



GEORGIA'S POLITICAL FINANCE IN 2019:

REVENUES AND EXPENDITURES OF POLITICAL PARTIES AND FINANCIAL OVERSIGHT

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I. KEY FINDINGS

Based on the analysis of annual financial declarations submitted by 19 political parties, Transparency International Georgia outlined the following key findings:

- Although there were no general elections in 2019 and only by- and snap elections were held in Spring and Fall, last year, 19 political parties received a total of GEL **20 739 364**, of which almost half (**46%**) – **GEL 9 502 653**, was the revenue of the ruling party Georgian Dream - Democratic Georgia. The Alliance of Patriots of Georgia was second with GEL 1 676 618, and the European Georgia was third with GEL 1 643 099.
- **59%** (GEL 12 301 675) of the total revenues received by political parties came from public funding, and **41%** (GEL 8 437 689) came from private sources. If we exclude the Georgian Dream, **18 political parties got 88% of their income from the state budget**. With the exception of a few, all political parties almost entirely depend on public funding, and this trend has virtually not changed from year to year. Only one of the 19 parties, the Lelo Movement, did not receive public funding since it was formed in 2019 and has not yet participated in elections;
- Only 13 of the 19 political parties received private donations. More specifically, the political parties received a total of **GEL 8 362 581** from 450 individuals and 26 legal entities, of which **GEL 7 036 166 (84%** of all donations) went to the ruling Georgian Dream party. The Lelo Movement was second with GEL 520 000 and the European Georgia was third with GEL 289 982. The data show that the private donations received by the Georgian Dream are about **14 times** higher than the donations of the second-ranked Lelo and **five times** higher than the donations received by all 18 other political parties;
- From January 1, 2019 to May 1, 2020, nine legal entities donating Georgian Dream and 15 companies related to individual donors (who donated a total of GEL 1 745 000) got simplified public procurement contracts amounting to **GEL 15 750 924**. During the same period, they also won public tenders of **GEL 126 092 739**.
- In this regard, several cases were particularly noteworthy. In 2019, **G&K Technology LLC** and its owner **Roman Abramishvili** respectively donated GEL 40 000 and 60,000 to the Georgian Dream. This company won 8 public tenders of **GEL 28 376 575** in 16 months. In other years, Abramishvili has also donated money to Salome Zurabishvili and the United National Movement;
- Over the years, several major groups have been formed among the ruling party's donors, contributing large sums of money to the Georgian Dream in almost every election. All such groups have a common story when a large part of its members donate money to the ruling party on the same day or 1-2 days apart. It raises some doubts about whether such collective action is organized in advance by someone. Georgian legislation prohibits third-party donations, so the SAO should be interested in such suspicious circumstances;

- Such donor groups include: a) individuals and legal entities affiliated with Bidzina Ivanishvili; b) individuals connected with Tegeta Motors LLC, a large public procurement contractor; c) persons connected with Lilo Mall LLC; d) persons directly or indirectly connected with Service-Agro LLC and; e) individuals linked with Polimeri LLC. The last two business groups were beneficiaries of the state program Produce in Georgia in different years;
- In 2019, 19 political parties spent a total of **GEL 20 723 057**, of which **43% - GEL 8 877 711** - was spent by the ruling party, which was followed by the European Georgia with GEL 2 206 248 and the Alliance of Patriots of Georgia with GEL 1 671 775. Similar to the revenues, the ruling party outperformed the rest in terms of spending. For instance, the expenditure of the Georgian Dream was **four times** higher than that of European Georgia;
- Since there were no general elections in 2019 and only by- and snap elections were held, the advertising expenses were relatively low. More specifically, political parties spent a total of GEL **2 352 736** on advertising services during the year, of which **GEL 1 747 140 (74%)** was spent by the ruling party, which made a huge difference compared to other parties. The Georgian Dream's advertising expenses were **three times** higher than that of the rest 18 parties;
- From January 1 to June 30, 2019, the SAO's Department of Political Finance Monitoring sent 14 protocols of administrative offenses to the Tbilisi City Court;
- TI Georgia revealed a number of inconsistencies and shortcomings in the financial declaration filled out by political parties, which is a continuation of the trends of previous years. **Incomplete financial reporting by political parties remains a serious problem. The absolute majority of financial declarations miss some information or contain inconsistencies. Information required by the reports are left blank on multiple occasions. It seems that political parties either do not know how to properly complete declarations and what information needs to be presented in which way or they deliberately make these mistakes;**
- This issue has persisted for years and the SAO has been ineffective at addressing this problem. **Especially worrying is the situation in regards to the monitoring of political party spending.** The SAO representatives have said multiple times that they lack relevant resources to carry out such monitoring;
- Furthermore, the SAO has been ineffective in following up on the instances of suspicious donations, which is partly caused by legislative gaps;
- The use of various types of anonymously sponsored political materials on social media, mostly on Facebook, remains one of the major challenges in political finance. These materials are spread in the form of text, video or photo and have a distinctly political character. It usually serves as a smearing campaign against politicians

or public figures. These are clear cases of unreported money spent for political purposes, which may serve to circumvent legal restrictions. Nevertheless, the SAO is unable to obtain information about this type of advertising and its sponsors due to Facebook's refusal to provide the information;

- Facebook, on its own initiative, deleted hundreds of inauthentic Facebook and Instagram users, pages and groups twice that have been smearing members of various political parties. In these cases, a large number of financial resources were spent for political purposes. More specifically, according to Facebook, in the first case, \$ 316 000 was spent on advertising sponsored by these social pages and platforms, and in the second case the amount was \$ 30 000. **Such actions should be qualified as political donations, therefore, the SAO should continue to work with Facebook to investigate these cases.**

II. INTRODUCTION

A fair and competitive election is one of the cornerstones of democratic states. The competitiveness of political parties is closely linked to their financial resources. Georgia's election history shows that the ruling political group has always had far greater financial resources than its rivals, creating an unequal electoral environment. Therefore, it is important to have certain mechanisms by which this inequality could be relatively reduced. Political money is always accompanied by risks of corruption, so transparency of finances and its effective oversight are important conditions for political competition to be fair and voter-oriented. Transparency International Georgia (TI Georgia) has been studying and periodically publishing reports on political party funding for years.

This time we present a study that analyzes Georgia's political finance in 2019. No general elections were held in the country that year, only by-elections and snap elections were conducted in May and October in several districts.

Until February 1 of each year, political parties are required to submit detailed financial declarations of the previous year to the State Audit Office of Georgia (SAO). These declarations are published on the website¹ of the SAO. The present study mostly is based on an analysis of these financial statements, therefore, the reporting period includes the time interval between January 1 and December 31, 2019. Information from other years is also used periodically to analyze various data and trends.

