Georgia’s struggles

Conflict resolution through entrepreneurship in a fragile state

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Master Thesis Human Geography
Specialisation Conflicts, Territories, and Identities
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Radboud Universiteit Nijmegen

December 2009
Peace is the natural effect of trade. Two nations who traffic with each other become reciprocally dependent: for if one has the interest in buying, the other has the interest in selling; and thus their union is founded on the mutual necessities.

Baron de Montesquieu, 1748
Acknowledgements

Performing research for this thesis has been challenging, and fulfilling. Challenging, because of general difficulties one encounters when setting out to do any research, wherever and whenever. Challenging also because of exceptional circumstances during the time of research, and its consequences for the course of the research itself and the substance of the written report; the thesis which lies in front of you. Fulfilling, because it presented me with an opportunity to meet all those who contributed to the process of overcoming these challenges. There were many.

First and foremost I would like to express my gratitude towards my family. Apart from my relatives, this means my Georgian ‘family’ as well. Because that is what they who accommodated me during my stay in Tbilisi became: family. Nani, I will always think of you as my Georgian mother; feeding me your delicious meals, correcting my bad behaviour, and crying with me when Holland got kicked out of the European Championship football by the Russian side. Mari, my little sister; thanks for being who you are, for introducing me to your friends, and for translating your mother’s vigorous attempts to teach me a lesson or two about Georgia, my second home.

It is literally impossible to name all those who helped me out in Georgia; the friends I travelled with, the respondents who brought me into contact with others, and helped me on my visits to South Ossetia and Abkhazia, and the interns at GFSIS who made life in the office quite enjoyable. Special thanks goes out to Mr. Alexander Rondeli, president of GFSIS, always willing to discuss, to laugh, and to share his wisdom. I hope we will meet again some day. Thanks also goes out to Mrs. Françoise Companjen, who inspired me to take up the challenge of research in Georgia in general, and on the concept of entrepreneurship in this particular environment more specifically, and who brought me into contact with my ‘family’ to be. And of course Mr. Bert Bomert, my thesis supervisor, without whom none of this would have been possible.

Of course I want to thank all my friends back in the Netherlands for their moral support, and their occasional feedback. Especially the Billy Babes deserve a compliment in this respect. Finally, very special thanks goes out to two of my best friends who were bold enough to accompany me to the conflict zones, and provide me with – apart from enjoyable company – their much needed knowledge of the Russian language. Eva and Tola, you girls are the best, and hopefully we will travel together again one day.
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Executive summary

Georgia has for a long time existed in relative obscurity. Little attention was given to this small country high up in the mountains on the margins of the European continent. This has changed dramatically since August 2008, and for good reason. The world watched in astonishment as matters escalated, and realised that this relatively modest armed conflict had implications transcending the region itself. The Russian Federation showed a willingness to engage militarily in its still existing spheres of influence. Although it was feared that such could be the case, it came as an unpleasant surprise nonetheless.

This research set out to find answer to the question: In which way does local entrepreneurial development contribute to conflict resolution in Georgia's unstable society and what are the limitations of this conflict resolution tool? The first part of the question, apart from its theoretical and social relevance, from the start incorporated a certain political relevance as well, as it deals with the resolution of conflict. However, in itself it seemed to have become irrelevant, because the conflicts in Georgia proved to be far away from the possibility of being solved at all when the violence erupted, let alone through entrepreneurship.

The second part of the question however secured the relevance of the complete question, because an answer to it can shed a light on the necessary circumstances for such an approach to conflict resolution. According to theory, entrepreneurship can contribute to conflict resolution in a number of ways: through establishing trade and interdependence, through development and diversification, and through the removal of incentives for armed conflict. Research data taken from interviews and observation showed that numerous efforts are made to develop entrepreneurship, believing that it will have a peace effect.

For entrepreneurship to be developed certain opportunities are present, and with the proper implementation of financial assistance and educational development nationwide, these opportunities can result in high-potential pro-growth entrepreneurship, in turn contributing to the conflict resolution process. When large barriers such as poor infrastructure, low levels of education, and the absence of security and stability are taken away, entrepreneurship can pave the way for a peaceful settlement of the conflicts. Or at least it could, but reality proved more stubborn.

Who or what exactly caused the South Ossetian conflict to escalate is something which needs to be answered in a different format. However, it is relatively clear that it was politicians who were the major drivers of the conflict. Sadly, their decisions and actions have caused the conflicts in Georgia to be further away from a settlement acceptable to all sides than ever before. Possibilities for cross-border trade, one of the main opportunities for entrepreneurship to contribute to peace, has been made virtually impossible, at least for the time being. However, all is not lost, but due to circumstances the answer to the main research question has become more elaborate than previously anticipated:

Through development and diversification, entrepreneurship takes away incentives for armed struggle and facilitates interethnic cooperation and trade; in turn this will contribute to conflict resolution. However, these effects are limited by a lack of financial resources, poor infrastructure, low education levels, and security issues; and impossible to achieve at all without political prioritisation to do so, or at least not to get in the way.
Introduction

August 2008 marked a significant change in the already fragile situation which existed in Georgia since it gained its independence in April 1991. It also brought about a significant change in the possibilities for research and the composition of this thesis.

The first change is obvious: simmering conflicts boiled over and anyone who claimed that the conflicts were frozen was proven wrong. The world watched in astonishment when the country plummeted into a war which did not take long to internationalise. It took less than a day for everyone to forget about one party in the conflict: the Ossetian people. European and American media were reporting about a Russian invasion of Georgia and the Georgians themselves did everything to divert attention from the South Ossetians and present the whole proceedings as just that: a Russian invasion of Georgia. In that respect the international media paid heed to the Georgian call of distress. It did not take long for the international community to make analogies with the Cold War (preceded by remarks in that direction from Georgia’s president, Mikheil Saakashvili1) and even the Second World War. Whether or not the August 2008 events present a turning point in modern history has yet to be seen.

The second change is of course of a more personal nature. My research focused on entrepreneurial activity and entailed interviews with key respondents and entrepreneurs throughout Georgia, including the secessionist territories. Not surprisingly, once the war started people had other things on their minds than entrepreneurship. So did I. This does not mean the whole research went down the drain, it just means that I had to revise the composition of the eventual thesis to include the events that took place while I was in Georgia. It goes without saying that I can not and will not proceed writing a highly theoretical thesis and just ignore everything that happened. It has undeniably changed the situation in the field of research and the data gathered thus far has been put into a new perspective as a result. Therefore I chose to keep the general layout of the thesis intact but add a non-empirical paragraph to be able to go deeper into the aspects of the August 2008 events which are relevant to the subject and outcomes of the research.

The central question in this thesis is: can entrepreneurship function as a conflict resolution tool in general, and in the case of Georgia more specifically? To find an answer to this question I chose the conflict situation in Georgia for a number of reasons. The events that took place in the final months of 2007 – demonstrations against the authorities and the declaration of a state of emergency followed by disputed presidential elections – only added to the problems already faced by this small country in the South Caucasus. Two breakaway regions – the autonomous republic of Abkhazia and the South Ossetia region –, political turmoil, and foreign influences complicate Georgia’s journey towards a stable and internationally integrated state. The country’s current instability first and foremost poses a problem to the people living in Georgia itself. These processes obstruct the development of a sound economic environment and the establishment of effective and independent institutions. The 2007 report of Georgia’s public defender2 clearly demonstrates that the country still has a long way to go before civil liberties and social institutions are at European Union (EU) level. The government of Georgia has an obvious stake in acquiring full sovereignty over its territory and fruitful relationships abroad. At the same time the governments of the other

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1 Among others in various reports posted on the www.civil.ge news website in 2008.
countries in the South Caucasus, Armenia and Azerbaijan, are concerned with the risk of spill-over from the volatile situation in Georgia.

There is an important broader international dimension as well. The countries surrounding the South Caucasus – the Russian Federation, Turkey, and Iran – keep a close eye on the events taking place in this region which divides the Eurasian continent. They are aware of the possible threats to their own security but also of the opportunities to enhance their influence in this area. This is specifically true in the case of the Russian Federation. Countries which are engaged in building pipelines through the South Caucasus, especially European countries striving for less dependence on Russian energy supplies, also have a stake in the proceedings. For them, stability is of utmost importance to secure the energy flows towards their markets.

To end this long list of stakeholders, the somewhat utopian concept of world peace is at stake here as well. The civil conflicts are easily internationalised, resulting in powerful parties opposing one another for strategic influence. Recent developments set the Russian Federation in a confrontational position with the North Atlantic Treaty Organisation (NATO). Both the negotiations on a Membership Action Plan (MAP) for Georgia and the energy routes crossing the country are sources of disagreement between the old adversaries. Statements from both sides are worrying signs of a deterioration of relationships between the Russian Federation and the countries composing NATO. Future increased instability could also help to further deteriorate relationships between Iran and the United States, making the South Caucasus of pivotal geographical and political importance.

All of these international parties will not easily give up their influence in the region. Arguably, without their interference many problems could have been resolved long ago because some of them (i.e. the Russian Federation and Iran) seem to aim at keeping the region unstable for as long as possible. However, the international parties do have a stake in working hard to resolve the conflicts, since this will give them diplomatic leverage and can help sustain their influence on the long run. Key is to find a way in which the international players can contribute to the cause of conflict resolution, without damaging fragile processes which are already taking place. If this research can show that entrepreneurial development is an effective tool towards conflict resolution, it can give international parties a sound theoretical and empirical basis for working in the field of conflict resolution. This will result in a more effective way of dealing with the problems in Georgia, instead of possibly aggravating the problems.

Without paying attention to the local initiatives to progress – not necessarily on the conflict resolution front, but the latter being more of a collateral result from economic progress – and with various international parties carrying on their different and sometimes opposing actions in the region, conflict resolution seems far away. Recent developments have defrosted at least two of the conflicts in the region, but not in a positive way. Resolution of the conflicts is important not only for the people directly affected by it, but for all the people in the South Caucasus and all the countries that believe to have a stake in the region. Without conflict

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6 Ibid., p. 38.
resolution no future prospects can be designed with regard to membership of international organisations, foreign investment, or tourism development. If, on the other hand, more knowledge is gained of local entrepreneurial development and possible support by international parties, everyone who has in one way or another a stake in the South Caucasus will benefit from the increase in knowledge, not in the least the people living in the conflict areas themselves.

Issues like energy, security, democracy, international relations, the environment, economy, and human rights have been covered by research in this region of the world before. Several independent research institutes publish reports on these issues almost on a weekly basis, also with respect to Georgia and the effects on the conflicts it is facing. Energy and security issues are widely dealt with in publications of the Clingendael Institute. Publications on democracy and international relations frequently leave the offices of the International Crisis Group. Environmental issues, economical concerns, and human rights find themselves in the interest of policy makers and non governmental organisations (NGOs) around the world and are thus widely dealt with in their research efforts.

However, a lot of issues have not yet received the attention they deserve. The opinion of ordinary people on the problems in the South Caucasus is an example of this. It seems that all the attention is directed towards policy makers and rebel leaders. Very little is heard about the ordinary people’s desires and demands. If these desires and demands are met, will they still be prepared for conflict? This raises the question if entrepreneurship can contribute to conflict resolution. Is it not a desire of ordinary people to have a steady job and a secure income to provide for their families? Wim Naudé, senior research fellow at the World Institute for Development Economics Research (United Nations University in Helsinki), calls for further research on entrepreneurship in post-conflict states to overcome the current lack of data, which constrains policy design. This is a research gap that needs to be filled.

It is a shame that the possible power of entrepreneurship in conflict resolution has, in the case of the South Caucasus, not been thoroughly researched yet. Such an exploration of the possibilities of conflict management through small scale development holds a scientific relevance as well, since lessons learned from one area of conflict can in some occasions be used in other troublesome areas as well. The practice of conflict resolution has been

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researched many times, and so have the conflicts in Georgia. The concept of entrepreneurship has been researched as well. To combine these different disciplines is something which has not been done before. Applying it to the case of Georgia will deliver a new, valuable body of knowledge which hopefully can be used to even the path towards peace in the troublesome South Caucasus.

The thesis has the following make-up. First, a theoretical framework will explain the concepts used to give the gathered data a scientific foundation. Entrepreneurship will be defined by the views of various economical theorists. Different scopes on the best ways to turn entrepreneurship into development will be presented. The theoretical framework will also give answers to questions such as: what is conflict resolution?, which ways of conflict resolution are there?, and: which problems occur with conflict resolution? The aforementioned concepts are linked together representing the backbone of the thesis: can entrepreneurial development function as a tool for conflict resolution, and if so, how? This question will be elaborated and complemented by sub questions. The methodology section will go into issues such as research population, research methods, and the researcher’s role.

In order to fully understand the environs in which the research data has been gathered, a short introduction to Georgia and its recent history will be presented in the first contextual chapter of the thesis. The empirical chapters will deal with perceptions on entrepreneurship and conflict in the field, current efforts in entrepreneurial development and the opportunities and constraints they deal with, and finally some reflections on the conflict resolving qualities of this entrepreneurial activity. As mentioned before, it would be hard to justify not including the August 2008 events in the thesis. They have had a major impact on Georgia and on the research on which this thesis is based. Therefore, conclusions based on the empirical chapters will be amended by a reflection on the different aspects of the remarkable incidents that struck Georgia in recent times, and their impact on the research outcomes. Thus, conclusions will be drawn based on theory, practice, and actuality.

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1 Theoretical framework

Entrepreneurship is not an easy concept to define. What is an entrepreneurship? Which characteristics must an individual have to successfully run an entrepreneurship? Is there a common thought on what the concept entails? To discover the differing views on entrepreneurship this framework will first focus on the theories which have been constructed by authors of various backgrounds. Once it is established what entrepreneurship is, it is time to take a look at how it can contribute to the development of a society. Not every kind of entrepreneurship can be productive, as will be explained in the second paragraph. The third paragraph will go deeper into the possibilities and constraints for conflict resolution. Which challenges are faced by those who engage themselves in the difficult task of resolving a conflict?

The most important and challenging section of the theoretical framework is formed by the fourth paragraph. Here the concepts of entrepreneurship and conflict resolution will be linked together. Although scarce, there are some theorists who wrote about the possibilities of entrepreneurship as a conflict resolution tool. Entrepreneurship does not automatically resolve a conflict. There are a lot of preconditions which have to be met. These preconditions will be explored and put into a scheme which will provide the questions which need to be answered by data collection. From this paragraph the research objective, main question, and sub questions will automatically follow in the last part of the framework.

1.1 Defining entrepreneurship

Alf Rehn and Saara Taalas\textsuperscript{12} refer to the entrepreneur as: “[a] mythological creature, popular in Western capitalist mythology”. This quote excellently underlines the problem with the concepts of ‘entrepreneurship’ and ‘the entrepreneur’. A common definition of either of them does not exist. Therefore I will not strive to give a definitive answer to the question: what is entrepreneurship? However, to be able to operationalise the concept I will describe entrepreneurship by analysing some theories and from that distil a definition which will be satisfactory to the research.

What is it that an entrepreneur does? This is central to describe entrepreneurship itself. Answers can range from the relatively simple ‘start a business’ via the broader ‘create value’ to the rather vague ‘make things happen’.\textsuperscript{13} The first example is to narrow. Simply creating an organisation does not make someone an entrepreneur. An individual who starts to collect blackberries and sell them on the streets does not constitute as an entrepreneur. Technically he or she started a business but it is of a highly temporary nature and it is very unlikely that this person can do the same thing over and over again. The latter example, ‘make things happen’, is hardly a useful description either. Someone who kicks a ball about and thereby chases some donkeys away definitely makes something happen. However, donkeys on the run probably do not benefit anyone, not even the person who kicked the ball. ‘To create value’ is an activity which drives most economies. It is broader than ‘to produce something’. Something of value


\textsuperscript{13} Ibid., p. 147.
does not necessarily have to be a physical product of some sorts. It can be a small component of a product, it can be a service, and it can even be a consult. However, it does not entirely entail every quality which is needed to be an entrepreneur.

According to Leibenstein\(^{14}\) an entrepreneur is an individual or group of individuals with four major characteristics:

- He/she connects different markets;
- He/she is capable of making up for market deficiencies (gap-filling);
- He/she is an ‘input-completer’;
- He/she creates or expands time-binding input-transforming entities (i.e. firms).

Solymossy\(^{15}\) describes the former in the shape of a process. An entrepreneur is an individual or group of people seizing an economic opportunity (filling a gap), innovating to capitalise on the opportunity (completing input), forming an enterprise to reallocate resources (creating a firm), and harvesting rewards. Apart from filling a gap an entrepreneur can also give alternatives to already existing products or services, as long as there is a demand for it.\(^{16}\)

From these definitions of an entrepreneur we can define entrepreneurship as: an individual or group of people working in concert with a business entity and the environment in which it occurs to assume risk with the ultimate goal of making economic profit.\(^{17}\) This still does not entail the whole picture. Casson\(^{18}\) lists a large group of preconditions which are necessary to make an entrepreneurship into a success. An entrepreneur needs decent and multiple sources of information about profit opportunities, feedback on past activities, debt capital to complement share capital, extended networks, educational qualifications, negotiation and organisational skills, product innovation, and administrative skills.

Because there are so many different variables concerned with entrepreneurship, it is not surprising that many scholars believe different types of entrepreneurship exist. Naudé\(^{19}\) argues that there are three types of entrepreneurship: productive, unproductive, and destructive. An example of unproductive entrepreneurship is rent-seeking; the extraction of uncompensated value from others without making any contribution to productivity. Governments which have an economic policy based merely on selling land or oil do not contribute to sustainable development of their country and thus their entrepreneurship is unproductive. Destructive entrepreneurship is mostly recognised as illegal activities that are damaging to the economy in the long run.\(^{20}\) During many conflicts people actually profit from the lawless situation at hand, for instance by dealing drugs or smuggling weapons. These activities can also prolong a conflict by financing one of the parties (or both) with money earned from drug sales or by delivering weapons to the warring parties. The longer a violent conflict rages over a country, the longer it will take for that country to economically recover from it.


\(^{16}\) Ibid., p. 502.

\(^{17}\) Ibid., p. 507.


The goal of this paragraph is not to construct a comprehensive definition of entrepreneurship that will make any other definition obsolete. However, to be able to use the concept and link it to conflict management, a working definition is needed. Obviously, the kind of entrepreneurship which has the highest potential of developing an economy and reducing the risk of conflict is productive entrepreneurship. Combined with the aforementioned definitions this thesis views entrepreneurship as the process of taking risk to make up for market deficiencies or offer alternatives creating a new business or expanding an existing one with the aim to make profit and connect different markets in a productive manner. The next paragraph focuses on the possibilities for entrepreneurship to have a positive effect on the development of a society and the threats which have to be countered in the process.

1.2 Entrepreneurial development

There are some strong believers in the developmental effect entrepreneurship can have on a society. “Entrepreneurs create jobs, provide diversity, assume risk, provide goods and services, including even public goods, as well as (...) an environment for learning, experimentation, innovation, and competition”. There are a few remarks as to how this will happen and under which circumstances. To start with, and this is specific to (post-)conflict societies, a move from illegitimate to legitimate trade has to be made. According to the organisation Humanitarian Initiatives the loss of state revenues through smuggling is a major cause of poverty. Revenues made by a few bandits are generally not invested in economical development for the broader society, but gets ‘lost’ in the pockets of those people who control illegal cross-border trade. This is a clear example of destructive entrepreneurship.

Naudé mentions high-potential pro-growth entrepreneurship as the kind of entrepreneurship which should be promoted to have a developmental effect on society. He borrows this term from -The Global Entrepreneurship Monitor-. It means that entrepreneurship is technologically innovative and aimed at growth. If this kind of entrepreneurship would be promoted by government institutions and development agencies, the economical activity of these entrepreneurs would have a positive effect on the development of the society in which they operate. “Productive entrepreneurship uses resources in their most efficient manner, shifting the production possibility frontier, increasing productive efficiency, increasing the total output from available resources, and benefiting society.”

However, there exist a couple of threats to the emergence of high-potential pro-growth entrepreneurship. Barriers to developmental entrepreneurship are identified by Solymossy in his study on entrepreneurship in Kosovo. They are opportunity spirals, competition, identity shifts, brokerage, deficiencies in infrastructure, deficiencies in the legal- and regulatory

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22 Ibid., p. 27.
23 Ibid., p. 5. The terms ‘high-potential growth entrepreneurship’ and ‘high-growth potential entrepreneurship’ are both used in the same context. I choose to use ‘high-potential pro-growth entrepreneurship’ since this is the most comprehensive term.
framework, lack of financial support, and social systems. Where a government is weak, outside actors will try to claim opportunities and resources, resulting in an opportunity spiral. Identity shifts occur when a country is in transition; in the case of Georgia from a planned economy to a market economy. It takes some time for a country and a people to adapt to the new circumstances. Social systems can become a barrier if they prohibit the free exchange of goods and allocate resources and rewards based on corruption and nepotism rather than effort and skill.

Naudé also points out some threats to high-potential pro-growth entrepreneurship, which especially occur in (post-)conflict societies. There is always the possibility of relapse into conflict. Furthermore, a society which has recently experienced armed struggles is often burdened by a cemented stratification between various ethnic groups. War also presents opportunities for rent-seeking, which is, as we have noticed in the previous paragraph, an unproductive kind of entrepreneurship. Other inappropriate forms of entrepreneurship such as ‘political entrepreneurs’ (corrupt government officials) are also encouraged by conflict. Income inequalities can be exacerbated, which in turn can lead to renewed conflict. Finally, a continued high spending on the military diverts resources from non-military pro-growth entrepreneurs.

To counter all of these threats Naudé suggests some important tasks for government institutions and development agencies. Networks need to be strengthened and stratification has to be broken down to prevent the relapse into conflict. Something many non-governmental organisations (NGOs) focus on is the strengthening of social capital. This can help to overcome the risk of people taking advantage of weak institutions. In other cases, when there is a strong government, highly developed social capital can help to block government attempts to invest solely in themselves or the military. The next paragraph will look into existing theories on conflict resolution. An understanding of past and current efforts will help to understand the possible link between conflict resolution and entrepreneurial development. Is it always possible to prevent conflict and what is more: is it always desirable to do so?

1.3 Conflict resolution

When we talk about conflict it can mean a lot of things. A conflict can erupt between children fighting over a magic marker. Married couples often find themselves in conflict over things they disagree on but only learn about after they get married. Football hooligans disagree on which football team deserves the championship and choose to fight over it, resulting in (sometimes violent) conflict. Although warring parties often resemble quarrelling children, fighting couples, or hooligans on the loose, these things are not the kind of conflict this thesis focuses on. The conflict like it erupted in Georgia August 2008 is often referred to as war. But what exactly constitutes as war?

In his book -Civil war is not a stupid thing- Christopher Cramer tries to give answer to that question. He discusses categories of war and criteria which have to be met for conflict to rightfully be labelled ‘war’. For this he goes back in history. Since the end of the Cold War

27 Ibid., p. 508-510.
29 Ibid., p. 13.
the number of violent conflicts has decreased.\textsuperscript{30} This might lead some to think that the ‘perpetual peace’ Immanuel Kant (1724-1804)\textsuperscript{31} philosophised about is nigh, like Francis Fukuyama who predicted ‘the end of history’ in an essay in 1989.\textsuperscript{32} This triggered a response from Samuel Huntington, who in his essay \textit{The clash of civilisations}.\textsuperscript{33} argues that the war of ideologies, which the Cold War sometimes resembles, will be followed by a war of civilisations. Others claim the Cold War never ended or was in fact very ‘hot’.

