



POLITICAL PARTY FINANCES IN GEORGIA: 2017 LOCAL GOVERNMENT ELECTIONS

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INTERIM REPORT

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CONTENTS

Key Findings	2
Introduction	3
Chapter I. Legislative Framework of Political Party Finances	4
Chapter II. Analysis of Donations	5
Recommendations	9

KEY FINDINGS

The following key findings were identified during our research, which covered the period between June 1 and October 1, 2017:

- Political party funding regulations have not changed since the 2016 parliamentary elections;
- Since the 2016 parliamentary elections, the number of qualified political parties in Georgia has increased to 20, of which 15 parties are taking part in the 2017 local government elections through 14 qualified election subjects;
- In the period between June 1 and October 1, 2017, election subjects and an independent candidate for Tbilisi Mayor Aleksandre Elisashvili received a total of GEL 10,319,998 in donations, of which GEL 8,274,776 (80%) was donated by 643 natural persons and GEL 2,044,143 by 32 legal entities;
- The Georgian Dream - Democratic Georgia received the largest portion GEL 9,553,178 (93%) of total donations, followed by European Georgia - Movement for Liberty with GEL 609,969, United National Movement with GEL 48,261, Alliance of Patriots with GEL 28,187, and Aleksandre Elisashvili with GEL 20,241;
- The Georgian Dream received 16 times more donations than the party with the second most donations - European Georgia, and 12 times more than all other qualified election subjects combined;
- Of the 32 legal entities that had made political donations in the reporting period, 31 had donated to the Georgian Dream. Only one legal entity had donated GEL 90 to the Alliance of Patriots.
- The largest donors were seven companies, each of which donated the maximum amount of GEL 120,000 to the Georgian Dream. These companies are: Ltd. GMP, Ltd. Kakhetian Traditional Winemaking, Ltd. LION, Tegeta Motors, Deti, Partner and Meeki. The first three companies listed donated the same amount to the Georgian Dream in 2016 as well. A company called Transproject, which donated GEL 50,000 to the Georgian Dream in 2017, had previously donated GEL 100,000 to the United National Movement in 2011.
- 15 of the 31 companies that had donated to the Georgian Dream during the reporting period (GEL 1,021,793 in total) received direct public procurement contracts with a total value of GEL 2,145,022. The cases of Tegeta Motors and Cekuri are worth noting in this regard. During the reporting period, Tegeta Motors, as a legal entity, donated GEL 120,000 to the ruling party, while its shareholder Zauri Tskhadadze donated an additional GEL 60,000. In 2017, the company received 1,539 direct public procurement contracts with a total value of GEL 1,500,000. Cekuri donated GEL 40,000 to the Georgian Dream and received one direct procurement contract worth GEL 400,000.
- Of the 643 natural persons who had given political donations during the reporting period, 289 had connections with some 818 legal entities. 70 of these 818 entities had received at least one direct public procurement contract in 2017. 49 of these 70 companies were connected with 55 natural persons who had donated to the Georgian Dream (GEL 1,661,470), and received direct procurement contracts with a total value of GEL 2,400,000.
- During the reporting period, in order to verify donations, the State Audit Office sent income investigation requests to 544 individuals, of which it summoned 31 for questioning. 13 of the summoned individuals had donated to European Georgia and 18 to the Georgian Dream.
- The database of political donations available on the website of the State Audit Office is incomplete. For example, it does not include donations received by independent candidates and several parties. The State Audit Office has been informed about these gaps and will hopefully take steps to eliminate them.

INTRODUCTION

Having a competitive environment for political parties is one of the pillars of democracy. The public must have a choice between various political groups in order to avoid autocratic rule. However, the strength and popularity of political parties largely depend on their financial capabilities. In transitional countries opposition parties frequently have to struggle to obtain funding, while ruling political parties enjoy greater advantages in this regard. This weakens competition, which, in turn, threatens to undermine democratic development. Therefore, we believe that the financing of political parties must remain a matter of concern for the public. Transparency International Georgia has been studying the issue for years and has periodically published relevant reports on the matter.

