

AN ANALYSIS OF THE ELECTION CAMPAIGN FINANCES

AUGUST 1 - OCTOBER 1, 2012



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Summary

This study shows analysis of income and expenditure of the electoral subjects of the 2012 parliamentary election, in accordance with their pre-election campaign (1 September - 1 October) financial reports. Emerging trends are compared with the findings observed during 2008-2010 elections¹. For the purposes of the study, two electoral subjects were selected; the ones that secured necessary number of votes for the legislative body in 2012 parliamentary elections. These parties are:

1. United National Movement – More benefits for the people.
2. Bidzina Ivanishvili - Georgian dream

The report consists of three main parts: The first chapter examines income of the election campaign, while the second chapter - the expenses. The last chapter summarizes the findings and trends of the research, as well as recommendations to resolve existing problems.

As the study has revealed, the legislation governing Campaign Financing is remarkably improved compared to previous period; however, some problems are still to be outlined. Declaration forms and functions of regulatory body that existed before the legislative amendments of 2011, failed to provide transparency and accountability. New declaration forms have significantly reduced the problem, however certain issues still improvement.

According to legislative amendments of 2011 Electoral Subjects, in contrast to the previous period, when donations were only means of income, other categories were added. But declaration forms do not give possibility to exhaust these categories, while in the expenditure part the problem is solved and there is an additional form, which exhausts all types of expenses. In addition, if in previous periods electoral subject indicated each expense with whole details, 2012 campaign fund reports does not include full details.

Researching 2012 campaign finances of two subjects has revealed tendency, that the subjects are still getting most of the income from donations. As for expenses, subjects have diversified choices. If current ruling party has spent money on delivering low-cost valuables with party symbolic to people, United National Movement has used finances to advertisement.

It needs to be noted, that if on elections held in 2008-2010 difference in finances of electoral subjects was rather big and finances of ruling party of that time (United National Movement) was 14 and more times more than that of the next best resulted subject, this year United National Movement has 4 times more finances that Georgian Dream.

The specific work of regulatory body - State Audit Office should be underlined. It is by itself a step forward to have special regulatory body with control functions, since the mandate of the body existing before legislative amendments of December 2011 - Financial Monitoring Group at Central Election Commission - did not satisfy any standard of accountability. The violations it discovered could not be addressed in any

¹ For the abovementioned financial analyses of the elections see: <http://goo.gl/06M2W>.

way. On the other hand, regulatory body today is often exceeding its rights and had been controlling party activities neglecting law, which often was exceeding the mandate of financial control. Apart from that, before legislative amendment of December 2011 financial reports of electoral subjects were published in a timely manner, almost right away, with no barriers and with full transparency, while State Audit Service has not once ignored requirement of the law in that matter and Election Campaign Reports of 2012 Parliamentary elections are still not published, despite the legal obligation².

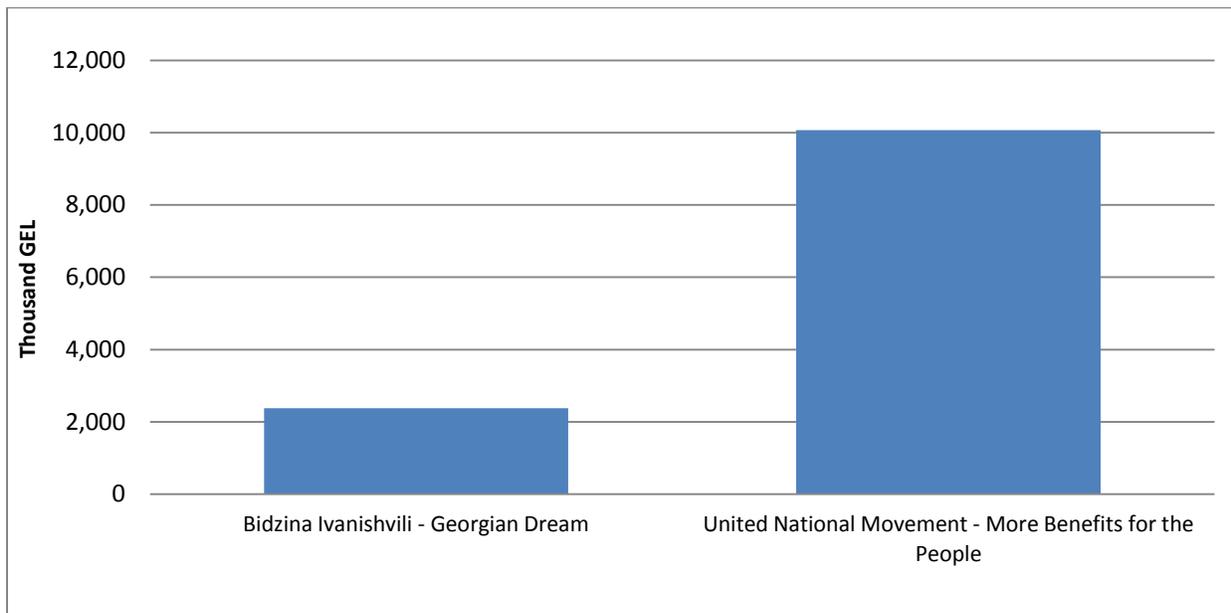
² Web page last checked on December 18.

I. Income

This part of the research reviews income of electoral subjects in August and September 2012, in following main categories: 1. State funding; 2. Membership fees; 3. Donations; 4. Other sources of income.

Funds obtained during 2012 parliamentary elections campaign differ from funds gained by subjects during previous elections. For instance, electoral subjects were able to mobilize a large amount of money, while during previous elections only the ruling party was marked by high income. Accordingly, if during the elections in 2008-2010 UNM attracted 14 – times more income than other election subjects', the rate has been reduced to 4 this year. For electoral subjects income see figure N1³.

Figure N1. Funding received by electoral subjects in August - September, 2012



It should be noted that till December 2011, there was a different legal regime for financing election campaigns. In particular, the election campaign funds included money and other types of resources received free of charge, which constituted to donations. Donations could be made by natural and legal entities, with limits of 30 000 and 100 000 GEL accordingly. In the case of an individual candidate, natural person could donate no more than 10 000 GEL, while legal entity - 30 000 GEL⁴. The restriction did not apply to the political parties, if they transferred their own funds for their election subjects' campaigns. In addition, it was prohibited to accept donations from other countries, legal or natural persons from other states, stateless persons, international organizations and movements, religious organizations and non-profit legal entities, the business entities with states as shareholders.

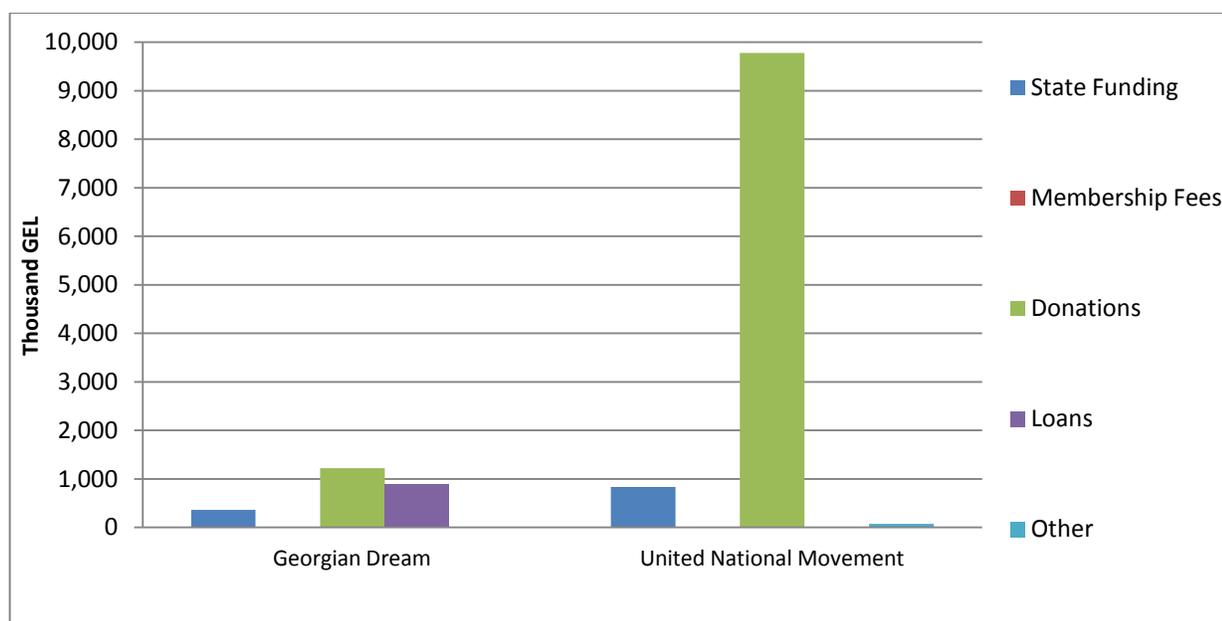
³ The income of Georgian Dream includes bank loan - 900 000 GEL.

