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Contradictory models of local government in Georgia

Over the last 28 years of Georgia’s independence, the development of self-governance has been challenged by numerous complications and setbacks. Frequent efforts to reform the system have resulted in Georgia developing contradictory models of municipal systems, while at the same time struggling to overcome war, economic collapse and revolution. The transformation of local self-governance has had several stages, some of which saw the reduction of municipal executive power and fiscal independence.

In 1991, the Georgian government made first attempts to get rid of the soviet heritage and make self-governance possible. Multi-party municipal elections were held and a number of guarantees were created for communal self-governance. However, these steps were insufficient as the central government created the President-appointed prefects for the regions to exert influence on the local self-governance bodies. Even though the municipalities still had extensive authority compared to today’s model, insufficient financial resources due to severe economic conditions made these powers futile.¹

The United National Movement government continued centralization of power after the Rose Revolution in 2003. This was visible both on central and local levels. In 2006, the lower level of self-governance authorities was abolished with the idea that bigger territorial entities as districts would have more financial resources to govern and fulfil their rightful functions. In reality, the districts lost resources available to them as shared taxes were abolished and their collection became fully centralized. Even though the economic boom propelled improvement of infrastructure and major services in Georgia through central authorities, own tax revenues of local authorities shrank, rendering the municipalities profoundly dependent upon the central government in political and financial regard.

Later in 2013, an important step was made when the constitutional reform enshrined self-governments’ autonomy in the Constitution. With the Georgian Dream political coalition coming to power, reforms continued and a new local self-government code was adopted in 2014. The code envisaged significant changes designed to increase the power and fiscal independence of municipalities:

- Fiscal Decentralization – before the reform, the local self-governments’ own revenues included property tax, local fees and an equalization transfer. Whereas, with the new

Code the financial resources of local self-government also includes the so-called “shared tax”. It is a portion of the income tax paid by a person registered and employed in the territory of a self-governing unit. An additional new type of transfer – capital transfer was also created, which includes funds for construction, renovation and maintenance of public infrastructure – roads, bridges, hospitals, schools, etc., which were previously funded through special transfers (see Chart #2). Additionally, part of state property located on the territory of the municipality was transferred in the ownership of the municipalities.\(^2\)

- **Municipal Authority** – Article 16 of the code added specific powers to the municipalities with regard to provision of water and sewage, development of local melioration systems, development of relevant infrastructure for persons with disabilities, children and the elderly at the facilities of local importance.\(^3\)

- **Increase in the Number of Municipalities** – The reform increased the number of self-governing units in Georgia from 69 to 76 by granting the self-governing city status to 7 additional cities: Telavi, Ozurgeti, Zugdidi, Ambrolauri, Gori, Mtskheta and Akhaltsikhe. However, this change was short-lived as in 2017, right before the local government elections, these 7 cities lost their self-governing status, which was a clear reversal of the Government’s commitment towards decentralization.\(^4\)

- **Election of Mayors** – a 50% threshold was introduced for electing city and municipality Mayors. Additionally, mayors are being elected for 4 years instead of 3.\(^5\)

Despite notable improvements of the latest reform, fiscal and political independence of the municipalities is still questionable, as suspicions of political influence and use of budgetary resources for the control of local authorities are still prevalent.

This paper attempts to find evidence, or lack thereof, for these suspicions by taking a deep, data-driven look at three municipalities in Georgia: 1. Kutaisi, the third largest city in the country enjoying the self-governing status, 2. Telavi, a regional center that briefly gained the self-governing status, and 3. Marneuli, a municipality the same size as Telavi and populated by an ethnic minority but without any self-governing status.


The structure and authority of local government in Georgia


As of 2018, local level comprises 5 self-governing cities and 64 municipalities. Each of these entities can be further divided in sub-municipal administrative units. The municipalities can also be grouped into nine regions.

According to the law, “a self-governing unit” (“a municipality”) is a settlement (a self-governing town) or a group of settlements having an independent legal personality. The representative body of a municipality is a collegial administrative body - Municipal Council (Sakrebulo). The Municipal Council is elected for 4 years by citizens of Georgia registered on the territory of the municipality through direct elections.

The executive body of the municipality and the highest official of the municipality is the Mayor. The Mayor is elected for 4 years by direct elections. The Municipality Administration is an institution subordinated to the Mayor, which ensures the execution of the Mayor's authority.