Fact of the matter is that there is still a lot of violent conflict to be found around the world. Often these conflicts are categorised as ‘ethnic’ or ‘civil’. These categorisations are very problematic. The conflict in the former Yugoslavia is an excellent example of this. During the last decade of the twentieth century the character of the conflict progressed from civil war to ethnic conflict to war between states until it was even internationalised. As formulated by Cramer: “the categories commonly used in the analysis of violent conflict encompass different circumstances and realities and hence can easily mislead. The reality is more of a continuum of violence, with overlapping phenomena”.\textsuperscript{34}

Apart from being a criticism of the categorisation of war, this is also a criticism of the criteria that are sometimes proposed for violent conflict to be labelled as ‘war’. A criterion like the number of casualties suffers from vagueness since it is difficult to assess whether someone’s death is a direct result from war or has other less visible causes.\textsuperscript{35} To give an example: if the battle death threshold would be at least a thousand casualties in a single year, as the University of Michigan\textsuperscript{36} has formulated it, the events in Georgia of August 2008 would not constitute as a war. With the same reasoning the more than a thousand deaths a year in the violent suburbs of Brazilian cities would be. Cramer concludes that: “War is the continuation of violence by other means”.\textsuperscript{37}

Whether violent conflict is labelled a war or not, the question is, should there be an intervention to stop it of better yet, prevent it from happening? Intervention can be costly, in financial, diplomatic, and casualty terms. This is why the international community\textsuperscript{38} sometimes chooses to intervene (Iraq, Afghanistan) and sometimes let it be (Somalia, Sudan). To many it seems obvious: in Iraq and Afghanistan there is something to find which the international community dearly wants; oil and Osama Bin Laden respectively. In Somalia and Sudan there is little to gain and a lot to loose. The United States tried to intervene in Somalia but backed down when their casualty number became too high to justify the intervention to the voters back home. However, it is hard to believe these conflicts can last forever with the

\textsuperscript{35} Ibid., p. 60-61.
\textsuperscript{36} The University of Michigan at Ann Arbor in the United States maintains a database on war; the Correlates of War project.
\textsuperscript{38} Quite a difficult term admittedly. The make-up varies per situation, but mostly it refers to those countries within the United Nations who align themselves under the presumption of stabelising the world as far as possible.
international community standing on the sidelines, and it is not very likely they will be resolved without their involvement. Is there a good reason to intervene as soon as possible?

Brown and Rosecrance make a case for intervention based on the cost of conflict. They have tried to predict either the cost of possible intervention or the cost of possible conflict, depending on whether a conflict actually broke out or not. These figures were then compared with the cost of actual conflict or the cost of actual intervention respectively. From these calculations they draw the conclusion that intervention is in every single case the cheaper option for the international community. This can be explained by the higher costs of military intervention during a full-fledged conflict than before a conflict erupts in its full vigorousness and by the enormous costs of economic recovery after a serious conflict has been resolved. These costs are mostly paid by the international community, whether they have a direct stake in the conflict or not. There are non-economic reasons to intervene sooner than later as well. On the political as well as the casualty front quick intervention is likely to be more efficient than late intervention. Furthermore, successful conflict intervention can dampen and eradicate the recrudescence of local conflict. Last but not least there is the moral reasoning: can the international community morally justify not to intervene when people get killed day by day?

The next important question to answer is: in what way can or should the international community intervene? There are as many different opinions about this as there are conflicts in the world. In the case of conflicts labelled as ‘ethnic’, as the conflicts in Georgia are often described, one of them would be partitioning, which can be done on different levels. Bosnia and Herzegovina has been partitioned in a very complicated manner within a state. Kosovo on the other hand has been taken away from the state it was part of. Breaking up Iraq into three entities has also been proposed, but as of yet this has not been considered a real option, and with good reason. There are a number of problems with the at first glance simple and pragmatic solution of separating warring parties into different entities.

Chaim Kaufmann reasons that because of the likelihood of conflict when minorities exist alongside a majority with which they had a violent conflict that warring ethnic groups must be separated into homogeneous regions capable of self-defence. However, a homogeneous region capable of self-defence is not necessarily self-sustaining. He disregards the economic component. If one ethnic group is still dependent economically on another, but capable of self-defence, it is not hard to imagine defence might turn into offence again. Kaufmann goes on: “Solutions that aim both to restore multiethnic civil politics and to avoid population transfers, such as institution building, power sharing, and identity reconstruction, cannot work during or after an ethnic civil war because they do not resolve the security dilemma created by mixed demography”. For now, the Former Yugoslav Republic Of Macedonia (FYROM) proves otherwise. Although a full-scale war between Macedonians and Albanians never saw the light of day, there were serious threats in this direction. Armed clashes did happen.

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41 Amongst others by the Dutch former Minister of Defence Joris Voorhoeve (www.volkskrant.nl, December 2006).
triggering a response from the international community in the form of peacekeepers. Through institution building and power sharing it was probably prevented from ever reoccurring. Furthermore, partition does not necessarily resolve a security dilemma, as the example of Abkhazia shows.44

Since clean ethnic lines are very rare, partition is in most cases not a viable option, unless a case is so hopeless that population transfers would be regarded as a civilised method of ethnic cleansing. In other instances the conflict has to be resolved using a comprehensive approach. To address the concerns ventilated by Kaufmann on the security dilemma, internal security institutions need to be reformed.45 “A basic goal of any civil war settlement is to re-establish a legitimate state monopoly over the use of force in society, under terms agreeable to the parties to conflict”.46 There are different ways to achieve this. Warring parties can be demobilised and a new security sector can be build from scratch, or the new security sector can be composed of the two (or more) fighting factions, so-called ‘military merger’.47 It is very important to restructure these security forces in ways that reorient public safety toward protecting citizens rather than the regime or dominant groups to prevent the security dilemma from enflaming renewed violent conflict.48

Security sector reform is not enough. The state has to be held accountable for good governance and respect for human rights. Justice is one of the most important aspects of society that need to be addressed.49 The government has to make sure it uses its monopoly on violence just and without prejudice. Institutions need to be build to construct a functioning state and a strong civil society to control the government and make sure people will not be subjected to authoritarian rule.50 For this reason, democratisation and electoral systems need to be addressed in some cases. Furthermore, after intense conflict, humanitarian aid probably has to be distributed. The country might need reconstruction efforts and the economy needs to be developed. Refugees and internally displaced persons (IDPs) are waiting to be reintegrated into society in many cases. All of this has to happen more or less at the same time, which makes conflict resolution a very complex and challenging activity. The next paragraph will focus on the economical side of the above and especially the possibilities for entrepreneurial development to prevent violent conflict from happening (again).

44 Although Abkhazia never officially parted from Georgia, Abkhaz and Georgians live almost completely separated from each other.
46 Ibid., p. 212.
1.4 Entrepreneurial development and conflict resolution

*Peace is the natural effect of trade. Two nations who traffic with each other become reciprocally dependent: for if one has the interest in buying, the other has the interest in selling; and thus their union is founded on the mutual necessities.*[^51]

The idea so eloquently put by Baron de Montesquieu two and a half centuries ago is that economical interdependence deters societies from engaging into (armed) conflict: “Theorists like Montesquieu and Kant and practitioners like Woodrow Wilson asserted that economic relations between states pacify political interaction. Mounting evidence in recent years appears to substantiate these claims. Multiple studies, many identified with the democratic peace, link interstate trade with reductions in militarized disputes or wars”.[^52] Furthermore, interethnic cooperation and trade will bring societies together and promote interdependency, which (again) is a strong incentive for peace. However: “exports of manufactured goods create high levels of welfare and equality, while exports of agricultural products promote poverty and inequality, which in turn become among the factors that lead to political instability”.[^53] Thus, although it is believed that economical development contributes to peace and stability, there has to be some diversification from activities based on agriculture solely. This is where entrepreneurship steps in.

High-potential pro-growth entrepreneurship can, according to Naudé, contribute towards peace, security, and transition in fragile and conflict states in a number of ways.[^54] One of the ways in which high-potential pro-growth entrepreneurship could contribute is through making economies more diversified. Diversification is important for peace and growth, according to Paul Collier.[^55] In an earlier study he claims that an economy based on primary commodity exports has a four times larger chance of conflict than one with a diversified economy.[^56] This is caused by the fact that only a small group profits from this economy and can fund their armed struggle with the gains. To counter this problem he suggests: “the international community can reduce the risks generated by primary commodity exports (…) [by assisting] in the diversification of the economies of those societies that are most at risk”.[^57] Naudé: “high-potential growth entrepreneurship, which corresponds with the notion of technologically innovative, pro-growth entrepreneurship (…) should be advanced by governments and development agencies”.[^58]

[^57]: Ibid., p. 106.
High-risk countries actually have an advantage in this respect. Countries with a high risk of conflict because they are culturally heterogeneous and going through a period of change are very well suited for diversification of the economy through entrepreneurship. Audretsch and Thurik are of the opinion that new ideas are more likely to emerge from communication in a heterogeneous than a homogeneous environment. Especially in a heterogeneous country like Georgia entrepreneurship can contribute to peace through new ideas, innovation, and cross-cultural benefits: “Turbulence, diversity and heterogeneity are central to the model of the entrepreneurial economy”. In addition, high-potential pro-growth entrepreneurship in itself has an ability to promote peace. Entrepreneurs fulfil a cost discovery function and generate change from inside the country and its economic system. Where state capacity may be weak or unwilling, post-conflict reconstruction could be facilitated by private sector support to governments. Rob Zaagman adds: “in the long run prosperity and economic stability lessen the probability of international tensions and armed conflict”.

Apart from interdependence and diversification as two major positive influences entrepreneurship can have on the establishment of peace through economic development, there is another reason I would like to add, which is maybe very obvious: money. More precisely: money attainable more easily through peaceful than trough violent means. As noted by Collier development is the best strategy for peace. People who live prosperous lives have fewer reasons for quarrelling with others over resources. Furthermore, people with well paid jobs have something to lose. By engaging into armed conflict they risk losing their job and thus their income. The final argument is that many combatants are lured into fighting by the promise of financial gains, either through payment or through the spoils of war. People who have nothing to spend are more easily enticed to give in to this temptation than people who already make a decent living.

When all of the above is put together three ways in which entrepreneurship can contribute to conflict resolution can be formulated:

1. Entrepreneurship → Trade & Interdependence → Peace;
2. Entrepreneurship → Development & Diversification → Peace;
3. Entrepreneurship → Takes away incentives to pick up arms → Peace.

Entrepreneurship achieves these outcomes through:

Ad 1: Connection and broadening of markets;
Ad 2: Gap-filling, input-completion, and creation of firms;
Ad 3: Offering job opportunities and income.

The next chapter contains a formulation of the main problem this research deals with, leading to the research goal and main research question – divided into sub questions – and methods used to give answer to the questions posed.

60 Ibid., p. 9.
2 Methodology

A significant part of the research took place in Tbilisi, the capital of Georgia, home to about 1.3 million people and all the (state) institutions that are relevant to this research. In this city the Georgian Foundation for Strategic and International Studies (GFSIS) is located as well. GFSIS is a think tank which generously facilitated me during my stay in the capital. Here I enjoyed the company of many inspiring and well informed people. In addition to two interviews conducted in regional capitals (Kutaisi and Akhaltsikhe) more than half of the interviews (12 out of 21) were conducted in the conflict zones themselves. I travelled to Tskhinvali63 to grasp the situation from within South Ossetia and did the same in Sukhum and Gali with respect to Abkhazia. The interviews themselves took place at various locations: mostly in the offices of the respondents themselves or in the office of the facilitating organisation. Sometimes, when such places were not available, a respondent’s home or a café was the location of choice.

Because the issues this thesis deals with are quite under researched, a qualitative research is best suited to find answers to the research questions. The amount of interviews is such that labelling them and processing through a computer programme like SPSS is not necessary. The quality of the information obtained with the various research methods is sufficient to answer the questions concerning this research. The information is obtained from different sources: interviews with entrepreneurs, interviews with key informants, literature study, informal conversations, and participatory observation. Because of the triangulation of research methods the gathered data presents a good picture of the situation at hand, but further research is recommended to elaborate on the topics as presented in this paper. In the following, I will present the research objective and questions, the research population I have used for my research, the methods which I have applied, and the role I played as a researcher in the field.

2.1 Research objective and -questions

After the collapse of the Soviet Union and the fall of the Berlin Wall the world was looking forward to an age of unprecedented harmony and maybe even worldwide peace. Surely, now that capitalism won the ideological battle all of the former Communist subjects would fall happily in the arms of the developed countries in the West. The Second World as we knew it would cease to be and transform into part of the First World. Sadly, this was not the case. Many countries from the Second World actually transformed into Third World countries. Adapting to capitalism proved to be more difficult and above all painful than expected. Old East-West differences did not disappear either; they were merely put to a halt. The Warsaw Pact was dissolved, but NATO was not. The 1990s were one of the bloodiest decades in human history and today conflicts of all sorts roam the world. In many cases international actors try vigorously to solve them, in others nobody seems to care. Fact of the matter is: nobody has an answer to the question: what is the best way to resolve a conflict?

The goal of this research is to see if development of entrepreneurship can be used as a conflict resolution tool, especially in the light of the August 2008 events. By mapping the possibilities for entrepreneurial development and the capabilities of it to work as a tool towards conflict

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63 Ossetian name. I choose to use the names of a city used by the majority of its current population, without attaching any political statement to this choice.
resolution a new theoretical foundation will be laid with which conflict researchers can design new methods of conflict resolution. Contacts in the field have on several occasions expressed the feeling that research on entrepreneurial development in conflict situations is lacking and should be performed. Linking the research to the role of international parties makes it even more valuable since they do play a big part in the South Caucasus but show no real determination in how to deal with the situations at hand. In short, the goal is to further knowledge where it is lacking and propose some possibilities for future action.

The following research question is derived from this goal:

*In which way does local entrepreneurial development contribute to conflict resolution in Georgia’s unstable society and what are the limitations of this conflict resolution tool?*

Answering this question can contribute to the process of conflict resolution in Georgia. To answer the question the following sub questions are formulated:

- **Which effect can entrepreneurial development have on conflicts in theory?**
  To map the current knowledge on the relationship between the two concepts and to give a theoretical framework on which the research can be based.
- **What are the main issues in Georgia’s autonomous regions?**
  To get a broad view of the problems which are faced by authorities and the people.
- **Which parties have a stake in Georgia’s affairs?**
  To map the different stakeholders in the region and what their aims or intentions are.
- **In how far and in which way has entrepreneurial development been promoted in the past in Georgia?**
  To gain knowledge of past efforts (if any) and to learn from successes and failures.
- **What is currently being done at the crossroads of entrepreneurial development and conflict resolution?**
  To map the current efforts to combine the two concepts.
- **What are the effects of current entrepreneurial development programmes on conflict resolution?**
  To measure the success of current or past projects in functioning as a conflict resolution tool.
- **What are the wishes and desires of entrepreneurs in the field?**
  To discover what could or should be done in the eyes of the entrepreneurs themselves.
- **Which role can international players have in promoting entrepreneurial development as a tool to resolve conflict in Georgia?**
  To see what actually can be done to promote entrepreneurial development and which opportunities and capabilities international players have in such.
- **What limitations are there to peace building through economic means?**
  To put the theory into perspective and to analyse why the conflicts turned violent again.

These sub questions are operationalised in the interview guide in annex A.

### 2.2 Research population

Because of the explorative character of the research, mostly key informants were interviewed. Although the thesis is about entrepreneurship and its role in conflict resolution, it is not said
that the best picture of the situation can be given provided by data from interviews with a certain number of entrepreneurs. For future, more extended research a questionnaire distributed among entrepreneurs themselves can definitely contribute to a better understanding of the possibilities of entrepreneurship in Georgia. However, for the purpose of this particular research, key informants who have been working in the field of entrepreneurship or conflict resolution can provide a broader view of the situation at hand. Two entrepreneurs were included in the research however, to test if the data provided by key informants was not completely opposite to their thoughts and observations.

The other 23 respondents came from various backgrounds. Most of them were employees of non governmental organisations (NGOs). About half of them worked for a local (be it Georgian, Ossetian, or Abkhaz) NGO, the other half for an international one. There were two respondents working for a commercial organisation. These could provide valuable insights into the overall economic climate of the research location and into the possibilities for entrepreneurship therein. I interviewed two people working for the Organisation for Security and Cooperation in Europe (OSCE), an organisation in charge of monitoring the peace forces deployed in South Ossetia, but at the same time working on democratisation and economic development. They handed me the main contact in Tskhinval, who was an independent advisor on economics. He had many contacts in the field and served as an adviser for both the de facto government as well as international organisations, depending on demand for independent expertise. Finally, there were four respondents who were affiliated with one of the governments active in the region. This affiliation ranged from an economic expert at a ministry to an employee of an independent organisation completely funded by the government.

The respondents were found via various sources. The above mentioned main contact in Tskhinval was provided by a respondent in Tbilisi working in both cities. The contact himself brought me into contact with all the other respondents in the city. There was no other way to obtain respondents in this particular case. Entering South Ossetia is not an easy effort. The de facto Ministry of Foreign Affairs demands a list of all the people you want to talk to before permitting access to the territory under their control. Respondents in Tbilisi were mostly found by obtaining information about different organisations on the Internet and asking previous respondents about valuable contacts for the research, the so-called snowballing technique. The latter technique was also used with respect to respondents in Abkhazia. Some of them were recommended by respondents in Georgia proper; others were found during the stay in Abkhazia. Overall, the research population is of a mixed character and therefore provides a fairly reliable source of information. However, for future research and statistical data surveys more respondents are recommended, in particular entrepreneurs themselves.

2.3 Research methods

This thesis is based on a research which took place during the course of a year, from September 2007 until August 2008. The first course of action was to perform literature research, to obtain further knowledge on the South Caucasus and its problems, to obtain

64 In total 21 interviews were conducted, but sometimes with more than one respondent.
65 A list of organisations can be found in Annex B. For privacy reasons, names of individual respondents are not given.
66 The term ‘Georgia proper’ is used to describe those parts of Georgia which are still under control of the central government in Tbilisi; before August 2008 this included some parts of Abkhazia and South Ossetia.
knowledge on the effects of entrepreneurial activity on conflicts, and to establish a theoretical framework as the basis on which the empirical chapters are built. Most of the literature research has been done in The Netherlands, but it remained a constant part of activities during and after the field work as well. New insights brought new questions, which sometimes could be answered by newfound literature. Furthermore, in Georgia I stumbled upon literature which I would not as easily have found in The Netherlands, for instance at the GFSIS, but also at other organisations present in Tbilisi, such as the Heinrich Böll Stiftung.

To investigate what has already been done in the field of entrepreneurship and conflict resolution, I performed desk research, which means I gathered information on programmes implemented by institutions working on either development of entrepreneurship in fragile states or conflict resolution, or a combination of the two. This desk research took place both in The Netherlands at the Radboud University library and at the office of the GFSIS in Georgia. To complement this I attended various conferences and seminars, both in The Netherlands and in Georgia. At these gatherings I gained a lot of insights into the complex Caucasus region of which Georgia is a part. In addition they gave me the opportunity to either speak to people useful for the research directly, or otherwise get into contact with people working in the fields of my interest via attendance of the various gatherings.

The interviews are the basis for the empirical chapters, chapters 4, 5, and 6. To see what the effects are of past efforts to promote entrepreneurship and to map the impact of the entrepreneurship itself I interviewed a multitude of key respondents. They could inform me about their thoughts and visions on entrepreneurship and its potential as a conflict resolution tool. Some of the organisations they worked for already worked in this direction or were interested in doing so in the future. My thoughts and theoretical insights were of some value to them as well, making some of the interviews mutually beneficiary. To map the desires and demands of entrepreneurs, ‘the backbone of society’, I set out to do interviews with a number of private entrepreneurs as well. This was supposed to happen near the end of my stay in Georgia, when I already explored the field via key respondents. However, at this time the five day war started and during the war and its aftermath, performing interviews with a foreign researcher about entrepreneurship and conflict resolution was not on top of most people’s agendas. Therefore I only interviewed two entrepreneurs, enough for this explorative research, but for future efforts more respondents from this category would be recommendable. Most of the interviews were performed in English. However, when respondents did not speak English or preferred another language, I used an interpreter. On my travels to both South Ossetia and Abkhazia I brought someone who was fluent in both English and Russian. The latter language is still the lingua franca for most people in the South Caucasus.

2.4 The researcher’s role

As for the ethics concerning cross-cultural research, I have followed the suggestions presented by Donald P. Warwick. First of all, it is important not to violate the ethical standards or cultural understandings of the people subject to the study. This means I had to adjust myself to the norms of Georgian society, which are not very different from mine. Practically, it means for instance that I had to be careful not to offend their highly developed sense of hospitality and at the same time not to abuse it. Secondly, I had to be careful when

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referring to the status of South Ossetia and Abkhazia and its relationships with Georgia and the Russian Federation. I have my own opinions about the former, current, and future developments in this respect, but I mostly refrained from making statements which could be offensive to the respondents. Only in conversations with people I knew for some time and whom I could trust, did I present my own opinion, always stressing my neutrality in the conflicts as far as possible.

However, the political situation unavoidably appeared as a topic during most of the interviews, but my experience is that respondents were not inclined to refrain from addressing certain issues because they feared negative consequences would follow. Especially with regard to the Ossetians and the Abkhaz, people (mostly Georgians) warned me that they would not be talking freely because of their repressive governments. I found no evidence of this. People were very well capable of presenting an opposing view to the one of their de facto governments. I made sure I could not be linked to any organisation. Although the administrator of the GFSIS had requested my personal data and a short introduction to myself for the purpose of putting it on the GFSIS website, I refused, since it would harm my position as a neutral observer and could even prevent me from getting access to the secessionist territories altogether.

During the last month of my stay in Georgia my role as a researcher changed however. I remained a neutral observer but I did of course worry about what was happening to the country I was living in, and especially to the people I met, in Tbilisi, in Tskhinval, and in Sukhum. My focus of attention turned from the research on entrepreneurial activity to keeping up with current events through various media sources and the people I (had) worked with, mostly at the GFSIS. Media from The Netherlands approached me to report on the events, and so I did through radio, newspapers, and web logs. Because these activities claimed the lion’s share of my time in the last month of my stay and they dramatically changed the field of research, I decided to devote an extra paragraph to the events of August 2008 in the final chapter. It has to be noted here that although I lived in Tbilisi at the time, the events never harmed my neutral position in the conflicts. They only strengthened my belief that it is of utmost importance to pay attention to the quarrels which rip this corner of the world apart and try to resolve them as peacefully as possible.

In the next chapter the context of the research will be presented. I believe it is of paramount importance to have an understanding of the country which acted as research location to fully understand the analysis of the data gathered. Following the empirical chapters, there will be another contextual reflection, dealing with the August 2008 events. These were unexpected and not accounted for when I set up this research. However, they had a significant impact on Georgia and the environment the research was carried out in. Therefore it has to be included in this thesis. It will be combined with a conclusion encompassing all of the above in the final chapter, together with some recommendations for future research.
3 Georgia, a post-Soviet country

*a georgian will share a nut with 9 of his brothers; for himself he needs no more
he wants to open his heart for everyone; just like the door of his house
brave and hospitable nation; a guest a gift from god
such a country exists: her name is georgia*68

Ioseb Noneshvili is one of many famous Georgian poets, much revered until this very day. He is just one of many examples of Georgia’s long history in the arts, especially literature. The text above is part of his poem *-Sakartvelo-* and describes Georgia and its inhabitants very accurately. A guest truly feels like he was sent by God and no one will deny the Georgians their hospitable character, nor their braveness.

What made such an open, brave, and hospitable country turn into a warzone? What led the Ossetians to believe their Georgian neighbours are not so hospitable at all? Why did the Abkhaz ‘cleanse’ their territory from people who are known to be worshippers of guests? These are questions not easily answered, and this thesis is not the appropriate platform to make an attempt in that direction. However, to be able to understand the complexities of the environment that served as a research location, it is important to have a little understanding of the history of Georgia. The next paragraph will give a short outline of the several incarnations of a Georgian state, with a focus on the periods of transition from one rule to another. As a post-Soviet country, the influences of Communism and Moscow are still very much present in Georgia. These elements make it an exceptionally interesting site for research. Evidently, the August 2008 events only contributed to the acute relevance of the research location.