⁴ Organic Law of Georgia on "Election Code of Georgia". August 2, 2001, N1047. GPB, 25, 22.08.2001 (hereinafter, the 2001 Election Code). Articles 47-48. About "Political Unions of Citizens" October 31, 1997 № 1028-I of the Organic Law (Parliamentary, № 45, 21.11.1997) (hereinafter – Organic law on "Citizens' Political Associations") Chapter III. 28 December, 2011 edition.

New Election Code⁵ of December 27, 2011 and amendments⁶ of December 28 2011 in Organic law on "Political Unions of Citizens", set the annual membership fees ceiling - 1200 GEL; donations from legal entities was prohibited; maximum annual donation from an individual was increased to 60 000 GEL; upper limit on the amount of annual income from "other activities" was imposed as well - 60 000 GEL. With amendments⁷ on May 8, 2012 of the same law, expenditures for television advertising were added as state funding of political associations.

Figure N2 shows categories of income distribution of the political parties.

Figure N2. Funding received by electoral subjects in August – September, 2012⁸.



1. State Funding

In contrast with previous elections, in 2012 parliamentary elections, the targeted state funding was allocated for TV commercials⁹. Despite the fact that there is no other state funding for election campaigns

⁵ December 27, 2011 № 5636 - ობ Organic Law of Georgia "Election Code of Georgia" (published on the website on 10.01.2012)

https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=1557168&publication=0#

⁶ December 28, 2011 № 5661 ობ Organic Law of Georgia on "Political Unions of Citizens". Amendments in Georgian Organic Law https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=1542609

⁷ May 8, 2012 № 6116-I Organic Law of Georgia on "Political Unions of Citizens". Amendments in Georgian Organic Law

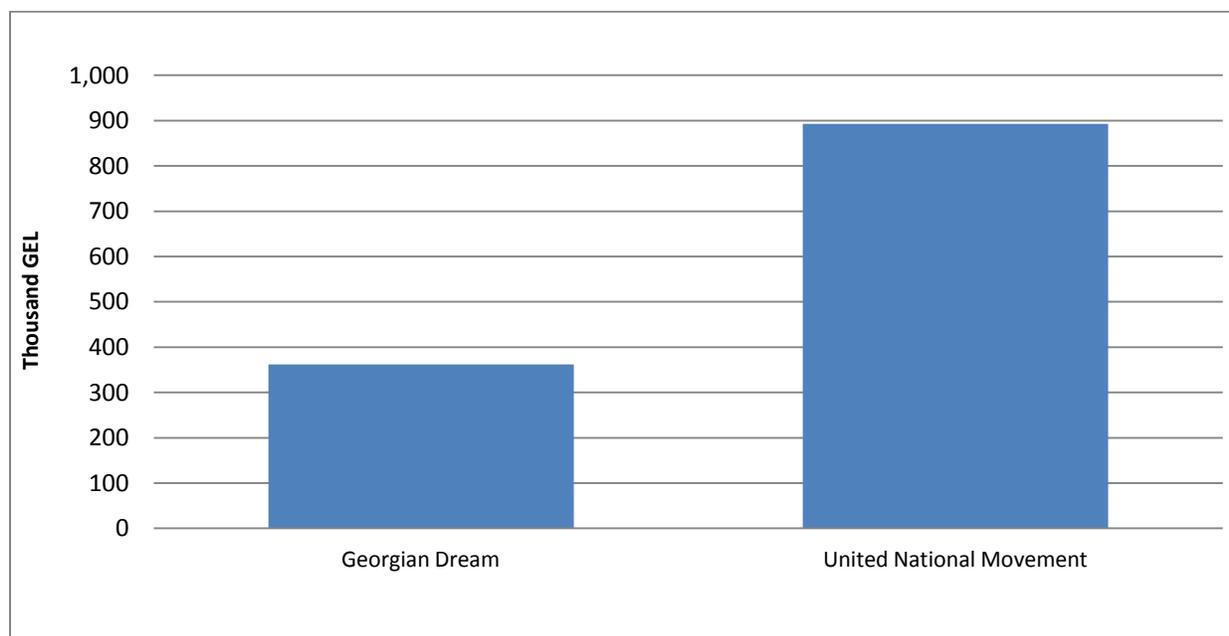
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⁸ UNM indicated state funding for advertising as "other income".

⁹ According to paragraph 12 of article 30 of the Organic law on "Political Unions of Citizens" for proper calculation of the appropriate amount, the number of votes received by the subject is multiplied by 3 and is divided according to its

besides above-mentioned, the United National Movement declaration also provides other assets. We can assume that these funds are annual financing received in pre election period (August-September) and used by the party for election expenses.

Figure N3. Funding received from state by electoral subjects in August-September 2012.



2. Membership fees

Membership fees are part of the parties property, however, it should be noted that in 2007-2010 political parties did not received this type of income in pre-election periods. In addition, until December 2011, membership fee regulation was not sufficiently clear and detailed. On December 28, 2011 legislative amendments imposed upper limit on the amount of the annual membership fee - 1 200 GEL¹⁰.

Two months before the 2012 parliamentary elections, Georgian Dream received 6 000 GEL as membership fees, which is less than 1% of their total income.

number of political unions. In addition, sum for one of the election subjects (and its political unions in total) must not to exceed 600 000 GEL.

¹⁰ According to the second round of monitoring report of OSCE, there were no restriction on the amount of the membership fee, that allowed evasion and illegal donations on upper levels. (Recommendation 3.7). Under paragraph IV of the recommendation, in order to ensure the transparency of party funding it was appropriate to impose the upper level for membership fees: www.oecd.org/dataoecd/8/6/44997416.pdf . A similar recommendation is given in GRECO-A (Group of States against Corruption) evaluation of 2011: Council of Europe, Group of States against Corruption - GRECO, Evaluation Report on Georgia on transparency of party funding (Greco Eval III Rep (2010) 12 E; Theme II) (paragraph 67).

3. Donations

Until December 2011, the electoral subjects were able to receive donations from natural and legal entities, given that it was forbidden to accept donations from:

1. Other States;
2. Natural or legal entities of other states;
3. Persons without citizenship;
4. International organizations and movements;
5. Non-profit legal entities and religious organizations;
6. Business entities, with state as shareholders.

In accordance with legislative amendments of December 28, 2011, political parties can no longer receive donations from legal entities; in addition, parties cannot accept donations from natural persons, more than 60 000 GEL¹¹ annually. Furthermore, additional restrictions¹² were imposed.

It should be noted that according to amendments in law on "Political Unions of Citizens" May 8, 2012, it is no longer mandatory¹³ for natural donors to indicate their registered addresses. We believe that this change will prevent financial transparency and accountability.

In order to achieve greater transparency, information on donors to political parties should be easily accessible, because there can be a reasonable suspicion in society, that some of the donations are fictive. Such facts had been confirmed several times in previous years. The fact that methodology for the monitoring of political funding, developed by the State Audit Office in July of 2012, acknowledges information concerning donations as being public, should be considered as positive, however this document is not legally binding and therefore, there is no guarantee that information concerning income will be fully public.

During two months before the 2012 elections, major source of income for the electoral subjects were the donations. In previous elections, donations were the only source of income, political parties were able to make a donation to electoral subjects themselves, and they did it quite frequently, however share of this type of funding were not big and usually didn't exceeded 20% of the total donations. United National Movement was an exception in this manner, particularly in the both elections of 2008 approximately 50% percent of the income came from contributions by natural and legal entities, in 2010, then-ruling party, received less than 5% from natural and legal entities for their election campaign, the rest were donations made by the party itself. However, if we check money transfers of United National Movement party, it

¹¹ Organic Law on "Political Unions of Citizens" - Article 27 – paragraph 1.