The municipalities' own powers are the following: 7

**Budgetary and Financial:** A) Preparation, review and approval of the municipal budget project, amendment to the approved budget, hearing and assessment of the budget execution report, management of budget funds, treasury financial transactions and bank transactions; B) Management and disposal of property owned by the municipality; C) Management of natural resources of local importance, including water and forest resources and municipality owned land resources; D) Introduction and abolition of local taxes and fees, and determining their rates.

**Infrastructure Maintenance:** Improvement of municipality territory and development of appropriate engineering infrastructure; Cleaning of streets, parks, squares and other public places on the territory of the municipality, landscaping, providing outdoor lighting;

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managing the roadways of local importance and organization of traffic on local roads; Providing parking facilities; Arrangement and maintenance of cemeteries.

**Regulatory:** A) Managing municipal transport; Regulation of street vending, exhibitions, markets and fairs; B) Issuing construction permits and supervision of construction on the territory of the municipality; C) Regulation of issues related to holding meetings and manifestations; D) Regulation of outdoor advertising; regulation of traffic (parking) rules.

**Service Provision and Utilities:** A) Management of municipal waste and wastewater; B) Provision of water supply; Development of the local amelioration system; C) Establishment and management of early and pre-school education and education institutions.

**Finances and revenues of local government units in Georgia**

Municipal budgets are separate from Georgia’s State Budget and the budgets of the two autonomous republics of Georgia – Abkhazia and Adjara. In order to implement their duties and responsibilities, local government units receive the 4 types of transfers from the central budget, in addition to their own revenues.

The receivables of the municipal budget comprise:

1) Own revenues
2) Non-financial assets (funds received from transactions performed with non-financial assets)
3) Financial assets (funds received from transactions performed with financial assets)
4) Liabilities (funds received after covering liabilities)
5) Transfers

There are 4 types of transfers, some of which are earmarked and some not:

a) **Equalization Transfers** (non-earmarked) – An equalization transfer is an amount allocated for a municipal budget from the state budget of Georgia with the purpose of leveling out of different financial capabilities of municipalities, taking into consideration their economic potential. The procedure and formula for the calculation of an equalization transfer are determined by the Budget Code of Georgia.

b) **Capital Transfers** (earmarked) – Capital transfers are used to fund capital projects such as building and maintenance of infrastructure, i.e. growth of non-financial assets of the recipient.
c) **Targeted Transfers** (earmarked) – Targeted transfers are designated for the execution of delegated authority.

d) **Special Transfers** (earmarked) – Special transfers are allocated to eliminate the consequences (damage) of natural calamities, ecological and other disasters, wars, disease outbreaks and other contingencies, as well as to carry out other activities.

### Fiscal independence of municipalities

In the aftermath of the 2013 Rose Revolution, the own revenues of municipalities started to decrease on an annual basis. One of the reasons for this was that the number of local and shared taxes decreased from 12 to 4 after the 2006 reforms. As tax collection became centralized, only property tax was considered to be own income for municipalities, with income tax being earmarked only for delegated powers, until the 2014 reform. Consequently, local government own revenues decreased dramatically from 50% of the local budget in 2007 to 15% a year later in 2008.8 The same goes for the share of municipal budgets in the consolidated budget, dropping from 30% to a meager 2.3% over several years following the 2006 reform.9 Even after the 2014 reform, transfers still constitute the largest portion of municipal budgets.

From 2010 until 2017, transfers constituted 70% of municipal budgets on average, indicating that financially, municipalities are still significantly dependent on the good will of the central authorities (see *Chart #1*).

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On a positive note, following the 2014 reform, own resources (indicated as “other”) of municipalities have been increasing on an annual basis, thus increasing the level of independence of local governments to a certain extent (see Chart #2).
Election results from the past 16 years show that municipal elections are strongly affected by the results of the central elections. During all elections held during this period, the winning political party, which had managed to receive sufficient votes to control the parliament and the government, also won local government elections in almost all municipalities. This was true both for the United National Movement (UNM) and the Georgian Dream (GD) governments.

On average, the UNM won 65.65% of mandates through party list and 68.67% through first past the post in municipal councils during the 2010 local government election. Therefore, no single municipality had an opposition party majority in municipal councils for the following 4 years (see Photo #1).
In 2012, the Georgian Dream won the parliamentary elections and a new government was formed. In 2014, Georgia had local level elections and the same trend similar to previous elections was visible. The ruling party won every single municipal council. Overall, GD won 50.72% of votes by party list and 44.71% first-past-the-post votes (see Photo #2).

