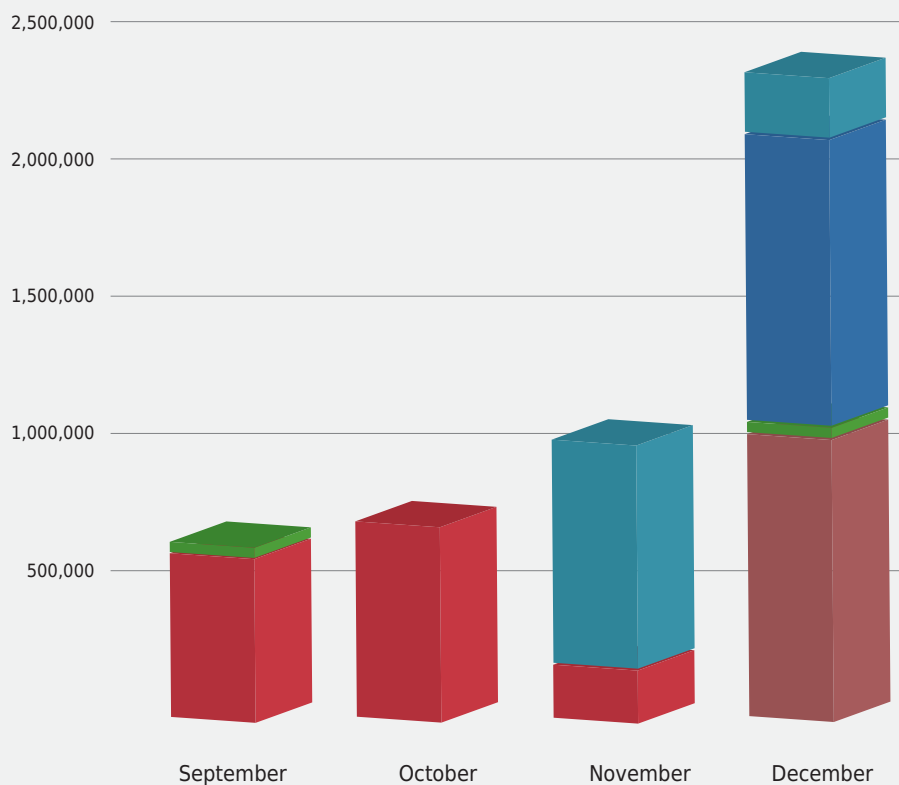




საერთაშორისო გამჭვირვალობა – საქართველო
TRANSPARENCY INTERNATIONAL GEORGIA

FINANCES OF POLITICAL PARTIES FOR THE YEAR 2011



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FINANCES OF POLITICAL PARTIES FOR THE YEAR 2011

Introduction

The present research highlights issues related to transparency of party financing as well as the accountability of parties. It gives the analysis of party revenues and expenses based on the 2011 reports that are correlated with the reports of the period from 2007 to 2010. We have based our selection on 13 political unions that have received parliament mandates and hence the state financing as a result of the 2008 parliamentary elections. The 13 parties¹ are:

1. The New Rights;
2. The United National Movement;
3. The Conservative Party;
4. European Democrats (We Ourselves);
5. The Christian-Democratic Movement;
6. Industry will save Georgia;
7. The Republican Party;
8. Georgia's Way;
9. The National Forum;
10. The Labour Party;
11. The Movement for United Georgia;
12. Kartuli Dasi;
13. People's Party.

The report comprises three parts: the first chapter reviews revenues of political parties while the second deals with the expenses. The last chapter sums up the basic findings and trends of the research; it also offers recommendations to resolve the existing problems.

¹ Originally state financing was received by 14 political unions, later on, however, Freedom Party ceased to exist.

I. Revenues

This part of the research discusses the basic categories of the revenues of political parties: 1. state financing; 2. membership fees and 3. donations. The revenues discussed pertain to 2011 and are compared to the 2007-2010 experience. It stands to note that up until December 28, 2011 Georgia had a different legal structure. In particular, party property and revenues consisted of: a) membership fees; b) donations received from natural persons and legal entities each not exceeding GEL 30,000 and GEL 100,000 respectively; c) funds assigned by the state – in the form of budgetary financing in proportion to the received votes and mandates, as well as financing received from the Legal Entity of Public Law Center of Electoral Systems Development, Reforms and Trainings (hereinafter foundation); d) funds received through other activities allowed by law, including production/dissemination of party symbols, organizing lectures and exhibitions, publications, public events and other activities².

Under the [amendments](#)³ adopted in 2011, an annual upper limit of GEL 1,200 was imposed for membership fees; donations by legal entities were banned; the ceiling for donations by individuals was raised to GEL 60,000; an upper limit was imposed for incomes received through other activities – amounting to annual GEL 60,000. Under the May 8, 2012 [amendments](#)⁴, targeted funding was added to the state financing for covering TV advertisement costs during the election year.

1. State Financing

The standards for receiving state financing (except for the targeted financing introduced only in 2012) remained unchanged in 2011. Under the Organic Law of Georgia on the Political Unions of Citizens, political unions receive three types of financing from the state: 1) through direct transfer to parties⁵; 2) via lepl the Center of Electoral Systems Development, Reforms and Trainings⁶,

² Chapter 3 of the law of the Organic Law of Georgia on Political Union of Citizens (31 October, 1997, #1028-Ib, published in Herald of the Parliament of Georgia, #45, 21.11.1997. Hereinafter referred to as the Organic Law of Georgia “On Political Union of Citizens”) effective until 28 December, 2011.

³ Organic Law of amendments to Organic Law of Georgia “On Political Union of Citizens” №5661 of December 28, 2011, - website, 29.12.2011.

https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=1542609

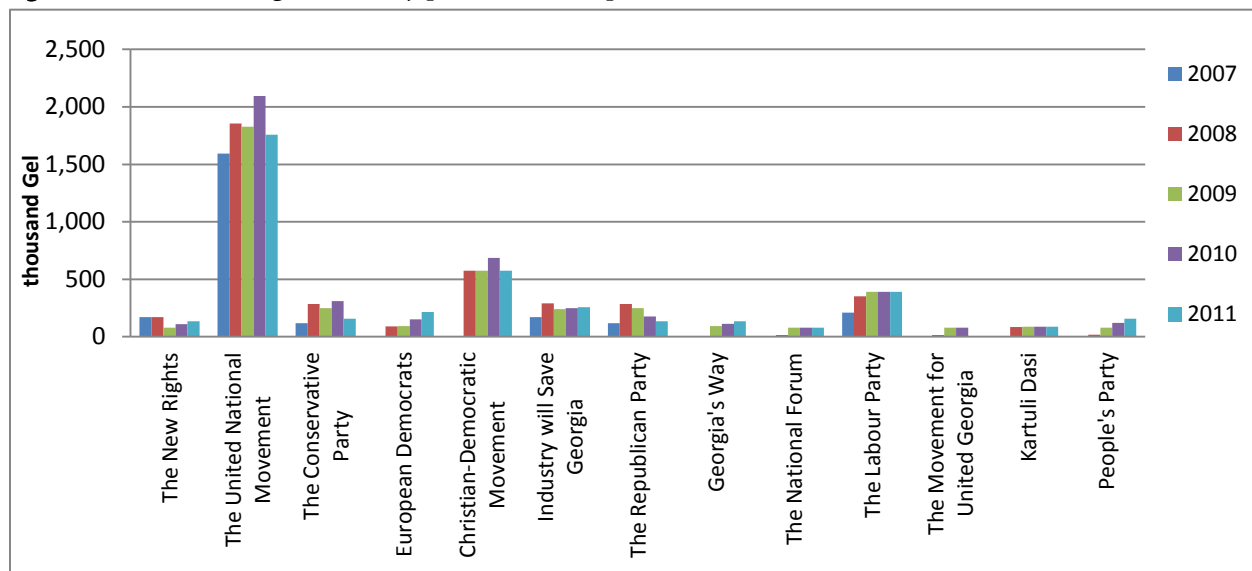
⁴ Organic Law of amendments to Organic Law of Georgia “On Political Union of Citizens” №6116, of May 8, 2012 – website, 29.05.2012.

https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=1661429

⁵ The amount of the state financing to be received by a party is calculated by a formula according to which additional financing is added to the basic financing in proportion to the obtained mandates in the Parliament and votes received during elections. This formula as defined in paragraph 4 of the article 30 of the Organic Law

distribution of the sums among parties⁷, and 3) through targeted financing of TV advertisements only during the election year⁸.

Figure 1. State financing received by parties over the period from 2007 to 2009.



Starting from 2009 in addition to the direct budget financing, parties receive additional financing from the Center of Electoral Systems Development, Reforms and Trainings. This sum is distributed

of Georgia on Political Unions of Citizens is as follows: $Z=B+(M*600*12)+(L*100*12)+(V*1,5)+(W*1)$ Where, Z is the amount of state financing to be received by a party, B is the amount of basic funding; M – is the number of the MPs up to 30 elected from a proportional list, L is the number of the MPs above 30 elected through the proportional system, V is the number of the received votes under 200 000; W - number of votes above 200 000. Funds from the state budget which are to be directly distributed among political parties go to the political parties, which during the last parliamentary elections overcame the 4% threshold, or parties which during the last local self-government elections overcame the 3% threshold. The amount of the basic funding is GEL 150,000 annually. If an election subject (party/electoral bloc) overcomes 8% threshold in the last parliamentary elections, or 6% threshold in the last local self-government elections, the basic funding shall equal to GEL 300,000.

⁶ Under paragraph 1 of the article 30¹ of the Organic Law of Georgia on Political Unions of Citizens the aim of the fund is to contribute to the development of parties and the NGO sector and creation of a healthy and competitive political system.

⁷ Ib. paragraph 2 of the article 29¹.

⁸ Article 30.12 of the Law. Only those political unions become eligible for financing who receive funding based on the results of the last general elections. Under this paragraph, in order to calculate the amount of the sum allocated for a certain political union, the number of votes received by the corresponding election subject is multiplied by three and then divided into the number of the political unions of the election subject (the total sum allotted to the political unions of an election subject should not exceed GEL 600,000)

among parties in proportion⁹ to basic funding¹⁰. Sums from the fund are released only for financing researches, studies, conferences, official visits and regional projects (*cf. Figure 1 in the annex*).

2. Membership fees

Membership fees constitute a part of a party's property. In 2011 membership fees did not fall under detailed regulation and there were no limits imposed. Under legislative amendments passed in December 2011, an upper limit of GEL 1,200 per year was introduced for membership fees. This restriction is beneficial as without the upper limit membership fees could be used to bypass the regulations set up for donations¹¹.

It should be noted that only several parties had been receiving revenues from this source and the sums received in this way comprised only a small portion of the annual income of those parties – from 5% to 10%, with the exception of the revenues that the New Rights received over the period from 2008 to 2010 when their membership fees made up 46%, 60%, and 30% of the overall party financing respectively, albeit the same party did not have any sums whatsoever received through membership fees in 2011. Only one party received membership fees in 2012, that party being Christian-Democrat Movement and the sum made up only 2% (GEL 13,748) of its revenues.

For detailed information cf. the annexed figure 2. Membership fees of political parties over the period from 2007 to 2011.

⁹ article 30¹ of the Organic Law of Georgia on Political Unions of Citizens

¹⁰ Basic financing is a fixed amount provided to political parties as direct financing alongside additional sums. Cf. reference 5.

¹¹ According to the OSCE monitoring second round recommendations: “there are no restrictions on the amount of membership fees and this allows for the possibility to circumvent the upper limit imposed for donations and channel illicit donations” (recommendation 3.7) under paragraph 4 of the recommendations, it is advisable to impose an upper limit for membership fees in order to ensure transparency of financing. www.oecd.org/dataoecd/8/6/44997416.pdf Analogous recommendation is repeated in 2011 GRECO (Group of Countries Against Corruption) evaluation - Council of Europe, Group of States against Corruption – GRECO, Evaluation Report on Georgia on transparency of party financing (Greco Eval III Rep (2010) 12 E; Theme II) (paragraph 67).

3. Donations

Prior to the adoption of the amendments on December 28 2011, parties were entitled to receive donations from individual persons and legal entities in the following manner:

Annual financial and material donations to parties should not have been channeled through the following sources: a) natural persons or legal entities of other countries, international organizations and movements (except when conducting lectures, seminars, and organizing other similar public events); b) government body, legal entity of public law, government organization and an enterprise in which the government holds over 10% shares, except when prescribed by the law; c) noncommercial legal entity and religious organization (except when conducting lectures, seminars, and organizing other similar events); d) a person not having citizenship, and e) anonymously¹².

