



# Informal Governance and Corruption – Transcending the Principal Agent and Collective Action Paradigms Georgia Country Report

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# 1 Introduction

## 1.1 Informal Governance and Corruption: Rationale and project background

The lack of effectiveness of conventional anti-corruption interventions has been convincingly documented (Mungiu-Pippidi 2011) and is reflected in the so-called implementation gap, whereby countries that have adopted the legal and organizational reforms associated with anti-corruption best practices continue to experience very high levels of corruption. This situation appears to be linked to a lack of empirical support for the assumption that corruption is a consequence of weaknesses arising in the context of a principal-agent model of accountability, which presumes the existence of “principled principals” capable of and willing to enforce the anti-corruption reforms. In response, scholars have sought to re-frame endemic corruption as indicative of an underlying collective action problem (Persson, Rothstein, and Teorell 2013; Mungiu-Pippidi 2013). A problem so far with this latter approach is that, while it can describe why in some contexts corruption has been extremely hard to eradicate, it has not delivered clear recommendations on how anti-corruption practitioners might do things differently. We argue that bringing in the importance and impact of informal practices into the debate helps to overcome the limitations of the principal-agent and collective action approaches. Adopting an informality lens brings to the fore those motivations and patterns of behaviour that are rarely explicitly articulated or taken into account in formal policy making but are nonetheless widely known and observed by the insiders in any given context. Therefore, this line of research has potential towards delivering insights about previously unaccounted drivers of corruption that are useful for purposes of policy making.

This report is part of a research project funded by the Anti-Corruption Evidence (ACE) Programme of the UK’s Department for International Development (DfID) and the British Academy. The project has identified informal practices in selected countries in order to establish their general and specific features in comparative analysis; assess their impact based on the functions they perform in their respective economies and indicate the extent to which they underpin corruption and affect anticorruption policies. The comparative research design involves seven countries from two geopolitical groups East Africa and Post-Soviet countries as follows:

- East Africa: Kenya, Rwanda, Tanzania, and Uganda
- Post-Soviet countries: Georgia, Kazakhstan, Kyrgyzstan and Russia

The goal of the research is to produce evidence for the relevance of informality in support of the ‘localisation’ of anticorruption strategies. The rationale would be to conceive anti-corruption as a context-sensitive, inductive endeavour that is operationalised on the basis of observed practices and socially accepted behaviours. This would involve considering how key actors may be incentivised to adopt actions more conducive to better anti-corruption outcomes within the constraints (be them social, economic or political) that they are confronted with and taking into account their own

interests and motivations. Innovative interventions would also aim to harness informality for better anti-corruption, working with practices, norms and values that are entrenched and pervasive in the respective societies to improve government accountability and promote the welfare of communities.

## 1.2 Conceptual approach and methods

The conceptual approach is grounded on the work of Baez-Camargo and Ledeneva (2017) and identifies three key patterns of informal governance – namely co-optation, control, and camouflage.

- Co-optation is associated with recruitment into groups or networks. Co-optation is often associated to corruption because it represents a mechanism to regulate access to rent seeking opportunities and typically involves an informal redistribution of public resources. Among political elites, it is often expressed in the form of strategic appointments of allies and potential opponents, who are thereby granted impunity in exploiting the power and resources associated to public office in exchange of mobilizing support and maintaining loyalty to the regime. Co-optation can also be “horizontal” when political and business elites enter mutually beneficial relationships, where financial support for political goals is rewarded with privileged access to public contracts, undue tax exemptions and other illicit opportunities for extracting rents.
- Control mechanisms are instrumental to manage clashes of competing interests and enforce discipline within networks. Examples of informal control mechanisms include the discretionary enforcement of anti-corruption legislation against dissidents and peer pressure through rules of loyalty and reciprocity that tie network members together by creating obligations and responsibilities vis-à-vis the group.
- Camouflage refers to the manner in which informal transactions take place behind an institutional façade of democracy and commitment to the rule of law. This often means that, in contexts with high prevalence of informal practices, formal rules are often manipulated, undercut, diverted, or exploited for the sake of informal interests.