As for the subjects of the study, the financial statements of those political parties were selected, which in 2019 had more than GEL 100 000 in revenue or expenditure. This limit was chosen for having sufficient financial information to reveal interesting trends. In 2019, the following 19 political parties had more than GEL 100 000 in financial resources:

- Georgian Dream-Democratic Georgia (Georgian Dream)
- European Georgia - Movement for Freedom (European Georgia)
- Alliance of Patriots of Georgia
- United National Movement
- National Democratic Party
- Movement for Free Georgia
- Georgian Christian-Conservative Party
- Movement the State for the People
- Christian-Democratic Movement

1 <https://monitoring.sao.ge/>

- Georgian Labor Party
- Political platform - New Georgia
- United Georgia-Democratic Movement
- Free Georgia
- The industry will save Georgia
- Lelo Movement
- Free Democrats
- Movement “Freedom - Zviad Gamsakhurdia Road”
- Union of Georgian Traditionalists
- Political Movement of Law Enforcement Veterans and Patriots of Georgia

In addition to the annual financial declarations of political parties, the SAO’s interim election monitoring reports and the Register of Offenses² were used for the study. We used two websites of TI Georgia - www.politicaldonations.ge and www.tendermonitor.ge - the website of the Public Procurement Agency - www.procurement.gov.ge and other open data to determine business connections of political parties’ donors and their interests in public procurement.

The report was also prepared based on legislative analysis as well as qualitative and quantitative analysis of statistical data. Some parts of the research are taken from previous reports of TI Georgia on political finance.

The first part of the study reviews the revenues of political parties, including general statistics, and major sources of revenue. Particular emphasis was placed on the private donations received by the parties and the interesting facts revealed in terms of political corruption. The following sections of the report review the expenditures of political parties, as well as the transparency of finance and its oversight. Recommendations are presented at the end of the report.

2 <https://monitoring.sao.ge/registry-of-offenders>

III. REVENUES OF POLITICAL PARTIES

1. LEGISLATIVE FRAMEWORK

Key legislative foundations for the regulation of political party finance are found in the organic laws of Georgia on **Political Unions of Citizens** and the **Election Code**; as well as the laws of Georgia on the **State Audit Office**, **General Administrative Code**, **Administrative Offenses Code**, and the orders of the Auditor General.

Georgian legislation allows political parties/electoral subjects to raise funds from the following sources: (1) public funding (including direct monetary contributions from the state budget to the political party, indirect state contributions, and reimbursement of expenditures); (2) membership fees; (3) private donations (no more than GEL 60 000 from an individual donor and GEL 120 000 from a legal entity); (4) revenues earned from selling merchandise, lectures, exhibitions and other public events, as well as annual capital income from publishing and other activities; (5) bank loans.

1.1. PUBLIC FUNDING

1.1.1 SOURCES OF PUBLIC FUNDING

As mentioned, one of the sources of the political party finances may be funds received from the state. The amount and subjects of public funding are determined by the Organic Law on **Political Unions of Citizens**. The law lists the following ways of obtaining funding from the state:

- **direct monetary contributions from the state budget**

A political party registered with the Central Election Commission of Georgia (CEC), which participated in the elections independently or as part of the electoral bloc, receives money directly from the budget if it or its electoral bloc received 3% of the votes or more; Or in the last parliamentary elections its majoritarian candidate was elected a member of the parliament and it could create a parliamentary faction. Annual funding is determined by the formula³, according to which, in addition to the basic public funding, which amounts to GEL 300 000, additional funding is added in accordance with the mandates obtained in the Parliament and the votes received in the elections. However, if a party or electoral bloc that has run independently in an election has received 6% or more of the votes in the last parliamentary or local self-government elections, its basic funding will be doubled to GEL 600 000.

³ According to Article 30 (4) of the Organic Law on Political Unions of Citizens, the amount of public funding to be received by political parties will be calculated according to the following formula: $Z = B + (M * 600 * 12) + (L * 100 * 12) + (V * 1,5) + (W * 1) + (H)$, where Z is a total public funding allocated to a political party; B - base funding; M - the number of MPs (up to 30 MPs) elected through proportional system; L - the number of MPs (above 30 MPs) elected through proportional system; V - the number of votes received under 200 000; W - the number of votes received above 200 000; H - a party that was registered with the Central Election Commission of Georgia to participate in the last parliamentary elections and its majoritarian nominee was elected a member of the Parliament and he/she formed a parliamentary faction. H = GEL 300 000 for the purposes of this formula.

- **Reimbursement of campaign expenditures**

An election subject, which receives 5% or more of the votes cast in the proportional system in the parliamentary elections or receives 10% or more of the votes in the first round of the presidential elections, receives up to GEL 1 000 000 from the state budget of Georgia. Those who get 3% or more of the votes in the country-wide City Assembly elections will also be funded by GEL 500 000 from the state budget.

The election subjects will receive such funding after submitting a report on the expenses incurred during the election campaign.

- **Gender funding**

A political party, which receives public funding, gets a supplement to the base funding in the amount of 30% of it, if it has at least 30% of candidates of different sex in each ten-person group of candidates given in the party list (in the local self-government elections - in all party lists).

- **Distribution of public funds to the political parties through the Electoral Systems Development, Reform and Training Center**

In addition to direct public funding of political parties, certain funds are transferred annually from the state budget to the Center for Electoral Systems Development, Reforms and Training, which aims to promote the development of political parties and non-governmental sector and establish a healthy and competitive political system. This kind of funding equals to half of the amount of direct public funding and is distributed to political parties in proportion to the base public funding they receive. The money is allocated only for research, teaching, conferences, business trips, regional projects, and civil and electoral education projects for voters.

- **Targeted funding for TV advertising for political parties in election years**

In order to financially support election campaigns of political parties, additional funding is allocated from the state budget to cover the costs of placing TV commercials. Only parties that have the right to receive public funding will receive this additional money. In order to calculate the allocated amount, the number of votes received by the relevant election subject in the last general election is multiplied by three and divided by the number of political parties within the election subject. Such funding does not exceed GEL 600 000 per political party. At least 15% of the amount allocated to the election subject must be used to place pre-election advertisements on at least 7 broadcasters that are not national broadcasters.

- **Public funding given to political parties for their representatives in the district and precinct election commissions on Election Days**

A qualified election subject (a subject which is qualified for getting public funding) receives funding of GEL 100 (GEL150 for electoral blocs) for each polling station and GEL 150 (GEL 200 for electoral blocs) for each election district to ensure representation in the district and precinct election commissions on Election Days. The electoral bloc

that does not include any of the qualified parties, but the bloc member parties in the last parliamentary or local self-government elections jointly got more than 3% of votes, will also receive the same funding as qualified political parties. This funding is provided no later than 3 days before the Election Day.

- **Free advertisement time**

During the election campaign the National Broadcasters are obliged to allocate at least 7.5 minutes every 3 hours free of charge for advertisements of qualified election subjects, which should be distributed equally and without discrimination. The Georgian Public Broadcaster should allocate 5 minutes per hour for the same purpose.

Political parties are prohibited to receive other kinds of public funding or in-kind public contributions that do not fall into the categories described above.