* Blue indicates GD’s color and respective majority in municipalities. Source: Georgian Election Data
The observation that central elections influence election results on municipal level is reinforced by the fact that many representatives of municipal authorities have usually been migrating to the winning political force with a majority of seats in the Parliament. For instance, in 2003, more than 70% of representatives of local self-governance bodies became members of the UNM. The same happened after the coalition GD won the parliamentary election in 2012 when more than a half of the members of local legislative bodies left the UNM to join the GD.

Despite fiscal dependency of municipalities on central government, there is no conclusive statistical evidence to suggest that the central authorities have been misusing budgetary transfers to influence the results of the elections. It is true that election years are usually marked with more transfer of funds from the central government to local governments. For instance, during the 2010 municipal election year, 34% more funds were transferred to municipalities compared to 2009. Before the 2014 municipal elections, 10% more transfers were made to municipalities compared to 2013. However, this pattern is consistent with the general growth of the state budget, where the share of transfers was gradually increasing annually, until 2015.

### Development funds received by Kutaisi

**Context: The Georgian public procurement system**

The Georgian public procurement system underwent a major reform in 2010, when the old paper-based process was substituted by a centralized, online, open and automated procurement system. All state entities, including local government units, their subordinate legal entities and enterprises, were obligated to use the new system, the management of which was entrusted to a separate state entity with relatively high level of independence.

The reform led to major improvements. The centralized nature of the system increased efficiency, savings (Georgia saved more than GEL 1.6 billion - almost USD 650 mln with the current exchange rate - since 2010 through competitive procurement procedures) and leveled the playing field for all potential suppliers. The automated, dehumanized nature of the system contributed significantly to the reduction of corruption risks and better accountability in general. And the transparent nature of the system enabled the

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11 Ibid.
government and other stakeholders to start keeping statistics and closely monitor the entire procurement process. The reform was successful enough to be recognized worldwide and later emulated by other countries.\(^\text{12}\)

Despite the major initial success, the system continues to struggle with major challenges in terms of:

- **Scope** - the Law on Public Procurement does not apply to utilities and contingency funds\(^\text{13}\);
- **Efficiency** - 30\% of all tenders in 2011-2015 failed;\(^\text{14}\)
- **Competitiveness** - 48.2\% of all tenders in 2015 - 2017 had a single bidder\(^\text{15}\); 24\% of all procurements were conducted through direct contracts in 2017\(^\text{16}\); and
- **Transparency** - the system does not enable users to extract pre-filtered, aggregate, machine-readable data.\(^\text{17}\)

### Budget transfers received by Kutaisi

Kutaisi is the third largest city in Georgia and has the self-governing status. The status grants it greater autonomy and financial independence through more sources of own revenue. Election results in Kutaisi have followed the general trend in the country: the city was run by UNM until 2014, when the Georgian Dream coalition won the local elections in all municipalities of the country, including Kutaisi, and has managed to keep its majority in the 2017 local elections.

Over the past 7 years, 39.8\% of Kutaisi budget had been its own revenue, which is almost 10\% higher than the national average of 30\% (*see Chart #3*). In addition, comparatively speaking, Kutaisi has received twice more non-earmarked (equalization) transfers (40.1\% of the budget) than earmarked (capital, special and targeted) transfers (20.1\%). This difference

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\(^{\text{12}}\) Georgia ranks second in the [Transparent Public Procurement Rating](https://www.transparency.org/en/ratings), falling just behind Ukraine that took the Georgian experience to the next level with its Prozorro system.

\(^{\text{13}}\) Due to the Association Agreement with the EU, Georgia will cover Utilities and Contingency Funds in the coming years.


\(^{\text{17}}\) This problem has prompted non-governmental actors to set up complementary online tools, such as [http://www.tendermonitor.ge/en](http://www.tendermonitor.ge/en); The Public Procurement Agency is currently working on providing this option to stakeholders through a separate website - [http://opendata.spa.ge/](http://opendata.spa.ge/).
is much less pronounced in the national average (34% non-earmarked vs. 36% earmarked) and suggests that Kutaisi is more financially independent from the central government than the majority of municipalities in the country.

A breakdown of transfer amounts received by Kutaisi over the last 7 years does not suggest a clear correlation with election periods. The only clear exception to this is the year 2012, when the amount of special transfers received by Kutaisi almost tripled compared to the previous year from 6.2 to 17.7 mln GEL (see Chart #4). This increase was partly due to the allocation of a large sum of money (3.5 mln GEL) from the government's and president's contingency funds, which, according to a 2013 report by IDFI\textsuperscript{18}, was not an isolated example of municipalities receiving more than usual amounts of funding from the contingency funds in the span of a short period in the summer of 2012, a few months before the parliamentary elections that would ultimately result in the defeat of the ruling party.

