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Governance in Transition. What Makes Georgia's Higher Education System so Corrupt?

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Governance in Transition. What Makes Georgia's Higher Education System so Corrupt? ²

Kristin Höltge

Zusammenfassung

Die vorliegende Arbeit untersucht die Ursachen von administrativer Korruption in Georgiens Hochschulsystem am Beispiel der prestigeträchtigen Institute für Internationales Recht, Politikwissenschaften und Westliche Philologie der Staatlichen Universität Tbilissi Ivane Jawachischwili (TSU). Der Analyse liegt ein instituti-
onsökonomischen Ansatzes zugrunde. Relevante Forschungsfelder sind die Vorbereitungsphase der Studienbewerber und -bewerberinnen, das Studienaufnahmeverfahren, die Zwischen- und Abschlussprüfungen sowie die Bereitstellung von Lehrmaterialien durch Professoren.

Aus den empirischen Ergebnissen können folgende Schlussfolgerungen gezogen werden: Im Gegensatz zur weitverbreiteten Behauptung, dass Mangel an Transparenz und Eindeutigkeit für Korruption verantwortlich wären, zeigt diese Studie, dass die Prozeduren auf administrativer Ebene transparent *sind*. Dennoch ist Korruption im Hochschulsystem Georgiens weit verbreitet. Ursächlich dafür sind informelle Institutionen, sowohl sowjetischen Ursprungs als auch traditionelle georgische Werte und Normen, die formelle Prozesse sowie die Beziehungen zwischen *principal*, *agents* und *clients* determinieren. Die starke, horizontale Verflechtung zwischen den *agents* („Roten Professoren“) und deren Deckung durch den *principal* erlaubt es diesen Professoren, in ihren Funktionen als Mitglieder des Auswahlausschusses als „*joint monopolists*“ (Shleifer und Vishny 1993) zu agieren und so ihr Gesamteinkommen an Bestechungsgeldern zu maximieren.

Schlussfolgernd kann festgestellt werden, dass die interne Struktur der TSU reformiert werden muss, um das „*joint monopoly*“ des Auswahlausschusses und die mächtige Position der Universitätsleitung zu durchbrechen. Dafür müssen sozio-

² Die vorliegende Arbeit wurde 2005 am Osteuropa-Institut der *Freien Universität Berlin* als Magisterarbeit vorgelegt.

ökonomisch verträgliche, finanzielle Kompensationszahlungen geleistet und taktvolle Austrittsoptionen entwickelt werden, um eine würdevolle (Früh-) Pensionierung unqualifizierter Angestellten durchsetzen zu können. Für die Neubesetzung der Stellen müssen qualifikationsorientierte Auswahlverfahren und Wettbewerb unter dem Lehrpersonal eingeführt werden.

Diese Ergebnisse sollten beim Design allgemeiner Anti-Korruptionskampagnen in post-sowjetischen Verwaltungen berücksichtigt werden. Rechtsreformen sind sicherlich notwendige, jedoch unzureichende Maßnahmen, um Korruption einzudämmen. Die internen Strukturen neu zu regeln, scheint vielversprechender.

Preliminary remarks

This paper deals with the delicate phenomenon corruption. Despite the fact that in-depth publications and, in particular, interviews with a wide array of persons provided a detailed and complex picture of the issue, it also faces certain limitations. The findings are not and cannot be complete but hopefully contribute to a better understanding of corruption in Higher Education Sector in Georgia.

As this paper was presented as a *Magisterarbeit* to the Institute of East European Studies of the *Freie Universität Berlin*, quotations in German were not translated into English.

To avoid misunderstandings in the terminology, two notes are given here:

- The terms public officer, civil servant and government official are used synonymously.
- According to North (1990) the term “institution” is used in the sense of the “rules of the game” and therefore, “institutions” that provide education are named “education bodies”.

1 Why Examining Corruption in Georgia’s Higher Education System?

Academics and practitioners agree about the negative consequences of corruption in the long term. Therefore, recent research focuses on its causes to develop anti-corruption strategies. The range and extent of these causes is complex and differs among countries and sectors. Thus, in-depth research is required to identify the roots of corruption in particular sectors in greater detail.

Georgia’s Higher Education System (GHES) is perceived as one of the most corrupt sectors in the country. Careful estimates assume illegal income for “preparation” of applicants as high as USD 65 million annually plus USD 50 million paid as bribes during the entrance procedure (Rostiashvili 2004: 28). This

study examines corruption in this sector and focuses on its causes. Therefore, four fields, namely the applicants' tuition phase, their entrance procedure, provision of books by professors and midterm and final exams, at Ivane Javakhishvili Tbilisi State University (TSU) are investigated in order to conclude why corruption is so pervasive. As discussed in more detail in the next sections, this case study has been chosen for the relevance of corruption, in general, the importance of the country and the sector: First, corruption can have extremely negative impacts, especially in the long term. Identifying its causes offers opportunities to curb it effectively. Second, Georgia is a relevant case. On one hand, it has become a leading actor within the Caucasus region and a target for international donors and foreign investors, on the other, Georgia is known for its bad governance. Having investigated potentials and deficits helps to avoid ineffective investments and to direct finances in expedient projects. Third, the Higher Education System itself is worth being examined as it is the source for a country's human capital potential in the long term and thus relevant for innovation and progress. The following sections explain the three issues mentioned above in more detail.

1.1 Corruption and its consequences

For decades, the extent of corruption as well as its consequences for democratization and economic development were underestimated, and therefore played down and condoned by international organizations, politicians and experts. The argument was put forward that corruption speeds up administrative procedures and thus, pushes economic development (Lui 1985) in favor of foreign investors in developing and transition countries. Recent studies, however, challenge the so called "grease" argument, referring to corruption's negative impacts in the long term, and its rapid spread.

So far, research has mainly concentrated on the *consequences* of corruption. The following are some factors that strongly emphasize corruption's negative effects.

- Using data from worldwide firm-level surveys, Daniel Kaufmann and Shang-Jin Wei found no evidence for the "efficient grease" hypothesis. They even show that "bribes firms have to pay and the effective harassment they face in equilibrium can be positively correlated" (Kaufmann/Wei 1999: 15).
- Paolo Mauro also provides empirical evidence to support the anti-grease view. Using the indices of corruption and other institutional variables of more than 100 countries drawn from Political Risk Services, Inc., he states that "corruption is found to lower investment, thereby lowering economic growth" (Mauro 1995: 263). Additionally, he points out that corruption correlates negatively with government spending on education which indirectly hinders growth as well (Mauro 1998). He further emphasizes three aspects concerning the expenditure side of the state budget: According to Mauro (2002) corruption

may lead to loss of tax revenue and thereby affect the *level* of public expenditure. Also the *quality* of public spending may be negatively affected since public procurement contracts may be allocated to low quality firms. Regarding the *composition* of government expenditure it can be stated that “government officials may be more likely to choose to undertake types of government expenditure that allow them to collect bribes and to maintain them secret.” (Mauro 2002: 343) Taking into consideration foreign aid, he argues that corruption might reduce the effectiveness of aid flow by financing unproductive public expenditure.

- Susan Rose-Ackerman compares the effects of a single corrupt transaction at the micro level with corruption in a broader sense (Rose-Ackerman 2002). Assuming competitive markets, the “market-clearing” bribe will be equal to the market price as the service will be provided to those willing to pay the highest bribe, or the highest price, respectively. Thus, under very limited conditions, corruption may lead to efficient results. But Rose-Ackerman refers to various situations where competitive markets do not exist or are not even anticipated. In the cases of subsidized housing or university admissions, for example, giving access to those paying the highest bribe undermines the distributive goal of the program. The lack of complete information about the bribe’s amount does not satisfy the precondition of competitive markets and may reduce the number of applicants. At an institutional level, additional transaction costs are required to initiate the corrupt transaction.³ Even more so, as the illegal nature of corruption requires secrecy, additional resources have to be expended to keep the transaction hidden. The efficiency of the state structure may also suffer from corruption as officials may create scarcity and delays in services in order to maximize their profits. Competition among the officials might lead to the further spread of corruption, and the avoidance of reforms within the state structure. At an overall level, perceived arbitrary and unfair patterns of civil service and the resulting uncertainty may undermine government’s legitimacy and, even worse, support organized crime, if corruption is linked to the facilitation of illegal business.
- While Mauro and Rose-Ackerman emphasize the consequences at a macro level, Murphy, Shleifer and Vishny (1991) concentrate on the individual. Looking from a micro perspective they argue that, if rent seeking is more lucrative than production work, highly qualified individuals would rather look for a position with a high potential for rent seeking than for work appropriate to

3 Anne Osborne Krueger already proved in 1974 additional welfare cost of competitive rent seeking.

his or her education. The loss of talent again reduces the potential for economic growth.

From the arguments discussed above it can be concluded that the long term consequences of corruption are negative, and thus, its restriction is essential for democratization and economic development. Therefore, in-depth research within countries on the causes is required (Kaufmann, Kraay 2002; Kaufmann 1998) in order to identify those factors favorable for corruption, and subsequently to develop strategies to curb it.

1.2 Georgia as relevant case

Corruption is pervasive in Georgia. Empirical data from a World Bank survey specify the unofficial GDP as a percentage of the total GDP in 1995 62.6 %, which is the highest share among 17 countries of Central Eastern Europe (CEE) and the Former Soviet Union (FSU) (Johnson, Kaufmann, Shleifer 1997: 183). More recent studies focus on firms' strategies to deal with public officials. Georgia ranks third among 20 CEE and FSU countries concerning the share of firms having paid bribes to avoid taxes and regulation (Hellman, Jones, Kaufmann, Schankerman 2000: 25). Asking about what percentage of revenues firms typically pay annually in unofficial payments to public officials, Georgia even leads the list at an amount of about 8 % (Hellman, Jones, Kaufmann, Schankerman 2000: 35).

Despite Georgia's negative ranking in terms of governance *it has attracted the attention* of various international actors. The *World Bank* finances huge projects, in particular in the Road and Health Sectors as well as in the field of Municipal Development. The *International Monetary Fund* approved a three-year arrangement under the Poverty Reduction and Growth Facility at an amount of about USD 144 million to support the government's economic program until June, 2007. Based on the Partnership and Cooperation Agreement (PCA) that came into force on July 1, 1999, the *EU* has established its relationship with Georgia. By means of its financial instrument TACIS (Technical Assistance to the Commonwealth of Independent States), the EU provides grant assistance to support various projects, in particular institutional, legal and administrative reforms. Recent measures include the formulation of the EU's relationship to the three South Caucasus countries within its European Neighbourhood Policy. At an economic level, various multinational companies have invested into geo-strategically relevant Georgia. Among them *British Petroleum* (BP) is the most powerful due to its leadership in the Baku-Tbilisi-Ceyhan pipeline project.

Last but not least, Georgia has attracted the interest of the *world media* since Mikhail Saakashvili declared the "*Rose Revolution*" and was elected president in January 2004.

1.3 Georgia's Higher Education System and Corruption

Investing in education means investing in the future, as education is a source for a country's human capital and means of innovation. Thus, the quality of any education system is a key factor for a country's political and economic performance. It influences a society's values and attitudes, but also affects the potential for future innovation, and thus, for economic growth.

Theoretical publications suggest a wide range of possible factors responsible for a high level of corruption. Among them, a lack of transparency and lucidity ranks first concerning administrative corruption (Tanzi 2000: 112 ff.). It is assumed that once the authorities' responsibilities, legislation on citizens' entitlement, as well as prices and procedures to obtain public services are transparent, public officials would face more limited opportunity to levy bribes, and citizens would be empowered to reject these demand for bribes.

The higher education system in Georgia, however, is known for its wide-spread corruption. The entrance procedure, in particular, and award of diplomas are both highly affected by bribery. Nevertheless, there are signs that the sector is relatively transparent. This *combination of pervasive corruption on the one side and apparent transparency* on the other provides an interesting case for further research in order to verify whether there is a causal relationship between corruption and transparency.

Finally, Georgia's higher education system was more accessible to me as a student than other sectors. When doing empirical research on a topic as delicate as corruption, a basic sense of trust and familiarity is required to receive as much information as possible. My background as a student allowed me first to better compare certain issues and second to provide information on the education sector in my own country once my interview partner became interested in the topic. This then led to better understanding and trust.

1.4 Focus of the Analysis

As outlined above, corruption has negative impacts on economic performance and democracy. Thus, research on its causes is essential in order to develop restraining strategies. Georgia presents a very relevant case study since corruption has pervaded almost all fields of the public sphere and, therefore, is seen as the main obstacle to economic prosperity. Corruption is particularly pervasive in the higher education system.

This paper investigates the internal structure of Georgia's higher education system. First, the often discussed claim that a lack of transparency and lucidity is responsible for a high level of corruption will be verified. Second, the formal relationship among public agents as determinant of administrative corruption is examined. Third, informal institutions, of Soviet origin in particular, are included in the investigations to conclude whether or not norms, values or habits are

responsible for the high degree of corruption in Georgia's higher education system.

This study is structured as follows: After introducing definitions and categories of corruption (Rose-Ackerman 1978, Johnston 1996, Jain 1998, Kaufmann 1998, Stykow 2002, Kurer 2003, Sturm 2003) in chapter 2, I will then discuss the causes of corruption suggested in theoretical literature in chapter 3. In doing so, I will examine three levels. The determining framework, namely wages, personal and country characteristics, are investigated in chapter 3.1. Chapter 3.2 deals with legislation, formal relationships within the principal-agent-client structure and monitoring as formal institutions. Informal institutions such as cultural and historical legacies are discussed in chapter 3.3. It should be noted that the core of recent publications concentrates on the second level mentioned – formal institutions. Here, the issues of monitoring and controlling, transparency and lucidity, penalty mechanisms, the discretionary power of public officials and the competition among them, as well as the opportunities for publicity all play an important role.

After discussing these various approaches to explaining corruption, I will apply the findings on Georgia's higher education system in chapter 4. The investigations are conducted in the light of Institutional Economics and thus, concentrated on actors and the way they shape both institutions and their formal relationships with each other. Relevant questions to be addressed include: Who is involved in administrative procedures? (actors) How is the Admission Committee set up? (formal and informal institutions) Do the members enjoy certain monopoly positions over admissions or is there competition among them? (relationship) Do they enjoy great discretionary power? Is the entrance procedure transparent? Are rules and regulations lucid? Does any monitoring or controlling body exist? Is there any penalty system in case of abuse of one's position? Were there cases of punishment resulting from corrupt practice? Is there any publicity on corrupt behavior? (formal institutions) Are officials satisfied with their wages? (socio-economic conditions).

To find answers on these questions I examine current publications on the Georgian higher education system. Most importantly, the World Bank is conducting a project on reforming the education sector. There are some very useful publications among the background research papers (Lorentzen 2000). The Transnational Crime and Corruption Center (TraCCC), Georgia Office, also deals with corruption in the higher education system and published the results of its survey recently (Rostiasvili 2004). The Georgian Young Lawyers' Association (GYLA) has also published two reports, one in cooperation with Georgian Young Economists' Association (GYEA) and Transparency International (TI) (GYEA a. o. 2002, GYLA 2003).