3.1 Georgia before 1921

One just has to look at the multitude of languages which are spoken in the Caucasus to realise the region has a very rich and complex history. Some of the languages have been a great mystery and people have tried over and over again to link them to other languages, such as Basque, but never has proof been given that these links are real. Thus, Georgian, or rather Kartvelian, is now mostly deemed a language family of its own, subdivided by the languages Kartuli, Svanuri, and Zanuri.69 Kartuli is the language spoken by most Georgians, whereas Svanuri and a dialect of Zanuri (Megruli) are spoken in the regions bordering Abkhazia (Svaneti and Samegrelo). The Abkhaz speak a language (Apsny) which belongs to the Northwest Caucasian language family, of which Circassian is also a proponent. The last ‘indigenous’ language family is the Northeast Caucasian language family, comprised of numerous different languages spoken in Ingushetia, Chechnya, and Dagestan, but rarely heard in Georgia.70 Most other relatively frequent spoken languages in Georgia, i.e. Armenian, Russian, Ossetian, and Greek, are part of the Indo-European family, whereas Azeri is a Turkic

68 Taken from the poem *Sakartvelo* written by Ioseb Noneshvili (1924-1981). Translated from Georgian in 2008 by Mariam Cheishvili.
(Altaic) language. All of these are therefore judged as relative newcomers in the Caucasus compared to the Kartvelian and North Caucasian languages.

Today’s Georgia roughly coincides with the ancient kingdoms of Colchis in the west and Iberia in the east. These kingdoms suffered many invasions from different peoples, mainly coming from the south. From the second century BC until the second century AD the kingdoms were occupied by either Roman, Armenian, or Pontian forces. Eventually, Iberia, or Kartli, regained independence in the second century, and Colchis, or Lazica-Egrisi, one century later. The next couple of centuries witnessed Roman (later Byzantine) and Persian rivalry over the entire region with both kingdoms fluctuating between independence and incorporation into the larger empires. More importantly however, in the fourth century both adopted Christianity as state religion, two of the first few to do so, thereby partly defining their ethnicity for the centuries to come. Christianity sets them apart from the Azeri, Turks, Iranians, and many of the North Caucasian peoples who adhere to Muslim beliefs, and the Chalcedonian character of their faith distinguishes them from the Monophysite Armenians. The Georgian Orthodox Church would become a defining force in the country’s history, especially since it adopted Kartuli as the liturgical language. However, before becoming a unified country the peoples of the South Caucasus had to face the aforementioned Roman/Byzantine and Persian rivalry and later conquest of the entire region by the Arabs.

The first signs of the resurgence of the kingdoms of Lazica-Egrisi and Kartli became apparent in the ninth century. As more ore less the successor state to Lazica-Egrisi an Abkhazian kingdom appeared in the west. Although it originated in today’s Abkhazia and probably had a combined Abkhaz and Kartvelian population, it had a Georgian signature, since Kartuli was the language of culture and religion. At the same time the lands of the former kingdom of Kartli were reunited under Davit Bagrationi. When Davit died at the beginning of the eleventh century Bagrat III of Abkhazia inherited Kartli and became ‘King of Abkhazians and Georgians’. With the incorporation of Kakheti, now the most eastern province of Georgia, the western and eastern Georgian lands were united for the first time. However, regular invasions of Seljuk Turks significantly downgraded the sovereign character of this early Georgian state. It was not until the transfer of power to Davit Aghmashenebeli (David the Builder) at the end of the eleventh century that the golden age of ‘Sakartvelo’ (land of Kartvelians) began.

Davit managed to finally defeat the Seljuk Turks and take over Tbilisi, which he made the capital of the increasingly powerful Georgian state. He established royal authority over the church and erected many new church buildings throughout the country, which partly explains his name. The other reason for his name is his expansionism; under the rule of Davit the Georgian empire grew rapidly to the south and the east, where it was not bound by the

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Upper Caucasus mountain range. Under his successor the kingdom reached its zenith: Queen Tamar\(^{77}\) reigned over an empire stretching from the Caspian Sea to the Black Sea, covering more than the whole South Caucasus. In the thirteenth century Mongol invasions brought a violent end to these heydays, and during the next two centuries Georgia would suffer numerous devastating raids, amongst others by the infamous Tamerlane.\(^{78}\) At the end of the fifteenth century the Georgian kingdom finally crumbled apart into several smaller states.

Subsequently the Ottoman and Persian empires fought for dominance over these territories, and although occasional peace treaties were made, continued to do so until the eighteenth century. During these times some of the Abkhaz population converted to Islam,\(^{79}\) a move less frequently made by Georgians. In the mean time a Russian empire emerged north of the Caucasus mountain range and in the eighteenth century became more involved in the quarrelling south of this natural border. The kingdom of Karli-Kakheti was placed by treaty under Russian protection and at the turn of the century was abolished altogether and annexed into the Russian empire. The other lands of the old Georgian kingdom (including Abkhazia) experienced similar events and were, either by treaty or by force, incorporated into Russia.\(^{80}\) A process which was finalised in 1878 when Ajaria was ceded by the Ottomans to the Russians, with the exception of the capital Batumi, which became a free port.

The second half of the nineteenth century saw some major changes in the development of the different peoples of the South Caucasus. Many Muslims, among which Abkhaz, were forced to leave their places of residence. As a result Abkhazia experienced changes in its ethnic make up; the Russians and Georgians became more dominant peoples, at the cost of the Abkhaz.\(^{81}\) Meanwhile, Georgians became more and more influenced by European thoughts and ideals. Because of the lack of a Georgian bourgeoisie, which was mostly Armenian, the rise of nationalism depended on the nobility and intelligentsia in Georgia. These travelled to Russia to study and there they learned from the radical movements sweeping trough Europe and these influences they brought back to Georgia. This can partly explain why the dominant Georgian political movement became more ideology based than the ones in Armenia and Azerbaijan, who were more influenced by a bourgeoisie and Persia respectively.

At the dawn of the First World War Azeri politics were dominated by a semi-nationalist and Islam-influenced party, the Müsavat. Armenian politics were of a more purely nationalistic character under the Dashnaksutium. Meanwhile, Georgian politics were dominated by the Mensheviks, a democratic socialist movement.\(^{82}\) The First World War pitted the Russians against the Ottomans yet again. However, when the revolutions took place in Russia in 1917, the Russian war effort declined sharply which gave the Ottoman Empire the opportunity to re-establish itself in the South Caucasus. The Ottoman invasions revealed the lack of viability of the Transcaucasus Federation which united Georgia, Armenia, and Azerbaijan at that time. The Georgians and Armenians dreaded the Muslim Turks and were determined to fight them; the Azeri did not.\(^{83}\) Soon the federation came to an end, and in a time when Russia suffered a

\(^{77}\) Some confusion exists around her title. Despite her sex, she is often referred to as ‘King Tamar’.
\(^{82}\) Ibid., p. 136.
civil war between the Red and White armies, Georgia declared itself independent in 1918 under a Menshevik government. This was actually a legal act according to the Declaration of the Rights of the Peoples of Russia from November 1917.\textsuperscript{84} This is the first, short-lived Georgian republic.

The Mensheviks ruling Georgia differed from the Bolsheviks rising to power in Russia. Where the Bolsheviks proclaimed a ‘dictatorship of the proletariat’, the Mensheviks introduced a multi-party political system. Also, the new constitution foresaw a Georgia in which Abkhazia and Ajaria – and Zakhathala\textsuperscript{85} – were integral parts of the country, but with an autonomous status. So it came to be that Abkhazia was at some point governed by a Bolshevik administration. Uprisings in Abkhazia were crushed by the central government and the Bolsheviks were ousted, making place for local administrators more loyal to Tbilisi. At the same time uprisings occurred in what later became South Ossetia. These were forcefully obstructed as well, fueling resentment among the Ossetians towards the Georgian leadership and handing a platform for Bolshevik influence in the territory.

The parallels between this period and the period directly after Georgian independence from the Soviet Union are hard to ignore. The Abkhaz had no real desire to be part of Georgia, although before being ruled by Bolsheviks, they did plea with the Tbilisi leadership for military help in ousting foreign invaders, which they received.\textsuperscript{86} However, they desired most of all to be an independent country – with ‘friendly relations’ with Georgia – like they effectively had been since the break up of the great kingdom in the fifteenth century. This ambition for independence forced them to look for support in the north, much like it did in the 1990s. The main desire of the Ossetians was to be united with their brothers in North Ossetia, in effect requiring South Ossetia to be joined to the country wherein their northern kinsmen lived. It was not so much a wish to be part of this vast empire, but their aims of self-rule for the Ossetian people inevitably led them it that direction, like it did in the 1990s. Georgian responses to these claims of self-rule have been similar both in the 1910s and the 1990s.

In the mean time Georgia was struggling to obtain recognition from foreign powers. Some countries (France, Great Britain, and Italy) already recognised Georgia \textit{de facto}. Finally, in January 1921, the League of Nations recognised Georgia \textit{de iure}, as Russia already had done indirectly in 1918.\textsuperscript{87} However, in a secret accord of 1920 Great Britain had given \textit{carte blanche} to Russia in the Caucasus after the former retreated from the territories,\textsuperscript{88} making this recognition a highly cynical affair. A few weeks after recognition, the Russian Red Army invaded Georgia in support of Bolshevik uprisings, and not long after Georgia was incorporated into the Russian Socialist Federative Soviet Republic (RSFSR). This was preceded however by fierce Georgian resistance, making Georgia the tougher nut to crack for the Bolsheviks in the South Caucasus, compared especially to the ease in which they

\textsuperscript{84} For a detailed account of declarations, treaties, and constitutions concerning Georgia from 1917 onward, see: Hille, C.M.L. (2003). State building in the Transcaucasus since 1917. Leiden: Universiteit Leiden.
\textsuperscript{85} A territory lost to Azerbaijan after Sovietisation of the South Caucasus: Cornell, S.E. (2002). Autonomy and conflict: Ethoterritoriality and seperatism in the South Caucasus – Cases in Georgia. Uppsala: Department of Peace and Conflict Research, Uppsala University, p. 142.
\textsuperscript{87} Ibid., chapter 5 (pages unknown).
\textsuperscript{88} Ibid., chapter 5 (pages unknown).
incorporated Azerbaijan, with its Baku based Bolshevik stronghold.⁸⁹ Within the RSFSR, the second Georgian republic emerged.

### 3.2 Georgia after 1921

The first two decades of this republic saw a lot of constitutional changes. Upon entering the RSFSR in 1921, Georgia was named a Socialist Soviet Republic (SSR), and within its territory two autonomous regions took shape in the course of the following year: Ajaria as an Autonomous Socialist Soviet Republic (ASSR) and on a lower level of self-rule the Autonomous Oblast⁹⁰ (AO) of South Ossetia was created.⁹¹ Abkhazia became a treaty-SSR to the Georgian SSR, independent in name, dependent in reality. A few months later the Transcaucasian Socialist Federative Soviet Republic (TSFSR) was created, of which the Georgian, Armenian, and Azerbaijani SSRs were members (and Abkhazia by treaty to Georgia). Together with the RSFSR, Ukraine, and White Russia (Belarus) the TSFSR went on to establish the Union of Soviet Socialist Republics (USSR),⁹² from now on referred to as the Soviet Union. In 1931 the special status of Abkhazia was revoked and what was already reality became official: its status was turned into an ASSR inside the Georgian SSR, on the same level of autonomy as Ajaria. Finally, in 1936, the TSFSR was dissolved, and its three constitutive members became independent SSRs in the Soviet Union.⁹³ This situation would remain until the Soviet Union fell apart in 1991.

Georgia has always sustained a somewhat special status in the Soviet Union: “Georgia was one of the few areas of the union that Moscow never really completely controlled, and was often able to get away with its dodging of Moscow’s rules”.⁹⁴ Several factors lie at the bottom of this; a strong sense of cultural history and nationality, pragmatism, and maybe most of all able men at the top institutions of the Soviet Union. One of them was Lavrenti Beria, first an important leader in the Transcaucasia, later head of the predecessor of the KGB. In this function he maintained a strong grip on Georgian affairs. Under his rule something happened what especially the Abkhaz remember as ‘Georgianisation’.⁹⁵ Demography of Abkhazia changed rapidly when Georgians (mostly Mingrelians) were enticed to move there in newly established settlements. However, even under Stalin – another Georgian raised to magnificent power in the Soviet Union – and especially under his successors titular nationalities enjoyed many rights. So it came to be that in Georgia as a whole Georgians were overrepresented in state structures, but the same can be said of Abkhaz in Abkhazia and Ossetians in South Ossetia, enjoying language and educational rights as well. Compared to Armenians and Azeri, much larger minorities in Georgia, the Abkhaz and Ossetians were in quite a preferable situation.⁹⁶ Not to mention compared to their kinsmen in the RSFSR.

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⁹⁰ Autonomous Province.


⁹² Ibid., chapter 3 (pages unknown).

⁹³ Ibid., chapter 5 (pages unknown).


Georgia was doing well economically, although official figures showed the opposite. Georgia resisted full incorporation into the Soviet economic system and became a pseudo-capitalist economy, with all the benefits (high savings and ownership of cars and houses) but also downsides: clientelism and corruption. To fight this Moscow appointed Eduard Shevardnadze first secretary of the Georgian Communist Party. His policies proved to be very effective and he managed to turn Georgia from a prosperous but corrupted state into a state which now even by official figures fared well. However, when he returned to Moscow in 1985 to become minister of foreign affairs, slumbering nationalism, which first gained ground during the de-Stalinisation under Khrushchev, had risen to the surface. Whereas de-Stalinisation was hailed throughout most of the Soviet Union, Georgians took offence by it and viewed it as anti-Georgian policies. Oblivious to most of Stalin’s crimes, many Georgians until this very day see him as the greatest leader the Soviet Union ever had.

Already in 1956 mass demonstrations took place in Georgia against the Soviet Union. These were crushed, but the underground nationalist movement never really was. Nor were the tensions between the Abkhaz, who would rather see Abkhazia as part of the RSFSR than of Georgia, and the Georgians, who view Abkhazia as an integral part of their country. Both these undercurrents resurfaced during the late 1980s. The communist party in Georgia had trouble coping with the changes which occurred in the Soviet Union – perestroika and glasnost – and especially with the nationalist movements which grew stronger and stronger. To temper them, some measures were taken to grant some of their wishes. The position of the Georgian language in the entire republic was strengthened for this cause in 1988, at the expense of minority languages. Minorities such as the Abkhaz and Ossetians feared this powerful Georgian nationalism and partly because of it, their nationalism grew as well. In a situation where Georgians grew more and more opposed to Moscow, minorities in Georgia grew more and more opposed to Tbilisi.

When in 1989 Abkhaz intellectuals demanded Abkhazia to become an independent republic within the Soviet Union – a move supported by Ossetian nationalists – Georgians took the streets of Tbilisi in demonstrations which evolved into a general demand for Georgian independence from the Soviet Union. These demonstrations were brutally crushed, taking away all legitimacy the communist party still had. Finally it had to give in to the mounting pressure and elections were held in 1990. The party of Zviad Gamsakhurdia, one of the nationalist leaders in the past decades, won an absolute majority of seats in the new parliament. Regional parties were banned from elections, as Gamsakhurdia had demanded. This man would later become Georgia’s first president after independence, which partly explains minority fears of being part of an independent Georgia under a president who once famously exclaimed: “Georgia for Georgians”. His influence however took shape even before 1990.

The rise to power of Gamsakhurdia was a terrible blow to already strained interethnic relations. Already before being elected to power, he managed to fuel resentment among all

100 Ibid., p. 159.
major minorities, except possibly the Greeks. Even the Ajar, who are ethnically Georgian, had their period of opposition to the central authorities. Gamsakhurdia publicly expressed the wish to revoke Ajaria’s autonomy, because he saw no need for a Georgian people to have autonomy within Georgia.\footnote{Cornell, S.E. (2002). *Autonomy and conflict: Ethoterritoriality and seperatism in the South Caucasus – Cases in Georgia*. Uppsala: Department of Peace and Conflict Research, Uppsala University, p. 160.} At the same time he vowed to respect the autonomy of Abkhazia and South Ossetia, a vow he did not keep with respect to the latter. In 1989 Tbilisi tried to make Georgian the sole state language in South Ossetia, aggravating violent clashes already taking place between Ossetians and Georgians. In an attempt to ‘protect Georgian citizens’ Gamsakhurdia organised a march on Tskhinval, the capital of South Ossetia, and he was followed by an estimated ten thousand people. This only strengthened the Ossetian determination to turn away from Tbilisi and look to Moscow for support. Finally, after elections were held in the self proclaimed ‘Independent Soviet Socialist Republic of South Ossetia’ in 1990, Tbilisi abolished the territory’s autonomy.\footnote{Ibid., p. 162.} Gamsakhurdia talked about expelling all Ossetians from Georgian soil and Georgians from South Ossetia were recruited to fight the Ossetians and shell Tskhinval. In 1991 the situation turned into a full-scale war and Soviet troops were deployed as peacekeepers. The latter were accused of fighting on the side of the Ossetians which led many to believe Gorbachev was using them to keep a grip on Georgia.\footnote{Kaufman, S. (2001). *Modern hatred: The symbolic politics of ethnic war*. Ithaca: Cornell University Press, p. 112-113.} Again, it is hard to ignore a feeling of history repeating itself: seventeen years later it is Putin who is accused of doing the exact same thing after Georgians started shelling Tskhinval in August 2008.

In a last attempt to preserve the Soviet Union, a union wide referendum was held. Since the Georgians boycotted it, only in Abkhazia and South Ossetia it actually took place as far as Georgia is concerned. In both territories, 99% voted for preservation of the Soviet Union. In a response, Gamsakhurdia held a referendum on Georgian independence, which in turn was boycotted by the Abkhaz and Ossetians. A staggering 98% voted in favour of independence. This is surprising because it means that Armenians and Azeri also voted in favour. However, Gamsakhurdia’s threat of depriving any minority individual voting against independence of citizenship somewhat puts the legitimacy of this referendum into question.\footnote{Cornell, S.E. (2002). *Autonomy and conflict: Ethoterritoriality and seperatism in the South Caucasus – Cases in Georgia*. Uppsala: Department of Peace and Conflict Research, Uppsala University, p. 163.} A further testament of this is the fact that the Javakheti region, which is mostly inhabited by Armenians, has been outside of Tbilisi’s control throughout Gamsakhurdia’s presidency.\footnote{See: Guretski, V. (1998). The question of Javakheti. *Caucasian Regional Studies*. 3 (1). Brussel: The International Association For Caucasian Regional Studies.} In the mean time political fighting over Abkhazia continued, but surprisingly never turned violent. Possibly because of troubles keeping his own position, Gamsakhurdia did not intervene militarily in Abkhazia like he did in South Ossetia.

As president of an independent Georgia, he did not survive long. More and more his rhetoric turned even fellow Georgians against him. A fatal mistake was dissolving the National Guard. The commander, Kitovani, did not accept this decision and took off with many of his troops.\footnote{Cornell, S.E. (2002). *Autonomy and conflict: Ethoterritoriality and seperatism in the South Caucasus – Cases in Georgia*. Uppsala: Department of Peace and Conflict Research, Uppsala University, p. 165.} Together with Ioseliani’s Mkhedrioni his forces decided the civil war that erupted in Tbilisi in the opposition’s favour and Gamsakhurdia fled to Chechnya. In an attempt to legitimise their rule Kitovani, Ioseliani, and Sigua (a former prime minister) invited

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103 Ibid., p. 162.
Shevardnadze to become chairman of the State Council. In the chaos of these events and the final break up of the Soviet Union the Ossetians voted in a referendum to join the new Russian Federation, with 90% of the votes in favour. The continuous shelling of Tskhinval showed that Shevardnadze was not in control of the paramilitaries and the cease-fire agreement he signed proved void.\textsuperscript{108} In North Ossetia an army of Russian soldiers and North Caucasian volunteers was preparing for an invasion. Shevardnadze had no other choice than to sign another cease-fire agreement with Yeltsin in 1992, creating the stalemate South Ossetia which has existed until August 2008.

Abkhazia was at that point ruled – if one can speak of that in the paralysed state the territory was in – by Ardzinba, a former member of the Soviet Union congress and a complete opposite to the liberal and reform minded Shevardnadze. He took some anti-Georgian measures but also proposed a new treaty in which Georgia and Abkhazia would form a confederation, which was rejected by Tbilisi. Tensions rose again and finally Kitovani took his forces to Sukhum, Abkhazia’s capital. It is believed this happened without Shevardnadze’s consent; either way, he was incapable of stopping it. The Abkhaz responded with a counter offensive, supported by volunteer kinsmen from the North Caucasus and – allegedly – Russian regular forces. Eventually the Russians brokered a cease-fire demanding all forces to withdraw. At the same time however, Gamsakhurdia returned and was immediately supported by about a third of the Georgian forces.\textsuperscript{109} This triggered a second civil war, this time in the border region with Abkhazia. The Abkhaz took the opportunity of confusion and retook Sukhum, forcing Shevardnadze to flee the city at the last minute. They went on to expel two hundred thousand or more Georgians from Abkhazia. Faced by these events and the resurgent Gamsakhurdia, Shevardnadze saw himself forced to invite the Russians to put an end to both,\textsuperscript{110} thereby handing over a considerable part of Georgia’s sovereignty back to Moscow.

The years which followed presented three urgent matters for the president to tend to: his own weakened position – after all, it was under his tenure that Georgia lost control of two of its territories; the deplorable economic situation the country was in; and reversing concessions he had been forced to make to the Russians. By making use of his fame he attracted foreign aid and investment, thereby both strengthening the economy and his own position.\textsuperscript{111} He put Georgia on the map as an important energy corridor by joining forces with Aliyev, president of Azerbaijan, making use of that other South Caucasus conflict: Nagorno Karabakh. He even managed to take back some of the powers granted to Russia over Georgia’s sovereignty. However, in the end he did not manage to stay in power just by performing well as a president. Odds turned against him (and Georgia) again at the turn of the millennium, with a crisis hitting the economy hard, the second Chechen war spilling over to Georgia, continuous threats of ethnic conflict in Javakheti, and failure to regain control over Ajaria, which had become the private kingdom of Abashidze, who refused to pay any heed to endeavours toward normalisation of relationships (ibid., p. 171-172).\textsuperscript{112}

And so, in 2003, according to many observers he saw himself forced to rig the elections to keep control of the government. This triggered the Rose Revolution propelling Mikheil

\textsuperscript{109} Cornell, S.E. (2002). \textit{Autonomy and conflict: Ethoterritoriality and seperatism in the South Caucasus – Cases in Georgia}. Uppsala: Department of Peace and Conflict Research, Uppsala University, p. 169.
\textsuperscript{110} Ibid., p. 170.
\textsuperscript{111} Ibid., p. 170.
\textsuperscript{112} Ibid., p. 171-172.
Saakashvili to the presidency in 2004. On promises of the fight on corruption, economic rehabilitation, democratic reform, and return of the secessionist territories to Georgian control, he gained massive support under the Georgian population. He did fight corruption – although many believe he just institutionalised it – and he did bring economic progress – although most of it is confined to the capital Tbilisi. He also managed to expel Abashidze from Ajaria and return the territory, in a peaceful manner, into its place as an autonomous province within Georgia. As for democratic reforms: they were executed, but not with the result the people had hoped for. He drew more and more power to the presidency and in November 2007 proved to be capable of just as heavy handed a response to public protest as his predecessors. Although he managed to stay in power in the following months, his power did not float on the waves of the Rose Revolution anymore. The still unresolved questions of South Ossetia and Abkhazia became a seemingly unsolvable burden, obstructing that other important promise to the Georgian people: inclusion in NATO.