1.1.2. PROBLEMS EXISTING IN PUBLIC FUNDING REGULATIONS

The 2016 parliamentary elections showed that one of the most problematic issues was related to which party should receive the additional funding of GEL 300 000 for creating a faction in the Parliament. Due to insufficient clarity of the existing regulations, the CEC misinterpreted them, as a result of which, the political party the Industry Will Save Georgia received GEL 300 000, whereas it had failed to overcome the necessary 3% threshold, received 0.78% of the votes, and only managed to get one majoritarian MP elected. Besides, even if the regulations were not vague, the principle of funding of political parties for creating a faction is also incorrect. Creating a parliamentary faction is not an additional achievement of a party; it is automatically related to its entry into the Parliament and, accordingly, parties should not receive additional funding for creating a faction. This funding is not related to reimbursement of a faction's expenses, because these expenses are reimbursed from the Parliament's budget.⁴

This regulation was further aggravated in 2018, when the legislative amendments were adopted, according to which, the party, in addition to the GEL 300 000 allocated for creating a faction, was qualified to receive an additional GEL 300 000 as base public funding, if its majoritarian candidate(s) wins a parliamentary seat and creates a faction. The party will get this additional amount regardless of whether it overcomes the 3% threshold in the elections.⁵

Another problematic issue concerns public funding of the parties that are united under electoral blocs. Existence of electoral blocs has one legitimate goal, specifically, to help parties with a low rating to combine their efforts and overcome the electoral threshold. In our opinion, in addition to this legitimate goal, the regulations that now exist in Georgia also give political parties unjustified incentives related to receiving additional benefits from the State. The last parliamentary and local government proved this point. We have witnessed the creation of "artificial" electoral blocs through

4 <https://bit.ly/36HS5PJ>

5 <https://bit.ly/2ZQ00w3>

which parties comprising electoral blocs – unlike parties that participate in elections independently – unfairly received additional benefits, such as obtaining additional funding by manipulating components of the formula of public funding, more free advertising time, more funding for representatives in election commissions, the appointment of members in election commissions, etc. ⁶

1.2. PRIVATE FUNDING

In addition to public funding, political parties have the right to raise funds from private sources. According to Georgian legislation, the largest categories of private funding are:

- **Membership fees**

The ceiling of the annual amount of membership fees is GEL 1 200.

- **Donations**

Donations are defined as follows:

- Money deposited on the account of a political party by a natural or legal person;
- Material or in-kind contribution (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 or legal person.
- The law imposes qualitative as well as quantitative restrictions on donations:
- A natural person who donates should be a citizen of Georgia;
- A donating legal person should be registered on the territory of Georgia while its partners and end beneficiaries - citizens of Georgia;
- A donor cannot be a legal person, which in the last calendar or election year has had 15% or more of its actual income from simplified state procurements;
- Donations received by a party from a single natural person shall not exceed GEL 60 000 a year, while donations from a single legal entity – GEL 120 000;
- Furthermore, it is forbidden to receive donations from:
- Natural and legal persons of other countries, international organizations and movements;
- State agencies, state organizations, legal persons of public law, societies with state stock ownership;
- Non-commercial legal entities and religious organizations;
- In an anonymous form

⁶ <https://bit.ly/2Xb691c>

- **Bank credits**

A political party has the right to take a credit of maximum GEL 1 million in a calendar year only from a Georgian commercial bank.

2. REVENUES RECEIVED BY POLITICAL PARTIES: REVIEW AND ANALYSIS

According to SAO's summary statistics⁷, the studied 19 political parties received a total of GEL **20 739 364** in 2019, of which almost half (**46%**) – GEL 9 502 653, was the revenue of the ruling party Georgian Dream. The Alliance of Patriots of Georgia was second with GEL 1 676 618, and the European Georgia was third with GEL 1 643 099 GEL (see the full list on **Figure 1**). Big difference between the revenues of the ruling party and the rest of the political parties has been recorded almost every year, so 2019 was not an exception.

7 <https://monitoring.sao.ge/declarations/Annual>

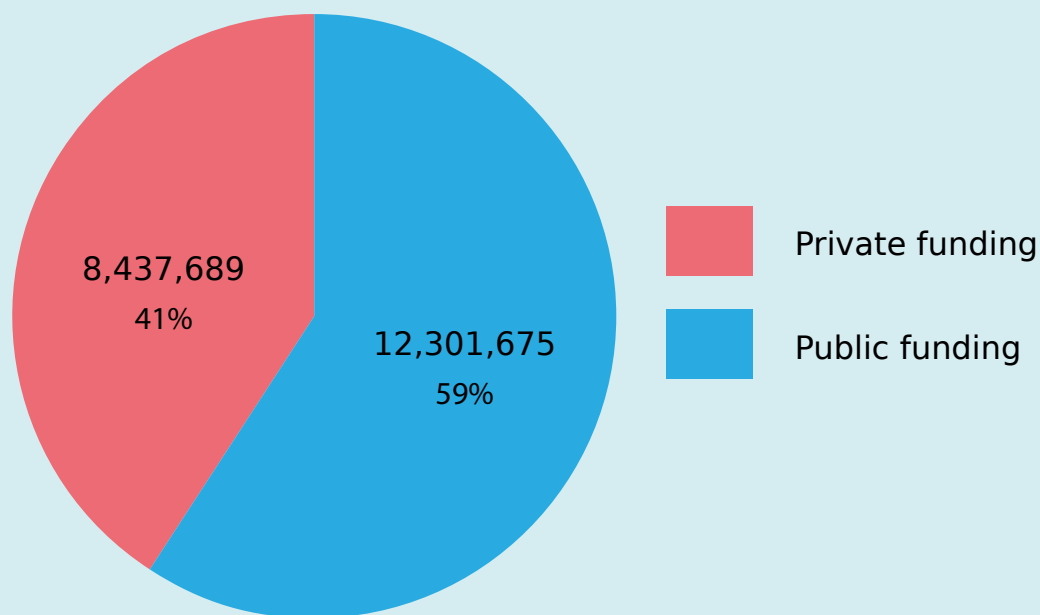
Figure 1. Total revenues received by political parties in 2019 (GEL)