The information upon which this report is based was collected through desk research and the interviews. The author had analysed media reports, reports of international and local NGOs (e.g. Transparency International, Georgian Young Lawyers Association, etc) and government-authored reports (e.g. State Audit reports). The field research took place in January 2018 and 5 semi-structured interviews were conducted in Tbilisi. It was not possible to record the interviews due to the high sensitivity of the issue and all five respondents requested to remain anonymous. Three respondents are from the private sector managing companies in mining industry and energy sectors with experience of working with the government structures. One respondent is an employee of one of the Georgian law enforcement structures and another interviewee is working with a local non-governmental organisation.

This report has also been informed by the contributions of Dr Giga Zedania of Ilia State University, who contributed information pertaining to the country background and the reforms of the Georgian public registry. Dr Claudia Baez Camargo also provided comments and inputs to the final draft.

### 1.3 Informal governance in Georgia: clean public services coexist with collusive practices of elites

Georgia is an extremely interesting case when exploring the question of corruption and informal governance. Since Soviet and post-Soviet times Georgia was known as a country in which corruption was endemic and pervasive. However, since the implementation of crucial and remarkably swift reforms undertaken during the post-soviet transition, Georgia has come to be regarded as one of the few success stories in fight against corruption worldwide.

Backtracking to 2003, the reformist government of the United National Movement (UNM) led by Mikheil Saakashvili came to power as a result of a peaceful revolution -the so-called Rose Revolution- that was originated to a large extent by the popular exasperation over the corruption and excesses of the ruling elites. The UNM headed the government for nine years, undertaking many significant anti-corruption and state-building reforms. These reforms were essential and much needed as signalled by local public surveys and interventional assessments that revealed that corruption was considered the main political and societal problem in Georgia.<sup>1</sup> To be sure, the corruption problems were not new, but a product of Soviet legacy and its institutions. Part of that legacy was that, as was also the case in other post-communist countries, many public institutions in Georgia had an official formal function, but in practice operated following informal rules, practices and hierarchies. In fact, one could speak of the prevalence of extensive, multifaceted informal institutions and practices, which blurred the public-private divide.

Already during Soviet times, the Georgian economy was notorious for its vast informal sector and its many networks of political patronage, greased by corruption and associated practices (Mars and Altman 1983). This legacy of informal institutions, which was strong across the post-Soviet space, was often reinforced by the perpetuation in power of the Soviet nomenklatura in the guise of a post-soviet political elite. In the case of Georgia, this was incarnated by president Eduard Shevardnadze. The lack of significant leadership changes in spite of the formal dissolution of the USSR added to the feeling that corruption was not only all-pervasive, but also a historical constant and the normal state of affairs.

Fast forward to 2012, the Corruption Perceptions Index (CPI) of Transparency International ranked Georgia at 51th place out of 174 for its control of corruption outcomes. Overall, subsequent to the reforms undertaken by the UNM, Georgia has been widely recognised as an anti-corruption success story.<sup>2</sup> The path that to achieving these remarkable changes in less than a decade involved a process

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<sup>1</sup> In 2003 Transparency International's Corruption Perception Index (CPI) ranked Georgia 124th out of 133 countries.

<sup>2</sup> Georgia in Transparency International's Corruption Perception Index, available at: <http://civil.ge/eng/article.php?id=25516> (accessed 2 September 2013).

whereby public institutions had to be drastically reformed and sometimes established anew, following what Bo Rothstein called an ‘big bang approach’ to anti-corruption reform (Rothstein 2011).

Nonetheless, the question remains as to whether this success story is in reality as impressive as it is commonly presented. Has the Georgian governance system really transitioned from a status quo where corruption was the norm to one in which corrupt behaviours are an exception?

The evidence indeed points to some areas where success has been meaningful and consolidated. Bribery has been effectively eliminated from those sectors where the state interacts directly with citizenry e.g. in licensing, street policing, and other public services. In this regard, and despite any controversies, Georgia probably remains as one of the cases of greatest positive transformation since the existence of governance measurement indices (Mungiu-Pippidi 2015).

However, the research evidence also suggests that beyond the public service delivery sectors, corrupt patterns of informal redistribution of power and wealth continue to be pervasive. While in a first instance the UNM government sought to bring the previous regime’s oligarchs to account, it later on gave in to consolidating its support bases by developing informal ties with special interests in the business sector. Such patterns of horizontal co-optation have been further maintained, if not deepened, under the current incumbent Georgian Dream (GD) regime.<sup>3</sup> Thus, unfair distribution of resources continues to be conditioned by the illicit collusion between politics and business. Loyalty and personal contacts rather than merit remain key determinants for promoting individuals in state bureaucracy as well as appointments to the highest Ministerial posts.

