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GRASS FACTCHECK

Giorgi Vashadze:

"This [bill] implies that the [bank] account of every citizen of Georgia and the [bank] account of every business organization will be controlled by the executive branch. This means that they will need neither the court's decision nor any kind of agreement with another entity in order to control who transferred what amount of money to whom."

Rati BAKHTADZE
FactCheck

Amendments to the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization were discussed at the plenary session of the Parliament on 4 April, 2014. The bill was proposed by Davit Onoprishvili, Member of the Parliamentary Majority. It should be noted here that the Parliament passed the bill during its third hearing on 29 May.

Giorgi Vashadze, Member of the Parliamentary Minority, stated the following during the first hearing of the new Law: "This [bill] implies that the [bank] account of every citizen of Georgia and the [bank] account of every business organization will be controlled by the executive branch. This means that they will need neither the court's decision nor any kind of agreement with another entity in order to control who transferred what amount of money to whom. They do not need the court's decision in order to have direct access to commercial secrets".

FactCheck wondered about the accuracy of the statement by the MP.

Before we discuss the Law itself, we should review the legal regulation which was in force prior to the adoption of the new law in Georgia.

The purpose of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization (updated 27 November 2013) is to create legal mechanisms against the legalization of illicit income and financing acts of terrorism and protect the legal rights and the interests of the public and the state. The Law regulates the relationships related to facilitating the detection and prevention of illicit income legalization in Georgia.

The Law was implemented in practice by the Financial Monitoring Service of Georgia which was established under the National Bank of Georgia. Along with other rights, it is authorized to request and obtain from monitoring entities additional information and documents available to them for the purpose of revealing the facts of illicit income legalization, terrorism financing or other illegal acts. The Service is entitled to request confidential information about transactions (banking operations) as well as bank accounts and persons making banking transactions as well as the parties to them (Article 10, 4 a).

According to the Law, monitoring entities include (Article 3):

Commercial banks, currency exchange bureaus, non-bank depository institutions and microfinance organizations,

a ¹)Entities engaged in the transaction of remittances,

a ²) Qualified credit institutions,

Broker companies and securities registrars,

Insurance companies and non-state pension scheme founders,

Entities organizing lotteries and other commercial games,

Entities engaged in activities related to precious metals, precious stones and products thereof as well as antiquities,

Revenue Service a legal entity of public law of the Ministry of Finance of Georgia,

Entities engaged in the extension of grants and charity assistance,

Notaries;

h ¹) National Agency of Public Registry a legal entity of public law,

Entity engaged in activities related to accounting and auditing,

Leasing companies,

Attorneys.

As we mentioned above, the Financial Monitoring Service of Georgia is a legal entity of public law and was created under the National Bank of Georgia.

According to Georgian law, a legal entity of public law is an organization created on the basis of a corresponding law, separated from state management, performing political, state, social, educational, cultural and other public authority independent of state control. (Article 2[1]).

According to the Constitution of Georgia, the National Bank of Georgia is independent in its activities. The members of Georgia's legislative and executive bodies do not have the right to intervene in the National Bank of Georgia's activities. The rights and obligations of the National Bank of Georgia as the central bank of the country, the principles of its activity and the guarantee of its independence are defined in the Organic Law of Georgia on the National Bank of Georgia.

According to the bill adopted by the Parliament, the Financial Monitoring Service of Georgia, a legal entity of public law created under the National Bank of Georgia, will be reorganized and established as the Financial Monitoring Service of Georgia, a legal entity of public law and controlled by the Government of Georgia. Moreover, the Financial Monitoring Service of Georgia will present its annual report about its implemented activities to the Government of Georgia and it will be held accountable by the Government of Georgia.

According to the explanatory note to the bill: "The purpose of adopting this bill is the reorganization of the Financial Monitoring Service of Georgia, a legal entity of public law created under the National Bank of Georgia and establishing it as an independent service. This facilitates a more effective implementation of the Service's activities determined by the Law and the increase of the level of its independence."

