



GEORGIA'S POLITICAL FINANCE IN 2021: REVENUES AND EXPENDITURES OF POLITICAL PARTIES AND FINANCIAL OVERSIGHT

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I. EXECUTIVE SUMMARY

Transparency International Georgia studied the issue of Georgia's political finance in 2021. The main focus was on 17 political parties that, as of 2021, were either receiving public funding or received revenues of at least GEL 100,000 in the same year. The findings of the report are mainly based on the results of a study of annual financial declarations submitted by 17 political parties and an analysis of the relevant processes underway during the year, including the activities of the State Audit Office in terms of financial transparency and oversight.

One important legislative amendment regarding political finance was made in 2021. In particular, according to the amendments, which came into force on February 1, 2022, a political party loses the right to receive funding from the state budget if the mandates of half or more members of this party's members of parliament are prematurely terminated. In addition, the party will not receive public funding for the next 6 calendar months unless more than half of the Members of Parliament elected by its nomination do not attend more than half of the regular plenary sessions of the Parliament during the previous session. These changes were assessed negatively by both the OSCE / ODIHR and local civil society organizations. As a result of these amendments, two parties - the Labor Party of Georgia and the party Lelo for Georgia - have lost the right to receive public funding.

The ruling Georgian Dream - Democratic Georgia party had almost 2/3 of all parties' total revenues and expenditures (each amounting to about GEL 40 million), which shows an extremely unequal distribution of finances between the parties.

63% of the total revenues received by political parties came from private donations, 32% - from public funding, and 5% from other types of revenue, including loans from commercial banks. In an election year, private donations typically account for a large share of party revenues - in 2021, municipal elections were held in Georgia.

Although private donations accounted for the bulk of the parties' total finances in 2021, for many parties, public funding was a major source of revenue.

17 parties received approximately a total of GEL 27 million in monetary and in-kind donations, of which 72% went to Georgian Dream - Democratic Georgia. 96% of the total donations received by the parties in 2021 were made by individuals and 4% by legal entities. Georgian political parties mainly depend on large donors and the share of small contributions is usually insignificant.

As in other years, the alleged cases of political corruption and the lack of adequate response to them were still relevant. As it turned out, in 2021, the companies connected with the donors of the ruling party had won public tenders worth about GEL 320 million and simplified public procurement contracts of GEL 19 million. During the same period, the donors directly or indirectly affiliated with these companies contributed over GEL 4.5 million for the benefit of the Georgian Dream - Democratic Georgia.

Over the years, several major groups had been formed among the ruling party's donors that contributed large sums of money to Georgian Dream - Democratic Georgia almost every year. All such groups have a common characteristic that a large part of their members donate money to the ruling party on the same day or several days apart, which raises doubts about whether such collective action is organized by someone in advance and whether the donations are made through other persons. Georgian legislation prohibits making donations through another person. In 2021, among such large groups, there still were persons associated with Bidzina Ivanishvili, the founder of the Georgian Dream - Democratic Georgia party, the former chairman of the same party, and the former Prime Minister.

Political parties spent the most money on advertising, rent and office expenses, and salaries. Advertising accounted for half of the parties' total expenses, 21% for office and rent expenses, and 12% for salaries. Georgian Dream - Democratic Georgia spent the most on advertising – GEL 13.3 million, which was the largest part (70%) of the total advertising expenditure of 17 parties. As for the categories of advertising, the largest share was spent on outdoor advertising (GEL 8.4 million, 44% of the total advertising expenses), followed by TV advertising (GEL 3.8 million). 87% of outdoor advertising expenses were spent by Georgian Dream - Democratic Georgia.

Political parties spent a total of GEL 4.5 million on salaries in 2021, which was 12% of their total expenditure. If we look at the ratio between salary expenses and overall expenditures of political parties, no salary costs of two parties - Progress and Freedom and the New Political Center - Girchi would grab public attention. In addition, questions could be raised about the low salary costs incurred by the Georgian Dream - Democratic Georgia and For Georgia party. Particularly noteworthy is the case of the ruling party, which spend the most during the year but the salary expenses amounted to only 2% of its expenses.

Under Georgian legislation, the State Audit Office is mandated to monitor the legality and transparency of political finance.

During the year the State Audit Office responded to certain violations and provided information to the public through the Register of Violations. In February 2022, the SAO published the final report on the financial monitoring of the 2021 municipal elections, which provides the results of the monitoring conducted directly during the election period. This report was preceded by a similar type of interim report published in September 2021.

In 2021, the State Audit Office took 35 administrative offense cases to the Tbilisi City Court, including 10 cases of political parties, one legal entity, one natural person, and 18 independent candidates. Violators were verbally reprimanded in 2 cases, warned in a written form in 22 cases, and fined in 11 cases by a total amount of GEL 215,057 and with an obligation to transfer GEL 57,228 to the state budget. Of the 17 parties studied, only one turned out to be a lawbreaker - the New Political Center - Girchi.

As in previous elections, 2021 has shown that the State Audit Office is particularly ineffective in responding to cases of alleged political corruption. The Agency's management has been clarifying for several years that the function of monitoring political finances is incompatible with this agency's core activities and carries reputation risk. The agency's management also has been noting that under the current mandate, the State Audit Office does not have the leverage and resources to investigate possible cases of political corruption. Therefore, it is necessary to carry out such an extensive investigative function by an agency that will have the authority and resources to conduct an investigation.

II. RECOMMENDATIONS

- As the State Audit Office is ineffective in responding to alleged cases of political corruption, it is desirable to establish an independent anti-corruption agency. This agency should be equipped with investigative powers and, among other things, should oversee the financing of political parties.
- Legislative changes are needed to ensure that a political party does not lose its public funding, regardless of whether it uses parliamentary seats or not, as party funding should depend on its election results and not on parliamentary activities.
- Those political parties that receive a gender-related supplement funding from the state budget should pay more attention to the issue of filling out financial declarations and should indicate the amount received in the appropriate field.
- The prosecutor's office should launch an investigation into the alleged fact of pressure on local businessmen in Samtskhe-Javakheti.
- The State Audit Office should add a separate form to the annual financial declaration templates where parties will be able to indicate the specific origin of the amount (if any) in the "other monetary revenue" category.
- The State Audit Office should thoroughly study the information provided by political parties on salary costs and find out why some parties have declared unrealistically small amounts of money.
- Political parties should do more to raise donations through events and campaigns. Parties that fundraise in such a way are usually less reliant on a handful of key donors and find themselves entangled in corruption schemes.

III. INTRODUCTION

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

This time TI Georgia presents a study that analyzes Georgia's political finance in 2021. On October 2, 2021 (first round) and October 30 (second round), municipal elections were held in Georgia, in which 42 political parties and 72 initiative groups participated. The elections finally concluded on November 13, with mayors and city/municipal assembly members elected in 64 municipalities.

By February 1 of each year, political parties are required to submit detailed financial declarations of the previous year to the State Audit Office (SAO). These declarations are published on the website¹ of SAO. The present study mostly is based on an analysis of these financial statements, therefore, the reporting period includes the time interval between January 1 and December 31, 2021. Information from other years was also used periodically to analyze various data and trends.

For the study, we selected those political parties that were either qualified² or received revenues of at least GEL 100,000 in 2021. As a result, 17 political parties were selected, including 14 qualified and 3 "unqualified" ones (see **Table 1** for the full list).

Table 1. Political parties selected for the study³

The official name of the party	Abbreviated name of the party⁴
Georgian Dream - Democratic Georgia (the ruling political party)	GD
United National Movement	UNM
The Movement - State for the People	State for the People
Progress and Freedom	Progress and Freedom
The Republican Party of Georgia	The Republicans
European Democrats of Georgia	European Democrats

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

2 A political party that got the right to receive public funding based on the results of the previous parliamentary elections

3 "Unqualified" political parties are underlined

4 For graphs

Giorgi Vashadze – Strategy Aghmashenebeli	Strategy Aghmashenebeli
Law and Justice	Law and Justice
European Georgia - Movement for Freedom	European Georgia
The Alliance of Patriots of Georgia	The Alliance of Patriots
The New Political Center - Girchi	Girchi
Aleko Elisashvili - the Citizens	The Citizens
Lelo for Georgia	Lelo
The Labor Party of Georgia	The Labor Party
<u>For Georgia</u>	<u>For Georgia</u>
<u>European Socialists</u>	<u>European Socialists</u>
<u>Christian-Conservative Party of Georgia</u>	<u>Christian-Conservatives</u>

In addition to the annual financial declarations of political parties, the SAO’s final election monitoring report⁵ was used for the study. Two websites of TI Georgia - www.politicaldonations.ge and www.tendermonitor.ge – the website of the Public Procurement Agency - www.procurement.gov.ge and other open data were used to determine business connections of political parties’ donors and their interests in public procurement.

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

At the beginning of the study, the legislative framework that regulates the issues of political finance in Georgia is briefly reviewed. This section also includes the analysis of legislative changes initiated and/or implemented in 2021. The following chapters of the report present a quantitative and qualitative analysis of the revenues and expenditures received by the 17 political parties mentioned above.⁶ The revenue side focuses on both public and private funding. In addition, donations of political parties received in 2021 and related cases of alleged political corruption are presented.

Special emphasis was placed on private donations received by the parties and on interesting facts revealed in terms of alleged political corruption. The following sections of the report review the expenditures incurred by political parties, as well as issues of financial transparency and oversight. The expenditures section provides an overview of the data officially declared by the parties. As for the last chapter, it deals with the issue of financial transparency and oversight, including the work of SAO.

5 *Final report on financial monitoring for October 2, 2021 municipal elections*, Political Finances Monitoring Department of the State Audit Office of Georgia, 4.02.2022: <https://bit.ly/3xZoSzi>

6 Information on revenues and expenditures of political parties was mainly taken from the declarations they filled out. Therefore, TI Georgia is not responsible for the accuracy of all data.

IV. POLITICAL FINANCE LEGISLATION AND RELEVANT AMENDMENTS

The main legal principles for regulating Georgia's political finance are defined by the Organic Law on Political Associations of Citizens and the Election Code, as well as by the Law on the State Audit Office, the General Administrative Code, the Code of Administrative Offences, and by orders of the Auditor General.

The Organic Law of Georgia on Political Associations of Citizens defines the entities covered by restricting regulations on political finance. In particular, the said law is familiar with the concepts of both a political party and a person with declared electoral goals. According to the law, a political union of citizens (a party) is an independent and voluntary association of citizens established on a common ideological and organizational basis and registered under the procedure established by the law to conduct its activities within the scope of the Constitution and the legislation of Georgia. The Georgian legislation contains a special regulation for the election campaign/pre-election period, which starts 60 days before the polling day.

One important legislative amendment regarding political finance was made in 2021. In particular, on June 22, 2021, the Parliament of Georgia amended the Organic Law on Political Associations of Citizens. According to the amendments, which came into force on February 1, 2022, a political party loses the right to receive funding from the state budget if the mandates of half or more members of this party's members of parliament (MPs) are prematurely terminated.

In addition, the party will not receive public funding for the next 6 calendar months unless more than half of the MPs elected by its nomination do not attend more than half of the regular plenary sessions of the Parliament during the previous session.⁷

Similar amendments were registered in the Parliament on December 16, 2020, by the MPs of the ruling Georgian Dream - Democratic Georgia party.⁸ These amendments were adopted by Parliament in the first reading in 2020 but were later sent to the Venice Commission and the OSCE / ODIHR⁹ for evaluation.

The Venice Commission and the OSCE / ODIHR issued a joint assessment on March 20, 2021, in which the adoption of the amendments was unequivocally criticized.¹⁰ Nevertheless, the Parliament still adopted amendments and made only minor, insignificant changes to it, as well as postponed its enactment date. The OSCE / ODIHR report was preceded by a critical assessment of several non-governmental organizations, including TI Georgia.¹¹

As a result of these amendments, two parties - the Labor Party of Georgia and the party Lelo for Georgia - have lost the right to receive public funding.

Recommendation

A political party should not lose public funding, which it is entitled to, regardless of whether it uses its parliamentary mandates. Public funding should depend on electoral support a party gets rather than its parliamentary activities.

7 Article 2 of the Georgian Law on the Amendments to the Organic Law of Georgia on Political Associations of Citizens, 22.06.2021; available: <https://bit.ly/3EVhoP9>

8 Georgian Law on the Amendments to the Organic Law of Georgia on Political Associations of Citizens, 22.06.2021; available: <https://bit.ly/2PkPEOJ>

9 Office for Democratic Institutions and Human Rights of Organization for Security and Co-operation in Europe

10 ON AMENDMENTS TO THE ELECTION CODE, THE LAW ON POLITICAL ASSOCIATIONS OF CITIZENS AND THE RULES OF PROCEDURE OF THE PARLIAMENT OF GEORGIA, EUROPEAN COMMISSION FOR DEMOCRACY THROUGH LAW (VENICE COMMISSION) and OSCE OFFICE FOR DEMOCRATIC INSTITUTIONS AND HUMAN RIGHTS (OSCE/ODIHR), JOINT OPINION, CDL-AD(2021)008, Strasbourg, 20 March 2021; available: <https://cutt.ly/MxOaySK>

11 *Changes in election and political party legislation do not meet democratic standards*, TI Georgia, 28.12.2020; available: <https://bit.ly/3At41Ch>

V. REVENUES OF POLITICAL PARTIES

1. REGULATORY FRAMEWORK OF REVENUES

According to Georgian legislation, political parties are allowed to receive income from the following sources: (1) public funding; (2) membership fees; (3) private donations (no more than GEL 60,000 from an individual donor and GEL 120,000 from a legal entity); (4) revenues earned from selling merchandise, lectures, exhibitions, and other public events, as well as annual capital income from publishing and other activities; (5) bank loans.

