

PRIVATE PROPERTY - ECONOMIC FREEDOM

100 Questions - 100 Answers

- Freedom
- Independence
- private property
- Economic myths
- Economic freedom
- Market or planned economy?
- From personal freedom to the freedom of the country
- Why agriculture is not developing?
- What makes us poor and what makes us rich?
- For tomorrow
- # Become an owner
- For whose children are we "saving" a forest?

PRIVATE PROPERTY — ECONOMIC FREEDOM

100 Questions — 100 Answers

Economic policy of transformation

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100 Questions — 100 Answers

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**FRIEDRICH NAUMANN
FOUNDATION** For Freedom.

South Caucasus

ეკონომიკური ტრანსფორმაციის
ცენტრი



Economic Transformation Center



გაბიდი მესაკვთრე

Foreword

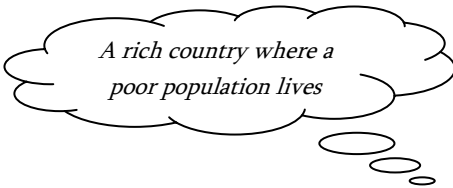
The publication contains 100 questions and answers to them, on the most important economic and, therefore, political topic of the reality of Georgia, which are asked and answered by people differing in their vision, knowledge and experience.

One of the main goals is to delve into them as deeply as possible so that the public can fully understand their own vision and become more clearly aware of the causes, consequences and optimal ways of the possible solution.

Contents

Why should you become an owner?	5
Freedom	6
Free Privatization — How to turn a State Property into a Private Property	17
From invest to investment	32
Free privatization of agricultural lands	43
How to make minerals useful to people	67
Forest Fund — For whose children are we “saving” a forest?	78
Government-owned corporations	85
Government-owned buildings and structures	89
Strategic objects — Myth or Reality	93
Who owns border areas?	98
How economy is growing	102
Feedback on the topic	111

Why should you become an owner?



Most of economic assets in *Georgia* are still government-owned. These are:

- More than 60% of the agricultural land;
- 100% of forest, minerals and water resources;
- Hundreds of buildings and government-owned enterprises;

Since most assets, which are owned by the state are not used by them, its capitalization or value is practically zero. These resources, conserved under the "Soviet regime", are still in this state and their economic effect are lost. Despite the fact that there is a real likelihood that these resources will dramatically increase an economic activity of the country and the well-being of its population in proportion to its size, this possibility is not considered seriously enough.

For an adequate development of the country and an adequate growth of the living standards of the population, it's necessary to form a government-owned property into private property. The total market value of this resource, which is now zero, would reach several trillion US dollars if it were transferred to private ownership. For this, it would be enough that this property would be efficiently and

honestly transferred to its first, real owner, citizens of Georgia, free of charge.

Free privatization can be done through a special privatization mark "Invest". "Invest's" purchasing power, protection against corruption risks and reliability will be ensured by the huge investment property distributed among "Invests".

Throughout the free privatization process, it will be periodically distributed to Georgian citizens. "Invest" will act as a kind of gear, which transfers a state property to private ownership.

Around this approach (vision) some questions often arise. In order not to leave unanswered questions, we decided to offer answers to the 100 frequently asked questions. Questions for the next edition will be selected with the active involvement of readers.

Freedom

1. What is freedom and economic freedom?

Freedom is the main contributing factor to the fertility of human mental and physical creativity, and an economic activity is the main and integral part of this factor. A development of mankind is linked to freedom and, consequently, to an economic freedom. Freedom was the main motive and condition for human society to move from

wild society to the civilized world through the stages of historical development to the present day, and most of it today is a free society; Economic freedom was also a constant and inseparable accompanying demand for a freedom-seeking society.

Based on the above, it can be boldly said that the driving force of the world is a society of free people, and state policy is a set of actions to protect and strengthen or suppress it. Another question is how effectively this or that government manages to do this.

Despite the changes in socio-political structures, the constant accompanying process from which freedom and economic freedom, the demand for them has not diminished. On the contrary, freedom occupies a central place in the civilized world — from personal freedom to country freedom, and an economic freedom is a central value for modern society together with them.

It's well known that Economic Freedom in the modern sense implies freedom to produce, trade, accumulate, invest, earn and use wealth created on the basis of inviolable private property.

2. What does private property mean? Why private property?

Private Property means free ownership and disposal of property at any time. It means the right to free action on property, which means that a person has the right to freely use and dispose his property at his own discretion

and as needed. He can freely sell or alienate a property in full or in part.

Having a private property is directly related to an economic well-being. A person who has private property, which is protected, and no one can encroach on it, has the motivation through this property start economic activity.

In terms of a private property, the private owner is most motivated to take care and protect his/her property, use it efficiently and get the maximum economic benefit from a property than he/she would do in terms of public property.

Only private property can have an international market price and appropriate investment attractiveness, which most effectively enables its owner to attract optimal financial resources under his/her own responsibility, thus providing entrepreneurial initiative individually or in cooperation with others.

For example, whether it be land or a building, any asset, for a successful economic initiative, necessarily requires financing in order to better, more fully and competitively, provide the owner with raw materials, equipment and technologies, highly qualified personnel, security, advertising and other resources.

Let's take the simplest example. If 1 mln. ha of fertile agricultural land will be transferred to a private ownership, for the minimum market price of \$ 2 per 1 sq.m. then its owners are free to attract a cheap credit resource in the amount of \$1 per sq.m. So, a village with only 1 million

hectares of land, without government subsidies or other assistance, could attract a total of at least \$10 billion per year under the responsibility of each owner, instead of the meager funding that our meager budget has ever allocated to agriculture for depletion of the rest of the economy.

The economy of our country doesn't have more powerful financial resource, required for economic revival, than revitalization of the capitalization of existing assets.

Without free possession of Private Property we have a situation where free choice and free market are restricted, and without them the degree of Economic Freedom is low. Thus, private property and economic freedom are closely interconnected and interdependent.

Article 21 of the Constitution of Georgia: "Property and inheritance rights are recognized and inviolable. It's inadmissible to abolish the universal right of ownership, acquisition, alienation or inheritance. "

3. What does Private Property have to do with freedom?

Everyone has the right to life, health and property. In order for a person to live freely, he/she needs to have property that he/she can use at his own choice and discretion. Restriction of a person's right to Personal Property is in conflict with his/her fundamental right to life.

In a market economy, freedom of economic activity is conditioned by the existence of private property, which

increases freedom of choice, promotes fair competition and unhindered exchange of goods in the free market.

In order to talk about real economic freedom in a market economy, we should have the domination of private property, because the market economy is built on the principle of domination of private property.

We all understand that managing a poor person is easy. He is constantly dependent on something or someone and is limited in basic rights (for example; — he/she can't afford treatment due to lack of money, can't buy something vital, or becomes a victim of various injustices, etc.).

Let's take a simple example: Suppose there are two citizens "A" and "B" who teach in a preschool (kindergarten) with the same workload and job responsibilities. Both have equal salaries in the amount of 700 GEL. Citizen "A" has additional private property in the form of real estate and he/she receives GEL 500 per month from renting the property, while citizen "B" has no private property. Given this, imagine that these citizens have been oppressed and discriminated against on some grounds (ethnicity, worldview, political views, eye color or height, etc.). Which of them will be better able to protect his/her personal rights and freedoms? In such situation, we think that person "A" with property will better protect his/her personal rights and freedom, although he/she may lose his job and, accordingly, his salary of 700 GEL, he/she is more stable and independent, thanks to the additional source of income. Maybe someone has the argument, that it depends on the character of the person, but we are talking about the

general picture, not about individuals. Citizen B will most likely be subjected to pressure and will have to relinquish most of his/her rights and freedom. In addition, the person "X" (manager, director, chief, etc.) who exerts pressure is well aware that he/she will most likely not be able to handle with "A" and usually doesn't pressure the citizen "A" with private property. Instead, person "X" chooses "B" citizen as a victim of pressure, whose only source of income is the salary of 700 GEL, and of course, "B" citizen can't properly protect his freedom.

Based on human nature, most likely Citizen "A" will take action characteristic of a freedom-loving person and protect the colleague who has become a victim of violence. So, citizen A is unwittingly and even naive become a **fighter for the defense of freedom**.

Thus, the **citizens-owners** naturally find themselves on the guard of public freedom, and thus private property **becomes a guarantor of freedom**.

Consequently, the well-being of citizens is promoted by Private Property, while its timely formation in transition countries increases the socio-economic independence of each individual, enhances a freedom and an Economic Freedom as a whole.

Therefore, the most solid and natural economic basis of freedom is a Private Property.

4. What is a Market Economy?

A free market is a market situation where the state doesn't compete with a private sector. As the role of the government in economy decreases, degree of individual freedom and fair competition are increases. In a market economy, the country's economic assets are in the private sector; accordingly, there is a small government, both in terms of administrative management and in terms of its participation in the economy.

Let's compare a public and private sectors in terms of economic efficiency. Why should economic assets fully be privately owned, but not managed by a government? Production efficiency increases under competition, competition creates high quality and/or low prices, thus benefiting consumers, while competition forces companies develop, creating an attractive economic environment and ordered labor market. When one economic entity, in this case the public sector, is a monopolist, it will not be able to operate effectively, it will remain in a monopoly mode forever, and the negative consequences of monopoly are known to all.

The transfer of government-owned assets to the private sector will lead to the emergence of many economic actors, which will compete with each other, competition will force them develop, to produce products and services acceptable to consumers. There will be competition in the labor market between employers, which will create more jobs and acceptable working conditions. Companies headed by

weak management will not be able to resist the market and will go bankrupt. In the case of government-owned companies, everything happens exactly the opposite. Business entities that are constantly financed from the state budget will not even try to develop. As they are owned by the government, they will always be exposed to risk and corruption.

Thus, in a market economy, economic processes are subject to the natural law of demand-supply. When the economy is free from state monopoly and interference, we result in a free economic environment, which is a market economy.

5. How necessary Private Property is for a Market Economy?

The foundation of any type of Market Economy System is a Private Property and dominance of the share of private ownership over state ownership. This is the basis without which various economic policies that target types of Market Economics go beyond a goal because the object of action is qualitatively different.

The management of internal economic relations by the government has always been and will be in the future, but where and in what form it will use the levers of management determined by the vector of economic development of the country.

If we are to opt for a Market System that is much more efficient and equitable than sharply regulated systems, then we need to recognize the establishment of a Private Property and its supremacy.

Property promotes formation of a free competitive environment, encourages the development of individual talents and skills of a particular citizen, creates a space for new and viable ideas, and is the basis for greater prosperity and greater freedom.

The more government intervenes in the Private Sector and imposes regulations, the more economic processes are hindered, the more inflexible and bureaucratic economic relations become, and the more people become dependent on the government, that is, on the goodwill of those at top of the bureaucratic hierarchy. Under conditions of state domination, an ability to express individual qualities is drastically reduced, collectivism and the need to obey dogmas, without the consent of the individual are established. All this contributes to the concentration of power and rights in hands of an elite of the social hierarchy.

- Georgia is the post-communist country where the socialist legacy is fully preserved, including in terms of state and resource management, as well as systemic, conceptual and mental aspects. If we choose to maintain socialism, then a Private Property is no longer needed. We accommodate to a low economic growth, use of few resources, we expect officials to provide us new social packages for political reasons, and continue to live quietly in a poor country, where only those who have access to a huge amount of

untapped public resources and allocate them, get rich. In other cases Private Property is an unavoidable necessity.

If the given answers don't convince us a necessity of establishing Private Property, then the main question should be asked - otherwise by whom or at whose expense, with whose finances (or without finances), or how are we going to build the country?

6. How is a Market Economy better than a planned economy of the Soviet Union?

The advantage of a Market Economy lies in greater funding opportunities and scale, with private responsibility and motivation, without seeking help from government or any other donors.

In a Market Economy, there is more natural motivation and flexibility - an economic result (profit) belongs entirely to the owner, while in the Soviet system the economic result is common, and the redistribution of wealth is a source of constant doubt and temptation, that kills personal motivation.

In addition to above, it's possible to save time. In a planned economy, economic processes are planned and managed by a center. All actions, starting with a product range, volume, price and delivery volume, are determined by a center. All links involved in the production and delivery of products

are accountable to a center, which creates additional bureaucratic hurdles and slows down a process. Unlike a private owner who promptly solves all issues and doesn't wait, for example, when a government will announce a tender or receive relevant services in case it is necessary.

Conditionally, transfer of \$ 1 trillion worth of assets to a private ownership will instantly lead to economic prosperity, emergence of thousands of successful entrepreneurial initiatives with their own funds and responsibilities, an emergence and development of new directions and new priorities in the economy.

Potentially every 10th citizen of Georgia will become an official millionaire, and every second will join a fairly strong middle class. All this will lead to creation of a large number of new workplaces. We estimate that there will be more workplaces than there are workers in Georgia. This circumstance, in itself will lead to the development of technology as well. There will be a demand for staff with professional skills, wage rates will increase. Among other things, it will be necessary to attract a new staff. In perspective, it's possible to put end leakage of the labor from the country and obtain a tendency for the return of people who have left Georgia to work abroad.

