



**Risks of Conflict of Interest and Corruption
in the Ministry of Culture**

Introduction

The activities of the Ministry of Culture and especially its funding of various cultural events/concerts has always been a topic of public discussion. Some of the projects funded by the ministry were aimed at improving Georgia's image, raising awareness about the country and promoting the development of tourism by organizing attractive events. Tourism promotion has long been the justification of the Ministry to organize expensive concerts with the participation of international stars. While international level festivals may in fact attract more tourists, there is no publicly available research containing data reflecting this outcome. According to the National Tourism Administration, they have not conducted any research related to the organized festivals, but plan to in the future. The question of whether specific festivals attracted more tourists is even more pressing considering the closed attendance of some of them.

Also worth examining is the amount and justifiability of state funding, especially when the **organizer is a private company and most of the expenses of the project are covered by the state budget.**

Several companies have been involved in organizing international level festivals and concerts in Georgia over the past years. The co-founder and director of one of these companies - Eastern Promotions - Mikheil Giorgadze [became](#) the Minister of Culture on July 26, 2014. The relocation of public officials from private to public sector through the so-called '[revolving door](#)' principle holds risks of corruption and conflict of interest, which require special monitoring.¹ Transparency, accountability and public oversight is especially important in this specific case, since Eastern Promotions had been cooperating with the Ministry of Culture for years and had received substantial state funds for organizing events. On the one hand, the relocation of company's former managers to the public sector should not limit its freedom to conduct its business activities. On the other hand, a higher standard of transparency, accountability and integrity must be set in order to make sure that the company does not find itself in a privileged position. Therefore, all state funding of the company must be thoroughly substantiated. For this reason, Transparency International Georgia (TI Georgia) decided to study the current activities of the Minister of Culture, his former company and business partners.

¹ The term 'revolving door' involves the kind of movement of public officials between the private and public sectors, or between oversight bodies and entities subject to their oversight that gives rise to risks of conflict of interest or corruption.

Executive Summary

TI Georgia examined the risks of corruption and conflict of interest related to the Ministry of Culture and other public agencies in the field of culture. The study revealed several important findings:

- **Organizing Jazz Festivals** in Georgia is one of the priorities of the Ministry of Culture and is directly included in its annual budget. According to the Ministry, spending on Jazz Festivals is justified because they attract tourists. However, the Ministry is not engaged in analyzing tourist data, even though it spends a considerable amount on these festivals. For example, the Ministry allocated GEL 600,000 or 33% of its Subprogram for Supporting Cultural Events (total budget - GEL 1,808,500) for a single project – the Black Sea Jazz Festival; and GEL 400,000 or 24% of total funding (GEL 1,670,000) allocated for promoting international festivals and events for the Tbilisi International Jazz Festival.
- There are **ten companies/organizations** currently active in Georgia that are directly or indirectly connected with the Minister of Culture Mikheil Giorgadze and his deputies. They work in the field of culture and **regularly receive contracts and funding** from the government, including the Ministry of Culture and its subordinate Legal Entities of Public Law (LEPL).
- **Since July 2014**, after Mikheil Giorgadze became the Minister, **companies connected with high-ranking officials at the Ministry of Culture have received a total of GEL 2,421,743 from various public agencies through simplified public procurement contracts as well as direct funding**. This includes 65 direct procurement contracts worth GEL 886,352, and GEL 603,145 and GEL 402,005 allocated to Eastern Promotions Ltd. by the Ministry of Culture in 2015 for organizing the Black Sea Jazz Festival and the Tbilisi International Jazz Festival, respectively. Also in 2015, Adjara's Ministry of Education, Culture and Sports funded the Black Sea Jazz Festival for GEL 50,000 and Tbilisi City Hall's LEPL Cultural Events Center funded the Tbilisi Jazz Festival for GEL 100,000. Finally, in 2015 Festival City Ltd. received GEL 364,741 without competition from the Ministry of Culture for organizing the project City Sound, and an additional GEL 15,500 for Blick 2015, a festival under the Heat Batumi 2015 umbrella, itself part of the City Sound festival.
- Since July, 2014, **Tbilisi Event Hall has received GEL 198,959 worth of simplified procurement contracts, Wizard Event received GEL 270,818 and MS Lights received GEL 353,270. City Festival received GEL 364,741 from the Ministry of Culture without competition. Eastern Promotions received funding from the Ministry and contracts from public agencies that together amounted to GEL 1,058,900.** Most of these companies had signed contracts with state agencies through tenders or direct procurement prior to July 2014 as well.
- **Despite having given up his shares in Eastern Promotions Ltd., as of September 2014 Culture Minister Mikheil Giorgadze may have still been involved in business activities**, specifically, in organizing a tour of Ennio Morricone in Tbilisi. According to [information](#) provided to TI

Georgia by Alter Vision Group, a representative of Ennio Morricone confirmed that **Mikheil Giorgadze represented Eastern Promotions in the negotiations** on the April 26, 2015 concert.

- **We have also identified signs of conflict of interest and corruption in the Standing Commission on Sustainability of Cultural Sphere.** The fact that the father of Kakhi Kandelaki, First Deputy Minister of Culture and deputy chairman of the Commission responsible for approving the funding of projects at the Ministry, is a shareholder of a company (Eastern Promotions) that is funded by the Ministry may be contrary to the [Law](#) on Conflict of Interest and Corruption.
- **Davit Menabde, director of the Culture Development Investment Fund, owns 28.5% of shares in Eastern Promotion Ltd. (not to be confused with a similarly named Eastern Promotions). Menabde's business partner through this company Giorgi Kereselidze is the director and 90% shareholder of a company (Eastern Promotions) that is funded by the Ministry of Culture.** During his time as a member of the Commission, Davit Menabde also owned shares in Eastern Promotions and International Events, and for a time was the director of the latter company.
- Part of the staff at the Culture Development Investment Fund is simultaneously employed at International Events and Eastern Promotions. The financial manager of the Fund Nino Chankotadze is also the director of International Events Ltd. Deputy director of the Fund Ekaterine Kupreishvili is also an [employee](#) at Eastern Promotions. The fact that the Fund and the above private companies share employees while also working in the same sphere and having the same goals, is cause for concern.
- **City Festival Ltd. was funded by the Ministry of Culture for GEL 365,000 without competition one month after its registration. Ministry officials and company managers are former business partners. One of the managers is the son-in-law of a Commission member in the Ministry. All this has raised questions about the fairness of the decision to fund the company.**
- In 2015, the Ministry of Culture funded Eastern Promotions for nearly one million GEL without competition for organizing the Black Sea and Tbilisi Jazz Festivals. According to information provided to us by the Ministry, **GEL 603,145 that was allocated to Eastern Promotions for the Black Sea Jazz Festival constituted 36.9% of the total project budget. This means that the 2015 Black Sea Jazz Festival cost a total of GEL 1,634,539, which is 59% (GEL 605,375) more than the previous year.** The information provided to TI Georgia by the Ministry of Culture was inaccurate in terms of participant musicians in the 2015 jazz festival, which calls into question the credibility of all other information disclosed by the Ministry.
- In 2015, the Ministry of Culture spent GEL 4,762,767 on music events, out of which GEL 1,369,891 was given to companies connected with Ministry officials without competition. **Overall, 29% of funds spent by the Ministry of Culture in 2015 on music events were given to companies related to Mikheil Giorgadze, Kakhi Kandelaki and Davit Menabde.**