The following is an interim report analyzing private donations made from June 1 to October 1 to political parties taking part in the 2017 local government elections. The official election campaign was launched on August 21, 60 days prior to the Election Day; however, large donations were made prior to August 21 as well, which prompted us to study donations starting June 1.

The reason why this report focuses on donations alone is twofold. First, full information on the 2017 income and expenses of political parties will not be available until next year, while information on donations is made available at shorter intervals. Second, donations carry the highest risk of corruption in political party financing, and therefore warrant a separate examination.

In addition, the report examines donations received only by qualified political parties and an independent candidate for Tbilisi Mayor Aleksandre Elisashvili. According to the Georgian Election Code, a party is considered qualified if it is a direct recipient of state funding based on the Organic Law on Political Unions of Citizens. Of 20 such parties in total, 15 are taking part in the 2017 local government elections through 14 election subjects.

We considered selecting qualified election parties alone to be logical, since they are the only ones enjoying access to state funding among election participants, in addition to being top-rated players in the Georgian political landscape. Almost 100% of pre-election campaign funds are at the disposal of these parties. As for Aleksandre Elisashvili, he is one of the strongest candidates in Tbilisi mayoral elections, and is the subject of high public interest.

Political donation data presented in this report was taken from the database available on the website of the State Audit Office. Unfortunately, this database is incomplete. For example, it does not include donations received by independent candidates and several parties. Data on Elisashvili's donation has been collected through direct contact with the State Audit Office. This agency has been informed about these gaps and will hopefully take steps to eliminate them.

The report starts with a brief overview of the legislative framework regulating political party finances, including private donations. It then analyzes donations received by qualified election parties and the independent candidate for Tbilisi Mayor Aleksandre Elisashvili, including general statistics, business connections of donors and the participation of these companies in public procurement. Finally, the report presents recommendations.

CHAPTER I. LEGISLATIVE FRAMEWORK OF POLITICAL PARTY FINANCES

Political party finances are regulated by several legislative acts in Georgia. The main legal principles for regulating this sphere are defined by Organic Laws on **Political Unions of Citizens** and the **Election Code**, as well as Laws on **State Audit Office**, **General Administrative Code**, **Code of Administrative Offences**, and orders of the General Auditor. Party funding regulations have not changed since 2016.

The Organic Law of Georgia on Political Unions of Citizens defines entities that fall under the constraining regulations of political financing. The law defines the concept of a political party as well as the concept of a person with declared electoral aims. According to this law, a political union of citizens (party) is a voluntary and independent association founded on citizens' common vision and organizational basis, is registered in accordance with legal procedures, and operates on the basis of the Georgian Constitution and legislation.

The Georgian legislation includes a special regulation on election campaign/pre-election period. The pre-election period starts 60 days prior to the Election Day, and political parties have to register no later than the 57th day. After registration, a political party becomes an election subject that is obligated to submit financial declarations on its received income and incurred expenses to the State Audit Office once every three weeks. Within a period of one month after the election results have been summarized, an election subject must submit an overall financial report of its election campaign. Apart from political parties, initiative groups and independent candidates may also be election subjects; the above regulation on political financing applies to them as well.

The Law on Political Unions of Citizens defines a donation as:

- Money deposited on the account of a party by a natural person or a legal entity;
- Material or non-material support (including, a preferential loan) or service (except for work performed through volunteering) secured by a party free of charge or on discount/preferential terms from a natural person or a legal entity.

The law imposes qualitative as well as quantitative restrictions on political donations:

- The donating natural person must be a citizen of Georgia.
- The donating legal entity must be registered on the territory of Georgia, while its partners and end beneficiaries must be citizens of Georgia.
- A donor cannot be a legal entity that received 15% or more of its actual income from simplified state procurement in the last calendar or election year.
- Donations received by a party from a single citizen must not exceed GEL 60,000 a year, while donations from a single legal entity must not exceed GEL 120,000 a year.

It is forbidden to receive donations from:

- Natural persons and legal entities of other countries, international organizations and movements.
- State agencies, state organizations, legal persons of public law, and state-owned enterprises.
- Non-commercial legal entities and religious organizations.
- Anonymous sources.

