Third Evaluation Round

Second Addendum
to the Second Compliance Report
on Georgia

"Incriminations (ETS 173 and 191, GPC 2)"

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"Transparency of Party Funding"

Adopted by GRECO
at its 79th Plenary Meeting
(Strasbourg, 19-23 March 2018)
I. INTRODUCTION

1. The Addendum to the Second Compliance Report assesses further measures taken by the authorities of Georgia, since the adoption of the First and Second Compliance Reports, in response to the recommendations issued by GRECO in its Third Round Evaluation Report. It is recalled that the Third Evaluation Round covers two distinct themes, namely:

- **Theme I – Incriminations**: Articles 1a and 1b, 2-12, 15-17, 19 paragraph 1 of the Criminal Law Convention on Corruption (ETS 173), Articles 1-6 of its Additional Protocol (ETS 191) and Guiding Principle 2 (criminalisation of corruption); and

- **Theme II – Transparency of party funding**: Articles 8, 11, 12, 13b, 14 and 16 of Recommendation Rec(2003)4 on Common Rules against Corruption in the Funding of Political Parties and Electoral Campaigns, and - more generally - Guiding Principle 15 (financing of political parties and election campaigns).

2. The Third Round Evaluation Report was adopted at GRECO’s 51st Plenary Meeting (23-27 May 2011) and made public on 1 July 2011, following authorisation by Georgia (Greco Eval III Rep (2010) 12E, Theme I and Theme II). The Third Round Compliance Report (Greco RC-III (2013) 9E) was adopted by GRECO at its 60th Plenary Meeting (17-21 June 2013) and made public on 5 July 2013, following authorisation by Georgia. The Second Compliance Report (Greco RC-III (2015) 4E) was adopted at GRECO’s 68th Plenary Meeting (19 June 2015) and made public on 11 August 2015, following authorisation by Georgia. The Addendum to the Second Compliance Report (Greco RC3 (2016) 12E) was adopted and simultaneously made public at GRECO’s 74th Plenary Meeting (2 December 2016), following authorisation by Georgia.

3. It is recalled that all five recommendations adopted in respect of Theme I were implemented satisfactorily earlier in the compliance procedure. The focus of the current report is thus on Theme II.

4. In accordance with Rule 31 revised, paragraph 9 of its Rules of Procedure, GRECO, in its Addendum to the Second Compliance Report, invited the Head of the delegation of Georgia to submit additional information regarding the implementation of the pending recommendations. The information was provided on 29 January 2018 and served as a basis for this Second Addendum to the Second Compliance Report.

5. GRECO selected Norway to appoint a rapporteur for the compliance procedure on Theme II. The Rapporteur appointed for the Second Addendum to the Second Compliance Report was Mr Jens-Oscar NERGÅRD. He was assisted by GRECO’s Secretariat in drawing up this report.

II. ANALYSIS

Theme II: Transparency of Party Funding

6. It is recalled that GRECO, in its Evaluation Report, addressed ten recommendations to Georgia in respect of Theme II. The Second Compliance Report concluded that recommendations iii, v and vii had been implemented satisfactorily and recommendations i, ii, iv, vi, viii, ix and x had been partly implemented. In the Addendum to the Second Compliance Report, GRECO concluded that recommendations i, ii, iv, vi, viii, ix and x remained partly implemented, as no tangible progress had been achieved by Georgia since the adoption of the Second Compliance Report, but noted
that improvements could be forthcoming, in light of the stated intention to amend the Electoral Code (EC) and the Law on Political Unions of Citizens (LPUC) following the October 2016 Parliamentary Elections.

7. The authorities now report that amendments to the EC and LPUC have been prepared by the Ministry of Justice, together with the State Audit Office (SAO) and the Central Election Commission (CEC), which will address most if not all pending recommendations below, as also highlighted in the Anti-Corruption Strategy of Georgia (2017-2018) and its corresponding Action Plan. The draft amendments will be submitted to the government for approval and to parliament for their adoption in the first half of 2018.