*Free Privatization — How to
turn a State Property into a
Private Property*

**7. How would you assess the privatization process in Georgia?
Reasons why privatization of property over money has been
delayed in Georgia**

Georgia, as a former communist country, is very different from economically developed countries by a balance between public and private property. If in economically developed countries only a small percentage of all wealth is government-owned, and the rest is privately owned, we have the opposite picture in Georgia - the state still owns about 70% of all property.

Privatization of this property for money by the government will inevitably lead to creation of the "excess supply" on a market, devaluing other similar assets in private ownership, and even if the state property will be sold at very low prices, privatization will drag on indefinitely.

A concrete example is the process of privatizing agricultural land. Although this process was sometimes encouraged and sometimes stopped by various governments, over 30 years, about 30% of these assets were privatized with great difficulty.

8. Why is free privatization good? (What is its economic efficiency and fairness)

The growth rate of the Georgian economy is small and a purchasing power of the population is low. Citizens are excluded from the process of selling state property for money (privatization for money), therefore they are unable to purchase and own state property. We can say that the country needs a model of privatization that will bring economic prosperity to all citizens in the shortest possible time, despite its lack of funds at the start of the process. Such model is a free privatization.

Of course, in the world there are various forms of privatization, including privatization for money through auctions, in addition, there is a form of restitution, although in our reality the most fair and effective will be free privatization.

As we have already mentioned, today the process of alienation in Georgia is done with money, which unfortunately doesn't have a quick effect.

An initial cost of assets on the government balance sheet in Georgia, roughly speaking reaches



several trillion US dollars.

It's easy to imagine how difficult it will be to privatize so many assets for money, when an aggregate financial capabilities of all richest Georgian businessmen in total don't even 1% of total value of all government-owned assets. No matter how fast the process of privatization for money will be proceeded, it will take at least 150 years and will not have the due potential economic impact. However, only narrow circle of entrepreneurs can afford to participate in privatization for money, which is unfair. Consequently, they become even richer, and a poor will remain poor.

In case of a free privatization, ownership of unused assets will be available to absolutely every citizen. If we include assets with a starting value of \$1 trillion in the privatization list for the first stage, each citizen of Georgia will be entitled to assets worth about USD 250,000. With this asset an owner can attract additional finances, interest an investor and attract financing, rent out property, etc. Even if someone can't manage a property, he/she will be able to sell it, take money, and thus benefit. Ordinary citizen will lose nothing. And the category of citizens who quickly adapt to a new economic environment will be able to create thousands and tens of thousands of new workplaces.

In any case, when even \$1 trillion worth of capital will be revived in the economy in a shortest time, it will have a rapid economic effect, which will lead to double-digit economic growth of the country.

9. Why do you think a free privatization is so necessary in a country like Georgia? / And not for countries with developed market economies?

Georgia, as a post-communist country, differs from economically developed countries where excessively large part of its economic assets are still government-owned. In developed countries, assets are mostly privately owned, actively involved in economic processes and are generating economic wealth. Assets are major source of economic prosperity, for private owners themselves, for a country as a whole, and therefore for all employees too. In developed countries, assets such as an agricultural land are usually private-owned, while in Georgia the state is a main owner and supplier of the land market, which completely destroys a market and principles of free competition. In such a situation, the only and non-alternative first step in development of Georgia's rural areas is privatization land for free.

- Due to the fact that a share of government-owned property in Georgia is very high and the state owns a huge amount of property, selling this property for money will technically take a very long time. During privatization by selling for money, government officials are involved in a process, who often tries to pursue their own narrow political and economic interests by negotiations with investors and thus stop big processes. Apart from economic privatization, free privatization also means the restoration of justice. Assets, that ancestors of people living in Georgia for centuries has

in private property was completely confiscated by the Bolsheviks and was transferred to state ownership.

Also, free privatization is necessary due to a low purchasing power of citizens. The main characteristic for free competition - equal starting conditions is violated. They simply will not be able to get involved in a privatization process for money and buy property put up for sale by a government.

10. Which country's example of free privatization is the largest and the most important?

Let's look back to the history. The United States of America faced a similar case in 1889. In Oklahoma, approximately 800000 ha of land were not authorized, i.e. wasn't privately owned. As you can see, we are talking about a fairly large area. Almost a same volume as rural lands of our country.

The 23rd President of the United States of America at the time, Benjamin Harrison (1833-1901), in the first year of his presidency, decided to distribute these lands free of charge to American citizens, with about 50000 people participating in the process.

This event is known in history as "**The Oklahoma Land Rush**". On April 22, 1889 year, 50,000 people divided this vast area, which was divided into 20 ha plots. At first glance, this amusing process had a serious economic content. According to the principle of competition, a person who first reached a specific plot of land and sticked

his flag into the ground, became an owner of the land. In this way, a transfer of 800000 hectares of land to private ownership took just one day.

What hidden economic content can we see in this fact?

Assume that at that time the rest of the land was already owned by the people and imagine their liquid market price being, conventionally, \$10. If the government began privatizing thousands of land plots for money, then population who took part in the auction process most likely wouldn't be able to pay more than 10 cents. With such an oversupply, it would hardly be more than 10 cents per sq. m. Such a low price would automatically stimulate a desire to sell land in other parts of the United States for less than \$10 in order to use proceeds to buy much more land in

The Oklahoma City Land Run Monument



Oklahoma That is, the price of land would fall across the country, as happened in our country, and the “poor” buyer of land would come here to buy more land at a lower price.

Privatization in this way didn’t even change a price of land. And both, a poor man, who did not even had 10 cents to buy a land, and for a rich man, which participated on equal terms in the competition, became land owners for free. The price per sq.m. hasn’t changed, it still was \$10. As a result, everyone had an opportunity to raise a sufficient amount of mortgage loans to equip their farm. Some owners, out of 20 hectares of land they own, could sell 1 hectare of land at a stable high price to any wealthy neighbor and cultivate the remaining 19 hectares.

Georgia needs something similar, but naturally, we should be more civil in the twenty-first century, because over the last century, humanity has gained a lot of experience, including in a field of privatization.

In the first stage of a free privatization process, citizens will be given the privatization mark "Invest", which can be used only to purchase privatized property. It means transferring property for free (as in the case of USA). Accordingly, citizens will buy, for example, Land plot for privatization, put up for auction by the "Invest". They will actually get it for free and at the same time so that its price and investment attractiveness will not decrease.

11. Can you give a modern example of large-scale free privatization?

World economic practice is familiar with various forms of privatization. Among them is "Voucher Privatization", during which the property was distributed practically free of charge, or at a symbolic price.

In post-communist countries, whether they liked it or not, on the advice of prominent scholars of the day, vouchers were practiced everywhere. Although, no government has been able to resist the temptation to add any advantages for itself, in process of free distribution of such an unprecedented wealth.

At insistence of the authorities in most reforming countries, including our country, the results of vouchering in the privatization process were distorted by use of money, along with vouchers, as means of payment, which gave rich people an advantage over the poor. Also, one-time vouchers turned out to be a serious negative factor for completely inexperienced citizens in stock market trading.

Not all shortcomings were taken into account, which is why voucherization in these countries not only didn't justify, but also completely discredited the process. The term "Privatization" has been replaced by the term of "Prikhvatziation" (from Russian - Illegal capture of a property) and for this reason it has been impossible to restore confidence in the privatization process.

12. In what form should free privatization of state property take place?

With the mechanism initiated by "Become an owner", the government-owned property is privatized through a special privatization mark "Invest". "Invest" will be distributed equally to citizens, which will enable all citizens to participate in the privatization process. "Invest" will be distributed to population on a monthly basis, until the entire property will be transferred to private ownership. In addition, it's will be possible to trade "Invest" between citizens, in particular, if a person will be not interested in owning property at a certain stage, he/she could sell this "Invest" to another citizen at a market price, that will be obtained as a result of supply and demand.

It's advisable to sell any property put up for sale by the government only on "Invest", at open, public, universal electronic auctions in form of lots or shares.

In the case of lots - citizens can buy one unit of state property put up for sale. For example: land plot;

In the case of shares - citizens will deposit their "Invest" for payment of shares block put up at the current auction. Upon expiration of the "Invest" deposit period, their total number will be calculated, it will be divided to the number of shares included in the target block of shares, and will be determined for how much "Invests" was sold share. Accordingly, each buyer will receive as many shares, that will be enough for payment by its "Invests" that he/she deposited.

In this case, any person, no matter what abilities or influence he will possess, will not be able to receive a guaranteed controlling stake at the first placement. This will create demand in the stock market and revitalize stock exchanges, as well as integrate them into relevant international Exchanges.

In addition to open auctions, where everyone can participate through "Invest", closed auctions will be announced at a village level. That is, initially, the village and its residents will be given an opportunity, without competitors, at a minimal price, even for 1 donated "Invest", register land and forest plots in their names, to which no one else will have a claim. An outsider may not participate in this type of closed auction. That is, they will be able to register forest plots in their name without any problems, which had been owned by them for several generations, but had not previously been registered in ownership. It would be good if this process would be carried out in conjunction with the mass privatization of other assets, so that the mass process could be carried out in the shortest possible time, with maximum efficiency and without any problems.



13. Do you think that free privatization will make a poor poorer and a rich richer?

In case of a free privatization of property through "Invests" such a thing is impossible, because the privatization money "Invest" will be distributed equally to each citizen. Consequently, each person will have an opportunity to become an owner of asset put up for auction, and if someone doesn't want to own an asset, he/she can sell his/her own "Invest" and receive benefit in form of money. Even if person has not had any money before, he/she will get some benefit after selling "Invest". Obviously, those who want more will achieve more, but the fact is that the poor cannot be impoverished even more by this process. Conversely, in any scenario, every citizen of the country receives a direct benefit. Not to mention additional advantages and benefits.

After free privatization, the economy will grow, more property, more businesses and more workplaces will emerge. More rich people will buy more products and services, which will further increase a demand for production and increase a scale of market. Even if a rich person will be care only for creation his own comfort, it will have a positive impact on the economic environment, and therefore on other citizens involved in the economic process. Even if a person paves the way to his own home, it will become a public benefit too.

“ Not obligation?!
Not measures?! “

14. Is it right for the government to restrict an alienation right of a private property by certain regulations?

- The main challenge of economy is a full recovery of impaired liquidity of assets and in this way all additional conditions including restriction of an alienation will hinder and are unjustified.

- Liabilities are already exist, an owner pay tax, it doesn't matter whether landowner cultivates the land or not, whether he/she uses the property or not.

Now, a rhetorical question is — Does the government pay tax on all its property? Of course it doesn't. If it was doing so, it would be like getting out money of one pocket and putting in another, which is a really fun scenario. But let's imagine what would happen if the country treasury in the form of taxes received the amount from taxation of property worth about 2 trillion dollars? Which is not really a small contribution to the annual budget, although the latter is only fully possible when state property becomes private property.

For a better understanding, let's say that you have a latest model of car that costs \$100,000 on the market. Neither buying nor selling is a problem at this price. Suddenly, the restriction was imposed on your car model, and you can only drive it at 60 km/h speed.

What happens to the price and liquidity of your car? Will it increase or decrease? We think the answer is obvious.

15. Should free trading of Private Property be allowed?

A private owner shouldn't be prohibited from selling, giving away, inheriting his property. It's a fundamental right of a free person to use private property at will. If we impose restrictions and prohibit trading of property, it means depreciation of a Private Property, the owner can't attract funds for the development of production, and can't use it to meet personal needs (financing the operation or other essential needs). If the owner sees himself in a different area, he/she should have the right to sell his/her property and run another business with the proceeds, which will bring him/her more benefit. At the same time, on other side is a buyer, whose economic interests will suffer in the same way.

16. What harms the sales of a government-owned property to market, and how is sale of a product produced by private entities differ from sale of a government-owned property?

When private entities produce and sell goods to each other, the cash flow in a market moves between private entities. But when a government puts goods up for sale, in this case it removes money supply from a particular segment of market, which hurts a private entities participating in a market.

The problem is in prices of privatized assets set by the government. For example: the price of 1 m² of privatized land is 10-15 tetri, and this is in conditions, when the cost of any product grown on 1 m² of land is at least 10 and 100 fold than price set by the state per square meter of a land. Privatization by selling for money means government intervention in a market, which directly or indirectly hinders the liquidity of assets and consequently development of a market, restricts free competition and a free market environment.

17. How is liquidity of property, its price and possibility of attracting capital related?

As an initial state, we should take an asset on the balance sheet of the government. Under these conditions, a potential investor has deal with a government that constantly has its own requirements and changing political environment, and in such a relationship the state retains a dominant role. We can only talk about a term lease - a license. However, after expiration of a lease agreement, the leased asset is returned to the government, and an investor is forced to take care of extension of a lease. All above has a negative effect on his/her commercial motivation. An asset remains low liquid because in this case no private property is created and supplier of a privatization asset in the market is still the government. In case of alienation, an economic process is also simplified. An asset is transferred to private ownership, which implies right of a permanent and

unobstructed use, sale, gift, or inheritance in itself. The price of an asset is equal to the market price, it can already be traded on international stock exchanges. All this reflects positively on its liquidity.