A legal entity making a contribution was required to indicate its name and legal address, while an individual was required to indicate his/her full name, address, and ID (passport of a Georgian citizen) and personal numbers. Monetary funds channeled without indicating the above data would have been deemed anonymous and would become subject to immediate transfer to the state budget. It is worthy of note that when publishing the 2011 financial reports, the State Audit Office (former Chamber of Control) redacted the addresses of the individuals making contributions. Transparency International Georgia [requested](#) to make the information public pursuant to law and requested reports from the State Audit Office¹³. The website of the noted organization has the addresses redacted to this day. As for the National Movement, their financial statements, based on the material we were supplied, have no indication about the addressees at all. Furthermore, under May 8, 2012 legislative amendments, it is no longer required to indicate the address of the place of registration of the individual making a donation. We consider that this amendment will pose an obstacle to ensuring financial transparency and accountability. To achieve greater transparency, full identification of the persons donating to political parties should be made possible since the society might have a reasonable doubt that some contributions might be even fictitious. Several facts of this type have been confirmed in previous years.

Under the amendments made to the Organic Law of Georgia on Political Unions of Citizens in 2011, parties are not allowed to receive donations from legal entities and can receive contributions from individuals amounting to GEL 60,000 annually¹⁴. Moreover, additional restrictions have been imposed according to which, a citizen who has over 15% of annual income received through

¹² The ban on anonymous donations has been effective since 1 October, 2007.

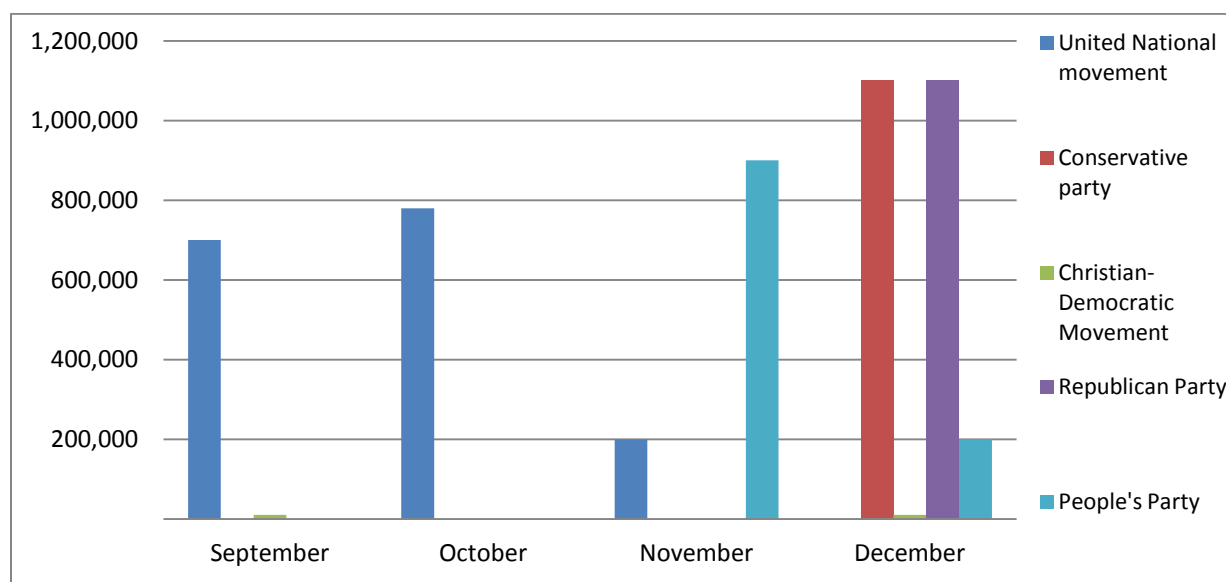
¹³ Cf. the statement [Chamber of Control withholds Party Financing Data](#) posted on the Transparency International Georgia's website

¹⁴ Paragraph 1 of the article 27 of the Organic Law of Georgia on Political Unions of Citizens.

simplified state procurements made in his favour or in favour of a enterprise established by his participation is not entitled to donate¹⁵. If individuals making donations receive their income completely or partially from one source (individuals or legal entities or associated persons), the overall amount of their annual donations in favour of one party/electoral subject should not exceed GEL 500,000 and the overall amount of the donations made by each individual should not exceed GEL 60,000¹⁶.

As regards the tendency of donations received by individuals and legal entities, the year of 2011 merits special attention¹⁷ as this is when several oppositional parties received substantial funding from legal entities. It should be underscored that the greatest part of the donations have been made at the end of the year, i.e. they coincide with the period when legislative amendments were adopted, after which receiving donations from legal entities would have been banned. During 2007-2010, donations from legal entities¹⁸ were received only by the ruling party (several hundreds of donors) and the Christian-Democratic Movement (one entity); in 2011, however, the Republican Party, the Conservative Party, and the People's Party received donations from 11 legal entities each¹⁹.

Figure 2: Donations from legal entities in 2011 (GEL)



¹⁵ Ib. paragraph 2.

¹⁶ Ib. paragraph 7.

¹⁷ For the information concerning donations received during 2007-2011 as well as the number of donors cf. the annexed Figures 3-8.

¹⁸ For detailed information concerning the donations received from legal entities cf. Table 1 in the annex.

¹⁹ It is important to note that the same legal entities have also contributed donations to the political union Our Georgia – Free Democrats.

As regards the amount of donations, the year of 2011 is striking in this respect as well. If in previous years, only one party besides the ruling party received a donation from a legal entity and that amounting to GEL 40,000 only²⁰, in 2011 The Republican Party, the Conservative party, and the People's Party received GEL 1,100,000 each from legal entities.

It merits attention that over years the amount of donations has been dependent on electoral activity. In particular, in non-election years the amount of donations were close to zero, the only exception in this respect was the year 2007 when donations were made at the end of the year as surprise presidential elections were appointed for January 5. For example, only four parties received rather small donations in 2009. The year of 2011 was an exception in this respect as well. With the date of the elections set for October 2012, parties received donations already at the end of the year and the amounts of donations in the majority of cases significantly surpassed the previously received sums. The ruling party mobilized the sums already in September and October. As to the oppositional parties, donations from legal entities were predominantly made in December. This tendency must stem from the fact that since 2012 legal entities have not been allowed to donate.

Transparency International Georgia this time again, as in the previous [research](#)²¹, tried to identify the links between the legal entities making donations. First to single out, the Republican Party, the Conservative Party, and the People's Party have the same legal entities²² as all 11 donors. The Public registry entries reveal that several legal entities have a common shareholder or a person authorized for management.

Based on the Public Registry data:

1. Two legal entities donating to the United National Movement are owned by one and the same individual – Rezo Chakhvashvili (“Gzamsheni 4” and “Universali 93”) – total of GEL 150,000;
2. Of the donors to the three oppositional parties mentioned above:
 - a. “Finservisi XXI” Ltd has been founded by another donor “Finservisi” Ltd and is run by the same director – Iuri Nozadze – total donation GEL 200,000;

²⁰ The Christian-Democratic movement received a donation from Shirnhoffer company in 2010.

²¹ Cf. [Political Parties in Georgia: the Issues of Funding](#), 2011, on the Transparency International Georgia website.

²² On 23 December, 2011, the Prosecutor General's Office of Georgia confirmed in a letter sent to the Parliament of Georgia that the above 11 persons are associated with Bidzina Ivanishvili. <http://www.radiotavisupleba.ge/content/article/24431676.html>

- b. The director of “Kala Capital” Ltd and the director of “Kolkheti” Ltd founder legal entity (“Kala Development”) represent the same individual – Ilia Kechakmadze – total donations GEL 200,000²³.

According to the [information](#)²⁴ disseminated by the Media, 9 out of 11 legal entities donating to the Conservative Party, the Republican Party, and the People’s Party belong to Bidzina Ivanishvili and 2 to Kakhi Kaladze. The connection can be identified by merely looking at the names of some of them, the Public Registry entries, however, establish only the link between the above persons.

It is worthy of note that Trnasperency International Georgia and Media outlets verified several major individuals who have made contributions in 2010²⁵ and in a number of cases they denied the fact of donating the sums. Transparency International Georgia verified (one time) the information on the individuals who transferred sums to political parties during 2011. Several of them in conversations with us denied that they had made contributions.

Table 1: Verified information on individuals making donations (2011)

Nº	Full name	Address	Amount of the sum (market value)	Political party	Verification outcome
Tbilisi					
1	Vasil Saganelidze	Mamardashvili #6	1 065.00	The New Rights	Was away from home (according to a family member, used to be the party member for some time)
2	Avtandil Sulakvelidze	Mukhiani 3 rd microdistrict, block 3. Ap. 12	3 000.00	The New Rights	Confirmed the fact of donating
3	Benedikte Gegechkori	Zakariadze #7, ap. 42	7 800.00	The New Rights	No one showed at the indicated address
4	Venera Suknidze	Gamsakhurdia avenue, 2 nd q., 6 th block, ap. #49	1 200.00	The Republican Party	No one showed at the indicated address

²³ For detailed information on donors based on the Public Registry data cf. Table 2 in the annex.

²⁴ <http://24saati.ge/index.php/category/news/2011-12-24/23624>

²⁵ Cf. [Political Parties in Georgia: the Issues of Funding](#), 2011, on the Transparency International – Georgia website.; also *Weekly Reporting* by GNS Studio (06/03/11) <http://www.maestro.ge/?address=kviris5&id=3032&page=2>; <http://tspress.ge/ka/site/articles/11206/>

5	Zurab Tkemaladze	Chavchavadze lane 23	5 000.00	Industry Will Save Georgia	No one showed at the indicated address
6	Bondo Tskhvediani	Lentekhi 9	5 000.00	The Christian-Democratic Movement	Moved to a different address
7	Levan Vepkhvadze	Niaghvari str. 11	12 200.00	The Christian-Democratic Movement	Moved to a different address (party member)

Regions

8	Zurab Gurushidze	Shilda village of Kvareli district	7 000.00	The New Rights	We were met by his grandmother in the village of Shilda. According to her, Zurab has been living in Tbilisi for years now. We called Zurab Gurushidze and he confirmed the fact of transferring the sum to the New Right in 2011.
9	Giorgi Kisishvili	Akhmeta, 9 April str. #64	7 000.00	The New Rights	We were met by his father who told us that his son is a member of the New Right. In a telephone conversation, Giorgi Kisishvili confirmed that he had really transferred the sum to the party.
10	Malkhaz Ismailov	Telavi, Bakhtrioni str. 32	425.00	Industry Will Save Georgia	He denied that he had made 425 Gel worth non-monetary contribution to the Industry Will Save Georgia.
11	Ivane Gagnidze	Telavi, Bakhtrioni str. 40	425.00	Industry Will Save Georgia	We were met by Ivane Gagnidze's mother who told us that she was unaware of her son transferring any sums to the Industry Will Save Georgia. We called Ivane Gagnidze who said: "You are wrongly informed. I have made no payments".
12	Mamuka Arabuli	Telavi, Oraguli str. 22	425.00	Industry Will Save Georgia	He is Vasil Arabuli's brother. Vasil Arabuli was the majoritarian candidate from Telavi in the parliamentary elections. According to his neighbours, Mamuka Arabuli no longer lives at the indicated address. We could not contact him on the phone either as he did not respond to our calls.
13	Archil Tkhlashidze	Telavi, I Sulkhanishvili cul-de-sac, apart. 18.	425.00	Industry Will Save Georgia	(Head of the Industry Will Save Georgia Telavi district organization) He denied having made a 425 Gel worth non-monetary contribution to the party.

redacted

14	Irakli Khurtsidze	redacted	17 848.00	United National Movement	Impossible to verify
15	Mamuka Kuntchulia	redacted	19 000.00	United National Movement	Impossible to verify
16	Revaz Jikidze	redacted	20 000.00	United National Movement	Impossible to verify
17	Kakha Alibegashvili	redacted	20 000.00	United National Movement	Impossible to verify
18	David Baramia	redacted	19 000.00	United National Movement	Impossible to verify

In 2012, the State Audit Office's Financial Monitoring Service published the information on several political unions receiving illegal donations from individuals, including 95 000 Gel received by the United National Movement which, according to the State Audit Office [statement](#)²⁶, was organized by one person. The Financial Monitoring agency, however, has not publicized exact evidence and the information on elicited donors has, most probably, not become public. At the same time, the party was given a recommendation to transfer the sum to the budget. At the time when the donations were made, such sums were considered elicited by the active legislation and transferring them to the budget was a type of a sanction.