- In 2014, 62.7% of the Black Sea Jazz Festival budget of GEL 1,029,164 was state funded (GEL 645,413 was covered by the Ministry of Culture, and Adjara's Ministry of Education, Culture and Sports). 33.7% of costs were covered by the organizer company Eastern Promotions, and the remaining 3.6% was covered by private donors (sponsors / supporters).
- Despite TI Georgia's request, the Ministry of Culture did not provide us with the complete application submitted by Eastern Promotions for the 2015 Black Sea Jazz Festival, the complete budget of the project, accountability documentation provided to the Ministry by the company, etc. The response letter from the Ministry redirected us to "the relevant organization and/or state agencies" for obtaining information on the number of tourists attending the 2015 Black Sea Jazz Festival, number of sold tickets, and the income received and profit made by the organizer company. The response suggests that the Ministry **either does not ensure the accountability of its beneficiaries and therefore does not hold the requested information, or unjustifiably refuses to disclose it. This does not meet the high enough standard of transparency and accountability that would rule out any questions about corruption and conflict of interest, especially after the relocation of a number of persons from the culture business to public official positions in the Ministry of Culture.**
- The majority of simplified procurement (direct) contracts awarded within the framework of Heat Batumi 2015 were signed with companies connected with officials at the Ministry of Culture. The total value of these contracts amounted to GEL 303,990. In addition, LEPL Culture Development Investment Fund received GEL 909,811 for organizing the visits of foreign musicians.

Projects Funded by the Ministry of Culture in 2015

The procedure of submission, review, approval, disapproval and document registration of projects ([applications](#)) in the Ministry of Culture is determined by the Minister's [Order](#) N03/7 signed on January 13, 2015.

According to the Order, any person has the right to submit projects (applications) to the Ministry for funding.

Source: Ministry of Culture Report 2015-2016

Applications are reviewed by the Financial Resource Management, Sectoral and Project Consideration and Monitoring Departments. Before the final decision can be made, the project is submitted for financial review to the Standing Commission on Sustainability of Cultural Sphere, which was created on the basis of the Minister's Order N03/167 signed on August 21, 2014. According to the Order, commission members are:

- a) Minister of Culture and Monument Protection Mikheil Giorgadze - Chairman;
- b) First Deputy Minister Kakhi Kandelaki - Deputy Chairman;
- c) Deputy Minister Giorgi Bakradze – Member;
- d) Deputy Minister Manana Berikashvili - Member;
- e) Deputy Minister Levan Kharatishvili - Member;
- f) Advisor to the Minister Ketevan Dumbadze - Member;
- g) Advisor to the Minister Giorgi Gegechkori - Member;
- h) Invited Expert Davit Menabde – Member.

Invited Expert Davit Menabde was the member of the Commission from its creation until February 17, 2016, when he was dismissed from being a member based on the Minister's Order N03/5.

According to the Ministry of Culture, when reviewing new projects the Ministry takes into account its priorities, budgetary limits for respective programs and other projects under consideration.

Natural persons and legal entities of public law are required to submit information about their implemented projects by filling out a special [form](#) approved by the Minister. The submitted information must include documents on financial expenses (initial and final budgets of the project) and visual material.

Project monitoring is conducted by the Project Consideration and Monitoring Department and the Sectoral Department based on contract conditions.

On December 22, 2015, TI Georgia requested the Ministry of Culture to provide information on funded projects and event expenditures. According to the provided information, in 2015, the Ministry had used the state budget to fund projects in eight different categories:

- Film - 31 projects for GEL 2,964,369
- Music - 123 projects for GEL 4,762,767
- Theatre - 109 projects for GEL 2,508,039
- Books and Literature - 49 projects for GEL 957,133
- Visual Arts - 42 projects for GEL 1,110,003
- Education - 17 projects for GEL 412,845
- Development of Art and Other Events - 67 projects for GEL 2,305,605
- Cultural Heritage - 30 projects for GEL 427,291

Overall, in 2015, the Ministry of Culture funded 468 projects with GEL 15,448,052. 15 of the [most expensive projects](#) had been funded for GEL 5,464,341.

Since Commission members have broad discretion to directly manage budget funds, TI Georgia decided to examine the possible links between Commission members and companies in their respective fields. The examination revealed the following:

Mikheil Giorgadze – [Minister](#) of Culture and Monument Protection of Georgia since July 26, 2014, and chairman of the Standing Commission on Sustainability of Cultural Sphere. Giorgadze ran businesses before becoming the Minister and gave up all of his shares thereafter. He held 22.5% shares and was the director of Eastern Promotions Ltd. from the day of the company’s registration in 2010 until August 2014. However, our research suggests that despite having given up his shares in the company Giorgadze was still involved in its activities as of September 2014, specifically, in organizing a tour of Ennio Morricone in Tbilisi. According to [information](#) provided to TI Georgia by Alter Vision Group, a representative of Ennio Morricone confirmed that Mikheil Giorgadze represented Eastern Promotions when negotiating the April 26, 2015 concert. To this day, the company [website](#) lists Mikheil Giorgadze as director.

Mikheil Giorgadze was one of the founders of the company Eastern Promotion Ltd. in 1998 and served as its director in 1998-2014.

In 1996-2012 Giorgadze owned 50% shares of a company MS Lights Ltd., and 20% shares of International Events Ltd. in 2005-2014.

According to the asset [declaration](#) filed by Mikheil Giorgadze in 2014, he was the technical director of two companies - Tbilisi Concert Hall Ltd. and International Events Ltd. The Minister of Culture is also one of the founders and a board member of a non-profit legal entity (NPLE) Tbilisi State Concert Hall Development Fund.

Kakhi Kandelaki – First Deputy Minister of Culture since July 2014, and deputy chairman of the Standing Commission on Sustainability of Cultural Sphere. Before moving to the public sector, Kandelaki was involved in business activities with Mikheil Giorgadze. Until 2014, he was the Marketing Director of Eastern Promotions and held 22.5% of company shares. Until 2014, he also held 14.5% shares at Eastern Promotion. Until August 2014, Kandelaki was the general director of International Events Ltd. and owner of 20% of company shares. According to his 2014 and 2015 asset declarations, the first deputy minister was the marketing director of Tbilisi State Concert Hall Ltd.

Kakhi Kandelaki is also one of the founders and a board member of NPLE Tbilisi State Concert Hall Development Fund.

Davit Menabde – Director of LEPL Culture Development Investment Fund since October 2014. From 2010 to 2014 he held 22.5% shares in Eastern Promotions Ltd., and 45% shares since August 2014. As of today Menabde does not hold any shares in this company, however he owns 28.5% shares of Eastern Promotion Ltd. From August 2014 until November 2015, he was the general director of International Events Ltd. and held 47.5% of company shares. As of today, Menabde is no longer the general director and does not hold shares in this company. He is also one of the founders and a deputy chairman of the board of NPLE Tbilisi State Concert Hall Development Fund.

Giorgi Kereselidze – former business partner of Mikheil Giorgadze, Kakhi Kandelaki and Davit Menabde. Currently he is the director and 90% shareholder of Eastern Promotions and the director and 29% shareholder of Eastern Promotion. Kereselidze also holds 95% shares of International Events, and is the director Tbilisi State Concert Hall Ltd. and NPLE Tbilisi Concert Hall Development Fund.