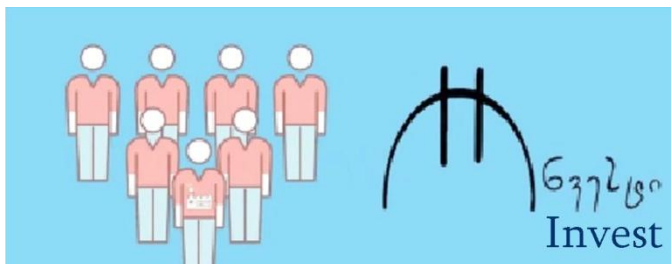
18. Why modern economic theory does not pay due attention to a free privatization of government-owned property?

The one that happens today in Georgia and other post-communist countries is a unique process with no historical precedent.

Unlike countries, which were socialist in the past, and in fact stay so to this days, elsewhere, where there has been no comprehensive nationalization of private property (transfer to state ownership), the topic of privatization is not relevant and therefore Private Property naturally dominates in rest of the world. Moreover, in normal countries a market price and liquidity of a fixed capital, the value so-called Stock Indices, unlike us, is a major topic on an economic agenda and attention.

As a rule, universally accepted economic theories, including new theories, are mostly written in countries with highly developed economies, based on their own example and experience. These economic theories are aimed at solving the tasks on the agenda from the perspective of their point of view. Therefore, in the post-socialist space, an economic theory that would focus on a main and most effective challenge of countries with a market economy transition - free privatization has not yet been developed.

From „Invest” to investment



19. What is an „Invest”? What do you need it for and what function is given to a privatization mark „Invest”?

"Invest" is a privatization mark, in electronic form, used only in the process of free privatization, to buy a government-owned property at auctions (instead of ordinary money).

"Invest" performs only two simple tasks:

1. to be as impartial as possible, it's distributed to people regardless of someone else's will and creates equal opportunities to buy state property for free;
2. facilitates impartial public auctions. Auction is an electronically transparent process where the risk of unhealthy interference and corruption equals zero.

Figuratively speaking, „Invest" performs the function of a so-called "gearwheel", which must effectively and fairly roll over a frozen government-owned property to private owned - that is, turn it into Private Property.

20. Will it be possible to use „Invest“ to privatize such a property as agricultural land? If yes, then how?

Agricultural lands will be privatized in lots at open auctions through „Invests“. In this case, privatization procedures are similar to those carried out in case of privatization for money, except that only „Invests“ are used instead of money.

/For details on land privatization process, see Questions: № 36-54/

21. Will it be possible to use „Invest“ to privatize such a property as minerals? If yes, then how?

Yes, „Invest“ can be used to buy any asset, including minerals, stocks.

The minerals will be auctioned in the form of shares, which will be purchased through "Invests". The number of shares placed in one auction will be distributed in proportion to the number of "Invests" deposited by each participant.

/For details on minerals privatization process, see Questions: №55-66/

22. Is "Invest" a same voucher as it was in the 90's? What advantages have an "Invest" compared to voucher?

In order to answer this question, first the main circumstance should be mentioned: in the 1990s, the government faced a serious challenge. Since collapse of the

Soviet Union, Georgia has been left with completely uncompetitive, technologically outdated enterprises employing thousands of people.

It was clear that under these conditions the government wouldn't be able to pay salaries of its employees, and so it resorted to the following insidious method - privatizing most of such inefficient enterprises with vouchers. Yes, these were enterprises that were already economically discredited and destroyed. Therefore, the functioning of these enterprises were doomed from the very beginning. The main wealth of the country (urban and rural lands; minerals; forests; buildings; enterprises) which has not lost its value, still remains government-owned.

- Consequently, if in the 90s of the last century vouchers were backed by economically unpromising and risky assets, today "Invests" would be backed by important and valuable assets.
- Privatization with vouchers were of a one-time nature and absolutely inexperienced in market activity citizens, in most cases, used them irrationally or sold them for a few GEL.
- The biggest mistake was that the government set the nominal value of voucher at \$30 (it was not written on bill, but was reflected in the relevant legal document). As a result, financially disadvantaged began to sell them instantly and price of a voucher began to fall. Panicked fears led to oversupply of vouchers in the market, causing

a price to fall rapidly, in some cases even as much as 5GEL.

- It was a mistake to buy an object of privatization, adding money to vouchers or selling other objects of privatization only for money, which practically deprived a voucher of its main privatization function. Consequently, this also contributed to depreciation-discrediting of a voucher.

In other words, in parallel with a privatization with vouchers, the process of privatization with money was also used.

- Unlike a voucher, distribution of "Invests" will be on monthly basis, i.e. will have a permanent basis, which eliminates the above mistakes.
- Finally, it should be noted, that nearly for the last 30 years an ability population manage and use of property/assets has increased significantly.

23. Why do you think, that a permanent distribution of „Invests' “ are beneficial?

Some citizens may not properly assess the real value of „Invests“. In particular, there is a possibility that some person will sell received "Invest" on the market very cheaply. However, by end of the month, the owner of "Invest" can see results of auctions and its economic effect and will realizes his/her mistake. In the future, he/she will

have an opportunity to correct his/her mistake by means of the monthly "Invests' " distribution.

For example, a person received an "Invest" at the beginning of the month and sold it very cheaply. The results of auctions will be announced at end of the month and this citizen will find out, what property was bought by "Invest", which he/she sold cheaply. Following month he/she receives Invests again and has a chance to correct mistake made at beginning of the previous month. As we have mentioned, process of distributing „Invests“ is permanent, and people learn and master necessary skills along with a process.

24. What will be the price of „Invest“? Will there be a nominal value on „Invests“ and what will it mean?

The value of "Invests" will not be determined in advance, as it would be a damaging mistake (arguments can be seen in the previous question).

The price of "Invest" will be formed naturally in the process of trading on the market. A person himself decides who and at what price to sell his owned "Invest".

On the market, inevitably will appear companies that will easily calculate, as a result of distribution of 4 billion „Invests“ per month (1000 units per citizen), ultimately how many „Invests“ will be added to the market over a certain period of time, and during this period of time what will be the current and potential value of government-owned assets

that will be backed by this quantity of "Invests" (information will be permanently updated publicly in accordance with the preparation of privatization assets) and finally, considering other accompanying data, the current or prospective market price of per "Invest" will be formed quite reliably.

25. Will it be possible to buy and sell „Invests“?

"Invests" are valuable privatization marks (securities), which will be freely tradable securities and everyone could dispose them at their own discretion, therefore they are becoming an object of free buying and selling.

26. What negative consequences could be if citizens will be prohibited from buying and selling „Invests“?

The formation of a free market is incompatible with artificial constraints. The free movement of „Invests“ (exchange-sale-gift) should not be hindered by any kind of barriers. In case of barriers, a privatization process will be distorted and the use of its benefits will be available only to government bureaucrats.

In general, any security, if it has any restrictions on circulation, will inevitably depreciate against the same content and face value securities. In particular, a registered security that is fixed in a shareholder register for a particular owner name is always less valuable in the market

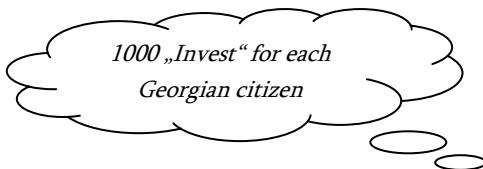
than a bearer security of the same par value. This factor is important, because a lower price of „Invest“ automatically means a lower final price of assets to be distributed, calculated in ordinary money. But, the main goal is to maximize the market price and liquidity of the main asset of the country.

Restrictions on buying and selling creates a shadow market and fictitious trade. For example, a person wishing to buy a particular government-owned asset enters into a pre-negotiates with an „Invest“ owner, fictitiously buys an „Invest“ and enters into a transaction with the owner in order to purchase the desired asset in his favor; Or, owners of the „Invests“ buy assets and as soon as they take possession on them they start to get rid of (sell) them, which will create wrong market orientations in the market.

Even if we will have two option, one with the right to sell and other without right to sell, a rational citizen obviously always will choose the first type of „Invest“.

27. Who will issue „Invest“ and will it have an electronic form?

The National Bank of Georgia will be responsible for the issue of „Invest“. „Invest“ will have an electronic form.



28. Will all Georgian citizens receive equal „Invests“?

During the free privatization process, all citizens of Georgia will receive an equal quantity of „Invest“ - 1000 „Invests“ per citizen every month.

29. Where will citizens be able to receive „Invests“ and carry out transactions?

"Invests" can be obtained through predefined entities (in authorized banks or bank branches, by their systematic accrual to personal or custodial accounts).

30. Will minors under age of 18 receive „Invests“ and by whom will they be managed?

Any citizen who is assigned a personal number will receive „Invests“. Minors' „Invests“ will be managed by the parents or any other person authorized as a trustee.

If an account holder is a minor, in this case one of the parents (mother or father) has the right to dispose the money privatization accrued to a minor's account in the case described above. Trustee

should submit relevant documents (minor's Birth Certificate, Marriage Certificate, Identity Card).

31. How will „Invests“ be issued in other, special cases?

- In the case of an unparental minor, the procedural requirements will be the same as in the case of the previous question, regarding parents of the minor, if appropriate documents will be submitted.
- In the case of an unparental minor, which doesn't have a Trustee „Invests“ in their account will be transferred to one of investment funds until they reach the age of majority, with corresponding obligations and responsibilities.
- Persons in emigration can:
 - ✓ entrust management of their own special account a proxy based on the Power of Attorney.
 - ✓ come to Georgia and manage their account as usual.
 - ✓ use the online banking option created by a commercial bank for a special account and log in by ID card authorization.
- Persons with disabilities will manage their own special account through a trustee, proxy.

32. Will the people who were born in Georgia but currently live abroad and have only foreign citizenship receive „Invests“?

This category of people can use the rule of dual citizenship. Those who have been living in Georgia continuously for the last one year and meet the requirements for obtaining Georgian citizenship can also register. Citizenship of Georgia is a necessary condition for participation in the process of general privatization.

„Invests“ will be received by all residents of Abkhazia and Samachablo, who will agree to participate in the general privatization.

33. Is it possible for a citizen to lose „Invests“?

Each citizen will have a unique account code, so there is no risk of losing "Invests", which will have an electronic form. The owner may lose a card that can be restored. It will show "Invests" that were before the loss.

34. In parallel with privatization of a property with „Invests“, will it be right to privatize property for ordinary money?

No, in this case the main goal - fast and fair privatization can't be achieved.

We consider it inadmissible to repeat the mistakes and missteps made in the 1990s, when the national currency was also used as a means of privatization along with a voucher.

/For more on the Topic, see Questions: №11;12/

35. Will all citizens be able to understand and learn how to act in the process of free privatization? Will citizens find themselves out of the process?

It takes 4 years for getting high education, it takes at least 9 years to get an academic degree. Figuratively speaking, getting an education in this area, without having own property, isn't it like wanting to learn how to swim "on a parquet floor"? ... or learn to swim "in water up to your knees"? ...

First, water should be at an appropriate level (i.e. private property) and then you can make a life jacket as well. But not forcing, only those who wish to do so. Person who will be in a life jacket willn't be as flexible as others. The same way, without private property, it's impossible to teach an economic process. Moreover, students may be better at managing private property, or doing business, than a teacher.

Life is full of examples of people with no economics or business skills managing their property. For example, professional athletes who have a high income on their own accounts. They hire financiers and entrust them their own resources on a contract basis. In the face of high competition, the best managers deserve the most trust, they also manage the finances of athletes, invest money in profitable business and provide dividends.

For the first stage, this is a perfectly acceptable solution. Over time, an owner acquires the necessary knowledge, skills and learns to manage his/her own assets.

Free privatization of agricultural lands

36. What is the main problem of agriculture in Georgia? Why is agriculture not developing in Georgia?

There are many problems for those employed in agriculture: land cultivation, sowing, modern technologies, irrigation system, agro insurance, etc. But the main problem is finance, which is the universal means and basis for solving all the above and unaccounted for problems. If a person employed in agriculture had appropriate finances, he/she would buy it himself and solve the problems he/she faced. If person is not qualified in a particular issue, it will not be a problem in presence of finances, he/she will hire a person with this qualification and will receive the services that are important for the development of his/her farm.

The value of land is directly related to private property. The higher the market price and liquidity of the land, the more finance its owner can attract. The low price of land is due to the endless process of alienation. Consequently, at low prices, land (asset) cannot attract finances needed for a reproduction process. Due to the low price, the land doesn't

provide sufficient collateral for credit, which leads to insufficient financing of the relevant activities.

For the real formation of private property and increase in the price of land (assets), it's necessary to eliminate an excess supply and supply expectations created by the government as a result of the privatization process in the market, after which an increase in demand for land will increase their price. Probably the most unwise step would be to stop process, so it's necessary to complete a privatization quickly.

One of the reasons why agriculture is not developing is the scarcity and fragmentation of rural lands. For example, a household today owns an average of approximately 1.14 hectares of land, which means that people have very little land to start economic activities. Because a large share of agricultural land is in hands of the government, this hinders productivity growth. More specifically, the yield of grain crops in Georgia is only 2.5 tons per hectare, while the same yield is 5.3 tons in EU, 3.2 tons in Turkey and up to 5 tons in Ukraine.