1.1. PUBLIC FUNDING

1.1.1. Sources of public funding

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

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

A political party registered with the Central Election Commission is eligible for public funding if it participated in the latest parliamentary elections and received at least 1% of the votes. The amount of funding is set at GEL 15 for each vote received under the first 50,000 actual votes, and GEL 5 for each subsequent actual vote received.¹²

- **Gender funding**

A party funded from the state budget will receive an additional 30% of its public funding if one of the three candidates on the party list submitted in the last parliamentary elections was of the opposite sex.

- **Free advertisement time**

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

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

1.2. PRIVATE FUNDING

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

- **Membership fees**

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

¹² Paragraph 4 of Article 30 of the Organic Law on Political Associations of Citizens.

- **Donations**

Donations are defined as follows:

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

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

- A natural person who donates should be a citizen of Georgia;
- A donating legal person should be registered on the territory of Georgia while its partners and end beneficiaries - citizens of Georgia;
- A donor cannot be a legal person, which in the last calendar or election year has had 15% or more of its actual income from simplified state procurements;
- Donations received by a party from a single natural person shall not exceed GEL 60,000 a year, while donations from a single legal entity – GEL 120,000;

Furthermore, it is forbidden to receive donations from:

- Natural and legal persons of other countries, international organizations, and movements;
- State agencies, state organizations, legal persons of public law, societies with state stock ownership;
- Non-commercial legal entities and religious organizations;
- In an anonymous form.

- **Bank loans**

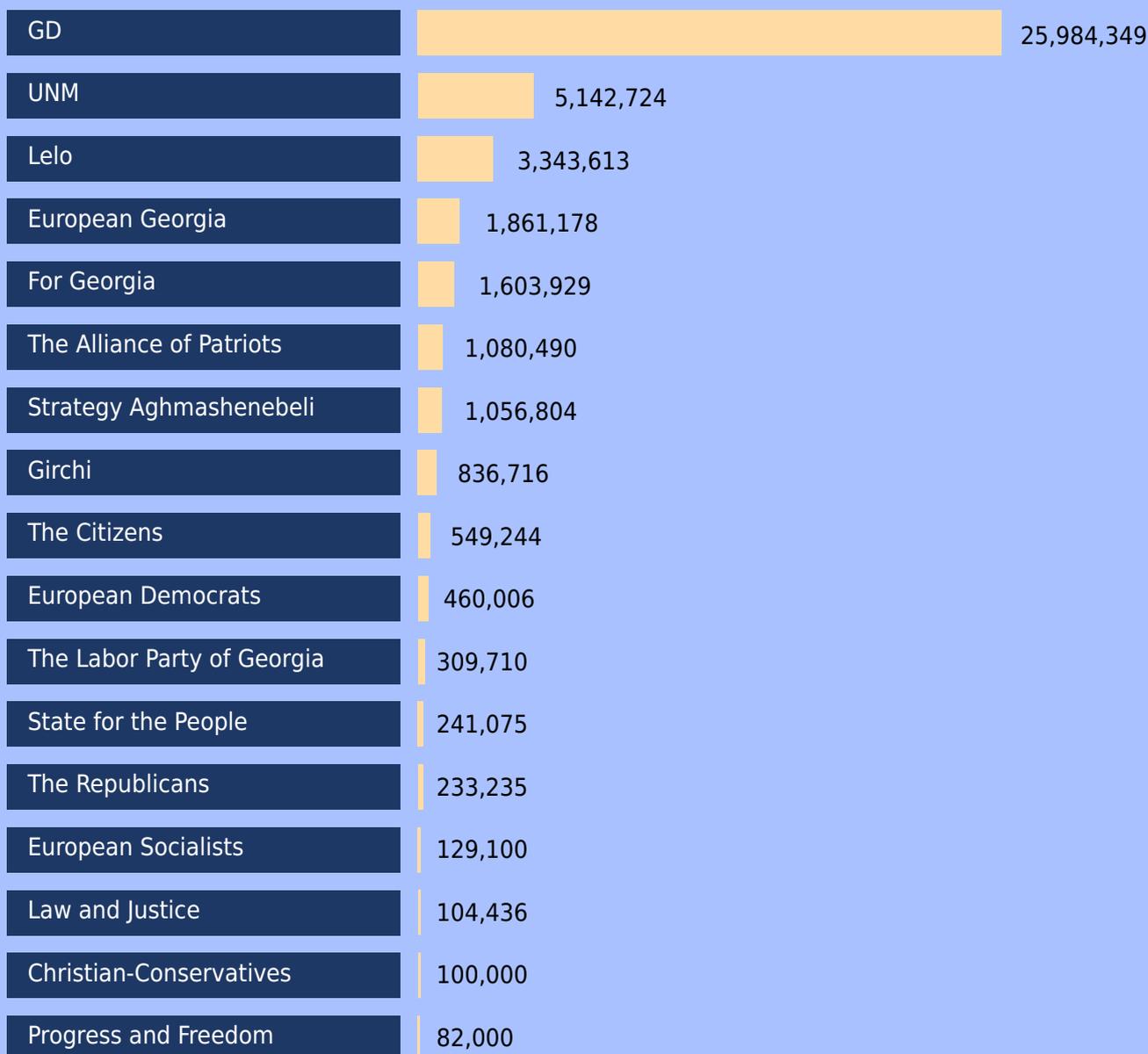
A political party has the right to take a credit of up to GEL 1 million in a calendar year only from a Georgian commercial bank.

2. REVENUES RECEIVED BY POLITICAL PARTIES: REVIEW AND ANALYSIS

As already mentioned, the study analyzed the financial declarations of political parties that had the status of “qualified” parties or earned GEL 100,000 or more in 2021.

In 2021, the studied 17 political parties received revenues totaling **GEL 43,118,609**. The ruling party - Georgian Dream - Democratic Georgia got Almost two-thirds (60%) - **GEL 25,984,349** of this amount. The United National Movement was second with GEL 5,142,724, and Lelo for Georgia was third with GEL 3,343,613 (for a full list, see **Figure 1**).

Figure 1. Total revenues received by political parties in 2021, GEL

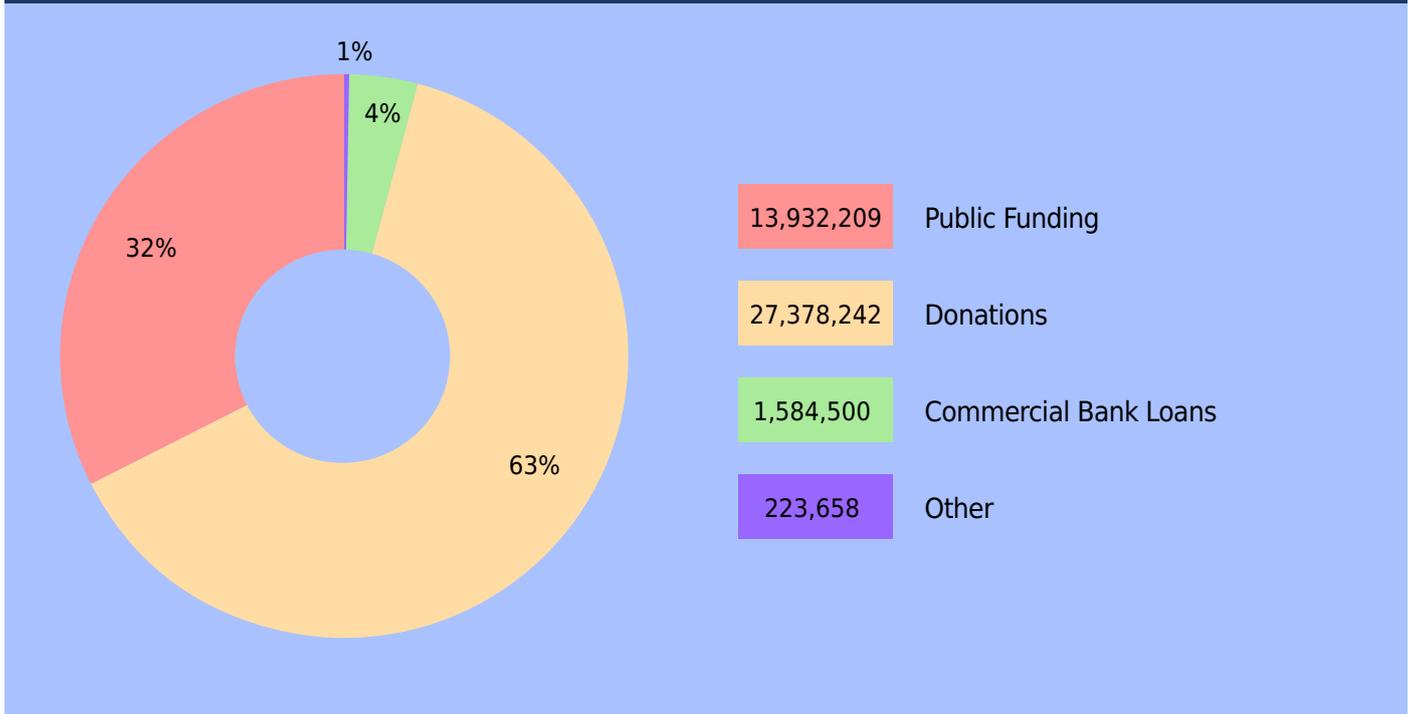


Data source: Annual financial declarations submitted by political parties to the State Audit Office

In 2021, **63%** (GEL 27,376,737) of the total revenues received by political parties came from private donations, **32%** (GEL 13,872,029) - from public funding, and **5%** from other types of revenue, including loans from commercial banks (see **Figure 2**). In an election year, private donations typically account for a large share of party revenues.¹³

¹³ In 2020, the share of private funding was 77%, see in detail *Georgia's Political Finance in 2020: Revenues and Expenditures of Political Parties and Financial Oversight*, TI International Georgia, p. 20-21, <https://bit.ly/3QvDYn6>

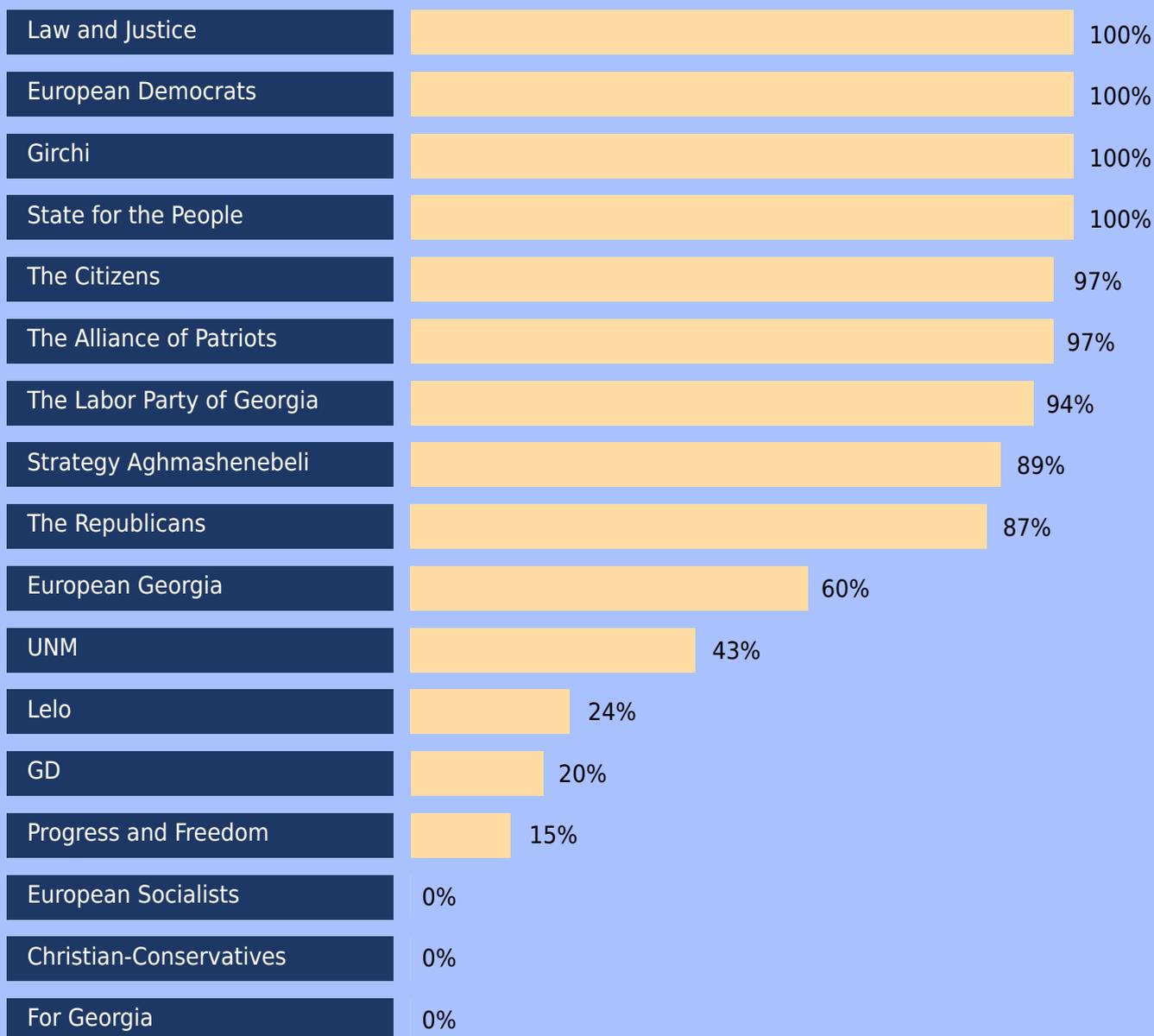
Figure 2. Sources of revenues received by political parties in 2021, GEL, %



Data source: Annual financial declarations submitted by political parties to the State Audit Office

Although private donations accounted for the bulk of the parties' total finances in 2021, for many parties, public funding was a major source of revenue (see **Figure 3**).