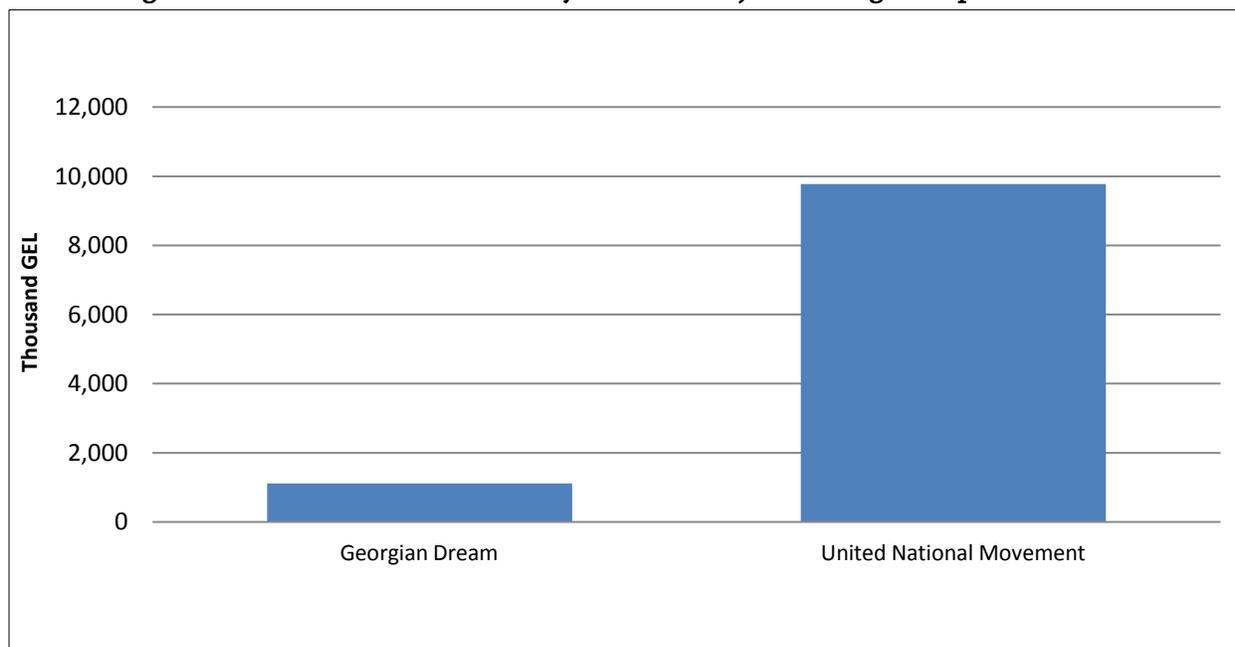
¹² Georgian citizen, who receives more than 15% of his annual revenues or if enterprise established with his participation gains revenues via simplified state purchases cannot act as donor,. If donor natural persons income is entirely or partially taken from sole source (from natural or legal entities, or entities related to them), then they cannot make donations for the same party/election subject more then 500 000 GEL annually. Additionally, total amount of single donor should not exceed 60 000 GEL.

¹³ In previous edition, donating legal person should have indicated his - first name, last name, address, ID number of citizen identification card (passport) and personal identification numbers.

appears that the party had received donations from natural and legal entities, and then transferred these assets for its campaign funds¹⁴.

As previously noted, in 2012 parliamentary elections, the funds received from persons were not the sole source of income. Nevertheless, it had the largest shares in campaign funds. In particular, the donations for Georgian Dreams were 70%¹⁵ of total income – while it was 92% for the United National Movement.

Figure N4. The donations received by electoral subjects in August-September 2012.



Transparency International Georgia developed a special program, which can analyze data regarding donors to political parties and identify their connection to various legal entities. Connections identified via this program are given in Table N1, which covers information concerning donations and donors¹⁶ during August - September 2012.

However it should be noted, that even though legal persons are not allowed to make donations for electoral subject, it does not mean that their shareholders or executives are forbidden as well. However, donation on behalf of such individuals underlines the fact that the business is not free from politics. Our data analysis revealed that the 74 of UNM and 30 of Georgian Dream donors have connections with the business. Some donors even represent a single legal entity.

For detailed information about connections between donors and legal entities, please refer to appendix.

¹⁴ For details, see website of Transparency International - Georgia, "Political Parties in Georgia: Funding Issues" <http://transparency.ge/post/report/politikuri-partiebi-sakartveloshidapinansebis-sakitkhebi> 2011

¹⁵ While calculating income of the party, if we take into account bank loans as well, the percentage would be - 47%.

¹⁶ Analysis of donations for political parties, made by the same program in the period of January - August 2012, can be found on blog published on official website of "Transparency International – Georgia" <http://transparency.ge/blog/rakavshirebia-politikur-partiebis-donorebsa-da-kompaniebs-shoris>

During 2012, the financial monitoring service of State Audit Office released information about some of the political unions receiving illegal donations from natural persons. Some of these statements were made in the pre-election period, but almost none of the cases concerned pre-election campaign financing issues and illegal donations¹⁷ during the pre-election period. The State Audit Office is required to publish election campaign funding monitoring report within 6 months after the elections.

4. Loans / Credits

As a result of legislative changes of December 2011, political parties were given the opportunity to use loans and credits¹⁸. Georgian Dream took an advantage of it and in period of August – September 2012, took a loan, 900 000 GEL, which was 38% of its total revenue¹⁹. Loan was taken from “Banki Kartu” with 12% annual interest rate for 4 months (up to 31.12.2012). This loan was supported by Article 56²⁰ of Election Code, allowing electoral subject to get state refund in amount of GEL 1 mln in case it allocates 5% of votes.

5. Other sources of income

In analysis of funding of political parties in 2011, Transparency International Georgia indicated that, income category is relatively complete, and if there is a category that does not fit the reporting form, political parties are advised to indicate the source of income. Political party should not attract unidentifiable funds²¹.

Despite this recommendation, declaration form still includes “other categories “of income, which is not specific. For example, in August - September, 2012, UNM through such revenues obtained 6% - (670 458 GEL) of total income- in audit report it states the amount of 70 458 GEL was percent from received bank

¹⁷ The only case when an information concerning financial irregularities during pre-election campaign was published on website of audit service, was by “Georgia is not for sale” concerning improper declaration non-monetary contributions. (sao.ge/?Action=news_f&npid=257&lang=geo). Also, see blog of Transparency International - Georgia on "Georgia is not for sale and the illegal agreement of the ruling party" <http://transparency.ge/blog/sakartvelo-ar-iqideba-s-da-mmartveli-partiis-ukanono-garigeba> In other cases, the majority of published statements does not apply to the pre-election period, or to its essence, it's unclear whether the donations were made during the election campaign.

On the several occasions was administrative process had been initiated, the results of which are still unknown. http://sao.ge/?action=news_f&npid=254&lang=geo

¹⁸ A party has no right to take loan / credit from a natural or legal person. For the aims of the election campaign, election subject (party / election bloc), after the registration as an election subject, in accordance with Organic Law on “National Bank” Article 2, paragraph “g”, to take credit from commercial banks, a total amount should not to exceed one million GEL. Organic law on “Political Associations”. Article 25 – par 3.

¹⁹ It should be noted that, sum received by Georgian Dream as a loan was registered as cash income.

²⁰ Election Code of Georgia. article 56: “Electoral Subject, which overcomes the barrier of 5% of votes in Parliamentary Elections, can single time receive no more than GEL 1 mln for covering election campaign expenses, including GEL 300 000 aimed at Pre-election Television Advertisement. Funding is received according to information provided according to article 57 of this law.”

²¹ For details, see website of Transparency International Georgia “The finances of political parties in 2011” <http://transparency.ge/post/report/politikuri-partiebis-pinansebi-2011.2012>.

account balances and accrued percent, as for 600 000 GEL that is for television advertising allocated from State Funds. Other income of Georgian Dream was 33 GEL (0.001% of total revenue).