Even simple observations show that the economic well-being of rural residents will not be high due to the scarcity of land which is the main asset, and an important role is played by defective private ownership of land in this. Therefore, it's necessary to privatize state lands as soon as possible by transferring the land to the population free of charge.

If a privatization process continues through the sale of government-owned land for money, it will significantly damage households, negatively affect market freedom and the well-being of the population, as money will be transferred from an agricultural sector to other areas, even if it's the state budget.

The fastest way to complete privatization, i.e. transfer of government-owned lands (assets) to private ownership, is to transfer state lands to Georgian citizens free of charge. Because of a poor social background, a low purchasing power of population delays the process over time. At the current rate, it will take several decades for government-owned lands to be transferred to private ownership. During this time, the price of land will not increase to the real market value and consequently agriculture will not be able to develop.

37. Why lands are not cultivated and what prevents owners from cultivating private lands?

Today, the cheapest and most mass-produced crop (e.g. potatoes) for cultivating 1 hectare of land requires at least 2500-5000 GEL expenses. We are talking about a simple, traditional production process, without any innovations. But if we use technology in the production process, the cost will increase several folds. Speaking of the production costs of 2,500 lari, which lasts from 5 to 9 months, it doesn't include any administrative costs (for example, bookkeeping), or economic profit. If a villager has 1 (one)

hectare of land and needs to support a family of three with his basic needs, it's natural that a certain amount of money is needed to meet these needs, which means that the family's costs will increase significantly.

According to practical studies, 1 m² of land costs an average of 10-15 tetri, and starting production on the same area costs at least 40 tetri (in some cases much more). The question naturally arises - how effective is it to finance land works in such situation? On land worth 10 tetri, bank can give to farmer maximum of 6 tetri, in hope to get back at least 7 tetri. It is clear that even with incomplete costs, it is unlikely that the profit will be even 2 tetri per square meter of land to cover financial services, since it's impossible to perform work that costs 40 tetri for 6 tetri.

- From above example we can conclude that as long as a price of agricultural land is low, it's impossible to cultivate a land by private owner with a healthy market scheme.

It's noteworthy that rural population and farmers of Georgia, who still manage to produce a product in agriculture, do so with other funds raised (by securing another asset, or borrowed from friends and neighbors) and at the expense of personal support of family members. Consequently, it's impossible to carry out full-fledged production, and their productivity is low, because of agricultural products, not only on international, but in some cases on the domestic market, can't compete with imported agricultural products.

38. Why should people be given (returned) agricultural land in ownership?

The resource of government-owned lands (about 60% of total) is completely cut off from public welfare, hence it's unprofitable and benefits received from them are equals zero. As long as this assets are in ownership of the government, they will not participate in a creation of wealth (all types of land are considered here).

Thus, in order to increase economic efficiency and prosperity, inevitable condition for formation of a free market and the production of competitive agricultural products is a privatization of agricultural lands.

Judging by the fundamental patterns of the economy, in case of actively distributing government-owned lands to citizens free of charge, transfer of lands to private ownership will end in about 6 months. This process disconnects the government or the "primary market" from the common land market, eliminates the excess supply and the "secondary market" will be fully operational (the market of private entities). Secondary market participants, as we know, are full-fledged private owners. After that, any demand - supply of a land will be already carried out through market mechanisms, the price of land will be risen to real mark and, consequently, public welfare will increased. As a result, in the shortest period of time, 1 sq.m. of an agricultural land can freely attract at least 1 GEL, i.e. agriculture has the potential to attract an investment of about 10 billion GEL, which will never be able to do by the state budget or by any funds raised.

39. Does the sale of land by the government for money hinder development of a free market?

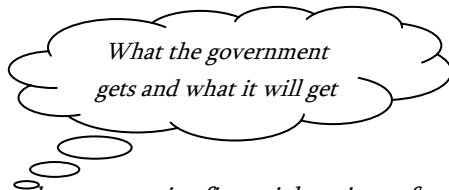
As long as the government sells land, it's useless to talk about the development of the secondary market, and that's why we have discussed this in previous questions. Agriculture will work at half capacity and at the same time it will be paralyzed, there will be no natural enlargement, there will not be enough investments. There will be no profitability and it will not function properly without a competitive, healthy market. Because the introduction and development of innovations and technologies will not be possible without funding and investments.

- As long as the "Primary Market" (government) supply (or supply expectations) is high, then the private "Secondary Market" is not really free, logically, it will not function, as this will be prevented by a large share of state "Primary Market". Consequently, the private "Secondary Market" fails to meet the basic requirements of the market - make a voluntary and free exchange.

- It doesn't fulfill these functions, because government-owned property, existing in the "Primary Market" excess supply, like an "anchor" pulls down the real (self-financing and implementation) potential and inhibits the market mechanisms of the economy.

"The government sells the remaining privatization property at such low prices that it blocks the possibility of buying and selling already privately owned property in the secondary market."

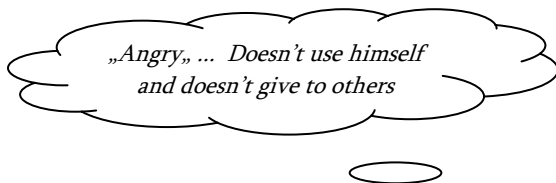
According to the research of relatively more active period (2010-2012), the income from agricultural land privatization auctions amounted only 21,626 million GEL. (it turns out that the government has withdrawn potential investment opportunities from the private agricultural sector).



From a purely pragmatic financial point of view, the economic damage to the government, without taking into account prosperity, which is difficult to measure, is associated with specific financial resources, even without taking into consideration the need for private property and economic freedom.

- Of an approximately 350 thousand hectares of land of category "A" (arable, perennial plants) owned by the government, if it was privately owned and it could be taxed 84 GEL, in total, 29,4 million GEL could be transferred to the state budget annually in the form of property tax ($350 \times 84 \times 1000 = 29\,400\,000$); 93 thousand hectares of land of category "B" which could be taxed 19 GEL, in total, 1,78 million GEL could get a budget annually ($93 \times 19 \times 1000 = 1\,767\,000$) and 1.5 million hectares of land of category "C" (preferential mountain settlements, border strips, etc.) which could be taxed 12 GEL, in total, 18,00 million GEL could get a budget annually ($1500 \times 12 \times 1000 = 18\,000\,000$).

Thus, as a result of full transfer of ownership of the lands, the government will receive about 49 million GEL annually in the form of land fees. Also, in the form of income tax, the budget will receive 20% of all transactions in the "Secondary Market" and 20% of income from land lease. These are quite solid funds compared to what is obtained by government through privatization for money, especially if the government market will be shut down and free competition will be established, the economic effect will increase several fold. It should be noted that the budget has not received such funds not only in 1 year, but in the last 7 years with the funds received from land privatization.



40. **What are the advantages of private ownership of an agricultural land? Why can't it be government-owned and leased on a long-term basis?**

The Government-owned and leased land has no market price or liquidity at all. Because the market price is formed as a result of free transactions concluded between private entities on the market. Only, privately owned land participates in economic turnover and attracts necessary financial resources for development.

Once the government-owned land resource will be transferred to private ownership free of charge, these assets will be revived in the market, engaged in economic activities, and private owners will receive benefits and well-being from the land. While government-owned lands that are periodically put up for sale at state auctions have a negative impact on the price of private land and are pushed to an artificially set low price of government-owned land, the private owner is motivated to take care and maximize effect of the his own property, which increases production, delivers more products to the market.

With the expansion of production, the owner hires other people, and as a consumer, he becomes more active by purchasing other products, which stimulates other industries. On the contrary, when land is government-owned, the state neither takes care of it, nor receives economic benefits from a land, nor allows others to use it rationally. For example, when traveling in regions, we can easily see the well-kept plots, which are privately owned and the deserted government-owned land plots. The only way that state authorities can use government-owned land is to use it for political purposes and sell it for a symbolic price to their supporters.

No matter how long-term the lease is, it's still not a private property. The main advantage of capital is its price, the higher the value, the more finance its owner can attract, but when renting, this willn't happen. None of the investors were interested in investing in such volatile assets as leased property. It's absolutely impossible for a financial

organization to take leased property into account and provide financing. Or which rational-minded person decides to invest money in an asset whose future is uncertain and largely dependent on the political environment?

Consider an example, where a person owns a private apartment or rents the same type of apartment. Which apartment will he/she arrange, overhaul, take care of and use effectively, a his/her own or rented?

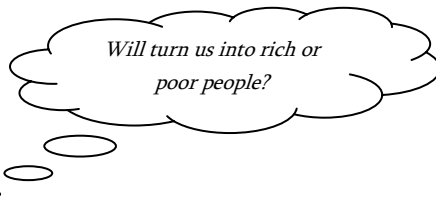
41. As a result of free privatization, does the citizen become the full owner of the land received?

As a result of a free privatization, citizen becomes a private and full-fledged owner of the lands privatized free of charge. He has a free choice: bring a harvest, build a house on this land; sell, lease, lend for free or even give away. A citizen becomes the full owner of the land received free of charge, which enjoys same and no less legitimacy as in the case of ownership of property inherited and purchased from a private owner.

42. What is the price of agricultural land in Georgia compared to the price of similar land in developed countries?

The average price of private lands in Georgia is 1000 - 1500 USD.. The price of land is many fold higher and equals

several tens of thousands of Euros in European countries with developed economies. For example, according to Eurostat data for 2019: the average price of agricultural land in the Netherlands is 70 000 EUR; in Luxembourg - 37 000 EUR; in Italy - 34 200 EUR; in Ireland - 28 000 EUR; in Denmark - 18 thousand EUR, in Slovenia - 16 thousand EUR, in Spain - 13 000 EUR; in Greece - 12 600 EUR. It should also be noted that a price of land in the listed countries is average, therefore prices in investment-attractive regions of these countries are much higher than average.



43. Will a free privatization hurt current landowners?

No, because the completion of privatization of an agricultural land will inevitably lead to an increase in price and liquidity of land assets. Consequently, the current owners will receive additional benefits. According to the International Trade and the Equalisation of Factor Prices Law, the price of agricultural land will approach the prices of similar assets in developed countries, which will significantly improve financial capabilities of landowners.

In addition to above, the current owners will receive additional land resources as a result of free privatization, which will not hurt but increase their prosperity.

44. After free privatization, how will change a price of land?

After the full privatization of agricultural land, the price and liquidity of land will certainly increase.

This conclusion is based on internationally recognized laws of "Supply-Demand" and "International Equalization" of prices.

According to the law of demand-supply, if an asset is continuously supplied to the market whatever the demand, it's impossible for its price to increase. To be specific, the price will not change in a long term, i.e. a supply curve and an asset price coincide. The current reality is this: about 60% of an agricultural land is government-owned and it's constantly supplied to the market. That is, a main supplier of this asset is the government. In this way, by selling this property for money, money is constantly withdrawn from the market. It's this reason, as well as a constant expectation that the government will put the lands up for sale, makes it impossible for prices to rise, as evidenced empirically.

According to the International Trade and the Equalisation of Factor Prices Law international prices for all factors of production must be equalize, i.e. in case of free market relations between the countries, the price of an agricultural land in Georgia should get closer to same agricultural land

prices in other developed countries. Accordingly, after completion of a privatization in Georgia, the price of this asset will definitely increase.

From the moment of the privatization, land fund runs out, even without increasing demand for the land, its price will start to rise rapidly. We are talking about an exhaustive and special resource which price is constantly rising. The landowner, who will notice a tendency to increase the price on it, will try keep a land, or wait for the formation of a price that will fully meet its financial requirements. In turn, the expectation of price increase leads to a reduction in supply over time, which will further contribute to the upward trend in prices.

45. If the government transfers land to people for free and massively into private ownership, is there danger that an excess will occur and the price of land will fall?

From the classical point of view, the transfer of land may seem like a paradox in relation to the rise of price, but in case of transfer government-owned property into private ownership, the price of land on the market will be higher than the government itself sells today and will sell in the coming decades. High prices will be formed as soon as expectations for the purchase of state property disappear. That is, upon its completion.

Why? - If the government were not in the market, then an increase in supply of the land in the already balanced

market would reduce the price of land in exactly the same way as it does in the markets of watermelon, apple and other commodities. However, this is only true for a market order and a balanced market built on the market principle. The fact is that we do not yet have such a situation, and we have been led into a methodological mistake.

In a balanced market if there is an excess supply, the price falls. But, we don't have this market so far, which means that we are afraid to fall from the tree that we haven't climbed yet.

This is not a standard demand-supply case. In these circumstances we have doubled demand and doubled supply. That is, the government is the actor in the "Primary Market" and private owners are actors in the "Secondary Market". (There is also a "Third Market", the forced market, seized or confiscated by the bailiffs, which is insignificant and will not change the general picture). Land is physically a "Non-growing resource". In case, where the government no longer has a land to supply the market, a permanent increase in land demand automatically begins. Ultimately, the resulting market price will be many fold higher than the original land price determined by the government.