It is noteworthy that according to the old law as well as the new Law, it has not been determined whether or not the Financial Monitoring Service of Georgia needs the court's decision in order to get access to relevant information. According to the Regulation of the Service, the entity appeals to the court only for the purpose of the seizure of property (bank account) or the suspension of the transaction if there is a reasonable assumption that the property (the amount of the transaction) may be used for financing terrorism (Article 3, Chapter 1).

The issue was aired by Maestro broadcasting on the TV show "*Business Contacts*" on 30 May. Azim Sadikovi, a representative of the International Monetary Fund in Georgia, stated the following during the show: "International experience of the subordination of the Financial Monitoring Service varies. In some countries, it is under the authority of the National Bank while in other places it is subordinate to the Ministry of Finance. We were unable to understand the motivation behind this change, however, the Government and the Prime Minister personally assured us that the Service will maintain its independence, it will be strengthened and confidential information will be safeguarded. I would like to tell you that business is concerned in that regard. The Service should be based on two main principles: independence and confidentiality. At this point, I have no reason to doubt the steady protection of either of them".

We contacted the Economic Policy Research Institute in order to acquire its opinion about the changes related to the Financial Monitoring Service. The institute reported to us that: "The Economic Policy Research Institute does not agree with the Government's initiative that the Financial Monitoring Service should fall under the authority of the Prime Minister and we consider that the independence of the Financial Monitoring Service's activities under the National Bank of Georgia was ensured, which is confirmed by the international financial institutions. In the case of the adoption of this bill, we should expect that the confidence in the banking and financial sectors will be decreased which can be caused by the fear of control and pressure from the authorities. In addition, the risks of using this leverage by the government will be increased."

CONCLUSION

According to the new Law adopted by the Parliament, the Financial Monitoring Service of Georgia is not changing its legal status and maintains its status as a legal entity of public law. However, it will be controlled by the Government of Georgia and the Monitoring Service will be held accountable by the Government of Georgia. This was the reason why questions and concerns were raised in the banking-financial and business sectors about the possible interference by the Government in the future activities of the Service.

Giorgi Vashadze also mentioned in his statement that after the adoption of the new regulation, the Monitoring Service will access certain banking information without the court's decision. It should be noted that the context of this part of the statement is incorrect due to the fact that the Financial Monitoring Service used to have this opportunity before and this does not constitute a change. According to the old and the new regulations, the Service is entitled to request any kind of information from the monitoring entities that is necessary for performing its duties without the court's decision.

Therefore we rate the statement by Giorgi Vashadze: "This [bill] implies that the [bank] account of every citizen of Georgia and the [bank] account of every business organization will be controlled by the executive branch. This means that they will need neither the court's decision nor any kind of agreement with another entity in order to control who transferred what amount of money to whom. They do not need the court's decision in order to have direct access to commercial secrets" is HALF TRUE.

HALF TRUE

EUROPEAN ENDOWMENT FOR DEMOCRACY
G|M|F The German Marshall Fund of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

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Georgian Nepotism

Continued from p. 2

buddies, political patronage, and for beautifying the unemployment statistics, then economic development and government sector share are unrelated. Therefore, in low-income countries a large public sector is more likely to indicate a problem than in a developed country. In Azerbaijan, public employment arguably accounts for more than 55% of the labor force (ILO data from the end of the 1990's, newer data not available), which does not mean that Azerbaijan is a particularly developed country. Rather, the Azerbaijani public sector is ballooned and much bigger than what would be justified by the state of economic development.

So, while 12% do not trigger off the alarm bells, one cannot use this data to reassure the critics that there is no problem with nepotism in the public sector.

WHAT TO DO ABOUT IT?

Georgia is the undisputed world champion in killing off corruption, at least when it comes to the highly visible *petty* corruption, widespread before 2003. This includes measures like making the admission exams for universities an example for the world how to organize exams in a fair, clean, and objective way. Yet if a country can organize its admissions exams in a perfect way, it is also possible to rid its personnel management from nepotism. Organizing an admission process and an application process is not very different in the end. Is there a lack of political determination, perhaps because public employment is a convenient way to cater political clienteles?