**Recommendation i.**

8. **GRECO recommended to proceed with the efforts to revise existing legislation in the area of political finance, with a view to establishing a more uniform legal framework, notably by aligning the (new) Election Code with the Law on Political Unions of Citizens (and vice versa).**

9. **GRECO recalls that according to the Compliance Report, the recommendation had been partly implemented. Efforts had been made to align the EC more closely with the LPUC and to remedy several gaps, but the extension of the transparency of party and campaign finance provisions in the LPUC to other election subjects remained questionable, the extensive cross-referencing between the LPUC and EC led to confusion and full alignment of the two laws had not been achieved. In the Second Compliance Report and its Addendum mention was made of the elaboration of concrete legislative amendments, *inter alia* by an ad hoc Working Group in 2014, under the leadership of the State Audit Office (SAO) in March 2015 and jointly by the SAO and the CEC in 2016. As these amendments were still under preparation, GRECO could only conclude that the recommendation remained partly implemented.**

10. The authorities now report that, as a result of the analysis by the SAO and the CEC, amendments to the LPUC and EC have been drafted by the Ministry of Justice (with the SAO and CEC). The draft amendments envisage a clarification of the scope of the LPUC, by providing *inter alia* that the LPUC not only sets rules for the creation and operation of political parties but also the rules on the monitoring of financial activities of other electoral subjects. In this context, it will be explicitly provided that provisions of the LPUC related to the property, finances and monitoring of financial activities of a political party or electoral subject also apply to natural and legal persons with “declared electoral goals” (and that the rules in the EC applicable to independent candidates will also apply to natural persons with “declared electoral goals”). Furthermore, the draft amendments are to remove the extensive referencing in the EC to the LPUC and will align the terminology between the EC and LPUC. According to the authorities, the draft amendments will first be discussed by the relevant working group of the Anti-Corruption Council and the government and subsequently submitted to the parliament for adoption in the first half of 2018.

11. **GRECO notes that further amendments to the LPUC and the EC, aimed at establishing a more uniform and consistent legal framework for political finance, are still under preparation. It urges the authorities to make every effort to speed up the legislative process.**

12. **GRECO concludes that recommendation i remains partly implemented.**
Recommendation ii.

13. GRECO recommended (i) to establish a standardised format for the annual financial declarations to be submitted by political parties, seeing to it that financial information (on parties’ income, expenditure, assets and debts) is disclosed in an appropriate amount of detail and (ii) to ensure that information contained in the annual financial declaration (including donations above a certain threshold) is made public in a way which provides for easy access by the public.

14. GRECO recalls that in the Compliance Report, it had been satisfied with the information provided with respect to the second part of the recommendation1. As regards the first part of the recommendation, GRECO welcomed the development by the SAO of a standardised format for annual party declarations (allowing for the disclosure of information on party income, expenditure and assets, with debts being reported on a separate form) but concluded that the continuing ambiguity about the applicability of all financial reporting obligations on persons with “declared electoral goals” did not allow it to conclude that the recommendation had been implemented satisfactorily (given that the LPUC only explicitly covered natural persons with “declared electoral goals”, whereas for legal persons these obligations were based on an SAO decree, and given that the applicability of the reporting requirements for persons with “declared electoral goals” beyond the period of elections was also only based on an SAO decree). The incongruous financial reporting requirements applicable to persons with “declared electoral goals” remained the only pending issue under this recommendation. In the Addendum to the Second Compliance Report, the authorities stated their intention to bring together all the rules on financial reporting requirements applicable to (natural and legal) persons with “declared electoral goals” in the LPUC, which led GRECO to conclude that the recommendation remained partly implemented.

15. The authorities now report that the Ministry of Justice, together with the SAO and the CEC, has prepared legislative amendments, according to which the above-mentioned provision in the SAO decrees will be moved to the LPUC. The draft amendments will be submitted to the parliament for adoption in the first half of 2018.

16. GRECO takes note of the legislative measures underway. It recalls that the intention to move the relevant provisions of the SAO decrees to the LPUC was already reported in the Addendum to the Second Compliance Report. GRECO calls upon the authorities to carry through this intention without further delay.

17. GRECO concludes that recommendation ii remains partly implemented.

Recommendation iv.

18. GRECO recommended to take appropriate measures to ensure that (i) in-kind donations, including loans (whenever their terms or conditions deviate from customary market conditions or they are cancelled) and other goods and services (other than voluntary work by non-professionals) provided at a discount, are properly identified and accounted for and (ii) membership fees are not used to circumvent the rules on donations.