3.3 An outlook on the economy

Disappointment among the people can be shown by survey results of 2004 (just after the Rose Revolution) and 2007 (just before the political instability). The Georgian National Voters Study\textsuperscript{113} investigating the mood of the country shows the following results:

<table>
<thead>
<tr>
<th></th>
<th>October 2004</th>
<th>February 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Positive:</td>
<td>Negative:</td>
</tr>
<tr>
<td>Development of Georgia</td>
<td>65%</td>
<td>24%</td>
</tr>
<tr>
<td>Development of democracy</td>
<td>68%</td>
<td>22%</td>
</tr>
<tr>
<td>Development of economy</td>
<td>44%</td>
<td>13%</td>
</tr>
<tr>
<td>Development of pers. fin. sit.</td>
<td>17%</td>
<td>20%</td>
</tr>
</tbody>
</table>

As can be seen from this data, in 2004 about two thirds of the respondents were of the opinion Georgia was going in the right general direction, and only a quarter thought the country was going in the wrong direction. In 2007 these figures have gotten much closer to each other. An important reason for this can be found in the figures outlining the development of democracy in Georgia: more or less the same shift between 2004 and 2007 can be seen in the data showing their satisfaction with democratic progress. Another important factor in the development of a country is its economy, and the people’s satisfaction with their position in it. These two indicators both see a sharp increase in respondents stating the general economy and their personal financial situation worsened over the last three months. It has to be noted that all this data is from before the November 2007 government crackdown on demonstrations and the world’s economic crisis of 2008 and 2009; both satisfaction with the level of democracy and the development of the economy are likely to be even lower now.

The question is if data justifies perception. For this research focus will be on economic statistics. Alas, most economic figures are not available for the secessionist territories separately. The table below shows some key economic indicators. To put them in perspective, they are compared to those of the EU countries:

\textsuperscript{113} Funded by USAID, developed by Baltic Surveys/Gallup Organisation, carried out by IPM on behalf of IRI.
Although the economy of Georgia still lags way behind the EU average, it did seem to have made a lot of progress during the period in which the average citizen got disappointed with the progress the country was making. This is quite remarkable given the fact that the Gross Domestic Product (GDP) per capita rose with a staggering 77.4%. Of course the benefits of such are levelled a little bit by the high inflation rate which generally accompanies such high growth figures. Still, the spending capacity of the average Georgia should have risen considerably over these few years, but nevertheless the positive mood of 2004 has been downgraded substantially. Although this can not be attributed to the negative account balance of Georgia as a country, these figures are worrying indeed: imports exceed exports with a negative account as a result. In the long run this is not sustainable, but it is doubtful the average Georgian citizen is aware of this danger.

A closer look on the external sector of the Georgian economy shows that in the time-span 2004-2007 imports increased with 182.2% but exports with only 90.6%. Although this means almost a doubling of exports, imports have almost tripled, increasing the negative account balance. Furthermore, limited export which does exist is dominated by raw materials such as ferroalloy, scrap metal, and gold. Apart from oil and gas, end-products such as motorcars, pharmaceuticals, and transmission equipment need to be imported. These are signs that Georgia lacks industrial productivity. Even agriculture, historically a strong sector in Georgia, is hardly capable of producing enough for export purposes, with an exception for walnuts. At the moment, agriculture makes up for 13.0% of GDP composition, industry 28.7%, and the rest, 58.3%, is generated in the services sector. However, agriculture is by far the most labour intensive sector, with 55.6% of the working population employed in agriculture, 8.9% in industry, and 35.5% in services. With an unemployment rate of 13.3% Georgia does not perform terribly bad, nor is it a shining star among the Caucasus nations. Maybe the following table can shed some light on the feelings of disappointment among Georgian citizens:

<table>
<thead>
<tr>
<th></th>
<th>Georgia 2004</th>
<th>Georgia 2007</th>
<th>EU 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>€ 954</td>
<td>€ 1692</td>
<td>€ 24795</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>5.9 %</td>
<td>12.4 %</td>
<td>2.9 %</td>
</tr>
<tr>
<td>Inflation (year average)</td>
<td>5.7 %</td>
<td>9.2 %</td>
<td>2.3 %</td>
</tr>
<tr>
<td>Current account % to GDP</td>
<td>-6.7 %</td>
<td>-19.0 %</td>
<td>-0.6 %</td>
</tr>
</tbody>
</table>


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115 Ibid., p. 45.
116 Ibid., p. 43.
117 According to some sources the name ‘Georgia’ derives from some form of the Greek ‘georgia’, meaning ‘agriculture’. Georgians themselves refer to their country as ‘Sakartvelo’, land of the Kartvelians.
118 Data obtained from the World Factbook at: www.cia.gov.
119 The share of the population whose total monthly average per capita consumption is below the poverty line.
120 The share of the aggregated distance to the poverty line in the consumption of the whole population at the poverty line level.
121 Indicator reflecting the inequality amongst the poor which reflects both poverty depth and inequality amongst the poor.
These figures seem to indicate that the exceptional rise in GDP levels did for the largest part not reach the poorest layers of Georgian society. Such a discrepancy in development between different layers of society can be dangerous in the long run. People dissatisfied with their position, especially relative to those of others, are more easily tempted to act on their own behalf and seek ways to alleviate themselves from poverty. This can take a bad shape in the form of violence, but it can also take a more positive shape in the form of entrepreneurial behaviour. The next chapters will go into the question of how these people can be enticed to focus their energies on the more positive of the two reactions, productive entrepreneurship, and how this can be a tool in Georgia to prevent, restrain, and resolve conflict. This will be preceded however with some insights into the perceptions of people in the field with respect to entrepreneurship in general and its value as a conflict resolution tool.
4 Perceptions on entrepreneurship and conflict resolution

As presented in the theoretical framework, it is quite hard to give an all-encompassing, comprehensive definition of entrepreneurship. Even from a background of more than sixty years of relative peace and an economic system based for a large part on capitalism – in contrast to the research environment – it is a concept difficult to define, despite the abundance of literature on the subject. For this research entrepreneurship has been defined in the theoretical framework as: ‘the process of taking risk to make up for market deficiencies or offer alternatives creating a new business or expanding an existing one with the aim to make profit and connect different markets in a productive manner.’ If applied to a field of research with a very different background however, it is important to know in which way the concept is defined by research population, for the simple reason that the research would lack in validity if the researcher and the research population give different meaning to one of the main concepts on which the whole set of hypotheses is built. It is not unthinkable that, even if there exists any, a definition of entrepreneurship nurtured in sixty less peaceful years based in a communist economic system differs from the definition as it is used here and therefore these definitions are given below.

As for the link between entrepreneurship and conflict resolution the same reasoning can be applied. ‘Conflict resolution’ in itself is a term rarely used by the respondents to this research. ‘Peace’ is the word most commonly used to bypass this somewhat vague expression. It goes without saying people can work with the concept of peace. However, the link with entrepreneurship is not necessarily made immediately without some input from a third party; in this case the researcher. Although theory points in the direction that entrepreneurship (at least the high-potential pro-growth variant) can have a positive influence on the prevention or – under different circumstances – resolution of conflict, it is interesting to see if people actually dealing with conflict in their day to day lives are of the same opinion. It is not instrumental to the functioning of entrepreneurship as a conflict resolution tool that people believe it its potential in that sense, but awareness of such can and should provide an extra incentive to develop entrepreneurship to its fullest potential.

4.1 Entrepreneurship defined

The question ‘what is entrepreneurship’ proved to be the most difficult to answer of all questions put forward to the respondents. Many fell silent for some time before they replied: “I honestly do not know an answer to this question.” Apparently it is not necessary to know exactly how entrepreneurship can be defined to be able to work with the concept. Entrepreneurship seems to be a popularised term for an everyday phenomenon which, lacking a comprehensive alternative, is widely adopted by those affiliated with it without truly understanding what the word really entails. However it would be recommendable for those working in the field to at least have a grasp of its meaning to be able to focus attention to specific elements of entrepreneurship and to be able to measure results of programmes implemented. When given some time and after some persuasive actions, six respondents eventually came up with what they thought to be a good definition of entrepreneurship.

“You have to think in a strategic manner and search for a market” is what one respondent finally came up with. At first ‘gap-filling’ was the word which he thought best described the concept, but then he revoked this argument by stating that it is in fact a very old fashioned
conception of entrepreneurship. Above all he is of the opinion that basically there are no
differences between entrepreneurship in Georgia and in Europe as far as a definition of the
concept is concerned. Although he thinks there are opportunities for entrepreneurship in
Georgia, the country first of all needs to be decentralised to achieve more activity in this
respect. Only then will potential entrepreneurs be freed from the slow bureaucratic
mechanisms from Tbilisi. If such would happen, export opportunities would open up and
consequently entrepreneurs will expand their markets.

Thinking strategically and searching for a market is summarised by an employee of a business
consultancy firm as ‘vision’. He believes an entrepreneur is someone who has vision but most
importantly will do everything in his power to follow up on this vision. He notes that timing is
of paramount importance when it comes to executing one’s vision. Due to the fact that many
fail to find the right timing, their enterprises fail as well. A respondent from the OSCE is
quick to give an answer, which seems to be a definition which could be of OSCE textbook
quality: “An entrepreneur is an individual or a group of individuals who provides a demanded
product or service and sees innovation as an important aspect of doing business. He or she
provides that which is lacking but for which there exists a certain demand” [gap-filling]. This
definition approaches those mentioned in the theoretical framework very closely, but,
unsurprisingly, this particular respondent was not Georgian, but American.

Two respondents link the concept with development. The director of an IDP organisation
states: “Entrepreneurship is small business activity with lots of potential for development.”
Especially income generation projects for small- and medium-sized enterprises (SMEs) have
a lot of potential in the different regions of Georgia according to her past experiences. The
second respondent linking the concept to development combines it with a view on mutual
benefit: “Entrepreneurship is a group of business initiatives undertaken by individual
entrepreneurs. All this creates a circle of economic integration and development.” This ‘circle
of economic integration’ is a very important effect of entrepreneurial behaviour. He adds:
“The only way for South Ossetians to survive in the future is economical development and
cooperation with Georgians.” It has to be said that, objectively, it does not really matter for
the South Ossetians who they cooperate with, Georgians, North Ossetians, or Russians; as
long as they do engage themselves in cross-border trade activities, as their dependence on
Russia in the last couple of years has shown.

The last respondent who managed to define entrepreneurship also made a connection with
conflict resolution, this time with respect to Abkhazia: “[Entrepreneurship is] producing any
goods or services for profit and considered for the public. It can be a good instrument for
conflict resolution.” Although the first part of this definition lacks substance considerably, the
second part is intriguing and elaborated upon: “In this respect economic and business
education are important; especially exchange of knowledge between different countries.”
According to him any kind of entrepreneurship can be useful in this respect, depending on the
specific region and its opportunities. In the case of Abkhazia people in Georgia seem willing
to invest in tourism and infrastructure if given the chance (which they are not) but, alas, it is
not known to the respondent if there exists equal enthusiasm from the other side, since mutual
contact is all but absent.

The fact that most respondents could not give a definition of entrepreneurship and those that
could only did so after a considerable amount of time and some pressure from the interviewer,
shows that entrepreneurship as a concept is fairly new in this region of the world. Of course
the practice is not: Georgia would not exist today if it was not home to highly entrepreneurial
people who managed to build a vast empire in the dark ages and maintained at least some form of autonomy ever since. However, all respondents failed to differentiate between productive, unproductive, and destructive entrepreneurship. This does not necessarily mean they do not realise there exists a difference. The next paragraph will shed some light on this issue; do the respondents recognise a connection between entrepreneurship and conflict resolution?

4.2 The link with peace

All three aspects of entrepreneurship as ‘peacemaker’ are brought to the fore by the respondents. This is all the more promising given the fact that they themselves came up with these links, without being fed the ideas. However, some were a little bit sceptical about the idea of entrepreneurship as a conflict resolution tool. Two entrepreneurs from South Ossetia for instance acknowledged the potential of entrepreneurship, but did not see it bring major changes in the near future. According to one of them, economics in South Ossetia is too much interwoven with politics. One does not stand a chance to develop one’s business if he or she does not have the proper links to the people in charge of government, in this instant the de facto rulers. As will be explained in later chapters, these leaders have nothing to gain from conflict resolution since they thrive on the conflict. Another aspect hampering their enthusiasm is formed by the remnants of planned economy thought left over from the Soviet era in the peoples of the former union. People simply lack the ability to think commercially and surpass the level of self sustainment. One of the respondents longs back to the days of Communism: “Everything was better during Soviet times and I regret that things have changed so massively.” 122 This is a feeling which is present among many peoples throughout Georgia and the secessionist territories, although the capital Tbilisi seems different in this respect, as it is in many respects. Apart from some more positive comments, one respondent from Abkhazia did not even try to discuss the subject but chose to focus on everything the Georgians did wrong in their relationship with the Abkhaz, and before even thinking about conflict resolution (no matter through which means) these wrongdoings should be corrected first.

The most frequent mentioned link between entrepreneurship and peace is the trade and interdependency effect. To stick with Abkhazia, two respondents focused on this issue. According to the director of an Abkhazian NGO for business women, many people believe in cases of conflict the political issues should be fixed first and foremost and business will follow. She believes that it is the other way around: “Economics can be used as a tool to defuse tensions and resolve problems.” 123 Politics will follow afterwards. “When people establish economic links and depend on each other it will deliver mutual understanding and defuse tensions.” 124 Another respondent notes that during interethnic sessions the attitudes of people towards each other change. However, she also notes that many people are very nationalistic and project this towards ‘the other’ with hostility. Apparently people from mixed backgrounds are among the most fierce in this respect due to their desire to prove themselves to the kinsmen they live with. In South Ossetia as well the interdependency argument is often mentioned. A local employee of the OSCE formulated it most eloquently: “Supporting entrepreneurs equals peace building; it is the most efficient way of bringing different

122 Translated from Russian.
123 Translated from Russian.
124 Translated from Russian.
ethnicities together. Farmers and businessmen operate across borders, not just physical ones but also cultural, ethnic, and social ones.”

An employee of the same organisation based in Tbilisi goes even further in his believe in entrepreneurship as a conflict resolution tool: “There is nothing else which can do the job.” He strongly supports the hypothesis that trade relations between people of different ethnicities keeps them from fighting each other since it would harm their businesses if they did. In short, trade and interdependency will lead to resolution of the conflict in South Ossetia: “Excuse me for sounding like a pure capitalist, but economics makes the world go ‘round. It’s just the way it works.” However, for people to engage themselves into business relationships with ‘the others’ certain issues have to be tackled first. One micro credit organisation focuses some of its energies on taking away distrust which exists between – in this case – Abkhaz and Georgians. This is done through exchange programmes by which Abkhaz and Georgians are brought together (mainly on neutral ground) to change the monster image they have of each other into a more rational one. These exchanges have an economic basis, but as the respondent notes: “Economic contacts can eventually lead to different kinds of contact.” This is probably also true for the relationship between Ossetians and Georgians. According to the director of an initiative to distribute and market products from South Ossetia in Georgia proper Ossetians have expressed willingness to live in a unified country as long as business opportunities are presented to them. It has to be noted here that there exists a significant difference between South Ossetia and Abkhazia in this respect. South Ossetia is far less likely to be self-sustainable than Abkhazia and – more importantly – the Russian Federation has far less economic reasons to invest in the territory. People are aware of this so a more pragmatic attitude of its population should be expected.

The second – hypothetical – important effect of entrepreneurship as a conflict resolution tool, or rather a prevention mechanism, is offering alternatives to military service and armed conflict. In conflict societies the actual conflict itself is in many cases the main source of income for the people living in the conflict zone. This does not necessarily imply that people are willing to engage into conflict by themselves, by their own free choice, but mainly that they are more easily tempted to heed a certain battle cry because alternatives to find more peaceful means to provide for their families are lacking. According to an OSCE employee mainly preoccupied with offering alternative ways of generating an income for the people in South Ossetia, these people generally do not want the conflict. Nevertheless those in charge manage to create enough leverage among the people to be able to form armed militias and oppose ‘the other side’. One of the reasons why they are successful in such is because many people realise that picking up arms is the only way to find a steady source of work and income. In order to eradicate the influence of militant political leaders on the general population they need to be offered alternative means of generating enough income to support themselves and their families.

In the conflict zones themselves this hypothesis is supported as well, as is shown by an excerpt from an interview conducted in Abkhazia: “(...) building confidence on an economical basis is very viable for the simple reason that economically active people are less inclined to pick up a weapon. Business is business.” As long as war is bad for business, people will choose their businesses, in the view of this respondent. In South Ossetia the same stories can be heard: “Small entrepreneurs suffer the most from conflict so it is very important to support them. Not just out of humanitarian, developmental, or other obvious reasons, but also because it gives them a chance to make a living outside of the armed forces.” Apparently, there exists huge pressure on the people of South Ossetia to join the army or any other armed
force (e.g. police, militia). Part of this pressure exists in the simple fact that joining the armed forces is in many cases the only chance people have to provide for their families: without a functioning economy with entrepreneurial opportunities people search for alternative sources of income. The armed forces are a more or less secure provider for food on the table and thus it is very likely that many servicemen are not really interested in the cause but just in making sure they can sustain their families.

The director of an adult education centre in Akhaltsikhe supports the ‘alternatives’ hypothesis based on three general assumptions:

1. Social issues are the ground reason for any kind of conflict. The lack of electricity, water, employment, public facilities, etc. makes people dissatisfied with their situation, which in turn can be a reason for conflict;
2. People in marginalised positions are more likely to be sensitive to political pressure. Thus, dissatisfied with their situation and looking for a way out, they can be used by politicians to spread their own ideas and fulfill their desires;
3. A weak civil society [viewed by the respondent as a direct result of an underdeveloped population] is unable to counter such negative forces and prevent the upsurge of ethnocentrism, which, combined with external pressure, can lead to segregation. These three arguments are actually very much interrelated with the third hypothesis: a lack of development and diversification increases the probability of conflict.

The lack of development and diversification is very noticeable in Samtskhe-Javakheti, the region in which Akhaltsikhe is situated. In sharp contrast to the country capital Tbilisi the region seems to be suffering from a developmental standstill, an observation to which the respondent concurs. This mainly agricultural region with its large Armenian population has always acted in the shadows because the situation in Abkhazia, South Ossetia, and to a lesser extent Ajaria has always been more volatile and occasionally violent. However, those who have been observing Georgia more closely over the past two decades recognise the fear of similar problems in Samtskhe-Javakheti. The relative underdeveloped state of the economy compared to the economic upsurge Tbilisi has experienced under President Saakashvili is one of the reasons for such tensions: “These differences cause dissatisfaction among the people and thus problems. The main issue is that everything starts with poverty. Tackling poverty is what has to be done first and foremost.” This idea has been put forward in several interviews. One respondent even goes as far as stating: “Economic development is everything.” Although this is clearly a simplification of the way of things, his hopes are that through economic development the whole reason for conflict will vanish and the people of – in this case – South Ossetia will want to ‘return’ to Georgia because they will realise it is economically the wiser choice than the alternatives (either independence or becoming part of the Russian Federation).

This is a feeling partly shared by respondents from South Ossetia. A local OSCE employee states: “Everything revolves around money; economic stakes are more important than political ones.” Of course this does not necessarily imply that the South Ossetians would come running back to Georgia if it would benefit them economically, but at least they are less inclined to fight if they have something to lose because of it. An Abkhazian respondent notes that: “education and training will prevent conflict because it gives children chances in life.” However, there was one respondent who acknowledged the fact that economic development is

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125 Loosely transcribed from an interview conducted in the Russian language.
126 Translated from Russian.
127 Translated from Russian.
very important in the conflict resolution process, but downgraded the use of entrepreneurship as a useful tool to achieve peace. According to this employee of a micro credit organisation the creation of regular jobs has more of a peace building potential than entrepreneurship because regular jobs take away a lot of risk and this seems to him the most important preoccupation of the people: security. He believes private businesses will be abandoned as soon as regular jobs are provided. He does not explain however how regular jobs can be provided without first having entrepreneurs to build a thriving economy in the first place. Furthermore he focuses on self-sustaining businesses, which, as explained in the theoretical framework, is unproductive entrepreneurship. However, according to him pro-growth entrepreneurship is hard to support in Georgia because they need a lot of funding and micro credit falls short in this respect.

A final interesting concept which relates to all three of these hypotheses is the black market. A very famous one existed around the village of Ergneti on the (administrative) border between South Ossetia and Georgia proper. Apart from a clear economic function it served other purposes as well. Despite political conflicts, dialogue keeps on going at the black market. Key is to use the relationships that remained during the conflicts to get momentum going. Doing business is the most neutral and least ‘touchy’ form of human contact. Everyone benefitted from this market: the Russians could sell their oil and gas cheaply to Georgians who were in dire need of it. They in turn had a place to reach the Russian market for their tangerines and other natural produce, which they could not bring to the Russian market via official trade routes since they were blocked. The South Ossetians benefitted from the mere fact that economic activity was taking place at all. The only one who did not benefit was the government in Tbilisi due to lost customs revenues, so they closed the market down. Although a legal step no doubt, this is widely seen as a huge mistake on the side of the Georgian government, since it both deprived many from an income and aggravated the South Ossetian people even further. Similar black market activity has previously been seen on the border with Abkhazia as well.

An alternative brought to the fore by several respondents are ‘free economic zones’ which should be implemented on the locations where previously a black market existed. It more or less entails the institutionalisation of what has already occurred naturally. The idea is to regulate such a market to the example of – for instance – the Arizona market in the Bosnian town of Brcko. There are other examples as well, like the market places on the borders between breakaway Transdniestria and Moldova proper. The Abkhazian director of a union of business women offered to implement such a legalisation programme but it was rejected. A free economic zone, or even a black market will have more of a peace building effect than programmes aimed brining business people together on neutral grounds, since the latter are infrequent exercises of which the results are only temporary; after a while contacts fade away. Sadly, due to the fluidity of the situation at the borders with the breakaway territories the market places suffer from a lack of continuity as well.

The second part of the question: ‘What is entrepreneurship and how can it contribute to conflict resolution’ has been easier to answer for the respondents than the first part. Giving a definition of entrepreneurship proved a hard nut to crack but linking it to peace happened almost naturally. Interestingly all three hypothesis as laid out in the theoretical framework were mentioned as ways in which entrepreneurship could contribute to conflict resolution, with each respondent focusing on one or two of these. Especially the trade and interdependence argument generated great enthusiasm among the respondents and seemed almost as something which ‘goes without saying.’ Although these findings are very
interesting indeed, what is more important is how these ideas are implemented in the field of interest. Therefore the next chapter will focus on current efforts in entrepreneurial development and how much impact these efforts generate.
5 Current efforts in entrepreneurial development

As there are many organisations working on entrepreneurial development in Georgia – although many of them do not consider it a core activity as such – there are many different ways in which the issue is approached. Most of these efforts focus on micro finance, business trainings, trade opportunities, or a combination of two or more of these. Other activities include the setting up of cooperation mechanisms, exchange programmes, and monitoring activities, again mostly combined with one of the previously mentioned core activities. Especially micro finance seems to be a favourite mechanism to foster a healthy entrepreneurial environment, both in Georgia proper and the breakaway territories. The first paragraph of this chapter will shed some light on the different mechanisms applied to promote entrepreneurship where this is lacking, with a strong focus on micro finance activities. Business trainings are a method of choice widely applied in Abkhazia and will thus get a lot of attention in the first paragraph as well.

The second paragraph will focus on the impact these and similar programmes have on the entrepreneurial environment. Although many of the projects have only reached the implementation or even just the start-up phase, it is interesting and indeed necessary to assess whether they have an impact or even a potential to achieve the aims set out by the organisation concerned. As will become apparent many programmes lack thorough follow-up activities and monitoring, but some assessment has been done and valuable lessons can be learned from these. Finally this chapter will look into the interethnic cooperation which takes place within or because of projects implemented. Interethnic cooperation is not necessarily a benchmark to which the success of a project can be measured (as will become apparent later, interethnic cooperation is very difficult due to numerous reasons) but it can be a sign of relative success and could help to validate certain programmes.