As will be argued in this report, the pattern of informal ruling of the country continues to be replicated at the highest levels to a large extent driven by the informal ties between political and business elites. Such informal relationships are, for instance, discernible in government agencies and state-owned companies that are considered to be of ‘strategic importance’, where the formal office holders often do not have full authority and there are usually informal powerbrokers [sometimes with a formal role] who exercise inordinate influence.

This report is organised as follows: Section 2 details reforms in one particular sector of the post-revolutionary Georgian state namely the Public Registry. The criteria for highlighting this sector were twofold: first, the institutions in the pre-reform period should have been extremely corrupt and dysfunctional; second, the results achieved after the reform should have been regarded by all major observers as outstanding. Section 3 looks at the evolution of state-business relations in Georgia and flashes out similarities and differences between UNM rule and GD rule. It is argued that significant continuity can be observed from UNM to GD rule, although in the post-2012 period the mechanisms of informal governance appear to be more ‘privatised’ by certain individuals and networks. Section 4 Looks at power brokers and parallel informal governance structures in public institutions. The section

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<sup>3</sup> <https://drive.google.com/file/d/0B2mc2XAkBw2tSnBUTzI0MGhfcDQ/view>

looks at the observable implications of Bidzina Ivanishvili's informal power and then moves on to discuss the practices of nepotism and cronyism in state bureaucracy. Section 5 looks at the ways in which informal networks are harnessed to protect the ruling network against electoral competition. The section shows that 'misuse of administrative resources' and use of criminals is common practice during the elections in Georgia. The final section concludes and offers discussion of the lessons learned from the Georgian case.

## 2 The Reform of the Georgian Public Registry

In the Soviet Union private property did not exist; thus, after the break-up of the USSR and once the privatisation process started, the newly established Georgian Republic was in need of institutions which could take care of the registration and management of the newly appearing forms of private property. This crucial need during the first decade of independence was met with institutions and practices that were extremely problematic because they were unsystematic and highly corrupt. First, there were a number of different offices that citizens would need to visit for obtaining a single permit/registration; second, the processing times were extremely long, often taking months; third, communication between different offices was faulty or inexistent; fourth, service fees were not transparent nor made public, which created discretionary opportunities for corrupt officials to extract rents. Corruption was so widespread that obtaining employment at a civil registry office became extremely attractive due to the high profitability of those positions. As a consequence, a black market for purchasing access to positions at the registry offices developed, with prices of up to 25 000 USD paid to obtain jobs, which could thereafter be exploited for private gain.

How did this situation change after the 2003 revolution? First of all, the initial steps and reforms were remarkably swift. Working groups to prepare the reform package were already established by February 2004. Within ten months' time a new legislative framework was ready, but already in June 2004 the law on state registry was approved, which dissolved already existing institutions and centralised all public registry functions into one central institution. The new legal entity created was called the National Agency of Public Registry. The major challenge was to find adequate funding – as all the agencies for the public registry had received money from the state budget. To address this, the new agency adopted a business approach to generate its own money and revenue. The idea behind this was simple: if citizens were ready to pay bribes for reducing the complexity of non-

transparent services, they would instead pay a fixed institutionalised fee in exchange for the swift and efficient services as well.<sup>4</sup>

The major challenge identified was the simplification of bureaucratic processes. The number of documents needed to register a property was reduced to one (from the previous six forms needed) and unnecessary processes were abolished. Only one central body (i.e. the National Agency of Public Registry) and its branches across the country remained and were integrated to a shared, centralised digital management system. All possible sources of conflict of interest were taken care of to avoid situations that had prevailed in the past, such as when registrars not only registered property, but also monitored land use and sold state land. Accordingly, the law ensured that registrars would not be allowed to be part or directly involved of the land selling processes. At the same time the Civil Registry Agency was created, the functions of which included issuance of passports, identity cards, as well as birth, marriage and death certificates, citizenship applications and other documentation provision.