1 Namely, that annual financial declarations of political parties covered information on any sum donated by natural persons and were to be made accessible on the SAO’s web-site, that the information on the receipt of donations and membership fees was to be reported to the SAO within five working days, and that the SAO was to ensure public access to it by publishing it on the web-site on a monthly basis.
19. GRECO recalls that in the Compliance Report, it had been satisfied – with respect to the second part of the recommendation – that by introducing an upper limit on membership fees and donations by natural persons per calendar year, opportunities to use membership fees to circumvent the rules on donations by natural persons were limited. Regarding the first part of the recommendation, GRECO had welcomed amended rules on the valuation of in-kind donations in Decree No. 142/37 of the General Auditor of 17 August 2012 “On approval of the financial reporting forms and the rule for filing with the purpose of ensuring the transparency in the financing of political activities”, but considered that it had not been provided with sufficient evidence that this decree contained clear and precise guidelines facilitating consistent reporting of in-kind donations by political parties and other election subjects, including in situations where non-monetary goods or services do not have an observable market value, and distinguishing clearly between professional and non-professional voluntary work. As in the Addendum to the Second Compliance Report no further progress had been reported, GRECO concluded that recommendation iv remained partly implemented.

20. The authorities now report that Article 51 of the above-mentioned Decree No. 142/37 provides that an estimation of the amount of an in-kind donation shall be based on the market value of a property or a service in accordance with International Valuation Standards (IVS). The SAO has purchased the 2017 IVS in the Georgian language from the Georgian Institution of Property Evaluation Experts and has elaborated its own guidelines on this basis. These guidelines formed the basis of a new draft decree of the Auditor General outlining the standards and methodology to be used for valuing in-kind donations, including as regards non-monetary goods and services which do not have an observable market value, and distinguishing clearly between professional and non-professional voluntary work. The new decree has been adopted and published in the legislative gazette on 14 March 2018.

21. GRECO welcomes the work which has been done on the guidelines for the valuation of in-kind donations, which appear to go in the direction intended by the recommendation. On the basis of the information provided, GRECO is satisfied that the standards and methodology outlined therein will contribute to improvements in the way in-kind donations are identified and accounted for by political parties and other electoral subjects in their reports.

22. GRECO concludes that recommendation iv has been implemented satisfactorily.

Recommendation vi.

23. GRECO recommended to take further measures to prevent the misuse of all types of administrative resources in election campaigns.

24. GRECO recalls that it had taken note of detailed explanations provided by the Georgian authorities on the exact content of Article 48(1) EC on prohibition of use of administrative resources in the election campaign and the guidelines of the CEC in this respect. However, it had remained concerned about the legal provision allowing for unlimited campaigning by high-level public officials, the multiplication of responsible bodies (i.e. the CEC, the SAO, the courts and the newly established Inter-Agency Task Force for Free and Fair Elections – IATF) and the low level of fines available in case of misuse of administrative resources (2 000 GEL / approximately EUR 840). In the Addendum to the Second Compliance Report, GRECO took note of the plans to amend the EC concerning campaigning by high-level public officials and the sanctions available in case of misuse of administrative resources. It also considered the information provided by the authorities that they did not see the need for institutional changes, in light of the fact that the IATF had been deliberately created in order to assist the existing bodies and to ensure quick and adequate
reaction to violations by adopting (after having verified pertinent signals) recommendations and proposals to responsible state bodies and the CEC. In the absence of tangible progress, GRECO concluded that the recommendation remained partly implemented.

25. The authorities now report that the Ministry of Justice, together with the SAO and the CEC, has prepared legislative amendments which envisage the deletion of the provision in the EC allowing for unlimited campaigning by high-level public officials and a doubling of the fine for misuse of administrative resources to 4 000 GEL (now approximately 1 300 EUR). As regards the multiplication of bodies dealing with this issue, the authorities report that the IATF was set up to mainly deal with cases of suppression of the political opposition and that it is hoped that in the long-term the existence of this taskforce will no longer be necessary. The intention to abolish the IATF, once it is ensured that this will not have an adverse effect on political processes in Georgia, has also been outlined in the National Anti-Corruption Strategy of Georgia.