Additionally, I personally conducted stakeholder interviews in two stages. I spoke to experts who work on the issues as a third party, as I do. Among this group were government officials, members of the Georgian Chamber of Control,

academics and representatives of non-governmental organizations (NGOs), and experts working for the World Bank's reform project. I then interviewed teaching staff and students of TSU as persons being directly involved in the process.

Finally, chapter 5 summarizes the findings and draws conclusions. At first, I discuss the research results of my case and the perspectives of Georgia's higher education system in terms of corruption. Based on these results, I am trying to assess the ongoing reforms and to make recommendations concerning anti-corruption measures in the higher education system in Georgia. In a second stage, I outline some thoughts about applying my findings to a broader context. Although generalizing is risky, as sectors and countries demonstrate very specific characteristics, my findings hopefully contribute to a better understanding of corruption in other post-Soviet states and might be useful for developing anti-corruption strategies.

2 Corruption: Definitions and Categories

“No one has ever devised a universally satisfying ‘one-line’ (Philp 1987:1, cited by Johnston) definition of corruption” (Johnston 1996: 321) as “no definition ... will be equally accepted in every nation” (Gardiner 1993: 33). John Gardiner gives three reasons for that: the different legal definition of corruption, unequal effects of similar corrupt acts in different countries, and a variation in public opinion about corruption (Gardiner 1993: 33 – 35).

Thus, what authors intend when they apply the term corruption differs among disciplines, schools of thought, and in space and time. Roland Sturm examines three political science *approaches* that view corruption in very different ways (Sturm 2003). Table 1 presents a summarizing overview.

The traditional approach⁴ views corruption as a lack of political culture or as a disease of the society which consequently leads to moral wasting. The functionalistic approach at the other end of the scale assumes a certain benefit from corruption.⁵ Corruption is one option among many to fulfill society's needs.

4 Carl J. Friedrich and Paul Noack represent this approach among others.

5 Neil J. Smelser, for example, claims that corruption assumes system function by stating: “corruption can and does have numerous consequences that are anything but evil – providing welfare services for disadvantaged citizens that otherwise would be without them; ...” (Smelser 1971: 10).

Table 1: Political Science approaches and their assessment of corruption

Approach	Evaluation of corruption	Focus on
Normative/traditional approach	negative	continuous monitoring of corruption
Functionalistic approach	rather positive	consequences of corruption (ex post)
Rational Choice approach	value-free	causes of corruption (ex ante)

In this paper the value-free *Rational Choice approach* is chosen. As argued by Susan Rose-Ackerman (Rose-Ackerman 1978), for example, individuals are rational actors who make their decisions according to cost-benefit considerations. Positive and negative incentives play an important role for individuals' decisions. The Rational Choice approach asks *why* actors decide to participate in corruption. It tries to understand *causes* rather than looking at the effects of corruption. The approach's findings are of high value for policy decisions and in developing anti-corruption campaigns, since awareness of the causes allows *root causes* to be addressed and not just the symptoms. Additionally, in contrast to the other approaches mentioned above, the Rational Choice approach is able to partially forecast future trends rather than just examining the past or present.

In analyzing the causes of corruption in Georgia's higher education system the Rational Choice approach allows us to examine the relevant actors and their interests in a neutral way. It aims to find out why agents and clients cooperate, in order to identify the incentives that need to be in place to help curb corrupt practices in the universities' administrations.

Attempts to *define* corruption emphasize varying aspects and contexts of this phenomenon as outlined below.

The *Brockhaus Enzyklopädie*, for example, offers a broad definition: Corruption is "ein moralisch verwerfliches Handeln und Verhalten, bei dem bestimmte, allgemein anerkannte gesellschaftliche Grundsätze nicht mehr wirksam sind und das je nach Verbreitung und Duldung das gesellschaftliche Leben bestimmen und einen moralischen Verfall bewirken kann" (*Brockhaus Enzyklopädie* 1990: 386).

The *Gabler Wirtschaftslexikon*'s definition regards corruption in an Institutional Economics context: Corruption is defined as "vertrags- bzw. normwidriges Verhalten eines Agenten gegenüber seinem Prinzipal aufgrund der Entgegennahme von Geld oder Sachleistungen durch einen Dritten, der sich davon Vorteile

durch den Agenten erhofft“ (Gabler Wirtschaftslexikon: 1831). The *Handwörterbuch der Wirtschaftswissenschaft* as the *Brockhaus Enzyklopädie* emphasizes moral aspects: „Tausch, Normenverstoß, Mißbrauch einer Vertrauensstellung und Heimlichkeit sind [also] die konstitutiven Merkmale von Korruption“ but additionally, it refers to economic implications as the imperfection of (non-transparent) markets as well as corruption’s allocation and distribution effects (*Handwörterbuch der Wirtschaftswissenschaft*: 565 – 572).

The *Lexikon der Politik* gives a definition which is commonly used in recent publications. There corruption is “Mißbrauch öffentlicher Macht, Ämter, Mandate zum eigenen privaten Nutzen und/oder zum Vorteil Dritter durch rechtliche oder auch soziale Normenverletzungen, die i. d. R. geheim, gegen das öffentliche Interesse gerichtet und zu Lasten des Gemeinwohls erfolgen“ (Nohlen 1998: 336).

Arnold Heidenheimer was the first to categorize corruption definitions into three groups: public office-centered, market-centered and public interest-centered definitions (Heidenheimer 1970). Michael Johnston summarizes these definitions under the term “behavior-classifying” and adds Principal-Agent-Client definitions (PAC) and what he calls a neo-classic definition (Johnston 1996).

Behavior-classifying definitions

All behavior-classifying definitions refer to corruption as the “abuse of public office, power, or resources for private benefit” (Johnston 1996: 322). Similarly, Daniel Kaufmann defines it as “abuse of public office for private gain” (Kaufmann 1998: 131).

Public office definitions

Public office definitions are most often used and are rather “objective”. A person is corrupt when he or she violates formal rules of public offices to extract private gain. J. S. Nye’s version is most popular. He defines corruption as

“behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence” (Nye 1967: 417).

The advantage of public office definitions lies in their “objectivity” and thus, the relative clarity in their application: A set of rules is established. A violation of these rules is easy to identify, and personal gain in most cases, too. Nevertheless, public office definitions are criticized, namely for their non-conformity with public opinion. First, the motivation behind a corrupt act is neglected. Every act against the rules is considered corrupt, no matter how acceptable the rules are in

the public eye.⁶ Second, public office definitions are limited in their application to cross-country comparisons. Sanctioning behavior in contradiction to formal rules is seen as a specific Western attitude. In other cultures and in Western countries in the past, corruption was perceived very differently by the populace. Regarding anti-corruption policies, an issue is raised since changing formal rules could legalize bribery or nepotism and this then would not be seen anymore as corrupt. Additionally, legislative corruption cannot be explained by these definitions (Kurer 2003: 47).

Market-centered definitions

Market-centered definitions have been developed by those authors dealing with countries where “norms governing public officeholders are not clearly articulated or are nonexistent” (Heidenheimer, Johnston 2002: 8). Nathaniel Leff suggests that

“[c]orruption is an extra-legal institution used by individuals or groups to gain influence over the actions of the bureaucracy. As such the existence of corruption *per se* indicates only that these groups participate in the decision-making process to a greater extent than would otherwise be the case” (Leff 1964: 8).

Oskar Kurer considers these definitions as a sub-group of the category first mentioned and states that omitting the rules does not change the problem.

Public interest definitions

Public interest definitions are also rather „objective“. Carl Friedrich's version can be assigned to this category.

“The pattern of corruption can be said to exist whenever a power holder who is charged with doing certain things, i. e., who is a responsible functionary of officeholder, is by monetary or other rewards not legally provided for, induced to take actions which favor whoever provides the rewards and thereby does damage to the public and its interests.” (Friedrich 1966: 74).

This definition considers country-specific differences but assumes an agreement on public interest which is unrealistic, at least in democratic societies.

Public opinion definitions

This category, in contrast to that mentioned above, is “subjective”, and thus applicable to various cultural contexts and times: An act is corrupt if the public condemns it, referring to Scott (1972: 3 – 4). Similarly to the public interest

6 The example of a Jew bribing his way out of a concentration camp is often cited in this context (Rose-Ackerman 1978: 9, Johnston 1996: 323).

definitions, the problem lies in the fact that *a single* public opinion does not exist which then makes the definition ambiguous.⁷ Conversely, Transparency International uses exactly this concept of subjective perceptions to measure and compare cross-country corruption levels for its Corruption Perception Index (CPI).⁸ Furthermore, information on how public service is perceived by the public, contributes to our understanding on existing norms and value. It provides deeper insight into the causes of corruption and may therefore be useful in the planning of country-specific anti-corruption campaigns.

According to Johnston 1996, the problem with all behavior-classifying definitions is that they cannot be precise. Open questions will always remain: By what standards is the abuse of public office defined? What is public, what is considered private benefit? Responding to this deficit, Johnston introduces a new category: the Principal-Agent-Client definitions.

Principal-agent-client definitions

Principal-Agent-Client definitions (PAC) differ from behavior-classifying definitions in so far as the former analyze interactions between actors, rather than describing behavior patterns. It can be understood as a concept of the theory of Institutional Economics.

Susan Rose-Ackerman first uses what was later called the PAC approach. She describes (corrupt) interactions in the following way:

“While superiors would like agents always to fulfill the superior’s objectives, monitoring is costly, and agents will generally have some freedom to put their own interests ahead of their principals’. Here is where money enters. Some third person, who can benefit by the agent’s action, seek to influence the agent’s decision by offering him a monetary payment which is not passed on to the principal. The existence of such a payment does not necessarily imply that the principal’s goals have been subverted – indeed the payment may even increase the principal’s satisfaction with the agent’s performance. ... Thus, my focus is not limited to payments that have been formally declared illegal. Rather it embraces all payments to agents that are not passed on to superiors. Nevertheless, many third party payments *are* illegal, and it is only these which I shall call ‘corrupt’.” (Rose-Ackerman 1978: 6 – 7).

Rose-Ackerman’s corruption definition is narrow. It overlooks corruption where principals create conditions favorable for agents to extract money from clients and

7 Mark Philp illustrates this dilemma by noticing: “The norms of a local community may differ from those insisted on by a central authority or a political élite and they may differ between sections of the local population, either vertically [e. g., between different classes] or horizontally [different ethnic groups or segmented communities] or both (Philp 2002: 45).

8 Therefore, Transparency International conducts interviews with business people and risk experts on how they perceive the quality of public services in different authorities etc. every year.

then expect a share out of the illegal income. Nevertheless, it gives us a broad overview of issues concerning PAC interactions.

Robert E. Klitgaard's definition is broader. He states that

"[It] defines corruption in terms of the divergence between principal's or public's interests and those of the agent or civil servant: corruption occurs when an agent betrays the principal's interest in pursuit to her own" (Klitgaard 1988: 24).

In a similar way, Arvind K. Jain formulates "corruption as manipulation of power of government or sale of government property, or both, by government officials for personal use" (Jain 1998: 18).

Petra Stykow seizes the commonly used definition on the abuse of public office for private gain (Johnston 1996 and Kaufmann 1998) and discusses it under consideration of conflicts of interest, information and control asymmetry among principals, agents and clients. This leads her to a reformulation of the definition's key words and to a broadening of the concept of corruption. First, she suggests the term "violation of a contract" instead of "abuse of public office" to include implicit or informal components of contracts. Second, she emphasizes "Beziehungsdynaden mit partieller Interessendifferenz" (Stykov 2002: 94) instead of institutionalized dichotomy between public and private sphere. Third, she considers egoism in the sense of self-interest as normality rather than deviant behavior.

Johnston's – as he calls it neo-classical – definition is in line with Stykow's first reformulation as it considers formal institutions as well as social practice. He views corruption as a political and moral issue and defines it as "the abuse, according to the legal or social standards constituting a society's system of public order, or a public role or resource for private benefit" (Johnston 1996: 331).

To summarize the extensive and still ongoing debate on corruption definitions, it can be stated that the variation in definitions presents the wide range of country-specific attitudes towards corruption and science-specific approaches to this phenomenon. Speaking in Kurer's words "*definition pluralism*" (Kurer 2003: 50) illustrates the "*divergence between formal rules on one side and social norms and values on the other*" (Kurer 2003: 50).

However, the author of this paper favors the PAC definition given by Rose-Ackerman. When investigating administrative corruption at TSU, clients and agents are examined in order to make conclusions about their interests and restrictions. Illegal payments made by students or parents (clients) to influence university staff's (agents') decisions are considered corrupt acts.⁹ Whether or not shares are passed on to the principal will be secondary in my analysis.

9 Here the distinction between corruption and rent-seeking becomes clear. While most rent-seeking activities are legal (Krueger 1974) corruption is related to illegality.

Categories

Corruption can be categorized according to certain key characteristics. Referring to Kaufmann (1998: 135 ff.), table 2 presents an overview of some dimensions that are relevant to the scope of my study. They are discussed in more detail in chapter 4, where corruption in Georgia's higher education system is described. At this point the overview intends to provide dimensions to be examined when investigating specific cases.

The characteristics of corruption may determine its consequences and also indicate potentials for anti-corruption strategies. In this respect, it is worthwhile to characterize corruption before looking for causes.

The insight into definitions and categories will break new ground in the better understanding of the complex field of causes of corruption. The next chapter deals with theoretical approaches to this issue.

Table 2: Key characteristics of corruption

Parameter	Possible parameter values	
Size	high incidence	low incidence
Level of the Principal-Agent-Client (PAC) pyramid	political/grand	administrative/petty
Pervasiveness	individualized	systemic
Organization	centralized	decentralized
Predictability	high	low
Roots	history dependent	factually based

3 Causes of Corruption: Theoretical Approaches

As much as corruption definitions differ among scholars, causes of corruption are also analyzed from various points of view. If corruption is seen as located “an den Schnittstellen zwischen Wirtschaft und Verwaltung” (Bluhm 2002: 181) neo-classical economists, for example, may argue that reducing the state's regulatory intervention in the economy lowers corruption. Sociologists and anthropologists on the other hand emphasize social norms and duties like gift exchange when explaining variations in corruption across societies.

Additionally, there is a strong debate continuing for years on whether or not institutions matter at all. Inveterate disputants like Jeffrey Sachs support an eco-deterministic view by arguing that geographic variables more than institutions determine economic performance (Sachs 2003). In contrast, a recent paper by Daron Acemoglu, Simon Johnson and James Robinson (2004) examine economic institutions, geography and culture as determinants of economic performance. The underlying assumption is that institutions determine the way a society is organized. This pattern affects individuals' decision making in terms of whether they are encouraged to innovate, to take risks, to save for the future, to provide public goods or to educate themselves.

Acemoglu et al. theoretically argue that political institutions are responsible for the allocation of political power and for setting constraints on power-holders. The allocation of power determines economic institutions which then are held relevant for economic performance. Additionally, they found empirical evidence for a positive correlation between protection against expropriation risk as a measure of property rights, and income. In contrast, geography, in terms of climate and diseases, and culture only play a secondary role for economic performance.¹⁰

A final conclusion to this issue cannot be made. However, the author believes that institutions matter, which will be explained in more detail when discussing institutions and other factors as causes of corruption in the next sections.