Across their functions, the new laws and regulations ensured that public registry offices could not accept payments directly and therefore commercial banks opened offices at the registry to collect fees. Front and back offices were separated both physically and functionally, limiting the contact points between the citizens and clerks. The use of information technology (ICTs) was also an important factor in simplifying the service processes. Some of the key changes were the digitisation of old soviet archival records, the creation of a unified electronic and publicly accessible registry database and an online electronic payment system.

Critically, these reforms involved drastic and holistic changes in human resource management and incentive structures. Firstly, processes were set in place that would ensure the recruitment of staff that would be adequately trained and committed to good governance and effective service delivery. The manner in which the post-revolutionary government addressed the issue was radical. During 2004, 2,200 public registry staff were fired on a single day and, while some of them were taken back, in the end 80% of public service personnel at the public registry was replaced. Another key aspect of the of the human resource management reforms involved substantial salary increases (twentyfold increase in the official salary of a public registry employee by 2005 with a sustained rising trend continuing thereafter), which were deemed essential to attract and retain competent staff and to ensure corrupt practices would not continue. Meritocratic systems of bonuses as well as constant capacity building and trainings were introduced and ISO standards were adopted in order to develop organisational management and capacity systems. Finally, together with these incentives, a strict system of performance monitoring was created, which comprises both performance reviews by colleagues and anonymous reviews by customers.

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<sup>4</sup> Interview with a former official, conducted on 13.11.2016.

As a result of these reforms, according to a World Bank study, in 2009 Georgia took the second place out of 181 countries for implementing reforms related to property registration. A more anecdotal evidence of this success was that members of the parliamentary delegation from the British House of Lords who visited Georgia in July 2012, discussed the desirability of introducing the Georgian model of 'Justice Houses' in Britain.<sup>5</sup> However, perhaps the most crucial measure of success was the dramatic increase in public trust in the Registry as an institution. While in 2004 97% of Georgians believed that the civil registry was one of the most corrupt institutions in the country, just two years after a mirror reversal took place and 97% now believed that there was no corruption in the registry.<sup>6</sup>

Has there been a change in the situation after the 2012 elections, when governmental power changed hands? Not with regards to the reformed institutions. The Corruption Perception Index for 2017 shows that the country ranks as 46<sup>th</sup> out of 180. Trust in public and civil registries has not diminished and services established during the reform years have been mostly maintained and cultivated by the new Government. Whether this same conclusion can be extrapolated to spheres beyond the institutions of public service provision is a wider question that is addressed in subsequent sections.

## 3 Evolution of state-business relations in Georgia:

Patterns of horizontal co-optation, whereby political and business elites engage in mutually beneficial exchanges at the expense of public resources, are a recurring feature in regimes affected by high levels of corruption in the post-Soviet realm, East Africa and beyond (Kelsall 2013; Baez-Camargo and Ledeneva 2017; Golooba-Mutebi 2018; Sambaiga, Koechlin, and Baez-Camargo 2018). This section explores the main features of the relationship between the state and the private sector in Georgia.

The most radical anti-corruption reforms happened between 2004-2008 when the nexus between state and business was especially weak. However, as time passed during the period 2008-2012, the ruling political elites began to develop links to particular private sector interests, which increasingly gained leverage over the decisions of the public authorities such that, at the highest levels of power, the state apparatus become increasingly influenced by private and group interests. Powerful business interests not only undermined market competition under Saakashvili's government, but elite networks used state power to control economic and political structures.

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<sup>5</sup> <http://www.24saati.ge/news/story/30456-qartuli-iustitsiis-sakhli-didi-britanetistvisats-kreatiuli-da-shtambechdavi-tsinsvlaa>

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### 3.1 The aftermath of the Rose Revolution: developmental patrimonialism or neoliberal economy?

On the eve of the Rose Revolution, the oligarchical class and wealthiest businessmen in Georgia were for the most part blood relatives to then President Eduard Shevardnadze (Chiaberashvili and Tevzadze 2005). In contrast, the reformist-elites headed by Mikheil Saakashvili were outsiders to the established power networks, only peripherally related with large businesses and had only one or two financiers; for example, natural gas trader David Bezhuashvili. Indicative of the independence from vested business interest that the government had at this early stage was the fact that the parliament elected in 2004 mostly consisted of young activists from National Movement and only a few businessmen could be found among the ruling UNM (United National Movement) faction. Overall, this has significance because it meant that incoming elites were less beholden by economic interests in the period during which most radical reform took place.