Figure 3. Share of public funding in total revenues of political parties in 2021

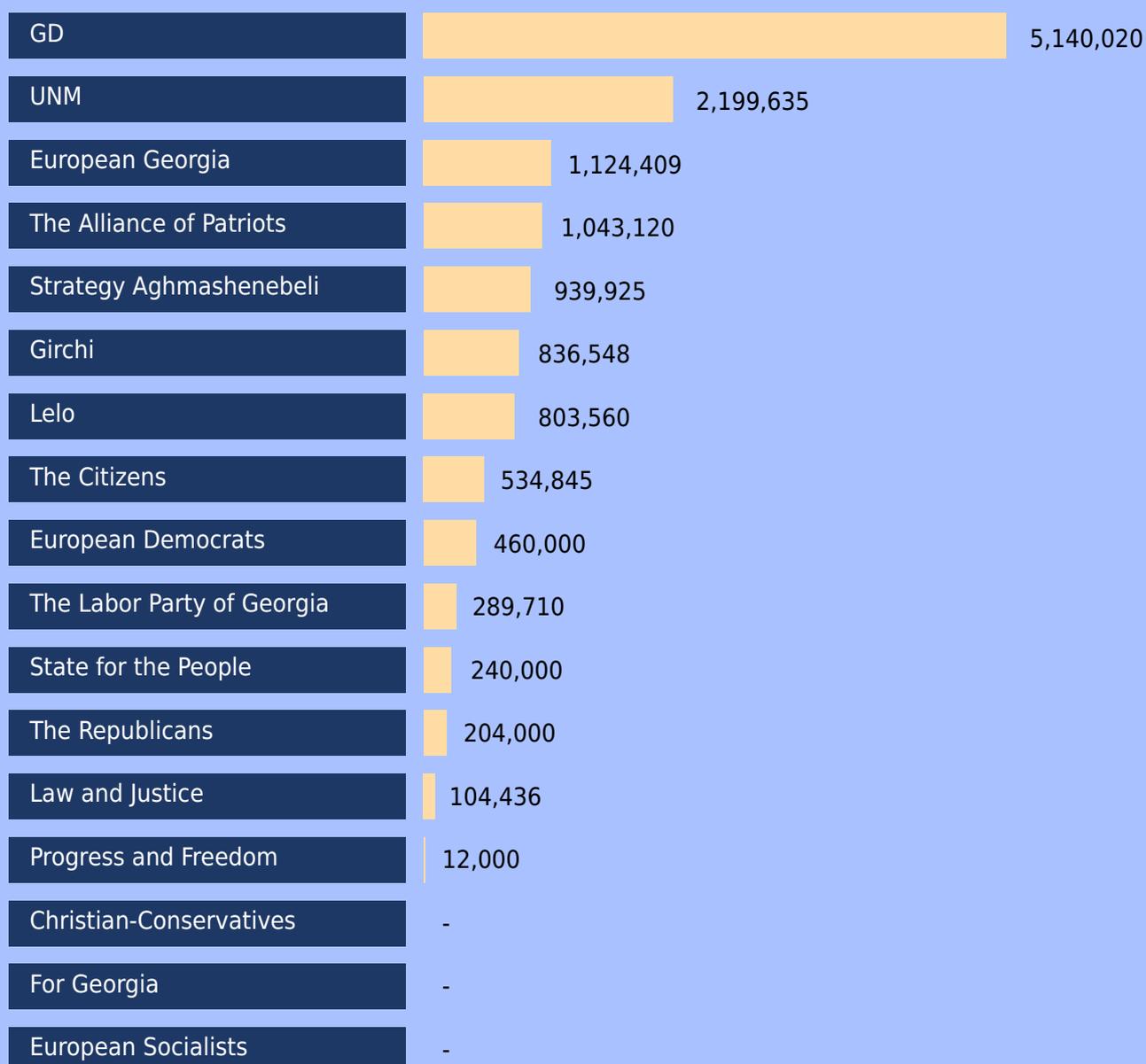


Data source: Annual financial declarations submitted by political parties to the State Audit Office

2.1. PUBLIC FUNDING

As already mentioned, the public funding accounted for **32%** (GEL 13,932,209) of party revenues in 2021. The Georgian Dream - Democratic Georgia, traditionally, got the largest portion - GEL 5,140,020 (**37%** of total public funding). The United National Movement was second (GEL 2,199,635) and the European Georgia - Movement for Freedom was third (GEL 1,124,409) (see **Figure 4**).

Figure 4. Public funding received by political parties in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

2.1.1. Gender funding

As a result of the 2020 parliamentary elections, the following 5 out of 17 studied political parties got the right to receive the gender-related financial supplement from the state: a) Giorgi Vashadze - Strategy Aghmashenebeli; B) Law and Justice; C) European Georgia - Movement for Freedom; D) the Alliance of Patriots of Georgia and e) Aleko Elisashvili – the Citizens.

Therefore, these parties received this amount in 2021 as well, however, in the financial declarations, out of 5 parties, only the Alliance of Patriots of Georgia indicated the amount of this funding (GEL 240,720) separately in the respective field, while the rest parties did not single out these funds.

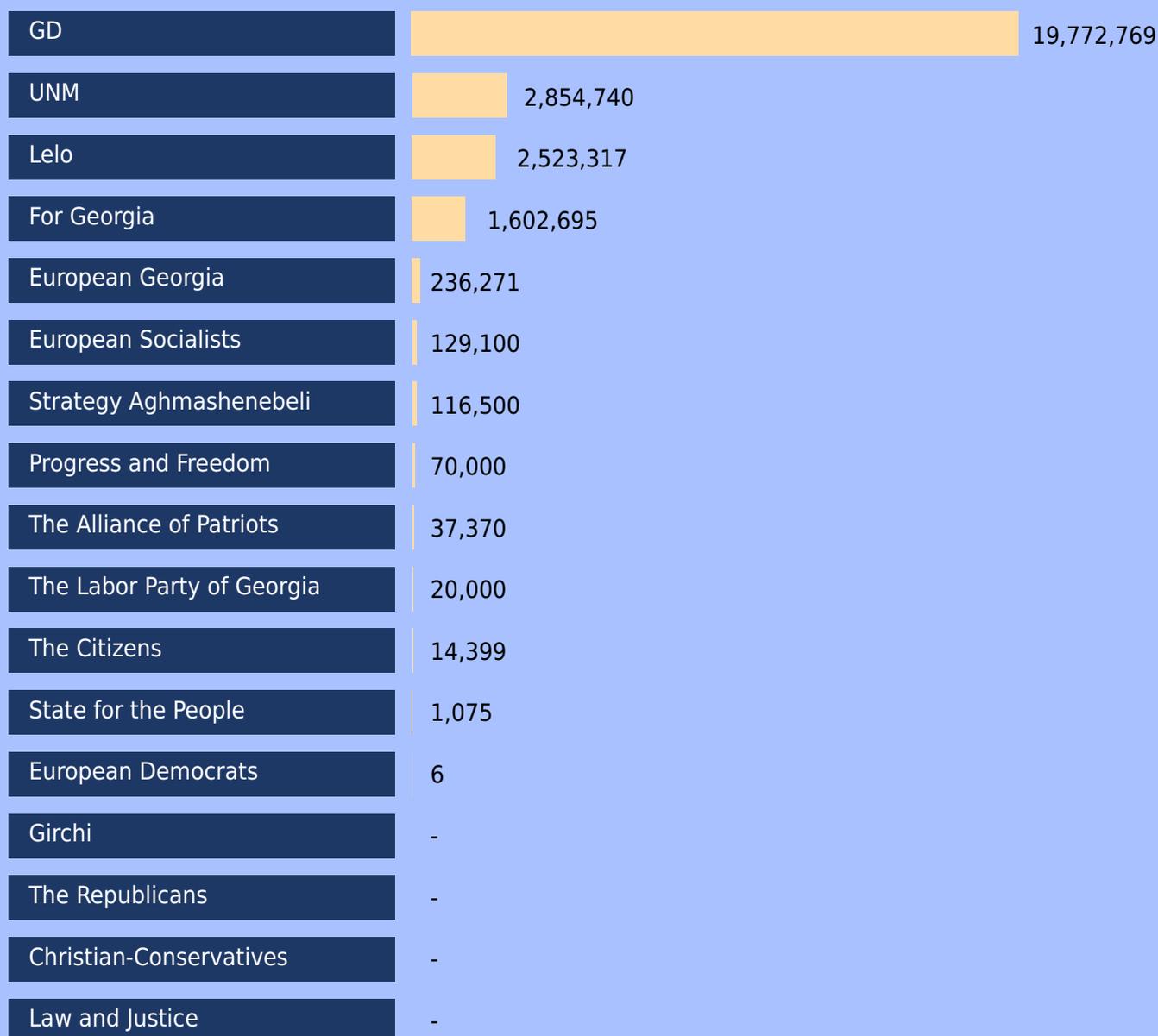
Recommendation

Those political parties that receive a gender-related supplement funding from the state budget should pay more attention to the issue of filling out financial declarations and should indicate the amount received in the appropriate field.

2.2.DONATIONS

In 2021, the studied 17 parties received a total of **GEL 27,378,242** in monetary and in-kind donations, of which **72% (GEL 19,772,769)** went to Georgian Dream - Democratic Georgia. The United National Movement was second with GEL 2,854,740 and Lelo for Georgia was third with GEL 2,523,317 (see **Figure 5**).

Figure 5. Donations received by political parties in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

96% of the total donations received by the parties in 2021 were made by individuals and **4%** by legal entities. About **27%** of donors to Georgian political parties contributed more than the average annual nominal salary in Georgia in 2021 (approximately GEL 16,289¹⁴). Such donors accounted for about **76%** of all party donations indicating their dependence on large donors.

Recommendation

Political parties should do more to raise donations through events and campaigns. Parties that fundraise in such a way are usually less reliant on a handful of key donors and find themselves entangled in corruption schemes.

2.2.1. Donations containing a high risk of political corruption

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

Political corruption is a type of corruption that refers to certain actions committed by political decision-makers. Political corruption occurs when politicians or government officials use their powers to pursue personal gain or other private interests.¹⁵

Political corruption can take many forms in political finance, including the cases where a donor receives certain benefits from the state in exchange for money donated to the ruling party/parties. Georgian legislation is quite weak in this regard and provides for only one restriction, namely, a party donor cannot be a legal entity that in the previous year or during the election year has received more than 15% of its actual income from simplified public procurement contracts. This regulation can be easily circumvented, for example by such an action: instead of a company that received simplified public procurement contracts its owner or another affiliated person can donate to a party. This could be one of the reasons why a violation of this regulation has never been detected by SAO.

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

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

Donations received by the ruling party are more likely to be accompanied by particularly high risks of political corruption because the authorities have the lever to make a deal with a potential donor in return for certain benefits. For this reason, in our research, we put a special emphasis on the donors of the Georgian Dream – Democratic Georgia. In particular, we looked at how many of them were connected with companies that received certain benefits from public procurements in 2021.

As it turned out, in 2021, the companies connected with the donors of the ruling party had won

14 National Statistics Office of Georgia, statistics on wages are available: <https://bit.ly/3OoWpbx>

15 Political Corruption Topic Guide, Transparency International, 31.10.2014: <https://bit.ly/3LtSjNg>

public tenders worth about **GEL 320 million** and simplified public procurement contracts of **GEL 19 million**. During the same period, the donors directly or indirectly affiliated with these companies **contributed over GEL 4.5 million for the benefit of the Georgian Dream - Democratic Georgia**.