2.1. PUBLIC FUNDING

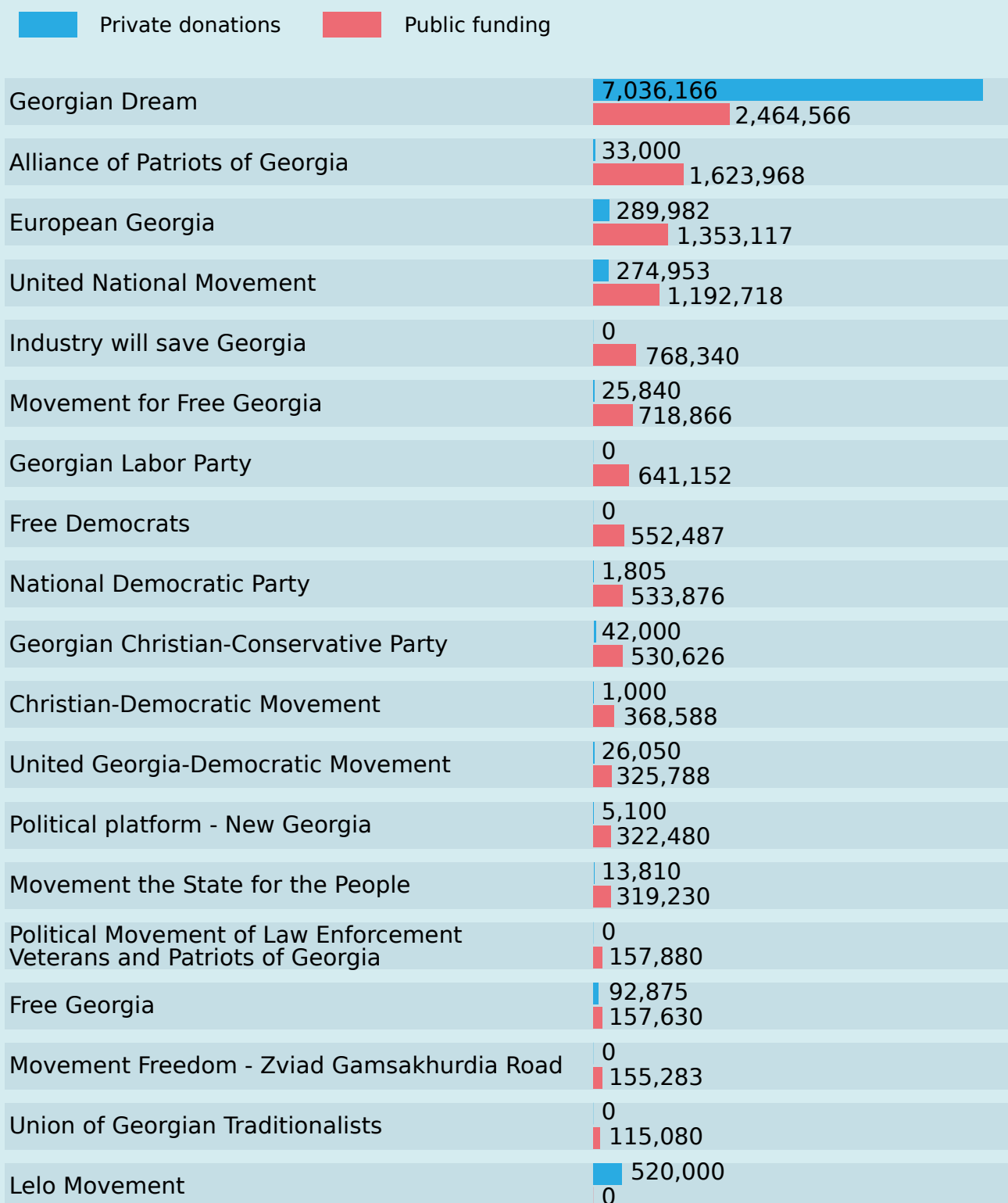
In 2019, **59%** (GEL 12 301 675) of the total revenues received by political parties came from public funding, and 41% (GEL 8 437 689) came from private sources (see **Figure 2**).

Figure 2. Sources of revenues received by political parties in 2019,(GEL)



Such a balanced overall proportion of private and public funding was largely determined by private donations received by the Georgian Dream, while the main source of income for other parties was usually public funding. If we exclude the Georgian Dream, **18 political parties got 88% of their income from the state budget**. With the exception of a few, all political parties almost entirely depend on public funding, and this trend has virtually not changed from year to year. Only one of the 19 parties, the Lelo Movement, did not receive public funding since it was formed in 2019 and has not yet participated in elections (see **Figures 3, 4, and 5**).

Figure 3. Public funding and private donations received by political parties in 2019, (GEL)

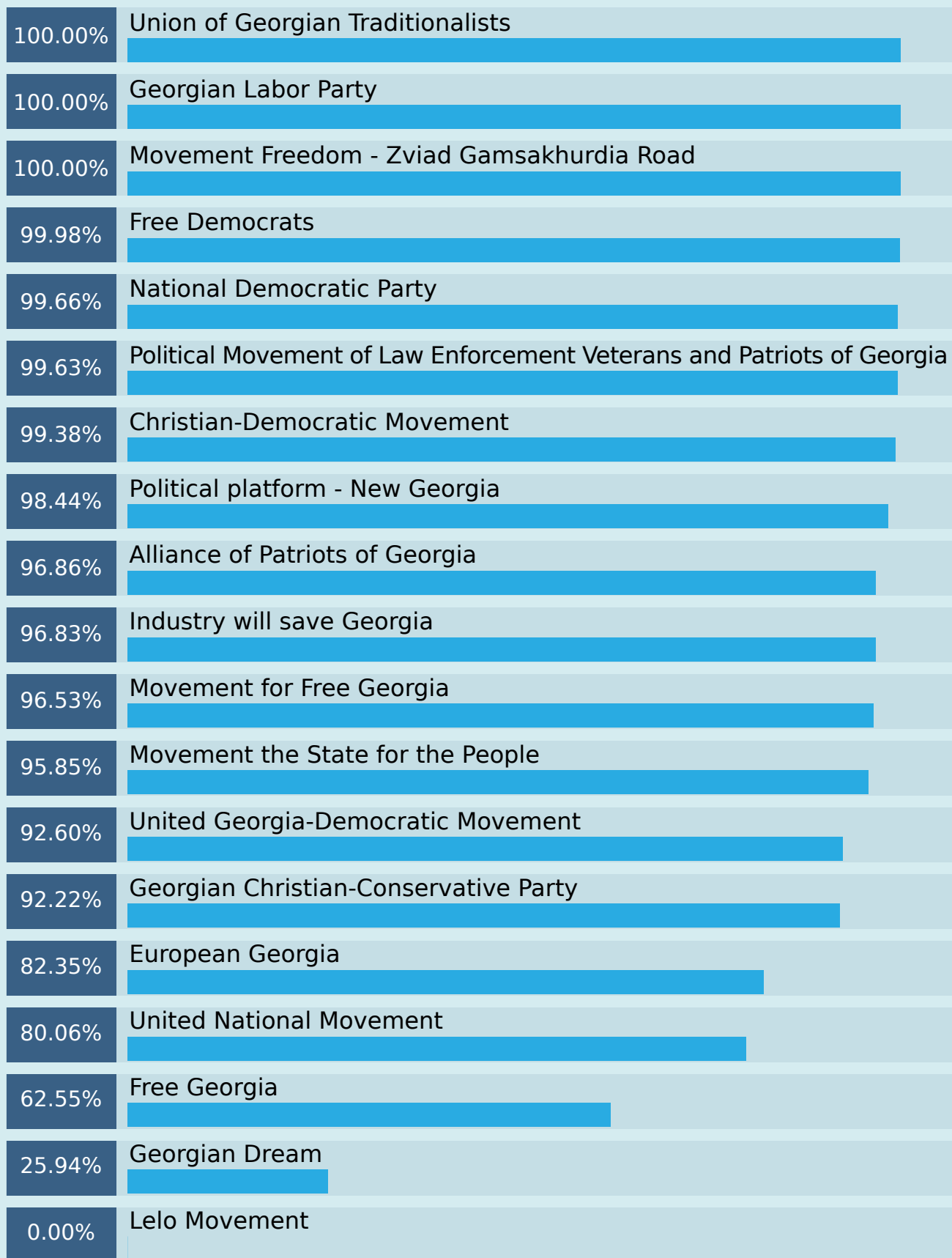


** In Figure 3, public funding includes direct budgetary funding received by political parties and funds received from the LEPL Election System Development, Reform and Training Center.