²⁶ <http://control.ge/news/id/407>

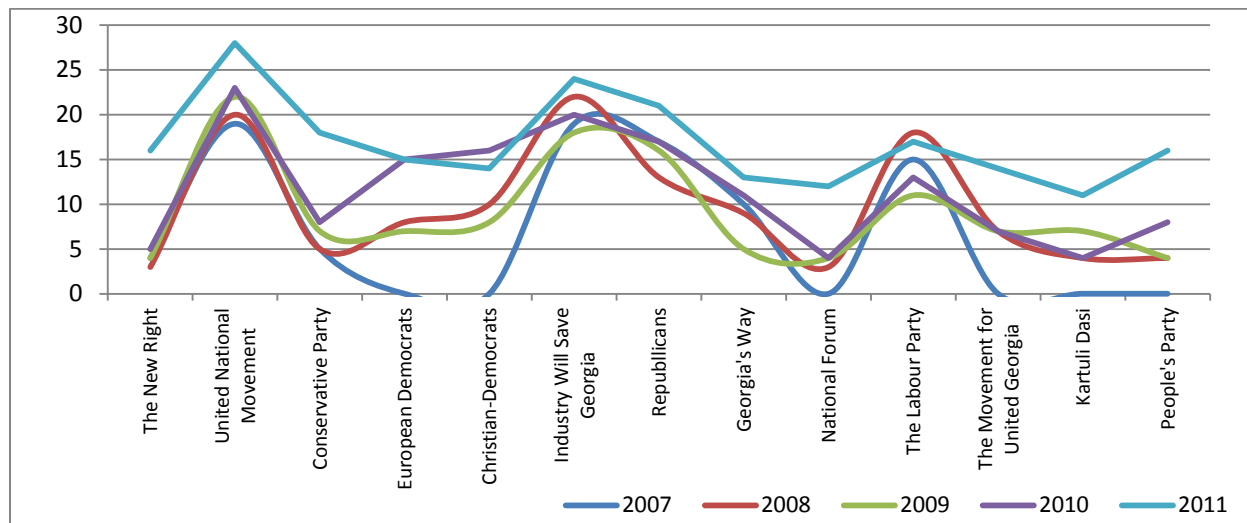
II. Expenditures

This segment of the research examines basic categories of expenditures of political unions, key 2011 tendencies of political party spendings as compared to the period between 2007 and 2010 and other findings.

The financial declaration forms, which came as a result of the legislative reform carried out in December 2011, have quite a detailed picture of financial spending by political unions. Declarations encompass up to 50 cost types, the majority of which are actively employed by parties.

If the costs of a number of political unions did not exceed 5-10 types up until 2011, the 2011 declarations depict the same parties filling out much more categories from the list of 50 types. So, for example, the New Rights, the Conservative Party, the National Forum, the Movement for United Georgia and Kartuli Dasi have more than twice as many cost types indicated in the 2011 report as in the previous years. Except for several exceptions, all parties have entered more data compared to the average index of previous years, which makes their expenditures more detailed and transparent.

Figure 3: Number of types of party expenses from 2007 to 2011.



Since no unified form of financial declarations existed in the period from 2007 to 2010, for the goals of the present survey, we have consolidated the costs shown in the 2011 declarations into several categories to enable the correlation of the data according to years. These categories are: a) *labour reimbursement*; b) *business trips*; c) *office and communication costs*; d) *budget payments/taxes*; e) *services*; f) *campaigning costs*, and g) *other costs*.

1. Labour reimbursement

In 2007-2011, labour reimbursement costs made up the average 20% of the overall costs incurred by the political unions, for some parties such costs amounted to 76% (GEL 213,050 of the Republican Party), while for others the cost did not make up even 1% (GEL 9,675 of the Conservative Party vs GEL 300,352 of the United National Movement). In terms of amount, the total labour costs for all parties constitute the average GEL 100,000. Five parties have surpassed this benchmark. The United National Movement had the greatest cost level – GEL 829,950 Gel (5% of the total costs); Christian-Democratic Movement's maximum labour costs during the year were GEL 578,266 (69% of the total costs); the Labour Party's maximum annual labour costs made up GEL 297,002 (76% of the total costs); the Republican Party costs only in 2011 were more than average - GEL 213,050, which made up 13% of the total costs; only in 2011 did the People's Party costs exceed GEL 100,000 by GEL 3,090 (34%).

2. Business Trips

Party business trips make up the average 10% of the total costs. Nevertheless, some parties allocated most of their funds namely on business trips. For example, the Conservative Party spent 40 to 60 % of its funds on business trips in 2007-2010 (GEL 55,260, GEL 119,760, GEL 215,192 and GEL 231,466 respectively), in 2011, however, it used only 5% (GEL 57,813) of the total costs for this purpose, the National Forum also allocates quite a significant portion to this cost – the average 23%, which moneywise is approximately GEL 15,000 (in 2011 it made up even 45% - GEL 36,510). It is important to note that these parties have either no costs for labor reimbursement or such costs do not exceed 10-15%.

3. Office and communication costs

Parties have spent the greatest share of costs in average – 45% of the total costs – on the office maintenance and functioning (office lease, office repair, transportation and communication, stationery procurement and other costs). In case of some parties such costs go beyond 90% (the New Rights, Georgia's Way, National Forum, and the Movement for United Georgia), for others it is less than 10% (the United National Movement, the Conservative Party). In contrast to the previous years, six political unions spent the most sums on the office and communication costs in 2011. Surplus concerned mostly the office inventory, basic assets (vehicles, facilities), and fuel procurement, especially by the political parties (the Conservative Party, the Republican Party, the People's Party, and the United National Movement), who received solid funding right at the end of 2011²⁷. For example, the United National Movement spent 84% of its funds on office and communication expenses in 2011, while in 2007-2010 the relevant expenses were 1%, 2%, 38%, and 7% respectively. The Republican Party

²⁷ It stands to mention that donations from the same legal entities have been received by the political union Our Georgia – Free Democrats.

allocated around GEL 500,000 for the increase in non-financial assets (vehicles, machinery, material reserves); People's Party spent almost one million Gel for procurement of fuel, assets, and rental. The United National Movement allocated nearly GEL 3.3 million for purchasing facilities, vehicles and machinery/inventory. The exact period of expenditures is unknown to us, the tendency, however, might be related to [the legislative amendments](#) initiated late in 2011 under which receiving financing from a legal entity was becoming forbidden and, because the law was going to be granted retroactive force, if the sums received in such a way had not been spent by the end of 2011 they would have been subject to return or transfer to the state budget²⁸. This is exactly why parties tried to spend the received sums timely (although finally the law was not granted retroactive force).

Several political unions unleashed considerable expenses on repairs and fuel procurement. It is noteworthy that some of them spent a solid sum on basic assets and fuel procurement as well as office rental for which they wrote off sums from the accounts before the end of the reporting year; namely, they carried out payments before receiving a service or goods (invested in **cash costs**²⁹). E.g. the People's Party has by GEL 977,106 more cash costs than actual costs which is disbursed completely for procuring fuel and appliances, and the cash costs of the United National Movement is GEL 3,291,999 paid almost completely for increasing non-financial assets – facilities, vehicles, and other appliances. Our Georgia – Free Democrats, who were not the object of our research, also has cash costs directed on different types of expenditures – GEL 505,450: office and communication costs, office lease, service costs, procurement of vehicles and other appliances, which are allegedly, advance sums to ensure that funds would have been spent by the time the expected amendments entered into force.

4. Service costs

The share of service costs remained almost unchanged in the reporting period. It is important to note that under the legislative amendments enacted in 2011, restrictions were imposed on the amount of certain types of services³⁰, although these restrictions have not changed the actual picture since service costs did not exceed the established limit in the preceding periods either.

²⁸ cf. [the 3rd hearing version](#) of the amendments to the Organic Law of Georgia on Political Unions of Citizens on the Transparency International Georgia webpage.

²⁹ The order #10/37 from 23 January 2012 of the Chamber of Control of Georgia's chairman on "Approving the Forms of Financial Reports of Political Unions of Citizens and the Instructions to fill them out". Under article 5, cash cost is actually paid money. Subsequently, when a party pays a sum in advance, notwithstanding whether instrument is recognized or not, i.e. expenses (actual) accrued and service/goods received, we have an obvious case of cash costs.

³⁰ Under article 25^{1.3} of the organic law of Georgia on Political Unions of Citizens, expert and consulting service costs should not exceed 10% of the overall party costs (0.2% of GDP).

5. Campaigning costs

2011 was not an election year due to which none of the parties had allocated election costs; in the preceding years, however, election costs made up quite a large share of parties' expenditures in the form of sums transferred to their own accounts or related election campaign funds³¹.

6. Taxes in the Budget

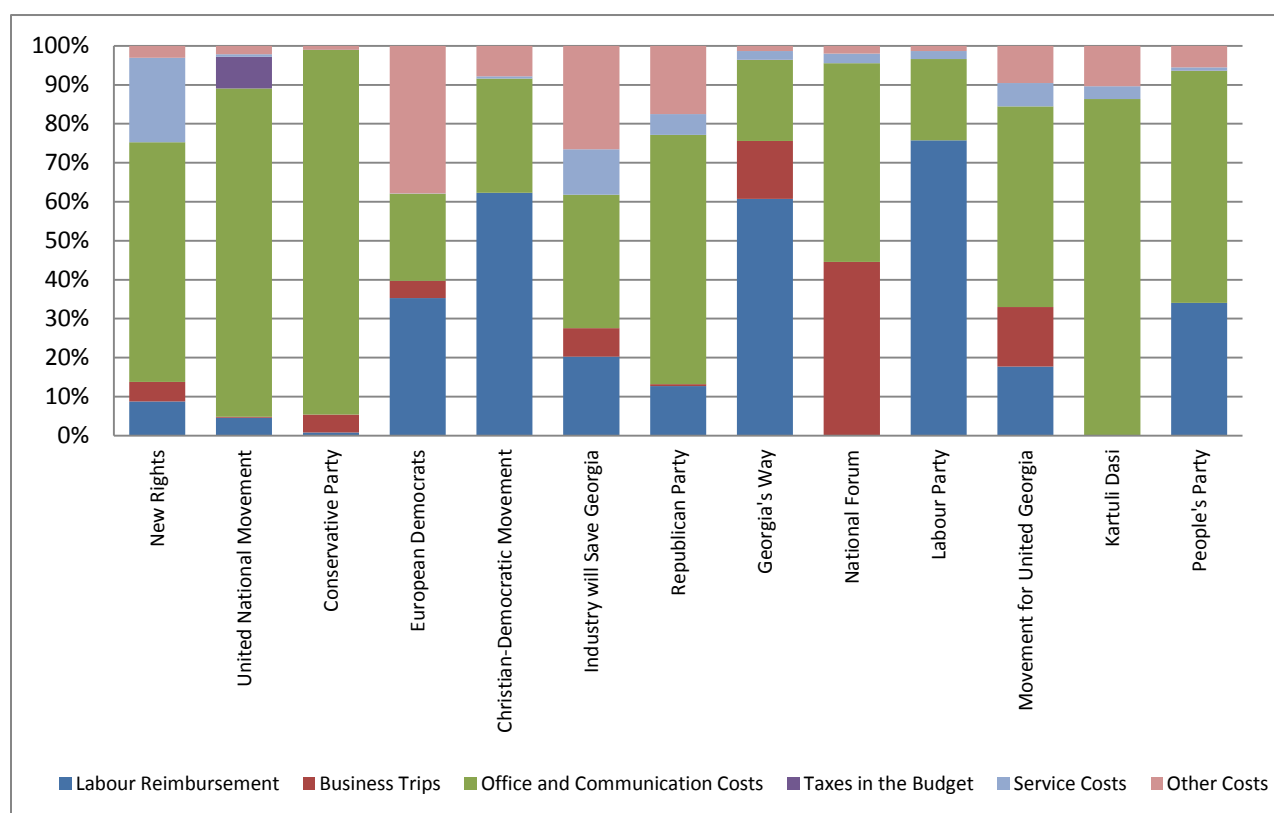
In previous years, parties separated the income tax from other taxes, although in the forms approved by the Chamber of Control in 2011 Income tax and the Value-Added tax (VAT) are not listed among the state budget taxes, which, by itself, reduces the sum total of the taxes to be allocated in the budget.