Until the official price for per square meter land on the state market is equal to 10-15 tetri, the "Secondary Market" is weak and dysfunctional, because a peasant willn't sell the land for 10-15 tetri, even when he/she really needs money for treatment, and his/her health deteriorates.

Thus, as soon as the state property is transferred to private ownership, the value of an asset (land) will make the so-

called "Free Leap", i.e. the market equilibrium price will start at about 80 tetri and will continue to grow naturally.

At the same time, the volume of the secondary "Forced Market" will decrease, since the size of the "Forced Market" is determined by onerous loans secured against low-liquid (cheap) and risky assets (higher a risk, higher an interest rate), which eventually leads to the seizure of an asset and subsequently its forced sale at a lower price than the initial price.

In order to use an example of market supply and demand, the government doesn't import "watermelons" (land), but has one very large "watermelon" and sells it in parts. From the beginning of the sale (since the 1990s), he has sold only half. The other half is sold at a very low price, and pieces that are already sold, have a low price because the government is ready to get rid of what is left "almost for nothing". An owner thinks so: "It's better to keep the land indefinitely, than sell it at such a low price". He has already incurred both monetary and moral expenses. That is, its minimum threshold price is much more than a 15 tetri, below which he/she willn't sell, while the government sells for 10-15 tetri.

At time, the market is supplied with the government "watermelon" - the development of watermelon production has no chance, until the government runs out of watermelons. And after run out, the price on the market will not decrease, but will start to increase from 15 tetri.

— The paradox is that peasants who own small plots of land need at least as much land, but can not afford it despite low prices - because they have no money. They don't have money because they can't use what they bought because the state owns a lot of land and sells it for price, that is less than the market price.

As a result, the so-called hermeneutic circle is closed and we should break this circle in a place where it will be as correct or fair and efficient as possible in all respects.

This example is not ideal, though it reflects reality.

46. How to attract modern technologies in the agriculture?

Modern technologies are very lacking in all fields and the agriculture is no exception. Unfortunately, not only technologies, but also knowledge, soil preparation for a relevant agriculture, the best seeds or seedlings, the best fertilizer, elementary irrigation, logistical support and in addition the best technologies and equipment and many other things are missing, in our agriculture.

It requires certain knowledge to choose the best, from a variety of competitive complex technologies, which include many factors and individual sub-technologies.

The universal "cure" for all this is to attract desired and sufficient amount of long-term and low-interest mortgage loans (or mortgage financing) directly from the landlord under his responsibility, which is impossible without a

fairly expensive, highly liquid, attractive and stable land market.

To get everything you don't have, you need to pay.

If the raised funds are not enough to fund even one of the above risk factors, or for something that we have missed and didn't mention, for example, if there are no funds left to protect or insure the result, this is likely to do much more harmfull, than completely inaction.

A high market price, and especially its stability, is unattainable if the state owns almost twice as much land as at the whole market in private ownership, and it can at any time lower the equilibrium price on the market by placing land for sale.

Unfortunately, for 30 years this elementary truth hasn't been learned by many educated people and scientists, not to mention ordinary people, ministers or politicians.

47. How will a free privatization of agricultural lands affect the import/export of agricultural products?

Completing a privatization of agricultural lands means an inevitable increase in the price of these lands. The price increase will be not only permanent but also instantaneous, as was the case with urban lands.

As the price of land rises, so will the liquidity of these lands. Thus, landowners will be able to easily obtain cheap and long-term financing that they can only dream of now.

With sufficient funding, competitive and high-quality production is possible, which will radically change an export-import balance for the better.

- 48. Do you think that the rapid rise in prices for urban lands was due to completion of their privatization? Can you give examples?**

The full privatization of urban lands has rapidly increased prices in the central districts of Tbilisi. There were a 100-fold and 1000-fold increase in prices. Such a change in prices has led by depletion of assets to be privatized.

For example: let's take the land on Chavchavadze Avenue in Tbilisi. The privatization "value" of 1 square meter this land was 37 tetri, and after depleting the vast urban land for sale, the value rose rapidly, and today you may not be able to find land even for \$1000 for per square meter.

(For more information on the topic see: Question №91)

- 49. Will the proposed free privatization model hinder an enlargement of agricultural land?**

- The increase occurs naturally due to many factors. As a rule, large and at the same time highly profitable, absorb the less profitable, and accordingly, a process contributes to consolidation.
- Artificial enlargement of lands is unacceptable and inadmissible!

Example. *If there is one large 100 hectare plot of the land, of which 7 ha is occupied by one owner and 93 ha by another owner,*

*in all other equal conditions 93 ha will produce one unit of a product at a lower price than 7 ha — **Example.** If there is one large 100 hectare plot of the land, of which 7 ha is occupied by one owner and 93 ha by another owner, in all other equal conditions 93 ha will produce one unit of a product at a lower price than 7 ha — Accordingly, the first sees more profit due to the effect of scale, and the owner of 93 hectares thinks that the price of per square meter of the land worths \$20 for the expansion, and the second small owner, since he/she has less profit is ready to sell his/her plot for any price over \$17. This difference from \$17 to \$20 will always lead to an agreed price, which will be acceptable for both in the range of \$18-19, resulting in a larger plot of land and an increase in land profitability. As a result, the value of the already enlarged land becomes more than \$20.*

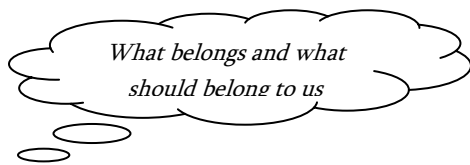
Thus, free alienation doesn't impede consolidation, but, on the contrary, will stimulate natural consolidation and increase motivation. Raises the need to deepen knowledge and introducing new standards. Strong farming and logistics units will be formed, a free competition will increase. A competitive environment will create a prerequisite for improving land management, which includes the need to adapt to market demands. Thus, enlarging lands and establishing a new culture of cooperation between farmers will become an inevitable and positive process.

50. Will the proposed free privatization model hinder an increase of land/asset liquidity?

With the free privatization model, the opposite will happen - the price of land will increase, and together with its

liquidity. The reason for the low liquidity today is a low price of this asset, which is due to the fact that the main and permanent supplier of the assets is the government. That's why these assets are unattractive to investors.

Private entities find it difficult to sell their land or raise funds precisely because the government is their constant competitor and hinders the liquidity of the land/asset.



51. Who owns *minerals* found in the land that was obtained as a result of privatization?

Under the free privatization model, the owner of minerals found underground must become owner of the land. Under current legislation, only the top layer of the land belongs to the landowner.

52. How do you solve the problem of actual (but unregistered) landowners?

Unregistered lands should be registered in the ownership of actual owners as soon as possible and without any problems. It's imperative that bureaucratic barriers should be removed immediately and that landowners are given an opportunity to make full use of

their land.

/For additional information on closed auctions, see Question: №12/

53. Why is the price of land low in Georgia and what is the importance of the price of agricultural land?

In a market economy, the market price of an asset determines its ability to develop. The lower price and liquidity of an asset can attract less financial resources, and vice versa - the higher price and liquidity of an asset can attract more financial resources. The low price of land in Georgia is conditioned by fact that the state owns a largest share of agricultural land, therefore an excessive supply of land by the government on the market causes a low price of land.

Agriculture is an important sector in Georgia, as number of people employed here is about 660 thousand. From 2013 to 2019, about 1.5 billion GEL was spent from the government budget for development of the agricultural sector. Despite of spending money a lot, in 2019 the share of agriculture in the overall economy of Georgia was only 7.4%.

Given that a large part of the country's population is employed in this sector, and that pace of development is quite low, it's necessary attract as much investment as possible, which is ensured by a high price of the asset, i.e. land.

/See also, Questions: 42;44;45/

54. If the government still sells (privatizes) land for money, why not sell it in the future?!

a) Government-owned land is sold at a very low price - on average its price is 10-15 tetri for per square meter (in some cases 10000 sq.m. for 48 GEL). Its supply is so large that it accounts for a large share of the total volume of land supplied to the market. All this leads to the maintenance of low land prices, and if there is a tendency for the market to rise slightly, by principle of a communicating vessel's, the land for sale from the government will be permanently supplied to the market. Therefore the price can't be increased, including on privately owned lands.

b) The government sells, but I wonder - to whom does it sell? to the citizens? ... 19.5% of whom are below the poverty line (according to Geostat 2019). More than 500 000 people are on the government's meager allowance. Nor does rest of the population have a high purchasing power. For reference, less than 1% of employees have a salary of more than 5 000 GEL.

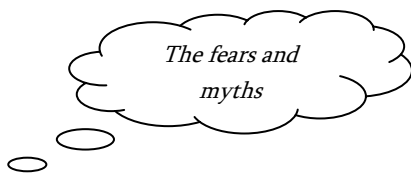
Obviously, 10 tetri for per square meter is cheap, although most of the citizens can't buy it at this price. If we take into account that it's mainly sold in large lots (tens, hundreds of hectares at a time), it turns out that the citizen (farmer) should have cash at least 10000-100000 GEL!!! Agree, that an ordinary farmer doesn't have so much cash. He/she should borrow, but how? Peasant will not be able to

get a loan because Bank will not give him/her even 5 tetris on land, having price of 10 tetri.

In turn, the buyer of a land will not take it either, because buying alone is not enough. Peasant also need to invest some money to cultivate the land. If it borrows from neighbors and relatives in the usual way, in this case farmer might buy, but from a global perspective, when everyone has to buy - both relatives and neighbors, what comes out? Then the relative and neighbor will no longer have the opportunity to buy the land. Or, if person lends to a neighbor, he/she himself is left without land, or, without any necessities, because in low income conditions, it's not the money provided for savings, but the necessary minimum money ... Money that otherwise had to be invested to agriculture in the form of various transactions.

- But the main thing here is another moment. Even if farmer will able to buy, this amount goes out from the pocket of owner (farmer), i.e. it's moves from agriculture to the state treasury. The question is, when will the money return to economic turnover, or to agriculture? But this money actually remained in an agriculture and was used, directly or indirectly, for the needs of this sector of the economy (the farmer would buy tomatoes, the tomato seller would pay the wheat seller, the wheat seller would pay the combine owner, the combine owner would pay the child tuition fee, etc. This is how money circulation is done).

- Ultimately, it can be said, that before the government will complete the sale process, it will withdraw about 500 million GEL from agriculture in this way (if the price of land will be rise, then more). If we take into account the multiplier (turnover), it turns out to be a very large and significant investment amount artificially taken away from the agricultural sector.



- **The most common *myth*:** Citizens will sell most of the land to foreigners and we will be left without land!
- In fact, the land privatization will lead to inevitable rise in land prices as the government, as the main supplier of this asset in the land market, disappears.
- The main seller of the land to foreigners (of course due to low prices caused by government intervention) has been and is still the state and not a private sector for the whole 25 years.
- As soon as lands are completely privatized, the International Trade and the Equalisation of Factor Prices Law will take effect which means, for example, that land prices in Georgia should be close to similar land prices in Turkey. Consequently, an increase in the price of agricultural land is inevitable (if you look, the price of urban land, which is already practically private, is almost

the same as even in European countries). Land that has risen in price, having already rehabilitated capitalization, will have a civilized and financially strong buyer / investor.

/ See also, Question №9 — Privatization for money/

How to make minerals useful to people

55. Are minerals privately owned in Georgia?

No, according to the Constitution of Georgia, the state owns 100% of minerals. At present, mining activities can only be carried out by obtaining a license, although the state remains the final owner.

56. What do you consider to be the main impediment to the efficient extraction of minerals in Georgia?

As we have already mentioned, minerals are 100% government-owned, therefore direct private rational interests are cut off from the sector. Exactly, the monopolization of state property that is the only reason and impediment to the efficient and rational use of minerals.

If any mine is operating today, it's license holder company, i.e. the mine is in temporary ownership. In such conditions its temporary owners are not interested in large investments. Clearly, no one will invest tens of millions of worth technology in an asset that is temporarily owned and at the same time an unstable asset, because who can guarantee that the government will not terminate this license for various reasons. Under the terms of the license, the license holder company has no motivation to introduce modern technologies and continues to work with outdated technologies, since the mineral resource will not be depleted before the license expires. A temporary license holder works inefficiently. For example, where it was possible to obtain 10 kg of raw materials, with the help of old technologies, license holder received at best 6 kg, and wasted the remaining 4 kg. Therefore, we get such an economic situation and difficult working conditions for employees that we have now. People employed in mines work in harsh conditions and on meager wages.

What if this an ore becomes private? A joint stock company with many shareholders and relevant Board of Directors will be interested in a profit maximization. And when an ore will be transferred to private ownership, owners start to use assets rationally and mine 10 kg raw materials, without any losses. This requires the introduction of modern technologies, reinventory and new investments. When new technologies will be introduced in production, it forces the company to give the appropriate outfit to employees, will be

increased labor safety, and as a rule, life-threatening work will be performed by robotics. Also, in conditions of modern technologies, the demand for high qualifications will increase, which will be reflected in high salaries. At the same time, when ores and other government-owned assets will be privatized, it creates competition between employers on the labor market, forcing them offer better working conditions to employees. The increased profitability will help the owner in this.