Gaioz Kandelaki – Kakhi Kandelaki's father and former business partner of Mikheil Giorgadze, Kakhi Kandelaki and Davit Menabde. Gaioz Kandelaki currently holds 10% shares in Eastern Promotions and 5% shares in International Events.

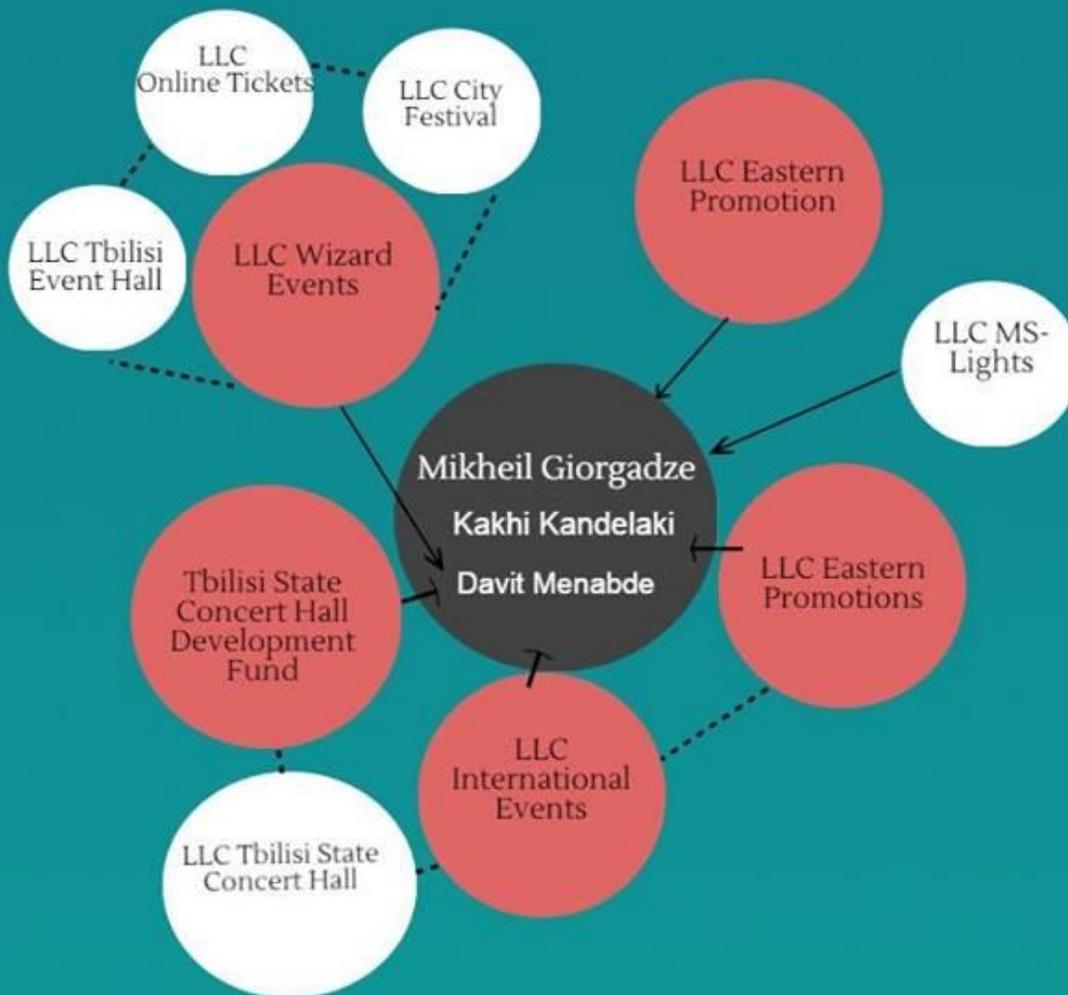
Aleksandre Bitadze – former business partner of Mikheil Giorgadze and Kakhi Kandelaki, and current business partner of Davit Menabde. Bitadze currently holds 14.5% shares in Eastern Promotion, 50% shares in MS Lights, and is one of the founders and a board member of Tbilisi State Concert Hall Development Fund.

Irakli Shengelia – Director of Wizard Events since November 2011. Initially Shengelia held 50% of company shares. Since February 2014, he holds 32%.

Giorgi Chubabria - 36% shareholder of Wizard Events Ltd. and founder, director and 100% shareholder of City Festival Ltd. Chubabria is a business partner of Irakli Shengelia, who is Davit Menabde's son-in-law.

Vazha Khachidze - Director and 30% shareholder of Online Tickets Ltd. According to media reports, Khachidze is the best man to Davit Menabde's son-in-law Irakli Shengelia.

Companies related to Ministry of Culture



Companies/Organizations Connected with Ministry of Culture Officials

- **Eastern Promotions Ltd.**

Eastern Promotions Ltd. was registered on August 5, 2010. From the day of its registration until August 5, 2014, the company was headed by **Mikheil Giorgadze**. According to asset declarations filed by Giorgadze in [2014](#) and [2015](#), he received GEL 40,988 as the company director in 2013 and GEL 36,062 in 2014. During these two years, company shares were held by **Mikheil Giorgadze** (22.5%), **Kakhi Kandelaki** (22.5%), **Giorgi Kereselidze** (22.5%), **Davit Menabde** (22.5%) and **Gaioz Kandelaki** (10%). Currently the marketing director of the company is the deputy minister of culture **Kakhi Kandelaki**, whose [2014](#) and [2015](#) asset declarations reveal that he received GEL 39,394 in 2013 and GEL 23,000 in 2014 as income from the company.

In August 2014 **Giorgi Keresildze** became the director of the company, the shares of which were redistributed between **Giorgi Kereselidze** (45%), **Davit Menabde** (45%) and **Gaioz Kandelaki** (10%).

According to the Public Registry, the latest change in company ownership was made in April 2015, after which **Giorgi Kereselidze** holds 90% and **Gaioz Kandelaki** 10% of shares.

Even though Eastern Promotions does not take part in public procurement tenders, it still actively cooperated with the Ministry of Culture and other public agencies in organizing projects/cultural events prior to Mikheil Giorgadze's appointment as Minister, receiving significant financial support each year in the process. In 2015, after Giorgadze's appointment as Minister, Eastern Promotions received total funding of GEL 1,158,900 from the Ministry of Culture and other public agencies. This includes GEL 600,000 from the Ministry of Culture and GEL 50,000 from Adjara's Ministry of Education, Culture and Sports for organizing the Black Sea Jazz Festival, and GEL 400,000 from the Ministry of Culture and GEL 100,000 from Tbilisi City Hall for organizing the Tbilisi Jazz Festival. To this day, the company [website](#) lists Mikheil Giorgadze as the director, Davit Menabde as the financial director and Kakhi Kandelaki as the marketing director.

Despite Eastern Promotions' previous experience with the Ministry of Culture and other public agencies, the fact that the company management has relocated to the Ministry has created a need for higher standard of accountability and transparency, in order to rule out any possible conflict of interest and corruption. To this end, TI Georgia requested the Ministry of Culture to provide information on one of the projects implemented by Eastern Promotions - the 2015 Black Sea Jazz Festival, specifically the number of tourists arriving during the event, number of sold tickets, and income received and profit made by the company. Unfortunately, the response redirected our request to "relevant organization and/or state institutions", which does not meet a high standard of accountability. The response suggests that the ministry either does not ensure the accountability of

its beneficiaries and therefore does not hold the requested information, or unjustifiably refuses to disclose it.