In addition to the varying schools of thought outlined above, the range of disciplines also contributes to a broad field of approaches. A diverse array appears when collecting factors that might be responsible for corruption. According to Kaufmann, table 3 depicts an overview of approaches to relevant disciplines and corresponding focuses of research (Kaufmann 1998: 143 f). Those approaches which are not being discussed later on in more detail are briefly illustrated here, with recent survey findings in the footnotes.

10 Edward Glaeser and Claudia Goldin incorporate both views. Assuming the scale of government and economy is exogenous – and thus doubt the relevance of institutions – they argue that its increase in the US during its early history led to a rise in corruption. Once rules rather than discretion counted, control bodies as well as greater competition among government officials were in place and the media functioned independently – which demonstrates an institutional change – the US were able to curb corruption and ranks among the least corrupt in the world now (Glaeser and Goldin 2004).

Table 3: Multidisciplinary focus on causes of corruption

Approach	Focus on
Institutionalist approach	- institutional legacy - historical ethical values
Civil service management approach	- salary of public officer - qualification of public officer - procedure of recruitment - discretionary power of public officer
Lawyer's approach	- legislation - strength of enforcement bodies
Public finance approach ^{11, 12}	- procurement procedure - tax regime - tariff regulation
Political scientist approach ¹³	- elections - political liberties - control rights
Neoclassical economist approach ¹⁴	- level of state intervention in the economy
Sociologist approach ^{15, 16}	- civil society - press

11 Ades and Di Tella focus on state expenditures and conclude that “the extent to which public procurement is open to foreign bidders” and “the extent to which there is equal fiscal treatment to all enterprises” negatively correlates with the level of corruption (Ades and Di Tella 1997: 1030).

12 Rose-Ackerman investigates the relationship between market structure and corruption, and finds that “when the government purchases a good also sold on the private market, the incentives for bribery are substantially less than those obtaining when government is the sole purchaser” (Rose Ackerman 1975: 202).

13 Rose-Ackerman analyzes the impact of voting systems on corruption (Rose-Ackerman 1999).

14 In a more recent article, Ades and Di Tella show that corruption is higher in countries where domestic firms are protected from foreign competition (Ades and Di Tella 1999).

15 Michael Johnston emphasizes the importance of an active civil society by stating: „If government can be made accessible to opposition politicians, journalists, and members of the public, then

The institutionalist, the civil service management, and partly the lawyer's approach will be applied to my own research on the higher education system in Georgia. In this regard, I will discuss certain theoretical aspects of what determines corruption more extensively. Chapter 3 is structured as follows: The *civil management approach* corresponds to the issue of wages with section 3.1. Additionally, I will discuss the impact of exogenous viewed variables – like personal and country characteristics – on corruption propensity. Other aspects – like the recruitment procedure and discretionary powers – are illustrated in section 3.2 on formal institutions which are here understood as rules, regulations on administrative and decision making procedures. I also discuss the *lawyer's approach* and the influence of legislation on corruption in this section.

The *institutionalist approach* in Kaufmann covers both formal and informal institutions. The former are being added to section 3.2. Informal institutions, here defined as social norms, values, attitudes will be examined in section 3.3.

Determining framework: wages, personal and country characteristics

Before addressing institutions, this chapter deals with the influence of wages and exogenous factors like personal and country characteristics on corruption.

Wage levels

The relevance of adequate *remuneration* as a precondition for an honest civil service is widely recognized (Tanzi 2000, Klitgaard 1988). As civil servants might participate in corruption “due to greed and due to need” (Tanzi 2000: 118), the optimal wage rate for public officers is controversially discussed. In this context, two models leading to varying quantitative results are briefly presented.

The “shirking model” by Shapiro and Stiglitz (1984) assumes rational public officers aim to maximize their income, in reference to “corruption due to greed”. If bribes are high, and the probability of detection – as well as resulting penalties – are low, the model predicts the eradication of corruption by means of wage increases to be very expensive for the state budget.

The “fair wage model”, in contrast, assumes that public officers are not motivated by greed but by the perception of being remunerated unfairly (Akerlof and Yellen 1990). This suggests that raising wages to a *fair* level may reduce corruption to a minimum. Similarly, increasing wages to a minimum level might

checks and balances will be not only an administrative mechanism to counter corruption but a mechanism with support from powerful forces in society (Johnston 1999: 18).

- 16 Brunetti and Weder found that a higher freedom of the press is associated with less corruption. (Brunetti and Weder 2003).

limit “corruption due to need”. Caroline van Rijckeghem and Beatrice Weder argue that low wages force public officers to supplement their incomes illicitly, while high wages imply higher losses when getting caught (van Rijckeghem and Weder 1998).

Paying fair wages might not be limited to having direct positive effects on the level of corruption. Since corruption is often condoned by societies where wages are unrealistically low, fair wages might challenge public opinion to condemn corruption and support detection, indirectly leading to its reduction.

Van Rijckeghem and Weder investigated the impact of public sector pay on the extent of corruption empirically. They assembled a data set on the ratio of government wages relative to manufacturing wages for 28 low income countries. Checking for a broad variety of proxies they find a significant “negative association between relative civil service wages and corruption” (van Rijckeghem and Weder 1998: 14).¹⁷ This result contradicts the shirking model which predicts no significant correlation between wages and corruption. The fair wage hypothesis also appears not to hold for low wages “if bribe levels are also low and/or the probability of detection and penalties are high” (van Rijckeghem and Weder 1998: 21). Thus, the implications for wage policy are ambivalent, especially as corrupt governments tend to face strong budgetary restrictions and perceive their staff as capable of extracting sufficient income already.

Olivier Cadot also finds a negative correlation between wage rates and corruption by modeling corruption as a bilateral gamble, where the official asks for a bribe every time, whilst fearing that she or he may be reported and punished by a superior officer (Cadot 1987).

In this context, Vito Tanzi emphasizes the limits of wage policy by arguing that “high wages may reduce the number of corrupt acts, while they may lead to demands for higher bribes on the part of those who continue to be corrupt” – because as wages increase, the opportunity cost of losing one’s job (and higher income) increases as well. (Tanzi 2000: 119). Therefore, depending on the elasticity of demand for bribes, the total amount of money paid illegally does not necessarily fall due to higher wages for civil servants.

Shifting from pure wage considerations to more general economic examinations, the findings by Jens Chr. Andvig and Karl Ove Moene are especially interesting. Their model generates the impact of the profitability of corruption on its frequency and highlights that a temporary shift may lead to

17 Similarly, Assar Lindbeck attributes the low level of corruption in Sweden in the 20th century partly to the fact, that high-level administrators received an income 12 to 15 times higher than the wages of an average industrial worker at the turn of the century (Lindbeck 1998).

permanent changes in corruption (Andvig and Moene 1990). These results may explain the spread and persistence of corruption in some countries.

Public officers' remuneration may be seen as a crucial determinant when discussing corruption policy because it is a variable adjustable by government. There are however, other exogenous factors to be examined when discussing the factors favorable to corruption. In this context, a very recent survey by Naci Mocan (2004) examines personal and country characteristics, and their impact on the risk of exposure to bribery.

Personal characteristics

Regarding personal characteristics, Mocan finds from a micro-level data set from 49 countries that highly *educated* and *wealthy* individuals are more likely to be asked for a bribe as their income opportunities are considered to be higher (Mocan 2004). In contrast, a country's human capital level in general tends to be negatively associated with corruption. Thus, educated *agents* are seen to be less tolerant of corruption.

Mocan adds that men are found to be more corrupt since women have a tendency to be less active in the labor market and also less engaged in criminal activities which implies that they have to tolerate illegal activities to a much smaller extent. Anand Swamy and others investigated *gender aspects* in more detail. Using cross-country data they show that "corruption is less severe where women hold a larger share of parliamentary seats and senior positions in the government" (Swamy et al. 2001: 25).¹⁸ The authors further used micro data to draw conclusions concerning the gender-based acceptability of corruption. They find that 77.3 % of women believe that illegal or dishonest behavior is "never justifiable" whereas only 72.4 % of men agree with this thesis (Swamy et al. 2001: 28).¹⁹ Although the empirical findings outlined above appear significant and robust, explanations about *why* women have a tendency to be less corrupt are very vague.²⁰ Additionally, Swamy et al. cautiously suggest that the presence of

18 The women's proportion in parliament and government affects the incidence of corruption in different ways. First, legislative corruption itself presents a relevant dimension of political corruption, and second, the parliament influences corruption in terms of passing anti-corruption laws, setting corruption on the public agenda or encouraging civil society to focus on this issue. The government has impact on administrative corruption by recruiting lower-level officials and on political corruption by formulating and enforcing anti-corruption laws.

19 Swamy et al. used the World Value Surveys where data were collected in developed and developing countries in the early 1980s and the early 1990s.

20 Simplified, sociological vs. biological arguments dominate the debate. For more details, see Paternoster and Simpson 1996 or Jaggard 1983).

women in public life might reduce corruption “at least in the short or medium term” (Swamy et al. 2001: 26).

Mocan also suggests that public officers *in larger cities* may be more frequently involved in corruption since economic activity is more significant and the relationship between client and agent is less personal which according to Mocan, makes it easier for public officers to ask for bribes.²¹

Personality is an important factor for research on causes of political corruption by Donatella Della Porta and Alessandro Pizzorno. They look for the required capabilities for a politician becoming involved in corruption by concluding from investigations on political corruption in local government in Italy. Notably they find that “variations in the *willingness of people* to be corrupted, and therefore on what we would prefer to call the moral cost (as seen by them) of participation, is more influential than the structure of opportunities” (Della Porta and Pizzorno 1996: 87). They outline skills in illegality²² and networking²³ as required abilities for participating in corruption. From their findings it can be summarized that a person’s reference group plays a very important role for his or her participation in corruption: The moral cost of becoming involved in corruption will be lower – and thus the likelihood of participating in corrupt deals will be higher – a) if an individual enjoys a rather low *social status within his or her reference group*, b) if the person is a newcomer in this group, who consequently, seeks to escape her or his disadvantaged position in relation to established colleagues, c) if civic values upheld by the reference group are less homologous, and finally d) if *exit from the group* is less distressing for that person.²⁴ Although this survey focuses on political corruption the findings can be applied to administrative corruption too, as skills in illegality and networking are required there as well.

Country characteristics

Findings from the article “Corruption” by Andrei Shleifer and Robert W. Vishny will be discussed in more detail in the next section. Here, some conclusions concerning the impact of a country’s characteristics on corruption are explored. Shleifer and Vishny argue that countries with a *strong police, a small oligarchy*

21 This association can be put in doubt as a close relationship might also minimize the risk of detection.

22 Skills in illegality contain i. e. knowledge of people willing to participate in illegal deals, ability to act under stress of being detected, and resoluteness to intimidate citizens if necessary.

23 Here, “sociability” and “arrogance” are included.

24 For further reading on “voice” and “exit” as strategies for individuals as members of groups, Hirschman (1970) is suggested.

and a homogeneous society tend to face a more organized form of corruption. (Shleifer and Vishny 1993: 609). Mauro provides contrary empirical evidence in terms of the homogeneity of a society. Using data on ethnolinguistic fractionalization he finds that “[t]he presence of many different ethnolinguistic groups is [...] significantly associated with worse corruption, as bureaucrats may favor members of their same group” (Mauro 1995: 693).

In terms of government structure, Mocan refers to Weingast and Tanzi, respectively, and states that the impact of a *centralized vs. decentralized* government is unclear. According to Weingast a federal system is associated with a more honest government because it supports competition among various jurisdictions (Weingast 1995). On the other hand, Tanzi argues that a *federal system* might be more corrupt as there is more interaction between clients and government officials at the local level and “there are fewer centralized forces to enforce honesty” (Mocan 2004: 7, referring to Tanzi 1995).²⁵ Along the same lines, a large government provides more potential for interactions and resulting corrupt deals.

Taking into account a country's *endowment of raw material*, Ades and Di Tella indicate that these assets provide potential for government officials to extract lucrative rents and, thus rent-seeking behavior might lead to corruption and spread to other state sectors, too (Ades and Di Tella 1999).

A high level of corruption is also expected in countries with an *interrupted democracy* and the incidence of war in recent history (Mocan 2004). Regime changes usually imply a shift of power. In the transition process to a market economy, for example, the old elite loses control over former state resources. Privatization procedures are especially prone to corrupt practice. In particular *wars in recent history* and the absence of the rule of law create destabilizing effects. Once a war economy is established, warlords can enjoy high profits from smuggling drugs or weapons, from trafficking, or from the exploitation of natural resources (known as “Ressourcenfluch”). The networks among the participating actors are likely to remain in place in peace times. Thus when former warlords gain power within a new state structure they may still be in charge of or involved in the resource field and open to – what in peace times is called – corruption.²⁶

25 The latter argument, in particular, has to be doubted as there is no evidence that central government officials are less corrupt. Just Georgia is a good example to illustrate the vertical flow of bribes up to the top level.

26 Pranab Bardhan investigates the opposite causality between bad governance and war. He identifies an institutional failure in terms of the disappearance of mediating institutions as political parties as well as an electoral and constitutional system setting disincentives for mediating (Bardhan 1997: 65 – 94).

Finally, a country's status as a beneficiary of *international aid* should be considered. Robert E. Klitgaard (1990) describes how political leaders choose to extract huge sums of development credits to transfer them to their own or to their relatives' pockets once even advisors from international organizations turn out to be more concerned about their own careers than about the country's reality.

Formal institutions

Much effort has been made by international donors to establish a framework of appropriate institutions in developing and transition countries. Still, it is a controversial topic whether or not the adjustment of formal institutions has improved governance in the countries addressed.

The author views institutions as essential for a country's performance in terms of governance as well as economic development. Therefore, this chapter deals with theoretical approaches on how formal institutions might have an impact on corruption.

As corruption appears in bureaucracies, it is argued that reducing the size of the state structure will limit corruption. It is certainly true that economic performance, especially among small and middle-sized enterprises in some transition countries, suffers from an oversized state apparatus. Still, just reducing the *size* of this bureaucracy does not solve the problem of corruption. "Rather the *way* the state operates and carries out its functions is far more important than the size of public service activity." (Tanzi 2000: 112)

As the focus of my research is on petty corruption in the higher education system in Georgia, and thus at the administrative level, I will concentrate on administrative corruption as well when discussing the theoretical background on this issue.²⁷

27 Concerning political corruption, some approaches are briefly summarized for the interested reader: Political corruption, in most cases, involves the state budget. Concerning *public expenditures* corruption may occur where huge investment projects are assigned or procurement contracts are signed, and the tender is not fair. In these cases, not the cost-effective and high-quality proposal wins the award but the offers by high ranking government officials' supporters. Additionally, if the governments are engaged in provision of goods and services at below the market prices, i. e. credit, electricity, water, access to educational facilities or public land, or special forms of pensions, government officials face opportunities to favor their relatives or politically loyal persons over entitled and vulnerable. Referring to *state revenues*, much emphasize has been put on research on taxation. In the context of political corruption, decision power over tax exceptions or on special conditions allows officials to extract extraordinary bribes. For all cases mentioned above, it is argued that lack of transparency over administrative procedures as well as a high discretionary power enjoyed by government officials in key positions and possibly a lack of appropriate legislation are responsible for unjustified enrichment by officials (Rose-Ackerman 1975, Tanzi 1998).