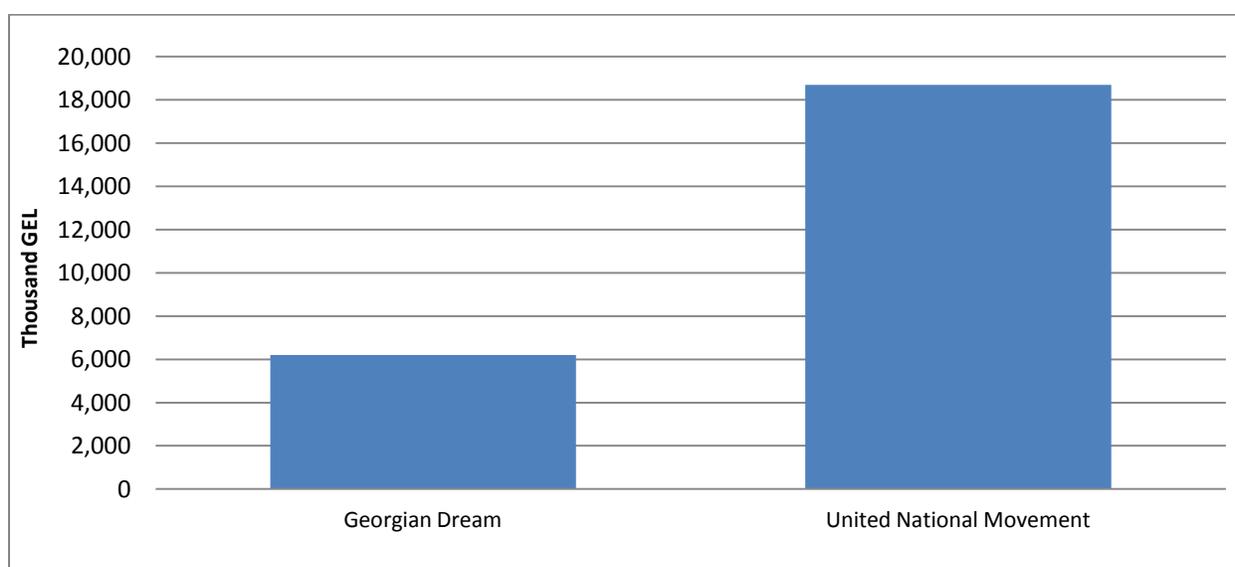
It should be noted that Article 25, paragraph 1 of Organic Law on "Political Unions of Citizens" stipulates that the law defines what types of income is eligible for the party. The list under subparagraph "D" of the same paragraph, specifies "funds received from other activities" which does not change the parties' character of non-profit legal entity. Total number of such income "should not exceed 60 000 GEL", therefore, capitalization percentage of 70458 GEL received by the United National Movement constitutes to income "received from other activities", which exceeds the limits allowed by law, 60 000 GEL.

II. Expenditures

This part of the research reviews two month period before October 1, 2012 parliamentary elections, parties main expenditure categories, major trends in comparison with 2008-2010 elections and other findings.

In 2012 there was a expenditure limit for political unions, according to which total costs of election subject should not exceed 0.2% ²²of Georgia gross domestic product of previous year, approximately 48.5 million GEL. The political associations that engage in activities before the elections were bound by this limits, which is why the in September 2012 State Auditor's Office indicated electoral subjects concerning the limits and what possibilities they had left²³. Election subjects' expenditures for 2012 Parliamentary Elections can be view on Figure N5.

Figure N5. Expenditures of electoral subjects, August- September 2012²⁴.



Before the legislative changes of December, 2011 election campaign fund accounting was carried out according to Central Election Commission (CEC) prescribed form²⁵. Reform resulted in more comprehensive financial declaration forms unifying more than 70 types of expenses, majority of which are used by political parties²⁶. However, it should be noted that the Declaration is the only sort of mandatory report, which will be submitted to the regulatory body. Till December 2011, CEC form had a graph, where all types of expenditures were reflected in details, election subject indicated from whom (natural / legal entity) and what type of services were received, what was the value, when it was performed / must be performed. Currently subjects do not have this kind of commitments.

²² Organic Law on "Political Unions of Citizens" Article 25, para 1.

²³ http://sao.ge/?action=news_f&npid=264&lang=geo

²⁴ Diagram illustrates actual costs of electoral subjects.

²⁵ Order #58/2003, October 4 2003, of The Central Election Commission See below. http://www.cec.gov.ge/index.php?lang_id=GEO&sec_id=62&info_id=6220.

²⁶ CEC official form prescribed only 9 forms of expanses.

As electoral subjects have up to 70 type of expenses in declaration, for the purposes of this survey and comparisons with previous years²⁷, 2012 expenses in declarations were unified in several key categories: a) Salaries²⁸; b) Office and communication expenses²⁹; c) Costs of advertising³⁰; d) lease costs³¹; f) accessories of minor cost³²; g) other expenses³³.

It should be noted that declarations of some political parties show essential difference between the cash flow³⁴ and the actual costs. While during the survey annual financial statements of 2011 such difference were mainly focused on the purchase³⁵ of assets and fuel, in 2012 such differences were found in other categories as well. For distribution of expenditures by categories in 2012 parliamentary elections see Figure N6.

²⁷ For detailed expenditures electoral subjects see official website of "Transparency International – Georgia": <http://transparency.ge/2012-tslis-1-oktombris-saparlamento-archevnebi-tsinasaarchevno-kampaniis-pinansuri-deklaratsiebi>

²⁸ Combines salaries and bonuses.

²⁹ Combines stationery goods, office equipment and inventory purchases, storing and maintenance costs, office furniture, buildings their surrounding areas, communication expenses; communal costs (electricity, water, natural gas and other utility costs) Uncategorized office expenses, representation expenses, food costs, medical costs, transport and equipment operation and maintenance costs (in turn fuels / lubricants consumption, the repair cost), the full cost of services, sessions, conferences, congresses, seminars and Other expenses for workshops, consulting, notary, interpreter and translation services costs; security costs , costs for cultural, sporting, educational and exhibition activities.

³⁰ Combines TV advertising costs; printed advertising costs, online - advertising costs, advertising costs via branded accessories, other promotional expenses.

³¹ Combines real estate lease costs, lease costs for vehicles, other movable property lease costs.

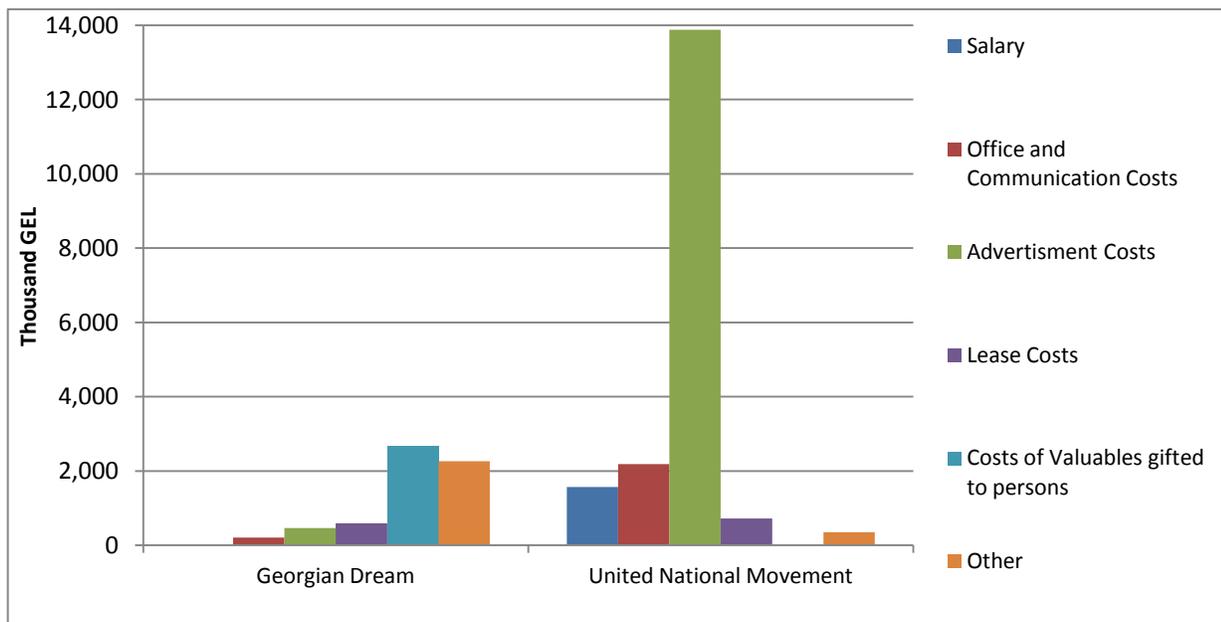
³² Combines a small value accessories (shirts, caps, hats, flags, etc.) and other cost.

³³ Combines other goods and services, as well as other classified costs (cost of insurance, taxes, fees, damages from currency differences and other expanses).

³⁴ Taking into account "Approval for the political union of citizens financial reporting forms and instructions for their completion", and order 2012 № 10/37, 23 January, of the Chairman of State Audit Service approving "the political union of citizens and the instructions for filling out the financial report, forms," according to Article 5, cash flow is the amount actually paid . Thus, when a party pays in advance, regardless of whether its accrued or not, (actual) cost or services / goods are actually provided, it still remains as cash expense.