It should be noted that in modern and high technology conditions, production is carried out by civilized methods, which minimizes the negative impact on environment.

And today, unfortunately, in many cases, the licensee, who has received a license from the government under various conditions, is perceived as private property, while blaming the private sector for an inefficient production, low incomes and hard working conditions.

In general, government-owned minerals have no financial backing. In case of licensing of assets, the licensee isn't interested in making a long-term investment and upgrading technologies, as its activities are limited for a pre-determined period of time. The extension of this period, or the strict fulfillment of conditions provided by the license, largely depends on a good faith of the state officials.

In this case, the risk increases due to the fact that residents of another countries can obtain a license for extraction natural resources and stop mining for political reasons. This

increases the risk that another, financially strong and unbenevolent country will pursue its own policy and harm Georgia's state interests. Only private property creates investment attractiveness and access to cheap money, which unconditionally increases the efficiency of mineral extraction and management.

57. Will there be a preliminary evaluation of mineral deposits with free privatization, and by whom?

Information on the amount of ore reserves should be evaluated by world's top appraisers. For example, top audit firms such as: “Deloitte”; “Ernst & Young”; “BDO”; “Smith & Williamson” etc. Audit evaluation of deposits should be done prior to the start of free privatization.

Accordingly, the owner will have quite complete information about reserves, categories and similar mineral market in the world for privatization object interest to him.

Selling with „Invests“, the pre-privatization audit appraisal and information, even if it raises some doubts or controversy, it isn't surprising or significant. Typically, auditors from different schools around the world make sometimes radically different assessments of the same asset, and it's not advisable to waste too much time on the assessment.

Shares of more important minerals should be put up at special auctions, for sale on „Invests“, with a maximum of 5-10 % shares, not more than 20% of the one-time shares.

On part of the government that puts shares up for sale, all information about minerals sold, whether good or bad, which is known to the government from any source and which can insure the buyer against a wrong decision, should be open to all buyers.

Assuming that, this rule was violated, or even if there was no violation at all, but some buyer had confidential personal information, say, that the ore is 1000 times more expensive than the indicated price. What will happen in this case?

58. How and by what method should minerals be alienated?

The government, through internationally recognized auditing companies, evaluates deposits, on the basis of which it creates joint stock companies (JSCs) in the name of each deposit. Consider the example of the "X" ore.

1. An internationally recognized auditing company estimates ore reserves (for example, according to Deloitte, tens of millions of cubic meters of marble are available);
2. The state creates a joint stock company – JSC „X“;
3. The given reserve is transferred to the balance sheet of the joint stock company;

4. Issues shares of – JSC „X“ (100 000 000 shares);
5. At public electronic auctions, shares are privatized.

The 10% stake in JSC „X“ is put up for auction once a month during 10 months until the 100% of stocks will be privatized.

Citizens will electronically deposit their „Invests“ during the month (10% of the shares will be put up for auction within a month). At the end of the month, accounts will be closed, results will be posted on a special public portal where all buyers will find their results. A summary is made by the reform team. The list of owners (who and how many share received) will be published no later than 3 days.

If you deposit 1000 "Invests", and the total number of deposited "Invests" turns out to be 100,000, you will receive 1% of shares of the joint stock company.

The JSC shareholders elect management. At best this issue is probably solved by the American model! The shareholders of the Joint Stock Company then start trading these shares and for the first time in history, the price of the mineral appears on the market. The next step is to integrate these shares in the International Market and, consequently, to raise the capital. Any citizen of Georgia can directly transfer the privatization mark „Invest“ transferred to his account to the desired JSC, with the combination he/she wants, or sell it to anyone who wishes to do so.

59. Will minerals be seized by one particular market actor?

In order to buy shares listed on the first auction of these shares, it's clear that the informed buyer will deposit a relatively large amount „Invests“ to buy the maximum number of shares out of listed shares, even if other buyers accidentally deposit a total of several thousand „Invests“ to buy the same shares.

If a conditionally informed buyer pays 990 000 „Invests“ to purchase 10% of shares put up for auction, or 100 000 shares out of the million in the capital at that time, and all other citizens pay only 10 000 „Invests“ in total, it turns out that for one share 10 „Invests“ were paid. From this, lot informed buyers will buy 99% of lots, or 99,000 shares, and the rest 1% or only 1 000 shares will be distributed to others. As a result of the first auction, an informed buyer, out of 10% of shares put up for sale, will be able to purchase 9.9% of shares of the entire company, and only 0.1% of shares will go to the rest.

As soon as this result will be published at the end of this first auction, already in the second and subsequent auctions, fewer and fewer people will remain indifferent to these "interesting" stocks, and even billion dollars would not be enough for an informed buyer to buy out enough „Invests“ from others to accumulate funds to acquire a controlling stake in this company. In any case, if informed buyer turns

out to be greedy enough to share less of his "treasure" with others, he/she will at least be forced to buy a larger share of the company at a relatively fair price and share his secrets with other participants and the market in general. It will be in his/her interest, that a market confirm the high price of his/her property with market credibility and increase the liquidity of shares!

Therefore, even an ordinary citizen, who is not aware of the case at all, will not be deceived!

60. How risky is it to sell mineral stocks to foreigners?

This poses no risk. The mineral stocks will be privatized in stages, along with the privatization of other assets. Since the value of private property exceeds several hundred billion US dollars, we consider it is possible to transfer a small share (approximately 1-2%) to ownership of foreigners. At least, it's not in interests of owners to sell cheaply shares of assets from which they will receive a stable income. Such a circumstance will quickly increase the price of the shares and if the owner still decides to sell the shares, the buyer will have to pay a much higher price. The high price means that even foreign residents will buy less. Risk fears are therefore neutralized.

61. **Will it be possible to sell shares of the newly acquired mine on Foreign Stock Exchanges and how much will world's leading businessmen be interested in buying such shares?**

For example, there is a so-called "Toronto Stock Exchange", where it's possible to place shares of a company that owns mineral reserves in private ownership and hasn't yet started production. A prerequisite is that the company has at least 300 owners and cost of reserves of at least \$ 4000000.

The investor is always interested in investing in commercially attractive assets. In turn, the attractiveness of assets is doubled by the interest of large businesses and their involvement in a particular activity. Argumentative volume, price and liquidity of the ore will surely create a proportional attraction among world's leading businessmen.

The London Stock Exchange requires listing, which is not easy. However, because the given Joint Stock Company is virtually risk-free, presented as a bare natural asset, as mentioned above, it will be able to list shares on Toronto and other international exchanges where companies that have not yet started production have shares.

- 62. After the privatization of shares of mining companies, will citizens be able to trade in these shares and will it be possible to buy and sell shares of mining companies outside the Stock Exchange?**

There will be no restrictions on trading in stocks. Owners will be able to freely dispose of their shares (buy and sell) as they wish.

It's not necessary to sell securities (shares) on the Exchange. The place and conditions of the trade are determined by the owner of shares at his own discretion.

- 63. Will it be possible to use the shares of privatized mining companies as collateral for financing?**

Holders of securities (shares) are free to use their own securities as collateral for financing any activity, according to their personal skills, desires and abilities. As in the case of other securities.

- 64. Isn't there a danger that after free privatization of minerals, this resource will be used unwisely?**

The purpose of transferring minerals to private ownership is their reasonable use. Unfortunately, in today's reality, the management of mineral resources is ineffective.

The license holder company is unable to raise capital, because it has no property for use it as collateral for financing. This situation pushes the license holder to try to get the maximum benefit even if consequence of this will be destruction of part of minerals.

As a result of free privatization, a large part of mineral mining companies' shares will be freely available on international exchanges, which will ensure the emergence of international prices and liquidity of assets revived in the economy.

Given prevailing prices and liquidity levels, mineral mining companies' owners will be able to attract cheap and long-term capital that will allow them to use their resources as efficiently as possible.

65. Is it possible to privatize water ores for free?

Free privatization of water ores is possible in the same way as other assets. Water is a permanent and special resource, the economic potential of which is realized only to a small extent.

Unlike other minerals, its use is the least hazardous to the environment. In addition, in case of its reasonable use, this resource is inexhaustible, constant and stable for the foreseeable future.

Privatization of water ores unconditionally generates a huge source of wealth and prosperity.

66. **As it's known, in European countries such as Germany, Austria, etc. much of minerals are privately owned. What does the situation like, in this regard, in EU members which are post-communist countries?**

In all EU members, which are post-communist countries minerals remain in the state ownership. There haven't yet been a complete overcoming of the communist heritage and the phobic attitude towards property.

*Forest Fund — For whose children are we
“saving” a forest?*

67. **Is it possible the forest to be privately owned?**

Like any other beneficial asset, the forest also should be privately owned. This is the only way to manage it economically and environmentally efficiently.

According to the current legislation of Georgia, the right to own the forest is already allowed. As a result of

privatization, in case of forest ownership, the conditions given in the preamble of the Forest Code of Georgia, specifically in Articles 1, 4 and 5, will be observed, which means: "Protection of Georgia's biodiversity, maintenance and improvement of its qualitative characteristics, as well as quantitative and qualitative characteristics of forest resources in order to fulfill ecological, social and economic functions of the forest."

The forest was the private property of the population for a long time. After establishment of the communist system, like all other forms of private property at the time, it was taken away from our citizens and seized by the communist regime.

68. Is the forest privately owned in Georgia?

Georgian legislation is already familiar with the practice of forest ownership. A well-known fact at this stage in this context is the transfer of ownership of a 20 hectare forest adjacent to churches and monasteries. This is just 0.03% of the total volume of the forest and in terms of precedent it has a positive effect.

69. Are Forests privately-owned in developed countries? Can you give some specific example?

In most developed countries, most of the forests are privately-owned. In France, for example, 80% of the entire forest massif is privately owned. It should also be noted, that there no European country, where the state owns 100% of the forest area.

70. If the forest becomes private, is there a risk that its owner will completely cut down the forest and destroy the ecosystem?

There is no danger of destruction of the forest owned by the owner for several reasons:

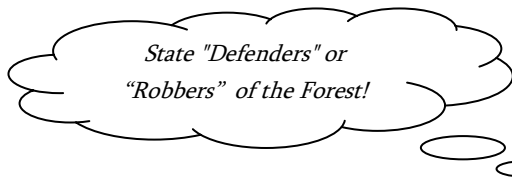
- a) This will be a violation of the conditions provided by the Forest Code of Georgia, which will lead to a fine and deprivation of the right to forest;
- b) The economic interests of the owner may not include the destruction of his own permanent source of income.

In addition, in the case of private forest ownership, international recommendations and regulations that protect timber and ecosystems from destruction will normally be maintained.

If forest encroachment has occurred independently of the owner, in this case the offense (offender) will be detected more effectively and quickly than in the case of state

ownership alone. As the owner himself will be interested in detecting the violation, he himself will inform the relevant authorities about the fact of illegality. All this means that the interests of the owner and the state are in complete harmony. Thus, in case of ownership, the forest will be doubly protected.

It should be noted that due to the peculiarities of socio-cultural relations, forest owners will always try not to put each other in an awkward position, not to encroach on each other's property. Those, who cut down forests, don't bear the same moral responsibility to government-owned forests.



71. **As we know, illegal felling is quite common in Georgia today. What solutions do you see?**

Today, in all forest areas (Borjomi, Adigeni, Samegrelo, Zemo-Svaneti, Kvemo-Svaneti, Racha, Lechkhumi, Kakheti, etc.) where timber is being extracted, illegal felling and processing is problematic. Forest resources are deplete, increasing shadow production turnover.

The fact is that, in each region/municipality, there are hundreds (we don't have exact statistics due to illegality) of small and medium timber processing sawmill workshops.

Half-stuff timber (plank, sleeper, bar etc.) is of relatively low market value because legally manufacturers pay many types of taxes. As a result, both legal and large sawmills appears an incentive to start tax evasion and move partly to the shadow sector to balance production costs and cope with market competition.

Also, for economically understandable reasons, the timber produced in the shade is sold cheaply, therefore the demand for it is much higher. As a result, more forest areas are being cut down for simple economic reasons - the lower price, the greater demand.

The problem is already there today and turning a blind eye to it leads to the destruction of forests.

When the forest becomes private property (as is the case in France, for example), people will no longer be able to continue falling illegally on private land. Moreover, most of them will become owners themselves and will have to use the forest in accordance with the existing rules.

In addition, if local and internationally established norms of forest will be violated, in this case, the government will have easier control, because a specific forest plot will have a specific owner (protector). Now the opposite is happening, since none of the plot has an owner.

Illegal deforestation is a gross violation of conditions set forth in the Article 1 of Forest Code "Scope and Objectives of Code". The reason for such facts is the temptation for an economic entity to obtain illegal and unregistered income by seizing state property. Prevention of this is the transfer of a forest to private ownership, as the owner will easily exercise control of the owned forest, together with the government, as the government alone doesn't have sufficient human and financial resources to fully ensure the protection of the forest. As a result, the state's "Forest defenders" often appear as "Forest robbers".

Despite current regulations, timber is still being felled and who is responsible for protecting it? Of course, only the state is. When a forest becomes private, who will be responsible for its protection and rational use? Of course the owner will, whose control will be easy for the government, because in case of misconduct the responsible person will be the specific owner.