5.1 Current projects examined

Microfinance (or micro credit) is somewhat of a hot topic within the realms of international development. There are those who propagate it as the most promising way to emancipate a large proportion of the poor population in developing countries and create a strong middle class, which in turn will be the basis of a stronger economy. In general, microfinance is viewed as a very positive way of economic development, although it has to be said the success rates differ per region. There are some however who doubt the effectiveness of microfinance and argue that it only benefits certain layers of the population (not the poorest ones) and that the effects on the overall economy are minimal. Most scholars however agree on the positive effects on microfinance programmes, although its effectiveness depends on the form and location of implementation. Either way, it is a concept widely applied, also in Georgia, and the lack of financial resources, a problem targeted by microfinance organisations, is often mentioned as one of the core problems for entrepreneurs, for instance in this research. However, there are different ways in which micro finance schemes are implemented. Some of them appeared in this research environment as well.

128 See for instance numerous World Bank reports. The World Bank even has a special agency for microfinance projects, the International Finance Corporation (IFC): www.ifc.org.
One Tbilisi based organisation called Charity Humanitarian Center ‘Abkhazeti’ (CHCA), focuses its attention on Georgian IDPs from Abkhazia. The organisation provides interest free loans, mainly to small traders. These are IDPs living in Georgia proper who – for instance – buy their products in Tbilisi and sell them in Abkhazia. This seems almost like the perfect recognition of the theory that trade facilitates interethnic contacts and thus mutual understanding. However, in this particular example the trade is mostly done with the population of the eastern Abkhaz town of Gali, which is almost entirely inhabited by Mingrelians (widely considered as Georgians, in contrast to the Abkhaz). However, some of these Mingrelians are known to travel regularly to the Abkhaz capital Sukhum where they can market their products. Via this route trade is being done between the Abkhaz and Georgians. During a field visit in Abkhazia this route became visible on the Sukhum market: tomatoes sold there are supposed to come from Turkey, but during interviews it became clear that they actually came from Georgia proper, via Gali.

In Abkhazia itself there are a number of organisations active in the micro finance business. In Gali the Danish Refugee Council (DRC) concentrates on social programmes, among which micro credit and business grants. These are combined with efforts to support entrepreneurs in writing a business plan, which can be submitted to stand elected for a micro credit or business grant. Through competition it is decided what the most pressing issues are and which business plan attacks these most effectively. Those that stick out receive some finance from the DRC to start up a business. Apart from reporting to its donors, who are multiple, the organisation has to maintain contacts with both the authorities in Tbilisi and those in Sukhum. Due to – among others – security issues the DRC can not operate without the consent of both governments. The organisation also coordinates its activities with other organisations in Abkhazia, to prevent too much overlap from occurring.

One of these organisations is World Vision International (WVI), based in Sukhum. According to the respondent, the micro credit scheme has been a real nightmare so far. This is partly due to the fact that micro credit is illegal in Abkhazia. Credo, a WVI subsidiary active in Georgia proper, could not engage into micro credit activities in the conflict regions because such action would need the consent of the de facto authorities which in turn would be viewed as recognition of these, leading to a potential conflict with the authorities in Tbilisi. This government consent is needed because as said, micro credit is officially illegal. The authorities fear that there will be too much credit available, potentially causing stark inflation and bankruptcies. The reason why WVI chooses to try and implement micro credit schemes in Abkhazia nonetheless is that they believe that economic development is one of the main entry points for confidence building in Abkhazia. However, since it is illegal to distribute credit for a foreign financial institution, the organisation has to work via a local bank. This is where the nightmare begins.

All the banks, although presented as Abkhaz, are Russian. These banks do offer individual credits but they base their judgement of whether or not someone will receive credit on nepotism. They will only give credit to relatives or friends and most of the time they will not pay back the loan which presents a problem to the bank. They openly admit to this fact and credit becomes less and less accessible. There is little trust between the people and the financial institutions. One of the main challenges for WVI is to find a decent bank to work with but most of them are not qualified. The bank accountant they work with in Gali is 83 years old and still uses an abacus in stead of a computer or even a calculator. There are just

130 They were at least before the August 2008 events; in chapters 5 and 6 the situation at the time of research is described.
two banks that operate both in Sukhum and Gali. One of them doesn’t want to work with them anymore because it delivers them too much paperwork and they profit too little from it. The authorities know of the activities of WVI but do not want them advertised. The authorities in Tbilisi make it difficult for WVI to get their finances sorted because if they would operate under the umbrella of Credo, their partners in Tbilisi, the latter organisation would get into trouble. Tbilisi does not want organisations to spend money on development in Abkhazia.

WVI works through a cycle approach of loans. The first loan can for instance amount up to 200 dollars, the second to 500 dollars, the third to 1000 dollars, etcetera. Interest rates decline as the cycles progress. This method is designed to develop a conscience with the people that they need to eventually repay the money which they borrowed. Most of the loans are distributed to small vendors and by default, mostly women. WVI does not specifically aim at women but they apparently make up the bulk of the vendors on the marketplace. People will apply to get a micro credit and WVI will execute a business analysis. The organisation mainly works with existing businesses, not start-ups like the DRC. WVI does work through a competition based approach and the elected business plans will be supported by business trainings and eventually the credit cycle. Apart from existing businesses WVI does pay attention to start-ups and for that goal has erected eight Social Community Centres (SCCs) throughout Georgia (not just Abkhazia). The SCCs grant very small loans to start-ups and 25% of the profit made by such a business has to return to the SCC. In all its activities WVI uses an interethnic approach and occasionally engages into confidence building projects. An independent consultant who reviewed their activities concluded that the primary link between the Abkhaz and the Mingrelians is trade: “Trade has no borders. The entrepreneurial mindset of people on both sides makes the barriers between them smaller. Ethnic issues do not exist when trade is concerned.”

Another effort to bring people from different ethnicities together under the umbrella of business development is made by Project Harmony. Aim is to bring Abkhaz and South Ossetians back into contact with the Georgians. This is very difficult however, since Abkhaz and South Ossetians can not easily gain access to Georgia proper, and Georgians can not easily go to the seceded territories. Thus, the organisation tries to bring them all together on neutral grounds, for instance the United States, the Russian Federation, or the Ukraine. There they will gain knowledge and ideas for entrepreneurial activities, and have a chance to get to know ‘the other’ a little bit better. Through this method a 200 people strong business network has been created in Georgia. It is claimed that the individuals participating remain in contact with each other upon return to the Caucasus. Of a more anecdotal quality are the stories of people from different ethnicities who were on the same foreign trip and became godparents of each other’s offspring. Either way, once again there is a strong believe that mutual interest, i.e. business, does motivate to get together and more importantly: get along.

The importance of getting the different ethnicities to talk to each other is also recognised by the OSCE mission in Georgia. Its main task is to monitor the cease fire agreement in South Ossetia and observe the work of the joint peacekeeping operations of the Russians, the Ossetians, and the Georgians. Apart from that however the organisation has some people working on economic development, mainly in farming. The South Ossetian farmers are in somewhat of a quagmire: trade with Georgia proper is virtually impossible because the Georgian government is blocking every possible trade route and an existing interethnic trade market at Ergneti has been closed. According to the OSCE respondents this has more or less been done to make life as miserable as possible for the South Ossetians, hoping they will
blame the *de facto* authorities for the poor economic situation. This aim is thwarted by the Russian Federation by opening its border with South Ossetia and make trade possible with the Russian market. However, it is near to impossible for Ossetian farmers to compete with Russian farmers. To break this isolation the OSCE has started a micro finance project in order to enlarge agricultural production. With this money the OSCE can for instance assist in obtaining seeds from outside of South Ossetia to create produce within South Ossetia which later can be sold outside of it again. This is all highly complicated since the borders on the Georgian side are officially closed. To complement these activities attempts are made to form farmer cooperatives with both South Ossetians and Georgians living in South Ossetia, to the example of a similar – successful – project in the Krajina region of Croatia. Sadly, as in chapter seven will be elaborated upon; due to the war of 2008 all of these projects have been terminated.

An – at first sight – promising project with respect to trade between South Ossetia and Georgia proper has been initiated by the International Association for Business and Parliament (IABP) in Tbilisi. It was initiated by the Temporary Commission on Territorial Integrity Issues of the Parliament of Georgia, but as an international organisation the IABP is better suited to implement the project. The objective is to improve economic conditions of individuals affected by the conflict through helping them to sell their products. The mechanisms to this aim are twofold: exhibiting and branding. Products from South Ossetia destined to be sold outside of the territory are labelled *Product from a Conflict Zone*. This is then used as a marketing tool. At first it is meant to attract people who feel a desire to support those affected by the conflict by buying their products. By ensuring these products are of good quality and ecologically friendly the label can eventually become a sign of quality, adding reason to buy the product. The products are displayed at exhibitions in Tbilisi and Kiev (Ukraine), where they can be bought as well. The goal is first of all to get known, profit will hopefully follow as time passes. Naturally the border issue plays part here as well. However, the OSCE has stepped in to create temporary registration points where taxes can be levied, creating a legal framework. There is a considerable downside to this project though: it only reaches the Georgians living in the by Tbilisi controlled parts of South Ossetia. It is also very likely that this project has been terminated after the 2008 conflict as well, since the borders are more impenetrable now than ever before in recent history.

As for South Ossetia itself, not a lot of development in the entrepreneurial spheres can be detected. The region seems and feels almost as if it were dormant, with little sign of thriving entrepreneurial activity. The OSCE has an office in Tskhinval and from there the aforementioned programmes are coordinated. The only other organised programme related to entrepreneurial development included in this research comes from the *de facto* authorities. The Ministry of Youth Affairs works on credit programmes to be implemented by youth. Goal is to develop a sense of economics, in combination with cultural and social development. Focus lies with employment, living conditions, and small businesses. One of the main issues is the distribution of employment in South Ossetia. It is an agricultural society but due to the difficult economic circumstances there are not enough jobs available in this sector of the economy. By lack of a strong small- and medium sized business environment, many people find a job in state institutions, of which there are many, especially considering the size of the territory and the population governed. This is hardly a healthy basis for a self sustainable economy. South Ossetia is far from self sustainable and depends for its finances heavily on the Russian Federation, and many people move to Vladikavkaz in North Ossetia to live and work.
Next to micro finance schemes the most frequently applied method by NGOs and governments to support entrepreneurship is by facilitating trainings. Generally, the goal is to teach people how to start a business in order to relieve themselves from the marginal position they are in. The Adult Education Centre in Akhaltsikhe advertises: “Small business for a better future”. The director explains that a lot of his clients enjoyed their education during the Soviet times, which means that they lack a grasp of the dynamics of a free market economy. This knowledge gap exists among all ethnicities and it needs to be overcome. The centre helps entrepreneurs to write a business plan and start a company. It also assists with obtaining finances and hardware in the initial phases of the business start-up. A relatively new project the NGO has taken on is tourism training. Tourism is very important in the Samtskhe-Javakheti region where Akhaltsikhe is located. The programme is similar to the business programme but specifically aimed at development of the tourism business. By maintaining an alumni network and thereby bringing different ‘classes’ together an interethnic network is constructed. The main problem is to find funding. The Adult Education Centre delivers these services for free, simply because the target clientele does not have the funds to pay for the trainings. Tourism starts to become a considerable source of income in the region and in the future the centre is meant to at least break even financially.

In Abkhazia there exists a free of charge business training centre as well, the Abkhazian Union of Business Women. It was founded during an economical blockade of Abkhazia in 1994. All men from 16 to 65 were forbidden to cross the border with the Russian Federation, but women could travel to the great northern neighbour. Thus, women were the only people who could engage into cross border trade activities. It was the women who needed to make the change from a planned economy to a market economy. However, like in the example of Akhaltsikhe, education was lacking. The union tried to fill this gap by facilitating economic trainings. Most importantly the organisation tried to assess the needs of the people. Slowly but surely the organisation became an expert organisation on economical issues and apart from individual consults it started to give advice to the government on lawmaking as well. Core business became the general aim of moving businesses forward, through assisting the writing of business proposals and monitoring progress of entrepreneurs which followed training courses with the union. This follow-up is very important – and lacking in most other cases – and has shown a relatively high success rate of businesses. Success is measured not only by the existence of a business, but also by assessing whether it is expanding or not. High-potential pro-growth entrepreneurship at its best.

Another approach towards entrepreneurial development can be found in Gali. Like the OSCE in South Ossetia, an organisation called Alert tries to establish good relations between different peoples through interethnic business activities, eventually leading to farmer unions in villages around Gali. The general aim is to include vulnerable people in the economic life, both Abkhaz and Mingrelians. The main instruments are trainings in business planning and in business proposal writing. However, the organisation also has some characteristics of a micro finance organisation. A goat is for instance donated to one individual farmer and part of the income the goat generates will be returned to the organisation, which then allocates it to other participating farmers. This combination of training and financing could be a promising way forward, as some of the other projects described in the above. Although a concept like ‘entrepreneurial development’ is difficult to measure in concrete figures, the next paragraph will try to assess the level of success of some of the projects described and its impact on interethnic cooperation.
5.2 Impact on entrepreneurship

During the course of this research it became clear that result management is in many cases not a core activity of an organisation, be it governmental or non governmental. Worrying as it is in itself, it is not a problem specific to the research environment, in this case Georgia. Previous research in Kosovo\textsuperscript{131} has brought the same problem to the limelight: follow-up is not as omnipresent as it should be. This causes most respondents from refraining from answering questions on success rates at all, or answering with a general: “It has been a great success!” This makes a thorough assessment of the successes and, more importantly, the impact of programmes aimed at entrepreneurial development somewhat problematic, and in need of a separate study. In the following a brief overview of some results that are reported on is given, followed by some reflections on personal observations in the field. Again, for a thorough evaluation of the impact on entrepreneurship a larger, micro economic research is needed, so the following is only a brief explorative assessment.

The Tbilisi based micro finance organisation Credo chooses to operate on a small scale because it believes the best results will be achieved in this way. In the opinion of its director big projects mostly result in very limited individual results, and the perceived wider impact on society proves of a short term nature, or absent at all. Therefore Credo grants credit to individual businesses and start ups. External finances are needed because it is very difficult for the general population to find financial resources to invest. The gains from the increase in business activity should be injected into the company again and with additional loans the business can achieve growth. Some of the businesses are successful, some are not. Some people have used the micro credit received for private aims, others fail to invest wisely and thus the money is never returned. Another problem detected by Credo lies in the short term projects some organisations apparently choose as a strategy towards entrepreneurial development. By granting credit the living standard of people is raised to levels they are not used to. To maintain their newly achieved living standards they have to have access to additional financial resources. If credit is provided on a short term basis only, there is a risk that people fall back to their old living standards, adding frustration to their already troubled existence.

The OSCE does not measure the effectiveness of its projects. However, the projects are monitored and statistical data will be produced in the future. The respondents are very optimistic nonetheless and believe, from observations, that their projects are working, but they also admit that they are biased, since it is their own work. A real willingness of the different ethnic groups to co-operate and make trade can be signalled. The most important contribution the OSCE can deliver is to facilitate these initiatives to prevent them from remaining good intentions. One of the problems is that for these initiatives and projects to be sustainable, cooperation with the different governments involved has to increase in the future. As long as the conflict over South Ossetia is not resolved, cooperating with both the government in Tbilisi and the one in Tskhinval is near to impossible. The OSCE can do little about this impasse, since – according to the respondents – the conflict is for a large part rooted in geopolitical power games. However, when ordinary people are working together, escalation of the ‘frozen’ conflict into armed violence becomes less likely. Entrepreneurial development is part of the puzzle, but there is much to be done, for instance in the fields of education and free media. As long as people do not trust each other, because they are infected

with propaganda every day, it is not very likely that even the ordinary man in the streets, who just wants to live and survive, will want to return to Tbilisi rule.

The projects of CHCA are measured by the NGO itself, by its donors and by the beneficiaries. The income generation projects had about 600 beneficiaries. It is believed that even if a client did not start a successful enterprise, he or she profited from the business trainings nonetheless, as a kind of general increase in knowledge and know-how. All the other projects are viewed as successful as well, but alas, concrete figures to substantiate these believes are lacking. Besides the income generation projects and business trainings the organisation has raised some youth clubs and weekend schools. Purpose is to create places where youthful IDPs can get together and think about certain issues. These schools teach conflict resolution management by means of role playing games. The direct results of these schools are very hard to put in numbers; how does one measure a mindset? However, the mere fact alone that people think about what is going on around them makes them less susceptible to the propaganda mentioned earlier, and more inclined to be able to view certain things from multiple perspectives.

With regard to the various exchange programmes, measurement of success mainly consists of monitoring whether or not individuals remain in contact with one another after the internships have been completed, and whether they have used their newfound knowledge and skills in everyday life. Project Harmony uses formal and informal measurement. Interns have to write action plans and progress on these plans is being monitored by the organisation. Half a year after they return, they are contacted to see where they are by then. Their main donor (USAID) is checking on the NGO and its results. Alumni stay affiliated with the programme through the teaching and training of others. According to the respondents especially people from the seceded regions have a very high success rate, albeit for the most part in the cultural learning they have obtained in the United States. How this is measured remains unclear. Two or three out of groups of ten starting or expanding businesses are successful, which is seen as a great success by the organisation. It shows that measurement of success is highly subjective; a success rate of 20 to 30 per cent would probably not be considered admirable by some other standards. In the eyes of the respondents the seven or eight out of ten who did not succeed in setting up a successful business have learned a lot nevertheless and hopefully made useful connections with compatriots (both from Georgia proper and from the seceded regions) and with US counterparts.

The director of Forecast had mixed feelings about the success of their interethnic exchange programme in the United States. The young people who attended these meetings apparently are still in contact with each other. Sadly, some – especially the media representatives from both sides – have returned to their respective secluded environments. Then he touches upon a subject which has since then gained significance and can not be left out: “A big unpredictable factor in everything that is happening is that there are doves and hawks circling President Saakashvili and as of yet it has to be seen who will get the upper hand. In the meantime the doves see a lot of their efforts destroyed by the actions of the hawks. The Abkhaz especially are difficult in dealing with Tbilisi, because unlike South Ossetia, Abkhazia really thinks of itself as being a real country, and the Abkhaz do have a lot more going for them then their Ossetian counterparts, who are totally and utterly dependent on the Russian Federation. The Abkhaz view everything from a sovereignty perspective and are thus very paranoid about any Georgian initiative.” Recent events have shown that the hawks seem to have won.
5.3 Interethnic cooperation

The sovereignty perspective also plays its part in the existence of interethnic cooperation, or the lack thereof. Entrepreneurs in the conflict zones are very often said to be weary of cooperation with their Georgian counterparts because of pressure from their leaders to refrain from such. What exactly the mechanisms of this pressure are remains unclear, but in a country with both a clan structure and a long history in corruption like Georgia it is not hard to believe people are susceptible to pressure from above, and threats are to be taken seriously. As said, this disturbing factor is more of an issue in the case of Abkhazia, and we will come back to that later. Let us first take a look at South Ossetia.

According to the respondent working on the ‘products from a conflict zone’ scheme, South Ossetians have a lot of initiatives with respect to cooperation with the Georgians. This is hardly surprising, since there has always been interethnic trade in South Ossetia and the Ossetians need to find a way out of their relative isolation. From the Georgian side these initiatives are hailed as opportunities to convince the Ossetians of the fact that it is in their best interest to do business with Georgia proper without regard of the political situation. The government in Tbilisi did a lot to convince them otherwise in the past, by taking measures which only fuelled their anger and mistrust\textsuperscript{132}, but now it seems to have learned from past mistakes and realises that alternatives have to be offered to the Ossetians. As mentioned earlier, it is almost impossible for the South Ossetians to compete with entrepreneurs in the Russian Federation so they have to have links with Georgia proper, if they are not willing to be kept alive by Russian aid solely.

For the Abkhaz the situation is somewhat different. First of all Abkhazia is less dependent on Russian aid for their income. They do have an internal economy going, be it very small and even from a regional not very healthy. Still Abkhazia as an entity is more viable on its own than South Ossetia and therefore the need to trade with Georgia proper is smaller. Secondly, Abkhazia has something to offer to Russian investors which South Ossetia lacks: a beautiful Black Sea coast. With Russian and Turkish investment comes tourism – mainly Russian – and with tourism comes money. The Abkhaz have strong relations with the people in Sochi\textsuperscript{133}, with whom they trade along the border with the Russian Federation. Most of the Georgians in Abkhazia however live in Gali and Ochamchire, cities in the east of Abkhazia, closer to the border with Georgia proper, where almost no Abkhaz live. These people are more or less isolated. This seems for a large part caused by the \textit{de facto} government in Sukhum, according to the director of CHCA. International NGOs wanting to operate in Abkhazia are obstructed by the \textit{de facto} government in doing their job, and Abkhaz NGOs are reluctant to cooperate (although there does exist a little cooperation) because they claim to fear negative consequences from their government. They have to report to the authorities every month, sometimes in writing, sometimes in person. Thus, the Georgians living in the east of Abkhazia are more or less ignored by the Sukhum authorities and it is very difficult to aid them in their difficult circumstances.

Although Abkhaz and Georgians seem willing to cooperate amongst each other, there is fear of government repression of such interethnic activities. A missed opportunity indeed, since the Georgians living in Abkhazia could be a valuable link between the markets in Abkhazia.

\textsuperscript{132} By for instance closing down the Ergneti marketplace, widely considered as one of the biggest diplomatic failures of the Georgian government. See paragraph 6.4 for a more specific discussion of the Ergneti case and related references.

\textsuperscript{133} A city in the Russian Federation where the 2014 Winter Olympics will be held.
and those in Georgia proper. An Abkhaz working for a kind of business incubator in Sukhum argues that there is some interethnic trade, but it is all contraband. Most of the trade is with the Russian Federation, since the border to the north is totally open. According to the respondent this is positive and when this situation remains Abkhazia will never need Georgia again. He recognizes the fact that Moscow is actually using Abkhazia and that it might be smart to start building the country through economic development themselves. The problem is that the Abkhaz lack the knowledge and expertise to first of all run a country and second of all get the economy going. Most of the educated people left the territory and in his view the Abkhaz lack history and thus know-how in this kind of business anyway.

A couple of organisations active in Abkhazia focus their efforts towards alleviation of this lack of knowledge, and link it to interethnicity programmes. They mainly do this by organising conferences in Abkhazia itself and invite both Abkhaz and Mingrelians (Georgians), or bring both ethnicities together at conferences abroad, including Georgians from outside Abkhazia. This way they can both increase their business skills and their knowledge and understanding of each other. They get trainings on the writing of business proposals, confidence building, and management skills. This increases their knowledge levels and at the same time (it is hoped) their getting together will help in the confidence building process, for this is a recurring remark with many respondents: there exists a huge lack of trust between ethnicities. Some of this distrust apparently can be taken away through these conferences, and sometimes participants even become friends. However, it always remains to be seen if these contacts will last. In this respect recurring conferences might be more effective since it is hard for people to stay in contact once they have returned to their respective regions.