\textsuperscript{18} https://idfi.ge/en/special-transfers-in-the-regions-in-the-pre-election-period-14
No noticeable changes in transfer amounts can be observed for the 2014 local government elections, which was when political power changed hands from UNM to GD on the municipal level. The total amount of transfers peaked in 2015 - a non-election year, after which it took a downward turn, just as own revenue of municipalities overtook equalization transfer as the largest component of the municipal budget in Kutaisi as well as on average in all other municipalities of the country.

![Chart #4: Kutaisi Budget Revenue Composition by Year (2011-2017) (thousand GEL)](chart)

**Procurement analysis of development funds for Kutaisi**

Kutaisi has performed relatively well since the introduction of the centralized public procurement system in 2010:

- Kutaisi has conducted almost 5,000 open tenders and signed more than 2,000 direct procurement contracts.
- The city has an impressively low use of direct contracts. Since 2010, the city spent only 7.6% (27 mln GEL) of its procurement budget through the direct procurement

procedure, which is much lower than the rather high (albeit decreasing) national average of 35% (average of the period 2011-2017).

- Kutaisi saved an impressive 28% of public funds through open tendering since 2010, which is well above the national average of 14% in the same period.\(^{19}\)

- 25% of all tenders announced by Kutaisi failed, which is slightly lower than the alarming national average of (30%).\(^{20}\)

As for procurements conducted using earmarked infrastructure funding allocated to Kutaisi from the central budget:

1. In 2013-2017, Kutaisi received GEL 62.57 million (USD 25 million) as capital transfers (development funds) from the central budget (see Table #1). The funds were transferred by the Ministry of Regional Development and Infrastructure through its Regional Project's Fund (RPF).

2. There is no clear correlation between the amounts transferred each year and whether or not it was an election year.

3. Kutaisi used these funds to conduct 149 open tenders (distributed relatively evenly over the period of 5 years) for the purpose of procuring almost exclusively construction and renovation of buildings and roads.

4. The 149 tenders were won by 50 different companies. Each year in 2013-2016, the top 5 companies received between 65 and 75% of total contract value. This number was relatively low in 2017 (55%) most likely due to higher competition compared to previous years. Overall, top 10 of the 50 contracted suppliers received 66% of the total contract value in 2013-2017.

5. Kutaisi made most of these procurements with a certain degree of co-funding from its own budget. On average, Kutaisi co-funded 15.2% of these purchases (ranging from 5% in 2016 to 35% in 2017).

6. There were no cases of a winning company being registered within a year prior to the announcement of the tender, except one, when a winning company was registered two weeks before the announcement of a minor tender in 2013 that was worth GEL 12,000 (USD 5,000).

7. Kutaisi has not signed any direct contracts\(^{21}\) to procure works funded from the Regional Project's Fund. This is a clear change from before 2012, when the use of direct procedure for infrastructure projects was common in Kutaisi.

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\(^{19}\) Although such high savings could suggest problems with price estimation.


\(^{21}\) Negotiated procedure without prior publication.
8. The average number of bidders fluctuated between 2 and 2.3, except in 2017, when the average increased to 2.8. The above range is close to the average number of bidders (2.26)\textsuperscript{22} in all of Kutaisi’s tenders since 2010, as well as to the national average of 2.014 in the same period.

9. Kutaisi has saved an average of 11.2\% by conducting open tenders for its centrally funded infrastructure projects, which is below the national average of 14\%, and considerably less than the impressive average savings (28\%) made by Kutaisi through all of its open tenders since 2010.

10. Extension of contract duration was quite common, with 102 of the 149 contracts (68\%) being extended. On average, the duration was extended by 3.5 months, ranging anywhere from 10 days to a year and a half. One notable outlier was a 6 month road construction project worth GEL 840,000 in 2013 that was extended by as much as 4 years.

11. The initial price of the contract was increased in 19 of the 149 contracts. In 6 of these 19 cases, the final increased price exceeded the estimated price of the tender.

12. Only two of the 149 contracts were terminated for failure to fulfill contractual obligations.

<table>
<thead>
<tr>
<th>Table #1: Assorted Indicators of Procurement Conducted by Kutaisi Using Development Funds Received from the Central Budget (2013-2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>Funding received from RPF (mln GEL)</td>
</tr>
<tr>
<td>Average number of bidders</td>
</tr>
<tr>
<td>Average saving (%)</td>
</tr>
</tbody>
</table>

* The high saving in 2017 is largely due to a significant outlier (a 2 year road construction project, the value of which decreased from 2.8 to 1.8 mln GEL through competition between 7 participants), without which the average saving drops to 8.9 %.