7. Other costs

The share of "Other Costs" was considerably decreased in 2011. This was due to the introduction of the mandatory declaration forms that are rather detailed and parties have to consolidate fewer costs types in the noted category. Previous years evidenced a tendency of growth with respect to this type of costs, in 2010, however, "Other Costs" made up to average 19% of the overall party expenditures. In 2011, the categories of "Other Goods and Services" and "Different Costs" fell to 7% in average. Some political parties, on the other hand, do not even have such costs altogether, or if they do, the costs do not go beyond 1-5%.

³¹ For detailed information on the previous elections expenditures cf. [Political parties in Georgia: Issues of Financing](#), 2011, on the Transparency International – Georgia website

Figure 4: Distribution of costs by political parties in 2011.



Cf. the 2007-2011 cost allocation by political parties according to categories moneywise in figures #9-15 of the annex³².

³² These figures have certain types of costs consolidated for better correlation.

III. Basic findings, tendencies, and recommendations

When examining financial declarations of parties for 2011, several significant tendencies single out:

1. Financial Accounting Form

Primarily, the State Audit Office introduced a [special form](#) for completing the declarations³³. The above form is quite convenient to society as the data are segmented based on typology: a) donations; b) revenues; c) revenues in the campaign fund; d) costs; e) campaigning costs; f) assets etc. At the same time, while in previous years parties identified several units of costs, in 2011 the majority of parties have from 15 to 24 types of costs. Subsequently, the party costs are more detailed and complete. In addition, the amount of “other costs” has significantly reduced, which should be assessed as clearly positive.

1.1. Shortcomings in Income section of Declaration

All parties fill the data following the same system, thanks to which the information analysis becomes quite simple. Nevertheless, there remain some gaps, the most important of which, in our understanding, is using the category “other” when referring to the typology. In the case of revenues, the column that lists 13 types of revenues has an additional category of “other revenues”. We don’t find this type of revenue in the reports of any party in the period from 2007 to 2010 - the reports always indicated the exact provenance of the revenue. In 2011 though, two parties entered a sum in the column of “other revenue” and quite a solid one. The Christian-Democratic Movement shows GEL 53,289 (6% of the total revenues). As for the United National Movement, the provenance of 38% (GEL 2,278,442) of its revenues was unclear (although the audit report of the party property had the sum received from selling office space³⁴). Importantly, under the amendments to the organic law of Georgia on Political Unions of Citizens enacted in December 2011, the total sum of “other revenues” except for the state financing, donations, public events, and revenues received from distributing party symbols should not exceed 60 000 Gel. To eliminate the above problems, the following recommendations should be taken into account.

³³ <http://control.ge/about-the-ccg/cpu/forms-of-financial-declaration/>

³⁴ It is important to note that the revenues received from the sale of assets were included in earlier declarations as well, subsequently, it is advisable that the forms compiled by the State Audit Office also include such category.

- ✓ The State Audit Office declarations should indicate all possible types of revenues of political parties, including the categories that were reflected in the party reports from previous years;
- ✓ Since all types of revenues cannot be exhausted in declaration, when using the “other revenues” category, it should become mandatory to indicate the source of a particular revenue. Namely, if specific revenues cannot fit the indicated types, the declaration form should have a reference to how the party received it.

The presence of “other revenues” in the financial declarations of parties is one of the most serious threats in terms of party transparency and accountability. Prior to this, when the forms of financial statements were nonexistent, despite a lot of inaccuracy and imperfection the revenues of all parties were comprehensive and had exact reference on typology. “Other Revenues”, which we find in the 2011 statements, became transparent and the provenance of the funds was clarified soon after Transparency International Georgia issued an [address](#)³⁵, even though such information should be supplied proactively without the need to try to obtain it through query.

1.2. Shortcomings in Expenses section of Declaration

Besides, some questions related to the financial declarations need additional elaboration. In particular, the financial statements of parties contain categories detailing which would improve the degree of transparency and even satisfy certain interests. It is noteworthy, that State Audit Office has elaborated additional forms of declaration, where further details are given to such expenses as - salaries, bonuses, business trips, lease costs, etc. Detailing expenses in declaration is a welcomed step forward, however for further improvement of reporting several issues have to be considered:

- ✓ The financial statements have an entry on advertisements costs but the sums are not broken down as separately television, newspaper, radio, and outdoor (billboards, posters etc.) advertising costs. Also, it is necessary that the form contained a detailed account of costs indicating the exact date, procured goods/services, supplier of the goods/services, amount of costs, and the territory. Having detailed information on the above category is essential in order to carry out comprehensive monitoring of the Media;
- ✓ It is necessary that the declaration forms detail the advertisement costs, especially for overall annual report and campaign finance final report. Namely, declarations should contain data

³⁵ Cf. the statement on [Transparency of the Finances of Political Parties](#) on the Transparency International – Georgia website

describing each payment separately – who the party paid a sum to, for what service and on what territory the service was carried out, the service periods, units of goods/services (e.g. sq.m., number of items, minutes etc.), and the overall amount of the goods/services received. These data will help verifying the advertisements costs territorially and qualitatively. Similar forms designed for election campaigns and approved by CEC existed in previous years.

1.3. Shortcomings in Expenses section of Declaration

The declarations format is another point that needs to be addressed. Instead of storing the declarations completed by political parties online, they simply represented scanned versions of the materials printed by parties, due to which a number of data were not legible and, therefore, their analysis was rendered impossible. TI Georgia requested the Xeroxed copies of the documents sent directly by the parties. The quality of the received materials was much better compared to what was posted on the website and could be easily read. We hold that this kind of bypass procedure should not be necessary to examine the statements. The State Audit Office is responsible for disclosing the information and ensuring that the party financing is public – this is, in fact, what actual access to information really means. We appreciate that the State Audit Office has developed an online format of reporting, however up to this time, declarations are made public in scanned format. The problem is caused by the necessity of the official seal and signatures of responsible persons. In light of the electronic signature mechanism allowed by Georgian legislation, this problem can be solved in future. For further improvement, it is desirable that certain steps be made.

- ✓ When developing the online forms of reporting, the State Audit Office should employ the mechanisms facilitating information processing; this would help to make information quite understandable and absolutely discernible, and ensure that it is easily processed (machine-readable).

2. Regulatory Body

2.1. Selective Approach

On 20 February, 2012, the State Audit Office issued an [announcement](#)³⁶ casting doubts on the United National Movement's revenues. According to the disseminated information, donations made by individuals to the ruling party are allegedly illicit. The State Audit Agency, however, does not even disclose the names of the individuals who have organized donations on behalf of a single person

³⁶ <http://control.ge/news/id/407>

and states that these acts were not in violation of the law at the stage when the donations were made. In fact, both the present legislation and the one in effect at the time when those donations were made prohibited making donations on behalf of other persons and imposed relevant sanctions (under the old legislation the sanction implied the transfer of the sum into the state budget, while under the present legislation the sanction is transfer into the state budget plus a fivefold fine). We consider such ambiguous and selective use of legal sanctions unacceptable.

- ✓The State Audit Office should apply the law uniformly and not exercise selective justice. When disclosing a law violation, it should act adequately.

2.2. Transparency of Declarations

At the same time, it should be born in mind that the primary function of the State Audit Office in monitoring political finances is to ensure transparency. For example, parties are obliged to produce declarations to the State Audit Office which, in its turn, will disclose the supplied information by posting it on its website within 5 days³⁷. The parties are also required to inform the State Audit Office on receiving a donation within 5 days from its receipt. It should be specially remarked that the State Audit Office immediately disclosed the information on oppositional political unions, while it took the agency quite a while to publicize the information on the ruling party's financing. On 15 May, 2012, the United National Movement issued an [announcement](#)³⁸ stating that they had sent the State Audit Office the information; the [information](#) became public only in June³⁹.

Apart from this, when examining the 2011 financial statements another tendency was identified. Significant flaws were found in the 2011 financial reports of the political unions published by the State Audit Office on 9 February 2012:

- a. A considerable part of the financial declarations was poorly uploaded and we were actually unable to obtain complete relevant information.
- b. The names, ID numbers and other data of the persons making donations were not legible. According to the the State Audit Agency, this flaw was due to the fact that the information supplied by the parties was printed in a very small font size.

³⁷ Paragraph 3, article 32 of the Organic Law of Georgia on Political Unions of Citizens.

³⁸ http://unm.ge/index.php?option=com_eventbooking&task=view_event&event_id=25&Itemid=90&lang=ge

³⁹ <http://control.ge/about-the-ccg/cpu/transparency-of-political-funding/monetary-and-non-monetary-donations/>

- c. At present, the addresses of the individuals making donations are redacted. According to the State Audit Agency, the abovementioned data had been redacted at the parties' request since it was not mandatory to indicate them earlier.

At that time, the organic law stated directly that all other information concerning the addresses of the donors and donations be public⁴⁰. At the same time, it is the State Audit Office that is responsible for ensuring the accessibility of public information (prior to the amendments, the responsibility rested on the Central Election Commission).

It should be noted that the State Audit Office responded to the Transparency International Georgia's [address](#)⁴¹ and uploaded the reports of the political unions again so that they were rendered legible. Several declarations, nevertheless, remain partially illegible⁴².

Transparency International Georgia requested the financial declarations of the parties from the State Audit Office and found that the data in the supplied information concerning the donors are not redacted, while on the website they remain hidden. At the same time, based on the supplied information, the addresses of the donors to the United National Movement are not indicated in the declarations at all⁴³. Subsequently, either the noted political union had violated the law by not providing complete information on the donor (even if elicited) or the State Audit Office has violated the disclosure requirements established by law.

It is noteworthy, that monitoring agency has elaborated Political Financing [Methodology](#)⁴⁴ in July 2012, according to which, State Audit Service is obliged to publish various types of financial information on the official website. However, it is not completely clear if the Monitoring body has obligation to immediately disclose expenses of Political Unions or Electoral Subjects

- ✓ It is advisable that the information presented by a party to the State Audit Office became public upon receipt and that this concerned not only revenues but also the costs incurred by political unions.
- ✓ Information published by State Audit Office should include complete data on source of revenues and expenses to raise the level of transparency and accountability.s

⁴⁰ Paragraphs 2 and 6 of article 27 of the Organic Law of Georgia on Political Unions of Citizens

⁴¹ Cf. [Chamber of Control Withholds Party financing data](#), the statement by Transparency International – Georgia, see its website.

⁴² For example, the information on the persons installing donations and membership fees for the Christian-Democrat Movement is, in fact, illegible.

⁴³ The declaration that was sent to the TI - Georgia by the State Audit Office has been handed in after the United National Movement transferred the donation, as illicit, into the state budget.

⁴⁴ http://sao.ge/?action=pdf_archive&p_id=266&lang=eng

ANNEX

Figure 1¹. Parties funded by the Center of Electoral Systems Development, Reforms and Trainings in 2009-2011²