Legislation as norm-setting instrument

Clearly legislation determines the way a society, and this includes the bureaucracy, is supposed to function. Ades and Di Tella investigate correlations between the *independence of a judicial system* and corruption (Ades and Di Tella 1996). The World Development Report 1997 concentrates its research on the quality of legislation. Using a private sector survey they find that the *predictability of the judiciary* significantly affects the level of corruption (World Bank 1997: 104).

Vito Tanzi (2000) states that a *wide range of requirements*, including licenses, permits and authorization exists in many countries, in transition and developing countries in particular. If a person wishes to open a shop, to travel abroad, to borrow money, or participate in foreign trade or just to drive a car, a certain authorization is required. The need to obtain these certifications provides officials with a certain power over the applicants (sometimes indeed, a monopoly). By delaying decisions or even refusing authorizations, bribes can be extracted from those who need the permits. This problem reflects a government's regulatory framework which often lacks coherence and/or might be difficult to understand.

This leads to the issue of *lucidity and transparency* in laws, rules and procedures. Many are confusing, or often not publicly available, or changes are not properly announced. The more opaque the regulations, the more time that has to be spent at the authorities' offices to clarify imprecise issues. Where there is a more frequent agent-client communication one party might choose to avoid the lawful but time-consuming procedures to "get things done more quickly" by illegal means.

Unfortunately, public officers profit from a lack of lucidity and transparency, and even more from inconsistencies in administrative instructions. The possibility of different interpretations provides the bureaucrat with a high level of *discretionary power*. It is assumed that an increase in discretionary power leads to more subjective decisions, and thus correlates with increased potential to extract bribes to influence these decisions.

The issue of discretionary power becomes especially relevant if the public officer makes decisions concerning access to public goods or services below market price, and other exemptions. Besides access to educational facilities in the non-payment sector which will be discussed in my case study in chapter 4, other examples include the free provision of electricity or water, access to disability pensions, to land or public housing, or the exemption from tax payments.

Nevertheless, the legislation is a normative concept only. Although appropriate laws and regulations are necessary for authorities to carry out their duties in a proper way, their existence does not guarantee compliance with them. Even after legal reforms the extent of corruption typically does not change.

Vertical and horizontal relationships of the principal-agent-client structure

Shleifer and Vishny (1993), Olson (1993) and Tanzi (2000), among others, outline various other formal institutions that are assumed to have an impact on corruption. As it will become clear in chapter 4, the internal structure of public administration, as well as the relationship of its agents to the principal on one hand and the clients on the other, is of greatest significance.

In the spirit of Institutional Economics and referring to the Principal-Agent model, Andrei Shleifer and Robert W. Vishny analyze the *relationship among the agents*. Their model describes officials as *independent monopolists, joint monopolists and officials in competition*. In the first case different state agencies provide public goods or services independently and take the other agency's sales as given, whereas joint monopolists take into account the effects of an extra unit sold by the other officials. Regarding the level of each bribe, they conclude that competition among officials leads to the lowest level of bribes, joint monopoly to an intermediate level and independent monopoly to the highest level of bribes. But the total amount of revenues collected is higher in the case of joint than in independent monopoly (Shleifer and Vishny 1993). Nevertheless, the sum extracted by independent monopolists becomes very high when the complementarity of public goods can be artificially created. In these cases, "opportunities for corruption stimulate the entry of permit-dispensers armed with new regulations" Bardhan 1997: 19).²⁸

Bardhan refers to this concept and explains the increase in the inefficiency of post-Soviet Russia by a change in the internal structure of the administrative system after the collapse of the Soviet Union. While "the Communist Party centralised the collection of bribes and effectively monitored (sometimes with the help of the KGB (the State Security Committee of the former Soviet Union) deviations from "agreed" patterns of corruption. Today, the different ministries, agencies and levels of local government all set their own bribes independently in a decentralised attempt to maximise their own revenue." (Bardhan 1997: 19) This is an interesting observation which will be picked up in chapter 4 to establish whether or not it is applicable to administrative corruption at Georgia's higher education system.

While Shleifer and Vishny investigate the horizontal relationships among the agents, Mancur Olson provides a very interesting insight into *vertical agent-clients relationships*. He introduces a time horizon to distinguish between two agents: The "*roving bandit*" is concerned about the present, only. For him,

28 Bardhan illustrates his observation as follows: "... just when you think you have bribed two agencies to get the required two permits, another independent monopolist comes along and tells you that you need a third permit from him ..." (Bardhan 1997: 19).

extracting money out of his subjects is a one-time game: Once he exhausts his domain he “roves” further. The “*stationary bandit*”, in contrast, has an “encompassing interest” (Olson 1993: 569) in his domain in the long term. It pays him to invest into his domain by providing public goods like security, as this investment generates more income and gives incentives to save which then increases the potential for further extractions. Although Olson discusses the issue of governors aiming to maximize their tax revenue, the concept is also applicable to state officials trying to maximize the amount of bribes.

Returning to Shleifer and Vishny and taking into consideration the *relationship between agents and the principal* they identify two cases of *corruption*: “*without theft*” and “*with theft*”.²⁹ In the former, the total price equals the official price plus a bribe. The bribe goes into the official’s pocket while the official price is transferred to the state budget. The latter case implicates a bribe lower than the official price, and the official does not turn over anything to the government. He or she makes profit out of the whole revenue. Concerning the spread of corruption, Shleifer and Vishny conclude that corruption with theft is “more persistent” as it “aligns the interests of the buyers and the sellers” (Shleifer, Vishny 1993: 604). Additionally, they emphasize the competition among the officials as well as among the buyers in the case of theft: If officials had to pay to get the job at the initial stage, they are “forced” to clear the expenses by demanding bribes. Buyers in the case of theft, on the other hand, will not be competitive in the market if their expenses for certain public goods or services exceed those of their competitors.

Presumably, bribing into Georgia’s higher education system, at least in the non-payment sector, is best described as “corruption without theft”, but as administrative corruption is more complex chapter 4 will deal with it more concretely.

Monitoring and punishment as a control mechanism

A further formal institution being discussed as a cause of corruption is whether or not there is *institutional control*. The media or an anti-corruption commissions, for example, could function in this respect. This approach of external “voice” to improve the quality of service and reduce corruption is supported by Kaufmann, Mehrez, and Gurgur (2002) in their empirical micro-survey of public officials within a country. This paper will concentrate on control bodies *inside* organizations. It is assumed that the existence of internal institutional control

29 Ingo Pies picks up the approach of corruption with and without theft. He calls the two cases Entlastungs- (EK) und Belastungskorruption (BK) and concludes that EK implicates harmony of interests while BK goes along with conflict of interests between the official and the private client (Pies 2002).

might reduce corruption by monitoring, supporting publicity and punishing offences. Independence from political influence as well as the power to enforce penalties are seen as essential for any success.

Theoretically, higher *penalties* are supposed to discourage agents and clients from involvement in corrupt deals. A number of issues remain however that cast doubt on this strategy. First, as discussed in the context of wage increases, the introduction of “higher penalties may reduce the *number* of corrupt acts but they may additionally lead to demands for higher bribes” (Tanzi 2000: 120 f.). Second, in reality only a few officials have ever been penalized and the administrative procedures to punish corrupt government officials is slow and cumbersome and can cost friends and social capital. Third, judges themselves might be susceptible to bribes. Fourth, the probability of being punished at all decreases as more officials are involved in corruption, “since it is cheaper to be discovered by a corrupt than by a non-corrupt superior” (Bardhan 1997: 30).

Informal institutions

Informal institutions present the opaque complement to rather easily accessible formal institutions. The former results from history, traditions, culture and varies in terms of country and history. Informal institutions influence individuals’ and societies’ values, preferences and beliefs. Due to their vagueness, academic literature on this aspect tends to be descriptive and anecdotal. Although historical sources on bureaucracy, culture and tradition exist, their impact on contemporary corruption-promoting institutions has not yet been researched in detail. This chapter provides an overview.

The roots of current informal institutions discussed below date back to the beginning of bureaucracy, but cover legacies from the Soviet period too. It is intended here to distinguish the discussion of informal institutions as causes of corruption between pre-Soviet traditions, Soviet legacy, and Post-Soviet practice – although the borders appear to be blurred in practice.

Informal institutions of pre-Soviet origin

In chapter 3.2.1 the legislation is discussed in the context of formal institutions. The impact of current laws, rules and regulations on corruption are examined. This chapter, in contrast, investigates historical traditions of different law systems as informal institutions. It considers whether the *formulation and original intent* of laws matter for today’s legislative development. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) compare the Anglo-Saxon common law system and the civil law system which is often found in continental Europe. La Porta et al. (1998) argue that the common law system developed in England in the 17th century has been shaped by the parliament and aristocracy at the expense of the

crown ... As a consequence, British common law puts emphasis on individuals' private and property rights, and intends to limit, rather than strengthen, the power of the state. ... In comparison, French civil law, Scandinavian civil law and German civil law are designed as instruments of the state to expand its power; and socialist law is manifestation of the state's intent to create institutions to maintain power and extract resources without regard for protecting economic interests" (Mocan 2004: 6). Thus, *individuals under continental-European and especially socialist law are expected to face a higher level of corruption.*

Additionally, Daniel Treisman is interested in exploring how far the *practice of law enforcement* – he terms it “*legal culture*” (Treisman 2000: 402) – differs. He mentions “an almost obsessive focus on the *procedural* aspects of law” in Britain, whereas “respect for hierarchy and the authority of offices” are much more relevant in other cultures (Treisman 2000: 403). This aspect of legal culture is seen as a second reason why individuals under British-influenced laws are less likely to face corruption.

Shifting from the origin of legislation to the original practice of bureaucracy, Susanne Schattenberg focuses on the issue that “[b]is zur *Einführung des Beamtenlohnes* zu Beginn des 18. Jahrhunderts [...] es in Russland nicht nur üblich, sondern vom Landesherren vorgesehen [war], dass der Beamte vom Bittsteller, dem er einen Dienst erbrachte, bezahlt wurde” (Schattenberg 2003: 86). Thus, the common practice, or even the requirement, to earn income by using one's position before public sector wages were introduced might explain why individual payments for public service are still common in bureaucracies influenced by the Russian practice in the 18th century.

Finally, *religion* as an informal institution might also have an impact on public officials behavior today. Treisman identifies two scenarios. First, he argues that religion may determine attitudes towards social hierarchies. In Catholicism, Islam, and Eastern Orthodoxy which are predominantly hierarchical, loyalty to family members might be higher than to unknown individuals or office requirements. Protestantism, in contrast, is seen as more egalitarian and individualistic as to favor spouses. This difference may affect the level of nepotism. Second, Protestantism developed in opposition to state-supported religion and thus functioned as a monitoring institution to denounce abuse by state officials. In other religions, state and church were more intertwined and state activities were monitored much less (Treisman 2000: 403). In this context, Acemoglu et al. (2004) emphasize Protestantism's idea of predestination. This combined with high values of hard work and thrift can be interpreted as opposing corrupt practice (Acemoglu et al. 2004: 15).

Soviet legacy

The relevance of Soviet legacy for the current persistence of corruption can best be understood by focusing on its functionality. Sociologists often examine

corruption as deviant behavior. Durkheim (1984), for example, argues that deviant behavior is functional for a society, even if only to initiate a condemning sanction to confirm the validity of social norms. For Ilja Srubar, corruption presents a system induced but also a system stabilizing mechanism. He summarizes as follows:

„Wir finden [...] im Realsozialismus Osteuropa allgemein eine systeminduzierte, d. h. durch die Einparteienherrschaft und die Planwirtschaft [Mangelwirtschaft, the author] hervorgebrachte, spontan regulierte Alltagskultur der Korruption vor, auf deren Netzwerken in unterschiedlichem Maße organisierte Korruptionsformen aufbauen, die von Land zu Land in ihrer Verbreitung und Reichweite variieren. Systemisches Niveau erreichen die Korruptionsformen im realen Sozialismus insofern, als sie von der kommunistischen Partielite als ein Versorgungsmechanismus [der Betriebe zur Planerfüllung, the author] toleriert und als ein Herrschaftsmittel [Verhinderung eines Systemsturzes, Konzentrierung der Bevölkerung auf Konsum, anstatt auf politische Proteste, the author] einkalkuliert werden“ (Srubar 2003: 161).

Shleifer and Vishny (1992) pick up the issue of shortage under socialism. In contrast to Srubar, they focus on actors instead of structures and assume rational, self-interested socialist planners and firm managers. As both respond to incentives and neither is able to maintain official profits out of selling goods, they are interested in cutting output *and* prices in order to maximize unofficial profits, namely bribes. These mechanisms are still applicable for the public services. Artificial shortages or procedural delays, inherited from the Socialist period, create opportunities to extract bribes. Here, the Soviet legacy, as an informal institution, may have influenced the establishment of formal institutions and may still determine bureaucratic practice.

Ingrid Oswald also argues in the spirit of an actors-centered theory. She comes from what she calls “*Korruptionstriade*” (Oswald 2002: 43), the hierarchical structure between a principal, an agent and a client, and applies this approach to Russia. Referring to Kordonskij (2000), Oswald identifies the roots of “*administrative markets*” as being the parallel structure of administrative and political hierarchies during the Soviet period. Every administrative instruction had to be confirmed by political authorities, and every such directive was adjustable and suspendable. In this way, power had preference over the rule of law which in turn led to the establishment of a strong discretionary power within authorities. The dominance of power over law survived the collapse of the Soviet Union as an informal institution which still prevails: When obtaining certain administrative services the client faces an official price plus an additional rate the agents demand for proceeding with the request. The principal, here defined as the agent’s superior, condones this deviant behavior or is not capable of eliminating it.³⁰

30 The effects of „administrative markets“ are especially devastating when looking at the privatization of state property. Not only state assets were sold this way but also rights to further regulate the privatization procedure.

Another informal institution established during the Soviet period and still prevalent today is what Ledeneva (1998) terms *blat*. *Blat* is understood as the usage of personal contacts in order to get access to public resources whilst formal procedures are avoided. *Blat* takes place in everyday life, and amongst family members, friends and neighbors at a socially lower level. Thus, *blat* appears predominantly at a horizontal level, but the vertical aspect becomes apparent when entering the public sphere. Here, *blat* practice continues among colleagues ("*kleiner Dienstweg*" Oswald 2002: 58), and might lead to corrupt practice by affecting decisions that public officers have to make.³¹

Post-Soviet phenomena

Pervasive corruption implies institutional weakness.³² Under conditions where the state monopoly of violence is almost absent, "markets of violence" (Elwert 1997) are likely to appear, and strong pseudo police forces are able to gain power: das "*Gewaltunternehmertum*". Although a network of so-called thieves-in-law was already established and active during the Soviet period, *Gewaltunternehmer* are only seen as temporarily predominant over state authorities in certain regions since the collapse of the Soviet Union. *Gewaltunternehmer* use or threaten violence in order to provide security or ensure contract enforcement, and gain profit out of these (entrepreneurial) activities. Referring again to Oswald's "*Korruptionstriade*", she argues that the principal as normative guarantor for security is not in place. Instead, private individuals compete for this position, and are able to compel agents as well as clients to pay (monetarily or by using political influence) for their services. It is questionable whether corruption is a cause or a consequence of *Gewaltunternehmertum*. Nevertheless, the threat of violence may have an impact on government officials' decisions.