There exists (or existed at the time) one example of remarkable interethnic cooperation which quite clearly shows how business-minded thinking can transcend physical, ethnic, and political boundaries. It is the story of Mr. Alu, director of a factory in Kutaisi, western Georgia. Alu was the general director of a factory in Sukhum. His deputy director was an Abkhaz. Most of the workers in the factory were Mingrelians, who all left during the war at the beginning of the 1990s. Most of them ended up in Kutaisi. Thus, the bulk of human resources was moved there, whereas the Abkhaz and Russian workers remained in Sukhum. Despite the conflict situation, Alu has always remained in contact with the personnel that was left behind. Eventually he and his former Mingrelian personnel established a parallel factory to the one in Sukhum with Alu as director. The deputy director of the factory in Sukhum became director and now they cooperate with each other, with production on both sides. The factory in Kutaisi helped, together with the British government, to rebuild the factory in Sukhum which was heavily damaged in the war. The Kutaisi branch tries to assist the Sukhum branch with the distribution of products to other countries and provision of production facilities. There are some problems though. The de facto government tries to block these activities, although he is not clear as to how it does so. Raising production quality levels to the stringent ISO standards is another major challenge, together with competition abroad. The products the factories produce are also made in Europe, from where they are exported to the Russian Federation. The possibility of trade with the Russian Federation is ruined since they can not compete with the European producers. Again it is a lack knowledge, skills, and resources to innovate on their products and production which holds them back.

His personal motivation for the efforts he makes is that he wants to go back to Abkhazia one day. On top of that he is still a businessman. He sees it as an investment in the future, and he is not on his own either: a lot of his activities are funded by international organisations.
According to Alu, many businessmen share the same experience in maintaining business relationships despite the political situation. He believes the conflict is a result of global politics, not of local people. When Alu found out that the conflict is political and not of the people he decided it was important to keep the contacts he had. Eventually this would hopefully result in trust and clear communication between the peoples. This trust and communication would in turn eventually lead to resolving the conflict. Currently trust and communication are still lacking, mainly because the Russian Federation holds the Abkhaz by the ears\textsuperscript{134}. At the moment trade with the Russian Federation is the only option Abkhazia has. Since Abkhazia is generally not recognised as a country, all trade has been blocked by Tbilisi. There are no planes flying, no ATM machines functioning, and little economic development. The Russian Federation is offering the possibility to trade and gives to the Abkhaz what Georgia is sanctioning them. Therefore Alu finds it important to show the Abkhaz that there are market possibilities in Georgia. Alu found that the people who are now helped by the work he does through his factory, are turning away from their de facto government for depriving them of their living. Business is business, and if people prevent business from happening, whoever they are, it will hardly make them popular. It is all about common interests. Georgians and Abkhaz have to be able to meet each other and talk about business opportunities. The Abkhaz need to be offered alternatives to trade with the Russian Federation, and these alternative business opportunities need to be communicated to them clearly.

Concluding, it is fair to say that a lot of efforts have been made to promote entrepreneurship, both in Georgia proper and in the conflict zones. Many of them entailed either micro finance schemes or business trainings, or a combination of the two. Many times trade and interethnic cooperation are eventual results which are sought after. Results are difficult to measure. The micro finance schemes and business trainings seem very useful in the development of entrepreneurship an sich, and they do deliver results: businesses are being established and people are gaining knowledge and skills. Whether they are also successful in generating cross border trade and interethnic cooperation is a question which has to be answered more carefully. Trade and interethnic cooperation do take place, and most of the time they are related to the entrepreneurial spheres. However, this is a merit of entrepreneurship itself, not of the programmes implemented to assist people in establishing or expanding an entrepreneurial venture. In conclusion, the programmes are to a degree successful in promoting trade and interethnic cooperation, but indirectly. The next chapter will take a look at the major barriers and opportunities for entrepreneurship in Georgia proper, Abkhazia, and South Ossetia respectively. The influence of politics – already slightly touched upon in the previous paragraphs – will be more thoroughly examined in this chapter as well.

\textsuperscript{134} Translated from Russian.
6 Opportunities and constraints

As described in the theoretical framework, a certain type of entrepreneurship, high-potential pro-growth entrepreneurship, is assumed to have a beneficial effect on the preventing, containing, and resolving of conflict. This assumption is concurred by the thoughts and ideas of most respondents to this research. The previous chapter has described current attempts at development of entrepreneurship in Georgia and its conflict regions, with or without the aim of conflict resolution, and its relative successes and failures. It can be concluded that some of the programmes implemented did promote the development of entrepreneurship, and that this entrepreneurship in itself generated possibilities for interethnic trade and interdependency, job opportunities, and income; some of the most important preconditions for the conflict resolving effect of entrepreneurship. In this way entrepreneurship has connected and broadened markets (although on a relatively small scale) and has offered viable alternatives to professional military service or membership of irregular armed groups. One possible contribution of entrepreneurship to peace has not yet had a lot of attention though: the development and diversification quality of it.

In contrast to the creation of job opportunities and income, which can be achieved relatively easy from scratch, and trade and interdependence, which are among the first links re-established after conflict (and sometimes not even broken at all), development and diversification is almost completely dependent on the high-potential pro-growth type of entrepreneurship. This is the type of entrepreneurship which has to make sure a society develops itself towards a stable and peaceful one in the long term. Jobs, income, and trade are preconditions for peace to be established; the further development and diversification of the economy are preconditions for this peace to last. The way in which entrepreneurship can generate development and diversification is through gap-filling, input-completion, and the creation of firms. This chapter will look into the possibilities for these practices to flourish in the field of research. The economic environments of Georgia proper and the conflict zones differ quite a lot from each other, due to the de facto separation of the latter, almost from the beginning of Georgian independence. Therefore, this chapter will look at these three economic zones separately.

6.1 Georgia proper

Giant steps can be made with regard to diversification and innovation. In Georgia it is quite odd to notice that every region or even every village has its own products and one can not find such products anywhere else in the country. Driving along the countryside in a marshrutka (taxi van) people from abroad will be amazed by lines and lines of people selling exactly the same produce over a distance of a couple of hundred metres. Go to a different region and the same thing occurs, only with different produce. It is not hard to understand that these salesmen compete with each other down to the last penny and thus their profits are extremely limited. Many of these agricultural products are indigenous to a certain region and are thus mainly found and sold in that region. Therefore this is not so much a problem related to a lack of innovation but a problem of diversification. In more advanced economies products find their way to customers; in Georgia – to a certain degree with the exception of Tbilisi – customers have to find the products. Key words to overcome the lack of diversification are distribution and infrastructure.
To increase the possibilities of distribution a number of things can and have to be done. First of all infrastructure needs to be improved massively. Driving around in that same *marshrutka* it immediately becomes apparent that the roads are in an abominable state, if one is lucky enough to find a road at all. It is very dangerous to travel by car in Georgia and accidents occur frequently. Railroads are not a viable alternative at the moment because the network is too limited and the trains drive to slowly. Road construction is something which has to be implemented by the central government, but it seems that the president and his team have focused all their energies on the capital city, leaving the rest of the country (save for some tourist sites) in the state it was in when they took over office from Eduard Shevardnadze. Secondly, products have to be distributed over these roads and to do so in an efficient manner it has to happen in bulk. Therefore the producers need to get organised and coordinate their activities so that they do not compete with each other on the square inch, but cooperate to reach the whole Georgian market; large enough for all of them to make a decent profit. As mentioned in previous chapters some organisations are active with respect to farmer unions but in most cases follow-up is lacking. With a long term strategy small producers of agricultural products can become important economic actors but they have to be united and they have to have the means to invest in production but most of all distribution. Especially with cross border trade in mind the first step is to get the produce to other places in the country, before the more complicated problem of crossing borders – real or artificial – can be attacked successfully.

Typical for economies in their incubation phase, or in a transition phase, is copying behaviour. If someone is successful in having a barber shop, than the next day virtually the whole street is filled with barber shops. 135 Again problems will arise with profit margins, but this time not because of locality issues, but because of a lack of innovation. The first barber shop fills a gap: there is a place where people can get a haircut where previously they could not. The barber is willing to take a risk and invest in a shop because he believes there is a market for his skills. He is an entrepreneur. The second barber shop does not fill a gap anymore, but merely broadens the choices people have when contemplating about getting their hair cut. If the market is big enough, this second barber shop can be successful as well, but only if it is competitive, either in price or in quality. A third person will recognise the market is not big enough for another barber shop and will either decide to open one in a different location or to engage in another business activity. This is how a mature market economy works. The Georgian market economy is not mature and this is not surprising; two decades ago the country was still subject to a planned economy. Two main internal factors can be pointed out to explain why Georgia and its population have not yet managed to shed this burden: macro-economic problems and problems on the individual levels.

One of the main macro-economic problems is that the Georgian economy suffers from a massive lack in investable money and distribution thereof. According to the respondents this is caused by four main issues:

- Accessibility;
- Interest rates;
- Corruption;
- Instability.


136 Of course there are many external factors as well but it goes too far to explain these as well, although now and again they will be touched upon.
First and foremost there is simply not enough money going around in the economy. The money which is available rarely reaches the provinces, but is mainly invested in Tbilisi, and a little in Batumi. Credit at commercial banks is expensive and the available micro credits (mainly at non-commercial institutions) are very small and difficult to obtain for ordinary citizens. Furthermore, the national interest system is directly copied from countries abroad, which is a difficult fit. This has caused a very wealthy elite and virtually no middle class; the backbone of a healthy economy. Corruption has not been erased from Georgia by a long shot, although the authorities like to paint a different picture.\textsuperscript{137} A lot of money donated from external sources which is intended to develop entrepreneurship seems to get stuck somewhere. Therefore, international organisations need to pressure the government to make sure that funds reach the places where they are most needed. Institutionalised corruption like it exists in Georgia might be less annoying due to its predictability compared to rogue corruption; it is still something which needs to be removed to construct a truly transparent and fair financial environment.

With regard to the last issue – instability – opinions differ among respondents. A respondent from a remote provincial town for instance is of the opinion that the direct influence (or: meddling) from the government in Tbilisi on entrepreneurship is too extensive. According to him there exists a lot of bureaucracy and a lot of initiatives get stuck in the system. The system tends to change all the time which causes a lot of instability and thus insecurity. In turn this all leads to an increase in corruption, because it is the only way to bypass the bureaucracy. A consultant from Tbilisi however argues the opposite: the legal system with regard to businesses is stable now and it is in fact extremely easy to obtain licences and tax exempts. Another Tbilisi respondent concurs that barriers for entrepreneurship have been removed, and more businesses have started as a result from it. Credit is more easily accessible, there have been major tax reforms, and corruption is not as widely spread as before. Furthermore, a lot of the bureaucracy has been taken away. Currently there exists one tax rate which incorporates all different forms of taxes, which results in very clear circumstances to start up a business. Especially SMEs have profited from these changes. If revenue is under a certain level than these businesses only have to pay income taxes, nothing else. If imports do not exceed a certain level they are free from import taxes. All in all it seems many legal barriers for entrepreneurship have been taken away as far as the capital city is concerned (and it shows), but it has not reached the provinces yet. This might be an outcome of the clan culture Georgia is characterised by. Added with the overall political insecurity it seems most of the country still has a lot of catching up to do in creating a stable business environment.

The second major internal factor of influence on the entrepreneurial environment partly consists of an institutional element, partly of a more psychological element. Problems on the individual levels can be defined by four issues as well:

- Information;
- Trust;
- Education;
- Mentality.

Many respondents report a great lack of information as to how and where to get the inputs an entrepreneur might need. Either people have limited access to cheap loans to start or expand a

business enterprise, or at least do not know where and how to obtain them. More efforts should be made both by NGOs and the government to address this lack of information. In this respect one could think of setting up so-called business incubators, a concept with relative success applied in other troublesome business environments, like for instance the Western Balkans. Another barrier which needs to be taken away is the lack of co-operation between the government and (international) NGOs. This absence of communication is connected to the lack of trust among the people, or between the people and the government or NGOs. This lack of trust is partly due to the previous mentioned problems of corruption and instability.

Most important to many respondents however is the low standard of education in Georgia at the moment. Education levels have to be improved to provide for more and, most of all, more capable entrepreneurs to surface. Currently most entrepreneurships are personal enterprises, started up by individuals who have had no significant training whatsoever, and merely try to make a living for themselves and maybe their families. This can be changed if a new generation of educated Georgians steps up. At the moment the lack of knowledge and skills prevents many from fulfilling their potential. On top of that, there has been a considerable amount of brain drain in the last two decades as well. A lot of educated Georgians went abroad. Business- and management training should be the focus of attention of all those who strive for an environment in which entrepreneurship can thrive and result in businesses with a truly high potential and possibilities for growth. This requires a change in mentality as well. Some international respondents are of the opinion that a can do mentality is lacking at the moment. In stead there exists a kind of destructive mentality in which people tend to be afraid of being successful. According to one respondent it was Nelson Mandela who expressed it best: “It’s not the darkness we fear; it’s the light”. There is a lot of unemployment in Georgia and some people tend to have a defeatist mentality. Something which can be linked back to the disappointment felt by many as described in chapter three.

Potentially there are two main influxes of foreign money in Georgia apart from the already existing aid and remittances. There are huge possibilities for foreign investors in real estate development and the financial sector. However, for foreign investors the internal conflicts with the secessionist republics are the biggest fear, as is the strained relationship between Tbilisi and Moscow. If too many media attention is focused on Georgia (in a negative way) stockholders will start to ask questions to the investment firms which could present a problem for future investment. Another way of setting up a successful entrepreneurial activity to attract foreign money can be different kinds of tourism, such as ecotourism, hunting, and holiday farms. Infrastructural development is important in this respect as well. For tourism to really kick off (one of the main promises of the current administration) not just roads and means of transport are important but also commodities such as electricity and running water, and tourist accommodations, such as hotels and camp sites. In short: tourism infrastructure. A country of unimaginable beauty, fascinating history (and the monuments to show for it), and an extremely hospitable people, Georgia could be a holiday destination to be envied by the more traditional tourist countries, but without security, stability, and infrastructure it will always remain a destination just for those who have a special interest.

139 In fact, the quote is from the author Marianne Williamson and says: “It is our light, not our darkness that most frightens us” (red.).
140 The August 2008 events undoubtably had a negative influence in this respect, but reflections on that issue will be presented in the final chapter.
What could the role of the authorities be in creating a healthy environment for entrepreneurship? Apart from improving infrastructure and communication the government should focus on the two most frequently mentioned fields of improvement; funding and education. NGO workers complain there is a chronic shortage of money available to them and they would like the government to assist them in their work. Although completely understandable that NGOs would like to receive more funding, it seems unlikely that it will happen. First of all, the Georgian economy suffered from the economic crisis quite a lot and thus the government simply does not have a lot of spare money. Apart from that, the president chooses to allocate these funds elsewhere, for instance military rebuilding and big infrastructural projects on the Black Sea coast. Secondly, the current administration has become more and more authoritarian, and a strong civil society is not expected to be desired by such a government. Big businessmen however find their way to the political leaders with greater ease, and sometimes become political leaders themselves. From champions of civil society just after the Rose Revolution, the Saakashvili administration has gradually shifted towards a more conservative liberalism, conservative with regard to power, liberal with regard to the economy, in which the economy needs to be propelled forward by foreign direct investment and big projects, in stead of grassroots development and civil participation. Education however could very well be a field in which the authorities would step up their efforts, and they should. As argued before, a new generation has to step up and this generation needs to be well educated, not only in economics but also in politics, sociology, and languages. As an example the latter will be discussed.

It is stunning to discover that currently there is a generation of youngster growing up who only speak Georgian. Russian, lingua franca in the Soviet Union, is hardly taught in schools anymore. This is worrying in itself for multiple reasons. Firstly, the Russian Federation lies directly to the north of Georgia. Either way, to become a prosperous nation Georgia has to trade with the Russians. Europe is far away, and the Russian Federation can still be the gateway to Europe, as it was before the establishment of the Soviet Union. Secondly, the Caucasus contains a multitude of peoples and languages, from at least three different language families and thus to a large degree not mutually intelligible. It simply needs a common language spoken by everyone. The strong focus on Georgian not only has made it more difficult to communicate – and thus trade – with neighbouring countries like the Russian Federation, Armenia, and Azerbaijan; it also made communication within the country more problematic. Given the fact that a Georgian from Tbilisi can hardly understand a Mingrelian (a Georgian people), it is virtually impossible for him or her to understand an Abkhaz, Ossetian, or Armenian. Previously they all spoke Russian as a second, and sometimes even first language; now they only speak their own relatively small languages. What makes it even more worrying is that Russian has not been replaced by another language, for which English would be the usual suspect. In this sense it has even become more difficult for a foreigner to communicate with the youth of Georgia, than with the older generations who at least speak Russian and sometimes a little French.

Something which has only been mentioned by one respondent but what is in the grander scale of things of paramount importance is regional development. A foreigner arriving in Tbilisi in the year 2009 will have the feeling he or she has arrived in fairly modern city, with most basic facilities present and a lively atmosphere. Apart from the latter qualification, a traveller

arriving in the year 2002, before the Rose Revolution, would have had a different feeling altogether. By all accounts Tbilisi has seen impressive progress over the last half decade. Staying for even a short period as four months will guarantee visible changes over that limited course of time. As an example: in April 2008 traffic in the capital was virtually without rules. In July suddenly streets are divided in lanes, roundabouts have appeared, and even an occasional traffic light can be spotted. Without travelling to the country side the foreign observer will be easily impressed by the pace of changes for the better, and he or she will believe the country is rapidly moving forward to a prosperous, organised nation.

Travelling to the region of Samstkhe-Javakheti for instance paints a whole different picture. This southern region with a large Armenian population has largely been excluded from the kind of development Tbilisi has seen, at least in the eyes of the local population. Here, feelings of nostalgia to the days of the Soviet Union are not uncommon, which indicates that some have seen a decrease in their personal well-being, rather than an increase. This is a dangerous phenomenon. People will feel relatively deprived compared to the people living in the capital city. Feelings of deprivation and disillusion have proven to be fertile ground for protest and instability. Especially in the case of Samtskhe-Javakheti with its large Armenian population, this can cause secessionist tendencies, which in a volatile region like the Caucasus can easily escalate into violence.\footnote{There are other examples as well, such as Kvemo Kartli with a considerable Azeri population, and the autonomous republic of Adjara.} It is in the interest of the central authorities themselves to prevent another armed conflict to erupt in the territory it controls, and apart from the humanitarian perspective that should be enough reason to shift focus from a complete obsession with Tbilisi, to more attention for the development of the other regions. What the government can do with respect to the secessionist entities will be described in the last paragraph of this chapter, preceded by a similar analysis as in the above, but translated specifically for these two individual entities.

6.2 Abkhazia

In Abkhazia more or less the same problems are felt as in Georgia proper. There is not enough access to financial resources here either. These are even more difficult to obtain than in Georgia proper, despite the relatively large influx of Russian money. It has already been mentioned that the distributing of micro finance is illegal in Abkhazia, unless it happens via a commercial bank, which are all quite unprofessional organisations. Troublesome access to money can be taken very literally in Abkhazia: during the time of research there was only one ATM machine in the whole territory, and it was defunct. What has been argued in the previous chapter can be applied to Abkhazia as well: state and international funding needs to go to SMEs, and not to big hotels and other construction projects. Abkhazia’s natural beauty and subtropical climate will attract Russian investors and Turkish contractors anyway, maybe more so than desired. Average citizens will not benefit from these Russian investments unless they have a stake in it. Like in Georgia, education and skills need to be enhanced throughout the territory. New hotels should be built by Abkhaz contractors; not Turkish firms. It should be the Abkhaz running the hotels; not the Russians. Especially in the eastern part of Abkhazia, where most Georgians live, unemployment rates are almost 100 per cent. This situation can not last too long, since eventually these people will find other, less productive ways of generating income. It is time for the Abkhaz authorities to focus their energies on
creating jobs for its citizens if they want to have any chance of real independence. From the Russian Federation that is.

What differentiates Abkhazia from Georgia proper is the fact that security issues are a considerable barrier for entrepreneurship in this territory. The most obvious security problem is the history of armed conflict the region has. No-one knows if future developments will not result in armed conflict again. This creates a siege mentality with the people in Abkhazia and prevents them from trying to cross borders in every aspect, physical, cultural, and mental, and thus from being entrepreneurial. The volatile situation also prevents foreign investors to come to Abkhazia and bring in the dire needed finances and triggers for entrepreneurship. Especially long term investments which could help stir up economic life in Abkhazia will not be made as long as investors are not absolutely sure their investment is safe and will not, as a worst case scenario, be destroyed in another war. Criminality – and the disability of the authorities and the judicial system to counter it – is the second important security issue.

Government structures are just too weak to provide a solution. The result is that people try to lay low, to avoid being robbed or worse: kidnapped. Finally, security of free media is lacking in Abkhazia. Journalists are under pressure of the authorities; previously by actual threats and intimidation, now via courts of law, which are controlled by the de facto government. Although this is not directly related to entrepreneurship, it does show that it is wise not to be noticed too much. By no means a healthy environment for a possible entrepreneur.

There are some signs that cooperation between the government on the one hand and civil society and businessmen on the other is growing steadily. This is a process which should be fostered and guided in the right direction. Slowly NGOs are starting to be able to operate more openly, as are journalists. In order to get elected the current administration promised some reforms, which were advocated by NGOs previously, and now the authorities can not obstruct NGO programmes because they actually entail what they themselves promised to the constituency. Joined working groups are being established and an independent ombudsman has been installed. Another interesting observation is that according to some, businessmen are gaining influence on the Abkhaz authorities. This can have both positive and negative effects. Starting with the latter, it could raise the levels of corruption in Abkhazia and thus benefit only a few, and definitely not small entrepreneurs. It could also increase government spending on big projects, which is to a degree useful (any investment is probably better than none at all) but not nearly enough to create a healthy environment for entrepreneurship. Some, however, find that business to government contacts are taking away some of the barriers for entrepreneurs to cooperate with people outside of Abkhazia. If this positive effect can gain upper hand and is not destroyed with a possible change of government, it could be part of the puzzle to lift the economy from Abkhazia from one largely dependent on Russian aid and investment to a thriving entrepreneurial environment of which everyone can benefit.

6.3 South Ossetia

Unsurprisingly, more or less the same problems obstruct entrepreneurial development in South Ossetia. However, these problems tend to be displayed at a somewhat more aggravated level. In South Ossetia even less financial resources are available, for entrepreneurship but also in general. Legal and especially physical security are things hard to imagine in a territory where shooting occurs every night. Politics in South Ossetia seems ever further distanced and less legitimate than in Abkhazia. All in all, where Abkhazia seems to have at least some potential for development, situated as it is on the beautiful Black Sea coast, blessed with a
gentle climate, and further inland provided with energy resources (hard coal) and fertile agricultural soil, South Ossetia lacks all of this. As a tourist destination it is not likely to top the lists of foreign travellers any time soon, save for the more adventurous minded. Apart from the stunning Caucasus Mountains it has little to offer in this respect, and similar mountainous scenery can be found in neighbouring regions like Racha to the west and Mtianeti to the east. During winter times large parts of the territory are completely inaccessible due to heavy snowfall and poor infrastructure. Energy resources it does not have, but it is strategically located for energy distribution. Apart from some mineral resources (lead and zinc) this is the main importance of South Ossetia: its location on the map of the South Caucasus. More on that issue will follow in the last paragraph of this chapter.

One of the only real cafés in Tskhinval, the capital of South Ossetia, has been established in the central park, or what is left of it. The owner previously made a living from selling bread and when he saved enough money he rented an empty building (one of many empty buildings in Tskhinval) to start a café. He had to do this all by himself. Banks in South Ossetia are controlled by the authorities and to get a loan from them, an entrepreneur has to invest a lot of his own money as well, which for most people is impossible. There are only very small micro credits available. There are almost no NGOs active in South Ossetia, and apart from the activities of the OSCE there is virtually no assistance available to start an enterprise. The OSCE has been active in the agricultural sector, as mentioned in the previous chapter. Agriculture is the main opportunity for development in South Ossetia. A farmer association has been established and despite the conflict, it is functioning fairly well. There is some growth, but again the financial resources to expand more rapidly are lacking. Technological improvements, necessary to stand a chance against competition from North Ossetia, are difficult to attain and too expensive to find funding for. By lack of alternatives (since August 2008 the OSCE has left as well), the South Ossetian authorities should invest in technological advancement and farmer cooperation to raise the quality and quantity of production, aiming to make competition with its great northern neighbour at least a little bit more viable.