Figure 4. Public funding received by political parties in 2019 (GEL)



Figure 5. Share of public funding in total revenues of political parties in 2019



2.2. PRIVATE DONATIONS

Private revenues, especially donations, of political parties have always been a matter of great public interest. Georgia is a small, middle-income country, and generous contributions to political parties often raise legitimate questions regarding the real individuals and entities behind the financial transactions and whether or not these donations are made as part of a corrupt deal.

It is not easy to detect corruption and illegal schemes. Still, in previous years, TI Georgia tried to disclose as much information as possible on the donors of political parties and their commercial interests, as well as public procurement contracts awarded to their companies.

To detect these links more effectively, TI Georgia created a website politicaldonations.ge, which accumulates all donations made to political parties from 2011. What is more, the company affiliations of donors can also be viewed on the website.

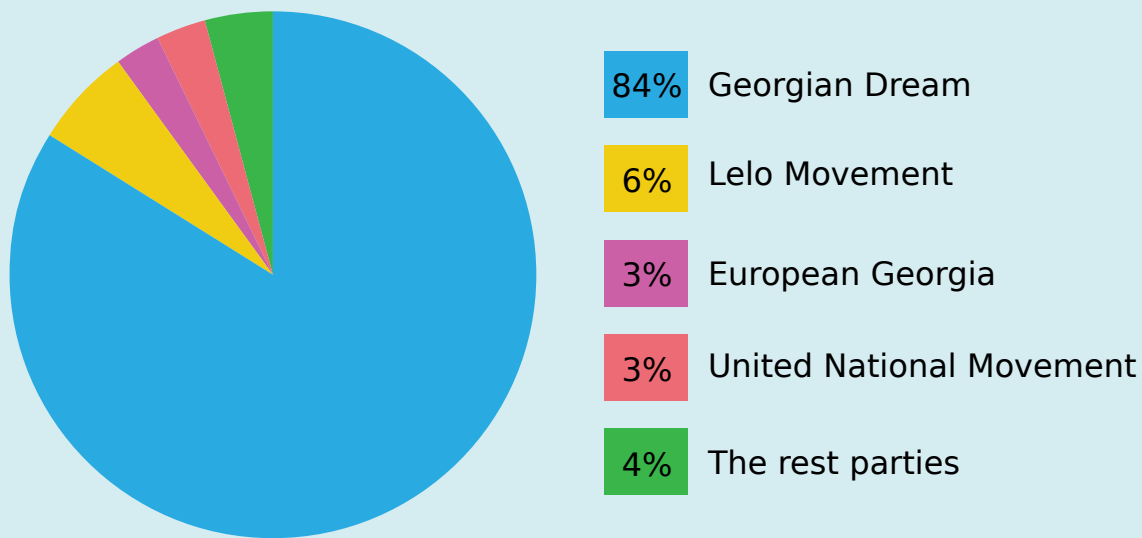
In leading democracies, electoral candidates often rely on party campaigning and outreach with the constituency in order to attract donations, allowing them to diversify their revenue sources. This way, parties become less reliant on a few large donors and less prone to being part of corruption funding schemes. This is less than common in Georgia: political parties largely depend on the funding from the state budget. While the ruling and a few opposition parties tend to attract private donations, they largely rely on a few key donors, raising many questions in Georgian public.

In 2019, only 13 of the 19 political parties received private donations. More specifically, the political parties received a total of **GEL 8 362 581** from 450 individuals and 26 legal entities, of which **GEL 7 036 166 (84%** of all donations) went to the ruling Georgian Dream party. The Lelo Movement was second with GEL 520 000 and the European Georgia was third with GEL 289 982. The data shows that the donations received by the Georgian Dream are about **14 times** higher than the donations of the second-ranked Lelo and **five times** higher than the donations received by all 18 other political parties (see **Figures 6** and **7**). In such a situation, it is very difficult to talk about equal competition between the parties.

Figure 6. Private donations received by political parties in 2019 (GEL)



Figure 7. Private donations of political parties, by their share in total donations, (GEL)



* The donations include both monetary and non-monetary donations received from individuals and legal entities.

Particularly high risks of political corruption are, of course, accompanied with the donations received by the ruling party, as it is the government that has the leverage to share potential benefits with the donor. That is why special emphasis was placed on Georgian Dream donations.

In 2019, 218 individuals and 24 legal entities made contributions to the Georgian Dream. More specifically, individuals paid a total of GEL 4 991 166 to the ruling party. As for legal persons, they contributed GEL 2 045 000.

Some of these donors have benefited from public procurement. In particular, from January 1, 2019 to May 1, 2020, nine legal entities donating Georgian Dream and 15 companies related to individual donors (who donated a total of GEL 1 745 000) got simplified public procurement contracts amounting to **GEL 15 750 924**. During the same period, they also won public tenders of **GEL 126 092 739**.

With this regard, several cases are particularly noteworthy. In 2019, **G&K Technology LLC** and its owner **Roman Abramishvili** respectively donated GEL 40 000 and 60 000 to the Georgian Dream. This company won 8 public tenders of **GEL 28 376 575** in 16 months. In other years, Abramishvili has also donated money to Salome Zurabishvili and the United National Movement.

Over the years, several major groups have been formed among the ruling party's donors, contributing large sums of money to the Georgian Dream in almost every election. In 2019, **Zaur Tskhadadze**, one of the owners of Tegeta Motors LLC, traditionally was among them. Tskhadadze and his business partners have made numerous donations in favor of the ruling parties. This time Tskhadadze and his business partner Kakhaber Japaridze donated GEL 60 000 and 40 000, respectively, in favor of the Georgian Dream on the same day (May 23, 2019). Only these two people have donated a total of GEL 260 000 in various years. Tegeta Motors is one of the largest participants and contractors in public procurement. For example, from January 1, 2019 to May 1, 2020, the company got about **GEL 13 million** through simplified procurement contracts and won public tenders of **GEL 91 million**.