³⁵ For details see report on Transparency International - Georgia webpage "The finances of political parties in 2011" <http://transparency.ge/post/report/politikuri-partiebis-pinansebi-2011>.

Figure N6. Expenditures of Electoral subjects', August - September 2012.



1. Salary

Salaries during the 2008-2010 elections varied from 27% to 42% of total expenses of some election subjects, while others had no such type of expenses at all. In the case of the 2012 elections, reimbursement for labor, among electoral subjects were quite diversified. While for Georgian Dream it was 0.1% of the total sum, United National Movement spent 8.35% (7 250 and 1 567 085 GEL). In addition, it should be noted that UNM rewarded bonuses (total of 1 450 GEL).

2. Office and Communication Costs

It is virtually impossible to compare these costs to recent election expenditures, because till the end of 2011, declaration form did not include costs of office and communication expenses, therefore, they cannot be compared. As for the 2012 election period, 3.3% (206 680 GEL) was by Georgian Dream, and 11.7% (2 187 591 GEL) by United National Movement for the Office and communication expenses. Georgian Dream used most of this sum for communal office expenses and UNM for organizing sessions, transport and communication costs.

3. Advertising Costs

Advertising costs, as a rule, takes up the largest portions of expenditures of the election subjects. In previous years, 70-90% of the total sum was spent on these categories, while average rate reached 60%. In August – September, 2012 Georgian Dream had only 7.5% (464 of 865 GEL), for such expenditures, while United

National Movement 74% (13 874 787 GEL). The biggest share of funds were allocated for advertising on television³⁶ and least for the Internet advertising and branded accessories.

Figure N7. Expenditures of UNM on advertising, August- September 2012.

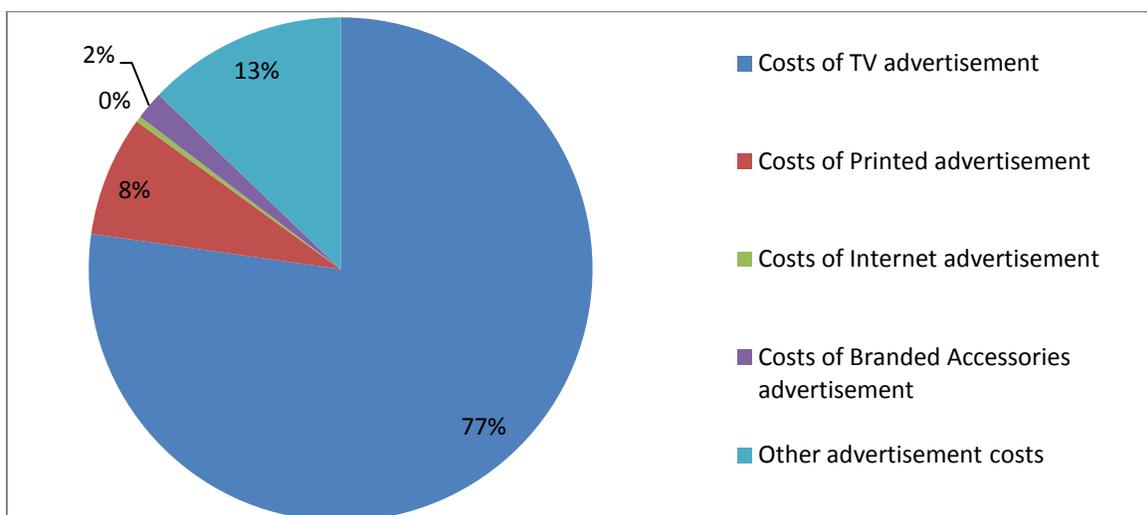
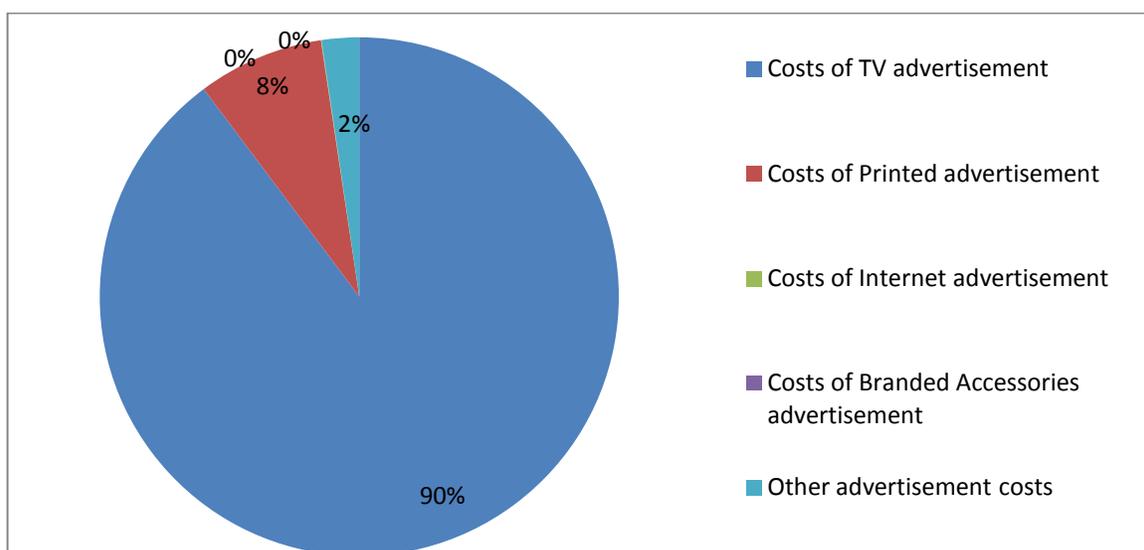


Figure N8. Expenditures of Georgian Dream on advertising, August- September 2012.



4. Lease Costs

Lease costs in declaration forms were not provided till 2011, which makes it virtually impossible to make comparisons. As for the 2012 elections, parties spent relatively small amount - an average of 6.7% of total expenses (approximately 650 000 GEL). The vast majority of this money was spent on real estate lease.

³⁶ It should be noted that these amounts does not includes, purposefully allocated sum for the subjects from the state budget.

5. Costs for Valuables Gifted to Persons

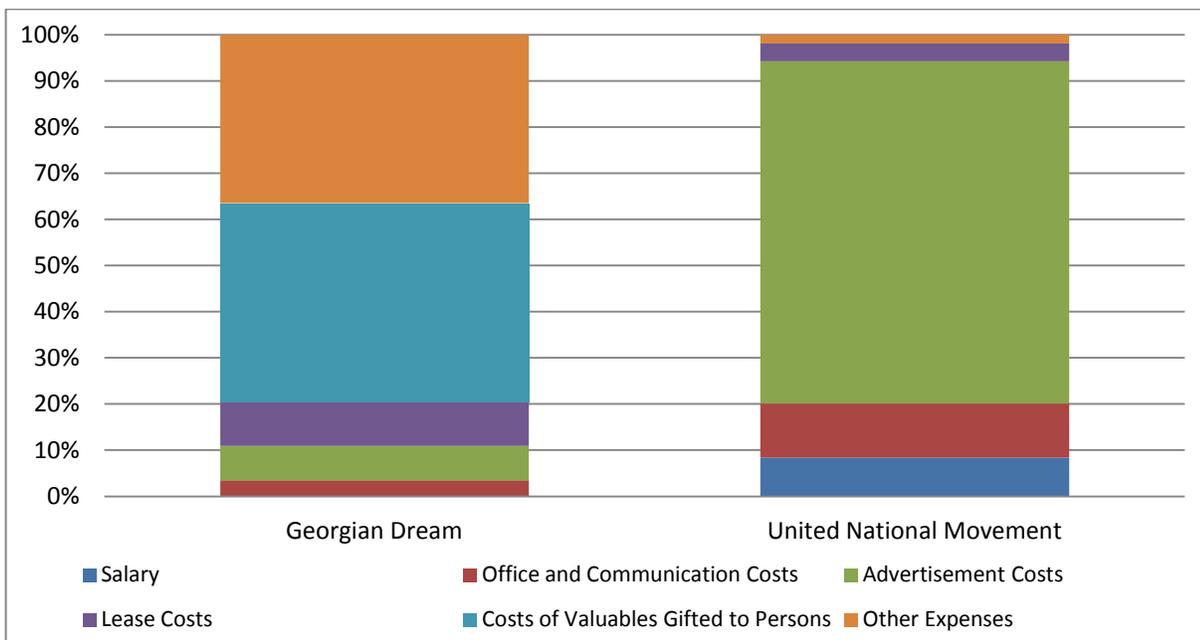
This category was established in form of declaration by the State Audit Office and includes accessories of minor cost (shirts, hats, caps, flags, etc.) and other valuables. In August – September, 2012, this type of expenses were incurred only by Georgian Dream. The amount is quite large and is 43% - of total costs of the election subject expenditures, in total 2 674 464 GEL. According to the report of the United National Movement party, they didn't had such expenditures during pre-election period.