Other issues which need to be tackled as soon as possible are the poor levels of education and innovation. Trainings in business administration and the writing of business proposals, as they are applied in Georgia proper and Abkhazia should find their way to South Ossetia as well. As in Georgia proper experts in the field (and the people themselves) complain that many people think and act as if they were still living in the Soviet Union. It is very important to take away the line of thought that one should do as little as possible and that there is no room for original ideas. People need to be trained to be creative and inventive. In this way entrepreneurship can definitely have a positive effect on affairs in general, and even on politics. But again, without the possibility to trade on markets which used to be accessible to the South Ossetian farmers and businessmen, chances for South Ossetia to become a thriving economy are as slim as they can be. The next paragraph will look into the possibilities of cross-border trade between Georgia proper and the breakaway territories.

6.4 Cross-border trade

In the previous three paragraphs four main issues have been stated to be major points of attention with respect to entrepreneurship: financial resources, innovation and education, legal and physical security, and local politics. The most frequently mentioned however – therefore deserving a paragraph of its own – is the possibility to trade across (administrative) borders, or the lack thereof. Ever since the violent conflicts erupted in the beginning of the 1990s, the
previously administrative border along the Enguri river between Abkhazia and Mingrelia has been more or less shut down. Possibilities for travel have varied over the course of almost two decades, but never has it been as open as it used to be before the collapse of the Soviet Union. The administrative border between South Ossetia and its surrounding regions has been lifted shortly after Georgian independence, when the status of South Ossetia as an autonomous province had been lifted and the territory largely became a part of the province of Shida Kartli. However, when South Ossetia became a *de facto* independent entity, a part of the previous border became real again, and to a large part impenetrable. Just a part of it though, since the Georgian authorities retained control over parts of the territory, mainly in the east, where the majority population is Georgian. All sides can be blamed for raising physical barriers where they used not to be; the secessionist authorities for being just that, secessionist, and the authorities in Tbilisi for their policies of isolation.

It has been argued before that business contacts are the most persistent at the outbreak of conflict, and when broken, the first to re-establish themselves when the conflict has entered a phase of relative non-violent nature. The example given in chapter five of the ongoing cooperation between a former director of a factory in Sukhum and his successors stresses the fact that despite closed borders and political barriers, cross-border cooperation does still exist between Abkhazia and Georgia proper. A little trade is going on as well. Mingrelians from the Gali region walk across the Enguri bridge to sell the little produce they have on the Zugdidi market, and obtain goods to bring back to Gali. Some of these goods find their way to the capital Sukhum as well. Occasionally the border has been closed down completely (before it did so permanently after the August 2008 events), offering great distress to the people living in Gali. These decisions are made politically, but those who decide in Tbilisi will experience little of the negative effects the local residents feel. A rare exception to the current rule of political infighting is the Enguri power plant. This hydro-electric plant is operated by a joint Georgian-Abkhaz team of engineers, and power and revenues are diverted to both entities. It is a striking example of how a common interest (and not one declined upon easily) can transcend the untranscendable; but it is an uncommon case of cooperation, which the Ergneti example in South Ossetia points out in an unmistakable fashion.

Ergneti is a little town just southeast of Tskhinval on the border with Georgia proper. For many years it was the scene of a large, interethic market place. Here, Ossetians and Georgians would get together and trade whatever they had to offer; agricultural produce from Georgia traded hands for Russian fuels, motor parts, and cigarettes. It showed once more that the conflicts in Georgia are hardly ethnic, but political. This last point was made all the more clear by the fact that shortly after Mikheil Saakashvili came to power, he closed the market down. Officially the reasoning behind it was that the Georgian state was missing out on a lot of customs revenues, because the Russian products entered Georgia via South Ossetia, thus disabling the Georgian government to levy taxes on them, since in their eyes the border with South Ossetia does not officially exist. The decision to close it down has been judged by most traders, many analysts, and even some government officials as a huge political blunder; apart from it being a complete humanitarian disaster for many involved. To

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145 Traders and government officials have stated such (confidentially) in interviews conducted during the research. Thomas de Waal from *openDemocracy* argues on its website: “Ergneti was possibly the widest ‘confidence-building measure’ in the entire Caucasus region, with people of all nationalities doing business. It is arguable that the day it closed was the day the countdown to war in South Ossetia began.” See also: International Crisis Group (2004). Georgia: Avoiding war in South Ossetia. *Europe Report no. 159.* Brussel: ICG.
begin with, it is hardly believable that forgone customs revenues are the real reason for closing down Ergneti. Potential benefits were considerable, true, but these benefits are not enjoyed in the current situation either. Trade has not moved to other border crossings; it has stopped. The only other legal possibility for trade over land with the Russian Federation is at the Zemo Larsi-Kazbegi border crossing, which is closed. The real reason for closing down the market place has probably been strategic.

Firstly, the central government thought that if the people of South Ossetia would be deprived of one of their only sources of income, they would become very unhappy with the circumstances in South Ossetia, and would turn against the de facto authorities because of it. Eventually, it was believed, they would want to return to Tbilisi rule, because they would see the people in Georgia proper benefitting from huge economic progress (something in fact mainly limited to Tbilisi). The opposite happened. Whatever legitimacy the Tbilisi government still had among the people in the Tskhinval region vanished almost instantly. People were well aware that it was the Georgian government which closed Ergneti down; not the Tskhinval leaders. If anything, the political decision to close down the market place gave the secessionist authorities the legitimacy they were lacking before. Many Ossetians have expressed the fact that, before, they did not really want to secede from Georgia. Autonomy yes, but secession went too far for many. When ‘the Georgians’ closed down one of their only sources of income, it became clear to them they did not really matter to the Georgian government, and therefore they had to look the other way: towards the Russian Federation. And so they did. A farmer complains that ever since Ergneti closed down, resources to keep his farm running have been harder to come by and thus more expensive. He has to allocate these extra costs into the price of the product which he delivers. His already difficult position vis-à-vis Russian competitors has been further compromised by the relative high costs of his production. Now, people go to Vladikavkaz (North Ossetia) to purchase goods.

Secondly, the Georgian government was well aware that the South Ossetian authorities were hugely dependent on customs revenues they did receive because of Ergneti market. The only ‘legitimate’ portion of this trans-Caucasian transportation route was the South Ossetian one. Products left the Russian Federation illegally and entered Georgia illegally, but the transit through South Ossetia was for a large part subjected to customs and value added taxes. It was expected that the de facto authorities would be severely weakened if they were deprived of this income. However, the Russian Federation has been generous in funding South Ossetia’s state budget, safeguarding the authorities from bankruptcy. All in all, Tbilisi has achieved the opposite of its aim to entice the Ossetians to ‘return’ to Georgia; South Ossetia is now totally dependent on the Russian Federation for its survival, both the government and its people.

Another damaging factor of this policy is that Ossetians and Georgian are growing further apart than ever. Ergneti, apart from being of economic importance, also had a social relevance. Here, Ossetians from South Ossetia and from Georgia proper would get together with their Georgian counterparts. The primary purpose of course was trade, but for trade to be established human interaction is inevitable, and this type of interaction takes away at least some barriers that might exist between the two peoples. An enemy image (often used as a tool by political leaders) can hardly be sustained if one interacts directly with this ‘enemy’ for a common interest. Now, these contacts have been broken for a large part (with a probable

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exemption of organised crime), taking away yet another opportunity for peace building activities. Trade with the Russian Federation is hard, and not enough for South Ossetia to keep the economy functioning at acceptable levels. Also, it is not wise to be largely dependent on Russian aid; the Russian Federation could lose interest in South Ossetia when more pressing issues demand its attention. Therefore, many Ossetian respondents are still expressing the will to open up the borders with Georgia proper, and re-establish commercial traffic. It also has to be remembered that most Ossetians living in Georgia during Soviet times did so outside of South Ossetia, and some still do. These links could easily be re-established. Vice versa, a large portion of the South Ossetian population was (before August 2008) Georgian. Ossetians and Georgians alike have been arguing that in stead of closing Ergneti market, a legal framework should have been established around it.

This is an interesting, yet very complicated idea. Many things have to be considered in such a strategy. First of all: who will organise it? There has to be political willingness from all sides – Georgia, South Ossetia, and the Russian Federation – to implement this idea. Georgia could see benefits in showing the people of South Ossetia it does care about them, eliminating contraband, and in opening a trade route for Georgian agricultural products. Negatively, it could risk institutionalising a border crossing which it does not recognise. South Ossetia would see a second trade route opening up and thus less dependence on the Russian Federation, but could fear loss of Russian aid to the state budget. The Russian Federation would benefit from quality imports of Georgian agricultural products and the famous Borjomi spring water, but most of all from the legal export of fuels, in stead of it being smuggled out of the country. However, it has to be noted here that the Russian Federation would easily pass on these benefits in exchange for the almost unlimited political influence it now enjoys. Some common ground between the South Ossetian authorities and Tbilisi however should not be impossible to find, albeit only to break the deadlock and at least for Georgia to release South Ossetia from the exclusiveness of Russian influence.

Other issues to be considered are physical security (after all, South Ossetia must still be considered a conflict zone), the prevention of contraband (i.e. incorruptible customs employees), the necessary mutual trust to provide these two issues, and the design of the legal framework itself. During interviews two concepts have been proposed with regard to the latter: a tax free zone and a free trade zone (FTZ). A tax free zone within a legal framework on the Ergneti market could work, but only if trade between South Ossetia and the Russian Federation would be legalised. Georgia would still be bereft of customs revenues, but it could at least control what goes in and out of the country, thereby countering trafficking of for instance drugs and weaponry. Especially drugs are believed to travel freely along this trans-Caucasian highway, along with tangerines and cigarettes. South Ossetia would benefit simply from re-opening the Georgian market to their people, but in order to gain customs revenues they have to legalise the border with the Russian Federation. This will increase customs revenues for the Russian Federation as well, but could be a politically difficult measure since it would re-establish the physical border between North- and South Ossetia. An alternative would be an FTZ encompassing both North- and South Ossetia and the Gori district in Georgia proper. However, although thousands of FTZs can be found around the world (e.g. Poti harbour in Georgia and Kaliningrad exclave in the Russian Federation), establishing one across (contested) state boundaries would be a magnificent feat, and therefore probably too difficult to establish under the current circumstances.

An FTZ has also been proposed for the Gali/Zugdidi region on the border between Abkhazia and Georgia proper. This would encounter the same type of problems but at least one factor is
missing here: it does not necessarily have to involve the Russian Federation. An interesting case of cross-border cooperation exists in Moldova, where an agreement exists by which export products from breakaway Transdniestria are registered as Moldovan export, thereby giving them legal status abroad. Although a fascinating example of economic cooperation in a in some aspects similar case as the ones dealt with in this thesis, it can not be easily transcribed to the South Caucasus realities. Transdniestria’s industrial production is vital for Moldova’s survival (the rest of the economy is mostly based on agriculture) whereas South Ossetia is little more than a transit economy, and Abkhazia a fancy tourist destination. Also, both South Ossetia and Abkhazia directly border a major player in the whole story, the Russian Federation, whereas for Transdniestria some international agreement had to be accomplished because the territory is sandwiched between Moldova proper and the Ukraine. Alas, all of this is theoretical, because as will be shown in the final chapter, these possibilities for legalised trade relationships have all but vanished due to the August 2008 events.

Concluding, there are possibilities for entrepreneurial development in Georgia and its secessionist territories, but many barriers have to be overcome in the process. Overall, a lack of diversification and innovation define the entrepreneurial landscape. The first obstacle needs to be tackled by improving distribution and infrastructure, the second by solving financial and individual problems. The lack of money is difficult to overcome, but at the very least resources should be distributed more over the entire country. The core problem on the individual level is the poor level of education currently available to most citizens. Again, a regional development scheme is needed, which will also benefit one of the major opportunities for development in Georgia: tourism. In the secessionist territories the same barriers are present, but security issues make entrepreneurial development even more difficult to establish. Abkhazia has high potential as a tourist destination though, something which can not be said of South Ossetia. Chances for this territory to become prosperous as an independent entity are grim; to say the least. An opportunity which has to be looked into is the creation of a transit economy, and maybe in the long term some form of FTZ could be contemplated. However, all of the above is subject to political infighting, personal vendettas, and grander geopolitical schemes; these will be touched upon in the final chapter.

7 Conclusions

This thesis has been written as if the events of August 2008\textsuperscript{148} never happened (save for an occasional reference), which at the time of the largest part of the period of research was true. Tragically however, they did occur, and although new data has not been gathered during or after the conflict, being present in Georgia at the time has delivered valuable insights in the atmosphere created by the conflict. Naturally, as a researcher in the field, the negative repercussions the conflict might have on the development of Georgia towards a stable, prosperous state on the borders of Europe simmered in the back of the brain, and, after the armed conflict was over, surfaced as a potential problem to the contents of this thesis. However, the theoretical basis has remained intact, and can still be of value for both this research environment, and other locations which face similar challenges. This particular thesis however would be incomplete if the research data and outcomes would not be put in the actual context of the current situation, a year after the conflict has resumed its relative non-violent character. It would be highly recommendable however if future research would delve further into the question if the entrepreneurial landscape directly after a highly political conflict is fundamentally different form one lingered in a more distant past of armed struggle. This chapter aims to present a first impression of possible consequences.

In order to be able to assess the implications of the armed conflict in 2008 on the outcomes of this research, the chapter will begin with preliminary conclusions. The reason and scope of research will be presented yet again and the theories behind it are briefly summarized. Methods and context of the research itself are in no need of a lot of attention here, but all the more so the empirical chapters, conclusions of which are placed back to back to construct a comprehensive overview of the research results. The second paragraph will delve into the events of August 2008, from the perspective of the researcher. A lot has been written about what exactly happened in South Ossetia and beyond, and a lot of experts and non-experts have given their views on the subject. A repetition of those analyses will add little to the discussion, but ‘first hand experiences’ hopefully will present the reader with a more interesting insight. The last paragraph is devoted to the implications of these events on the final answer to the main research question: In which way does local entrepreneurial development contribute to conflict resolution in Georgia’s unstable society and what are the limitations of this conflict resolution tool?

7.1 Preliminary conclusions

Georgia was chosen as a field of research because of its highly complex history, interesting ethnic composition, and pivotal importance both geographically and geopolitically. Just when one starts to understand the country and its people, something totally unexpected and out of the ordinary can surface, which shows the academic that nothing is what it seems, and never a situation can be completely and totally understood. This is not only interesting, but also a stress test; if entrepreneurship can be developed here, and function as a tool for conflict resolution, then this research is of value.

\textsuperscript{148} As already mentioned in the theoretical framework, it is difficult to assess if these events qualified as ‘war’. A unifying definition of war does not exist, and even battle death criterions differ and are open for discussion (suffered the Dutch journalist who died in Gori a ‘battle death’ or just a misfortune at the workplace?). See the discussion in chapter 2 of ‘Civil war is not a stupid thing’ by C. Cramer (2006). However, it was definitely an armed conflict which took place, and thus the events will be refered to in this chapter as variations on the concept ‘conflict’.
resolution in an area with various conflicts occurring at the same time, it can do so virtually anywhere. Theoretical relevance is secured by the fact that through investigating entrepreneurship as a conflict resolution tool a knowledge gap brought to the fore by scholars around the world is filled, combined with an investigation into views on entrepreneurship from the society affected itself. The geographical and geopolitical importance of the country, due to its strategic location for energy infrastructure, and its political balancing between the Russian Federation and NATO, make research into conflict resolution in Georgia of international political and societal relevance.

A common definition of either ‘entrepreneurship’ or ‘the entrepreneur’ does not exist. However, to be able to operationalise the concept, theories have been analysed and henceforth a working definition has been formulated. The kind of entrepreneurship which has the highest potential of developing an economy and reducing the risk of conflict is productive entrepreneurship. This thesis has viewed entrepreneurship as ‘the process of taking risk to make up for market deficiencies or offer alternatives creating a new business or expanding an existing one with the aim to make profit and connect different markets in a productive manner.’ The term coined to describe this kind of entrepreneurship more specifically is ‘high-potential pro-growth entrepreneurship’, setting it apart from more static forms of entrepreneurial behaviour. Especially in a conflict society such as Georgia some factors threaten the emergence of high-potential pro-growth entrepreneurship. Government institutions and development agencies need to strengthen networks and break down stratification to provide healthy soil in which entrepreneurship can flourish.

With regard to the concept of conflict itself, three major questions arise: what is war? Is intervention desirable? How does one intervene? Answers to these questions are never unambiguous, but for the sake of theory three short answers are given in the theoretical framework: war is a continuation of violence by other means, (early) intervention is desirable because of the financial, political, and humanitarian costs of war, and the way in which one intervenes is highly dependent on the specific case, but ethnic partition is seldom a viable option (note that the Western Balkans are still very unstable). Security sector reform, judicial reforms, and economic development are key factors in which a (post-)conflict society can be elevated to a stable environment free of recurrence of violence. This thesis focused on economic development (through entrepreneurship) as conflict resolution tool. Three ways in which entrepreneurship can contribute to conflict resolution have been formulated, listed below:

1. Entrepreneurship → connection and broadening of markets → trade and interdependence → peace;
2. Entrepreneurship → gap-filling, input-completion, and creation of firms → development and diversification → peace;
3. Entrepreneurship → job opportunities and income → no incentives to pick up arms → peace.

How these effects have been researched is described in the method section in chapter 2.

To find out what the research population itself thought of entrepreneurship as a conflict resolution mechanism, respondents were confronted with the simple question: what is entrepreneurship?, which proved to be the most difficult question imaginable for most of

149 Furthermore there is the concept of RTP: the responsibility to protect. Introduced by Gareth Evans, former president of the International Crisis Group, it has slowly but surely gained momentum in the international arena.
them. All respondents failed to differentiate between productive, unproductive, and destructive entrepreneurship. However, in general it seemed most had more or less the same connotations with the concept as can be found in literature, although they would not necessarily call it ‘entrepreneurship’ but just ‘doing business’. The link with conflict resolution (or simply ‘peace’) however was almost naturally assumed as a simple fact of life. All three hypotheses were automatically mentioned by the respondents themselves, with the ‘trade and interdependency’ argument most frequently used to describe how, in their view, entrepreneurship could contribute to conflict resolution. Thus, both in theory and in the conviction of those who are most concerned, entrepreneurship has a potential as a mechanism towards conflict resolution.

Many efforts have been made to promote entrepreneurship, both in Georgia proper and in the conflict zones. The two most frequently applied methods to do so are micro finance schemes and business trainings, and sometimes the two are combined. From interviews with experts and beneficiaries, observations in the field, and written reports it seems these two methods are very useful in the development of entrepreneurship. Result measurement could be improved, but businesses are being established and beneficiaries believe they have gained both knowledge and skills. Trade and interethnic cooperation do take place, but it is not common practice, due to the difficult circumstances created by the secession of the two territories. However, the people seem willing. As long as they have a job and an income they are also rarely inclined to risk that for some ‘greater cause’. People, especially in the conflict regions themselves and on both sides of the respective borders, do not want the conflict to turn violent: they want to make a living and they want to be able to travel freely. The programmes are to a degree successful in promoting trade and interethnic cooperation, and it happens through entrepreneurship. However, the diversification and innovation aspects of entrepreneurship are not so easy to be found. Still a lot can be gained in striving for this potential positive effect of entrepreneurship.

Finally, to make full use of the possibilities for entrepreneurial development in Georgia and its secessionist territories, which are present, many barriers have to be overcome. An enormous lack of diversification and innovation hampers the entrepreneurial environment. To overcome this situation efforts have to be made to improve the possibilities of distribution, invest in infrastructure, and allocate financial resources to the most promising entrepreneurial ventures throughout the country; not just in Tbilisi. Levels of education need to be raised to give citizens the baggage they need to successfully engage in business activities. Apart from agriculture, traditionally a strong sector in Georgia, tourism has huge potential as a source of income. However, for tourists to start pouring into the country, stability and security have to be improved. These issues are especially important with regard to the secessionist territories, and not just for the development of tourism. All in all, Abkhazia has a lot of potential of developing a strong entrepreneurial environment by itself, but chances for South Ossetia to become prosperous as an independent entity are very small. For this territory the creation of a transit economy, and in the long term some form of FTZ, could be a way out of misery. For this to happen however, it simply needs to be at least on speaking terms with its ancient neighbours and fellow countrymen: the Georgians.
7.2 August 2008 events

As anyone who is not living in a cardboard box somewhere in the Western Sahara might know, the shit really hit the fan in Georgia right now. Georgian forces have taken control of most of Tskhinvali, South Ossetia’s capital. As we speak Russian Federation forces are trying to take it back. The multilateral peacekeeping forces (Russians, Ossetians, and Georgians) have started to shoot at each other. Bombs have been dropped by Russian Federation fighter jets on two military bases in Georgia proper, one in the vicinity of Gori, Stalin’s birthplace, one near Tbilisi, Georgia’s capital city.

Where is this all going to? Nobody knows. One thing is certain: nobody will benefit from this situation. At least nobody innocent. Georgian and Ossetian civilians alike can only suffer from such actions. Question is: what will the international response be? Will they be willing to intervene if the situation will not de-escalate in a reasonable timeframe? I guess not. My prediction is that Georgia, by trying to regain control over South Ossetia, is on the verge of losing it forever. It is sad, because of the two remaining conflicts, this was actually the one that had the greatest potential of a peaceful solution. Ossetians do not hate Georgians. Georgians do not hate Ossetians. They are both very proud and at the same time very scared people. They both feel the threat of a greater power trying to control them. Their fears are more or less the same, but who is an adversary for one, is a friend for the other.

These quotes were taken from a weblog I tried to keep up to date during the violent conflict. For three months I had been travelling the country, searching for answers to a question which seemed very relevant at the time. Reading reports and literature on Georgian history, politics, economics. Contemplating in which way entrepreneurship could help to overcome the problems the region suffers. When writing about ‘interethnic cooperation’ and ‘cross-border trade opportunities’, I was writing about a country with two peculiar regions which were operating autonomously, though not recognised as independent entities. These regions had detached themselves from Tbilisi rule some time ago, in the beginning of the 1990s. Since then, they operated in relative obscurity. Officially Georgia was a conflict region; two of its territories were not under sovereign control anymore, and violence led to such a situation. But large-scale armed conflict was not present anymore. There were some incidents here and there, but they were minor, or at least they were viewed as such. South Ossetia and Abkhazia had become textbook examples of so-called ‘frozen conflicts’. Overnight, they had been defrosted. When the first shock was over, questions started to boil up: what happened? Who started it, and, more importantly, why?

After weeks of provocations, the brutal murder of Georgian peacekeepers by terrorists, and a 16 year occupation of the Georgian heartland by the Russians, Georgia has finally decided to intervene and restore law and order on its territory. No longer could the deplorable situation its citizens have suffered for so many years be accepted. In an effort to bring back constitutional law and peace and prosperity to the northern parts of Shida Kartli its military has regained control of the regional capital Tskhinvali. Sadly, this completely justified humanitarian intervention was responded by the Russian Federation with a barbarous invasion of the sovereign democratic republic of Georgia.
History repeats itself when Russian forces enter one of its neighbouring countries to bring death and destruction with the intent to impose its rule and domination. The bombing of civilian targets throughout Georgia shows that the Russian Federation will shy away from absolutely nothing to terrorize and antagonize a peace loving multiethnic country like Georgia. It is time for the international community to stand up to this archaic imperialism. Georgia, a modern and democratic country, a close ally to its friends at NATO, and a great contributor to the peace forces in Iraq, is under attack. The West just simply cannot stand by and watch how a people are massacred under the hands of a brutal empire.