**Political donations of suppliers contracted by Kutaisi with its development funds**

Georgian legislation allows political parties to receive donations from Georgian citizens and legal entities: a maximum of GEL 60,000 per year from a natural person and a maximum of

\begin{footnote}{\url{http://www.tendermonitor.ge/ge/organization/36613}}

\textsuperscript{22}http://www.tendermonitor.ge/ge/organization/36613
GEL 120,000 per year from a legal entity. All political parties are also required by law to report their donations to the State Audit Office, which then makes this information public.

Of the 50 companies contracted by Kutaisi to implement its infrastructure projects funded through capital transfers from the central budget, none can be found in the political donors database. However, in case of 4 companies, their owners had donated to political parties at various points in 2013-2016 (3 cases of donation to the ruling Georgian Dream party and 1 case of donation to an opposition party):

1. On June 3, 2014, **Vakhtang Marjanidze**, a 100% shareholder of LLC MJM, donated the maximum allowed GEL 60,000 to the Georgian Dream ruling party. MJM has been a regular supplier since 2013, having won GEL 11.8 mln worth of competitive contracts from various contractors, most of which came from Kutaisi, including 9 capital transfer funded competitive contracts worth a total of GEL 4.3 mln between 2013-2016. The company has received 2 minor direct contracts and a third one worth GEL 129,900 from Kutaisi.

2. On September 28, 2016, **Nugzar Khutsaidze** - a 32% shareholder of LLC Serpantini, donated GEL 50,000 to the ruling Georgian Dream party. Serpantini has been a regular supplier since 2011, having won GEL 72 mln worth of competitive contracts from various contractors, including a single capital transfer funded road works contract worth over 1 mln GEL from Kutaisi in 2013. The company also received GEL 6 million worth of direct contracts, but none from Kutaisi.

3. On September 12, 2017, **Davit Zhghenti** - 100% shareholder of LLC New Road, donated GEL 30,000 to the ruling Georgian Dream party. New Road has been a regular supplier since 2011, having won GEL 50.8 mln worth of competitive contracts from various contractors, including 2 capital transfer funded road works contracts worth GEL 1.79 mln from Kutaisi in 2013. The company has not received any direct procurement contracts.

4. In September 2016, **Lasha Kldiashvili** - 100% shareholder of LLC Dala 73, donated GEL 2,610 to a fringe opposition party Democratic Movement - United Georgia. Dala 73 was a relatively regular supplier between 2013-2016, having won GEL 6 mln worth of competitive contracts from various contractors, including a capital transfer funded road works contract worth GEL 380,000 from Kutaisi in 2013. The company has received a single minor direct contract.
Development funds received for Telavi and Marneuli

Telavi and Marneuli are two cities of almost identical size in Georgia (19,629 and 20,211 citizens, respectively). Each town serves as the administrative center of two municipalities with the same name, but Telavi is also the administrative center of the larger Kakheti region. Marneuli municipality as a whole is primarily populated by the ethnic Azerbaijani minority (more than 80%) and is almost twice the size of Telavi municipality (104,300 and 58,350 citizens, respectively).

While both Telavi and Marneuli ultimately voted in favor of the ruling Georgian Dream party in the 2014 local government elections, Marneuli started out with an overwhelming support (79%) of the previous United National Movement ruling party during the decisive (but less predictable) 2012 parliamentary elections, and once the change of power took place, the municipality dramatically switched its support to the new Georgian Dream ruling party by voting just above 50% in the 2014 local elections and as much as 69% in the 2017 local government elections. This follows a long observed trend in the voting habits of minority populated regions in Georgia, whereby the ruling party, no matter its political stance, receives overwhelming support.

Another significant difference between the two municipalities was the fact that the city of Telavi was briefly granted the status of a self-governing city between 2014 and 2017 as part of the now scrapped local government decentralization reform. Even though Marneuli is slightly more populous than Telavi, it did not receive the same status due to the fact that it is not a regional administrative center.