6. Other Expenses

In 2012 reports "other expenses" were significantly reduced. While in accounts of the previous year's such funds exceeded 60-70%, however in 2012 it has been reduced to 36.5%. First of all it is due to refinement of mandatory declaration, which is quite detailed. Therefore, the electoral subjects combine less expenditure in this category. In elections of previous years, there was even a growth trend in such kind of expenses, in 2010 election campaign funds for such expenses average was 38% , while highest reached up to 72%. According to the 2012 campaign funds, Georgian Dreams "other costs³⁷" were 36.5% (2 265 120 GEL), and 1.7% (349 486 GEL) for the United National Movement total costs.

It should be noted that one of the forms of the declaration stipulates detailed³⁸ declaration of "other costs", which fully displays the expenses (Stage equipment and technical facilities services; coordinators services; return of illegal donations; information services; clarification of electoral lists, etc.)

Figure N9. Expenditures of electoral subjects in August – September, 2012.



³⁷ It should be noted that for the purposes of our report, minor expenditures were also placed in this category, which do not affect the actual percentages, and are less than 5000 GEL.

³⁸ Declaration Form 5.1 <http://transparency.ge/2012-tslis-1-oktombris-saparlameto-archevnebi-tsinasaarchevno-kampaniis-pinansuri-deklaratsiebi>

III. Main findings, trends and recommendations

Several important trends were observed during studies of 2012 political parties' financial declarations of election campaigns.

1. Forms of reports

First of all, it should be noted that the State Auditor's Office created a special declaration form³⁹, which is much more sophisticated and comprehensive than previous. This form is very convenient for the public, because data is divided by typology. As a result, revenues and expenses incurred by the parties are reflected in a more detailed and comprehensive way. In addition, amount of "other expenses" has significantly reduced, which should be assessed positively.

1.1. Gaps in income reports

Despite the significant improvement of the declaration forms, some problems still remain. We believe that the most significant error is in typology indication section, in usage of "other" category⁴⁰. Revenue column, with diverse types of income, includes category of "other sources of income". During 2012 elections, parties had diversified sources of revenue; however, indicating "other sources of income" without reference to their origin is unacceptable. In the case of an audit report concerning United National Movement, source of income is accessible; however it's preferable that indication of this kind of data in declaration was mandatory, to avoid accessibility of this data depending solely on good will of the party.

To resolve these problems, it is necessary to consider the following recommendations:

- ✓ State Audit Office should take into account all possible forms of income of political parties in declaration form, especially those categories which were indicated in previous (or annual) reports;
- ✓ Due to the fact that all types of income cannot be considered, in case of choosing "other income" indication of source should be made mandatory. In particular, if income does not falls under any category, within declaration, source of income should be specified by the party, as mentioned in declaration of expenditures explanatory note form⁴¹.

The category of "other income" in financial declarations of parties is one of the most serious threats to their financial transparency and accountability. Such information should be disclosed proactively.

1.2. Gaps in expense reports

³⁹ http://sao.ge/?action=page&p_id=21&lang=geo

⁴⁰ For the same issue see: Transparency International - Georgia report webpage "The finances of political parties in 2011" <http://transparency.ge/post/report/politikuri-partiebis-pinansebi-2011>. For details, see Transparency International - Georgia report webpage "The finances of political parties in 2011" <http://transparency.ge/post/report/politikuri-partiebis-pinansebi-2011>

⁴¹ Section 5.1 of the declarations form. http://sao.ge/?action=page&p_id=21&lang=geo

Other matters related to the financial declaration requires additional processing as well, which was indicated ⁴²in political associations annual reports by "Transparency International Georgia", however the issue persists. In particular, there are certain categories in declaration forms, detailing of which could increase quality of transparency and satisfy certain interests. It should be noted that the State Auditor's Office has drawn up additional graphs in declaration forms, for more detailed information on political expenses - salaries, bonuses, trips , lease expenditures, etc. Such detailed declaration forms are as a step forward, however, for improvement of quality of reports, some additional issues must be considered:

- ✓ Financial Declaration provides expenditures for advertising but there is no specifications whether it is TV, newspaper, radio or outdoor (billboards, posters and other) advertising expanses. It is also crucial for the form to include more detailed information on expenses, exact dates, purchased goods / services, the supplier of the goods / service provider, the supply / delivery area and the overall amount of these expenses. For the purposes of comprehensive media monitoring implementation, detailed categorization is crucial.
- ✓ The declaration form should include detailed advertising costs, particularly for the annual report forms and final reports of the election campaign. In particular, the declaration must contain description of every payment: to whom party paid the sum, for what services, timeframe and area of service provided, units of goods and / or services (eg, sq. Piece, minutes, etc.) and amount of goods and / or services received. With this information, proper inspection of advertising expanses will be available. It should be noted that similar form existed in previous election campaigns as well and was approved by the Central Election Commission.

In addition, the filling procedure of the declaration is a serious problem. Declarations contain difference⁴³ between graphs of cash flow and factual expanses. Cash flow is the amount actually paid, and factual amount is sum to be accrued to accounting subjects, despite the fact of payment. Thus, when a party pays in advance, regardless of whether the instrument is recognized or accrued (actual) cost and accepted the services / goods, this money should be in cash expense. Also, if the subject has obligations or necessities, such amounts shall be included in the cash flow⁴⁴. In 2012, accounts had been mixed up quite often and balance was not established. Despite the order of head of Audit Service concerning instructions on filling financial declarations, shortcomings still remain⁴⁵.

⁴² For details, see Transparency International - Georgia report webpage "The finances of political parties in 2011"<http://transparency.ge/post/report/politikuri-partiebis-pinansebi-2011>

⁴³ Along with mistakes in dictations, auditor's office indicate concerning this issue as well [sao.ge /? Action = news_f & npid = 265 & lang = geo](http://sao.ge/?Action=news_f&npid=265&lang=geo).

⁴⁴ E.g. Georgian Dream has 6123 obligation indicated in the report overall approx. GEL 5 685 000 (part of data is unreadable due to low quality), where most part is money to be paid to people conducting Voters List monitoring (4980 persons, GEL 655 000), Lease costs (approx. 450 obligation in amount of GEL 1 055 100); service costs for Transport (approx. 395 obligation, GEL 751 000); reimbursement to coordinators (51 obligation GEL 16 22); Advertisement costs (33 obligation approx. GEL 183 300); printing service costs (5 obligation, approx. GEL 1 125 500) and so on.

⁴⁵ <http://goo.gl/FIVo8>

- ✓ It's necessary for the regulatory body to determine detailed rules for filling in the declaration, it will not only make reporting easier for political entities but as well as for society to learn about the costs incurred by election subjects. Complete instructions for filling out the declaration of the election will reduce errors and alleged offenses (in form of incorrectly filling the declarations) and prevent possibilities of more shortcomings in the future.

1.3. Format of the reports

The format of the declaration was focus of reports by "Transparency International Georgia" for several times, however problem still remains⁴⁶. Instead of electronic versions of declarations, scanned versions of printed materials were published, consequently some data was unreadable and impossible to analyze. "Transparency International Georgia" requested copies of documents submitted to the State Audit Office. The qualities of the received materials were much better than ones published on the official website of the State Audit Office. We believe that such bypass procedure should not be necessary. The State Audit Office is obliged to publish information and make information on financing of political parties' public, which, in turn, implies the availability of this information. It is a positive step that declaration of the State Audit Office has developed in an electronic format, but declarations are still published in scanned format. The problem is caused by the fact that the official documents must have a seal and signatures of the persons responsible for election subjects. In light of fact that law provides electronic signature mechanism, this problem can be solved.

It is desirable to take steps towards further improvement:

- ✓ In development of electronic forms of declarations, State Auditor's Office should use simple mechanisms for processing information which will allow it to be easily detectable, more comprehensive and machine-readable.