26. GRECO recalls that in the Addendum to the Second Compliance Report it had already taken note of the plans for legislative amendments. In light of the concerns expressed by international observers to the 2016 parliamentary elections and 2017 local elections on the blurring of the line between the state and political parties, GRECO considers the deletion of the provision in the EC allowing for the unlimited campaigning by high-level public officials long overdue. Furthermore, GRECO welcomes the intended increase of the fine for misuse of administrative resources. As regards the IATF, against the background of the concerns GRECO has expressed earlier on the multiplication of responsible bodies, it takes note of the long-term objective to abolish this ad-hoc taskforce. GRECO considers that the real test for the success of any of the aforementioned measures is their enforcement during election campaigns. As in any case the draft amendments to the EC have not been adopted, GRECO cannot conclude that adequate measures to prevent the misuse of all types of administrative resources have now been taken.

27. GRECO concludes that recommendation vi remains partly implemented.

Recommendation viii.

28. GRECO recommended (i) to ensure that an independent mechanism is in place for the monitoring of the funding of political parties and election campaigns, in line with Article 14 of Recommendation Rec(2003)4 on common rules against corruption in the funding of political parties and election campaigns; (ii) to provide this mechanism with the mandate, the authority, as well as adequate resources to effectively supervise the funding of political parties and election campaigns, to investigate alleged infringements of political financing regulations and, as appropriate, to impose sanctions.

29. GRECO recalls that in the Second Compliance Report it had noted that monitoring party and election campaign financing and sanctioning breaches of the law in this respect had indeed been entrusted to a singly body, the SAO, and that – with respect to the previous expressed doubts about the independence and impartiality of the SAO in practice – the situation had improved sufficiently for it to conclude that the first part of the recommendation had been implemented. As regards the second part of the recommendation, GRECO identified the need to further strengthen the SAO’s competences, clarify its authority as regards independent candidates and to provide it with adequate resources. In addition, GRECO agreed with the Georgian authorities – as outlined in

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2 In this context, GRECO notes observations by international observers that in the most recent local elections the IATF was considered a useful forum in having election-related complaints heard, but that “a general confusion as regards the mandate of this body among election contestants remained”. 

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the Compliance Report – on the ambiguous constitutional nature of the SAO’s mandate in the field of political finance and on the need to make it clear in Article 97 of the Constitution that the SAO is competent to monitor any financing of political parties and of the campaigns of all electoral subjects, independent of whether they receive and use public funds. In subsequent reports, GRECO noted that while some progress had been achieved (including by enabling the SAO to impose sanctions for violations of political funding rules not only on parties and persons with “declared electoral goals”, but also on other election subjects and withdrawing this competence from the CEC), some apprehension remained as regards the competences of the SAO, the ambiguous constitutional basis of the SAO’s mandate and the fact that only administrative courts could decide on sanctions based on protocols of administrative violations filed by the SAO with the relevant city/district court. Finally, GRECO considered that even if the SAO’s budget had grown over the years, it had not been shown that this had been used to reinforce the capacity of the Financial Monitoring Service (FMS).

30. The authorities now report, as regards the second part of the recommendation, on the issue of resources provided to the FMS, that the annual budget of the FMS of the SAO has steadily increased from 282 204 GEL (approximately 92 000 EUR) to 440 000 GEL (approximately 143 000 EUR) in 2018. Furthermore, the Financial Monitoring Service (FMS) has 11 permanent employees, whose work is complemented by temporary staff employed for six-months during election periods. In addition, up to 200 professional auditors at the SAO can support the work of the FMS, as needed, in addition to the support provided by the Legal Department, which reviews the complaints and represents the SAO in court proceedings, and the regional audit departments of the SAO in Batumi and Kutaisi. For example, during the 2017 local elections, the FMS engaged 10 additional persons from other departments of the SAO. The authorities also point to the support received from international donors, such as the Council of Europe, International IDEA, IFES, NIMD and OSCE/ODHIR, and highlight that the support of the Council of Europe has inter alia allowed the SAO to put in place an electronic reporting system for submission of reports by political parties on their expenditure to the FMS. On the issue of the constitutional basis of the SAO’s mandate, the authorities maintain that no revision of Article 97 of the Constitution is necessary, as this article, read in conjunction with other legal provisions, enables the SAO to supervise not only the use of public funds by political parties, but also other income/expenditure (also of other electoral subjects). In this respect, they refer to the analogy provided by Decision #4/2167-16 of Tbilisi City Court in April 2016, in which a company (in which the state had more than 50% of the shares) challenged the SAO’s authority to monitor the part of its income not related to public funds. The Court held that the position of the company was unfounded and that Article 97 authorised the SAO to monitor the finance of the company deriving from state or private sources.