CHAPTER II. ANALYSIS OF DONATIONS

Income, especially donations, received by political parties from private sources has always been a subject of public interest in Georgia. Since Georgia is a small and a poor country, large donations to political parties always raise legitimate questions about who actually stands behind such financial transactions and whether there are signs of corruption.

Unraveling corrupt and unlawful schemes is difficult. For this reason, over the past several years, Transparency International Georgia has tried to provide the public with more information on political party donors, their business interests, and direct procurement contracts secured by companies affiliated with them.

In order to simplify the process of identifying such business interests, Transparency International Georgia has created a special website - www.politicaldonations.ge, which provides information on all donations received by political parties since 2012, including business connections of donors.

Based on the data available on this platform, we analyzed all donations made in the period of June 1 to October 1, 2017, including companies owned by donors and their participation in public procurement. We also analyzed donors who had submitted public official asset declarations for the purpose of checking whether their official, declared income enabled them to make their donation.

Since the 2016 parliamentary elections the number of qualified political associations in Georgia has increased to 20, of which 15 parties are taking part in the 2017 local government elections through 14 qualified election subjects (see Table 1).

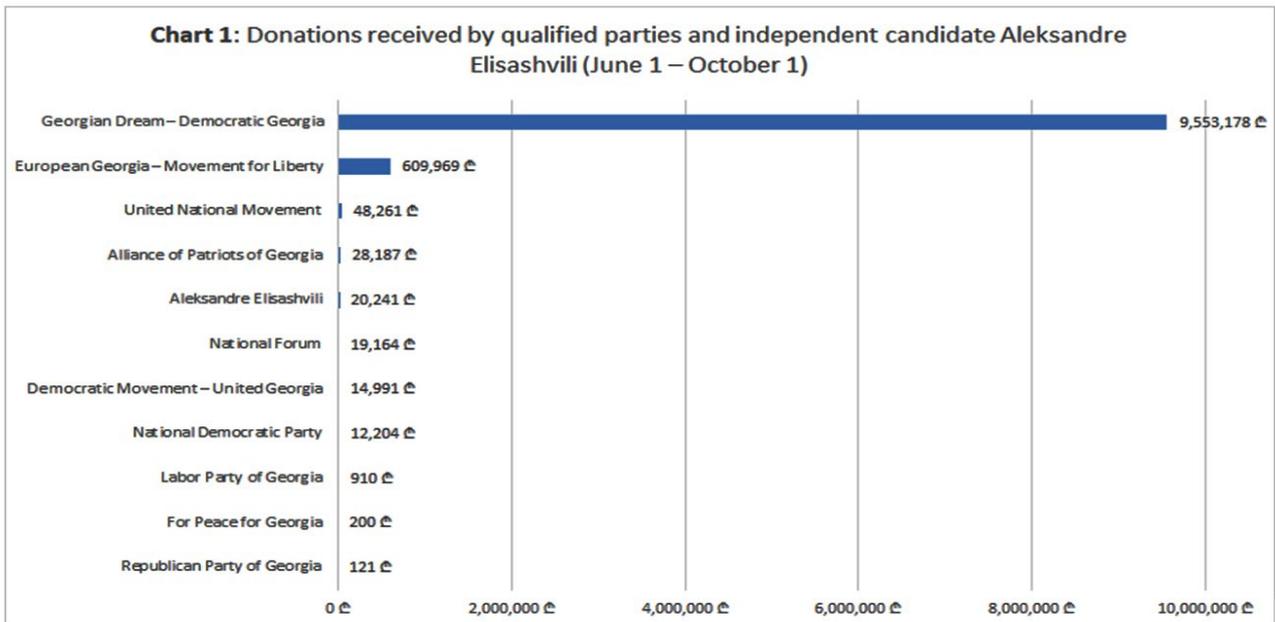
Table 1. Qualified Election Subjects Registered for the 2017 Local Government Elections