Budget revenues of Telavi and Marneuli municipalities over the past 8 years suggest that the latter has enjoyed a greater degree of self-sufficiency and financial independence, despite the fact that the former had greater legal opportunities to do so. 41.5% of Marneuli budget had been its own revenue (see Chart #6), as opposed to 34.9% in case of Telavi (see Chart #5), which is closer to the national average over the same period (30%). Marneuli also received more non-earmarked (equalization) transfers (33.6% of the budget) than earmarked (capital, special and targeted) transfers (25%), the difference being greater than the national average (34% non-earmarked vs. 36% earmarked), while Telavi received slightly more earmarked transfers (33%) than non-earmarked ones (32.2%).

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24 Georgian Election Data, available at: https://data.electionsportal.ge/en
Chart #5: Tevlavi Budget Revenue Composition (2010-2017)

Equalization Transfer: 32.2%
Capital Transfer: 13.9%
Special Transfer: 17.8%
Targeted Transfer: 1.3%
Own Revenue: 34.9%

Chart #6: Marneuli Budget Revenue Composition (2010-2017)

Equalization Transfer: 33.6%
Targeted Transfer: 1.2%
Capital Transfer: 9.7%
Special Transfer: 14.1%
Own Revenue: 41.5%
A breakdown of transfer amounts received by Marneuli and Telavi over the last 8 years does not suggest a clear correlation with election periods. The only clear exception to this is the year 2012, when the amount of special transfers received by Telavi doubled compared to the previous year from 2.2 to 5 mln GEL (see Chart #7). This change is in line with the overall trend of special transfers peaking in 2012, coinciding with the parliamentary elections.

No noticeable changes in transfer amounts in either municipality can be observed for the 2014 local government elections, which was when political power changed hands from UNM to GD on the municipal level. The total amount of transfers in Marneuli peaked in 2015 - a non-election year (see Chart #8), after which it took a downward turn, just as own revenue of municipalities overtook equalization transfer as the largest component of the municipal budget in Marneuli as well as on average in all other municipalities of the country.
General public procurement performance of Telavi and Marneuli

While both Telavi and Marneuli have performed better than the national average on many public procurement related indicators since the introduction of the centralized public procurement system in 2010, Marneuli has done better than Telavi:

- Both municipalities have made relatively low use of direct contracts. Since 2010, Telavi spent about 13.3% (13.7 mln GEL) and Marneuli about 9.2% (19 mln GEL) of its procurement budget through the direct procurement procedure, which is much lower than the rather high (albeit decreasing) national average of 35% (average of the period 2011-2017).
- Marneuli saved an impressive 27.9% of public funds through open tendering since 2010, which is well above the national average of 14% in the same period. Telavi saved 13.4% of its public procurement budget through open tenders.

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25 Due to the fact that the local government decentralization reform was reversed, the report presents aggregate data for the 3 different administrative units that Telavi municipality found itself divided into in the period between 2010 and 2017.

26 Although such high savings could suggest problems with price estimation.
- Both municipalities had about 13% of their tenders fail (no bidders), which is considerably lower than the alarming national average of (30%).
- Marneuli also had a higher average number of bidders at 2.12, which is slightly higher than the national average of 2.014 in the same period. While Telavi had 1.88 average bidders on its tenders, this number was higher – 2.35 before the municipality was briefly split into two separate administrative units in 2014-2017, which could have contributed to the decrease in competition.

**Procurement analysis of development funds received by Telavi and Marneuli**

Municipalities in Georgia receive development funds from two main sources: the Regional Project’s Fund (RPF) and the Village Support Program (VSP), both run by the Ministry of Regional Development and Infrastructure. While both programs fund various infrastructural works, such as construction and renovation of roads and buildings, water systems and other infrastructural works, the RPF provides funding for projects worth 50,000 GEL and above, while the VSP finances smaller projects, mostly outside local administrative centers.

In 2012-2016, Telavi municipality received a total of 4.5 mln GEL from the VSP, while Marneuli municipality received twice as much – 10 mln (see Table #2). However, the amounts allocated are in close correlation with the population of these municipalities, since the rural population of Marneuli municipality is about double that of Telavi. The allocated amount also seems to be unaffected by election periods; both municipalities have received a slowly but steadily increasing amount of funds between 2012 and 2016.

When implementing VSP funded projects, both Telavi and Marneuli made extensive use of direct contracting prior to 2016, even though the legal threshold for using this procedure is only GEL 5,000. Since 2016, both municipalities have moved to using open, competitive tenders exclusively. This could have been prompted either by a change in the policy of the Ministry of Infrastructure or by the introduction of an intermediary mechanism, whereby contractors require authorization from the State Procurement Agency to use the non-competitive procedure.