31. GRECO welcomes the increase in resources provided to the FMS, which represents a considerable improvement compared to the situation at the time of the adoption of the Evaluation and Compliance Report. As regards the mandate of the SAO in the field of political finance other than as regards the use of public funds, GRECO takes note of the information provided on the judgment of the Tbilisi City Court of April 2016, but considers that, as this clearly refers to a state-owned company, its analogous application to electoral subjects not making use of public funds is not a given. GRECO maintains that a more explicit recognition of the SAO’s authority to monitor any financing of political parties and campaigns of electoral subjects, irrespective of their use of public funds, would be needed (also in light of the fact that Article 6 of the Law on the SAO continues to refer only to the “financial monitoring of political parties (political unions of citizens)”). As regards the issue that the courts decide based on protocols issued by the SAO, GRECO welcomes reports from international observers that sanctions have been effectively imposed on electoral subjects in the past two elections (the parliamentary elections in October 2016 and the
local elections in 2017), even if some concerns about the length of procedures to obtain court approval of these protocols appear to remain.\(^3\) In conclusion, GRECO recognises that efforts are being made towards the implementation of the second part of the recommendation, but given the ambiguity that remains about the SAO’s mandate in this field, as previously highlighted by the authorities themselves, as well as the lack of information regarding a strengthening of the SAO’s competences, GRECO is as yet not in a position to conclude that this recommendation has been fully addressed.

32. GRECO concludes that recommendation vii remains partly implemented.

Recommendation ix.

33. GRECO recommended (i) to harmonise existing provisions on sanctions in the Election Code, Law on Political Unions of Citizens and Code of Administrative Violations; (ii) to ensure that effective, proportionate and dissuasive sanctions can be imposed for all infringements of the Election Code and Law on Political Unions of Citizens and on all persons/entities on which these two laws place obligations and (iii) to clarify the procedure for initiating and imposing sanctions pursuant to the Law on Political Unions of Citizens, including appeals/judicial review, and assess whether there is a need to do so in respect of the Election Code.

34. GRECO recalls that in the Second Compliance Report, it had found that the third part of the recommendation had been implemented satisfactorily (by including in the LPUC new provisions detailing the procedure for initiating and imposing sanctions and by assessing the relevant articles of the EC, according to which no further clarification was required). In addition, as regards the first and second parts of the recommendation, despite the more uniform and consistent sanctioning regime which had been created, GRECO remained concerned about the availability of different sanctions for identical infringements (e.g. for failure to submit a financial report), the fact that sanctions could not be imposed on all entities on which the law placed obligations (e.g. electoral subjects other than political parties which fail to submit an election campaign report) and the lack of proportionality of certain sanctions (e.g. on the one side the low level of monetary fines under the EC and LPUC and on the other side the suspension of state funding for failure to submit the financial report on time). In the Addendum to the Second Compliance Report, GRECO concluded – bearing in mind the information provided by the authorities of plans to amend the LPUC and EC – that the recommendation remained partly implemented.

35. The authorities now report as regards the first and second parts of the recommendation, that the Ministry of Justice, together with the SAO and CEC, have extensively reviewed the sanctioning regime under the EC and LPUC with a view to eliminating discrepancies and ensuring that the sanctions are effective, dissuasive and proportional. As a result of this review, the LPUC and EC will be amended, envisaging inter alia the elimination of different sanctions for identical infringements, the possibility to apply sanctions for all infringements of obligations the LPUC en EC impose on political parties, election subjects and/or legal or natural persons with a declared electoral goal (as appropriate), a doubling of most of the monetary fines foreseen under the LPUC and EC and the replacement of the sanction of suspension of state funding for failure to submit the financial report on time with a fine of 10 000 GEL (approximately 3 300 EUR).