Table 2 lists the top ten companies that won the largest tenders. Especially noteworthy is **Arali LLC**, which won public tenders of **GEL 62 million** in 2021, while its owner, **Demetre Tateshvili**, contributed GEL 50,000 to the ruling party. TI Georgia has previously written about large public procurement contracts of Tateshvili's companies and corruption risks in the process.¹⁶

Bondi-2009 LLC and **Monolith-2005 LLC** also were among the large state contractors. In 2021, these two companies of **Nukri Dolidze**, a former member of the Batumi City Assembly, won public tenders totaling GEL 33 million. Dolidze and his business partner Otar Putkaradze jointly donated GEL 120,000 to Georgian Dream - Democratic Georgia. It was also not the first time Nukri Dolidze became the subject of TI Georgia's interest.¹⁷

Anagi LLC was also worth mentioning that has won several major public tenders. This company won tenders worth more than **GEL 22 million** in 2021. **Davit Andghuladze**, a person connected with Anagi, and his business partner **Giorgi Chitashvili** donated a total of GEL 110,000 to the ruling party.

Road Construction Division #1 LLC and **Road Construction Division #2 LLC** are large state contractors that jointly won tenders worth **GEL 26 million** during the year. The owner of these companies, **Nugzar Abalaki**, and his business partner, **Avtandil Katchkatchishvili** jointly donated GEL 45,000 to Georgian Dream - Democratic Georgia.

Zimo LLC, a company affiliated with the former Prime Minister and founder of the ruling party **Bidzina Ivanishvili**, has also been among the major state contractors. This company won public tenders of about **GEL 13 million** during the year, and persons in various ways connected with Ivanishvili and this business group donated a total of **GEL 1 million** to the Georgian Dream - Democratic Georgia during the year.

Another company that was among the 10 largest state contractors is **Ibolia LLC**, which donated GEL 20,000 to Georgian Dream - Democratic Georgia. TI Georgia has written numerous times about the receipt of tens of millions of GEL worth of public procurement contracts in suspicious circumstances by the company, its owner, former MP **Ioseb Makrakhidze**, and his family members.¹⁸

16 *Arali, a company involved in Bidzina Ivanishvili's planned projects in Abastumani, wins tenders worth of million without competition*, TI Georgia, 22.05.2021: <https://bit.ly/3mJl9xz>

17 *The former member of Batumi City Council receives GEL 130 million from the state procurements*; TI Georgia, 11.06.2021: <https://bit.ly/3mTPAmD>

18 *Since the nomination of Ioseb Makrakhidze as the majoritarian MP candidate for Gori, companies connected with him have received more than GEL 91.8 million from tenders*, TI Georgia, 02.09.2019: <https://bit.ly/2YAnyn5>

Table 2. 10 companies connected with the donors of Georgian Dream - Democratic Georgia that have won the highest-value public tenders in 2021

#	Public procurement contractor company	Total value of public tenders won in 2021, GEL million	The donor of Georgian Dream -Democratic Georgia directly or indirectly connected with public procurement contractor company	The amount of donations made in 2021, GEL	Total amount of political donations made since 2011, GEL
1	Arali LLC	62	Demetre Tateshvili	50,000	50,000
2	Bondi-2009 LLC and Monolith-2005 LLC	33 (jointly)	Otar Phutkaradze	60,000	70,000
			Nukri Dolidze	60,000	60,000
3	Road Construction Division #1 LLC and Road Construction Division #2 LLC	26 (jointly)	Nugzar Abalaki	25,000	85,000
			Avtandil Katchakatchishvili	20,000	20,000
4	Anagi LLC	22	Davit Andghuladze	50,000	50,000
			Giorgi Chitashvili	60,000	68,000
5	Balavari LLC	18	Davit Baidurashvili	40,000	160,000
6	Shara-Gzamsheni Pirveli LLC	16	Shara-Gzamsheni Pirveli LLC	5,000	25,000
7	N(N)LE Adventure Tourism Development Association	15	Tamar Chaduneli	20,000	20,000

8	Zimo LLC	13	Aleksandre Ivanishvili	58,467	320,767
			Gia Urotadze	60,000	92,000
			Levan Marshania	40,000	49,996
			Aleksandre Maghradze	60,000	65,000
			Zurab Kiknadze	60,000	150,000
			Giorgi Tchkonia	60,000	300,000
			Malkhaz Dumbadze	25,000	100,000
			Djemal Tchkonia	45,000	55,000
			Suliko Tchkonia	60,000	140,000
			Levan Mzhavanadze	20,000	100,000
			Gia Katamadze	60,000	120,000
			Davit Balanchivadze	60,000	355,000
			Giorgi Mikaberidze	20,000	107,000
			Kakha Kobiashvili	40,000	230,000
			Davit Galuashvili	40,000	265,429
			Beka Kvaratskhelia	40,000	219,600
			Gocha Chikviladze	40,000	241,630
			Givi Lebanidze	40,000	211,800
			Zurab Gogua	45,000	233,000
			Nato Khaindrava	50,000	362,600
			Nugzar Dekanoidze	7,000	90,000
			Giorgi Dekanoidze	50,000	7,000
			Mamuka Dekanoidze	20,000	110,000
Rostomi Chabradze	15,000	95,000			
9	Ibolia LLC	13	Ibolia LLC	20,000	20,000

10	VIP + LLC and L.Da.K LLC	13 (jointly)	Mamuka Khelaia	10,000	45,000
			Levan Lursmanashvili	7,000	49,000
			Davit Kapanadze	30,000	77,000
			Teimuraz Shukakidze	15,000	32,000
			Karpezi Shukakidze	25,000	25,000
			Davit Jikia	25,000	25,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>; www.procurement.gov.ge

As for the simplified public procurement contracts received by the donors of the ruling party or their companies, the five largest such companies are given in **Table 3**. Of these five, **JSC Rustavi Central Hospital** stands out, having received simplified public procurement contracts worth **GEL 4 million** during the year. Its director, **Papuna Bakhtadze**, donated GEL 55,000 to the ruling party. It should be noted that the largest part of this amount came from a single contract worth GEL 2.5 million, which was given to the company by the LEPL¹⁹ National Health Agency as part of the management of the COVID-19 epidemic.

Another company that received simplified public procurement contracts worth about **GEL 3 million** during the year was **High-Tech Hospital Medcenter LLC**. The owner of this company, **Mukhamed Artmeladze**, donated GEL 30,000 to Georgian Dream - Democratic Georgia in 2021.

Table 3. 5 companies connected with the donors of Georgian Dream - Democratic Georgia, which got the highest-value simplified public procurement contracts in 2021

#	Public Procurement Contractor Company	The total value of simplified public procurement contracts received in 2021, million GEL	The donor of Georgian Dream - Democratic Georgia directly or indirectly affiliated with the company	The amount of donations made in 2021, GEL	Total amount of political donations made since 2011, GEL
1	JSC Rustavi Central Hospital	4	Papuna Bakhtadze	55,000	55,000
2	High-Tech Hospital Medcenter LLC	3	Mukhamed Artmeladze	30,000	30,000

¹⁹ Legal Entity of Public Law

3	Ibolia LLC	2.2	Ibolia LLC	20,000	20,000
4	Tsoetne LLC	1.6	Irakli Kervalishvili	60,000	240,000
			Teimuraz Kervalishvili	50,000	190,000
			Irakli Tateishvili	50,000	220,000
5	Sarajishvili Winery and Distiller LLC	1	Zurab Bubuteishvili	60,000	290,000
			Giorgi Bubuteishvili	60,000	170,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>; www.procurement.gov.ge

2.2.2. Risks related to donating through other persons

Following good international practice, Georgian legislation imposes ceilings on political donations. In this reality, there is a risk that other persons will be used to circumvent such limits for donating large sums of money to a party.

It is difficult to detect donations made through other people by bypassing the law, although the likelihood of such cases increases when it appears that individuals affiliated with the same business group donate to the same party on the same day or within a few days.

2.2.2.1. Large business groups donating to the ruling party

TI Georgia's reports on political finance have noted many times that, over the years, several major groups had been formed among the ruling party's donors that contributed large sums of money to Georgian Dream – Democratic Georgia almost every year. **All such groups have a common characteristic that a large part of their members donate money to the ruling party on the same day or several days apart, which raises doubts about whether such collective action is organized by someone in advance and whether the donations are made through other persons.**

Among such groups, first of all, there are people directly or indirectly connected with **Bidzina Ivanishvili**. Since 2011, these persons have been steadily donating to Georgian Dream – Democratic Georgia. In 2021, **24 persons** linked to Ivanishvili contributed a total of **GEL 1,015,467** in favor of the ruling party. The same individuals have made more than GEL 4 million in political donations since 2011 (see **Table 4**).

Table 4. The GD donors allegedly affiliated with Bidzina Ivanishvili

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL	Connection
Aleksandre Ivanishvili	58,467	January 26, August 19, October 19	320,767	Bidzina Ivanishvili's brother
Gia Urotadze	60,000	March 5, November 1	92,000	Zimo LLC
Levan Marshania	40,000	March 5	49,996	Zimo LLC
Aleksandre Maghradze	60,000	March 5, November 9	65,000	Zimo LLC
Zurab Kiknadze	60,000	October 29	150,000	Zimo LLC, Villa Abastumani LLC and Crypto Home LLC
Giorgi Tchkonია	60,000	August 9	300,000	Crypto Home LLC, Gza LLC, Favoil LLC, Your House LLC and Chateau Kvirike LLC
Malkhaz Dumbadze	25,000	August 9	100,000	Gza LLC
Djemal Tchkonია	45,000	August 9	55,000	Favoil LLC
Suliko Tchkonია	60,000	August 4	140,000	Your House LLC
Levan Mzhavanadze	20,000	August 4	100,000	Crypto Home LLC
Gia Katamadze	60,000	August 5	120,000	Chateau Kvirike LLC

Davit Balanchivadze	60,000	January 13	355,000	Villa Abastumani LLC
Giorgi Mikaberidze	20,000	March 12	107,000	JSC Insurance Company Cartu
Kakha Kobiashvili	40,000	January 25	230,000	Bidzina Ivanishvili's nephew
Davit Galuashvili	40,000	January 25	265,429	JSC Cartu Bank
Beka Kvaratskhelia	40,000	January 27	219,600	JSC Cartu Bank
Gocha Chikviladze	40,000	January 29	241,630	JSC Cartu Bank
Givi Lebanidze	40,000	January 18	211,800	JSC Cartu Bank
Zurab Gogua	45,000	January 26	233,000	JSC Cartu Bank
Nato Khaindrava	50,000	January 27	362,600	JSC Cartu Bank and Elita Burji LLC
Nugzar Dekanoidze	7,000	March 16	90,000	Elita Burji LLC and Football Club Sachkhare Chikhura
Giorgi Dekanoidze	50,000	March 16	7,000	Football Club Sachkhare Chikhura
Mamuka Dekanoidze	20,000	March 16	110,000	Football Club Sachkhare Chikhura
Rostomi Chabradze	15,000	March 5	95,000	Association Atu
Total	1,015,467		4,020,822	

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

The second group of traditionally large donors of the ruling party is affiliated with Lilo-Mall LLC. In 2021, the owners of this company and their business partners contributed a total of **GEL 670,000** in favor of Georgian Dream - Democratic Georgia (see **Table 5**). The same individuals have donated up to GEL 3 million to the party in different years.

Table 5. The owners of Lilo-Mall LLC and their business partners who have made political donations

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Davit Alibegashvili	20,000	January 21	140,000
Irakli Petriashvili	30,000	January 21	200,000
Simoni Gegelashvili	40,000	January 21	200,000
Gocha Chokoshvili	30,000	January 21	165,000
Giorgi Kvaratskhelia	20,000	March 5	55,000
Bacho Kapanadze	25,000	March 5	65,000
Tengiz Gavasheli	60,000	March 5	288,000
Davit Kapanadze	60,000	March 5	200,000
Vazha Usanetashvili	60,000	March 5	316,000
Nikoloz Usanetashvili	25,000	March 9	65,000
Ilia Shonia	60,000	March 9	304,000
Gia Andguladze	60,000	March 9	307,000
Giorgi Gagua	60,000	March 9	297,000

Levan Gagua	60,000	March 18	160,000
Davit Gagua	60,000	March 19	140,000
Total	670,000		2,902,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

Another such group includes individuals directly or indirectly affiliated with **Bombora and Children LLC**. These persons donated a total of GEL 385,000 to the ruling party in 2021. The same individuals have donated up to GEL 1 million to the party in different years (see **Table 6**).

Table 6. Political donors directly or indirectly connected with Bombora and Children LLC

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Zaza Vashakidze	30,000	February 12	80,000
Paata Bezhanishvili	10,000	February 12	30,000
Davit Chakhtauri	10,000	February 12	28,000
Zurab Gabaidze	25,000	September 6	25,000
Marine Sichevi	60,000	September 22	145,000
Giorgi Svanidze	20,000	September 24	90,000
Nino Katsiashvili	60,000	September 24	120,000
Nikoloz Pataridze	30,000	September 29	110,000

Vladimer Pataridze	20,000	September 30	25,000
Ramin Davitadze	60,000	September 30	110,000
Davit Kvatadze	60,000	October 1	250,000
Total	385,000		1,013,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

The owners of **Pace Georgia LLC** also were among the major sponsors of the ruling party. This company is implementing the Poti Port expansion project. The company owners, **Irakli** and **Teimuraz Kervalishvili**, and **Irakli Tateishvili** donated a total of GEL 160,000 on the same day, August 6, to the Georgian Dream - Democratic Georgia. In different years, these individuals have made a total of GEL 650,000 in political donations (see **Table 7**).