31 Nevertheless, the impact of *blat* is discussed controversially. According to Oswald, individuals availing themselves of this practice usually emphasize its necessary and altruistic character. Intended and calculated reciprocity is often denied. Still, individuals without this privileged access to public goods have to bear the costs (Oswald 2002: 56 f). [http://en.thinkexist.com/quotations/ University/](http://en.thinkexist.com/quotations/University/)

32 It should be noted that this view is challenged by Barbara Christophe. She disagrees that state failure to enforce laws or to protect public resources is due to its weakness. Contrarily, she interprets this malfunctioning as for the acting elites cost-efficient option of state-building (Christophe 2003: 8).

Where informal institutions are very influential ...

While the last three sections attempted to categorize informal institutions historically, two further phenomena which suggest the importance of informal institutions are discussed here: the quality of the bureaucracy and the perception of corruption.

“Absence of politically motivated hiring, patronage and nepotism, and clear rules on promotion and hiring ... contribute to the quality of a bureaucracy.” (Tanzi 2000: 118) These factors again depend on the incentive structure and traditions. What Tanzi argues theoretically, Peter B. Evans and James E. Rauch (1996) demonstrate empirically: Meritocratic *recruitment* significantly determines bureaucratic performance.³³ It is expected that those entering the civil service through a formal examination system, for example, experience that merit is valued highly by superiors. Therefore, the new recruit is likely to have a higher degree of work morality, and might be less inclined to engage in corruption. In contrast, individuals employed within the state structure as a result of nepotism are likely to reciprocate, and thereby to favor relatives or benefactors over entitled persons. Bardhan confirms this statement. He observed that “allegiance to kinship-based or clan-based loyalties often take precedence over public duties even for salaried public officials” (Bardhan 1997: 28).

According to Srubar, it cannot be expected that contemporary established corrupt structures will vanish in the near future. Governments are able to place anti-corruption issues on their agendas but a new policy will only influence formal institutions in the short term. Due to what is termed *cultural lag* (Ogburn 1964), societies tend to keep informal institutions once they are perceived as functional.

This *perception* again depends to a certain degree on how many other people we expect to be corrupt (Bardhan 1997: 28). Once corruption’s collective reputation is positive, a society can easily fall into a vicious circle where more and more individuals are captured. To diminish informal institutions as causes for corruption, positive examples set by the leadership (Tanzi 2000: 121) and the commitment to corporate goals (Evans and Rauch 2000: 52) are seen as helpful.

Summarizing the discussion on the possible causes of corruption, it can be stated that every option is worth keeping in mind when investigating the reality of a particular situation. The next chapter deals with Georgia’s higher education system. The theoretical approaches examined above are applied to identify the causes of pervasive corruption in this sector. The internal structure within Georgia’s higher education system will be the main focus.

33 The impact of competitive salaries as well as career stability, in contrast, do not have such huge influence (Evans and Rauch 1996).

4 Application to Georgia's Higher Education System

Administrative structures of state bureaucracies are difficult to see through, especially as a foreigner. As a researcher one is confronted with hidden hierarchies, unknown “rules of the game”, different mentalities and dos and don'ts, and all at the same time. Thus, research requires a certain *previous knowledge* of overall issues of the country and even more urgent *access* to the field of interest. For me as a student, it turned out that the higher education system was the best option to conduct research without ending up having no more than a selective insight into the structure. The *administrative* level of corruption from the tuition phase to the final grades appeared as particularly interesting as the way students enter seems to be significant for the whole study time up to receiving the final diploma. Additionally, sums paid for entering universities can be as high as 20,000 USD at the Law faculty at TSU, for example. Furthermore, the administrative level seems more accessible in comparison to the fields of university funds and procurements which is related to the examination of *political* corruption. I have chosen TSU as a case study for my research as it is the largest and most prestigious state university in Georgia.

Methodology

The findings of my research are based on primary as well as secondary resources. I have stayed in Georgia twice: for an internship in 2002 and for this field research in 2004, in total five months. For basic knowledge of the country's specificity I extensively familiarized myself with various reports and news, and with personal contacts.

Some research on the education sector has already been conducted. The International Institute for Education Policy, Planning and Management (EPPM), which supports the educational reform in Georgia by research, policy analysis and consultation, produced some relevant reports on certain issues of the education system. A recent publication by the Transnational Crime and Corruption Center (TraCCC), Georgia Office's former director Ketevan Rostiasvili provides very detailed material on corruption at the political and administrative level at TSU and also gives background information on Georgian anti-corruption legislation and the origin of corruption during the Soviet period. A detailed data report designed by the Copenhagen Business School (and now the basis for the education reform) provides very useful information on the aspects of labor market adequate syllabi, teaching methods and curricula, and education management. Additionally, the Georgian Young Lawyers' Association (GYLA) as well as the Chamber of Control investigated the education system. Their focus was rather more at a level of political corruption, meaning the usage of funds. Lastly, some articles have appeared in the local press from time to time.

The sources mentioned above provide background information on legal, political, economic and institutional issues in the education sector. The question of causes of corruption has not risen, yet. Thus, stakeholder interviews (see: appendix 1) were conducted in order to collect more precise information on administrative practice and experiences by those involved. Stakeholders are classified into two groups: experts (third party) and those personally involved. The former group contains representatives of Transparency International (TI), American University's Transnational Crime and Corruption Center (TraCCC), GYLA, and the Chamber of Control. Additionally, scholars in charge of the World Bank reform project³⁴ and representatives of the Ministry of Education and Science provided useful information on the reform plan. The group of personally involved individuals includes students, their parents and the teaching staff of TSU.

Research on corruption at Georgia's higher education system is only just beginning. Due to the limitation of data available and collectable no quantitative analysis is possible. Furthermore the topic is delicate, and explosive questions cannot be posed directly. That is why all interviews were designed as narrative interviews and led to qualitative statements. Any numbers like sizes of bribes given by interview partners might be estimated and could not be verified. Most of the interviews were conducted in English, Russian or German. Two interview partners preferred to speak in Georgian and their responses were translated into English. The interviews were held from August until October 2004.

Empirical research faces certain limits relating to time and the reliability of the information collected. As a *Magisterarbeit* is supposed to be written within five months my field stay was limited and so was the number of interview partners. I still was able to receive a detailed and reliable picture of who is in what way involved in the entrance procedure and what interests are predominant. Concerning the reliability of information I carefully double checked answers given to me during interviews and outside of interviews.

Georgia and its Higher Education System

This section provides a short overview on the state building process in Georgia and the situation of the higher education system.

Georgia declared its independence from the former Soviet Union on April 9, 1991. Zviad Gamsakhurdia became the first elected president but was deposed in the aftermath of the fighting in central Tbilisi between government troops and opposition militias a few months later. Eduard Shevardnadze, minister of internal

34 The two interview partner in charge of the World Bank project very especially helpful as they were additionally working within the university structure and had studied in Georgia as well as abroad.

affairs in the Georgian Soviet Socialist Republic from 1964 to 1972, returned from Moscow³⁵ and became the new president. Major reforms towards market economy were conducted but the political and economic performance remain insufficient.

With Shevardnadze's return to Georgia the old nomenclature regained substantial influence in the government structure. Soviet networks were reactivated and old patterns of bureaucratic procedures seem to have been re-established. Chapter 4.3 analyzes this issue in more detail.

The Transparency International's Corruption Perception Index (CPI) 2004 indicates Georgia as one of the most corrupt states in the world. It ranks 133rd together with the Democratic Republic Congo, Turkmenistan, Tajikistan and others. Only seven countries are seen as more corrupt than Georgia. A World Bank cross-country comparison of governance indicators in 2002 presents similar results. Using a data set of 199 countries and a ranking between 0 (worst results) and 1, Georgia ranks between 0.2 and 0.3 concerning its government effectiveness and regulatory quality. In terms of the rule of law and control of corruption the results are worse (about 0.1). Only "voice" and accountability measured higher (0.4) whereas political stability and absence of violence range lower than 0.05 (Kaufmann, Kraay, Mastruzzi 2003: 53 – 55). In another empirical assessment of 20 transition economies conducted by the World Bank in 1999, firms were questioned about their business environment. In the case of Georgia the respondents picked corruption along with inflation and taxes and regulations as the major institutional obstacles (Hellman, Jones, Kaufmann, Schankerman 2000: 19).

Consequently, curbing corruption is one of the government's highest priority objectives as declared at a "Compact to Promote Transparency and Combat Corruption" by the G8 states and Georgia, and at a donors' conference held in Brussels in June 2004. Concrete measures mentioned in those documents are being discussed with respect to this chapter's findings in chapter 5. Next, Georgia's higher education system will be introduced.

Education always enjoyed high prestige in Georgia. After gaining independence from Russia in 1918 a national university was established the same year. During the Soviet period, Georgia had the highest share of the population with a university degree among the republics of the Soviet Union. After its collapse, Georgia's higher education system faced a tremendous reduction in its budget.³⁶ Nevertheless, new state and especially private institutions of higher

35 He was Soviet foreign minister from 1985 to 1990.

36 The share of education expenditures out of the total state budget decreased from estimated 24 % in 1991 to 3.3 % in 2002, whereas OECD countries spend 14 % of their budgets on education. The share of expenditures on higher education of total education spending remained almost constant. Total spending on education in Georgia is one of the lowest in the Commonwealth of Independent States (CIS) region (Eurasia Foundation 2003: 15 f.).

education have been established since then. According to the Department of Statistics, Georgia's higher education system comprised 26 public education bodies, including universities, institutes and cultural academies, and 159 private bodies in 1997/98 (Eurasia Foundation 2003). The Ministry of Education even names 214 private bodies in 2000 (Sharvashidze 2002: 5). A huge array of new bodies in the education sector started operating particularly at the beginning of the 1990's as the *accreditation procedure* was still unregulated and almost no license was refused by the Ministry of Education. Decisions were made without study programs having been subject to independent review. Complaints about this practice prompted the Ministry to stop issuing licenses in 1996 (Eurasia Foundation 2003) and to set up an accreditation council responsible for organizing the procedure, producing corresponding directions and analyzing its results. Up to 2003, the accreditation procedure has not changed, and the Ministry of Education continues to issue licenses for the establishment of new universities (Georgian Young Lawyers' Association 2003: 12 f.).

A similar picture of the misuse of power appears when examining the budget of the Ministry of Education. A survey on expenditures in 2001 carried out by Georgian Young Lawyers' Association (GYLA) and the Georgian Young Economists' Association (GYEA) and supported by Transparency International – Georgia finds evidence for misuse of public funds by the Ministry. According to the report (GYLA et al. 2002)³⁷, “2.7 million GEL (Georgian Lari)³⁸ ... are moving around in the accounts of commercial banks with ignorance of the treasury service”. “Neither the Ministry nor Chamber of Control exercise control ...”. In particular, the number of students admitted into state higher education bodies “always exceeds the number determined by [the] state”, in 2000/2001 by 2,846 students. Those students are added to the payment-sector and are a source for supplementary funds. Furthermore, the law of tender was violated when purchasing services from private businesses, and regulations on accounting were completely disregarded. Not only were large-scale purchases (of food) made through cash transaction, corresponding documents were also identified as fakes where, for example, names of persons who issued the document did not correspond with the stamp.

The Ministry of Education and Science, together with the Ministries of Finance and Economy, and the Office of the State Chancellor manage the Georgian higher education system at a national level. The president appoints the rectors of public

37 There are no page numbers included in the report. Thus, sources of quotations are not stated correctly.

38 1 GEL = 0.55 USD (January 12, 2005)
<http://www.bloomberg.com/analysis/calculators/currency.html>

universities who together comprise the *Council of Rectors* which serves as an advisory board to the president and relevant ministries. This Council's recommendations carry great weight, and its members enjoy enormous public status. The universities themselves enjoy great autonomy in their decisions on personal and budget. Rectors of private universities are mostly appointed by their owners or founders.

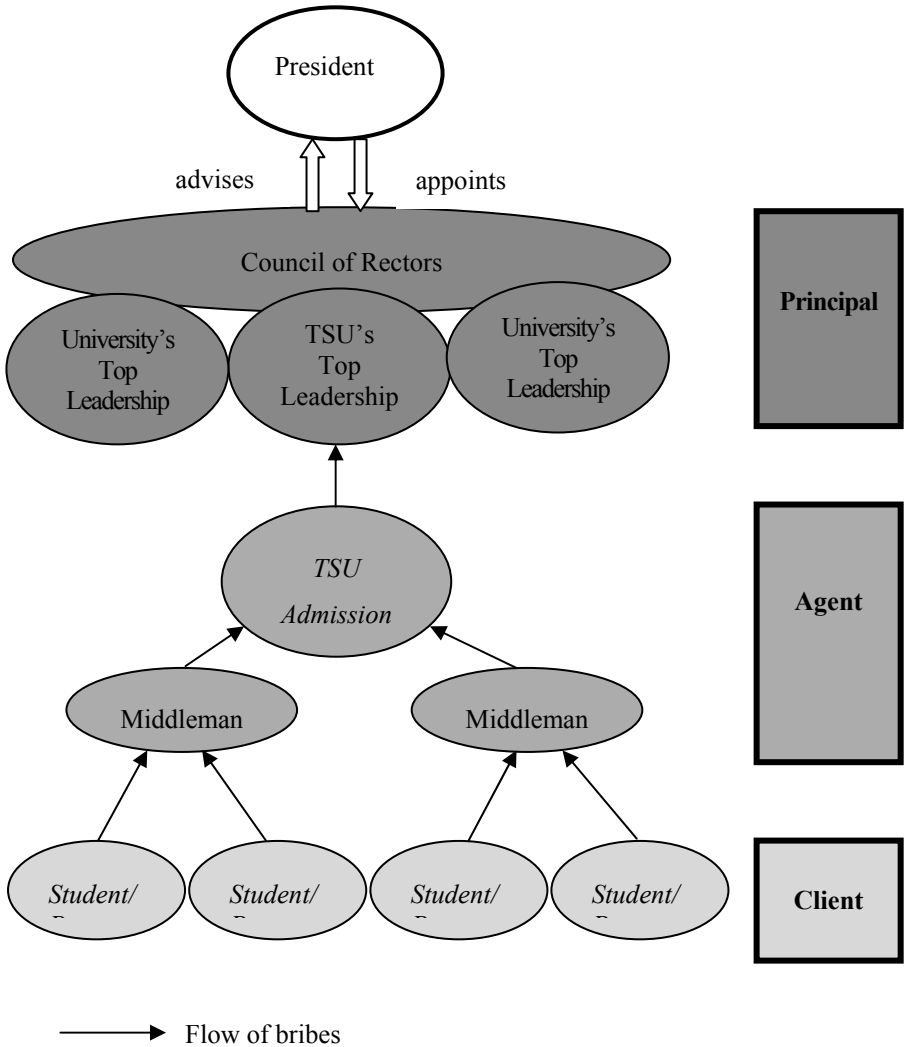
In figure 1, the principal is presented by the university's top leadership who seeks to control its agents in the position of professors and instructors (teaching staff). Clients are students or their parents, respectively who seek to obtain the public good education and therefore contact one of the agents.