Individuals and legal entities directly or indirectly affiliated with **Bidzina Ivanishvili**, the chairman of the ruling party, traditionally, were among the large donors of the ruling party. More specifically, in 2019, two companies and 16 individuals related to Ivanishvili contributed a total of **GEL 753 000** to the Georgian Dream. The same persons donated a total of almost **GEL 2 million** to the ruling party in different years. It is worth mentioning that some of them donated money to the party on the same day or 1-2 days apart, which raises some doubts whether this collective action was organized in advance by someone (see **Table 1**). Georgian legislation prohibits third-party donations, so the SAO should be interested in such suspicious circumstances.

Table 1. The ruling party donors directly or indirectly affiliated with Bidzina Ivanishvili

Name or title of the donor	ID	Donations made in 2019 (GEL)	Donation date	Donations made in all years (GEL)	Company affiliation
Tsitadeli LLC	208190367	100 000	02.07.2019	240 000	
Nino Pochkhua	01009004192	10 000	02.07.2019	10 000	Prof Georgian Group LLC
Aleksandre Ivanishvili	01012000982	45 000	28.03.2019	135 000	
Tamaz Kharaidze	01010004194	20 000	28.03.2019	20 000	Mtatsminda - 95 LLC
Zaal Dugladze	01024012661	20 000	06.06.2019	90 000	
Zimo LLC	211338015	100 000	17.09.2019	100 000	

Gia Urotadze	01024014103	10 000	16.09.2019	10 000	Zimo LLC
Zurab Kiknadze	01008000479	60 000	10.05.2019	60 000	
Beka Kvaratskhelia	01024015586	40 000	27.03.2019	114 600	Cartu Bank JSC
Givi Lebanidze	01001029463	45 000	27.03.2019	101 800	
Davit Galuashvili	12001031377	40 000	27.03.2019	135 400	
Zurab Gogua	01010013094	45 000	27.03.2019	118 000	
Nato Khaindrava	01003011336	50 000	27.03.2019	187 600	
Gocha Chikviladze	01023008103	45 000	27.03.2019	108 500	Cartu Group JSC
Archil Mamatsashvili	01003010997	6 000	16.04.2019	38 500	Insurance Company Cartu JSC
Giorgi Mikaberidze	01007005351	22 000	05.04.2019	67 000	
Kakha Kobiashvili	54001002613	45 000	29.03.2019	110 000	Accept LLC
Leri Kapanadze	54001007156	50 000	04.03.2019	205 000	

The similar case is related to other donors of the Georgian Dream – Service-Agro LLC and 11 individuals who are business partners in this and other companies. In 2019, Service Agro and 11 individuals donated a total of GEL 398 000 to the ruling party. The same persons contributed to the ruling party in other years as well, therefore, the total financial contribution made by them reaches GEL 700 000. As in previous cases, some donors donated money to the party on the same day or 1-2 days apart, which also raises some doubts (see **Table 2**).

Table 2. The ruling party donors directly or indirectly affiliated with Service-Agro LLC

Name or title of the donor	ID	Donations made in 2019 (GEL)	Donation date	Donations made in all years (GEL)
Service-Agro LLC	412709813	100 000	04.07.2019	100 000
Davit Inauri	01024024600	60 000	06.05.2019	175 000
Davit Chakhtauri	01011023976	10 000	28.11.2019	10 000
Zaza Vashakidze	60001003660	20 000	26.11.2019	20 000
Paata Bezhanishvili	12001005028	5 000	28.11.2019	10 000
Meri Japaridze	01005003450	35 000	23.12.2019	85 000
Giorgi Svanidze	01008004570	15 000	03.12.2019	45 000
Gela Chkheidze	60001005879	30 000	02.12.2019	30 000
Davit Kvatadze	01005000494	60 000	28.11.2019	110 000
Besik Metreveli	01025014072	20 000	26.12.2019	60 000
Nino Khvedelidze	01027013793	8 000	24.12.2019	16 000
Marine Sitchev	01015008165	35 000	12.12.2019	35 000

Another group of Georgian Dream donors is affiliated with the owners of Lilo Mall LLC and their business partners. In 2019, 12 individuals and one legal entity of this group donated a total of GEL 505 000 to the ruling party. The same persons contributed to the ruling party in other years as well, therefore, the total financial contribution made by them reaches 800 000 GEL. If we look at the dates of donations, we will also find “coincidences” similar to the previous cases (see **Table 3**). In addition, Sinens LLC and Sevsamora LLC, two companies owned by two donors (Vazha Usanetashvili and Giorgi Gagua) belonging to this group, are beneficiaries of the state program Produce in Georgia. Base on the website⁸ of this program and other public sources, these companies received more than GEL 5 million from the state in 2018.

⁸ <http://www.enterprisegeorgia.gov.ge/en/interactive-map>

Table 3. The ruling party donors directly or indirectly affiliated with Lilo Mall LLC and their

Name or title of the donor	ID	Donations made in 2019 (GEL)	Donation date	Donations made in all years (GEL)
Bacho Kapanadze	01019063156	15 000	11.12.2019	15 000
Gia Andghuladze	01030006793	60 000	11.12.2019	97 000
Giorgi Gagua	01006001848	50 000	11.12.2019	87 000
Giorgi Kvaratskhelia	01024007565	15 000	11.12.2019	15 000
Davit Kapanadze	01022002617	50 000	11.12.2019	50 000
Ilia Shonia	01024012981	57 000	11.12.2019	94 000
Vazha Usanetashvili	01019006353	58 000	11.12.2019	96 000
Nikoloz Usanetashvili	01019007922	15 000	11.12.2019	15 000
Levan Gagua	01010002617	40 000	12.12.2019	40 000
Davit Gagua	01017021794	30 000	12.12.2019	30 000
ZD Oil Company LLC	404440501	25 000	13.05.2019	25 000
Irakli Petriashvili	01008016572	50 000	06.06.2019	145 000
Tengiz Gavasheli	01003002124	40 000	30.12.2019	78 000

The owners of another beneficiary business group of the state program Produce in Georgia were also traditionally found among the donors of the Georgian Dream. Polimeri LLC and Polimeri 1 LLC received funding of about GEL 1 million under this program, which we wrote about in previous reports.⁹ Five people connected with these companies donated a total of GEL 120 000 to the Georgian Dream in 2019 on the same day (December 19, 2019). During different periods, these individuals made more than half a million GEL of political donations in favor of the ruling party (see **Table 4**).

Table 4. The ruling party donors affiliated with Polimeri LLC				
Name or title of the donor	ID	Donations made in 2019 (GEL)	Donation date	Donations made in all years (GEL)
Amiran Adeishvili	01008017025	55 000	19.12.2019	165 000
Zaza Khutsishvili	01027018549	10 000	19.12.2019	60 000
Ilia Sepiashvili	01009004122	15 000	19.12.2019	105 000
Moris Khutsishvili	01027016242	15 000	19.12.2019	75 000
Revaz Karchava	01010014149	25 000	19.12.2019	115 000

The trends described in this subsection repeat every year. However, the SAO does not respond to them.

⁹ <https://www.transparency.ge/en/post/who-funds-political-parties-georgia>

IV. EXPENDITURES OF POLITICAL PARTIES

1. LEGISLATIVE FRAMEWORK

Georgian legislation requires political parties to provide the SAO with detailed reports on their expenses. The SAO is obligated to publish these reports on its website.