Table 7. Political donors connected with Pace Georgia LLC

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Irakli Kervalishvili	60,000	August 6	240,000
Teimuraz Kervalishvili	50,000	August 6	190,000
Irakli Tateishvili	50,000	August 6	220,000
Total	160,000		650,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

Other large interconnected business groups that have been among the ruling party's donors for many years are given in **Tables 8-11**.

Table 8. Political donors connected with Polimeri LLC

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Revaz Karchava	50,000	November 8	215,000
Zaza Khutsishvili	20,000	November 8	100,000
Moris Khutsishvili	30,000	November 8	135,000
Ilia Sepiashvili	50,000	November 8	205,000
Amiran Adeishvili	60,000	November 9	285,000
Total	210,000		940,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

Table 9. Political donors directly or indirectly connected with Cartu-Universal LLC

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Irakli Topadze	50,000	March 10	144,992
Giorgi Topadze (Father)	60,000	March 11	329,879
Otar Tchiladze	7,000	March 16	9,000
Ketevan Bolkvadze	5,000	March 16	5,000
Tengiz Bakradze	5,000	March 16	5,000

Nikoloz Songhulashvili	7,000	March 23	12,000
Giorgi Topadze (Son)	50,000	March 23	168,470
Total	184,000		674,341

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

Table 10. Political donors directly or indirectly connected with VIP + LLC and L.Da.K LLC

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Davit Kapanadze	30,000	July 19	77,000
Karpezi Shukakidze	25,000	July 27	25,000
Davit Jikia	25,000	July 27	25,000
Teimuraz Shukakidze	15,000	July 28	32,000
Levan Lursmanashvili	7,000	August 3	49,000
Mamuka Khelaia	10,000	August 3	45,000
Total	112,000		253,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

Table 11. Political donors directly or indirectly connected with Nova-2012 LLC

Name and last name of donor	Amount of donation, GEL	Exact date of making donation in 2021	Total amount of political donations made in every year, GEL
Ramin Davitadze	60,000	September 30	110,000
Zurab Gabaidze	25,000	September 6	25,000
Nugzar Khozrevanidze	30,000	September 6	30,000
Otar Shavadze	30,000	September 6	60,000
Ramin Shavadze	30,000	September 6	30,000
Zebur Dumbadze	60,000	August 25	123,000
Temur Mamuladze	60,000	August 2	60,000
Besik Bajelidze	60,000	August 2	150,000
Levan Mzhavanadze	60,000	August 2	120,000
Total	415,000		708,000

Data source: www.politicaldonations.ge; <https://monitoring.sao.ge/>

2.2.2.2. Donations of Tbilisi City Assembly members

On October 12, 2021 (after the first round of municipal elections), 16 candidates for the Tbilisi City Assembly seats from the Georgian Dream - Democratic Georgia donated an identical amount (5 or 10 thousand GEL) on the same day to their party. The total amount of donations was GEL 115,000. Over October 13-21, five more candidates transferred a total of GEL 65,000 to the ruling party's account.²⁰

There was a suspicion that the donations made by these individuals might have been coordinated. TI Georgia appealed to SAO on April 13, 2022, to study this case. On May 2, 2022, the SAO replied and stated that it investigated the case but it did not reveal any violations.

²⁰ *Business Interests of Tbilisi City Assembly Members and Violations in Asset Declarations*; TI Georgia, 05.05.2022: <https://bit.ly/3xzuhLT>

2.2.3. Donations allegedly mobilized through intimidation

On August 22, Mtavari Channel broadcasted a story,²¹ according to which, a source provided the information that the state representative in the Samtskhe-Javakheti region, the regional heads of the State Security Service (SSS), and the Ministry of Finance had instructed local businessmen to donate to the ruling party.

According to the story, the SSS contacted the businessmen and summoned them to the state representative's office, where the mentioned three high-rank officials instructed them to contribute a portion of the enterprise's annual turnover to the Georgian Dream - Democratic Georgia, otherwise their businesses would have problems.

According to the website of the SAO, where the donations received by the parties are published, 87 individuals²² and five legal entities²³ from Samtskhe-Javakheti donated a total of GEL 714,000 to the ruling party on August 2-16. Having such a large number of donations from one geographic area in such a short period is quite unusual. It could be indirect evidence of the story broadcasted by the Mtavari Channel. Furthermore, on 4 September, TV Pirveli aired a story²⁴ in which some of the persons, who had made the donations, effectively confirmed in conversation with journalists that the meetings and circumstances mentioned above had indeed occurred.

The legality of the donations was investigated within its authority by SAO, which reported that no violations were detected. In this case. Although there were obvious signs of a criminal offense, according to our information, the prosecutor's office has not launched an investigation.

Recommendation

The prosecutor's office should launch an investigation into the alleged fact of pressure on local businessmen in Samtskhe-Javakheti.

2.3. BANK LOANS

Only two political parties took bank loans in 2021. On September 8, European Georgia - Movement for Freedom borrowed GEL 500,000 from Liberty Bank for 12 months at an annual interest rate of 14%, while Georgian Dream - Democratic Georgia borrowed GEL 1,000,000 from Cartu Bank on November 12 for 1.5 months at an annual interest rate of 13.75%.

2.4. OTHER MONETARY REVENUES

The declaration forms filled out by the parties include the category of "other monetary revenues". In 2021, the total revenue of this category for all parties was GEL 206,577 (see **Figure 6**). The declaration form does not provide a description of this type of income, which makes the origin of these funds opaque.²⁵ This problem was particularly noticeable in the case of the Christian-Conservative Party of Georgia, which had declared a total income of GEL 100,000 and put this figure in the "other monetary revenues", making the party's income completely non-transparent.

21 Terrorized Business | "Dream" has received more than GEL 700,000 in donations in the last two weeks, Mtavari.tv, 22.08.2021, <https://mtavari.tv/news/54172-dareketebuli-biznesi-otsnebam-bolo-or-kvirashi>

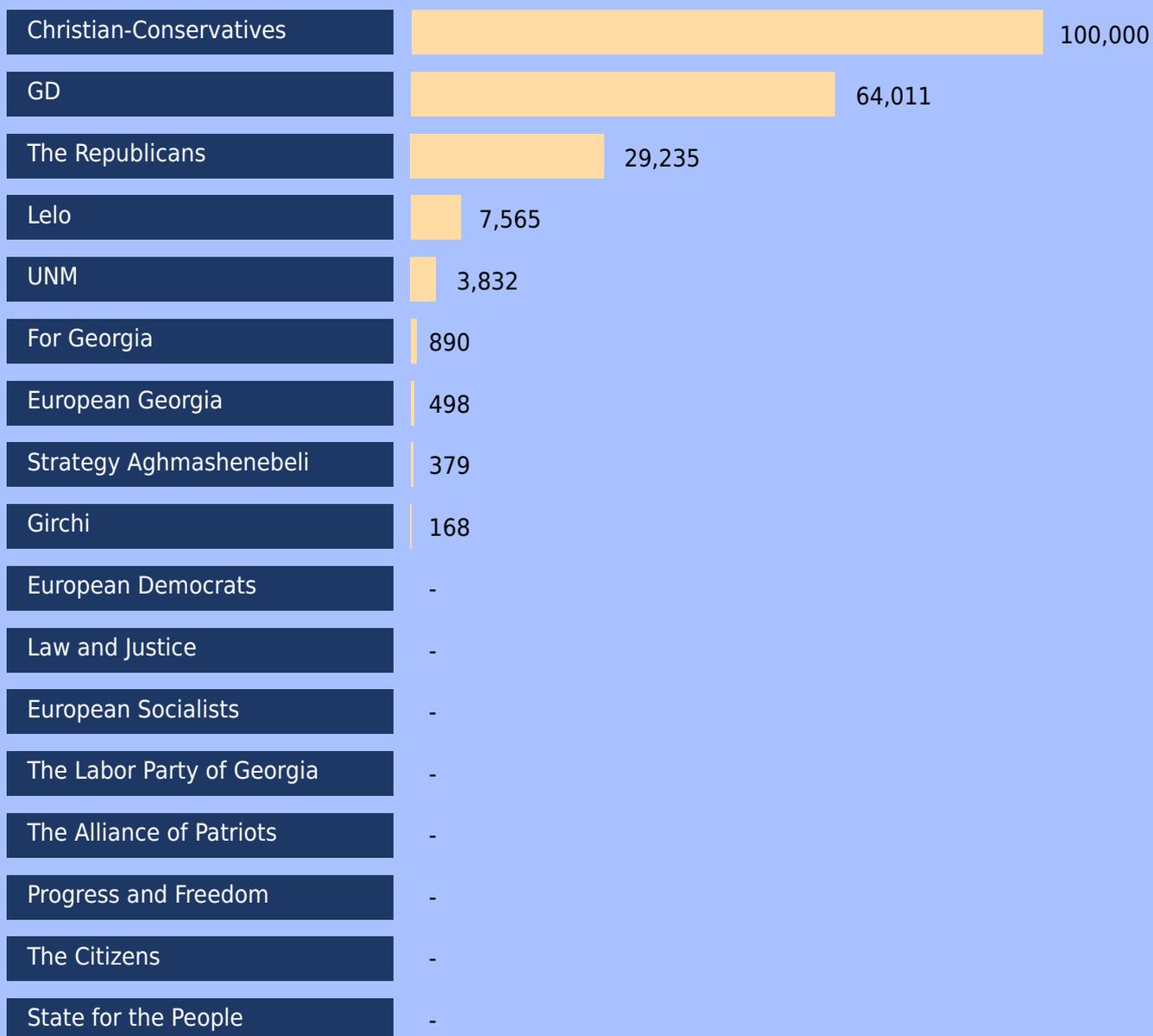
22 See the list of individual donors: <https://bit.ly/3lPtMaA>

23 See the list of legal entity donors: <https://bit.ly/3AxkWEz>

24 TV Program Nodar Meladze's Saturday", TV Pirveli, 04.09.2021: <https://bit.ly/3b1ORwK>

25 Although there is no separate form for this in a template of financial declaration, the Republican Party of Georgia has indicated on its own initiative that this is the income from renting real estate.

Figure 6. Other monetary revenues received by political parties in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

Recommendation

The SAO should add a separate form to the annual financial declaration template where parties will be able to indicate the specific origin of the amount (if any) in the “other monetary revenue” category.

VI. EXPENDITURES OF POLITICAL PARTIES

1. REGULATORY FRAMEWORK OF EXPENDITURES

According to the legislation, political parties are required to provide SAO with detailed reports on their expenses. The SAO is obligated to publish these reports on its website. The Law of Georgia on Political Associations of Citizens sets ceilings for political party expenditures: a total annual sum of all expenditures made by a political party/election subject cannot be more than **0.1%** of Georgia's gross domestic product (GDP) for the previous year. This figure includes the expenses of a political party/election subject and other individuals/entities who have made payments in their support. Expenditures include expenses for financing campaigns and other events, salaries, expenses for business trips, and other events.