72. Can we consider the forest as a business?

The owner has every right to use the forest as a means of conducting business. At the same time, he/she is obliged to observe principles of the sustainable forest management envisaged by the legislation of Georgia.

The owner, in addition to felling, is additionally given the opportunity to use the forest freely for many other business activities. Including, the development of tourism (for example, to create a recreation area, camps), receive economic benefits, and on the other hand to take care of the forest.

With additional economic opportunities created by ownership, desire to use the forest irrationally will be reduced to a minimum.

73. How should the government-owned forests be privatized?

The forest privatization will be carried out using the same model of the free privatization as in the case of agricultural lands and other assets. That is, at open auctions forest areas will be transferred to private ownership using „Invests“.

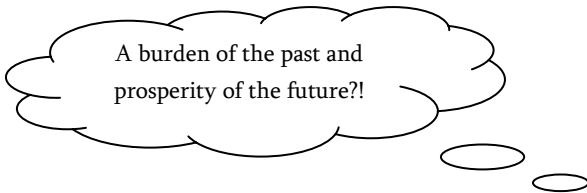
As you know, we are facing a unique case - we are dealing with a post-communist legacy. That is, most of the forest that is now government-owned was once privately owned by our ancestors. Especially in mountainous regions, the population still has a strong perception of an ancestral forest ownership. Such forests, where they are identified by local traditions and recognized (approved) as private property, will be privatized through closed auctions.

Government-owned corporations

- 74. How do you assess the effectiveness of government-owned companies? Should government-owned companies be fully or partially privatized?**

Government-owned companies should be fully privatized using „Invests“ in public e-Auctions. Today, there are more than 200 government-owned companies in Georgia, most of which suffer from losses year after year, such as the Georgian Railway.

Losses of government-owned companies are financed from the state budget. Consequently, the management has no motivation to turn an enterprise into a profitable one, because even in case of losses, the budget will act as the donor. That is why it's important for government-owned companies to move to private ownership so that management has an incentive to develop and maximize the profit.



A burden of the past and
prosperity of the future?!

75. Why hasn't the government privatized *unprofitable enterprises over years*? What is his interest?

There are several hundred government-owned enterprises in Georgia, the vast majority of which operate at a loss from year to year. The existence of unprofitable enterprises owned by the state for years is economically inefficient and unjustified. Therefore, there is a legitimate assumption that unfortunately there are unjustified expenses and unscrupulous intentions of state officials for fear of losing political dividends in government-owned enterprises.

Government-owned enterprises should be privatized as soon as possible. Only in this way will new owners be able to make these types of enterprises economically efficient and profitable.

76. How should government-owned companies be privatized?

Privatization of government-owned companies should be done in the same way as in the case of mineral privatization.

1. The government transforms the company it owns into a joint stock company – JSC „Z”
2. Issues shares of – JSC „Z“ (100 000 000 shares);
3. At public electronic auctions, shares are privatized;
4. The 10% stake in JSC „Z“ is put up for auction once a month;
5. Citizens will electronically deposit their „Invests“ during the month (10% of the shares will be put up for auction within a month). At the end of the month, accounts will be closed, results will be posted on a special public portal where all buyers will find their results. A summary is made by the reform team. The list of owners (who and how many share received) will be published no later than 3 days.

For example, if a citizen deposit 1 000 "Invests", and the total number of deposited "Invests" turns out to be 10 000, you will receive 10% of shares of the joint stock company.

The management of a given joint stock company will be carried out on the same principle as management of any modern corporations. The JSC "Z" is privatized, has many shareholders, and the Joint Stock Company is managed by a board of directors elected by its shareholders. In case the company's management fails to work effectively and leads the company to a loss, dissatisfied shareholders will dismiss the director at a shareholders' meeting and appoint a new management.

Additionally:

Here again, there may be fears that in the process of free privatization or after completion of the process, one particular entity will completely take over all Joint Stock Companies. What eliminates the risk, and reduces the risk to zero, is asset prices and asset diversification. During the privatization period, company's shares will be put up for auction in 10 percent blocks, even if one person wants to buy additional „Invests“ and become the owner of a large share of shares, for example, 90%, this means that a particular person will receive 90% of 1/10 share of JSC. After closing of the first auction, other shareholders and interested parties will also learn about this fact. Here, during the next 1/10 issue, the demand for this asset will already increase, as there will be an expectation in the market that some millionaire is trying to own this asset. Increased demand and interest will increase number of applicants, and price of "Invests" will increase.

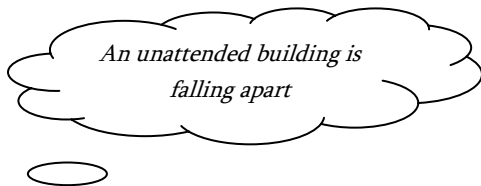
And after the completion, when shares are diversified, is it possible for one person to buy all shares? The buyer goes to the auctioneer and buys shares from him, the other seller raises the price, and when the buyer returns to buy again, he has to buy the shares that have risen in price. The more stages the buyer goes through, the more the subsequent seller will increase the share price. Consequently, the price of an asset becomes so high that the buyer, on the one hand, loses the incentive to buy in full and, on the other hand, doesn't have the sufficient financial resources to buy it in full. However, we should not ignore the assumption that there will be many shareholders who don't want to sell their shares at all.

Government-owned buildings and structures

77. Are buildings and structures that belonged to the state remained?

Untill now, thousands of buildings remain in state ownership. Unfortunately, most of these assets are abandoned by the state and are falling apart day by day. Consequently, thousands of buildings in the country are disconnected from economic processes. Neither the government nor the people can benefit from them. This process, if it continues like this, will eventually reach the condition that it's no longer will be suitable even for building materials.





78. **What use from buildings and structures to the government, if it can't use them for many years?**

The economic "profitability" of government-owned buildings and structures are determined only by loss ratios. However, there is a high probability that such assets could become a source of temptation and corrupt transactions. Ultimately, these types of objects are usually sold at a taken price. This quite justifiably arises suspicion - "Was there been any bad faith?"

79. **What will be the benefits from the privatization of government-owned buildings and structures?**

Similar assets should be privatized along with many other assets. When the total capital attracted by the revival of these assets in the country will be very large, in this case the price of assets will rise and approach the market price. After that, these assets will become very attractive to private entities and investors.

Today benefits from them are not positive, on the contrary, it is negative. State buildings are physically depreciated, destroyed, or on the verge of collapse. Although state buildings are mainly located in the central areas of the settlements (former post office buildings, council building, kindergartens, factory buildings, hotels, department stores, etc.). Of course, along with the area where these buildings stand, it will be economically attractive and beneficial for the private sector to develop various business initiatives.

Where possible, buildings will be restored, and where demolished, private owners will build new facilities.

80. How and by what method will government-owned buildings and structures be privatized?

- The privatization of buildings and structures can be carried out in regular electronic auctions, in lots. Those who pay more „Invests“, will become owner of the asset. However, for large buildings, it's possible to use another method (privatization in the form of shares).

For example: The current selling price of a building put up for sale (it would be wrong for the government to set the price, the price should be formed by the market) is 3 mln GEL, with 4 mln GEL additional obligations (investment loans, debt, etc.). It can be privatized as follows:

0. In case of privatization, amnesty of obligations should occur, obligations should be zeroed (0). *(When a privatized object is burdened with financial obligations from the government, it reduces its investment attractiveness. The owner is less interested in taking on an object that is burdened with financial or other types of liabilities. At the same time, liabilities reduce the value of the object. The financial institution doesn't provide a loan for an object encumbered with obligations, which hinders the privatization process in general);*
1. The government creates a Joint Stock Company;
 2. Puts its shares up for sale (say, 1 million shares);
 3. Citizens buy these shares with „Invests“;
 4. The joint Stock Company becomes private.

For example, five citizens decided to buy these shares with part of their „Invests“. To do this, they apply online to special institutions (banks), where they indicate the number of the auction and carry on their account (transfer) "Invests". Let's say, the first citizen carried on 1000 „Invests“, the second - 3000, and other three citizens, each carried on 2000 „Invests“. The given process takes about a month. The auction closed at the end of the month and results were announced. In total, the number of „Invests“ deposits amounted to 10000 pieces. Accordingly, the first citizen received 10% of shares, or 100 000 shares, the second 30%, or 300 000 shares, the other three, 20% or 200 000 thousand shares each. After that, citizens start trading their shares with each other and for the first time the real market price of this building appears. That is, the initial

selling price set by the Government is far from reality and is non-market.

It's also important that no promises need to be made here! The given property will attract investment, according to its market price. The more expensive it will be, the more it will be able to attract financing, and vice versa – if it will be cheap, it will attract less financing.

A Joint Stock Company may issue additional shares to raise money. It's also possible to attract a loan secured by shares. In addition, it's possible to invite an outsider in exchange for part of shares, who will, say, renovate the first floor of the building, after which share price of these joint-stock company will increase, and so on.

Strategic objects — Myth or Reality

Myth or Reality?

81. **Should strategic facilities be privatized? Let's say, can the Georgian Railway be privatized?**

"Strategic" can be called an object that should be able to smoothly supply country's armed forces with necessary

products and services in case of hostilities. For this, it's necessary for the given object to function properly. Including the railway. Thus, its privatization will facilitate the so-called unhindered fulfillment of main responsibilities and obligations required in case of Force-majeure in relation to "strategic objects".

No one can specifically explain what an economically strategic object is, because there is no definition of an economically strategic object for an asset. Any economic asset is protected if it has private owners who manages it most effectively and tend their private property.

Georgian Railway is government-owned, which suffers losses from year to year. So, for example, in the first 9 months of 2020, the Georgian Railway lost 117.7 million GEL. Since the railway receives funding from the government budget, managers have no motivation for the company to operate effectively. It often happens, when carrier companies apply to the railway management for a contract, railway managers send them to other intermediary companies, where they act in their personal interests and these revenues are deducted from the railway. At the same time, the costs of transport companies increase and in some cases they refuse to use the railway.

What happens if the railroad goes into private ownership? First, its free privatization is done in the same way as the privatization of other state-owned companies. The Joint Stock Company "Georgian Railway" is created, which will

have many shareholders (owners). Each of them are interested in making the railway work for profit, hence managers elected by shareholders ensure effective management of the railway.

82. Do you think it's possible or not, so that so-called national parks were privatized for free?

Free privatization of national parks is possible by the same method, as the privatization of minerals and government-owned companies.

Take the Kolkheti National Park, for example. The total area of the Kolkheti National Park is 44308.5 ha, including 29032.5 ha of land and 15276 ha of the part of sea. With free privatization, assets of the Kolkheti National Park will be transferred to the balance of Joint Stock Company.

After the privatization of the shares, the Joint Stock Company will continue to operate as international corporations do. It should be noted that all regulations aimed to protect the environment and are directly related to the this park, remains unchanged. The only difference is that together with the government, thousands of its owners will take care of this park. It should also be noted that owners will be even more concerned about protecting the environment, as any damage to the environment will be affected to their property, make it devalued and unattractive.

After free privatization, the Kolkheti National Park will become attractive for organizations of international importance, such as the National Geographic or other international organizations. Their involvement will further increase the potential for additional funding and enhance the park's international reputation.

83. Is it possible to privatize lakes for free and in what form?

The free privatization of lakes will be done in the same way as in case of minerals and government-owned companies.

There is often a fear on the part of public that if lakes will be privately owned, they will be improperly cared for by owners and will harm the environment. On the contrary, when government-owned thing, in these cases these resources can't be used by the government, they are often abandoned and polluted.

Through the efforts of the private owner, the lake resource will become profitable. He/she will arrange a tourist zone, for which it will cultivate a recreational zone, they will take care that the lake will ecologically be cared for and will be pleasant for tourists. In order for vacationers that they reach the destination place easily and comfortably, an owner will take care of the arrangement of the road leading to the specific lake, which also means infrastructural development. The owner will take maximum care of preservation of the

lake, at the same time his/her business activities will employ people and increase economic wealth.

For example, the Bateti Lake, which is government-owned, is polluted. In addition, there is practically no road to the lake, which creates discomfort for potential tourists. The idea that a private owner will put a high price on his property and no one could enter there is a misconception. First of all, after free privatization, private owners appear in the country, business develops, the level of income of population increases, which will allow people to spend a lot of money on leisure. At the same time, making a paid entrance to the lake may be unprofitable for its owner, since commercial areas located on the shore of the lake will bring him more income.

84. What do you think about the free privatization of the coastline?

Free privatization of the coastline should be done in the same way as the privatization of rural lands. In the process of free privatization, not one whole coast will come out, but it will be divided into coast zones (lots).

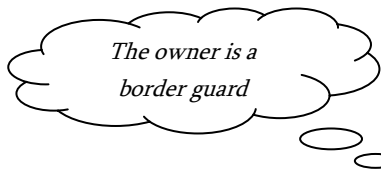
/For details on land privatization, see Questions: №36-54/

The coastline will not be entirely in hands of one owner. The coastline will be divided into sections and will have many owners who will compete with each other and offer the most acceptable conditions to attract tourists.