Most of the Shevardnadze-era oligarchs were prosecuted under the Saakashvili regime. However, this does not mean that the quest to punish the oligarchs for their crimes of corruption was undertaken with strict adherence to legal due process. Rather, the oligarchs paid large sums of money into state coffers in order to buy their freedom (for example Gia Jokhtaberidze, owner of Georgia's biggest mobile phone company and Shevardnadze's son-in-law, was only released after he paid USD 15.5 million) (Civil Georgia 2004). Alternatively, avoiding prosecution was also possible if the accused acquiesced to a 'voluntary transfer of shares' going to the state or to individuals connected with the ruling team. According to the prosecutor's office, around 9,500 private properties were handed over to the state for free during the Saakashvili presidency, which raises natural concerns as to how 'voluntary' these donations really were (Hammarberg 2013).

Indeed, the evidence suggests that most of the deals struck with the Shevardnadze era elites were made behind the closed doors and under the informal pressure of the members of Saakashvili team. In cases of non-compliance, the criminal justice system would intervene under the guise of formal processes (e.g. audits by tax authorities or investigations of the financial police), which nonetheless were intended to scale up the pressure on the oligarchs to surrender their assets. The process mainly targeted individuals that illicitly gained wealth but was also instrumentalised to undermine political opponents. In the conceptual language of this project the anti-corruption was only partially an informal control mechanism and was mostly focused on delivering on the promises of Rose Revolution's anti-corruption rhetoric. There was no single policy or simple rule to apply to all oligarchs and each case was dealt individually. Some of the Shevardnadze-era oligarchs lost significant part of their assets (e.g. Nugzar Shevardnadze, Shevardnadze's nephew) but others were able to retain most of their wealth (e.g. Gia Jokhtaberidze Shevardnadze's son-in-law, or Vakhtang Rcheulishvili, former vice-speaker and owner of development business).

This process was widely referred to as 'state extortion'. However, it was different from simple racketeering, *reiderstvo* (Mesquita 2018) or other kinds of high level corruption schemes in one important way – rather than going to private pockets, the proceeds of the pressure on the oligarchs to a large extent benefited the impoverished state, helping to pay for salaries of bureaucrats and for

large infrastructure projects. However, it also benefited UNM, the ruling political party, and helped to consolidate its influence over the state. Following typical horizontal co-optation patterns, businesses would often pay significant amounts to political party coffers in exchange for access to large state contracts (Rimple 2012). Some of the companies that earlier belonged to oligarchs ended up in the hands of regime insiders after the re-privatisation.

The process whereby the political and financial elites from the previous regime were subject to formal and informal sanctions neared completion in 2007-2008. However, although the Saakashvili government could thus claim to have enforced forceful action against past perpetrators of crimes of corruption, it nonetheless failed to establish efficient institutions to ensure the separation of business and politics. As a result, a new class of oligarchs emerged that included former cabinet ministers as well as close friends of Mikheil Saakashvili (Wilson 2014). It should be noted that the cases of former officials becoming rich entrepreneurs are not many, partly because there is no room for many oligarchs in a small economy like Georgia. Rather than the usual 'revolving door' enrichment of a succession of officials, the informal links between state and business enabled the establishment of permanent near-monopolies in various markets and the illicit takeover of businesses through blackmail and misuse of the criminal justice system (Kupatadze 2012). Even though some of the implicated individuals have won court discussion against Georgian Prosecutor's office in 2014-2015 (e.g. Davit Kezerashvili, former Minister of Defence), there is nothing that would explain their abrupt appearance among the owners of large businesses apart from the manipulation of formal institutions. Hence the court verdicts in their favour (Kirtzkhalia 2014) point more to the poorly-evidenced cases and the failure of Georgian law enforcement system rather than the absence of corrupt practices.