- **Eastern Promotion Ltd.**

Eastern Promotion ltd. was registered on May 28, 1998. The company was headed by Mikheil Giorgadze in 1998-2014, who held 14.5% of company shares. Other owners included Aleksandre Bitadze (14.5%), Giorgi Kereselidze (14.5%), Kakhi Kandelaki (14.5%), Davit Menabde (14%), Mikheil Akhvlediani (14%) and Manana Shamilishvili (14%).

Currently, the company is headed by Giorgi Keresildze, while its share are held by Aleksandre Bitadze (14.5%), Giorgi Kereselidze (29%), Davit Menabde (28.5%), Mikheil Akhvlediani (14%) and Manana Shamilishvili (14%).

Eastern Promotion has not received any state funding in recent years. However, other companies owned by Mikheil Giorgadze's, Kakhi Kandelaki's and Davit Menabdze's business partners through Eastern Promotion have received uncompetitive funding from the Ministry of Culture on several occasions.

In addition, Davit Menabde, director of LEPL Culture Development Investment Fund, still owns 28.5% of Eastern Promotion shares. This means that Menabde, as a Commission member at the Ministry of Culture, was involved in making decisions to grant state funding to companies owned by a person, Giorgi Kereselidze, with whom he had an active business partnership.

- **International Events Ltd.**

International Events Ltd. was registered on February 7, 2005. Until August 2014, the company was headed by the current First Deputy Minister of Culture Kakhi Kandelaki, and its financial director was Davit Menabde. The Minister of Culture Mikheil Giorgadze had served as the technical director of International Events, for which he received GEL 12,812 in 2014 and GEL 34,387 in 2013. During this period, the company shares were divided among Giorgi Kereselidze (35%), Davit Menabde (20%), Mikheil Giorgadze (20%), Kakhi Kandelaki (20%) and Gaioz Kandelaki (5%).

In August 2014, Davit Menabde became the general director of the company. Its ownership also changed to Giorgi Kereselidze (47.5%), Davit Menabde (47.5%) and Gaioz Kandelaki (5%).

The latest change in company management was made in November 2015. Currently the company is headed by Nino Chankotadze, 95% of its shares are held by Giorgi Kereselidze and 5% by Gaioz Kandelaki. **The director of International Events Ltd. and its current shareholders are closely linked to**

the Ministry of Culture officials. For example, the rights to manage a fully state-owned company Tbilisi State Concert Hall Ltd. have been transferred to International Events Ltd. In addition, the company director Nino Chankotadze is also a financial manager at LEPL Cultural Development Fund.

- **Tbilisi State Concert Hall Ltd.**

Tbilisi State Concert Hall Ltd. was registered in 1999. The company is headed by Giorgi Kereselidze. The company is fully state owned; however, its **management rights have been transferred to International Events Ltd.** According to 2014 and 2015 asset declarations, the current Minister of Culture Mikheil Giorgadze had served as the technical director of Tbilisi State Concert Hall Ltd., from which his annual income was GEL 51,146. During the same period, the current Deputy Minister of Culture Kakhi Kandelaki was the marketing director of Tbilisi State Concert Hall and received GEL 27,437 in 2014 and GEL 48,773 in 2013.

Interesting to note is the fact that Tbilisi State Concert Hall Ltd., Tbilisi State Concert Hall Development Fund, Eastern Promotions Ltd., Tbilisi Event Hall Ltd. and Wizard Event Ltd. are all registered with the same address of #1 Melikishvili Street.

- **LEPL Tbilisi State Concert Hall Development Fund**

Tbilisi State Concert Hall Development Fund was registered in 2006. Its founders are Mikheil Giorgadze, Davit Menabde, Giorgi Kereselidze, Kakhi Kandelaki and Aleksandre Bitadze.

In 2006-2014 the chairman/board member of the Fund was Mikheil Giorgadze, Davit Menabde was deputy chairman/board member, while Giorgi Kereselidze, Kakhi Kandelaki and Aleksandre Bitadze were board members.

In August 2014 Giorgi Keresildze became the chairman/board member. Aleksandre Bitadze, Mikheil Giorgadze and Kakhi Kandelaki remain board members. Davit Menabde also remains a deputy chairman/board member.

The statutory goals of Tbilisi State Concert Hall Development Fund include:

- Supporting the survival, development and raising to European standards of the Tbilisi State Concert Hall as a cultural monument;
- Equipping the concert hall with modern sound/illumination equipment;
- Promoting the cultural activities of the concert hall;
- Funding of ongoing repair works of the concert hall;
- Financial stimulation of concert hall employees;

- Organizing seminars, conferences, lectures, trainings and other activities;
- Organizing charity events, show programs, discos and contests;
- Inviting popular foreign singers, actors, creative groups to Georgia; taking local performers abroad and organizing concerts;
- Attracting grants and other forms of financial and material resources required for implementing the above statutory goals.

The main statutory goal of LEPL Tbilisi State Concert Hall Development Fund, which includes Ministry of Culture officials in its board, is to support Tbilisi State Concert Hall Ltd., which is managed by a company (International Events Ltd.) that is connected to these same officials. This creates a risk of conflict of interest.

- **MS-Lights Ltd.**

MS-Lights was registered in 1996. Its founders are the current Minister of Culture Mikheil Giorgadze and his former business partner Aleksandre Bitadze.

Until October 2012, the company was headed by Aleksandre Bitadze and co-owned by him and Mikheil Giorgadze. In October 2012, Giorgadze sold his 50% share to Nino Khazaradze.

In 2011-2016 MS Lights won 11 state tenders worth a total of GEL 1,349,796.

In 2013-2016 the company was granted 21 contracts worth GEL 372,150 through the simplified procurement procedure. Out of these 21 contracts, only 3 (2 with the Ministry of Culture, and 1 with its subordinate LEPL) worth GEL 18,880 were granted in 2013-2014, before Mikheil Giorgadze and his team relocated to the Ministry of Culture. In 2014-2016, after Giorgadze's appointment as Minister, MS Lights received 18 contracts worth GEL 353,270, out of which 14 were signed with the Ministry's subordinate LEPLs.

The largest contract granted during this period was related to the festival Heat Batumi 2015. The contract was worth GEL 159,890 and was granted to MS Lights by Batumi Cultural Center.

Public agencies granting simplified procurement contracts to a company affiliated with the Minister of Culture naturally raises questions about corruption risks.

- **Wizard Event Ltd. and City Festival Ltd.**

Wizard Event Ltd. was registered in 2009. Until 2011, the company was headed by Giorgi Gomareli, and owned by Otar Nachkebia (50%) and Irakli Shengelia (50%). According to media [reports](#), Irakli Shengelia is Davit Menabde's son-in-law.

Since November 2011, the company is headed by Irakli Shengelia. In February 2014, the company shares redistributed among Otar Nachkebia (32%), Irakli Shengelia (32%) and Giorgi Chubabria (36%). **Since July 2014, Wizard Event has received GEL 270,818 through simplified procurement contracts.**

City Festival Ltd. was registered in February 2015. The company is headed and fully owned by Giorgi Chubabria, who is a business partner of Davit Menabde's son-in-law **Irakli Shengelia** and co-owner of Wizard Event Ltd.