This was a piece I wrote two days into the violent conflict. It is an attempt to summarise the situation as it was pictured in most early Georgian media sources. ‘Restoring law and order’ was actually a reason given for the intervention by one of the officers of the Georgian armed forces. Later, it was claimed that the Georgians merely responded to a Russian invasion which was already taking place.\(^\text{150}\) I tried to do the same from the Russian viewpoint:

*Finally, Mikheil Saakashvili has shown his true identity. The façade of a democratic minded, level-headed statesman has been thrown off. Out of the blue he has sent his armed forces to lay siege on the city of Tskhinval, the capital of South Ossetia. More than 2000 Russian citizens have died because of the nationalist behaviour of a madman. There is no way in which such brutal behaviour can be justified. Georgian troops, part of the joint peacekeeping operation, have turned their backs on their comrades. The Ossetian and Russian peacekeepers had no other choice than to respond and put an end to this exact copy of events conducted under authority of the extreme nationalist Zviad Gamsakhurdia during the beginning of the 1990s.*

*Again, an innocent and sovereign people found itself under attack of an alien oppressor. This had to be stopped. Under its peacekeeping mandate, Russian forces have made sure that the people of South Ossetia can return to their homes and try to build a new life after the Georgian aggressor has completely destroyed their rightful land. By specifically targeting military objects around South Ossetia, which presented an immediate threat to the area, the Russian Federation has shown that its only goal is to return peace to all the people of South Ossetia; Ossetians, Russians, and Georgians alike. The international community should take a firm stance to any future violation of human rights like the one that has been performed by the Georgian leadership on an innocent people.*

These texts were written out of a feeling of astonishment over the fact that a single event can be interpreted in such opposing ways. There was also a sense of frustration about how politicians made decisions because of which ordinary people witnessed their lives ruined overnight, and then proceeded to justify their decisions by claiming to have acted in the name of those very victims. In the mean time Georgian refugees from Gori, who lost their houses due to Russian bombings, gathered in front of parliament in Tbilisi shouting: “Now look what your war has brought us!” Your war, indeed. In opposing the Georgian and Russian views on the situation, I made an error many people made during the violent conflict, but some persist in up until this day: I forgot to mention the Ossetians:

\(^{150}\) This is not the right place to discuss what the real reasons behind the violent conflict were. As a source of reference (but not a definitive judgment) a summary of the Independent International Fact-Finding Mission on the Conflict in Georgia is attached in Annex D.
A lot has happened in the last few days. Events occurred at an incredible pace and no-one could predict in the slightest what would happen in the next hour, let alone where this would all lead to. In fact we still do not know how this will end. We still do not possess the ability to predict even the nearest of futures. One thing is certain: nobody will benefit from this situation. At least nobody innocent. Georgian and Ossetian civilians alike can only suffer from such actions. And so they did.

The varying and sometimes downright contradicting media reports do not help to clarify the situation. It seems that there is a clear Georgian view on the events: Georgia is being invaded by the Russian Federation. The Russian view is put on the stage in a no less clear manner: the Russian Federation has intervened to stop Georgian troops from causing a humanitarian disaster in one of its secessionist regions. Thus, huge discussions can be heard in the Western media, on the Internet, and under the expatriate community which of the two perceptions resembles reality the most.

A very important perception of reality has been left unattended though: the Ossetian one. The war is now largely portrayed as a war between Georgia and the Russian Federation. Not only by Georgian media but also by Western newspapers and television broadcasts. Although reasons for such a representation of events are intelligible, it hardly does justice to what matters most: the ordinary people affected by the political battle that is being waged. More and more this conflict can be described as a political conflict; less and less as an ethnic one.

Not long ago Ossetians as well as Georgians living in Tskhinval(i) expressed the feeling that the two peoples do not hate each other. Both admitted to the fact that Georgians and Ossetians have lived side by side as friendly neighbours for ages. There have been a lot of intermarriages and thus a lot of children with mixed heritages have seen the light of day. How is it possible that peoples so close to each other are now so far apart? Maybe more importantly: will they ever be able to be the good neighbours they were before?

It seems that the Ossetians find themselves caught up in between governments that maintain considerable conflicting interests with each other. A large segment of their desire to part from Georgia does not appear to be incited by ethnic strife but by political quarrelling between the respective leaders in Moscow, Tskhinval(i), and Tbilisi. The de facto government did not seem to have a lot of legitimacy under the people of South Ossetia. Most of the legitimacy it did have was given to it by a couple of outside factors. The annulment of autonomy in 1991, military intervention, the closing down of Ergneti market, economic blockades; these were the things on which the secessionist leaders could build their power base.

Current events might very well be the final blow to Ossetian willingness to live in a South Ossetia which is part of Georgia. Again, it is the political leaders of the various peoples that lead the region into devastation and misery. True, Mr. Saakashvili is a democratically elected president, and so is Mr. Medvedev to a certain extent. Probably Mr. Kokoity\textsuperscript{151} would render a lot of support from the

\textsuperscript{151} De facto president of the Republic of South Ossetia.
Ossetians who have yet again endured the horrible effects of external factors. However, it is very doubtful that the actions committed by them lately, and the inevitable devastating consequences of them will harvest popular support from the ordinary men and women on the streets. Question remains: deep down, what do the latter actually want?

This was an article I wrote for a Georgian newspaper. At the time, entrepreneurship somehow did not seem that relevant anymore. But as time passed, and life went back to normal, I suddenly realised why it still was. If these conflicts were political, not ethic, it was accountability of politicians which needed to be raised. The best actor to hold a government accountable is an emancipated, socially active electorate. Entrepreneurship, as a basis for economic development, can help a people bereft of political influence to become self-assured. Self-assured enough to be able to force the authorities to act more responsible and put personal ego aside. Therefore, to conclude this thesis, the implications of the August 2008 events for entrepreneurship in Georgia and its secessionist territories will be briefly described, followed by a reflection on which possibilities still remain to use entrepreneurship as a catalyst for peace.

7.3 Implications for entrepreneurship

In which way does local entrepreneurial development contribute to conflict resolution in Georgia’s unstable society and what are the limitations of this conflict resolution tool?

The answer to this question distilled from paragraph 7.1 would be:

Through development and diversification, entrepreneurship takes away incentives for armed struggle and facilitates interethnic cooperation and trade; in turn this will contribute to conflict resolution, but these effects are limited by a lack of financial resources, infrastructure, poor education levels, and security issues.

The political factor has been largely left aside in this particular answer, and reality has shown this is a fundamental flaw. The events of August 2008 have compromised everything which has been argued in this thesis.

One of the reasons why Georgia was chosen as a research location was the geographical and geopolitical importance of the country, rooted in its strategic location for energy infrastructure, and its political balancing between the Russian Federation and NATO. This is one of the main reasons why politics can not be left out of the equation. Politicians in Georgia will always have to focus their energies not just on the governing of the country itself, but also on governing the country in the context it finds itself in. In fact, President Saakashvili made inclusion in NATO structures a foreign policy priority, as can be witnessed from the big signs saying so in front of the parliament building. As for domestic policy priorities, regaining control over the regions was on top of the list. Both of these policies did not benefit the average Georgian people directly: inclusion in NATO structures might be beneficial on the long run, but economic development and business relationships with Georgia’s neighbours would probably benefit the Georgian population more directly, in both medium- to long-term future perspectives. Regaining control over the regions no doubt is something which the average Georgian citizen would list very high on priority levels, but this is motivated more by a sense of history and past wrongdoing, than rational reasoning based on rationality. The
efforts which have gone into ‘taking back what ‘they’ stole’ have garnered Georgia nothing more than huge financial losses due to the military expenditures, and a current situation in which they seem to be lost forever. Furthermore, combined with the foreign policy priority of NATO integration, it has severely strained Georgia’s relationships with its powerful northern neighbour, and long time economic trade partner, the Russian Federation.

Impact on the entrepreneurial environment of the armed conflict is severe. In Georgia proper, entrepreneurs are now hampered by even greater limitations on the possibilities for trade, and the country itself needs to rebuild trust from international parties to invest in a country which once again has proven to present a highly unstable investment climate. Financial resources from the state budget once again are needed to build a military, largely destroyed by the Russian forces, diverting money flows away from SMEs and other possible entrepreneurial opportunities. Micro finance schemes yet again largely need to come from abroad, because the state budget does not allow too much spending anymore. Business trainings however can go on as usual. Trade with South Ossetia and Abkhazia has been made all but impossible however. The ability to travel freely across borders seems a possibility more distant than ever before. Tourism, a sector slowly gaining momentum in the period directly before the armed conflict, has to start anew in gaining confidence from foreign travellers that they can travel to and in Georgia safely and comfortably. As for South Ossetia and Abkhazia, they are now completely outside of Georgian government control. As has been argued before, Abkhazia does have potential to progress towards a healthier economy, although its unrecognised status internationally and the extremely underdeveloped Gali region will for a long time function as brakes on development. South Ossetia needs to think really carefully which future it sees for itself. Chances are it will slowly but surely be integrated in the structures of the Northern Caucasus region of the Russian Federation. Cross-border trade with Georgia, in any form but contraband, is more or less out of the question for both territories in the current situation.

Some proposed activities still stand however. Georgia proper should increase efforts in developing diversification and innovation. Investment in infrastructure and regional development are among key priorities, along with an increase of education levels and business trainings. The most promising sectors are still agriculture, tourism, and transport. Especially the latter two are, more than anything else, in need of security and stability. Especially when Georgia wants to be the energy corridor of the South Caucasus, all efforts have to be made to guarantee this stability. It might be a sensitive issue and an impossibility to say out loud, but the secessionist territories should not be a priority. Developing Georgia proper itself is the best way to achieve any future goals internationally, whatever they will be. The final answer to the main research question is:

Through development and diversification, entrepreneurship takes away incentives for armed struggle and facilitates interethnic cooperation and trade; in turn this will contribute to conflict resolution. However, these effects are limited by a lack of financial resources, infrastructure, poor education levels, and security issues; and impossible to achieve at all without political prioritisation to do so, or at least not to get in the way.

With the exception for the situation in Adjara: this region has in fact been brought under central government control (as an autonomous republic), partly by the actions of the Saakashvili administration. However, Adjara was a totally different situation compared to South Ossetia and Abkhazia due to numerous reasons; historic, political, ethnic, economic, etc. This thesis is not the place to discuss this elaborately.
For conflict resolution, entrepreneurship alone is not enough. Especially in a fragile state like Georgia it can only be a part of the puzzle. At the same time however, it has to be part of the puzzle, because without it, any form of peace will most likely be short-lived.
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Annex A Interview guide

The main question concerning this research is:

*In which way can entrepreneurial development contribute to a more peaceful society in Georgia and the de facto autonomous republics of Abkhazia and South Ossetia?*

An exploration into the possibilities of entrepreneurship as a peacemaker: theories tested in the South Caucasus.

**Answers to this question will be found through an exploration of possibilities for entrepreneurship in a fragile state like Georgia. Hence these sub questions:**

- Which effect can entrepreneurial development have on the promotion of peace in theory?
- What are the main issues the regions which de facto seceded from Georgia (brief context description)?
- Which parties have a stake in Georgia’s (foreign) affairs and those of the de facto independent republics?
- What is currently being done at the crossroads of entrepreneurial development and conflict resolution in Georgia?
- What are the effects of current entrepreneurial development programmes on conflict resolution according to organisations active in Georgia?
- What are the views of entrepreneurs themselves on the promotion of entrepreneurship and its potential as a conflict resolution tool?
- Which role can international parties have in promoting entrepreneurial development as a tool to resolve the conflict situation in Georgia?

**Operationalisation of important aspects of the sub questions:**

- Entrepreneurship: destructive, unproductive, productive, pro-growth potential;
- Development: economical, social, cultural, political;
- Fragile states: conflict resolution, stakeholders, threats, opportunities.

This interview relates to present day Georgia and its seceding territories. The process of disintegration of the Soviet Union and the ensuing uprisings of ethnical violence will be shortly referred to if it provides vital background information on the current problems.

**Interview goal:**

To investigate the potential of entrepreneurial development as a way towards peace in a conflict-torn region like the South Caucasus.

Non-governmental organisations (NGOs) and other key informants can shed light on what currently is being done in the field of entrepreneurial development and which effect this might have on society.

Entrepreneurs themselves can contribute to the understanding of their views of what entrepreneurship actually constitutes of and its potential as a conflict resolution tool.
Interview subject:

Entrepreneurship and conflict: possibilities, threats, desires, demands.

Topic list:

Entrepreneurship
- Destructive entrepreneurship;
- Unproductive entrepreneurship;
- Productive entrepreneurship;
- Pro-growth potential entrepreneurship;
- Connection of different markets;
- Gap-filling;
- Input-completion;
- Creation of firms.

Development
- Economical development;
- Social development;
- Cultural development;
- Political development;
- Networks;
- Freedoms;
- Capabilities;
- Well-being.

Fragile states
- Conflict resolution;
- Stakeholders;
- Threats;
- Opportunities;
- Stability;
- Investment climate;
- International position;
- Internal legitimacy.

Not all of these topics have to be dealt with per sé, it is merely a checklist to keep track of the proceedings of the interview.

Introduction (NGO’s and other key informants):

First of all, I would like to thank you very much for participating in this interview. In short, I will explain the purpose of my research. My goal is to investigate the possibilities of entrepreneurship as a peacemaker. I want to see in which way entrepreneurial development can contribute to a more peaceful society in Georgia and the de facto autonomous republics of Abkhazia and South Ossetia. This research is part of my master’s in human geography at the Radboud University in Nijmegen, The Netherlands. By performing this research, I am hoping to graduate for the specialisation Conflict, Territories, and Identities next year. Furthermore, my research will contribute to general knowledge on the subject of entrepreneurship as a
conflict resolution tool and thus deepen the scientific debates on the subject. Since there is a
great lack of knowledge in the field of entrepreneurship in fragile states in general and in the
South Caucasus more specifically the results of this exploration hopefully will lead to more
efficient policies directed towards conflict resolution in the region. This interview will be a
great contribution to my research.

**Interview questions:**

**General questions:**
- What is the main goal of your organization?;
- What is your function inside this organization?;

**On entrepreneurship and conflict resolution:**
- In your own words, what is entrepreneurship in your or your organisation’s
definition?;
- Could you share your views on the possibility of entrepreneurship as a conflict
resolution tool?;
- Which kind of entrepreneurship is most likely to contribute to conflict resolution in
your opinion?;
- Which conditions have to be met for this kind of entrepreneurship to have a positive
effect on the fragile situation in Georgia?;
- Which barriers have to be taken away for this kind of entrepreneurship to have a
positive effect on the fragile situation in Georgia?;
- Which role does inter-ethnic co-operation play in the process?

**On current efforts in the field:**
- Which projects are you or your organisation working on at the moment in the fields of
entrepreneurship and conflict resolution?;
- Could you elaborate on these projects?;
- Which other projects from other organisations or maybe private entrepreneurs do you
know of in this line of work?;
- Could you elaborate on these projects or private entrepreneurs?

**On the effects so far:**
- Are the effects of the aforementioned programmes being measured at all at the
moment?;
- What are the effects thus far?;
- Which effects do you expect from future efforts in the field of entrepreneurial
development in Georgia?

**On international involvement:**
- What more should or could be done in your opinion?;
- Which role is there for the local governments in such?;
- Which role is there or could there be for international parties?

**Final question:**
- Could you provide me with useful data and contacts (entrepreneurs) for my research?
I would like to thank you a lot for your time and input and I hope we can remain in contact for future reference. If you are interested, I can e-mail the final product or an abstract from it when it is finished.

Introduction (entrepreneurs):
Same as above but with minor adjustments depending on the specific respondent.

Interview questions:

General questions:
- Which products or services do you deliver?
- When did you start your enterprise?
- With whom did you start your enterprise?

On opportunities and constrains:
- Which incentives did you have to start an enterprise?
- Which opportunities were presented to you when you first started your enterprise?
- In which ways were you constrained into starting the enterprise?
- Which threats to your enterprise have presented itself so far?

On network connections:
- Can you tell me something about your desires or demands from the government or other institutions concerning your enterprise?
- Which information networks did you use to start your enterprise and which ones do you still use?
- Could you tell me something about the ways in which you obtain capital for your enterprise?
- Could you tell me about the inputs (i.e. resources) you use for the products or services you deliver?

On entrepreneurship:
- Could you tell me in your own words what you think entrepreneurship is?
- Could you tell me if the products or services you deliver were lacking before you started your enterprise?
- In how far do you connect different markets with your products and services (does your output cross borders)?
- In how far do you intend to expand your enterprise in the future (e.g. by hiring more people or increasing production)?

On conflict resolution:
- Could you tell me something about the trade relations you have?
- Could you tell me something about inter-ethnic co-operation inside your enterprise?
- Which effect can entrepreneurship have on conflict resolution in your opinion?

Final question:
- Could you provide me with contacts with other entrepreneurs for my research?

I would like to thank you a lot for your time and input.
Annex B List of organisations

- Abkhazian Union of the Business Women
- Adult Education Center
- Alert
- Argo Saint George
- Charity Humanitarian Center ‘Abkhazeti’
- Credo
- Danish Refugee Council
- Forecast
- Independent Expertise
- Organisation for Security and Cooperation in Europe
- Peaceful and Business Caucasus
- Peoples Programme
- Products From Conflict Zone
- Project Harmony
- South Ossetian Chamber of Commerce
- South Ossetian Ministry of Youth Affairs
- Sukhum Youth House
- World Vision
Annex C Georgia before August 2008

Source: University of Texas Library (2008)
Annex D Georgia after August 2008

Source: University of Texas Library (2009)
Annex E Summary of IIFFMCG report

1.) The purpose of the report is to describe the events that occurred objectively.
2.) In the night of 7-8 August Georgian forces advanced into South Ossetia only to be pushed back by Russian forces the following day. Despite a French brokered ceasefire agreement the situation remains volatile.
3.) The conflict is rooted in ancient quarrels but at the same time a result of a clash between Georgian self-consciousness and Russian assertiveness emanating from the collapse of the Soviet Union. The peace keeping mechanisms implemented previously were not sufficient to prevent the tense situation turning into a large-scale armed conflict.
4.) Relationships between the Georgians and the Russians have always been two-sided. Both peoples admired the other but at the same time felt threatened by them and their backward ways.
5.) The current territorial disputes started roughly with the collapse of the Soviet Union and both Georgian nationalism and Russian reluctance to let go of spheres of influence are to blame.
6.) President Shevardnadze was forced to allow a strong Russian presence in Georgia to secure stability in the aftermath of the civil war that followed the territorial ones. Ever since the Russian Federation has used this presence to influence internal Georgian affairs.
7.) With the rise to power of Putin in the RF and Saakashvili in Georgia the political lines of the two countries diverted into opposite directions.
8.) The United States invested heavily in the Georgian economy and the building and training of Georgian armed forces, quite clearly in an attempt to counter further Russian influence.
9.) The European Union has generally refrained from such blatant support but did heavily invest in the economy and slowly stepped up diplomatic relations.
10.) The EU remained cautious when it comes to military engagement and has tried to increase stability in the South Caucasus without aggravating the RF too much.
11.) Russian recognition of independence of the two breakaway regions is against international law in many ways.
12.) The ‘passportisation’ of the South Ossetian and Abkhazian citizens is maybe not illegal in the strictest sense but definitely a challenge to Georgia’s sovereignty.
13.) Although the large-scale armed conflict didn’t start until the night of 7-8 August both sides seem to have been ‘preparing the battlefield’ months before.
14.) Confusing statements from the Georgian side concerning their motivation to shell Tskhinvali eroded their trustworthiness. Motivations moved from ‘restoring constitutional order’ to ‘countering a Russian invasion’.
15.) The alleged Russian invasion cannot be proven.
16.) Conflicting reports from the Russian side failed to falsify it as well; it seems a military build-up in South Ossetia and Abkhazia was under way prior to the night of 7-8 August, though not an ‘invasion’.
17.) The RF’s initial justification for the heavy response was alleged genocide conducted by the Georgian forces on the Ossetians. These allegations could not be proven and casualty numbers turned out substantially lower than at first claimed. When Georgian forces retreated they were followed by Russian forces deep into Georgia proper. Finally the Abkhaz drove the remaining Georgians (military and civilian) out of the Kodori Gorge.

18.) President Sarkozy mediated a ceasefire plan on 12 August which included an immediate withdrawal to pre-war locations. Up until this day the RF has not fully complied since the formerly Georgian controlled areas of South Ossetia and Abkhazia are now under their control.

19.) The Georgian attack on Tskhinvali was neither necessary nor proportionate. The initial South Ossetian response was, but the subsequent attacks on civilians and military actions after the ceasefire agreement took affect were illegal as well.

20.) The Georgian use of force against Russian peacekeeper was contrary to international law, since there has been no evidence of an imminent Russian attack, although they seemed to be prepared for combat.

21.) The initial defensive actions from the Russian side were legal as they were in defence of the peacekeepers. The subsequent push into Georgia proper, the bombings in Abkhazia, the occupation of military compounds and the setting up of new ones, the blockades of infrastructure and the demolition thereof were not justifiable – as they served by no means the protection of peacekeepers – and thus in violation of international law.

22.) Russian intervention on grounds of humanitarian intervention is hardly believable since they themselves were the strongest advocates against such an intervention in Kosovo. However, any humanitarian intervention is legally questionable.

23.) Justification on grounds of the protection of Russian citizens as guaranteed in the constitution, if legal at all, certainly does not apply with regard to the military advance into Georgian territory beyond the administrative borders of South Ossetia.

24.) Abkhaz attacks in the Kodori Gorge (supported by the RF) were motivated on multiple grounds, all invalid. Thus, the Georgian defensive actions were legal. Threats of force by all sides prior to the five day war were in violation of ceasefire agreements and thus international law.

25.) Many crimes in violation of International Humanitarian Law and Human Rights Law were committed during and after the conflict, more so in South Ossetia then in Abkhazia, although minority rights in the Gali region seem to be endangered as well.

26.) Actions with features of war crimes have been committed by South Ossetian, Russian, and Georgian forces, although it is difficult to assess who did what or was responsible for it.

27.) Allegations of a Georgian intent of genocide against Ossetians are not founded in law nor substantiated by factual evidence. There is evidence however of South Ossetian attempts of ethnic cleansing, especially in the Akhalgori district, formerly controlled by Georgia.
28.) The violence has triggered mass displacement from South Ossetia, both to Georgia proper and to North Ossetia. South Ossetia and Abkhazia must ensure IDPs are able to return, just as Georgia must ensure IDPs are not forced to return.

29.) There are indications (and confirmations) that both sides used cluster munitions, although the RF denies such allegations. Georgia claims only to have used them against military targets, but there are indications that both sides used them against civilian targets as well.

30.) The question whether the five day war could have been avoided is difficult to answer. In negotiations Georgia offered asymmetrical federalism, in which each entity would enjoy different levels of autonomy. South Ossetia and Abkhazia wanted confederalism, which would give them the right to secede.

31.) Although there was a trend of re-approachment between Tbilisi and the secessionist territories, the trend of gradually tightening links between those territories and Moscow seemed stronger, fuelling frustration on the Georgian side.

32.) All parties are to blame for the unconstructive peace process, with the Abkhaz and Ossetians demanding unreasonable concessions before even resuming talks as an example.

33.) The Russian role as peace brokers proved counter productive since their stakes needed to be considered as well, apart from those of the Georgians, Ossetians, and Abkhaz.

34.) Georgian establishment of alternative (de iure) governments is considered as one of the most controversial moves in the peace process. It might be triggered by Russian threats to use Kosovo independence as a precedent with regard to Abkhazia and South Ossetia.

35.) Series of mistakes on all sides and international events as Kosovo’s independence triggered the five day war which has far more consequences than the wars of the 1990’s.

36.) The five day war was not only a result of the Georgian attack on Tskhinvali, but also of years of mounting tensions on all fronts (military, political), an assertive resurging great power, an overconfident small country, and a clear disregard of international law. Overall, the conflict is rooted in a profusion of causes comprising different layers in time and actions combined.

37.) In the end, everyone loses, not in the least European progress towards a non-military, humanitarian future.