The Law of Georgia on Political Unions of Citizens sets ceilings for political party expenditures: a total annual sum of all expenditures made by a political party / electoral subject cannot be more than 0.1% of Georgia's gross domestic product (GDP) for the previous year. This figure includes expenses of a political party / electoral subject and other individuals / entities who have made payments in their support. Expenditures include expenses for financing campaign and other events, salaries, expenses for business trips and other events.

Apart for setting limits on the total annual expenditures by a political party, the law also stipulates limitations on certain types of expenditures: fees for experts and consultants should not be more than 10% of the ceiling set for political party expenditures (0.1% of the previous year's GDP). Georgian legislation does not make limitations on the types of purchases and payments during the election campaign.

2. EXPENDITURES OF POLITICAL PARTIES: REVIEW AND ANALYSIS

According to SAO's summary statistics¹⁰, in 2019, the studied 19 political parties spent a total of **GEL 20 723 057**, of which **43% - GEL 8 877 711** – was spent by the ruling party, which was followed by the European Georgia with GEL 2 206 248 and the Alliance of Patriots of Georgia with GEL 1 671 775 (see **Figure 8**). Similar to the revenues, the ruling party outperformed the rest in terms of spending.

10 <https://monitoring.sao.ge/declarations/Annual>

Figure 8. Expenditures of political parties in 2019 (GEL)



Traditionally, the largest expenses made by political parties included the following categories: a) salaries; b) lease of real and movable property; c) advertising; d) office expenses; e) expenses for organizing congresses or other events; f) notary, consulting, translator service costs, and business trips (see **Figures 9** and **10**).

Figure 9. Expenditures of political parties in 2019, by expense categories (GEL)

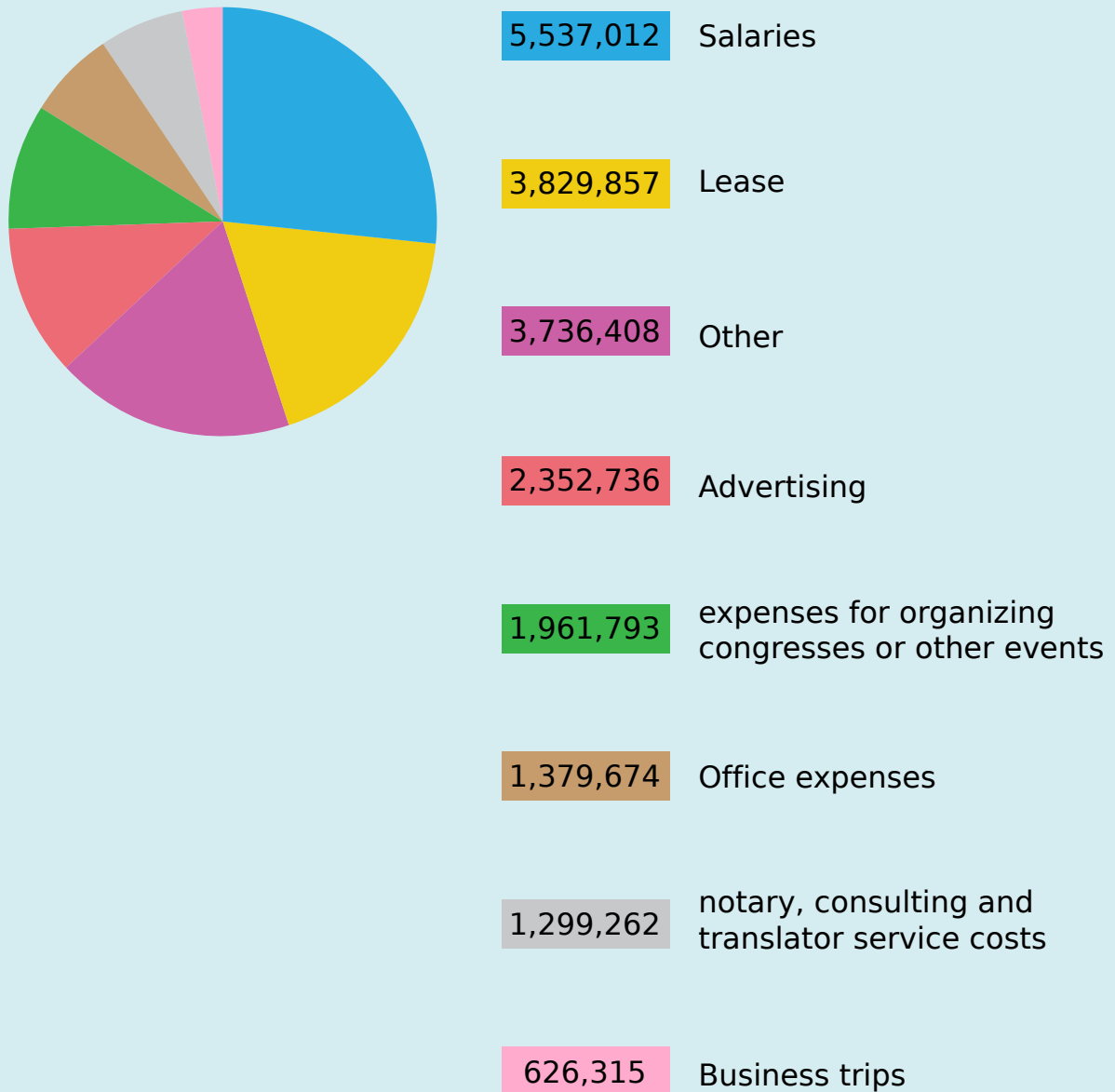


Figure 10. Salary expenses of political parties in 2019 (GEL)



Leading political parties traditionally spend a lot of money on advertising in election years. Since there were no general elections in 2019 and only by- and snap elections were held, the advertising expenses were relatively low. More specifically, political parties spent a total of GEL **2 352 736** on advertising services during the year, of which **GEL 1 747 140 (74%)** was spent by the ruling party, which made a huge difference compared to other parties (see **Figure 11**).

Figure 11. Advertising expenses of political parties in 2019 (GEL)



V. TRANSPARENCY AND OVERSIGHT OF CAMPAIGN FINANCES

The existence of a requirement for the political unions / electoral subjects to prepare financial reports and their oversight are important preconditions for increasing the transparency of electoral processes and public confidence. At the same time, it is crucial that these reporting and follow-up processes allow for an effective oversight but do not inadvertently create an unnecessary burden on political parties.

The Law on Political Unions of Citizens regulates the issue of financial accountability of political parties to the SAO. In particular, the legislation sets an obligation to submit reports on both periodic and specific electoral processes. As already mentioned, before February 1 of each year, political parties send financial reports of the last year to the SAO together with the conclusion of the auditor (audit firm). The financial declaration reflects political party's annual revenues and expenditures, as well as its assets and liabilities. Each declaration includes several report forms to be completed in accordance with the Auditor General's May 5, 2016 Order #2915/21. In addition, the SAO established forms for submitting information on donations and withdrawals from the account.