Within one month of registration, City Festival was funded by the Ministry of Culture without competition with GEL 365,000 for organizing an electronic music festival City Sound. The company was also granted GEL 15,500 by Batumi Culture Center to be used for remunerating Georgian DJs participating in the electronic music festival [Blick](#) 2015 held as part of the Heat Batumi 2015 within the framework of City Sound. Wizard Event also took part in the implementation of this project. Giorgi Chubabria and Irakli Shengelia are former business partners of Kakhi Kandelaki and Mikheil Giorgadze. Prior to his appointment as Minister Giorgadze co-owned International Events, which was a 70% shareholder of Tbilisi Concert Hall, with the remaining 30% shares belonging to [Wizard Event](#). In addition, Davit Menabde, Commission member at the Ministry of Culture, is the father-in-law of a co-owner of Wizard Event Irakli Shengelia.

The fact that the Ministry of Culture granted GEL 365,000 without competition to City Festival Ltd., a company whose owners previously were business partners of ministry officials and in one case have family ties raises legitimate questions about the fairness of the funding of the project. The Minister of Culture Mikheil Giorgadze does not [consider](#) the decision to grant City Festival GEL 365,000 without competition to be a problem.

Despite the Minister's position, having these many connections between company owns and commission members as well as lack of competition raises legitimate questions about the transparency of conducting the process. Therefore, the Ministry of Culture must improve the funding process in order to achieve higher accountability in public finance management.

- **Tbilisi Event Hall Ltd.**

Tbilisi Event Hall Ltd. was registered in October 2009.

Until November 2011, the company was headed by Otar Nachkebia. Since November 2011, it is headed by Giorgi Gomareli.

Until November 2013, 70% of Tbilisi Event Hall shares was owned by International Events Ltd., and the remaining 30% by Wizard Event Ltd. From November 2013 until April 19, 2016, the company was owned by Giorgi Gomareli (30%) and Vasil Turabelidze (70%). Currently, it is fully owned by Giorgi Gomareli.

In 2012-2016, Tbilisi Event Hall took part in 6 state tenders and won 3 of them worth a total of GEL 13,000.

Since 2013, Tbilisi Event Hall has received 12 simplified procurement contracts worth GEL 293,486. These included a contract worth GEL 78,965 granted by Tbilisi City Hall for organizing the Tbilisoba event. Two more contracts worth GEL 70,000 and GEL 39,500 were granted by Batumi Culture Center in 2015 for organizing two summer events in Batumi. Since July 2014, **Tbilisi Event Hall has received simplified procurement contracts worth a total of GEL 198,959.**

- **Online Tickets Ltd. (tkt.ge)**

Online Tickets Ltd. was registered on April 27, 2015. Its director and 30% shareholder is Vazha Khachidze, Tamar Mzhavanadze holds 30% shares and Lemondo Business Ltd. holds 40%. According to media report, Vazha Khachidze is the best man of Irakli Shengelia, Davit Menabde's son-in-law.

In turn, Lemondo Business Ltd. was registered on January 23, 2013. The company is headed by Levan Kiladze. Its shareholders include Levan Kiladze (45%), Nikoloz Mamulashvili (25%) and Giorgi Otiashvili (30%).

Online Tickets Ltd. took part in 3 state tenders in 2016 and won 2 of them. One of these was worth GEL 285,000 and was announced by the Culture Development Investment Fund and the other - worth GEL 38,000 - was announced by Tbilisi Opera and Ballet Theatre.

Online Tickets Ltd. was registered as a supplier in the state procurement system on January 15, 2016. Tbilisi Opera and Ballet Theatre, which is a Legal Entity of Public Law under the Ministry of Culture, announced its tender on January 12, 2016, and set the window for receiving proposals from January 15 to 20. The initial tender [documentation](#) (uploaded on January 12) included 5 years of previous

experience as a requirement for suppliers, however, on January 14, the [documentation](#) was re-uploaded without this requirement.

Online Tickets Ltd. was the only bidder on the tender announced by the Culture Development Investment Fund for procuring the services of selling cultural event tickets. [According](#) to the representatives of a company El. Biletebi Ltd. (biletebi.ge), tender [conditions](#) were not sufficiently precise to enable interested suppliers to calculate their price. They also stated that in March 1-4 they [corresponded](#) with the Culture Development Investment Fund, where the Fund expressed its interest in the company's services, but also stated that it did not plan any specific events and refused to provide further details. On March 7 the Fund announced a tender on selling event tickets nevertheless.

The above circumstances create an impression that potential suppliers were not treated equally during the procurement process.

- **Possible Conflict of Interest of the Deputy Minister of Culture Kakhi Kandelaki**

TI Georgia believes that First Deputy Minister of Culture Kakhi Kandelaki may have a conflict of interest in his activities within the Standing Commission on Sustainability of Cultural Sphere.² Kakhi Kandelaki's father, Gaioz Kandelaki, owns 10% shares of Eastern Promotions Ltd. Gaioz Kandelaki also holds 5% shares in International Events Ltd. His business partner Giorgi Kereselidze is a 95% shareholder of the latter company and is also the director and majority shareholder of Eastern Promotions, which, as mentioned above, had received direct funding of GEL 1 million from the Ministry of Culture in 2015.

In 2015, TI Georgia studied the implementation of the Georgian anti-corruption legislation in practice. As part of this project we requested statistics from public agencies, including the Ministry of

² According to the [Law](#) on Conflict of Interest and Corruption in the Public Service, 'conflict of interest in the public service' is defined as a conflict between the property or other personal interest of a public servant and the interests of a state body.

The law also defines the concepts of a 'family member' (a person's spouse, underage child or stepchild, as well as a person with a shared permanent residence) and a 'close relative' (a person's family member, direct relative of an ascending or descending line, stepchild, sister and brother, as well as the stepchildren of a parent and a child).

According to the law, public officials are not allowed to make property deals with those publicly funded agencies, in which they hold a position. Public officials are also not allowed to make property deals with their close relatives or their representatives as public servants.

Public official with a duty to make decisions within a collegial body are obligated to inform other members of this body or their direct supervisor and refuse to take part in the decision-making if they have property or other personal interest in the matter.

Culture, on the implementation of the Law on Conflict of Interest and Corruption in the Public Service and its violations. The Ministry of Culture [responded](#) that the Ministry's Internal Audit and Monitoring Department had not identified any violations in 2010-2015.

Conflict of Interest Risks of LEPL Culture Development Investment Fund and Davit Menabde

Since October 2014, Davit Menabde has been the chairman of the Culture Development Investment Fund. He was also a **member of the Standing Commission on Sustainability of Cultural Sphere from August 21, 2014 until February 17, 2016 with a status of an invited expert.**

Parallel to being a Commission member, from August 2014 to April 2015, Davit Menabde also held 45% shares in Eastern Promotions Ltd. Also since August 2014, after Kakhi Kandelaki resigned from being the director of International Events Ltd. and became the first deputy Minister of Culture, Menabde became the director and 47.5% shareholder of International Events. Menabde held this position and shares until November 2015.