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

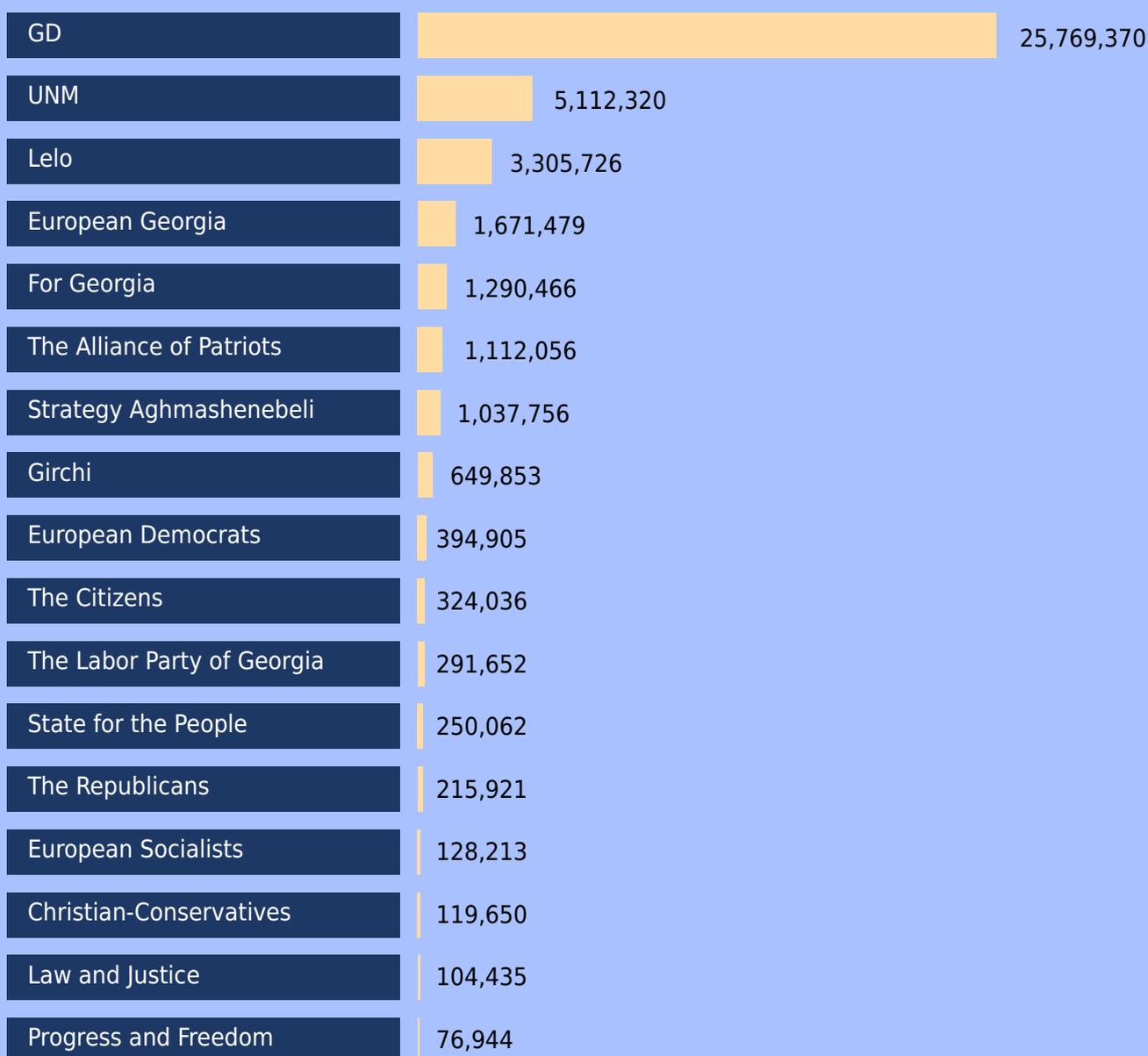
2. EXPENDITURES OF POLITICAL PARTIES: REVIEW AND ANALYSIS

According to the annual declarations submitted by the parties to SAO, the studied 17 political parties spent a total of **GEL 41,854,843** in 2021, of which **62% - GEL 25,769,370** was spent by the ruling Georgian Dream - Democratic Georgia party. The United National Movement was second with GEL 5,112,320, and Lelo for Georgia was third with GEL 3,305,726 (see **Figure 7**).

This data shows that the ruling party has spent much more than other parties. As for the ceiling of expenditures allowed by law, by 2021 it was around GEL **49.3 million**²⁶. Therefore, no party has exceeded it.

²⁶ 0.1% of Georgia's nominal GDP in 2020: <https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>

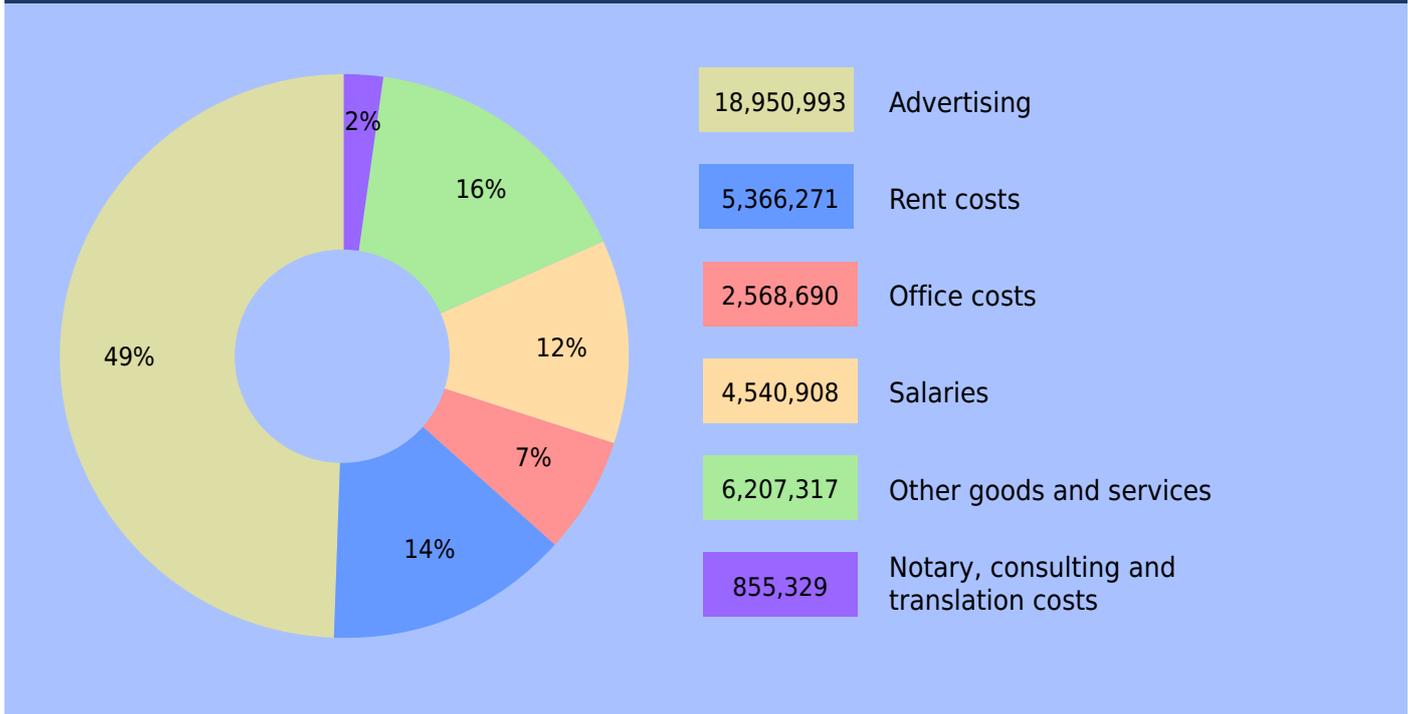
Figure 7. Total expenditures of political parties in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

The largest expenses of parties fell under the following categories: a) advertising; b) salaries; c) rent of real and movable property; d) office costs; e) costs of organizing congresses or other events; f) costs of the notary, consulting, and translation services (see **Figure 8**).

Figure 8. Expenditures of political parties in 2021, by expense categories GEL, %



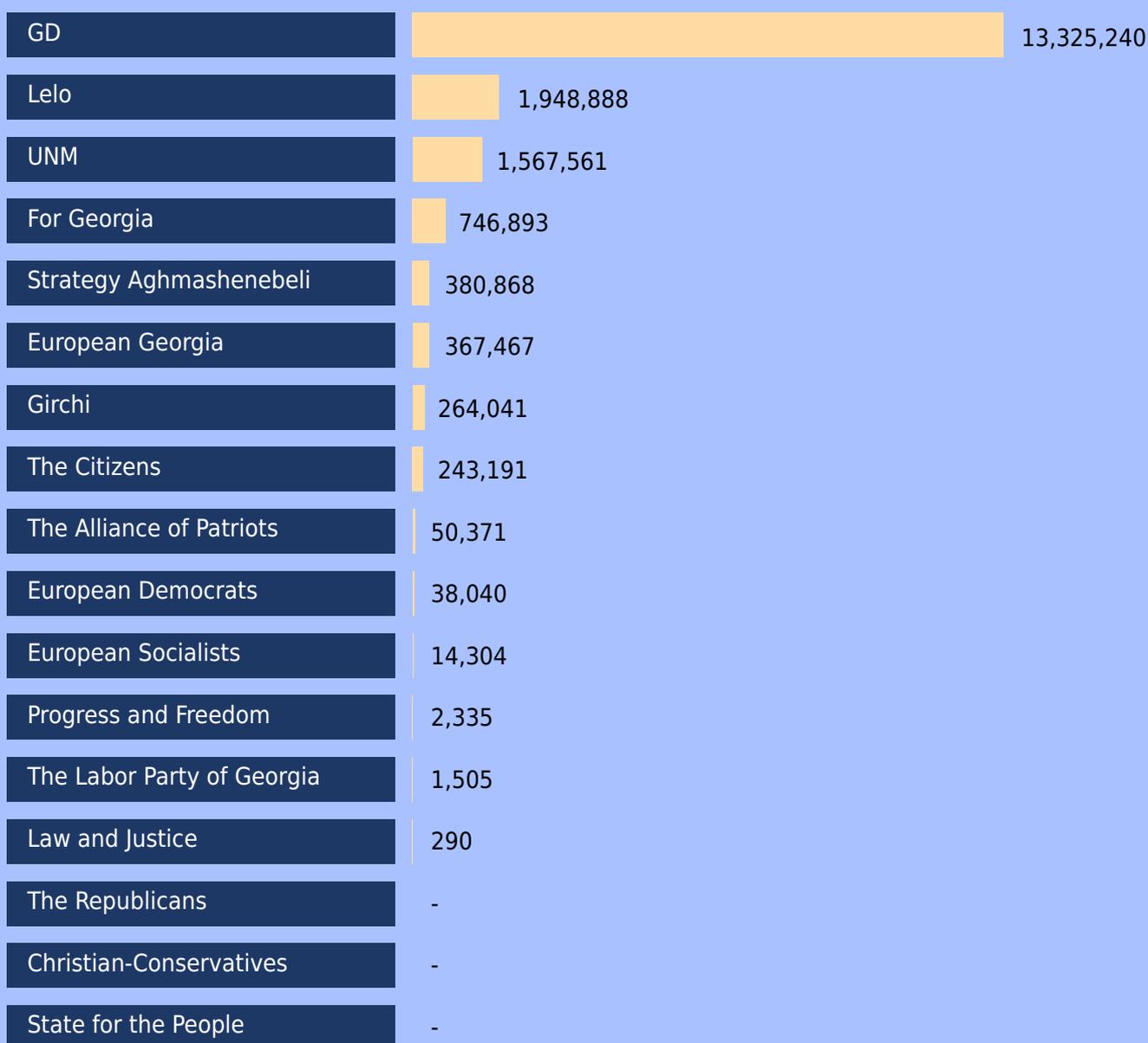
Data source: Annual financial declarations submitted by political parties to the State Audit Office

2.1. ADVERTISING EXPENSES

Traditionally, advertising expenses are high during election years. In 2021, the funds spent for this purpose also covered a substantial part (**49%**) of the total expenses of the parties and amounted to **GEL 18,950,993**.

The Georgian Dream - Democratic Georgia, spent **GEL 13,325,240** on advertising, which was **70%** of all parties' advertising spending. Lelo for Georgia was second (GEL 1,948,888), and the United National Movement was third with GEL 1,567,561 (see **Figure 9**).

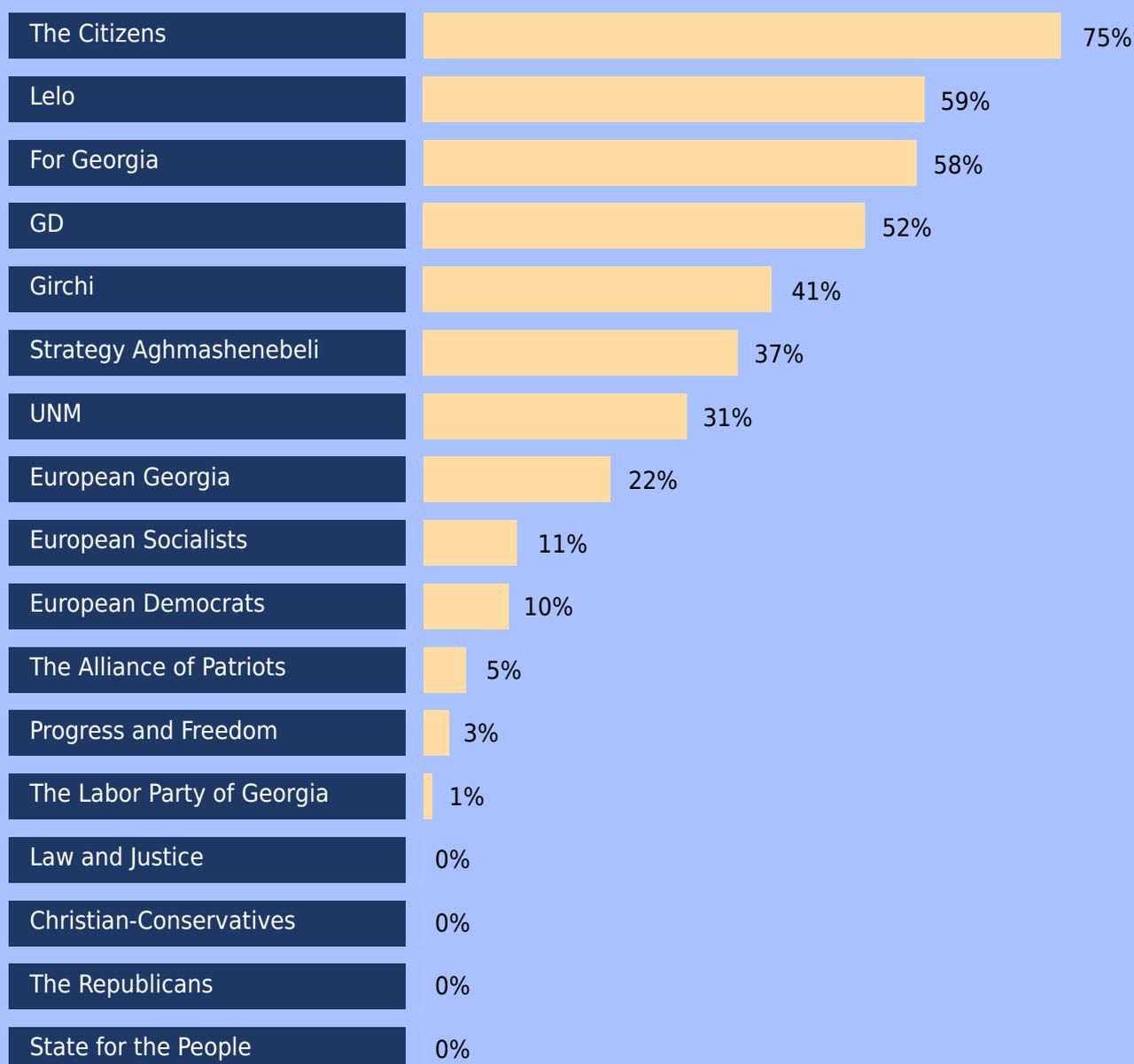
Figure 9. Advertising expenses of political parties in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

It should be noted that the party Aleko Elisashvili – the Citizens spent the largest share on advertising - **75%** of its total funds. For comparison, the ruling party spent 52% of its total funds on advertising (see **Figure 10**).