36. **GRECO takes note of the information provided on amendments to the EC and LPUC, which appear to go in the direction intended by the first and second parts of the recommendation, harmonising the provisions on sanctions in the LPUC and EC and ensuring that effective, proportionate and dissuasive sanctions can be imposed for all infringements and upon all natural and legal persons on whom the laws impose party and election campaign finance obligations. However, these draft amendments have not been adopted yet.**

37. **GRECO concludes that recommendation ix remains partly implemented.**

**Recommendation x.**

38. **GRECO recommended to increase the limitation period for administrative violations of party and campaign funding regulations.**

39. **GRECO recalls that in the Compliance Report, the recommendation had been qualified as partly implemented, as the LPUC had been amended to extend the limitation period for administrative violations of party and campaign funding regulations to six years. The limitation period of two months under the EC (inter alia for violating the prohibition on the misuse of administrative resources and on vote-buying, which in some cases would only be uncovered long after the announcement of election results) had however not been extended. With the Addendum to the Second Compliance Report the authorities reported on plans for amending the EC in this respect, which led GRECO to conclude that recommendation x remained partly implemented.**

40. **The authorities now report that, in the above-mentioned process of analysing the legislation pertaining to elections, extensive discussions have taken place between the Ministry of Justice, the SAO and the CEC on the length of the limitation period. It was agreed that the limitation period of six years for violations of the EC would be too long, as such violations would need to be revealed in the shortest time possible and that the limitation period for party funding regulations in the LPUC would consequently also need to be shortened to align it with the envisaged amendments to the EC. The draft amendments to the EC and LPUC, which foresee respectively an increase of the limitation period from two months to three years under the EC and a decrease from six to three years under the LPUC, are expected to be adopted in the first half of 2018.**

41. **GRECO takes note of the discussions in Georgia on establishing an adequate limitation period for violations of party and campaign funding regulations. It can agree that a limitation period of three years appears reasonable and urges the authorities to amend the EC in this respect without further delay.**

42. **GRECO concludes that recommendation x remains partly implemented.**

**III. CONCLUSIONS**

43. **In view of the above and previous reports, GRECO concludes that to date in total nine out of fifteen recommendations have been implemented.** Since the adoption of the Addendum to the Second Compliance Report in December 2016, one recommendation has been implemented. Some further progress appears to be underway, but in general limited results have been achieved by Georgia as regards the implementation of the recommendations found to be partly implemented in both the Second Compliance Report and Addendum to the Second Compliance Report. Six recommendations – out of fifteen in total – remain partly implemented.
44. With respect to Theme I – Incriminations, as indicated in earlier reports, all five recommendations have been implemented satisfactorily. GRECO welcomes the swift amendment of the Criminal Code in 2011, which brought the relevant legal provisions in line with the Criminal Law Convention on Corruption, the criminalisation of bribery of foreign arbitrators and jurors, and the subsequent ratification of the Additional Protocol to the Criminal Law Convention on Corruption.

45. With respect to Theme II – Transparency of Party Funding, four recommendations (iii, iv, v and vii) have now been implemented satisfactorily and six (i, ii, vi, viii, ix and x) remain partly implemented. GRECO notes the important progress that has been achieved in the almost seven years since the adoption of the Evaluation Report, in particular in ensuring that an independent mechanism is in place for the monitoring of political party and election campaign funding and in providing that information on the income and expenditure of political parties is made public in an accessible manner. That said a number of issues are still pending. GRECO recalls that in the Second Compliance Report and its Addendum mention was already made of the drafting of concrete legislative amendments, inter alia by an ad hoc Working Group in 2014, under the leadership of the SAO in March 2015 and jointly by the SAO and the CEC in 2016. It was planned to adopt all the latter following the 2016 parliamentary elections. Now, once again, new amendments to the LPUC and EC appear to have been drafted, this time by the Ministry of Justice together with the SAO and CEC, with the potential of addressing the pending recommendations. GRECO regrets that – following what appears to be a process of careful preparation of amendments to the LPUC and EC – the adoption of these legislative amendments in important areas covered by the pending recommendations has not been pursued with a greater sense of urgency since the adoption of the Evaluation Report almost seven years ago. GRECO urges the authorities of Georgia to complete these legislative reforms without further delay. The Georgian authorities may wish to keep GRECO informed of the developments in this regard.

46. The adoption of this second Addendum to the Second Compliance Report terminates the Third Round compliance procedure in respect of Georgia.

47. GRECO invites the authorities of Georgia to authorise, as soon as possible, the publication of this Second Addendum to the Second Compliance Report, to translate it into the national language and to make the translation public.