N	Name by which the Political Party Participates in Elections	Name of the Political Party
1	Georgian Dream – Democratic Georgia	Georgian Dream – Democratic Georgia
2	Movement State for People	Movement State for People
3	Davit Tarkhan-Mouravi, Irma Inashvili - Alliance of Patriots of Georgia	Alliance of Patriots of Georgia
4	Shalva Natelashvili - Labor Party of Georgia	Labor Party of Georgia
5	Traditionalists	Union of Georgian Traditionalists
6	United Democratic Movement	United Democratic Movement
7	Tavisupleba – Zviad Gamsaxurdias Gza	Tavisupleba – Zviad Gamsaxurdias Gza
8	Republican Party of Georgia	Republican Party of Georgia
9	Development Movement	National Forum
10	New Christian-Democrats	New Christian-Democrats
11	Bakradze, Ugulava-European Georgia	European Georgia – Movement for Liberty
		Movement for Free Georgia
12	Giorgi Vashadze - Unity New Georgia	New Georgia - Political Platform
		European Democrats
13	United National Movement	United National Movement
		Christian-Conservative Party
		National-Democratic Party
14	Dimitri Lortkipanidze, Kakha Kukava – Democratic Movement Free Georgia	Democratic Movement - United Georgia
		Free Georgia

1. Cumulative Data

According to the State Audit Office, in the period between June 1 and October 1, 2017, qualified election subjects and Aleksandre Elisashvili received a total of GEL 10,319,998 in donations, of which GEL 8,274,776 (80%) was donated by 643 natural persons and GEL 2,044,143 by 32 legal entities.

The Georgian Dream - Democratic Georgia received the largest portion GEL 9,553,178 (93%) of total donations, followed by European Georgia - Movement for Liberty with GEL 609,969, United National Movement with GEL 48,261, Alliance of Patriots with GEL 28,187, and Aleksandre Elisashvili with GEL 20,241.



Source: State Audit Office of Georgia

The Georgian Dream received 16 times more donations than the party with the second most donations - European Georgia, and 12 times more than all other qualified election subjects combined.

2. Business Interests and Direct Procurement Contracts of Donors

31 of the above 32 legal entities had donated to the Georgian Dream. Only one legal entity had donated GEL 90 to the Alliance of Patriots.

The largest donors were 7 companies, each of which donated the maximum amount of GEL 120,000 to the Georgian Dream. These companies are: Ltd. GMP, Ltd. Kakhetian Traditional Winemaking, Ltd. LION, Tegeta Motors, Deti, Partner and Meeki. The first three companies listed donated the same amount to the Georgian Dream in 2016 as well. A company called Transproject, which donated GEL 50,000 to the Georgian Dream in 2017, had previously donated GEL 100,000 to the United National Movement in 2011.

15 of the 31 companies that had donated to the Georgian Dream during the reporting period (GEL 1,021,793 in total) received direct public procurement contracts with a total value of GEL 2,145,022. **The cases of Tegeta Motors and Cekuri are worth noting in this regard. During the reporting period, Tegeta Motors, as a legal entity, donated GEL 120,000 to the ruling party, while its shareholder Zauri Tskhadadze donated an additional GEL 60,000. In 2017, the company received 1,539 direct public procurement contracts with a total value of GEL 1,500,000. Cekuri donated GEL 40,000 to the Georgian Dream and received one direct public procurement contract worth GEL 400,000.**

Of the 643 natural persons who had given political donations during the reporting period, 289 had connections with some 818 legal entities. 70 of these 818 entities had received at least one direct procurement contract in 2017. Together, such contracts amounted to GEL 3,249,233 in value, while natural persons connected with these 70 companies had donated a total of GEL 2 million.

Of those natural persons who have connections with the above 70 companies 55 had donated to the Georgian Dream (GEL 1,661,470). Companies connected with these 55 persons (49 in total) received direct procurement contracts with a total value of GEL 2,400,000.

3. Response to High-Risk Donations

During the reporting period, in order to verify donations, the State Audit Office sent income investigation requests to 544 individuals, of which it summoned 31 for questioning. 13 of the summoned individuals had donated to European Georgia and 18 to the Georgian Dream. **None of the donors was fined.**

RECOMMENDATIONS

We believe that the following measures need to be taken in order to improve political party financing regulations:

- The State Audit Office should pay greater attention to the identification of high-risk donations. The court should also consider cases on highly probable illegal donations with a greater detail. The existing court practice fails to reduce corruption risks in this area.
- The State Audit Office must update the database of political donations and correct existing shortcomings.