Figure 10. Share of advertising expenses by political parties in their total expenditures in 2021

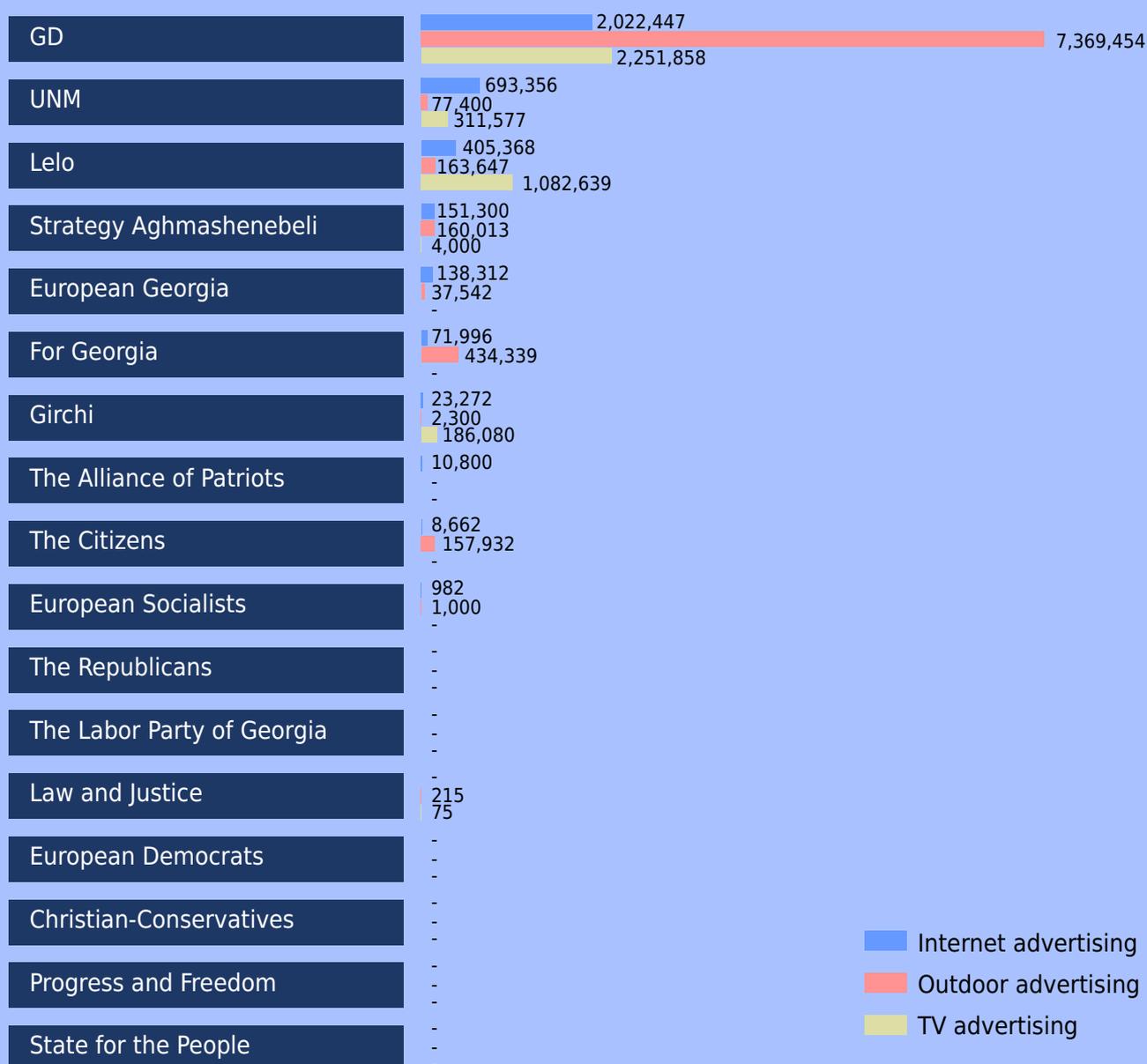


Data source: Annual financial declarations submitted by political parties to the State Audit Office

As for the categories of advertising, the largest share was spent on outdoor advertising (GEL 8,403,841, **44%** of the total advertising expenses). However, 87% of this amount was spent by one party - Georgian Dream - Democratic Georgia.

The parties spent a total of GEL 3,836,229 and 3,526,495 on TV and Internet advertising, respectively (see **Figure 11**).

Figure 11. Advertising expenses of political parties made in 2021, by types of advertising, GEL

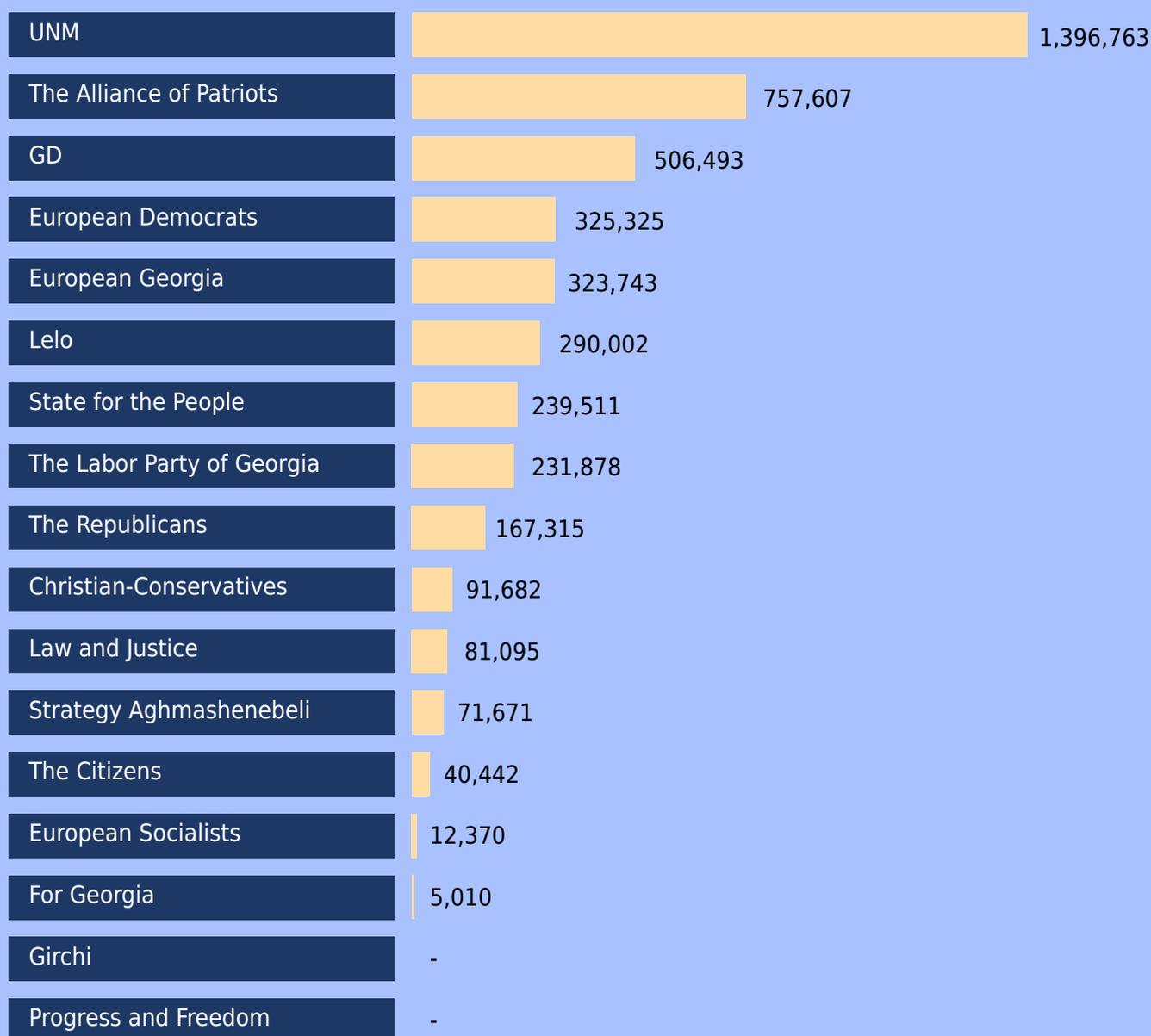


Data source: Annual financial declarations submitted by political parties to the State Audit Office

2.2. SALARY EXPENSES

The studied 17 political parties spent a total of **GEL 4,540,908** on salaries in 2021, which was **12%** of their total expenditure (see **Figure 12**). This category includes fixed salaries, bonuses, and remuneration of part-time employees, which, as a rule, also includes salaries paid to party coordinators or activists during the election period.

Figure 12. Expenses of political parties on salaries in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

If we look at the ratio between salary expenses and overall expenditures of political parties (see **Figure 13**), no salary costs of two parties - Progress and Freedom and the New Political Center - Girchi would grab public attention. In addition, questions could be raised about the low salary costs incurred by the Georgian Dream - Democratic Georgia and For Georgia party.

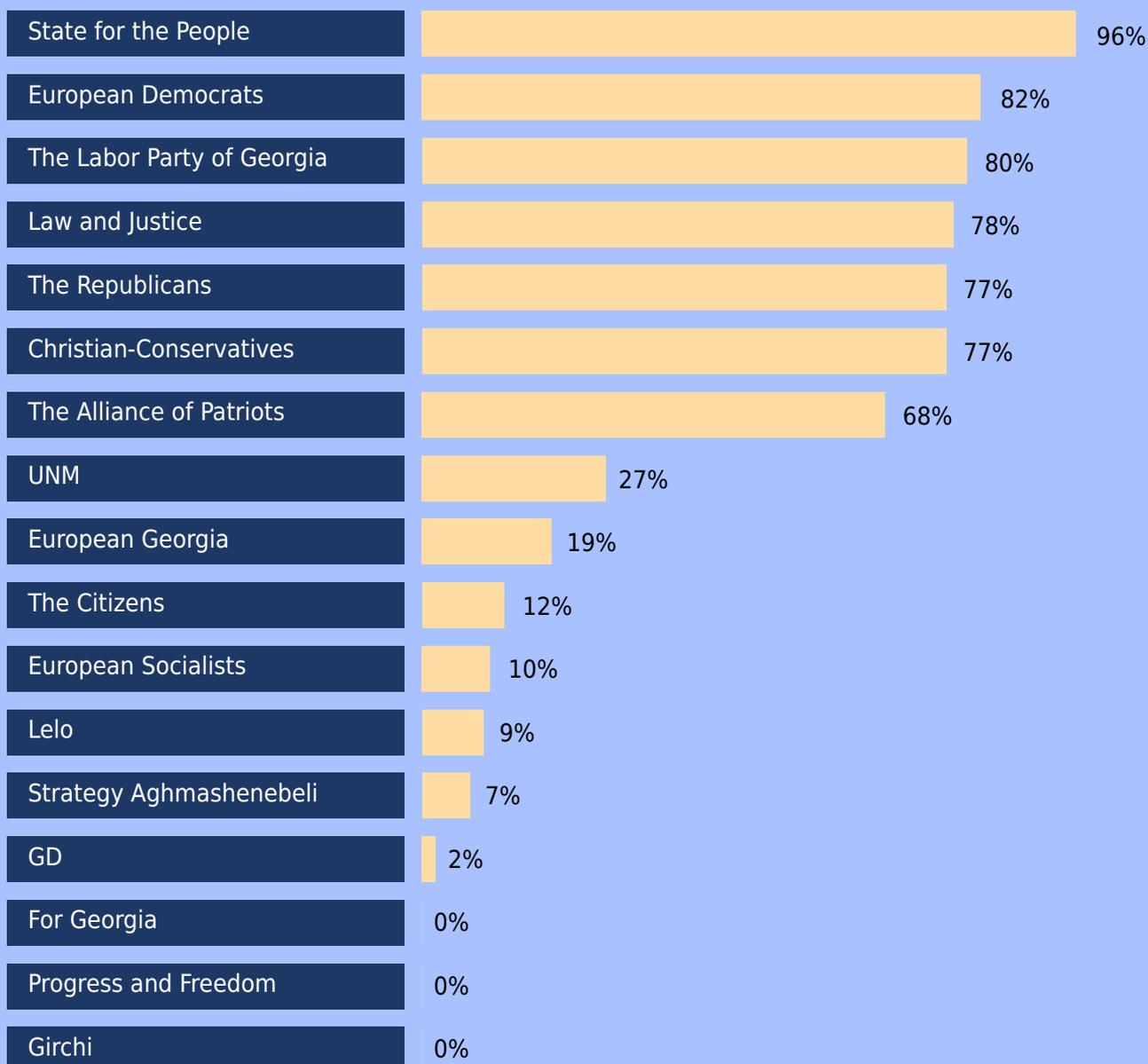
Particularly noteworthy is the case of the ruling party, which spend the most during the year - up to GEL 26 million, but the salary expenses amounted to only 2% (GEL 506,493) of its expenses.