Moving to the Ministry's subordinated bodies it can be stated that the most important education providers are located in Tbilisi. Remarkably, four public universities (Ivane Javakhishvili Tbilisi State University (TSU), Georgian Technical University (GTU), Georgian Agricultural University (GAU), and Tbilisi State Medical University) account for 75 % of total employment in higher education (Lorentzen 2000: 8). Universities enjoy full autonomy in terms of personnel decisions and internal resource allocation. The result is an overstaffed system due to universities' reluctance to retire or layoff staff. The average age of professors in the TSU is 64 years, for example (interview 28).

Private education bodies include Georgian and internationally funded universities. Their quality varies from highly competitive institutions to those "doing little more than selling diplomas" (Sharvashidze 2002: 16). International providers like the International Black Sea University (IBSU), the European School of Management (ESM), the Georgian Institute of Public Affairs (GIPA) and the Caucasus Business School (CBS) enjoy very good reputations. Almost 30,000 students enter higher education bodies every year (Rostiashvili 2004: 27).

Comparing state and private education bodies it can be stated that both enjoy annual growth rates of students' enrollment (Sharshavidze 2002: 16, Eurasia Foundation 2003: 9 ff.). The Anglo-Saxon model of education was introduced in 1996. Thus, bachelor's and master's degrees can be obtained at private as well as state universities. Although four-year undergraduate and two-year graduate studies have formally been set up university officials and employers suggest that the new models only "split the previous five year program without adapting contents ..." (Eurasia Foundation 2003: 5). Since the introduction of a fee-paying sector at state universities in 1993 students at private as well as public education bodies pay tuition fees. Most popular, private universities increase their fees from year to year. Despite the competition among universities, the quality of teaching differs to a high degree. International universities in particular employ highly qualified teaching staff and apply modern methods of learning. While teaching is badly organized at state universities and other private bodies, lecturers are often poorly motivated or did not gain their position due to their knowledge and qualification.

Figure 1: The Principal-Agent-Client (PAC) relationship within the Higher Education System in Georgia



Insufficient teaching quality leads to inadequately qualified diploma holders from state universities. Out of all graduates of the GTU, for example, only 3 % to 4 % are able to find a job immediately upon graduation while this figure amounts to 86 % at the four prestigious international universities mentioned above (Sharvashidze 2002: 16). Despite the large differences in the way universities operate, there is a close interdependence between private and state education bodies. Many private institutes rent state facilities and depend on part-time service of the academic staff of the state universities. On the other hand, badly paid teaching staff at state universities depend on private institutes as a source of supplementary income.

At present, a team of specialists from the World Bank, the Georgian Ministry of Education and Science and other experts is working on a reform plan for the higher education system. The entrance procedure, in particular, will be redesigned. According to Nodar Ebanoidze, Deputy Head of the Department Social Sector of the Chamber of Control, entrance exams will have to be written in 12 centers at the same time on one day to ensure fair conditions (interview 11). Furthermore, every paper will be double-checked by two different assistants, and cameras will transmit the procedure outside (interview 27). The reform's implementation is programmed to start in summer 2005.

To summarize, the Georgian higher education system is to a high degree centralized, and its structure is rather diverse. Conditions favorable for corrupt practice dominate positive trends. The next section examines the potential for corruption at the Georgian higher education system more closely on the basis of a case study at TSU.

Empirical findings

Generally, practices at universities appear to be discussed broadly in public. It is assumed that this is due to the importance of education, in general, and the need to find the "right" person to bribe, in particular.

The extent of corruption is seen as the highest at the "White Temple" as TSU is called³⁹ but varies among its faculties. Faculties regarded as very prestigious like International Law, Economics, Political Sciences and Western Languages are perceived as most corrupt by experts, teaching staff and students (interviews 1, 5, 12 and others). In contrast, students denied that corruption existing in faculties like Psychology or Greek (interviews 5, 12, 18, 21).

39 Its Rector Roin Metreveli is country-wide known as one of the most corrupt officials within the HES. He resigned on October 1, 2004 after a wave of corruption charges surfaced from a faction of students and after receiving pressure from the government (civil.ge, Dec 13, 2004).

The following section provides a rather descriptive overview of fields of corruption existent at TSU's departments of Political Sciences, Law, and Western Languages before analyzing causes of corrupt practice in section 4.3.2.



Picture: The “White Temple”: TSU’s first building⁴⁰

Fields of corruption at the TSU’s most prestigious departments

As explained above, the survey concentrated on *administrative* corruption at TSU. Four fields of corruption are concentrated on: tuition as preparation for entrance exams, entrance exams themselves, provision of books, and midterm and final exams (see figure 2). The recruitment of teaching staff was described as a corrupt field as well but, as it is not located at an agent-client but principal-agent level, it is not chosen as a case but rather will be discussed as an issue influencing the other four fields.

Tuition

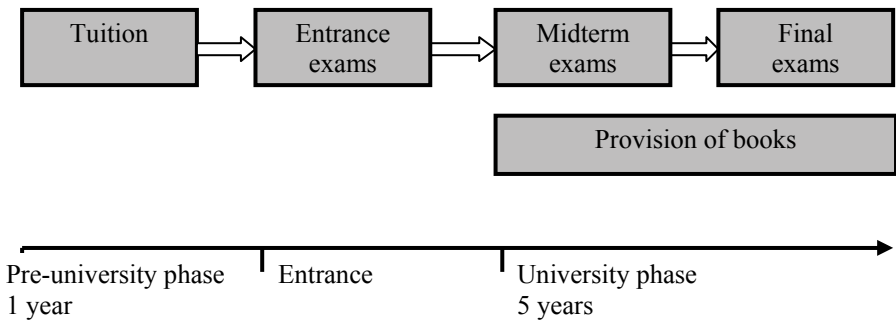
To enter universities students generally have to pass three to four exams: Georgian language, a foreign language, and one or to others depending on the subject the

40 Source: TSU homepage

applicant wants to study. TSU students frequently stated that entrance exams, in Georgian language in particular, are designed in a way nobody could pass them without being prepared in private lessons in advance (interview 22, 23, 30). Three first year students of the Political Science department said that they did not know anybody who was student now and had not taken private lessons before the entrance exams (interview 30) which usually last for one year. Therefore, it is not surprising that “[p]reparation for entrance exams is one of the most profitable businesses in Georgia” but also “a basic source of corruption” (Rostiashvili 2004: 27). Tuition is not supposed to improve students’ knowledge but to ensure they pass the entrance exams. That is why tutors are not chosen for their high qualifications but parents seek to have their children “prepared” by those professors or lecturers who are very likely to be members of the Admission Committee, and thus directly in a position to decide on which of the applicants will be admitted.

According to the expert respondents, tuition fees are well known and non-negotiable (interview 28, Rostiashvili 2004). 5th year Political Science students of TSU mentioned prices between 400 and 600 USD for one subject (interviews 33, 34). If the tutor is the dean of the faculty he is able to charge higher prices as his membership in the Admission Committee is guaranteed. He or she usually has 10 to 15 students in one tuition class, and 50 to 60 per year in total. To summarize, approximately 65 million USD are extracted for the tuition classes every year (Rostiashvili 2004: 27).

Figure 2: Fields of corruption at TSU



Source: Own empirical findings

Due to the fact that applicants do not become members of the students' community because of their merits but their parents' possibility and willingness to spend financial resources on their children's higher education, they remain dependent on their tutor for the term studying at their desired faculty, as will be shown later on.

Entrance exams

Entrance exams take place once a year in August. While "fees" during the preparation period were paid to the teaching staff at department level, the entrance procedure's revenues are mostly transferred to the top leadership of the university. Fees are either paid in GEL (Georgian Lari) or USD but a certain "Green Shota" is known for accepting (green) USD notes, only (interview 28). No direct payments are made but middlemen are involved to fulfill this transfer (interview 27). It is supposed that a share of the payments goes into their pockets (interviews 27, 28).

As only a payment to the university's leadership ensures 100 % certainty of admission, paying for tuition can be interpreted as a way of establishing and maintaining good contacts with persons regarded as important and influential within the university structure. Most tuition students pay additionally at the entrance procedure. According to Rostiashvili, parents were recommended to chose another faculty for their child as "all the admission vacancies had already been 'sold'" which led her to conclude that "budgets of the families compete, not the students['s knowledge]" (Rostiashvili 2004: 28).

The size of bribes paid during the entrance procedure varies among universities but also among faculties, and they are higher the more prestigious the university or the faculty is. Entrance to the Law faculty is thought to cost the most. Payments as high as 20,000 USD were mentioned in my interviews (interview 25, 33). According to Rostiashvili, prices have fallen due to competition from the new state Technical University (Rostiashvili 2004: 28). Bribes for entering Political Science are lower and range around 5,000 USD (interview 34). The same price was given for entrance to the faculty of Western Languages by a previous graduate (interview 12).⁴¹ It was mentioned by students that families with more than one child studying at TSU were offered reductions (interview 30).

41 Taking into consideration that the annual fees for the non-budgetary (paid) sector of TSU account for 600 USD (International Law, International Relations, and German Language and Literature) or 700 USD (English Languages and Literature, and International Business) (see TSU homepage), for example, the bribe sums seem unreasonably high. Still, parents choose to pay this bribes for having their children enter the public sector with the same classes and certificates for prestige reasons.

As depicted in table 4 the likelihood of students to be admitted to a university hardly depends on their level of knowledge⁴² but rather whether or not a payment is made to the university's top leadership, and the size of these payments influences the decisions by the Admission Committee. Even ignorant non-tuition students but also ignorant tuition students face no problems in "passing" the entrance exams if a reasonable sum was paid to the university's top leadership. Qualified applicants not having attended tuition classes and not having paid the university's top leadership have little chance of being accepted as future students (interviews 23, 25). One TSU student mentioned a case where one applicant, known as one of the brightest at High School, received far lower grades at the entrance procedure than his former schoolmates. Only transferring a certain sum to a, to my interview partner, unknown person ensured his admission as a TSU student (interview 23). On the other hand, cases are known where children of popular and wealthy families were not admitted to university. It is assumed that these pseudo cases were "arranged" to rebut reproaches on corruption (interview 27).

Although this money from the entrance procedure mainly flows to the university's leadership the departments are aware of who "purchased" the 100 % guarantee for being admitted. A few examples will demonstrate how the Admission Committee "enforces the informal contracts".

Most of my student interview partners were aware of the mechanisms by which the Admission Committee used to distinguish the "good" from the "bad" exam papers. Tuition students, for example, were told to mark their papers with a little dot at one corner or in the middle of the left margin of every sheet of paper (interviews 25, 27, 33, 34). From a reliable source I was told that the members of the Admission Committee who usually have known each other for decades would sit together after the exams to distribute the exam papers in correspondence with their marks to ensure each member has got his or her students through the exam.

According to Rostiashvili, applicants whose parents paid bribes, were on another "list" from the non-bribers. Divided by this list, applicants entered different rooms to fill in their exam forms. There was no supervisor in the "bribers' room" but prepared answers which only had to be rewritten.

42 Well prepared students are only slightly more likely to be admitted than non-prepared students when no bribe was paid neither to the university's top leadership nor to the department's leadership (see table 4, column 4).

Table 4: Likelihood of a successful admission to the TSU's prestigious departments

	Paying to TSU's top leadership before the entrance procedure			
	Yes		No	
	Paying tuition fee to the department		Paying tuition fee to the department	
	Yes (1)	No (2)	Yes (3)	No (4)
Seriously prepared student	Admission guaranteed	Admission guaranteed if higher payment to TSU's top leadership than column 1	Admission not guaranteed but possible	Admission very unlikely
Ignorant student	Admission guaranteed	Admission guaranteed if higher payment to TSU's top leadership than column 1	Admission not guaranteed but possible	Admission very unlikely

Source: Results from the empirical findings

As seen from the cases described above, tuition is a lucrative business for the privileged staff of the departments, and the entrance procedure enables the university's top leadership to "earn" significant "income". Rostiashvili estimates the total sum transferred during the entrance procedure as high as 50 million USD (Rostiashvili 2004: 28).

Provision of books

Another way teaching staff extracts money from students or their parents is by selling their books. As exams are usually designed to make students repeat the facts they have been told during classes instead of applying their knowledge, students are well advised to purchase these books. Professors usually demand prices which are higher than a copy would normally cost but, as professors make notes about who bought a book and who did not, students would rather pay more than risk damaging the relationship to their professors (interview 20). The latter tend to ask their students at the end of the semester to donate their books to the department's library in order to sell them again to next year's students.

Midterm and final exams

As already mentioned once students enter a university by means of bribing the Admission Committee they will depend throughout the duration of their studies on the good will of their professor. Although it is known that good grades can be purchased at a university and despite the fact that serious students are respected, diploma and midterm transcripts count more in the Georgian society than knowledge (interviews 1, 5, 14, 28). Students, therefore, pay money to receive good grades. Prices for shifting grades are known to the students and depend on the extent of change: Fifth year Political Science students stated that changing a 4 (good) into a 5 (very good) at the midterm exams costs 50 USD while changing from 3 to 5 is more expensive (interview 12). At the faculty for Western Languages a final exam's 5 costs 100 USD, and a 4 costs 70 USD (interview 12). Alcoholic drinks are also accepted as bribes during midterm and final exams (interviews 33, 34).

Discussion of causes

These fields are taken up in the following sections when discussing causes of corruption that have been examined theoretically in chapter 3. Correspondingly, this section is also divided into three categories: wages, personal and country characteristics (section 4.3.2.1), formal institutions (section 4.3.2.2), and informal institutions (section 4.3.2.3). Information on the first section originates from country- and sector-specific publications. For the remaining section the results from the interviews deliver additional, very useful insights.

Determining framework: wages, personal and country characteristics

It is undisputed that the *wage* level of the teaching staff at TSU is unrealistically low. The average level ranges between 48 and 86 GEL depending on the states of the professor or constructor. An ordinary professor without any leadership

position earns about 276 GEL. The teaching staff of TSU enjoy special benefits from the government under the Shevardnadze regime. Due to a 50 % salary increase the average rate there ranges from 73 to 120 GEL (Rostiashevili 2004: 25). Taking into account an average subsistence minimum of 125.4 GEL in 2002 (Statistical Yearbook of Georgia 2003) the legal salary does not provide a sufficient base to survive. No reliable statements can be made concerning the fact, whether teaching staff aims to maximize its income (shirking model) or aims to receive fair wages and thus, the question, if an increase in teaching staff's wages would reduce corruption, cannot be answered. Generally, experts agree that an increase in wages is necessary but not sufficient (Lorentzen 2000: 13, Glonti: e-mail, Dec 29, 2004). Additionally, it was mentioned that raising wage levels might reduce the number of students/parents being able to effort wage-competitive bribes on one hand but might also increase the amount per bribe on the other.

With regard to *personal characteristics* no evidence was found concerning gender and wealth aspects nor on the issue of how educated agents and clients are.

The picture is more diverse when applying Della Porta and Pizzorno's approach to an individual's relationship to his or her reference group. Their findings suggest that participation in corrupt deals is more likely if a person has a low status within a reference group, if he or she is a newcomer, if the group's values are less homologous, or if an exit option is less distressing. Taking into account the most profitable fields of tuition and entrance exams it was shown that first, the members of the Admission Committee enjoy a very high status within the university and even within the higher education system. According to an expert, engaged for an international organization but also teaching staff, newcomers have almost no chance to become a member of this highly privileged circle (interview 28). As the great majority is involved in corruption, good governance is valued homogenously low among the group members. "Exit" from being a privileged member of the university staff is undisputedly a great disadvantage as access to job positions to extract bribes of this level is rather rare. Thus, despite the high pervasiveness of corruption none of the personal characteristics is common among university officials highly engaged in corruption.