The law also provides access to declarations submitted by electoral subjects. Financial declarations of political parties are published by the SAO on the website www.monitoring.sao.ge, where the list of donors is also public, including full name / surname and personal number.

Article 34² of the Law on Political Unions of Citizens prescribes sanctions in various cases of violation of the rules of reporting, during which the authorized persons of the SAO draw up a protocol on administrative offenses and send it to the court for consideration:

- In case of prohibited donation, a fine of double the amount and an obligation to transfer the received amount to the budget is envisaged;
- In case of violation of general requirements of the law, a fine of GEL 5 000 is set;
- A fine of GEL 1 000 is imposed on individuals and GEL 2 000 - on legal entities if they do not fulfill the obligation to provide the information required by law;
- In case of vote-buying, within the framework of administrative proceedings, a fine of ten times the value of the bribe shall be imposed on the bailiff, and a double fine shall be imposed on the recipient of the bribe.

From January 1 to June 30, 2019, the SAO's Department of Political Finance Monitoring sent 14 protocols of administrative offenses to the Tbilisi City Court. More specifically, 7 cases were related to the events that took place during the 2018 presidential elections; 4 cases were related to deficiencies found in the annual declarations of 2018, and 3 cases were related to the incidents that took place during the by- and snap elections of May 19, 2019 (see **Table 5**).¹¹

11 <https://monitoring.sao.ge/files/finansuri%20monitoringi/cases/Cases-in-2019.pdf>

Table 5. Protocols of administrative offenses drawn up by the State Audit Office in 2019

N	Name of electoral subject	Description of sanction	Amount of sanction (GEL)
1	Salome Zurabishvili	Receiving and concealing a prohibited donation (the cases of "No to Nazism" and "I Protect the Freedom")	Stopped
2	Georgian Dream	Illegal donation (Facebook advertising)	67 693
3	Natia Mildiani	Illegal donation (European Georgia)	20 000
4	Auto House - Rustavi 2011 LLC	Illegal donation (United National Movement)	60 000
5	Movement the State for the People	Failure to submit an election declaration	2 000
6	European Georgia	Receiving and concealing a prohibited donation (offices)	Stopped
7	United National Movement	Receiving and concealing a prohibited donation (offices)	13 500
8	New Political Center - Girchi	Failure to submit the election fund declaration	1 500
9	Movement the State for the People	Failure to provide information about the election fund	1 500
10	New Political Center - Girchi	Receipt of donations in cash	8 300
11	Christian-Democratic Movement	Money withdrawal in cash	2 000
12	Georgia Dream	Money withdrawal in cash	Warning
13	New Political Center - Girchi	Failure to submit a three-week declaration	2 000
14	Movement "Freedom - Zviad Gamsakhurdia Road"	Report drawn up by a non-certified auditor	5 000

1. QUALITY OF FINANCIAL DECLARATIONS FILLED OUT BY POLITICAL PARTIES AND ALLEGED VIOLATIONS

TI Georgia revealed a number of inconsistencies and shortcomings in the financial declarations filled out by political parties, which is a continuation of the trends of previous years. **Incomplete financial reporting by political parties remains a serious problem. The absolute majority of financial declarations miss some information or contain inconsistencies. Information required by the reports is left blank on multiple occasions. It seems that political parties either do not know how to properly complete declarations and what information needs to be presented in which way or they deliberately make these mistakes.**

This issue has persisted for years and the SAO has been ineffective at addressing this problem. Especially worrying is the situation in regards to the monitoring of political party spending. The SAO representatives have said multiple times that they lack relevant resources to carry out such monitoring.

Furthermore, the SAO has been ineffective in following up on the instances of suspicious donations. The process of examining these donations is usually rather protracted and final outcomes are not satisfactory. One of the problems in this regard is that if a donor is summoned for questioning by the SAO and he/she refuses to come, the agency has no leverage to force or sanction that person. Therefore, everything depends on the goodwill of the respondent. The second problem in this regard is another shortcoming in the Law on Political Unions of Citizens. In particular, Article 25 (4) of the Law considers a monetary spending, material or intangible value or services rendered free of charge or at a discount / preferential terms, for the purpose of refraining from the support of a party or a person with an electoral purpose, a donation. However, if a donation of a similar nature is considered illegal for any reason, the offender may not be fined, as such a sanction is not prescribed by the law.

Use of various types of anonymously sponsored political materials on social media, mostly on Facebook, remains one of the major challenges in political finance. These materials are spread in the form of text, video or photo and have a distinctly political character. It usually serves as a smearing campaign against politicians or public figures. These are clear cases of unreported money spent for political purposes, which may serve to circumvent legal restrictions. Nevertheless, the SAO is unable to obtain information about this type of advertising and its sponsors due to Facebook's refusal to provide the information.

This social network, on its own initiative, deleted hundreds of inauthentic Facebook and Instagram users, pages and groups twice that have been smearing members of various political parties.¹² In these cases, a large amount of financial resources were spent for political purposes. More specifically, according to Facebook, in the first case, \$ 316 000 was spent on advertising sponsored by these social pages and platforms, and in the second case the amount was \$ 30 000. Such actions should be qualified as political donations, therefore, the SAO should continue to work with Facebook to investigate these cases.

12 <https://civil.ge/archives/332443>
<https://civil.ge/ka/archives/350267>

VI. RECOMMENDATIONS

- Until electoral blocs are allowed, recipients of all types of public funding – both direct and indirect – should technically become electoral subjects, which means that one electoral subject, regardless of whether it is a party or an electoral bloc, should receive one equal portion of funding. This will involve no essential changes for political parties participating in elections independently, while electoral blocs at the time of registration in the CEC will be required to indicate in their statutes how they distribute all public benefits among political parties that are members of the bloc.
- Additional public funding of GEL 300 000 for creating a parliamentary faction, more specifically, component H in the public funding formula given in Article 30 (4) of the Law on Political Unions of Citizens should be removed. In addition, Article 30 (2) (b) of the same law should also be repealed, which also provides public funding to a party if its majoritarian candidate(s) win(s) a parliamentary seat and creates a faction.
- In order to reduce a big difference between the financial capabilities of political parties, it is desirable to review other components of the public funding formula and to provide funding only based on the votes received by political parties using regressive coefficient(s).
- The SAO must pay closer attention to identifying high-risk donations. Such donations need to be examined as soon as possible in order to increase public and trust and effectiveness of the work of SAO;
- The SAO should try again to cooperate with the social network Facebook and study the money spent for political purposes;
- The SAO must pay closer attention to capacity building of political parties in the area of financial reporting. This agency should also properly examine the content of declarations – especially the expenditures, and if appropriate, follow up and take necessary measures;
- Political parties / electoral subjects should do more to raise donations through events and campaigns. Parties that fundraise in such a way are usually less reliant on a handful of key donors and find themselves entangled in corruption schemes.