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28 This also being the reason why Kutaisi, a self-governing city without any villages inside its administrative borders, does not receive any funding from the VSP.
29 Negotiated procedure without prior publication
Table #2: Development Funds Received by Telavi and Marneuli Municipalities from the Village Support Program between 2012 and 2016 (GEL)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telavi</td>
<td>869,699</td>
<td>899,094</td>
<td>904,622</td>
<td>911,070</td>
<td>961,996</td>
<td>4,546,481</td>
</tr>
<tr>
<td>Marneuli</td>
<td>1,954,336</td>
<td>2,062,938</td>
<td>2,008,275</td>
<td>1,999,451</td>
<td>2,154,106</td>
<td>10,179,106</td>
</tr>
</tbody>
</table>

In 2013-2017, Telavi and Marneuli received 18 and 16.8 mln GEL, respectively, as capital transfers (development funds) from the Regional Project's Fund (see Tables #3 and #4). There does not seem to be a clear correlation between the amounts transferred each year and whether or not it was an election year. In fact, both Telavi and Marneuli received less funding during the 2014 and 2017 election years (compared to the previous year).

A total of 99 infrastructure projects were funded from the RPF in Telavi and 51 in Marneuli, all of which were implemented through public tenders: 60 in Telavi and 42 in Marneuli. Analysis of these tenders shows that:

1. Despite relatively high competition in development tenders announced by both Marneuli and Telavi, both municipalities had most of their funds go to a small number of suppliers, with a single supplier dominating all the others in both cases. Telavi tenders were won by a total of 25 different companies, while Marneuli tenders were won by only 17. Top 5 companies received 75.2% and 80.8% of all RPF development funds allocated to Marneuli and Telavi, respectively. Moreover, 42.4% of all funds was won by a single company in Telavi, while 38.3% was won by a single company in Marneuli.

2. While both Telavi and Marneuli co-funded some of these procurements, Telavi co-funded only 5% of the cost in 2016 and 8% in 2017, while Marneuli went from co-funding 6.7% of the cost in 2014 all the way up to 46% in 2017.

3. There were no cases of a winning company being registered within a year prior to the announcement of the tender, except one in Telavi, when a winning company was registered 6 months prior to winning a medium size tender (GEL 177,000) in 2015.

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30 With the exception of a single minor direct contract issued by Telavi.
4. In 2013-2017, neither Telavi nor Marneuli have signed any direct contracts to procure works funded from the Regional Project’s Fund.

5. Both Telavi and Marneuli had higher average number of bidders (2.53 and 3.79, respectively) in the RPF tenders than their overall average since 2010 (1.88 and 2.12, respectively). Even though Marneuli did perform better than Telavi in this sense, Marneuli tenders were still won by a concentrated group of suppliers.

6. Both Telavi and Marneuli saved an average of 13-13.4% by conducting open tenders for their centrally funded infrastructure projects, which is just below the national average of 14%.

7. Extension of contract duration was not uncommon. Marneuli extended 8 of its 42 contract by an average of 4 months each, while Telavi extended 22 of its 60 contracts by an average of 0.9 months.

8. The initial price of the contract was increased in 4 of the 42 contracts in Marneuli and none in Telavi. In one of these 4 cases, the final increased price exceeded the estimated price of the tender.

9. No contracts in either municipality were terminated for failure to fulfill contractual obligations.

<table>
<thead>
<tr>
<th>Table #3: Assorted indicators of procurement conducted by Telavi using development funds received from the central budget (2013-2017) (mln GEL)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>Funding received from RPF (mln GEL)</td>
</tr>
<tr>
<td>Average number of bidders</td>
</tr>
<tr>
<td>Average saving (%)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Table #4: Assorted indicators of procurement conducted by Marneuli using development funds received from the central budget (2013-2017)</th>
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</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>Funding received from RPF (mln GEL)</td>
</tr>
<tr>
<td>Average number of bidders</td>
</tr>
</tbody>
</table>
Political donations of suppliers contracted by Marneuli and Telavi

Of the 17 companies contracted by Marneuli and 25 by Telavi to implement infrastructure projects funded through capital transfers from the Regional Project's Fund, none can be found in the political donors’ database. However, in case of 4 companies in Telavi and 1 company in Marneuli, their owners had donated to political parties (all but one donated to the Georgian Dream) at various points in 2012-2017:

Marneuli: On June 2, 2014, Giorgi Miruashvili, a 100% shareholder of LLC Kavkasenergo, donated the maximum allowed GEL 60,000 to the Georgian Dream ruling party. On the same day, GEL 30,000 was donated to the same party by Zviad Meskhi, who would become the sole shareholder of Kavkasenergo 2 months after the two donations. Two years earlier, on September 12, 2012, the director of the company Zurab Javelidze donated GEL 60,000 to then ruling party UNM 2 weeks prior to the 2012 parliamentary elections, where UNM would be voted out of office. LLC Kavkasenergo has been a regular supplier since 2013, having won GEL 9.5 mln worth of competitive contracts from various contractors, including 3 capital transfer funded water supply works contracts worth GEL 577,000 from Marneuli in 2013.