Georgia's *country characteristics*, in contrast, totally correspond to what is assumed favorable for corruption discussed in chapter 3. First, police forces in Georgia enjoy great power, in particular compared to the military forces. Although a recent reform has reduced the size of personal, the financial resources remain relatively high and the standard of equipment has been improved. Second, Georgia under Shevardnadze was known for being governed by oligarchs. The Council of Europe's Parliamentary Assembly described the country as "slipping towards the autocratic exercise of power by an oligarchy, against the background of nepotism and widespread and endemic corruption at every level of both government and society" (Parliamentary Assembly 2004). Economy and politics were closely intertwined. Shevardnadze's closest family members owned the most powerful

companies in the country. Recent arrests, like of Shevardnadze's son-in-law who was head of Georgia's biggest mobile phone company Magti (Central Asia Caucasus Analyst, Feb 20, 2004), intend to break the oligarch structure. Third, the Georgian society is homogenous. Georgians represent the majority of the population with 70.1 %. The largest minorities are Armenians (8.1 %), Russians (6.3 %), and Azeris (5.7 %) (CIA World Factbook 2004).

Fourth, Georgia's transition to democracy went off in a changeable way. The establishment of democratic structures was interrupted by civil wars in Tbilisi, Abkhazia and South Ossetia in the first years after the collapse of the former Soviet Union. The conflicts in the latter regions are not yet resolved. Fifth, the Georgian state is highly centralized except for the de facto independent region of Abkhazia and South Ossetia. The president appoints the *gamgebelis* who elect and head the local councils (*sakrebulos*). Mayors are generally elected but the mayors of Tbilisi and Poti are appointed by the president. Last, due to its geopolitical relevant position Georgia has become an addressee of large sums of international aid. The US direct the largest sums into the country, and German Ministry for Economic Cooperation and Development (BMZ) has given Georgia the status of a *Schwerpunktland* for German development aid.

Formal institutions

As in chapter 3, formal institutions are examined in three sections: legislation, relationships of actors of the PAC structure and control bodies.

Legislation is relevant on two levels: General anti-corruption law, and law on education. George Papuashvili gives an overview on what has been achieved so far in terms of general anti-corruption legislation in Georgia. An Interim Parliamentary Anti-Corruption Commission was set up in 1996 in order to establish and facilitate methods in fighting against corruption. One year later, the Parliament adopted the Law on the Conflict of Interests and Corruption in Public Service. The law aims to increase transparency as officials are obliged to declare their property and financial state to the State Taxation Agency. Additionally, the law restricts private entrepreneurship of officials. A public servant shall not act as permanent manager or be a member of a control or an advisory body. The law also forbids holding any other position at the treasury agency or the legislative body simultaneously. Despite several amendments the law provides a strong legislative base to prevent corruption. In reality however, it has not yet been systematically enforced.

The "Law of Georgia about Education" adopted in 1997 was criticized fundamentally by education experts as it supported and perpetuated the old management system and the direct power of the president over the education system who approved the rectors of the public universities. Therefore a new draft was prepared by leading education specialists of Georgia with support of the Open

Society Foundation Georgia in 2002. The main amendments consisted of the restriction of the powers of the president and the introduction of a new system of entrance examinations. Nevertheless, it lacked incentives for decentralization within the education system. In summer 2004, a new version of the above mentioned draft was prepared by the Consulting Board of the Ministry of Education and Science (see Rostiashvili 2004: 16). Meanwhile, the recent draft has been adopted. Most revolutionary of all, the power is decentralized. The rectors will be elected for a two-year term instead of being appointed by the president. The competences of the Academic Board as the highest representative organ of academics and the Senate as the highest organ of students and professors are clearly divided. Furthermore the departments received more administrative and financial power. A staff rotation principle is supposed to improve the university's management. According to Rostiashvili, a disadvantage is identified in the fact that the Minister of Education and Science is entitled to dismiss the Senate if it fails consecutively twice to receive institutional accreditation.

Georgian anti-corruption law as well as its law on education, according to experts, has been enormously improved and created a legislative framework which is more lucid and transparent and capable of reducing if not eradicating corruption.

Beginning with the vertical *agent-client relationship* between professors and university administration, on one hand, and students (and parents, respectively), on the other, Olson's model of the "stationary bandit" best describes the way the university staff "governs" the students. As outlined in chapter 4.3.2.1 the relationship is established to last at least for the time the student is enrolled at the university. Once parents had paid a bribe for their child's admission the professor expected the student to be "loyal" for the time studying. As experts as well as students confirmed only very few students were given best grades at midterm and final exams to provide incentives "for bribing the grade up". Thus, professors, like stationary bandits, enable their subordinates to make use of a public good but also extract shares of what the subordinates gained from consuming this public good. In our case, the students are provided with education in order to receive a diploma which again increases their future income opportunities. To summarize, the relationship between professor and student is determined by the professor's long term object to maximize his or her illegal income while the student aims to receive a satisfactory diploma. According to Olson, a "roving bandit" who acts to maximize his one run income and then move further has incentives to settle to become a stationary bandit. The latter constellation compared to the roving model is considered as more stable as both parties get what they require in the long term.

The same conclusion can be deduced when applying Shleifer and Vishny's model of corruption "without theft". Obviously, there is no official price for

admission to the budgetary (non-paying) sector.⁴³ Thus, the money transferred illegally does not reduce the state budget (corruption without theft). The bribe for admission to this prestigious sector is in any case lower than official fees at the high profile international universities mentioned in chapter 4.2. Thus, professors win by earning extra money and students win by being admitted to the university's prestigious budgetary sector as most would not be able to afford the fees at the private universities.

Applying the models of "stationary bandits" and "corruption without theft" as discussed above shows that corruption is persistent as the agents and the clients win. Next, the relationship among the agents is investigated.

The agents consist of the university's administration, the professors and so called middlemen who usually are lecturers. As described in chapter 4.3.1 professor receive the largest bribes during the tuition session while the university's administration earns its share during the entrance procedure. Middlemen act between the clients and professors or the top administration. The relationship at this level was most difficult to examine but seems very relevant.

Critical publications and interviews with young education staff indicate that especially aged "red professors" know each other for decades as they belonged to the Soviet elite. An expert described three examples that indicate that these professors, often members of the Admission Committee, often cooperate. First, as mentioned above the professors meet after the entrance exams to divide the papers among each other so every one receives "his" students. Second, these aged professors become members of the Admission Committee almost automatically. For reasons of respect in front of their elders, younger lecturers would not even apply for this position. Third, a professor who already accepted an above-average number of students for tuition would "forward" other interested students to his or her colleagues. These facts suggest that the circle of aged professors present an insider group with mutual support for each other and further that they prevent newcomers from becoming part of this group.

The division of tuition classes as a source of bribes for professors and the entrance exams as a source for the top university's administration also suggests that agents cooperate to maximize the total amount of bribes instead of acting independently. According to Rostiashvili as mentioned above, professors are well informed about which students have paid off the university's top administrators to ensure a 100 % chance of admission.

Additionally, middlemen are amongst the agents. As assumed by Rostiashvili and also stated by experts these middlemen, while transferring illegal money to

43 Admission to the state university's non-budgetary (paid) sector is not comparable prestigious as it is known for its admission not based on merit.

professors or to the university's top administration, keep back a share for themselves. This makes them part of the network. It allows middlemen to extract their own shares and the recipients of the bribe to stay anonymous.

As seen above, the agents on one hand cooperate with each other but also are in a position to easily prevent others from becoming involved. It was confirmed by a number of experts that the annual formation of the Admission Committee is neither competitive nor fair. Applying Shleifer and Vishny's model the level of agents acts as a joint monopoly which is known from chapter 3 as the one that collects the highest total sum of bribes and thus causes the largest socio-economic harm to society.

Finally, as already mentioned in the description of the entrance procedure, the university's top leadership enjoys great overall power. Professors intending to work honestly are even likely to be intimidated by the top leadership.

Formal bodies established to *control* the administrative procedures within the university are either formal without consequences or the bodies themselves are too weak to enforce any penalties.

The Ministry of Education is supposed to facilitate the activities of the universities but it was itself "the focus of numerous complaints of negligence by the public sector, civil society and international organizations" (Rostiashvili 2004: 18). Complaints refer to misuse and embezzlement of public funds, serious financial mismanagement and lack of professionalism in Ministry programs. Although numerous violations of the law could be proved, "corrupt officials were never punished" (Rostiashvili 2004: 19).

The Chamber of Control is the official body for auditing the financial situation of state organizations. It is directly subordinate to Parliament. Although its material is very valuable and staff are to a certain extent very motivated, it is operating unprofessionally. The data collected is difficult to access and the reports present only very general conclusions. Although various violations of the law have been documented and presented, no organization has ever been punished. Thus, the Chamber of Control is not able to conduct its auditing independently and/or it is unwilling to change the situation in state bodies.

There also exists a students' organizations within universities to receive complaints and fight corruption. According to students' opinions during the interview these bodies also have a rather formal character. They are supported by the universities' administrations and students active in this body are described as those with the strongest personal connections with the universities' administration. Rostiashvili additionally found out about party financed students' organizations. Their activities lack continuity as members having been active got grants to study abroad and then often split from the group. The *Kmara!* movement, known for its activities during the "Rose Revolution" is seen as independent but lacking in power.

Not only formal auditing bodies document and make corrupt practice public. The media is also actively engaged.⁴⁴ Generally, corrupt practice in the Georgian higher education system and persons involved in these violations of laws are well known in the society and in powerful governmental bodies. What is lacking is not information but the will of the political leadership to punish honored professors.

Informal institutions

Chapter 3 discussed legal culture and religion as *pre-Soviet originating* factors determining the level of corruption. Additionally, historical causes are often mentioned when reading about the roots of corruption. Georgia spent many years of its history fighting invaders: the ancient Greeks, the Romans, the Byzantines, the Mongols, the Persians, and the Ottomans. The last pre-Soviet intention to build up a Georgian state failed in 1921 when the Bolsheviks invaded the republic which had declared its independence in 1918. Respondents of the interviews by Rostiashvili gave the absence of Georgian statehood for centuries as one reason for current large scale corruption. As the state building process was interrupted by several invasions and citizens did not properly understand how a state was supposed to function “[s]tealing from the state was regarded as stealing from invaders, and not from them selves” (Rostiashvili 2004: 69).

Georgian legal culture is influenced by Persian rule which, in contrast to British rule, concentrated rather more on hierarchies and authority than on procedure. Additionally, Persian law was based on unpaid civil servants. Their position was seen as a means of raising income from the population.⁴⁵ Concerning religion, Orthodox Christianity, the religion of the majority of Georgia's population, focuses on loyalty to family members instead of loyalty to office and thus creates opportunities for nepotism and corruption.

Many experts have emphasized that the *Soviet legacy* has shaped informal institutions in Georgia to a high degree. As mentioned above, the state apparatus built up by the imperial power was partly perceived inadequate for Georgian society. Alexandre Kukhianidze, Director of the American University's Transnational Crime and Corruption Center (TraCCC) Georgia Office, describes the perception of Moscow's domination by Georgians the following way: “Feelings of alienation toward statehood were overshadowed by the insecurity of a proud ... nation” (Kukhianidze 2003: 1). Rapidly growing corruption, embezzle-

44 The independent television channel Rustavi 2 has produced a number of segments of its program „60 Minutes“ on corruption in different academic bodies, including TSU. As a result, the head of the program and a lecturer at TSU were dismissed from their positions (Rostiashvili 2004: 20).

45 This statement is the opinion of some respondents of empirical research conducted by Rostiashvili in 2003.

ment, and underground entrepreneurial activities from the beginning of the 1960s were signs of increasing ignorance of the Soviet rule. The local party elites and so-called “red directors” of state enterprises were predominantly involved. Corruption was seen by them as a means of independence from Moscow which was “perceived ... as a ‘cash cow’ for ‘milking’ billions of rubles” (Kukhianidze 2003: 1). Corrupt practice was latent under Stalin but became more and more open and pervasive. Despite several convictions by the then First Secretary of the Communist Party of the Soviet Socialist Republic of Georgia Eduard Shevardnadze in the 1970s, the so called “negative phenomenon” remained and had developed into an “administrative market” (Kordonskij 2000) in the 1980s.

Besides a pervasive violation of Soviet administrative law, most Georgians were also reluctant to follow the Soviet ideology-based form of collective social life. Thus, Georgians focused even more on their traditional forms of relationship that favor relatives, friends or neighbors – which again can provide a basis for nepotism and corruption.

Academic research and teaching during the Soviet period was exclusive. Only those academics loyal to the Communist Party who were well informed about Marxist-Leninist ideology were able to survive at the education system (interview 28) as secret agents of the Bolsheviks and later of the Communist Party penetrated the higher education system to control research and lecture. Thus, it was not qualifications and intelligence or a critical mind that was required to become a professor but rather more contacts to the local Communist elite and membership of the Communist Party. These “red professors”, now aged 65 years or older, still dominate the prestigious universities. Students’ parents seek them out to have their children “prepared” for the entrance exams. Young, idealistic and qualified teaching staff still accept them as members of the Admission Committee due to the social norms of respect towards elders. None of the Soviet-style professors is dismissed from his or her⁴⁶ position because of the traditional respect for elders (interview 28). Their direct contact to the country’s leadership ensures their enormous power and safeguards their employment.

In *post-Soviet Georgia* corruption is still perceived as pervasive. A recent study of public opinion on organized crime and corruption by the American University’s Transnational Crime and Corruption Center (TraCCC) Georgia Office demonstrated that 84.1 % of respondents believe that officials at the highest government level are engaged in corruption – a further 83.2 % believes the same to be true of officials of lower government levels (Godziashvili). Unfortunately, as high perceived corruption can also encourage it, as incentives are set to

46 Although female professors exist the field of higher education’s top leadership is without doubt a male domain.

participate. Nevertheless, honest university staff can be found and not only amongst the younger generation. The sociologist Natela Donadze has been teaching at TSU since 1964 and is known for refusing bribes. She is quoted as saying "I have my principles, and my main principle is the knowledge of students, and knowledge in general" (MacWilliams 2002). Within universities she is clearly an exception.

According to Barbara Christophe, corrupt structures in present-day Georgia are an intended product developed by the acting elite in order to performance state-building in a cost-efficient way (Christophe 2003: 8). State officials are encouraged to participate in corrupt deals and a combined strategy of surveillance and blackmailing secures their obedience. Thus, corruption appears to her as an overall conception of state performance – and not as often stated as a temporary deficit within the transition process.

A pyramid-like system certainly exists within the structure of TSU. Rostiashvili refers to the rector as "the main 'architect'" (Rostiashvili 2004: 29) of this system and its well organized criminal network. "Red professors" are very likely to become members of the Admission Committee, young lecturers are frequently middlemen for transferring bribes. The Council of Rectors as highest body of all universities has direct contact to the president. What role the Ministry of Education plays within this structure cannot be stated, as this level (of political corruption) was not the focus of my study. Therefore, no conclusions can be made about any surveillance or blackmailing by high level officials in order to ensure the subordinates obey.