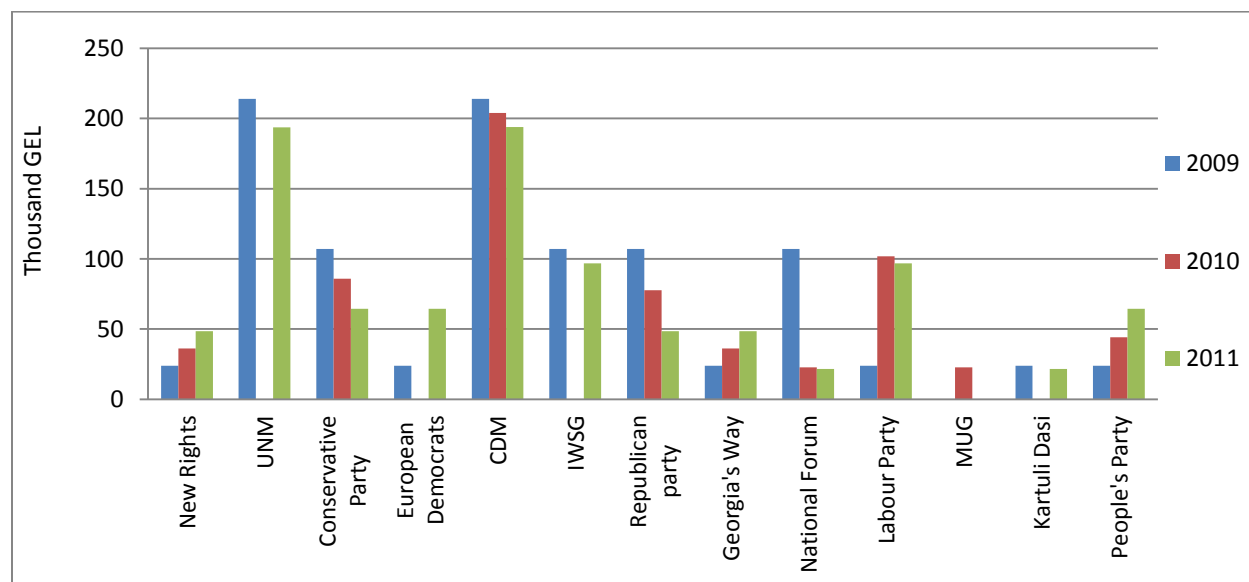
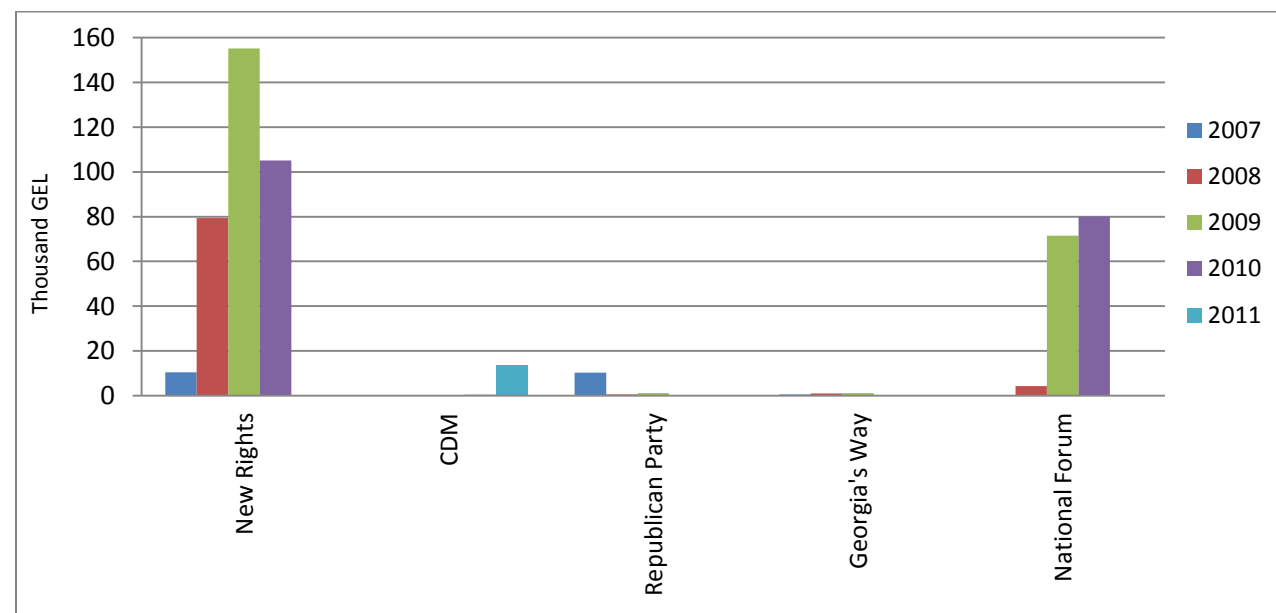


Figure 2. Membership Fees of Political Parties in 2007-2011³



¹ Source of data provided in Annexes are official information acquired from Public Agencies - CEC, State Audit Office, Center of Electoral Systems Development, Reforms and Trainings and information provided on their official webpages.

² Abbreviations used in Annex have following meaning: UNM - United National Movement; CDM - Christian-Democratic Movement; IWSG - Industry Will Save Georgia; MUG - Movement United Georgia.

³ Figure describes only those political unions, which had received membership fees at least once in 2007-2011.