It is more difficult to address the problem in the private sector. Here it has to do with *mentality*. As long as entrepreneurs and managers consider family ties and friendships more important than the success of their firms, the problem will persist.

Perhaps, one can raise public awareness through open discussion. While there is nepotism everywhere when it comes to entrepreneurs and owners of companies, in North-Western Europe and the USA it would be seen as a drastic abuse of office if an employed manager would hire family members. If detected, such a manager would face dire consequences. Having a public debate on the issue might help to raise standards in Georgia as well.

ProCredit Bank celebrates international Day of the Seafarer!

On 25 June, ProCredit Bank invited seafarers to its branch in Batumi in in recognition of the international Day of the Seafarer.

The international Day of the Seafarer is an initiative of the International Maritime Organisation (IMO) and has been celebrated since 2011. For the fourth year in a row, various events were organised for people working in this profession in Georgia as well as elsewhere in the world. This year, ProCredit Bank did not miss the chance to celebrate the event, throwing a party for seafarers at its Batumi branch.

After the branch manager's official speech, the guests watched a great pantomime performance written especially for seafarers. An interesting quiz was organised with various prizes and all participants received courtesy gifts. The evening ended with a buffet dinner.

"Seafarers play a key role in the country's economic development, so their role and contribution should be appreciated. ProCredit Bank once again congratulates all seafarers on the international Day of the Seafarer and wishes them good health and peace of mind", said Natia Tsulukidze, Batumi Service Point Coordinator.

Thirty Percent of Eurozone Banks May Need More Capital

The FINANCIAL

Across the Eurozone markets surveyed, on average about 30% of banks cannot rule out further capital raising post-AQR. Across the whole sample of European banks, a significant minority of banks (8%) fully expect to have to raise further capital following the AQR and a further 20% think they might still need to raise capital, according to Ernst & Young Global Limited.

Banks in Germany were most bullish with just 4% expecting to have to raise capital and a further 2% unable to rule it out. Banks in Spain were least confident with 35% expecting to have to raise more capital and 25% unable to rule it out.

The survey was conducted in March 2014 and, by the end of polling (4 April), six Eurozone banks had already executed a capital raising initiative this year. By 4 April 2014, Eurozone banks had raised US$11b compared to US$2b for the same period in 2013. Since then another 10 banks have announced plans to raise capital prior to the completion of the AQR. In total this year, European banks have already raised US$35b of equity, which is 70% more than was raised in the same period in 2013.1

MARKET DIVIDED ON LOAN-LOSS PROVISIONS

Thirty percent of banks also expect to have to raise provisions this year. Banks in Spain and Austria are most likely to raise provisions: banks in Spain have lingering concerns about sovereign debt problems and have been required to revalue their real-estate portfolios; banks in Austria are least confident about the economy and are more exposed to Eastern Europe.

However, the improving economic conditions mean that 23% of banks expect to be able to release provisions in the next six months, which is an improvement on H2 2013, when just 14% expected to be able to release provisions, according to Ernst & Young Global Limited.

In part, this market divide can be traced back to local-market concerns about the economy and lingering concerns about sovereign debt, but there is also a clear correlation with pressures put on banks by the AQR. Only banks in the UK and the Nordics believe that on balance total loan-loss provisions will decrease this year.

AQR pushing out the time frame for any major European banking consolidation

When asked in 2012 if they expected major consolidation within the industry, 50% of banks surveyed said they expected consolidation within the medium to long term. However, major consolidation in the market has yet to materialize and banks in most markets expect any major consolidation to still be three years away. Just 7% of respondents anticipate large-scale consolidation in the next 12 months, but 63% expect medium- to large-scale consolidation in the next three years, according to Ernst & Young Global Limited.

"There remains a general consensus that medium- to large-scale consolidation in the European banking market is inevitable. However, it is still early for the European economic recovery and with the AQR on the horizon, most institutions remain cautious of major acquisitions in the near-term, so the timescales for this activity are being pushed out," said Robert Cubbage, Europe, the Middle East, India and Africa (EMEIA) Lead for Banking and Capital Markets at EY.