According to information provided to TI Georgia by the representatives of El. Biletebi Ltd. (biletebi.ge), in October 2015 they met Davit Menabde and representatives of a competitor company Online Tickets Ltd., where they were offered to sell tickets at Tbilisi Concert Hall with the condition of having to pay 1% of income to Online Tickets (tkt.ge). **During this time, Davit Menabde was the director and shareholder of International Events Ltd, a company managing the Tbilisi Concert Hall, and at the same time headed the Culture Development Investment Fund. Such active and direct involvement in business activities, especially in the relations between competing companies, carries high risks of conflict of interest and corruption.**

To this day, Davit Menabde owns 28.5% of shares in Eastern Promotion and through this company is a business partner of Aleksandre Bitadze (director and 50% shareholder of MS Lights) and Giorgi Kereselidze (director and 90% shareholder of Eastern Promotions). Despite the fact that information is unavailable on the activities of Eastern Promotion, especially on events organized by the company through public funds, the issue of business partnership is still problematic.

Also worth examining are the activities of LEPL Culture Development Investment Fund and possible risks of conflict of interest and corruption.

Legal Entity of Public Law (LEPL) Culture Development Investment Fund was created on the basis of the January 13, 2015, [Order](#) of the Minister of Culture. Its predecessor, the Investment Fund for Sustainability of Cultural Sphere was set up on August 9, 2013. The Culture Development Investment Fund does not have its own website, nor is information about the Fund available on the website of the Ministry of Culture.

The Fund does not make decisions on the selection and funding of projects independently, but rather in agreement or by instruction of its superior body.

The Fund has previously organized the December 31, 2014 New Year event, as well as the project Ice Queen. It also organized a few events under the Heat Batumi 2015 project, specifically, it invited foreign musicians to the festival and organized the I Orchestra concert in Batumi.

- The I Orchestra concert was funded by the Fund for **GEL 48,154** from its budget. A total of **31 tickets were sold with prices ranging from GEL 30 to 50 (or GEL 1,200 overall)**.
- The New Year event of 2014 was funded from the government reserve fund, with a total of GEL 339,075 being paid to contractors. Of these, GEL 283,405 were participant fees, GEL 55,670 was paid to Georgian contractors for their services, including GEL 16,140 for hotel services and GEL 6,545 for transportation. It should be noted that **Event Hall Ltd. received GEL 32,984 without a tender through a simplified procurement contract for providing catering services, bio toilets, dressing rooms, and a generator.**
- The project Ice Queen was held on January 7-9, 2014, at the Tbilisi State Concert Hall and was funded from the government reserve fund. Contractors were paid a total of GEL 115,939. Income from selling 3,311 total tickets amounted to GEL 61,800. Interestingly, **MS Lights received GEL 20,060 for providing lighting services.**

The declared goals of LEPL Culture Development Investment Fund are evaluation of the economic potential of Georgian culture, identifying optimal niches on the local and international markets and implementing investment policies, promoting the development and financial sustainability of Georgian culture through investment and commercial projects, and carrying out educational activities in the field of culture.

The Fund is authorized to receive or issue grants for funding specific projects in the field of culture, and organize state support for cultural events.

Currently, the Fund has 10 staff members:

- Director - Davit Menabde
- Deputy Director - Ekaterine Kupreishvili
- Financial Manager - Nino Chankotadze
- Project Manager - Kakha Bakhtadze
- Project Manager - Elisabed Kereselidze
- Senior Specialist - Ana Khachiashvili
- Senior Specialist - Roin Khutsishvili

- Specialist - Besarion Lezhava
- Specialist - Elene Ioseliani
- Specialist - Levan Bakhtadze

Contracted employees - Nino Kvantaliani, Dea Levidze, Gizo Iluridze, Revaz Iukuridze, Ramaz Chilaia, Khatuna Kereselidze, Nikoloz Bagrationi, Nana Kvachakhia.

The Fund's annual permanent staff payroll is GEL 208,800. **In 2015, in total (including contracted staff) the Fund spent GEL 250,326 on salaries, bonuses and other expenses.**

Despite the original [intention](#), the Fund is unable to support itself through income received from implemented projects, which raises questions about its effectiveness and the expediency of its existence.

The Culture Development Fund has two addresses, one legal and the other factual. Its legal address is №4 Sanapiro Street, the same address as the Ministry of Culture. The factual address is №1 Melikishvili Street, where the Fund rents an office from Tbilisi State Concert Hall Ltd. since January 1, 2016, with a monthly cost of GEL 786. №1 Melikishvili Street is also the registration address of Tbilisi State Concert Hall Development Fund, Tbilisi State Concert Hall Ltd., Eastern Promotions Ltd., Tbilisi Event Hall Ltd. and Wizard Event Ltd.

In addition to his involvement with the Fund, Davit Menabde still owns 28.5% of shares in Eastern Promotion. To this day, his email address david@tchall.net is indicated as the official email address of Eastern Promotion, Eastern Promotions and Tbilisi Concert Hall Development Fund in the Public Registry. **Menabde most probably took part in [organizing](#) the February 27, 2016, closed concert of Sting and Chris Botti in Georgia that was funded by Bank of Georgia. After the concert, high ranking officials of the Ministry of Culture took a [picture](#) with Sting, in which Menabde is wearing a concert-organizer's badge.** The Fund's financial manager Nino Chankotadze is simultaneously the director of International Events Ltd. Project Manager Kakha Bakhtadze is also the director of Mini Ltd. Finally, the deputy director of the Fund Ekaterine Kupreishvili is also an [employee](#) at Eastern Promotions and was the director of Mini Ltd. in the past.

Mini Ltd. was founded in 2013. The company was previously owned by Eka Kupreishvili, Giorgi Kereselidze's wife Ketevan Gamtsemlidze, Davit Menabde's wife Lia Menabde and Kakhi Kandelaki's wife Elena Yavorskaya. Currently, the company is fully owned by Irakli Sharashidze.

Invited expert members of the Standing Commission on Sustainability of Cultural Sphere or the director of the Culture Development Investment Fund do not hold the status of 'public official'. Therefore, the requirements of the Law on Conflict of Interest and Corruption in the Public Service

do not directly apply to them. However, as a member of the Commission Davit Menabde participated in the management of public funds and had influence in the decision-making process. Therefore, the risks of conflict of interest should be considered in Davit Menabde's case as well, especially since the companies connected to him (Eastern Promotions, International Events and LEPL Culture Development Investment Fund) are all involved in the same activities of organizing concerts and festivals, promoting the development of music, culture and education in the field of culture. Davit Menabde and the management of the Ministry of Culture must set higher standards of integrity.

- **The necessity to improve funding rules and to set a higher standard of transparency in public funds management:** Black Sea Jazz Festival

In order to illustrate the shortcomings of the existing practice of cultural event funding and their accompanying corruption risks, TI Georgia examined the state funding of 2014 and 2015 Black Sea Jazz Festival and Batumi Heat Season 2015 (Heat Batumi 2015).

- *Black Sea Jazz Festival*

The 2014 Black Sea Jazz Festival had a [budget](#) of GEL 1,029,164. The festival was funded from several sources, including TBC Bank and the state budget. Adjara's Ministry of Culture, Education and Sports funded the project for GEL 50 thousand and the Ministry of Culture for GEL 595,413. Overall, the festival organizer company Eastern Promotions received GEL 645,413 of public funds. TBC Bank funded the project for GEL 36,913. The remaining GEL 346,838 was contributed by Eastern Promotions.