Figure 3. Donations received by the Political Parties in 2007-2011

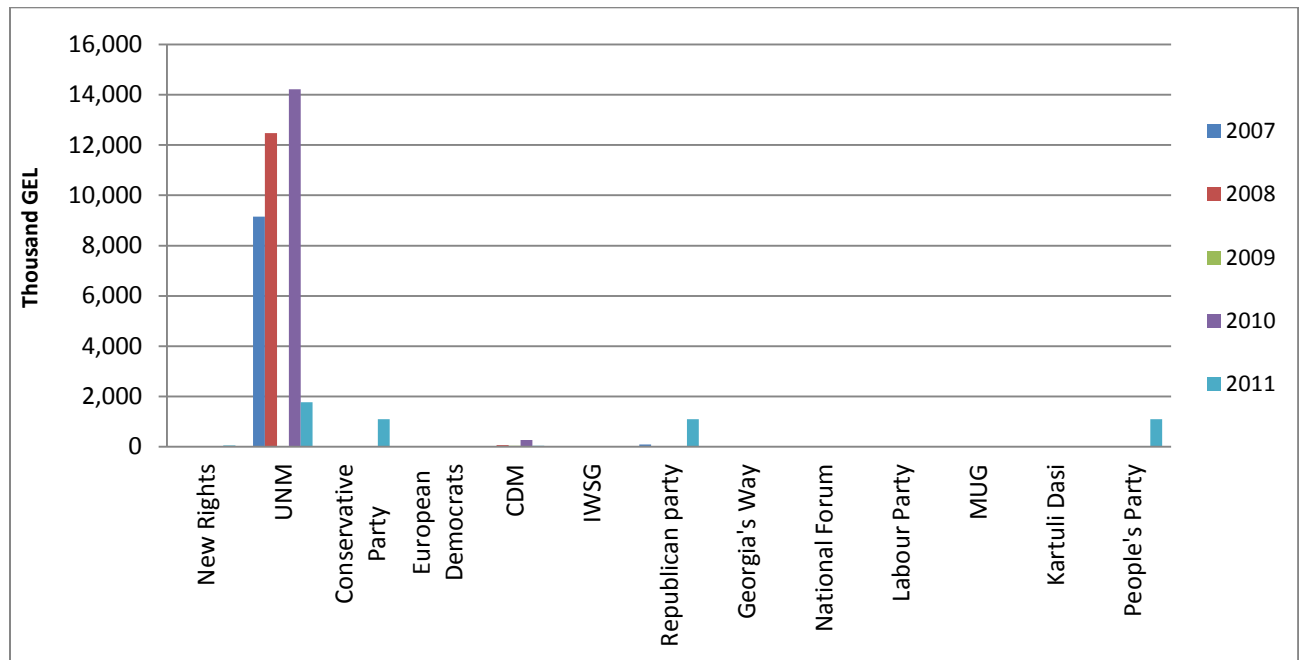


Figure 4. Donors of Political Parties in 2007

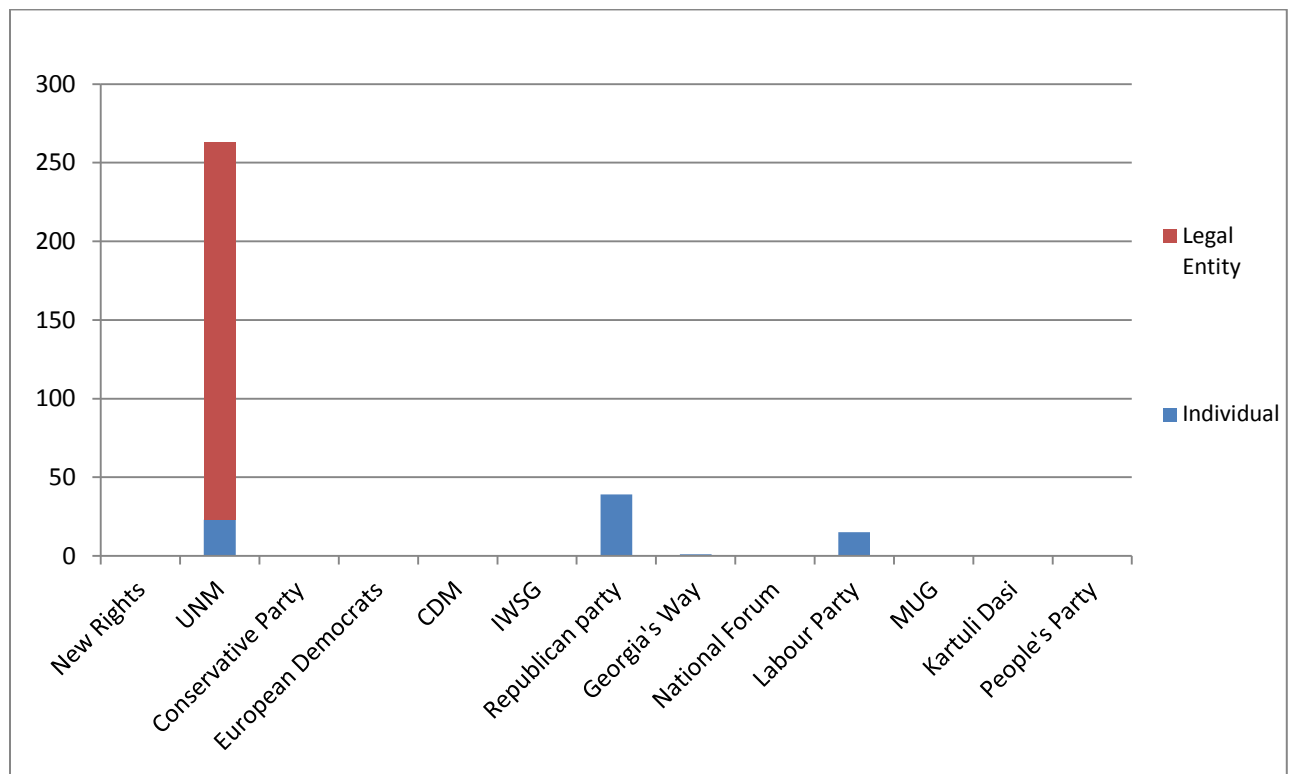


Figure 5. Donors of Political Parties in 2008

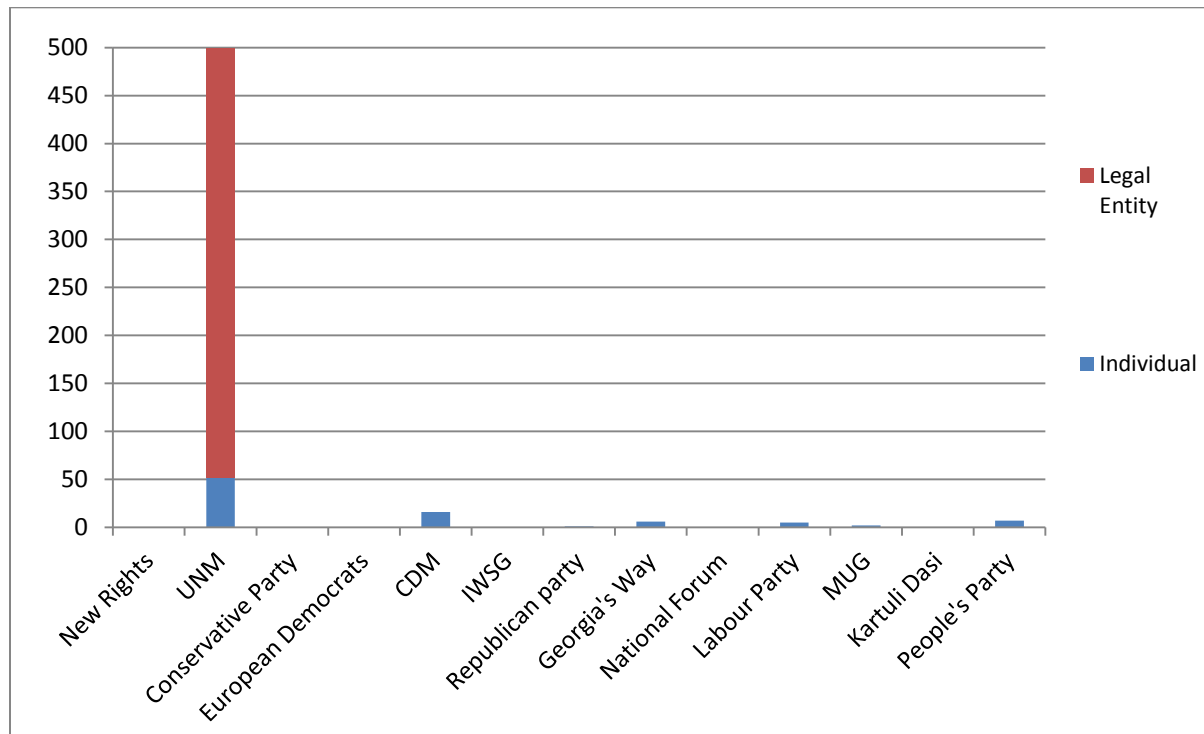


Figure 6. Donors of Political Parties in 2009

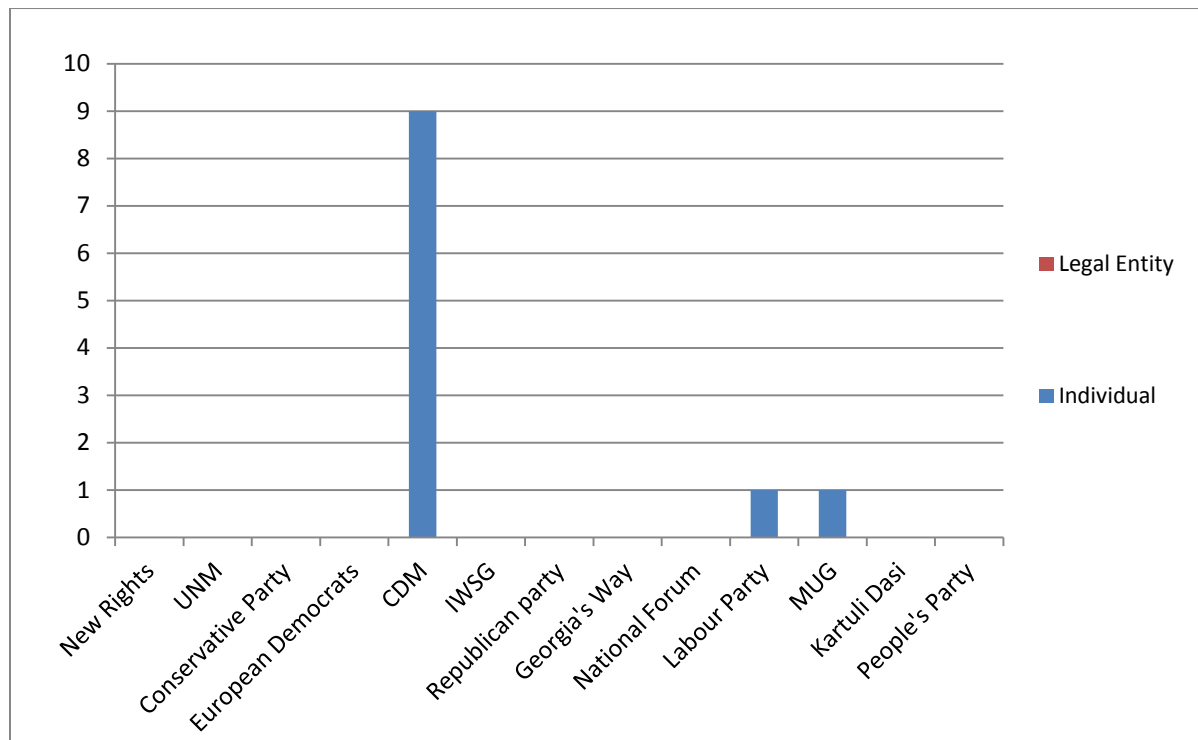


Figure 7. Donors of Political Parties in 2010

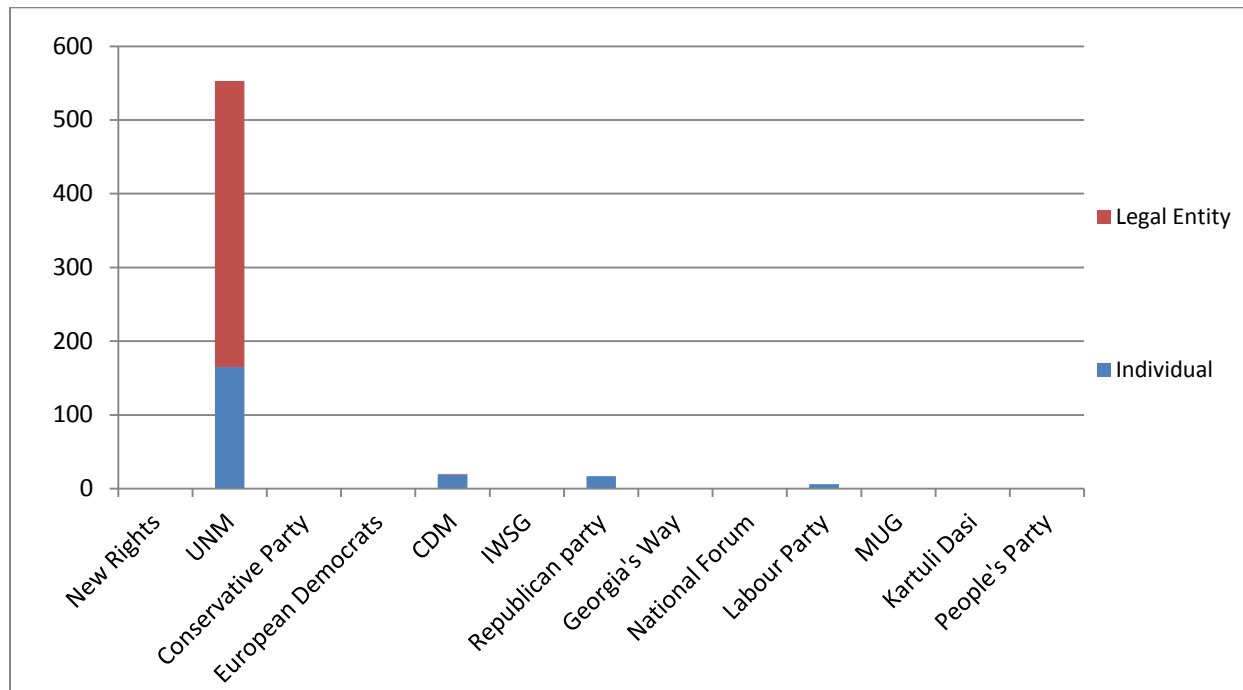


Figure 8. Donors of Political Parties in 2011

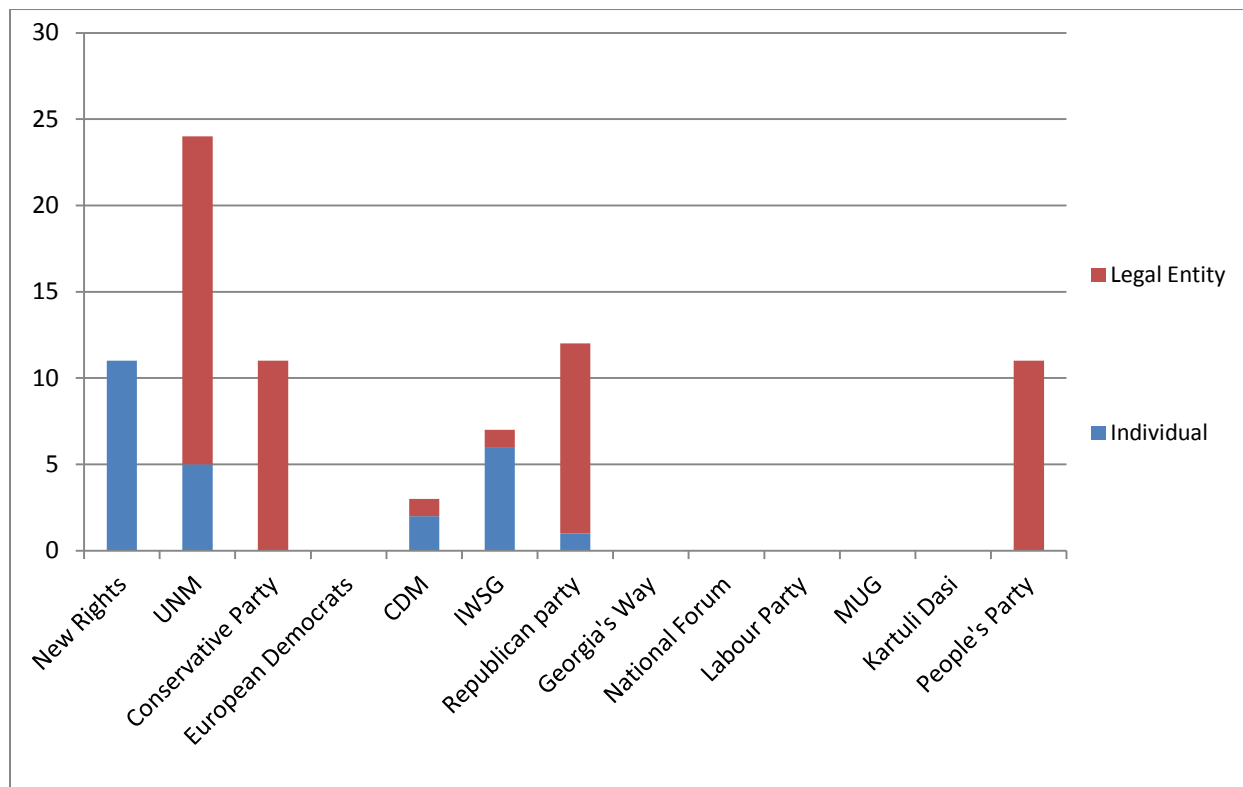


Table 1. *Amounts of Donations from legal entities received by Parties in 2007-2011*

Political Union	2007	2008	2009	2010	2011
New Rights	-	-	-	-	-
UNM	8,875,802.00	11,606,322.00	-	12,667,503.10	1,669,930.00
Conservative Party	-	-	-	-	1,100,000.00
European Democrats	-	-	-	-	-
CDM	Did not Exist	-	-	40,000.00	20,000.00
IWSG	-	-	-	-	7,570.00 ⁴
Republican party	-	-	-	-	1,100,000.00
Georgia's Way	-	-	-	-	-
National Forum	-	-	-	-	-
Labour Party	-	-	-	-	-
MUG	Did not Exist	-	-	-	-
Kartuli Dasi	Did not Exist	-	-	-	-
People's Party	Did not Exist	-	-	-	1,100,000.00

⁴ Industry Will Save Georgia received donation from Political Union “Industry Will Save Georgia” - a political union on its own.

Table 2. Data of Owners and Executives of donor legal entities, which donated to parties in 2011 (according to Public Registry Database)

Nº	Name of Legal Entity	Legal Address	Owners	Directors	ID Code	Donated amount	Party
1	Complex Service ltd	Sachkhere, Gomarteli str 5	315864, Finsek Ltd, Virginia Isles (USA)	54001002613, Kakha Kobiashvili, 01027042460, Vakhtang Rapava	205023632	100 000	Conservative Party; Republican Party; People's Party
2	Burji ltd	Tbilisi, Vake-Saburtalo, Chavchavaze ave 39a	290339, Venity Overseas ltd, Virginia Isles (UK)	01030010643, Noe Kinkladze	204973743	100 000	Conservative Party; Republican Party; People's Party
3	Finservice ltd	Tbilisi, Vake-Saburtalo, Chavchavaze ave 39a	33,836, Vizelia Enterprises ltd	38001001235, Iuri Nozadze	205027004	100 000	Conservative Party; Republican Party; People's Party
4	Inter Consulting + ltd	Tbilisi, Vake-Saburtalo, Chavchavaze ave 39a	205027022, Inter Consulting ltd	01025013737, Bichia Demetrashvili	205032294	100 000	Conservative Party; Republican Party; People's Party
5	Cartu Management ltd	Tbilisi, Vake-Saburtalo, Chavchavaze ave 39a	33835, Frenso Management ltd, Market sq. #60s/i364	01007001462, Maia Tskitishvili	205265737	100 000	Conservative Party; Republican Party; People's Party
6	Elita Burji ltd	Tbilisi, Isani-Samgori, B. Khmelnitski str. N42	311327, Ringgold Finance Company ltd, UK	62001031044, Tengiz Gvazava	206120437	100 000	Conservative Party; Republican Party; People's Party
7	Finservice XXI ltd	Tbilisi, Vake-Saburtalo, Chavchavaze ave 39a	205027004, Finservice ltd, 211345105, Horisont ltd	38001001235, Iuri Nozadze 38001004585, Vefkhvia Dvali	205030214	100 000	Conservative Party; Republican Party; People's Party
8	Kolkheti ltd	Kobuleti, D. Aghmashenebeli ave N285	204542101, Kala Development JSC	61004010112, Mindia Romanadze	246951142	100 000	Conservative Party; Republican Party; People's Party

