this is the case when one was thinking he was acting in accordance with law but he was not. it is clear in criminal law that if you don't know that the act is criminal you still are responsible for it, but even in criminal law the sanction is less in this case because of not having intention. But in tax law it has to be differed. The very problematic issue in this case in Georgian reality is the text of Georgia tax code, which is very hard to understand because of its complexity and the collisions. if one had no guilt and was trying to act in accordance with law but because of its ambiguous nature couldn't act properly, one shouldn't be punished. The law has to be changed and put in the words understandable for the citizens. And every one should be guaranteed the right from tax departments of government that they can get the consulting and advices concerning taxation.

Georgian tax code obliges the tax agencies:

1)to review taxpayers' letters, appeals and questions according to the set rule, and, where necessary, provide them with free information about effective taxes, and procedures for their calculation and payment, as well as the rights and obligations of taxpayers;

2) Give explanations in connection with the application of the tax legislation, issue methodological instructions and instructive directives, guidelines and brochures, publish recommendations and explanations in mass media;

If one gets the wrong explanation or understands the explanation not properly he should not be the one who will be sanctioned.

In Georgian criminal code the taxpayer commits crime only if he has the intention of evading tax payment. Intention means that he was aware of the unlawfulness of an act he was committing and he wanted this unlawful result to come.

There is also no Circumstances Excluding or Mitigating Guilt specified in Tax Code, which is because there is no guilt take in consideration by Georgian tax code.

tax Code should shall take into account circumstances aggravating or mitigating the responsibility of a person in particular, motive and purpose of action, wrongful intents revealed in the act, character and extent of the breach of obligations, the way and manner in which the act was carried out and its wrongful result, past life of the criminal.

Infringement of tax legislation includes the 4 important elements:

1) the object
2) the objective side
3) the subject
4) the subjective side

We already discussed the subjective side and it is clear that this aspect in tax code needs to be changed and reformed.

As for the subject of infringement, the subject is Enterprises/organizations and physical persons.

Enterprises are recognized as entities that perform economic activity or that are established to perform such activity, namely:

a) legal persons established according to the legislation of Georgia;

b) corporations, companies, firms, and other entities established pursuant to the legislation of foreign states, irrespective of their status of a legal person; as well as a permanent establishment of a foreign enterprise;

c) Associations, partnerships and other similar units which are not considered under sub-paragraphs “a” and “b” of this part.

d) The term “enterprise” does not include an individual enterprise.

The subjects are as it is stated Taxpayer/tax agent or other responsible person.

As for physical person one more issue concerning this case is the nonexistence of the age for tax liability. In Georgian tax legislature there is no such difference.

In some countries the age is 16, in some it is even 14, for a person to be liable for tax liability but in Georgian tax legislature this subject is not regulated at all.

The object of the infringement of tax legislation in general is the state tax system, and specifically each infringement has its own object, for instance tax obligation is the object of avoidance of paying taxes etc.

The objective side creates the nature of the unlawful act and its appearance in action which can happen both by active or inactive action. The objective part is the aspects that the specific article states that need to be happening for infringement to be.

Tax Code of Georgia also has the Tax Exemptions and Tax Concessions issue. The code states:

1. State and local taxes exemptions established under this law can be granted only based on relevant amendments or additions to this Code, and tax concessions on local taxes can be granted only based on the amendments to the relevant normative acts.

2. It shall be prohibited to establish such legal basis for the application of tax concessions or exemptions, except for cases provided under the part 1 of this article.

3. A tax exemption shall be considered as an advantage assigned to taxpayers of certain category as compared with other taxpayers, including the possibility not to pay taxes.

4. A tax concession shall be considered as an advantage assigned to taxpayers of certain category as compared with other taxpayers, including the possibility to pay taxes in a less amount.

5. It is prohibited to establish individual tax exemptions or concessions.

6. A taxpayer shall be authorized to enjoy tax concessions from the moment of originating the respective legal bases during the whole period of its effectiveness.

This article may be considered as a positive issue as it gives no right to any one to establish individual tax exemptions and the rights are equal in this case. also the issue that No one shall be subject to recurring amenability for one and the same infringement of the tax legislation is fair and positive

Tax sanction is a measure of amenability for the infringement of the tax legislation. this means that in case of infringement of tax legislation the amenability is a sanction that is also given in the Georgian code of tax.

Tax sanctions are applied in the form of fines and monetary penalties. In case of a number of tax legislation infringements tax sanctions apply separately for each infringement, moreover strict sanction does not devour less strict one.

Fines shall not be assessed to tax sanction.

<u>Conclusion</u>

Tax system is one of the main elements of state economics and it Is a determination of its economic and social development priorities.

Georgian Tax Code doesn't serve for these purposes properly as it has a lot of problematic issues not well raised and formed.

my aim was to show the problematic sides of tax liability according to Tax code of Georgia and I think this is very important as constitution states our right of property and when not having the right laws and proper system of taxation our property may suffer losses. That is why I

think that our Tax legislature needs a lot of changes, but the changes have to be thoughtful and to my mind three ingredients seem essential for effective tax administration in any country: the political will to implement the tax system effectively, a clear strategy as to how to achieve this goal, and adequate resources for the task at hand.

When government's main goal is a country without poverty and with more developed economics, the legal base should be very thoughtful and of high quality, I hope that the political will is for the improvement of tax system and number one priority to me seems to be a better Tax legislature.

Concerning tax liability I want to designate the following issues that need to be solved:

1) Tax legislations infringement definition – no required intention taken in consideration.

2) The articles of Tax code are very hard to understand and often lead the taxpayers to mistakes. The Code has a lot of collisions and needs to be better formulated.

3) No Circumstances Excluding or Mitigating Guilt – it is very important to have these issues in the tax code as they serve for the protection of taxpayers' rights and also for better functioning of tax administration as taxpayers should not think of the tax legislation as unfair one.

I think that the way to resolve the problem of tax liability is following:
First of all there should be better defined articles in tax code and it has to be easier understandable for taxpayers so they won't be mistaken and than sanctioned. The laws have to be written by high qualified ones, who can better determine the exact statements and issues. Also it is important to take in consideration that it is not always the right decision to change your country's laws in accordance with other countries because the mentality is different. Among the "cultural" factors that may matter, for example, is the extent of institutionalization of corruption, the extent of criminalization of politics, standards of public morality.
The legal environment of the state has to be bearable for its citizens.
It is very important also to take in consideration while discussing the tax liability the guilt. Because a criminal that has ill intentions and the taxpayer that just made a mistake or because of unconquerable powers could not act in accordance with law must be differed. There should be different sanctions and when having a case of infringement of tax legislature tax agencies should take in consideration not only unlawfulness of act, but also the subjective side of the taxpayer.

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