Over the past five years, many banks have sold assets as they raised capital and restructured their businesses, but with the bulk of balance-sheet shrinking and tactical restructuring completed, the number of bankers expecting asset sales even on a small scale has fallen, with 45% expecting no activity at all over the next six months. Where banks are considering expansion overseas/outside of Europe, alliances are the most attractive option, according to Ernst & Young Global Limited.

OVERALL HEADCOUNT CONTINUES TO FALL BUT PAY IS EXPECTED TO INCREASE

Headcount continues to fall but the pace of cuts is slowing in most countries. A significant number of banks expect further job losses in Austria (53% of banks), France (40% of banks) and Switzerland (35% of banks), where cost-cutting remains a key concern. However, in the Nordics and the UK, where institutions are beginning to focus on growth, nearly half of respondents expect to increase headcount. The greatest cuts continue to be in head-office, operations and IT, whereas banks are recruiting in compliance and growth areas such as private banking.

Most bankers expect their pay to remain relatively level, but 28% expect pay to increase. A quarter of respondents expect pay increases of 2% or more in 2014 – which is above the current rate of inflation in the Euro area and the average wage inflation in Europe (currently 1.5%). At the top end of the scale, 4% of respondents expect double-digit pay increases.

Mziuri Demands Protection of Distributors on a Legislative Level

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also has production in Russia. Due to the political unrest in Ukraine Mziuri Ltd has shifted to the Russian market.

"The Ukrainian unrest caused logistical problems for our company. At first we were importing products by train. Later we moved to containers and finally, when transportation by containers became a problem, we were forced to import by road transportation. Importing goods from Ukraine to Georgia by road transportation has beenvery harmful for our company. The self cost of the product has significantly increased for us, meanwhilewe have not changed the price," said Akhvlediani.

Trade is one of the most developed sectors in Georgia. According to Akhvlediani, the lack of development of local production is the reason behind the popularity of the trade sector in Georgia. "If we consider cooking oil as an example, we will see that there is only one oil-producing company operating in Georgia, in Batumi,which was founded four years ago. The situation is similar in other segments. There are some categories of foodstuffs that are produced locally and supply local demand, but the majority of them remain dependent on import," he explained.

"We cooperate with the representatives of numerous countries. With each of them we have a different relationship. However, with the representatives of CIS member countries we have even more varied relations. It is more than a business partnership. Personal relations in this business are important," said Akhvlediani.

Before deciding which product to importthe company conducts market research. Participation at various exhibitions is also important for analyzing consumer demands.

Akhvlediani distinguished the year 2010 as being the most active for his company. "We had a large increase in our product portfolio and the majority of them were successful. In 2009 we started importing the oil Razumnitsa at the beginning of the year and by the end of year 2010 we had a realization figure of 5000 tonnes. This was quite a good result for a new brand. Razumnitsa was a successful project overall," he said.

"Two years ago we started cooperation with Kimberly-Clark Inc. It brought us good sales. We had 60% growth in just one year, which is a really good result," Akhvlediani added.

Mziuri has its bases in Kutaisi, Batumi and Akhaltsikhe. 70% of Oleina's sales are made up by Tbilisi. "Whencomparing the whole sales portfolio, there is 40-60% diversification in the regions and Tbilisi is in accordance with that. The Adjara region can be distinguished as the most active and subtle, in terms of meeting obligations, for our company," Akhvlediani told The FINANCIAL.

GRASS FACTCHECK

Dimitri Lortkipanidze:

"The wage fund has increased by 64 percent in the approved budget of Tbilisi, from 29 million to 45 million. The City Council purchased 22 new cars."

Nino TURIASHVILI
FactCheck

Debates among Tbilisi's mayoral candidates were aired on TV3 on 29 May 2014. Dimitri Lortkipanidze, Tbilisi's mayoral candidate from "the Nino Burjanadze United Opposition", stated that until 14 March the wage fund increased by 64 percent in the approved budget of Tbilisi, from 29 million to 45 million. The City Council purchased 22 new cars."