Of the GEL 50,000 allocated to the Black Sea Jazz Festival by Adjara's Ministry of Culture, Education and Sports, one half was spent on sound equipment and the other as remuneration for one of the performers - MAN IN BRASS.

GEL 595,413 [allocated](#) by the Ministry of Culture was used for:

- Remuneration and international travel (not including MAN IN BRASS) – GEL 360,438
- Arrangement of festival grounds – GEL 29,000
- Lease of tennis courts – GEL 20,000
- Security – GEL 10,000
- Lighting equipment rent – GEL 25,000
- Catering services – GEL 15,000
- Transportation services (domestic travel) – GEL 16,000
- Hotel services – GEL 74,975
- Technical services (lease of stage and its transportation) – GEL 45,000

62.7% of the 2014 Black Sea Jazz Festival budget (GEL 1,029,164) was state funded (Ministry of Culture of Georgia and Adjara's Ministry of Education, Culture and Sports – GEL 645,413). 33.7% was contributed by Eastern Promotions, and the remaining 3.6% by private donors (sponsors / supporters).

In 2015, the Ministry of Culture funded the Black Sea Jazz Festival for GEL 603,145 without competition / tender. At the same time, on July 23-26 Eastern Promotions [received](#) GEL 50,000 from Adjara's Ministry of Culture, Education and Sports for the organization of the Black Sea Jazz Festival and hotel accommodation of 81 people. According to information received from the Ministry of Culture, **GEL 603,145 allocated by the Ministry in 2015 to Eastern Promotions for organizing the Black Sea Jazz Festival amounted to 36,9% of the project budget. This means that the 2015 Black Sea Jazz Festival cost a total of GEL 1,634,539, or 59% (GEL 605,375) more than the previous year.**

According to the Ministry, the funding allocated to Eastern Promotions for the Black Sea Jazz Festival project was intended to cover the remuneration of some of the participants (Lisa Stansfield, Groove Sonix, Esperanza Spalding, Snoop Dogg, Liv Warfield, Brass Bands, George Clinton) and related taxes. **However, the information provided to TI Georgia by the Ministry seems to contain inaccuracies**, since, according to the earlier [statement](#) of Ministry of Culture, participants of Black Sea Jazz Festival were only GEORGE CLINTON & PARLIAMENT FUNKADELIC, LIV WARFIELD feat. the NGP HORNZ, LISA STANSFIELD, SNOOP DOGG. The same musicians were listed in the Heat Batumi 2015 event [calendar](#). As for [GROOVESONIX](#) and [NEW YORK BRASS BAND](#), they were invited by the LEPL Culture Development Investment Fund as part of the Heat Batumi 2015 project, and paid [USD 12,500](#) and [EUR 12,000](#), respectively, from the festival budget. Esperanza Spalding [visited](#) Georgia not for the Black Sea Jazz Festival, but the Tbilisi Jazz Festival on October 25. Such inaccuracies in the information provided to us by the Ministry of Culture call into question the credibility of all other information disclosed by the Ministry, especially considering the fact that, **despite TI Georgia's requests, the Ministry did not provide us with the complete application submitted by Eastern Promotions for the 2015 Black Sea Jazz Festival, the complete budget of the project, accountability documentation provided to the Ministry by the company, etc.** The response letter from the Ministry of Culture redirected us to “the relevant organization and/or state institutions” for obtaining information on the number of tourists attending the 2015 Black Sea Jazz Festival, number of sold tickets, and the income received and profit made by the organizer company. The response suggests that the Ministry either does not ensure the accountability of its beneficiaries and therefore does not hold the requested information, or unjustifiably refuses to disclose it. **This does not meet the high enough standard of transparency and accountability that would rule out any questions about corruption and conflict of interest, especially after the relocation of a number of persons from the culture business to public official positions in the Ministry of Culture.**

The response provided by the Ministry of Culture does not allow for greater accuracy of our research. However, information obtained from open sources suggests that the **Black Sea Jazz Festival could have been funded by state agencies other than the Ministry of Culture of Georgia and Adjara's Ministry of Culture, Education and Sports. The analysis of funds allocated and contracts signed by the government in relation to Batumi Heat Season 2015 (Heat Batumi 2015) serves as a basis for this statement.**

- **Batumi Heat Season 2015**

[According](#) to the Government of Adjara, Heat Batumi 2015 was a special 2 month long summer project for Batumi, which involved continuously holding various festivals and entertainment events. From July 6 to September 15, different events were held in Batumi each week under the common umbrella of Heat Batumi. In order to fund the project, Batumi City Council issued an order to the City Hall to [allocate](#) GEL 3,400,000 from its program for promoting the development of art and culture (non-profit legal entity (NPLE) Batumi Culture Center) for [Batumi Heat Season 2015](#). The funding was allocated through the simplified procurement procedure, without competition / tender.

Most of the simplified procurement contracts (GEL 303,990) awarded within the Heat Batumi 2015 project were granted to companies connected with high ranking officials at the Ministry of Culture. LEPL Culture Development Investment Fund received GEL 909,811 for organizing the visits of foreign musicians.

Information provided by the Alter Vision Group representative Davit Tsintsadze suggests that the Fund could have saved resources if it had used competitive procedures to manage its funding. [According](#) to Tsintsadze, initially the Fund worked with Alter Vision Group on organizing the visit of Okean Elzi to Heat Batumi 2015. The company had already reached an agreement about the price with the band – EUR 25,000. However, **in the end, to the surprise of Alter Vision Group, the Fund decided to [award](#) a more expensive EUR 37,500 [contract](#) (CMR150137957) to an offshore-registered company - [KRIM ASSOCIATES S.A](#) (representative Andreas Moustras; registered in the British Virgin Islands). Initial versions of contracts signed by the NPLE Batumi Culture Center and LEPL Culture Development Investment Fund on inviting foreign musicians to Heat Batumi 2015 determined EUR 29,000 as payment to Okean Elzi, but the agreement was eventually amended and the final amount was set at EUR 27,500.**

One of the [locations](#) used for Heat Batumi 2015 - Club Take Five is [connected](#) to Tbilisi Event Hall. A total of 20 events were held in this club, including the concerts of [Max the Sax](#), [Spaghetti Swing Band](#) and [The New York Brass Band](#), the visits of which were organized by LEPL Culture Development Investment Fund with funding from the Heat Batumi budget.

The [website](#) of the Government of Adjara stated that the Heat Batumi 2015 budget would be used to fund only part of the events, since some of the projects were funded either privately or by the Ministry of Culture. Examples of the latter were: Black Sea Jazz Festival, Night Serenades by Liana Isakadze, Electronic Music Festival, Fanta Love Land and I Orchestra.