2. Regulatory authority

Until December 2011, there was no control on political union finances, except for the election period, when this task was carried out by special monitoring groups, which existed with CEC and were more of a consulting nature. In particular, this group had no authority in implementing sanctions for shortcomings, neither had power of giving instructions. It only had authority to issue reports⁴⁷ and was limited to analyzing them. By the end of 2011, State Auditor's Office came in charge of control over to the finances of political unions and was equipped with a wide range of functions.

2.1. Deadline for publishing reports.

⁴⁶ For details, see Transparency International - Georgia report webpage "The finances of political parties in 2011" <http://transparency.ge/post/report/politikuri-partiebis-pinansebi-2011>

⁴⁷ For details, see Transparency International - Georgia website, "Political Parties in Georgia: Funding Issues" <http://transparency.ge/post/report/politikuri-partiebi-sakartveloshidapinansebis-sakitkhebi>.

In view of monitoring political finances, primary function of State Audit Office is to ensure transparency, which had never been a problem until 2012. The parties are obliged to submit declarations to this office. Organic law on "Political Unions" does not provide a specific indication, when auditor's reports on political subjects should be issued, however it is indicated that the office, in period of 5 days should publishes information concerning annual declarations of the parties on its official web site.

Under first paragraph, article 34 of organic law on "Political Unions of Citizens" the Audit Office is responsible for the financial transparency of political parties. According to the paragraph 54, the methodology for monitoring political financing, in order to ensure the transparency, monitoring service performs the following activities: "publishes annual financial declarations and accountability reports on the election campaign financing on official website⁴⁸ - within 5 working days of their receipt."

The State Auditor's Office received the declarations in corresponding period of time⁴⁹. However, they had not been published⁵⁰ yet. Neither had been published declarations of electoral subjects who made reports in 8 days after the election day, neither ones that were submitted a month later⁵¹.

It should be noted that "Transparency International – Georgia" received this information after requesting it in writing, together with a note from State Audit Office that it confirms its obligation on publishing declarations within 5 working days on its website⁵². Accordingly, the State Audit Office by non- publishing declarations violates its obligations.

- ✓ It is essential that the information reported to the State Audit Office becomes public upon receipt (In 5 working days, as defined in the case of annual report). This issue should be mandatory by law.

2.2. Quality of accounts publicity

It should be stressed that the information provided by the State Audit Office is not complete, neither from visual point of view, neither in terms of publicity.

- A) Copies of significant part of the financial declarations made by the State Audit Office are of poor quality and consequently it's impossible to receive full information;
- B) It is impossible to identify names, personal identification numbers and other data of the donors in financial declarations;
- C) Certain categories of expenses incurred by political subjects' are enclosed in financial declarations, particularly - who received salaries, bonuses, obligations of the subject, etc.

⁴⁸ Organic Law on "Political Unions of Citizens" Article 32 – para 3.

⁴⁹ http://sao.ge/?action=news_f&npid=265&lang=geo

⁵⁰ 47. Web site was last checked on December 18.

⁵¹ Election Code of Georgia "Article 57.

⁵² <http://transparency.ge/sites/default/files/attachment/sakhelmtsifo-auditis-samsakhuris-tserili.jpg>

State Audit Office has a responsibility⁵³ to ensure accessibility of information. Ensuring transparency of the election implies full publication of revenues and expenses of political subjects. Political financing is a sensitive issue, and classification of certain person's data should not counterbalance that. Especially when a number of organizations⁵⁴, media outlets⁵⁵ and the State Audit Service⁵⁶ itself observes cases, where the revenues and expenses of the parties are not in accordance with the law. The public should have the opportunity to receive full information about financial declarations, and act as a controlling body of such type of processes. Moreover transparency of political funding is one of the major principles. While the law stipulates that the creation and activities of political party is based on principle of "publicity of creation and operation of parties⁵⁷" the State Audit Office is unable to ensure the implementation of this principle, which often violates the requirements established by law.

- ✓ The information published by The State Audit Office must include full data concerning origin and expenditure of finances, which will improve the quality of financial transparency and accountability.

⁵³ Organic Law on "Political Unions of Citizens" Article 34, para 1.

⁵⁴ For details, see Transparency International - Georgia website, "Political Parties in Georgia: Funding Issues"

<http://transparency.ge/post/report/politikuri-partiebi-sakartveloshidapinansebis-sakitkhebi>.

⁵⁵ Investigative film by BTV "National investors and blind Temida"

http://www.youtube.com/watch?v=P4G2HgS_tGQ&feature=share

Article by "Netgazeti", "The ruling party is financed by people who were declared as criminals"

<http://netgazeti.ge/GE/105/News/10380>

⁵⁶ http://sao.ge/?action=news_f&npid=258&lang=geo , http://sao.ge/?action=news_f&npid=263&lang=geo;

⁵⁷ Organic Law on "Political Unions of Citizens" Article 3.

ANNEX

Table N1. Connection between Donors of United National Movement with Legal entities (August-September 2012)⁵⁸

Nº	Name, Surname	Amount of Money (market price)	Name of Legal Entity	Identification no. of Legal Entity	Connection Type
1	Avtandil Mchedlishvili	2000	ldt Supergaz Ita;oa	227720785	Partmer
2	Avtandil Namicheishvili	60000	JSC Branch of Bank of Georgia in Terjola; JSC ImpexBank; “Tbiluniversalbank”; JSC “Galt and Taggart Bank”; Cooperative Bank Aieti Bank	231945027; 204863308; 204855521; 203845045; 244547745	Deputy Executive Director (everywhere)
3	Avtandil Svimonishvili	20000	Ltd 6 th author shooldp; JSC Tskali Margebeli	404405443; 241997158	Representative; Executive Director
4	Aleksandre Zakalahsvili	30000	Ltd Georgia Trade	404918728	Director
5	Aleksandre Tsulaia	5000	JSC Khobi Kolhidmsheni	244550053	Director
6	Aleksandre Japaridze	10000	Ltd Supergaz Italia	227720785	Partner
7	Aleksi Chitadze	20000	Ltd Digo	443854312	Director
8	Bejan Gonashvili	60000	Ltd Dalis Mta+	428518516	Partner; Director
9	Besiki Chubinidze	60000	Ltd Albioni	200072152	Partner

⁵⁸ List is not absolutely exact, there might be people, who were not found in database. At the same time, database is of condition of August 8. However, people who were found are almost fully exact.

10	Bidzina Popiashvili	55000	Ltd "Otkhi"; Ltd "Karieri"	228546641; 228540843	Partner; Partner
11	Gela Bighiashvili	48000	JSC "Artsivis Kheoba"	228518805	Director
12	Gia Gamtkiculashvili	7000	Ltd Napareulis Dzveli Marani	231260827	Partner
13	Giga Nasaridze	nonmonetary donation - CD with Video Ad (GEL 2500)	Georgia not For Sale	404951735	Chairman, Board Member
14	Giorgi Gagua	30000	Ltd Georgia Cheramike Artistike	226119394	Partner
15	Giorgi Vashadze	10000	Computer Knowledge Distribution Society	445410029	Board Member
16	Giorgi Kandelaki	60000	Sportsman Unity Kartli	417875311	Board Member
17	Giorgi Kereselidze	5000	Ltd Vialux	404860227	Partner
18	Giorgi Kopaleishvili	20000	Ltd Gazinvest - Gori	217893215	Director
19	Giorgi Zhgenti	10000	Branch in Georgia of "Nokia International OI"	204521455	Director
20	Giorgi Saganelidze	15000	Ltd Savaneti 99	225372708	ExecutiveDirector
21	Giorgi Stepnadze	5000	Ltd Iberfood	400006220	Partner
22	Giorgi Kishmareishvili	5000	Ltd Supergaz Italia	227720785	Partner
23	Giorgi Chakvetadze	5000	Ltd Vake 2011	401954024	Director
24	Giorgi Chkaidze	60000	Ltd Kvavilnari	233645927	Addressant
25	Gocha Chokhelishvili	52000	Gocha Chokhelishvili	None	Addressant