Concerning organized crime in the form of "*Gewaltunternehmer*" it is confirmed by certain sources that organized crime takes place and has certainly not decreased after small weapons were distributed during the civil wars in Georgia at the beginning of the 1990s. Nevertheless, nothing can be stated about the impact of organized crime on corruption at the Georgian higher education system.

Interim results

The paper examined corruption at an administrative level at TSU. It was shown that corruption has a systematic character and exists during all phases of students' stay at a university. The incredible hidden power, the leadership at TSU enjoys, results from its roots during the Soviet period where recruitment was based on loyalty to the Communist Party. This nomenclature network still exists and dominates the highly centralized internal structure of the entire education system. According to Rostiashvili, the topic of corruption at the Georgian higher education system is "most explosive and therefore [an] untouched zone in the society" (Rostiashvili 2004: 29).

When searching for causes a diverse picture appears. Appendix 2 summarizes the findings of this chapter.⁴⁷ As discussed above no statements can be made about personal characteristics and how far they influence an individual's disposition to participate in corrupt acts. Just as little can be said about the impact of a wage increase. What was shown is that the current wage level is below the subsistence minimum. Georgia's country characteristic as a determining framework, including its legal culture and the norms set by the religion, provides unfavorable conditions for good governance. Its democratic history has been very short, a small oligarchy controls the political decision making as well as large-scale entrepreneurial activities in the country and is backed by a loyal rather than an independent legislature. The society traditionally and in line with Orthodox Christianity focuses more on family ties than on commitments arising from one's position.

In contrast to widespread theoretical approaches and policy recommendations a lack of transparency and lucidity of regulations as a cause of corruption cannot be identified. On the one hand, it is well known to students and professors that any payments for entering a university are illegal, on the other, the size of bribes required for tuition, entrance to the desired faculty and certain grades at the exams are very transparent and non-negotiable. Equally the middlemen and the means to contact important persons are well known and easily accessible.

Although the regulations on the entrance procedure to TSU certainly have their deficits, the "rules of the game" are clearly defined and accessible. After the adoption of the most recent draft the Law on Higher Education has also been improved in order to limit the opportunities to give or take bribes. The amendments concerning the top level of the university's leadership whose power has been enormously restricted and balanced are especially noteworthy. *Thus formal institutions cannot be identified as the main factors favorable for corruption.*

According to the interview results, pervasive corruption at the Georgian higher education system mainly results from informal institutions established during the Soviet period. As loyalty to the Communist Party or connections to important families but not qualifications were required to be recruited to positions at universities, a certain exclusive network was established. Its members totally depend on this network as they have hardly any employment opportunities outside the university. That is why incentives to maintain strong relationships to the top government level were higher than incentives to perform research and teaching. Due to "red professors" noncompetitive positions on the free labor market they are forced to extract money from their position. Being aware of the high prestige

47 Appendix 2 should be understood as a tool to visualize the empirical findings. Classifications made in the second column are simplifying and show tendencies rather than facts.

of studying at the budgetary sector at Georgia's first university the "red professors" have created an artificial price for the free public good "education at universities' budgetary sector" in order to extract tremendous "fees". As most students do not have alternatives and as corrupt behavior by university staff has never been subject of punishment, corruption has become systemic.

Informal institutions of Soviet legacy like communist ideology and blat' combined with the current problematic socio-economic and labor market situation determine the formal relationships of the actors of the PAC structure. Established due to the pattern of recruitment in the Soviet period and maintained in the form of the Admission Committee the agents ("red professors") compose an almost exclusive "insiders club". As the Admission Committee alone decides about who will be admitted to university and as access to the committee is limited to the "insiders club" its members enjoy a monopoly on power. As no single member has a real income alternative outside the university system all members depend on the loyalty of the others. Thus, the members the Admission Committee act as joint monopolists (Shleifer and Vishny 1993) and intend to maximize the committee's profit.

Concerning the vertical relationships of the PAC structure two categories have to be distinguished: the principal-agent and the agent-client relationship. The former is determined by a principal (university's top leadership) who does not ignore corruption but who is even more interested in the flow of illegal finances, as a share⁴⁸ is transferred up to the highest positions. As admission to the budgetary sector of universities is supposed to be free of charge and thus no money is supposed to be transferred to the state treasury, the principal and the agents are able to divide the total amount of bribes amongst themselves. Referring to Shleifer and Vishny (1993) the corrupt deal can be described as "corruption without theft". The relationship between agents and clients can be compared to the one between principal and agents and can also be characterized as a win-win situation.⁴⁹ It is stable in the long term as the prices set by the agents reflect the financial capacity of the clients. As Olson's "stationary bandits" the corrupt professors have chosen a long time horizon to continuously extract money once the student has established a tuition relationship (see entrance procedure, provision of books, midterm and final exams).

Informal institutions as well as the resulting horizontal and vertical relationships between the principal, agents and clients have been established over a long period. As they are identified as the main causes of the endemic corruption at the

48 Its size extracted during the entrance exams is estimated to 90 % (Rostiashvili 2004: 29).

49 The "losers" are qualified students who are not being admitted and cannot afford to pay them in. Additionally, they have no "voice" to complain.

Georgian higher education system, measures to curb corruption would have to consider these findings to be successful.

5 Conclusions

The aim of this survey was to examine corruption at the Georgian higher education system. As assumed the phenomenon occurs systemically at different levels of the education system and in various fields. The focus was the administrative level of TSU where university staff meets students and parents, respectively. The following section considers anti-corruption measures at the Georgian higher education system. Finally, there is a discussion on the extent of the applicability of these findings for general anti-corruption campaigns in post-Soviet countries.

Georgia's Higher Education System and its perspectives

The findings show that, in contrast to theoretical approaches and policy recommendations, corruption at the Georgian higher education system does not result from a lack of transparency and lucidity of regulations. In fact, informal institutions originated during the Soviet period, and the resulting ideology-based patterns of recruitment to positions at the higher education system have a large impact on the current power structure within TSU. "Red professors" constitute the majority of the Council of Rectors who are directly subordinate to the president. Under Shevardnadze they enjoyed unrestricted backing. Due to their non-competitive position in the labor market they entirely depend on the Georgian higher education system and, in particular, the opportunities to extract illegal finances. Rooted in the nomenclature network and being members of the Admission Committee, the "red professors" possess power over their students and applicants.

As described above, they act as joint monopolists (Shleifer and Vishny 1993) during the tuition period, the entrance exam procedure, during midterm and final exams and as a source of required literature, and in this way maximize the sum of their bribes, which is estimated at 115 million USD annually. The regime change in January 2004 has not brought any improvement, yet. The university's top leadership still enjoys support from high level officials in the government or from parliamentarians.

What needs to be done?

President Mikhail Saakashvili emphasized the importance of education for the future of Georgia at a meeting of previous participants of an American Council exchange program in Tbilisi on October 11, 2004 and promised a 100 % increase

in expenditure in this sector for the year 2005 (statement Lela Nanuashvili, October 12, 2004).

Nevertheless, a higher budget does not solve the problem if the funds are misused. The recently developed anonymous entrance procedure, which was described in chapter 4.2, is certainly a step in the right direction. Nevertheless, external experts and students have doubts about its success. 5th year students of TSU believe that reforms have to start from outside the university, and incentives for education rather than for diplomas are required. On being asked about their expectations concerning the planned centralized procedure of entrance exams they stated that Georgians with good connections or a large budget will find their way to the circle of experts who are informed about the exams, regardless of how small this circle is.

Lika Glonti, an education expert, is especially concerned about non-monetary and therefore barely detectable exchanges of favors (*blat'*). Even if transfers of money can be reduced by strong monitoring or laws on disclosure of accounts, *blat'* – as often asynchronously occurring – will never be completely abolished. Nodar Ebanoidze, Deputy Head of the Department Social Sector of the Chamber of Control, also does not believe in pure amendments of laws and rules. In his opinion the whole mentality has to be changed.

Before shifting to concrete measures to curb corruption at the Georgian higher education system, its causes have to be restated: the opportunity of “red professors” to act as joint monopolists, their backing at the top government level, and informal institutions regarding both, the recruitment procedure and the annual establishment of the Admission Committee. Obviously, the powerful union of “red professors” strongly hinders major reforms in the higher education system in Georgia. As supported by Alexandre Kukhianidze, for example, the senior generation of professors has “to leave university to give way to younger and better educated lecturers” (Kukhianidze: e-mail, Dec 30, 2004). Still, he warns about amateurism once experienced staff have left. In any event, socio-economically acceptable, financial compensations as well as reasonably tactful exit options have to be developed to ensure a respectable (early) retirement of unqualified staff.

The replacement of the vacancies has to follow a merit-based and fair recruitment procedure. Qualifications concerning academic knowledge and teaching methods rather than nepotism or loyalty should be the criteria for appointment. Additionally, wages should be increased to a fair level to eliminate the low wage argument as a justification of corruption. Likewise, the establishment of the Admission Committee has to take place under competitive conditions. Its composition has to vary annually to avoid members establishing a joint monopoly position.

To extend the view from the agent level up and down the PAC structure (figure 1) the governmental leadership as well as potential university applicants have to be included in the analysis. The over-centralization was already criticized in

chapter 4. Fair competition for students and teaching staff can only be ensured if the university's top leadership of the higher education system is also reformed. The Council of Rectors in particular should be deprived of power and replaced with reform orientated and competent academics. Taking into consideration attitudes and expectations about chances and means to enter a university, society has to become aware of reforms inside the university. Information campaigns have to be conducted to discourage bribery as common practice suggests.

Before shifting to the broader context of general anti-corruption measures it should be mentioned that any phenomenon as complex and pervasive as corruption will not disappear in the short term but gradual improvements are needed as stimulus for future developments.

General good governance policy

The case of the TSU's most prestigious departments only presents a part of the Georgian higher education system. Still, it is believed that corruption exists in all departments (Eduard Kodua, Chairman of Sociology department at TSU, quoted by MacWilliams 2002). Similarly, corruption exists in a number of public administration bodies in post-Soviet countries. I do not intend to apply my findings blindly to any other Georgian sector or any other country but I do believe that there are certain similarities. First, although the higher education system differs from other sectors of a country, some structures and mechanisms can be expected to be comparable. Generally, administrative corruption can occur where public goods are provided: a passport, a driving license, a permission to open a shop, or education, and the parties involved agree to participate in the corrupt deal. Second, the Soviet legacy is one of many factors shaping the institutional framework of all post-Soviet societies, and this influences the vertical and horizontal relationships between principals, agents and clients. Therefore, it is my opinion, that the results of this survey should be kept in mind when conducting background research for general anti-corruption policies in post-Soviet countries.

As presented in the OECD's Anti-Corruption Network's "Regional Anti-Corruption Action Plan for Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, the Russian Federation, Tajikistan and Ukraine" (January 2004 version), building agencies and amending laws are insufficient measures to reduce corruption. Reforms have to occur at the civil management level as well.

Besides fair wages, merit-based recruitment and competition among officials has to be introduced in the public service sector. A credible commitment by the government's leadership is needed, and society has to become aware of the ongoing reforms and their implications for the citizens. Saakashvili's anti-corruption slogan "Don't take bribes and don't give jobs to your relatives!" (Central Asia – Caucasus Analyst, February 20, 2004) might have been a good example.

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URLs:

Caucasus Business School (CBS)

<http://www.csb.ge>

Chamber of Control

<http://chamber.gol.ge/General.htm>

European School of Management (ESM)

<http://www.esm-tbilisi.ge>

Georgia's National Examinations and Assessment Centre (NAEC)

http://www.naec.ge/index.php?lang_id=GEO&sec_id=10150&lang_id=ENG

Georgian Institute of Public Affairs (GIPA)

<http://www.gipa.ge>

Georgian Technical University (GTU)

http://www.gtu.ge/index_e.htm

Georgian Young Lawyers' Association (GYLA)

<http://www.gyla.ge>

International Black Sea University (IBSU)

<http://www.ibsu.edu.ge>

International Institute for Education Policy, Planning and Management (EPPM)

<http://www.eppm.org.ge>

Tbilisi State Medical University

<http://www.tsmu.edu/eng>

Tbilisi State University Ivane Javakhishvili (TSU)

<http://www.tsu.edu.ge>

TSU Admission Procedure

<http://www.tsu.edu.ge/eng/admission%20rules%20eng.htm>

Transnational Crime and Corruption Center (TraCCC) Georgia Office

<http://www.traccc.cdn.ge>

Transparency International Georgia Chapter

<http://www.transparency.ge>

Appendix 1: Comparison of Theoretical Approaches and Empirical Results

Theoretical approaches	Application	Conclusion
	√ Theory matches X Theory does not match — No statement possible	
1. Framework		
Wages	—	- lower than subsistence minimum - no statement about impact of an increase
Personal characteristics	—	- no significant statements
- Education	—	
- Gender	—	
- Reference group	X	
Country characteristics	√	- conditions favorable for corruption exist
- Police	√	
- Oligarchy	√	
- Homogenous society	√	
- Centralization	—	
- Interrupted democracy/ war	√	
2. Formal institutions		
Transparency and lucidity of legislation	X	- procedures and regulations reasonably transparent
PAC relationships		- Admission Committee acts as “joint monopoly” and “stationary bandit”
- “Joint monopoly”	√	
- “Stationary bandit”	√	
- Corruption “without theft”	√	
Control and penalty	√	- no adequate control body, no punishment

3. Informal institutions

Legal culture	√	- favors family ties, not office duties
Religion	√	- Orthodox Christianity emphasizes family ties, not individual
„Administrative market”	√	- developed during Soviet period
<i>Blat</i>	√	- determines daily life
<i>Gewaltunternehmen</i>	X	- not known in the context of the Georgian higher education system

Source: Results from the empirical findings

Appendix 2: List of people with whom interviews were conducted from August to October 2004

Organization

1. American University's Transnational Crime and Corruption Center (TraCCC), Senior researcher, now: Director
2. Central and Eastern European Bankwatch Network, Regional Coordinator Caucasus
3. Chamber of Control, Deputy Head of the Department Social Sector
4. Chamber of Control, Assistant R. Bokeria
5. Chamber of Control, Controller
6. Chamber of Control, Translator
7. Director, Deutscher Akademischer Austauschdienst (DAAD)
8. Georgian Young Lawyers' Association, Deputy Chairwoman
9. Georgian Young Lawyers' Association, Lawyer
10. Georgian Young Lawyers' Association, Lawyer, previous TSU student
11. GTU, Undergraduate student
12. Institute of East European Studies of the *Freie Universität*, Researcher
13. Journalist, parent
14. *Kmara!* (English : Enough), student resistance movement, set up in 2003
15. Liberty Institute
16. Ministry of Education, First Deputy
17. Pedagogical University, students

18. Transparency International Georgia Chair
19. Transparency International Georgia, Chair
20. TSU, 1st year Political Science students
21. TSU, 5th year Political Science student
22. TSU, 5th year Political Science student
23. TSU, Art students
24. TSU, Graduate student Political Science
25. TSU, International Law student
26. TSU, Lecturer Biology
27. TSU, Lecturer German Philology
28. TSU, Philology student
29. TSU, Physics students
30. TSU, Political Science and History students
31. TSU, Political Science student
32. TSU, Political Science students
33. TSU, Public Relations students
34. Parent of a TSU student