Some of the contracts signed as part of the Heat Batumi project do not specify the periods for service delivery or their specific beneficiaries. This creates an impression that events and organizations funded by other state agencies may have indirectly benefited from the services received through these contracts. For example:

- Batumi Culture Center signed a GEL 90,000 [contract](#) with the Adjara Division of LEPL Security Police Department on providing security services at the events of Batumi Heat Season 2015 from July 6 to September 7. The annex to the contract specified that security services would be required over a period of 48 days (July 14 - August 31) during stage preparation at the tennis courts, and over a period of 28 days during the planned events. A total of 25 events were held at the courts within the [Heat Batumi](#) project, including Black Sea Jazz Festival concerts held on July 23-26. It is unclear whether the above contract included providing security services to events that were not funded from the Heat Batumi budget, and whether these events were funded indirectly.
- In 2015, Batumi Culture Center signed a GEL 25,000 simplified procurement [contract](#) with Wizard Events on providing 550 chairs for 45 days and 50 tables for 40 days for events planned as part of the Batumi summer season project from July 30 to August 15, 2015. It is unclear whether these chairs and tables could be used for events held during the same period but funded outside of the Heat Batumi budget.
- In 2015, Batumi Culture Center signed a GEL 70,000 simplified procurement [contract](#) with Tbilisi Event Hall on preparing the Batumi tennis courts for events planned as part of the Batumi summer season project from July 16 to August 30 (500 square meter VIP zone stage – GEL 26,250; roofing for the 500 square meter VIP zone stage – GEL 34,250; ticket booth – GEL 5,500; ticket booth inventory – GEL 4,000).
- Batumi Culture Center signed a GEL 39,500 simplified procurement [contract](#) with Tbilisi Event Hall on providing catering services to Batumi Heat Season 2015 participants from July 17 to August 31.
- Batumi Culture Center signed a GEL 100,000 [contract](#) with Batumi Tennis Club Ltd. on providing the lease of 5 tennis courts and 4 locker rooms (3,467 square meters) for the Batumi Heat Season 2015. GEL 80,000 was spent on tennis court rent and the remaining GEL 20,000 on locker rooms (4 standard hotel rooms). This contract clearly specifies the service delivery period and its beneficiaries. It sets the service delivery period as July 14 to September 2, not including the period from July 22 to 26 (Batumi Black Sea International Festival) and the period from August 19 to 22 (Electronic Music Festival). Batumi Tennis Club had leased its

courts to other organizations during these windows.

- Batumi Culture Center signed a GEL 159,890 simplified procurement [contract](#) with MS Lights Ltd. on providing stage lighting equipment for the events planned as part of the Batumi summer season project from July 1 to September 18. The contract does not include the list of specific events that MS Lights was supposed to service.
- Batumi Cultural Center signed a GEL 110,000 simplified procurement [contract](#) with JSC International Projection System on providing screens for the events planned as part of Batumi Heat Season 2015 from July 29 to August 18. The contract did not specify whether all events of the Batumi Heat Season project were covered by the procurement.
- In 2015, Batumi Culture Center signed a GEL 118,000 simplified procurement [contract](#) with Sound City Ltd. on building and operating a stage on the tennis court territory for the events planned as part of the Batumi Heat Season 2015 from July 18 to 22, July 26 to August 19, and August 23 to 28. The company had July 15-17 to build the stage and August 29 to September 1 to dismantle it. The contract does not cover the period of the Black Sea Jazz Festival, meaning that the festival would have to use its own budget to pay for a stage. However, if the organizers rented this same stage they would have avoided the expenses of its installation and dismantling.
- Batumi Culture Center signed a GEL 177,000 simplified procurement [contract](#) with Stage Sound Ltd. on providing sound equipment for the events planned as part of Batumi Heat Season 2015 from July 18 to 22, July 27 to August 19, and August 23 to 28. The company had July 16 for the installation and August 29 for dismantling of the equipment. As in the previous case, it is clear that the Heat Batumi budget did not cover specific events. However, if the organizers of these other events rented the same sound equipment, they would avoid the installation and dismantling costs and in this way indirectly benefit from the project.

Conclusion

Despite having some positive impact, funding cultural events from the state budget without competition is also associated with higher risks of corruption and conflict of interest. Therefore, a higher standard of transparency must be set for the state funding of any event, which could involve significant changes to the existing procedures followed by the Ministry of Culture.

In 2014-2015, the Ministry of Culture allocated several million GEL for cultural events without competition. In several cases, funding was given to companies formerly owned by high ranking Ministry officials, their business partners and companies connected to them.

In 2015, the Ministry of Culture allocated nearly GEL 1 million to the company Eastern Promotions without competition for organizing the Tbilisi and Black Sea Jazz Festivals. Even though the Ministry had funded the projects of Eastern Promotions before, after the relocation of the company management to the Ministry of Culture, it became necessary to raise the standard of transparency in the Ministry's decisions making process, in order to rule out possible risks of corruption.

Transparency International Georgia identified signs of conflict of interest in the activities of the Standing Commission on Sustainability of Cultural Sphere and the Culture Development Investment Fund.

The father of Kakhi Kandelaki, First Deputy Minister of Culture, is a shareholder of a Ministry funded company Eastern Promotions, which may contradict the requirements of the Law on Conflict of Interest and Corruption in the Public Service.

Risks of conflict of interest were also present in relation to Davit Menabde during his membership of the Standing Committee on Sustainability of Cultural Sphere, who was personally involved in business activities of companies working in the same field. To this day, Davit Menabde, director of Culture Development Investment Fund, is a 28.5% shareholder of Eastern Promotion Ltd.

The financial manager of Culture Development Investment Fund Nino Chankotadze is also the director of International Events Ltd. The Fund's deputy director Eka Kupreishvili is also [employed](#) at Eastern Promotions. Even though the requirements of the Law on Conflict of Interest and Corruption in the Public Service do not directly apply to the employees of the LEPL Culture Development Investment Fund, the fact is that the Fund manages public funds, and shares goals with and operates in the same field as those private companies (International Events, Eastern Promotions, etc.) that employ its employees and managers. This naturally raises legitimate questions about the risks of conflict of interest and corruption. Therefore, the employees of the Fund as well as members of the Commission at the Ministry of Culture must observe a higher standard of integrity.

Tbilisi and Black Sea Jazz Festivals have been running for many years. Funding for these festivals has been included in the Ministry of Culture's program budget. According to the Government of Adjara, the Heat Batumi festival will also be held annually. Since these projects have become long-running, public agencies must improve their funding procedures based on the principle of open competition. The examples discussed in this study show that a part of funding that was allocated without competition went to companies associated with high-ranking ministry officials. Such facts raise legitimate questions and give rise to risks of corruption, which creates unequal conditions of competition on the culture market. Funding rules must be improved by taking into account the interests of all private business actors on the market. The Ministry of Culture's current practice of funding specific companies without competition for organizing large-scale cultural events places competing companies at a disadvantage.

Transparency International Georgia believes that the following changes are necessary in order to reduce risks of corruption and conflict of interest in the cultural sphere:

- The Ministry of Culture must conduct its funding through competition using open and transparent criteria. The Ministry must refrain from funding companies directly. Instead, it must announce tenders to select contractors.
- The Ministry of Culture should review the composition of and member selection rules for its Standing Committee on Sustainability of Cultural Sphere. Commission member candidates should be selected through competition. The Ministry must also develop an effective mechanism for preventing conflict of interest within the Commission.
- When making decisions on funding the Ministry of Culture must consider the total project cost, the share of public funds in it and the potential revenue received by the beneficiary.
- Relevant responsible authorities must look into the legality and purpose of public funds allocation by the Ministry of Culture, as well as specific cases of corruption and conflict of interest.