Who owns border areas?

- 85. In the reality of Georgia, who is the main owner of land and other assets in the border area of the country?**

Today, private property is rare in border areas, with the bulk of assets being government-owned. Given ratios vary slightly by the district.



- 86. Should a land and other assets in border area of the country be privately owned?**

It should be, since the protection of property rights is guaranteed by the case-law of the European Court of Human Rights, according to the European Convention, Article 1 of the First Protocol: Protection of property: "Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one should be deprived of his possessions", according to Article 6, Paragraph 3 of the Constitution of Georgia, "Universal right to private property may not be revoked".

If the border will be privately owned, it will be more protected from an unfriendly neighbor than when it's government-owned.

87. Will the unfriendly neighboring country tries to fully redeem privately owned lands in the border zone and this way harms interests of the country?

Georgian legislation completely excludes such a possibility. According to paragraph 2 of Article 1 of the Constitution of Georgia, "Alienation of the territory of the country Georgia is prohibited. The border of a country can be changed only by mutual agreement with the neighboring country." Therefore, fears that an unfriendly neighbor could become the owner of a significant part of assets in Georgia are unfounded.

In the case of private property, private owners will protect the border zone together with the government, who will legally have these territories in ownership.

Private owners will have legal ownership of the land, which means that no matter how much time passes, the landowner and his descendants will always have proof of land ownership.

For another country changing its borders, i.e. to move into privately owned land, would be a violation of private property at the international level. At the time when the government is unable to protect its own borders, private owners can sue in the European Court and claim their private property. The government, in turn, can even assist landlords in preparing a lawsuit and lobbying. By joint efforts, it's possible to legally recognize state borders seized by another country as unjust, violent acts and demand the return of their private property in accordance with legal norms.

88. Will the existence of private ownership of land and other assets in the border zone pose a threat to the country's defense forces?

If defense forces will be need a specific piece of land to accomplish a certain task, they can easily rent it from a private owner, or obtain temporary ownership from him completely free of charge. Private property provides greater security and allows more efficient use of the border area, if it will be necessary.

If private property is a hindrance to defense in the border area, then by logic, it's possible for private property to be a hindrance in the center of any municipality. Suppose, if the

necessity of the action of defensive forces arises in the middle country, where there is private property, it will turn out that it can't act, won't it ? Therefore, private property is not a hindrance, on the contrary it brings more defense and economic prosperity.

In general, private property should be protected by the government with owners even more diligently than a land without an owner.

89. How and by what method should be the lands in the border zone privatized?

Privatization of lands in the border zone should be carried out in the same way as in the case of privatization of other government-owned lands.

/For details on land privatization, see Questions: № 36-54/

How is the economy growing?

90. How will the free privatization alleviate the tax burden and increase the state budget?

The burden (expense) of economic participants (business / citizens) basically have two components - Taxes and “Cheap Money” (% on credit). - How do we lighten this burden? - That is, to increase the economic freedom.

- Massive free privatization answers this task best
#გაბდობესაკუთრე #becometheowner

The Fiscal effect

a) Taxes can be reduced in such a way that treasury revenues didn't decrease, but, on the contrary, taxable profit was increased. The massive transfer of government-owned property to private ownership makes this possible. Moreover, as a result of free privatization, it will be possible to reduce taxes, at the same time to have an increase in both short-term and long-term treasury revenues + two-digit economic growth.

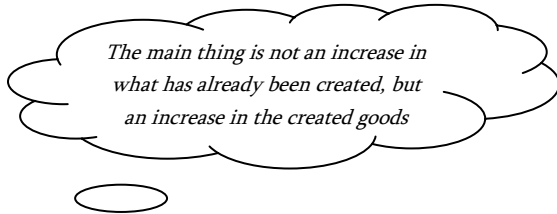
Credit effect

b) The formation of the private property awakens and creates a stock market, therefore competition between

the stock market and the banking sector makes money cheaper (decreases % on loans).

The degree of economic freedom is greater in countries and regions where both of these burdens are lighter (less in total) as this creates the possibility of more rational and profitable alternatives.

If you don't have economic freedom, no restrictions can stop money and human capital, it will flow from country to country and from region to region. It will pass as water passes through a sieve. In the conditions of high economic freedom, there is an increase in cash and human capital inflows (first of all, your citizens will return to you as soon as you create a better alternative).



As a result of the economic policy of free privatization, an "increase in the economic pie" is possible - double-digit economic growth is inevitable. The same % of the increased "Economic Pie" will be several times larger than it's today, including the budget pie will be doubled, which means that

the government will provide sufficient funding for the necessary needs (health, social sphere, defense, etc.).

91. What was the main reason for such high economic growth in Georgia in 2004-2007?

Georgia achieved particularly high economic growth precisely at the expense of the fact that privatization of urban assets were practically completed by that time, as a result of which market prices of urban lands and buildings automatically increased, at least 100 times and often even 1000 times.

Let's take a specific example:

- Until the official price per square meter of the land on Chavchavadze Avenue in Tbilisi was 37 tetri, and the commercial space was no more than \$ 40, there were no buyers anyway, economic processes were slowed down and the construction sector was inactive.

As soon as the sale of land by the government was over and nothing was left in the ownership of the state (i.e., the oversupply and supply expectation from government side was removed), the private market price of urban land increased massively, almost everywhere, by 1000 fold. No one was selling their land on the same Chavchavadze Avenue for less than \$500, and their commercial area for several thousand US dollars cheaper. Due to the increased

price of capital, financial institutions were offered owners with the best loan terms.

With the money borrowed on the collateral of expensive land, the foundation was laid, the first floors were erected, and then, having sold the "air" in place of the next floors (or future apartments and office premises), numerous skyscrapers appeared, with practically no need to attract capital from outside.

In a city where almost nothing was done before, except for the trade of imported products and official machinations, suddenly a lot of money was spun.

Much good has been done in managing the economy during this period, especially in terms of improving administration, but the activeness of the government's economic team would probably only result in an increase of 15-20% if not for the influence of the main factor mentioned above. This circumstance is still not sufficiently understood, even by the economic team of that time, supporters and others, with a few exceptions.

If the government team of that time had carried out the real reform properly, refused to do everything through the government, distributed wealth (*or power*) equally among the people, and thus put an end to the thinking of the Soviet Union, then today we would be living in a completely different, rich and prosperous market economy.

For reference, assets worth up to \$3 trillion are still "disjoined" (*their value are close to zero*), just as city's government-owned assets were devalued and dormant before 2005.

92. Do you consider using the free privatization in large-scale projects?

/ Take, for example, today's very topical issue of the port of Anaklia /

It's through free privatization that is possible to attract large and significant start-up investments. Political risks are neutralized because the asset becomes directly owned by the people. It is diversified as the main source of power and 100 thousand private owners become a personally motivated guarantor, that the project will be protected from political fluctuations.

With regard to the port of Anaklia, it's with a free privatization strategy that it's possible to implement this mega project more successfully.

The existing approach to the development of port of Anaklia was fundamentally wrong. The government tried to implement this project through the Anaklia Development Consortium so that it would remain the owner of the main assets of the port. After the period of 50 years, the port should be completely returned to the government. From the

very beginning, the existing reality undermined the possibility of long-term successful development.

Our approach to the existing project would be as follows:

- The government creates the Joint Stock Company with a declared authorized capital of \$ 2.5 billion;
- 1000 hectares of coastal land (which, according to the previously existing approach, should have been transferred to the Consortium with the right to use for 50 years) should be included in the authorized capital of the Joint-Stock Company. The given lands are already quite expensive due to its location and the total value is about \$500 million. The existing property will be valued much cheaper (to make subsequent investments more attractive), namely \$200 million, and the government receives 200 million shares in exchange for the deposited property. By doing so, the state becomes the owner of the first 8% of declared authorized capital, \$2.5 billion and will be owner of 200 million shares of the Consortium. After that, the state will give away as a gift to each citizen of Georgia, as the first real owner of this territory, 50 individual shares in personal property. Remaining undistributed shares will also be permanently transferred to citizens in accordance with the increase. Small number of shares will remain temporarily in state ownership until they will be fully transferred to citizens.

What advantages are for development in such situation?

The first big advantage is that the port will become property of hundreds of thousands citizens of the country who will be interested in its success. The second big advantage is that even in the event of a project failure, investors who invest extra money are protected from losing money due to the low valuation of start-up capital, which we described above. Even if a given Joint Stock Company declares liquidation, none of shareholders will be at a loss. Given this motivation, it undoubtedly creates great incentives to attract investment, thus insuring the probability of failure.

Also noteworthy is the fact that the existing approach facilitates the attraction of additional capital due to its flexibility. As for the development of infrastructure, an investor may not have to invest money at all, but will receive appropriate number of shares in exchange for some tangible asset (for example, infrastructure installation).

Such an approach is both fairer and more effective. Diversification in an asset ensures its protection from encroachment and political influences, both internally and externally, and at the same time attraction of investments is easy and guaranteed.

Also unequivocally, free privatization should be used in the case of any type of property. Privatization of large assets and its subsequent proper management will increase the degree of geo-economic security and political stability in the country, as well as it will have a very positive impact on the growth of Georgia's geopolitical and transit role.

93. How should shares of privatized minerals, government-owned companies and other assets be managed?

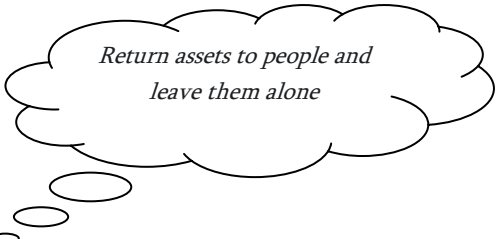
How will shareholders be involved in running the company? Is it possible for a company to be run by many people?

In this case, the invention of a new bicycle is not necessary. As a precedent for company management, it will be enough to use even the American practice, which has been experienced and successful for years. Similar companies should be managed in the same way as for example: Amazon, Alphabet, Tesla, etc.

/On land privatization, see Questions: №56;58;61/

94. Should foreign residents be forbidden from buying and selling securities of privatized assets?

The special charm of the property is that an owner has the opportunity to use it, receive dividends and have the right to freely dispose of assets at his own discretion. Restriction of this right will harm both an owner and an economy, because assets will lose their real commercial value and investment attractiveness.



*Return assets to people and
leave them alone*

95. **What functions will government carry after free privatization?**

The government bears functions that it had before the privatization. Promote and ensure the protection of private property, agreements between persons, and rights of parties. The main requirement after privatization is to ensure the inviolability of a private property and - **leave people!**

Feedback on the topic

96. Which international organizations or individuals support the free property privatization? Or are there any international restrictions on the implementation of your proposed free privatization model?

- There is not such restriction!

In 1990, a document known as the "Washington Consensus" was created in Washington. This economic document called on the former communist countries to liberalize trade, deregulation, and privatization.

Principles set out in the document were actively used by the World Bank and the International Monetary Fund. The document directly supported free privatization. The Chicago School of Economics and its representatives also supported the free privatization of government-owned property. Special mention should be made Milton Friedman, the Nobel Laureate in Economics and the author of "Monetary Theory".

97. Have you submitted this idea to the Georgian government and what was their response?

On July 30, 2018, the initiative group "Become an Owner" held a petition presentation at the International Cultural

Center "Muse", which was signed by about 1000 people. The given initiative was officially submitted to the Parliament of Georgia for consideration.

Parliament, due to lack of competence, instructed the Ministry of Economy to consider this initiative, from which the response was succinct: "Implementing the Project will be ineffective in attracting healthy investments and developing the country's economy." The 41-page Appendix is indicated on the written answer. Unfortunately, the 41-page Appendix, despite multiple requests, has not been received to date.

Myth: The Free privatization will prevent "attracting healthy investment".

As you can see, the opposite is true: the pre-assessment of property by the government, while the price of this property is unknown, is an attempt to attract unhealthy investments, in particular, in this case, a mandatory multi-million GEL. Also, when privatizing for money - the amount paid by the buyer is definitely withdrawn from the market and goes to the state budget. It's true that this money is returning to the economy, but not via market mechanisms, but at the will of specific officials. Consequently, before the money from the privatization will be returned to the market with a delay, there is a lack of it for the consumer/producer, who would otherwise get the money in the event of a market distribution, which therefore reduces economic efficiency.

98. Did you show this idea to the scientific community, and what assessment did they give?

Yes, we systematically introduce this idea to the scientific community. In most cases, groups of scholars support the free privatization of state property. It should also be noted that young scientists are more enthusiastic about supporting the idea than older scientists.

99. Did you show this idea to international organizations, and what feedback have you received from them?

Yes, we have been working with an international organization like "The Friedrich Naumann Foundation for Freedom" for years. With the support of this foundation, we have implemented number of projects aimed at raising awareness of freedom and economic freedom.

100. Are there any educational activities in terms of understanding and disseminating the presented idea?

We regularly hold lectures and "workshops" on this topic with scientific circles; With youth groups; With political parties and people interested in these topics.

The project already enjoys recognition and support, although its implementation largely depends on the political

will of the government, as it involves a policy of large-scale economic transformation and rapid transition from a post-Soviet economy to a market economy.

What is your 101st question?

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