Telavi:

1. On September 12, 2017, Sopio Lachashvili, a 30% shareholder of LLC Gzamsheni 2005, donated GEL 30,000 to the Georgian Dream ruling party. Gzamsheni has been a regular supplier since 2011, having won GEL 28.8 mln worth of competitive contracts from various contractors, including 9 capital transfer funded infrastructure contracts worth GEL 4 mln from Telavi between 2013 and 2017.

2. On June 8, 2012, Davit Kapanadze, a 100% shareholder of LLC L&K, donated GEL 7,000 to the then ruling party UNM. L&K has been a regular supplier since 2011, having won GEL 4.9 mln worth of competitive contracts from various contractors, including a single capital transfer funded water works contract worth GEL 140,000 from Telavi in 2017.

3. On September 28, 2016, Nugzar Khutsaidze - a 31% shareholder of LLC Serpantini, donated GEL 50,000 to the ruling Georgian Dream party. Serpantini has been a regular supplier since 2011, having won GEL 72 mln worth of competitive contracts from various contractors, including 15 capital transfer funded infrastructure contracts worth 7.7 mln GEL from Telavi between 2013 and 2017.
4. On September 7, 2016, almost a month after the 2016 parliamentary elections, Giorgi Gvelesiani and Temur Ustiashvili, 34% and 33% shareholders of LLC GT Group, donated the maximum allowed GEL 60,000 each to the ruling Georgian Dream party. A week later, on September 13, the director of the company Levan Gogsadze also donated GEL 17,950 to the ruling party. Gogsadze had donated an additional GEL 20,000 to the same party almost a month earlier. LLC GT Group has been a regular supplier of vehicles and related services since 2011, having won GEL 49.7 mln worth of competitive contracts from various contractors (with an additional GEL 2.5 mln in direct contracts), including a single capital transfer funded contract worth Gel 190,000 from Telavi in 2015.

Clientelism and political migration

There are very few known or suspected cases related to clientelism in local government in Georgia. This does not necessarily mean that there are no cases at all, but rather that they are either rare, or not investigated enough. Both of these reasons have some basis: the transparent, centralized and automatic public procurement system makes it significantly harder for public officials to practice bribe-taking and kickbacks; but at the same time, there is no effective and independent mechanism for investigating high level corruption offenses (Georgian NGOs have been demanding for such an agency to be created for some time now)31. There is also significant lack of relevant work by journalists and civil society actors at the municipal level.

Somewhat ironically, the fact that the political landscape of Georgia over the past 15 years has been lacking diversity (the country went from UNM majority in all municipalities prior to 2012 to GD majority in all municipalities after) could have considerably reduced the need for the central government to resort to clientelism to secure political support or reward loyal supporters.

The fact that the last two governments had majority representation and executive authority in all municipalities has eliminated the need to punish unruly local governments. Moreover, since local governments in Georgia are already at the financial mercy of the central government, this has created a situation where local authorities have to compete for the

political as well as financial favor of the central government, and potentially risk much by displaying disloyalty.

As to be expected, the only clear evidence for development funds being used for political purposes can be found in the transition period between the last two governments, when the outgoing UNM used various means and procedures to funnel an unprecedented amount of development funds to local authorities prior to the crucial 2012 parliamentary elections, presumable in an effort to incentivize political and voter support on the local government level.

Data on political migration from the two most recent watershed elections in Georgia, 2003 and 2012, shows that local government actors in Georgia are highly likely to change political allegiances in favor of the ultimate winner, perhaps in order to enjoy all the privileges that come with being part of the majority or in an effort to avoid standing out as the only opposition in a country fully run by a single party. Marneuli municipality, which made a complete U turn from voting 16% in favor of GD in 2012 to 69% in 2017, was perhaps one of the most extreme examples of the latter.
Read more about the project and political clientelism on

www.expertforum.ro/en/cc-lift
www.expertforum.ro/en/clientelism-map