9	Kala Kapitali ltd	Tbilisi, Old Tbilisi, Baratashvili str. 6	203896, KALA CAPITAL LIMITED, Cyprus	33001003424, Ilia Kechakmadze	204538768	100 000	Conservative Party; Republican Party; People's Party
10	Cartu Group jsc	Tbilisi, Vake-Saburtalo, Chavchavaze ave 39a	Subject created by merging	01024007517, Nodar Javakhishvili	204876643	100 000	Conservative Party; Republican Party; People's Party
11	Enja-House ltd	Tbilisi, Saburtalo, Gamsakhurdia ave N14, N14a, N14b and N14/26	20001000883, Gaga Buishvili	20001000883, Gaga Buishvili	401947756	100 000	United National Movement
12	Terex-XXI ltd	Tbilisi, Vake-Saburtalo, Lvov str. 26	01009009431, Giorgi Jincharadze	01009009431, Giorgi Jincharadze	230095777	100 000	United National Movement
13	Enka Mall ltd	Tbilisi, Didube district, Tsereteli ave N1	13001006408, Valeri Shoshiashvili	13001006408, Valeri Shoshiashvili	401944624	100 000	United National Movement
14	D.T.J. group ltd	Tbilisi, Gldani-Nadzaladevi district, Ksovreli str 26	01019009809, Tamaz Kuloshvili	01019009809, Tamaz Kuloshvili	200269770	100 000	United National Movement
15	Gzamsheni 4 ltd	Tbilisi, Isani-Samgori district, Rustavi Hwy N 247	01024026712, Rezo Chakhvashvili, 01020006925, Teimuraz Chulukhadze, etc (38 partners)	01024026712, Rezo Chakhvashvili	204388402	100 000	United National Movement
16	Gzamsheni 5 ltd	Khashuri municipality, Osiauri	01010004839, Avtandil Kvakhadze, 01013001776, Koba Metreveli, (44 partners)	01010004839, Avtandil Kvakhadze	243855128	100 000	United National Movement
17	Transproekti ltd	Tbilisi, Vake-Saburtalo, Tamarashvili str. 13	01026003345, Tali Taliashvili, 01012018007, Vladimer Jikia, 01024016706, Revaz Chikovani, 01026002102, Davit Taliashvili	01026003345, Tali Taliashvili	204986195	100 000	United National Movement

18	Direction of road rehabilitation and modernization supervision ltd	Tbilisi, Saburtalo District, Gagarini str. 29a	01025008320, Merab Jishiashvili	01025008320, Merab Jishiashvili	212272477	100 000	United National Movement
19	Khidmsheni ltd (registered as jsc)	Tbilisi, Old Tbilisi district, Leselidze str. 5	not indicated (JSC)	01008003477, Grigol Chikovani, 010070031 99, Jimi Mamaladze, 01009001780, Guram Kviziria,	204379886	100 000	United National Movement
20	Ibolia ltd	Gori, Tskhinvali Hwy. 3 rd km.	59001005148, Ioseb Makrakhidze, 59001019086, Goderdzi Mikava, 59001000635, Opelia Makrakhidze, 59001004393, Mariana Makrakhidze, 59001014440, Nino Mikava, 01008008950, Zurab Saralidze, 59001012236, Paata Mikava, 59001004079, Eliso Mikava, 59001014441, Tamar Mikava	59001005148, Ioseb Makrakhidze	217873031	100 000	United National Movement
21	Sakgazmetsniereba ltd	Tbilisi, Saburtalo, Gagarini str. 29a	01024001501, Tamaz Shilskadze	01024001501, Tamaz Shilakadze	212272208	100 000	United National Movement
22	Road Construction Department N1 ltd	Gori, Shindisi Hwy, 2 nd km.	59001000749, Shota Abuladze, 59001023356, Nugzar Abalaki, 59001002755, Nukri Abalaki	59001000749, Shota Abuladze	217890584	100 000	United National Movement
23	Universali 93 ltd	Tbilisi, Isani-Samgori district, Rustavi Hwy N 251	01024026712, Rezo Chakhvashvili, 01020006925, Teimuraz Chulukhadze	01024026712, Rezo Chakhvashvili	204388091	50 000	United National Movement
24	G Group ltd	Tbilisi, Isani-Samgori, Vazisubani, block 20a	01012020867, Revaz Jikidze	01012020867, Revaz Jikidze	206281058	49 965	United National Movement

25	BM Trans ltd	Tbilisi, Didi Dighomi, Giorgi Brtskinvale str 9, app.13	01019009809, Tamazi Kuloshvili, 01023011877, Nino Jagashvili, 01022004351, Lia Sanikidze	01019009809, Tamazi Kuloshvili	205221543	49 965	United National Movement
26	Vanti ltd	Tbilisi, Isani-Samgori district, Kakheti Hwy N42	01027016870, Nugzar Atabegashvili, 01010004254, Akaki Lolua, 01010008496, Baduri Birchibadze, 01027000602, Davit Atabegashvili, 01027015485, Vakhtang Atabegashvili, 01010000842, Zurabi Lolua, 01009008642, Nino Lolua, 01010002232, Teimuraz Gorgodze	01010002232, Teimuraz Gorgodze, 01010008496, Baduri Birchibadze	206197523	100 000	United National Movement
27	GeoComfort ltd	Tbilisi, Gldani-Nadzaladevi, Eristavi str. 1	01015002805, Elchin Mamedov	11001005567, Revaz Abdushelishvili	400012339	100 000	United National Movement
28	Geotherm ltd	Tbilisi, Gldani-Nadzaladevi, Eristavi str. 2a	41001000882, Konstantine Buadze	41001000882, Konstantine Buadze	200276101	100 000	United National Movement
29	Charkf ltd	Tbilisi, Didube, Agladze str. 7a	35001103794, Jokia Charkviani	35001103794, Jokia Charkviani	202451514	20 000	United National Movement
30	Schirnhoffer ltd	Tbilisi, Zahesi, Platina str. 2	01001015455, Levan Amiranashvili, L0769465 1, Karl Schirnhoffer, Austria, L 0825713 8, 01018000386, Tinatin Aphkhaidze	01006016505, Grigol Jvania	236088390	illegible	Christian-Democratic Movement