26	Guram Gogitidze	20000	Ltd Mermisi Invest	404948214	Partner
27	Davit Mzhavanadze	50000	Ltd NEW VILLAGE ENERGY; Ltd New Metal Georgia	404949614; 404380629	Director; Director
28	Emzari Chachkhiani	10000	Ltd Aragvi Kalmakhi; Ltd Shevardeni	229322596; 229280122	Partner; Partner
29	Vano Tsukilashvili	3500	Ltd Ferma Margebeli	434157967	Main ExecutiveDirector
30	Vazha Usanetashvili	30000	Ltd Vadako	200000417	Partner
31	Vasil Dzotsenidze	10000	Ltd Didubis Marketi	401951777	Representative
32	Vladimer Latsabidze	5000	Ltd R&L; Ltd Lari	406054111; 406045747	Director; Partner
33	Zaza Tateshvili	4000	Ltd Patati	222720214	Partner
34	Zaza Koridze	50000	Ltd J.B.J.; Ltd New Metal Georgia; Ltd G.L.B.; Ltd TechnoLand	404900069; 404380629; 404923473; 401949479	Partner; Director; Partner; Partner
35	Zaur Gabaidze	15000	Underwater Swim Federation	404873151	Board Member
36	Zviadi Makharashvili		Ltd Bazisi	200115437	Director
37	Zurab Shubitidze	20000	Ltd Ipani; Ltd Modern-Villa	200120430; 200083257	Representative; Partner
38	Zurab Javelidze	60000	JSC "Sakernergoremonti-Central Reconstruction Factory" EnergoMontageRemonti	236032967; 226526523	Director; Director
39	Tamaz Gogiashvili	1500	Ltd LT Group	404379052	Director
40	Tamazi	4000	Ltd LTB	200118425	Partner

	Mchedlishvili				
41	Teimuraz Bibileishvili	10000	Ltd Georgian Construction Industry; Ltd K.J.M. Textile Group; Ltd Kutaisi Palace Investment Group; Ltd Tahuna Group; Ltd Cartobox; Ltd T.M. International Company; Ltd Georgian Pero Invest	412684616; 412683760; 412683421; 412680709; 412680068; 412675957; 412672870	Partner; Partner; Partner; Partner; Partner; Director/ Partner; Partner
42	Teimuraz Ugulava	60000	Ltd Delta	404867925	Partner
43	Teimuraz Pirtskhalava	5000	Ltd Archi	400040200	Addressant
44	Teimuraz Tsvitsivadze	15000	Ltd Jumi	419984967	Partner
45	Tengiz Sarishvili	40000	Ltd GEONUTS	415084786	Partner
46	Tengiz Turdziladze	7000	Ltd Temetali	204577608	Partner
47	Ilia Shonia	30000	Ltd Vadako	200000417	Partner
48	Irakli Dugladze	20000	Ltd Clean World in Adjara	445386742	Partner
49	Irakli Konjaria	2000	Ltd Agro Group	406047380	Addressant
50	Irakli Lekvinadze	nonmonetary donation - CD with Video Ad (GEL 2500)	Georgia not For Sale	404951735	Board Member
51	Iuri Esebua	10000	Ltd Bergi	415082216	Partner
52	Karlo Metreveli	5000	Ltd Teto +	445389473	Director

53	Kakhaber Papava		JLC Kakhaber Papava and Company LAW	406066313	Addressant
54	Kakhaber Lataria	60000	Ltd KOLKHITRANS; Ltd GEONUTS; Ltd Gcm Service; Ltd Geo Capital Management	415085339; 415084786; 401952437; 401952428	Partner; Partner; Partner; Partner
55	Lasha Bakuradze	10000	Ltd Neonami	400022364	Partner
56	Levan Gamtsemlidze	9000	Ltd Metalimpeksi	404852664	Addressant
57	Levan Pkhakadze	60000	Wissol Group Charity Fund	404943317	Director
58	Levani Zaalishvili	4000	Ltd LTB	200118425	Addressant
59	Mamuka Onezashvili	3000	Ltd Financial Trust Group	400020945	Partner
60	Mirza Paichadze		Ltd Primati-91	200013715	Addressant
61	Mikheil Ghurtskaia	1600	Ltd Nini 2011	401960151	Partner
62	Mikheil Sharangia	5000	Ltd "Dagi-1"	225385552	Director
63	Mikheil Charkviani	5000	Ltd Arena	445411331	Director
64	Nikoloz Gabelaia	14000	Ltd Vialux	404860227	Partner
65	Nikoloz Sajaia	30000	Ltd Zugdidi Road Company	219987067	Addressant
66	Nugzar Svianadze	52000	Ltd Aldanuma	417877792	Partner
67	Nugzar Shoshiashvili	40000	Ltd Supergazi Italia	227720785	Partner
69	Paata Gabodze	60000	Ltd Imedi	232584824	Addressant

70	Petre Mgaloblishvili	48000	ExpressArgoTrans	226559952	Partner
71	Simon Meparidze	10000	Ltd Acquarium 2010	404854582	Partner
72	Shalva Gigaia	10000	Ltd GORKEM	401961524	Addressant
73	Shalva Todria	4000	JSC Margebeli	205283931	Addressant
74	Hamlet Davianidze	4500	JSC Tskali Margebeli	241997158	Addressant

Table N1. Connection between Donors of United National Movement with Legal entities (August-September 2012)⁵⁹

№	Name, Surname	Amount of Money (market price)	Name of Legal Entity	Identification no. of Legal Entity	Connection Type
1	Adiko Ivanashvili	250 (nonmonetary)	Ltd Magnetiti	237078997	Partner
2	Aleksandre Tsitskishvili	1000	Aleksandre Tsitskishvili	None	Addressant
3	Andro Tsanava	900	Ltd AIO-2011	406039978	Director
4	Besik Beridze	1000	Association of Damaged Builders	400030364	Depity Chairman, Board Member
5	Besik Nizharadze	40000	Beni 21 st	205291904	Governor, Sole
6	Besik Gviniashvili	1200 (Membership Fee)	Ltd Vache	406053988	Director
7	Beka Nikautadze	4570 (nonmonetary)	Ltd Berbuki; Ltd Regional Development Institute	404910307; 404908374	Representative; Partner

⁵⁹ List is not absolutely exact, there might be people, who were not found in database. At the same time, database is of condition of August 8. However, people who were found are almost fully exact.

8	Bidzina Tavberidze	820 (nonmonetary)	Albi	415080316	Partner
9	Bichia Demetrashvili	21079.45 (nonmonetary)	Ltd Tebi	404924150	Partner
10	Gela Samkharauli	5000	Ltd Vera-2011; Ltd Duta & F	404404916; 404386641	Partner; Partner
11	Giorgi Porchkhidze	500	Giorgi Porchkhidze	None	Addressant
12	Gocha Chikviladze	5500	JSC Bank Kartu	204891652	Directorate Member
13	Davit Gauluashvili	12400	JSC Bank Kartu	204891652	Deputy Executive Directore/Directorat e Member
14	Davit Onoprishvili	15000	Onoprishvili Union	404917514	Chairman , Representative/Boar d Member
15	Davit Matikashvili	6000	Ltd Otium; Ltd Legal Beaureu Kauza	404381691; 404886021	Addressant; Partner
16	Vladimer Gabodze	1000	Ltd Service Company	406037612	Addressant
17	Teimuraz Tsilosani	14053 (nonmonetary)	Ltd Tebi	404924150	Director
18	Ia Gamtsemlidze		JSC Benoma	208150356	Addressant
19	Irakli Shushania	900	Nateli Samkaro	400049559	Chairman / Board Member
20	Irma Nutsubidze	1000	Ltd Kapital Kredit	406043543	Partner
21	Kakha Shveildze	50000	Goergian Artist Union - Kadagi	404891774	Board Member
23	Leri Khabelovi	12000 (monetary), 29480 (nonmonetary)	Ltd Olimpy Complex	226156398	Partner
24	Mamuka Kakulia	1000	Ltd Isani	401954471	Director

25	Merab Tavadze	1805 (nonmonetary)	Theatre Fest for youth ArtiFest	404397194	Board Member
26	Nana Peikrishvili	100	Interstate teleradiocompany "Mir" - Georgian Representation	204388242	Addressant
27	Nato Koplatadze	3000	Ozurgeti Bunebatsargeblobis Instituti	237058688	Addressant
28	Nikoloz Bakhtadze	60000	Ltd Georgian Technologies - pharmacy; Ltd Shopaholic; Ltd Advanced Georgian Technology; Ltd Teni	404390636; 404869184; 404891202; 404871876	Addressant; Director; Partner; Partner
29	Nodar Javakhishvili	17000	JSC Bank Kartu JSC Kartu Group; JSC Trans-Invest; JSC Iagundi	204891652; 204876642; 204915930; 203832451	Addressant; Addressant; ExecutiveDirector; ExecutiveDirector
30	Ramaz Berdzenishvili	3096.31 (nonmonetary)	Ltd Credo	404941186	Director