In general, it is particularly easy for political parties to hide their salary costs, as it is difficult to oversee them, therefore, this cost category is associated with particularly high risks of political corruption.

Recommendation

The SAO should thoroughly study the information provided by political parties on salary costs and find out why some parties have declared unrealistically small amounts of money.

Figure 13. Share of salary expenses of political parties in their total expenditures in 2021

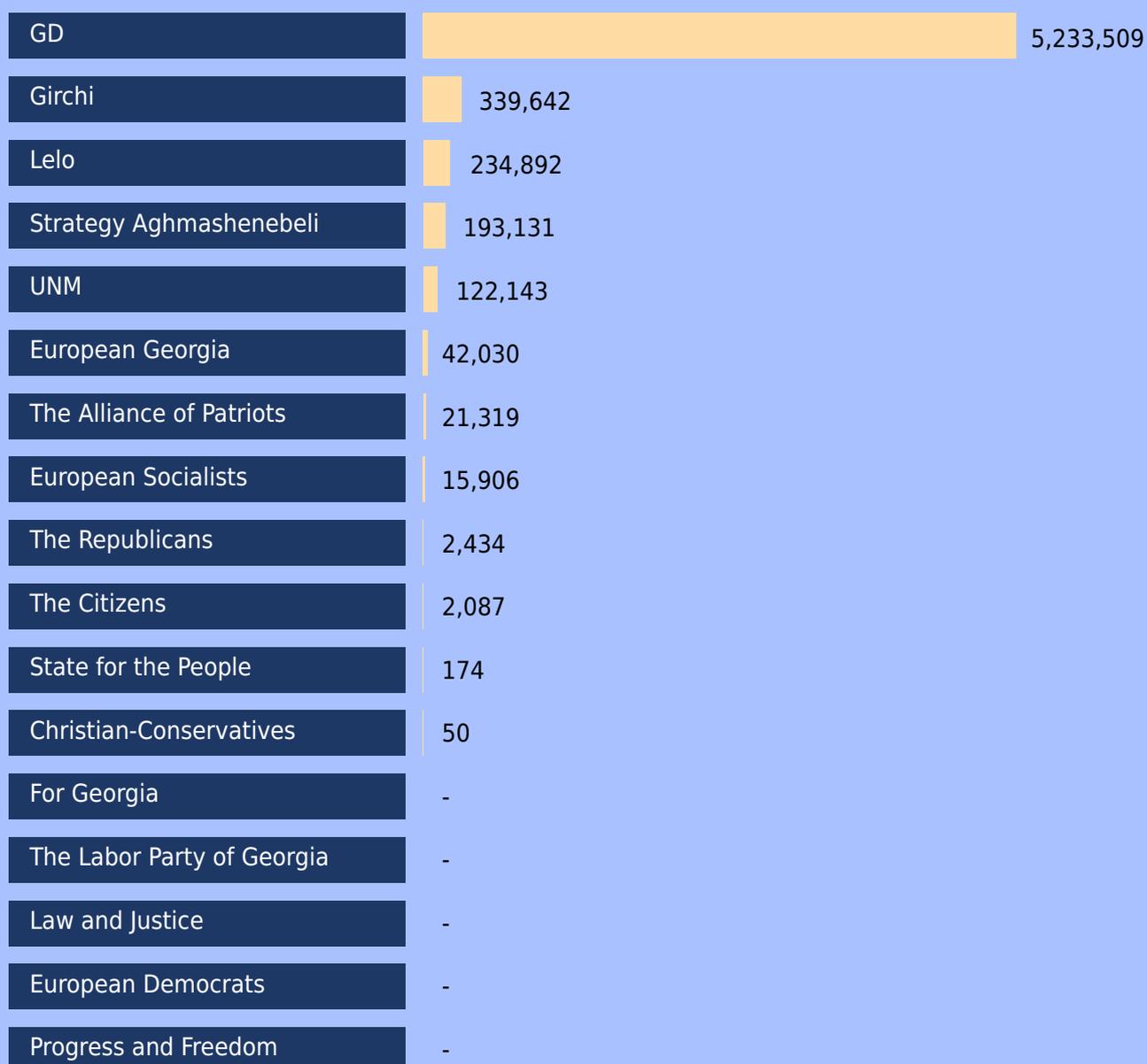


Data source: Annual financial declarations submitted by political parties to the State Audit Office

2.3. OTHER EXPENSES

From other types of expenses enlisted in financial declarations, the category “other goods and services” is worth mentioning. The studied political parties had a total of **GEL 6,207,317** under this expense category in 2021. Most of this money (84%) was spent by the Georgian Dream - Democratic Georgia (see **Figure 14**).

Figure 14. Expenses made by political parties in the category "other goods and services" in 2021, GEL



Data source: Annual financial declarations submitted by political parties to the State Audit Office

Political parties must break down the expenses in this category in separate forms²⁷, so it is more or less possible to see exactly what this amount was spent on.

According to the financial declaration of Georgian Dream - Democratic Georgia, the largest part of the GEL 5,233,509 indicated in this category – GEL 2,213,892 was the cost of lobbying services. The ruling party also spent a significant amount of money on “event expenses” (GEL 2,059,901), “meeting arrangements” (GEL 448,624) and “media services” (GEL 322,149). **Although the listed costs are indicated in the special forms of the declaration, as**

27 Annual Financial Declaration Forms 4.1 and 5.1 are designed for explanatory notes on other expenses and other goods and services, see article 2 of the order №012036 / 21 of the Auditor General of August 5, 2021 “on regulating some issues related to the transparency of political finance”: <https://matsne.gov.ge/ka/document/view/5237330?publication=0>

can be seen from the titles of the broken costs, a large part of them are still quite general and need further explanation.

As for the other parties, for example, the New Political Center - Girchi indicated an expense of GEL 339,642 in this category, although it did not provide additional information in the special forms to verify this expenditure, **thus violating the requirements of the law.**

It should be noted that the New Political Center - Girchi has already been fined once by SAO for incorrectly filling in this record in the interim declaration of the election period. According to SAO, *“on September 6-7, 2021, Girchi party fictitiously transferred GEL 324,174 to a sole proprietor Otar Zakalashvili for web development services, after which it withdrew the amount and converted it into US dollars. On September 8, a Porsche Taycan was purchased for \$ 100,000 in cash for a further raffle. By this action, the party Girchi violated the established rule of non-cash payment. Girchi did not declare the cost of purchasing Porsche Taycan and submitted an incorrect financial report to the State Audit Office, thus violating the requirement of the law on accountability.”*²⁸ After the fine,²⁹ the party declared this expense (GEL 339,643) in the final election campaign declaration and indicated its purpose in the explanation form.³⁰ However, as mentioned above, this expense was still given in the party’s annual financial declaration without explanation.³¹

The party Lelo for Georgia indicated GEL 234,892 in this expense category and explained it in the relevant forms following the law, which shows that the largest sums were spent on “TV campaign planning” (GEL 61,993), “various fines” (GEL 40,290) and “social research” (GEL 34,756).

28 *Final report on financial monitoring for October 2, 2021 municipal elections*, Political Finances Monitoring Department of the State Audit Office of Georgia, 4.02.2022: <https://bit.ly/3xZoSzi>

29 Girchi was fined double the amount of the prohibited donation (GEL 19,268) and at the same time was forced to transfer the prohibited donation (GEL 9,634) to the state budget

30 The main part of the amount is the “cost of the car”, see Summary Financial Declaration of the 2021 Election Period, p. 7, <https://bit.ly/3jYsDgt>

31 See the New Political Center – Girchi’s declaration, p. 15-16, <https://bit.ly/3jX3JxF>

VII. TRANSPARENCY AND OVERSIGHT OF POLITICAL FINANCE

1. LEGISLATIVE FRAMEWORK

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

As was mentioned, the Law on Political Associations of Citizens regulates the issue of financial accountability of political parties to the SAO. In particular, the legislation sets an obligation to submit reports on both periodic and specific electoral processes. As already mentioned, before February 1 of each year, political parties send financial reports of the last year to the SAO together with the conclusion of the auditor (audit firm). A financial declaration reflects a political party's annual revenues and expenditures, as well as its assets and liabilities. Each declaration includes several report forms to be completed following the Auditor General's August 5, 2021 Order #012036/21. In addition, the SAO established forms for submitting information on donations and withdrawals from the account.

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

Article 34² of the Law on Political Associations of Citizens prescribes sanctions in various cases of violation when the authorized persons of the SAO draw up a protocol on administrative offenses and send it to the court for consideration:

- In case of prohibited donation, a fine of double the amount and an obligation to transfer the received amount to the budget is envisaged;
- In case of violation of general requirements of the law, a fine of GEL 5,000 is set;
- A fine of GEL 1,000 is imposed on individuals and GEL 2,000 - on legal entities if they do not fulfill the obligation to provide the information required by law.

2. STATE AUDIT OFFICE'S SUPERVISORY ACTIVITIES

The 2021 Register of Violations of SAO's Political Finances Monitoring Department provides detailed Information on detected violations and responses by this agency.³² According to this registry, in 2021, the SAO took 35 administrative offense cases to the Tbilisi City Court, including 10 cases of political parties, one legal entity, one natural person, and 18 independent candidates. Violators were verbally reprimanded in 2 cases, warned in a written form in 22 cases, and fined in 11 cases by a total amount of GEL 215,057 and with an obligation to transfer GEL 57,228 to the state budget. Of the 17 parties studied, only one turned out to be a lawbreaker - the New Political Center - Girchi.³³

32 See the link: <https://bit.ly/399MHKU>

33 For more details on the violations detected in 2021 and relevant responses, see the link: <https://bit.ly/3v0oNd3>

In addition, on February 4, 2022, the SAO published the final report³⁴ on the financial monitoring of the 2021 municipal elections, which provides the results of the monitoring conducted directly during the election period. This report was preceded by a similar type of interim report published in September 2021.³⁵

Among the cases mentioned in the final report, there was the action of SAO that checked the legality of the above-mentioned donations made by 87 individuals and 5 legal entities from Samtskhe-Javakheti in August 2021. The SAO requested the tax information of the donors, as well as information on the banking transactions of 12 persons, and interviewed one person. As a result, the SAO concluded that the donations were not made in violation of the requirements of the law. In response to this case, TI Georgia has recently emphasized that the SAO did not have the appropriate powers and legal leverage to investigate such cases.³⁶ This applies not only to this case but also to a large number of possible cases of political corruption.

The SAO's management has been clarifying for several years that the function of monitoring political finances is incompatible with this agency's core activities and carries reputation risk. The agency's management also has been noting that under the current mandate, the SAO does not have the leverage and resources to investigate possible cases of political corruption. Therefore, it is necessary to carry out such an extensive investigative function by an agency that will have the authority and resources to conduct an investigation. TI Georgia also shares this idea. For this reason, the organization took an active part in the development of a relevant draft law that provides for the creation of an independent anti-corruption agency.³⁷ This agency will be equipped with investigative powers and will also oversee political party finance together with other matters.

Recommendation

An independent anti-corruption agency should be established. This agency should be equipped with investigative powers and, among other things, should oversee the financing of political parties.

34 *Final report on financial monitoring for October 2, 2021 municipal elections*, Political Finances Monitoring Department of the State Audit Office of Georgia, 4.02.2022: <https://bit.ly/3xZoSzi>

35 *Interim Financial Monitoring Report of Municipal Elections for October 2, 2021*, Political Finances Monitoring Department of the State Audit Office, 29.09.2021, <https://cutt.ly/ROIVRAX>

36 *2021 Municipal Elections in Georgia: Campaign Finances (Final Report)*, TI Georgia, 21.02.2022, p. 44, <https://bit.ly/3tDTP9l>

37 A new legislative initiative, if supported, to greatly improve anti-corruption capacity of Georgia, TI Georgia, 01/09/2020: <https://bit.ly/383EeWF>

ABBREVIATIONS

GEL - Georgian Lari

JSC - Joint Stock Company

LEPL - Legal Entity of Public Law

LLC - Limited Liability Company

MP - Member of Parliament

OSCE / ODIHR - Office for Democratic Institutions and Human Rights of Organization for Security and Co-operation in Europe

SAO - State Audit Office of Georgia

SSS - State Security Service

TI Georgia - Transparency International Georgia