FactCheck wondered about the accuracy of the statement and verified its accuracy.

We contacted Dimitri Lortkipanidze in order to verify his statement. He told **FactCheck** that in the first version of the Tbilisi budget for 2014, the compensation of employees was GEL 29 million in total which was unprecedentedly later increased. Since the 1 October 2012 elections, Tbilisi City Council has purchased 28 cars.

The Tbilisi budget for 2014 was approved after months of debate. Tbilisi City Council twice rejected the Tbilisi draft budget for 2014, on 29 December 2013 and 12 February 2014.Irakli Shikhiashvili, Chairman of the City Council commented on the rejection of the budget and stated that the budget should serve the capital city and not the United National Movement. The rejection of the budget by the City Council was assessed as politically motivated by Transparency International Georgia, which stated that this process has been delayed mainly for political reasons. In the end, the draft budget was approved a few months later on 7 March 2014.

FactCheck requested the initial version of the city budget from Tbilisi City Council. According to the information provided in the sixth chapter (p. 84) of the initial draft budget (attachment: 1 project-Tbilisi budget), the number of employees in Tbilisi's representative and executive bodies was determined to be 2, 203 people and GEL 44 534, 4000 was allocated for their salaries.

According to the information provided in the Tbilisi budget 2014 approved on 7 March (attachment: Budget 1) (Chapter Four, Tbilisi City Budget Appropriations), the number of people employed in Tbilisi's representative and executive bodies is 2,199. Remuneration plan for the employees was determined as GEL 44 520, 3000. (p. 82).

According to the statement by Dimitri Lortkipanidze, amendments were made to the Tbilisi budget for 2014 before 14 March and as a result the wage fund was increased by 64 %, from GEL 29 million to GEL 45 million. It is noteworthy that after the approval of the final version, amendments were again made to the budget on 14 April 14. The number of employees in Tbilisi's representative and executive bodies has not changed in the new version of the budget (attachment: budget 2) while the remuneration plan for these employees was determined as GEL 47,695, 3000. (p.86). Changes made in the remuneration plan are obvious although salaries increased by approximately 7,13 percent and not the percentage indicated by Lortkipanidze.

Dimitri Lortkipanidze also mentioned the purchase of 22 cars by Tbilisi City Council in the second part of his statement. In his discussion with **FactCheck,** he indicated this number to be 28 cars . Tbilisi City Council has not announced a tender for the purchase of new cars in 2014 which is also verified by the information published on the website of the State Procurement Agency. As for the purchase of cars in 2012-2013, according to the data obtained by the Institute for Development of Freedom of Information (IDFI), Tbilisi City Council purchased 28 cars in 2012-2013 and with a total cost of GEL 915, 725. However, it is noteworthy that IDFI began its reporting period from 1 January, 2012 instead of 1 October as Dimitri Lortkipanidze mentioned with **FactCheck.**

CONCLUSION

Dimitri Lortkipanidze is not accurate when he talks about the Tbilisi budget for 2014. The salaries of employees in the first version of the budget were GEL 44, 520, 300 (and not GEL 29 million as the mayoral candidate was indicating). After the changes, salaries increased by 7.13 % and amounted to GEL 47, 695, 300. The result of the budget changes (GEL 47, 695, 300) is more than GEL 45 million as indicated by the candidate in the statement. However, the interpretation of Dimitri Lortkipanidze's stated fact is not correct since the wage fund was not determined as GEL 29 million in the initial version of the budget and therefore it has not been increased by 64 % as a result of changes.

As for the second part of his statement, Tbilisi City Council did purchase 28 cars in the period 2012-2013.

Accordingly, we conclude that Dimitri Lortkipanidze's statement: Before 14 March 2014, unprecedented things were happening in terms of Tbilisi's approved budget. The wage fund increased by 64 percent, from 29 million to 45 million. The City Council purchased 22 new cars" is HALF TRUE.

HALF TRUE