Figure 9. Party spending on Labour Reimbursement

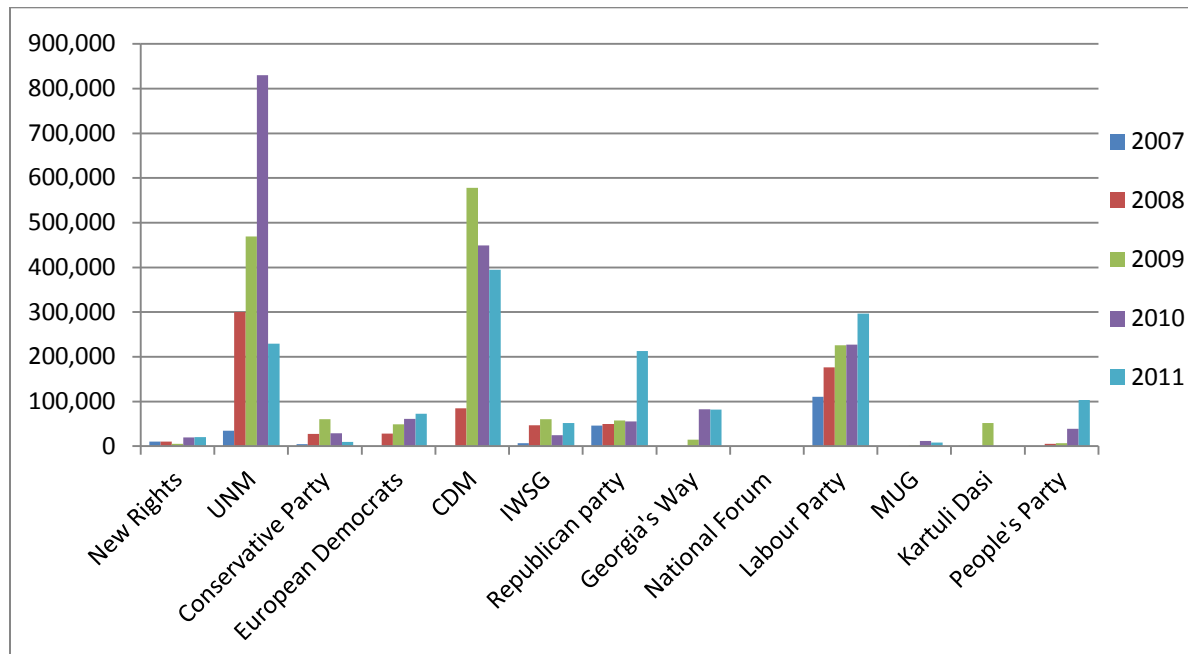


Figure 10. Party spending on Business Trips

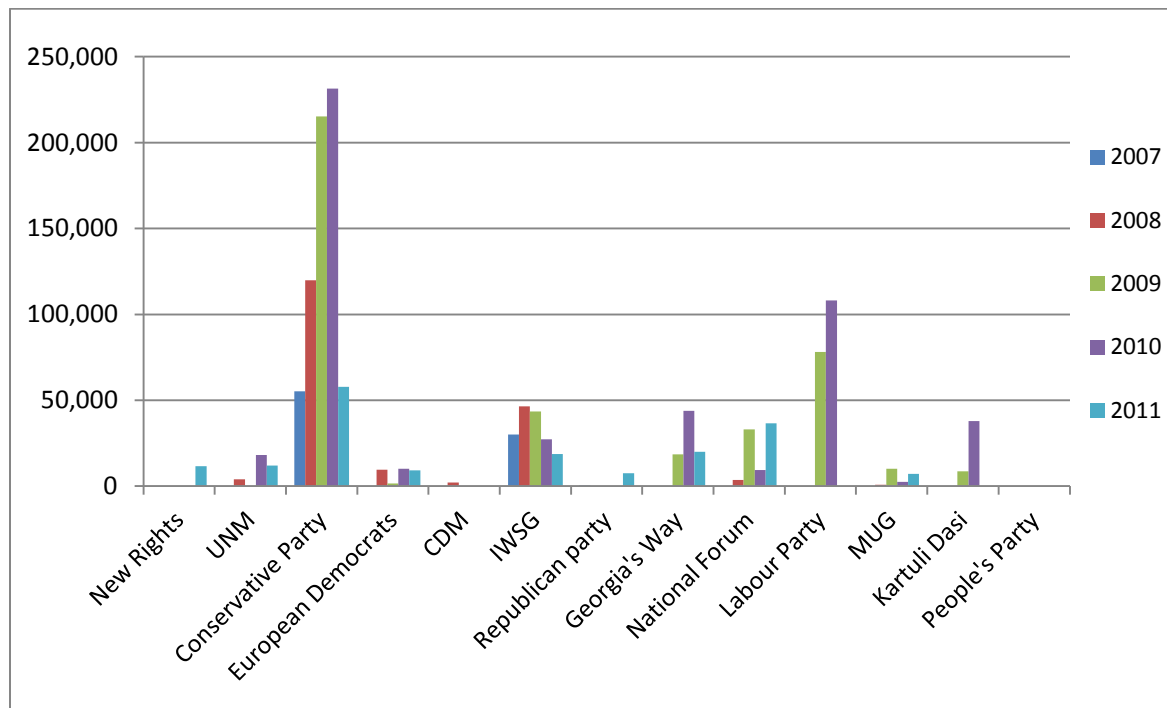


Figure 11. Party spending on Office and Communication Costs⁵

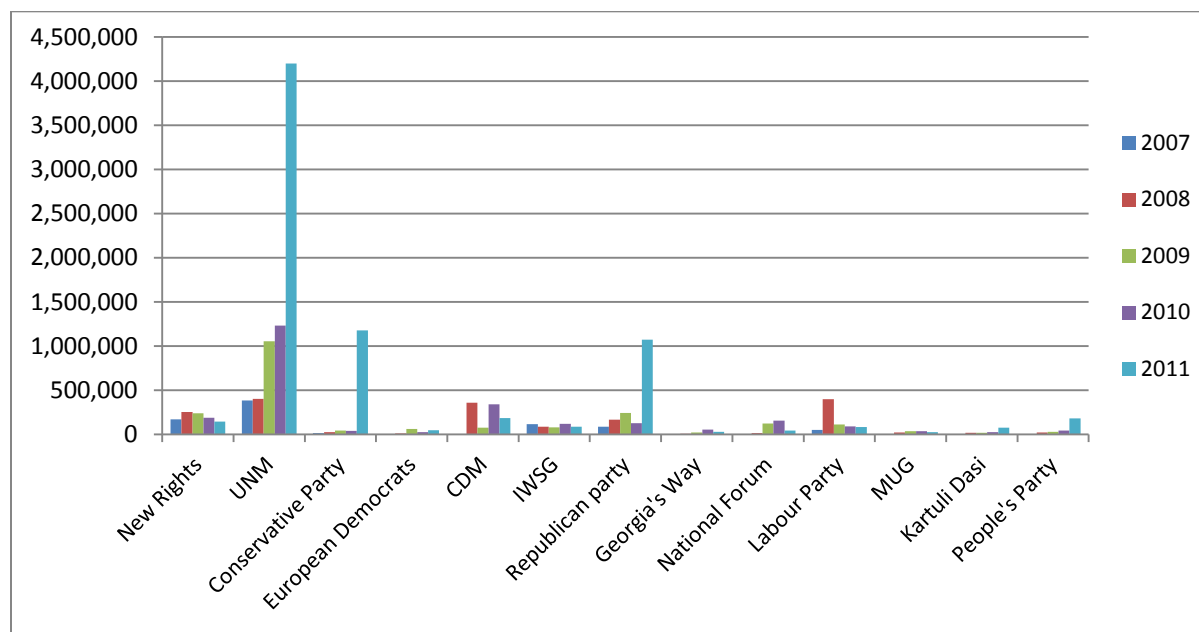
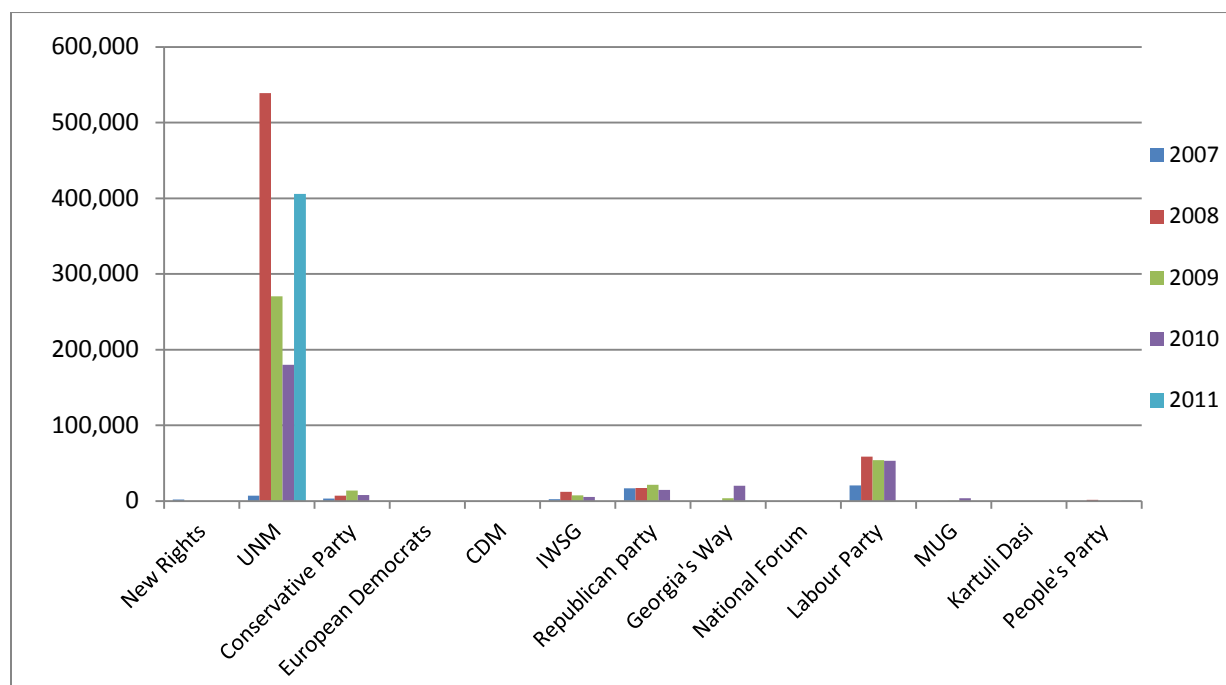


Figure 12. Party spending on Taxes to Budget⁶



⁵ For the purposes of the research, Office and Communication Expenses include lease costs, communal payments, communication costs, transportation costs, also procurement of assets. However, in certain cases parties have office expenses cumulated and not in details, with exception of 2011 Declarations.

⁶ For the purposes of the research 2007-2010 period includes income, VAT and other taxes, 2011 - includes all taxes except of income tax.

Figure 13. Party spending on Service costs⁷.

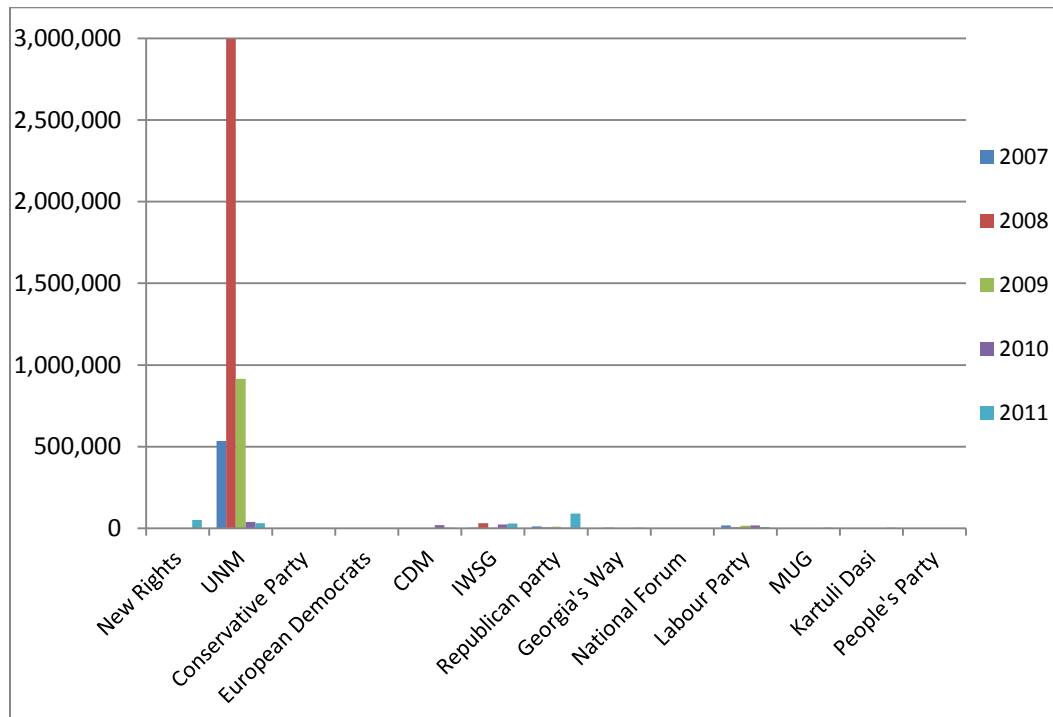
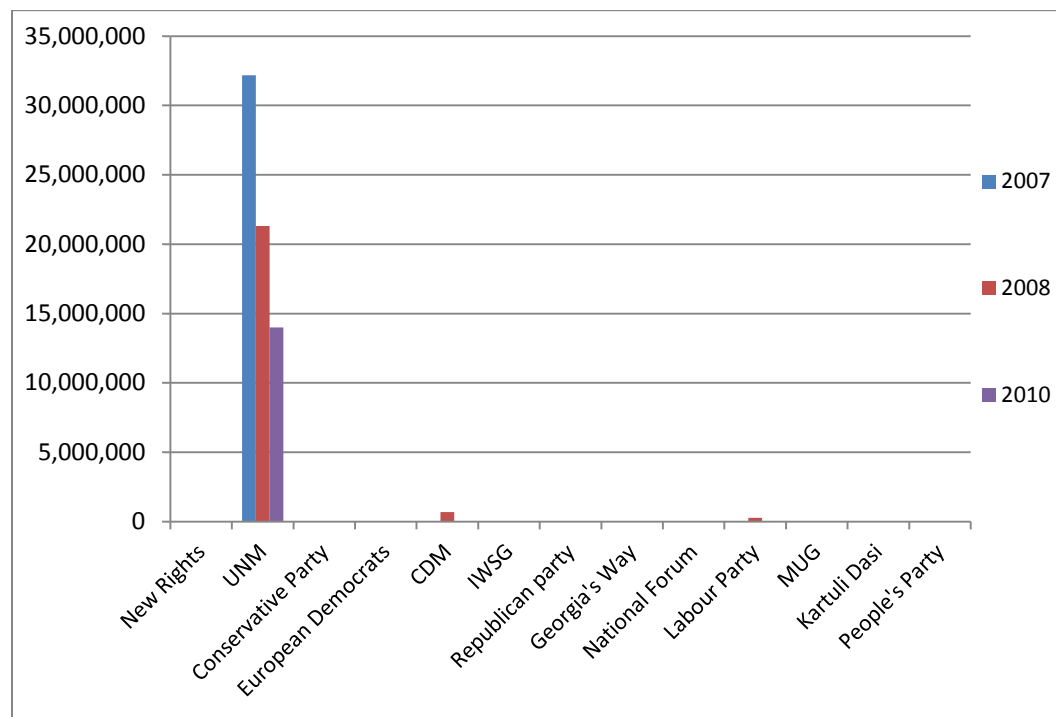
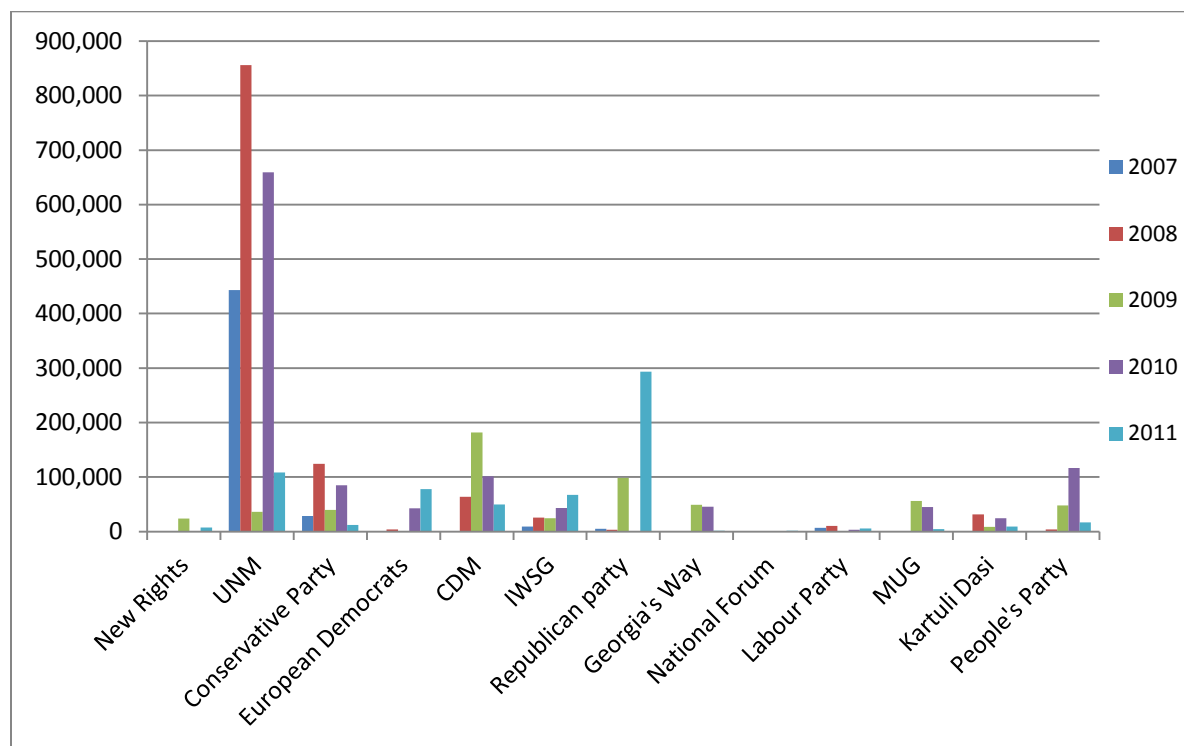


Figure 14. Party spending on Campaign Costs



⁷ For the Purposes of the research includes legal, accounting, auditorial and in seldom cases advertisement costs.

Figure 15. Party spending on Other costs⁸



⁸ For the purposes of the research includes both uncategorized expenditures and costs, which did not fall within other categories - charity costs, membership of associations, state fees etc.