

## **New Georgian Business Minister Makes Waves**

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A former Russian oligarch who is now Georgia's economy minister plots the country's revival.

When Georgian prime minister Zurab Zhvania uttered the eye-catching phrase "aggressive privatisation policies" last week he initiated a wholesale shake-up of Georgia's ailing economy.

The main enforcer of a big Georgian sell-off – and the man entrusted with the daunting task of turning round one of the most decrepit economies in the entire former Soviet Union – is Kakha Bendukidze.

Bendukidze, until recently a prominent "oligarch" in Russia and founder of the heavy machine company OMZ, was appointed Georgia's economics minister on June 2. He unveiled a new privatisation plan on June 30. Among other reforms, he also plans to devise a new tax code.

Whatever the success or failure of President Mikheil Saakashvili's overall reform programme, it is the fate of the economy that will most likely decide whether he stands or falls. Georgians have lived for more than a decade in acute poverty, and it was in large part anger over socio-economic issues that led to the downfall of Eduard Shevardnadze's regime last year.

Bendukidze has not paused for breath since he took the job.

"We will sell all businesses belonging to the state," Bendukidze told IWPR in an interview on July 7. "The businesses will be put up for sale according to how ready they are. Every month we will sell around 100-150 businesses."

"We won't allow a situation where some sectors of the economy are considered so important that they cannot be in private hands and the state has to manage them," he said. "That is ridiculous, and the sooner we reject that idea the better."

Key assets that will go on sale include the important sea ports at Poti and Batumi, and all of Georgia's airports, as well as the Tbilisi philharmonia.

Saakashvili's new economic policies are gradually taking shape. Their first manifestation was in an aggressive anti-corruption drive, which resulted in the dramatic arrest of several leading officials and businessmen associated with the Shevardnadze era. Most of those detained are now free again, having paid large sums directly to the state to secure their release from prison.

Many are cautious about how well thought-through these policies are.

"The problem is that, although I fully agree with the government's declared intentions, it is hard for me to judge where the implementation of them will lead because the declarations are often followed by completely unexplained actions," commented Irakli Shavishvili, co-chairman of the board of the Centre for Institutional Reforms.

Shavishvili questioned what form the actual privatisation would take and pointed out the inconsistencies of the anti-corruption programme, which he said “resembled a racket”.

“If [Gia] Jokhtaberidze [son-in-law of ex-president Shevardnadze, arrested for alleged bribery] was guilty of not paying his taxes, why was he simply released after he was arrested, once he’d paid a certain sum? The law sets out an entirely different procedure for punishment for this crime.”

When he invited Bendukidze to join his government, Saakashvili announced that the appointment was a “unique chance to revive the country’s economy”.

Bendukidze himself told journalists in Tbilisi that “if we manage to carry out reforms in Georgia, we will be able to say in ten years’ time that this is one of the world’s most dynamically evolving economic systems”.

According to official statistics, the Georgian state still has shares in 1,800 companies which employ around 180,000 people. To ensure that privatisation takes place with the maximum of transparency and profitability, the economics ministry says it plans to open a dedicated website, a special department to oversee the auctions, and a hotline which potential buyers can contact.

However, Roman Gotsiridze, a prominent economist who chairs parliament’s budget committee, takes issue with the main premise of the three-year privatisation plan, arguing that it is unlikely to raise large revenues because almost all the effective businesses in Georgia have already been sold off.

“The main thing is not to receive big profits from direct sales,” said Shavishvili. “It’s better to expect the main income to come from tax payments from well-run companies. Ten years ago I supported giving them away for nothing to anyone who wanted them, because that way we would defend ourselves from robbery.”

The implications of the new minister’s background in Russia are being keenly studied on all sides. Bendukidze’s entirely unexpected appointment followed an impressive Georgian-Russian business forum in Tbilisi on May 28-29 attended by top Russian businessmen and the Kremlin’s economics minister German Gref.

Even a year ago, the arrival of Russian business capital in Georgia was viewed with universal suspicion. Now the situation has changed entirely.

“Georgia needs to get into the Russian market like it needs oxygen, and when Russian investment comes into Georgia, the revival and development of many sectors of the economy will become possible,” Gogi Topadze, founder of the famous Kazbegi beer and soft drinks company, told journalists.

Political analyst Ramaz Sakvarelidze says that the change in attitude towards Russian business interests has come about with the approval of Washington. This is also a marked change from the alarm that was expressed when the American energy company AES, which had been running the capital’s power system, quit Georgia last year and sold up to Russian electricity giant UES.

“Last year when the Russians came into the Tbilisi energy sector, the reaction in the Georgian capital was very negative,” said Sakvarelidze. “Now this topic is being discussed in a far more rational way, as just an objective reality.”

Bendukidze himself was scornful at the suggestion that his appointment would mean a flood of Russian investment into Georgia. “We absolutely don’t care who the buyer is,” he told IWPR. “His country of origin is not important if he pays the maximum price.”

Critics of the privatisation campaign say it will hand the wealth of Georgia to those people who enriched themselves under the previous regime, while 90 per cent of ordinary Georgians cannot afford to take part.

But Bendukidze responded to this with characteristic bluntness, saying in parliament recently, “A businessman who has no money isn’t a businessman.”

“We can’t drag out privatisation until a generation of new businessmen has formed. That’s impossible both politically and economically.”

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