Overall, it can be safely argued that Saakashvili's policies were aimed at co-opting business to build up the bases of support for the regime rather than at undermining the nexus between the state and the private sector. Indeed, informal power bargains and deals were the key method of building these relationships. Establishing near-monopoly on the rents and accumulating resources in the hands of few insiders was rather an intermediate outcome and should be considered as means to the ultimate aim of consolidating the control of UNM political party over the state apparatus. However, the ruling team also made sure that the entrepreneurial class would submit to state dominance. Large businesses were informally mobilised to fund the development of major infrastructural projects and renovating cities and towns. Hence the Georgian case offers an interesting mix of neoliberal and developmental patrimonial traits whereby the rents generated in the conditions of blurred boundaries between state and private sector, were at least to some extent deployed for the purposes of national development.<sup>7</sup> In parallel, the laissez-faire neoliberal practices did not apply to some profitable and cash-intensive sectors of the economy (e.g. construction sector, advertisement sector).

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<sup>7</sup> For more discussion of developmental patrimonialism see (Booth and Golooba-Mutebi 2012).

The practice widely reported by businessmen during the period 2004-2006 was the following: they were summoned to the Prosecutor's office and pressured to pay for their 'past wrongdoings.' The payment could be made in cash or property. If they disobeyed, the businessmen reported that they were threatened with criminal investigation. Reportedly, the money went to various quasi-legal foundations or UNM coffers and these funds were then used to fund various projects (Public Defender of Georgia 2006, Civil Georgia 2006). For example, in 2007 the large scale project to renovate the fortified city of Sighnaghi in Kakheti, notable for its ancient cultural and historical monuments, was 'voluntarily' funded by private businessmen. Some analysts compared it to Putin's handling of businesses remembering the case of the renovation of Konstantinovsky Palace in St. Petersburg in 2003 funded by oligarchs' donations (Guriev and Rachinsky 2005).

Some businessmen took their cases to the court of arbitration, but after several cases were resolved in favour of private companies, the government announced the abolition of the practice of discussing tax disputes in arbitrage. Simultaneously the ruling elites made sure that the court system was tightly controlled. A Transparency International report argues that while corruption in the court system is no longer a problem after the Rose Revolution, the freedom of judges is questionable. The judges are continuously pressured by the authorities to rule in their interest (Transparency International 2008).

Saakashvili's idea of establishing a strong state thus encompassed reigning in the businesses and asserting state dominance over the private sector. Discourse analysis of his speeches suggests that he was inspired by the economic model of Singapore and his role models were strongmen and state-builders such as Mustafa Kemal Atatürk and Charles de Gaulle rather than democratisers like Vaclav Havel or Thomas Jefferson (Cornell 2013).

The 'new oligarchs' co-existed with certain older oligarchs to fund the UNM after the Rose Revolution (Rimple 2012). In contrast to the parliament elected in 2004, the UNM faction elected in 2008 included a number of wealthy businessmen (Wilson 2014). The government is believed to have awarded public contracts to 'friendly' companies, in exchange for political support in the manner of typical horizontal co-optation practices. The owners of the same companies would be found among key financial contributors to the ruling UNM. In some cases, it has been alleged that a company's contribution to UNM party coffers could have been among the reasons why the prosecutor's office would show no interest in investigating large-scale fraud involving the company in question (Transparency International Georgia 2012). These informal patterns characterising the relationship between the political ruling elites and influential business interests therefore demand a more nuanced appreciation of the extent to which Georgia can be considered a case of anti-corruption success. Even though corruption decreased dramatically in the sectors where state interacts directly with the citizenry, as exemplified with the case of the Public Registry, the re-emerging state-business nexus nonetheless undermined some of the key reforms relating to transparency such as e-procurement because many of the deals related to public bidding were in practice negotiated 'offline' (Wilson 2014).

### 3.2 Post-UNM era: continuity or change?

After the electoral defeat of the Saakashvili UNM government in 2012, Transparency International Georgia found that the collusion between politicians and businessmen had started to decrease noticeably (Transparency International Georgia 2013). To be sure, the practice of extorting funds from businesses is not so relevant to the incumbent authorities because the Georgian Dream party is funded by Bidzina Ivanishvili, who is the richest man in Georgia. Ivanishvili, who amassed his fortune in Russia during the early years of post-Soviet transition, initially funded the governance-related reforms of the UNM administration in the aftermath of the Rose Revolution, but later declared his own political ambitions after a standoff with Mikheil Saakashvili in 2012 – a case that resembles a private vendetta of a businessman against the imposing political ruler. One important implication of a rich man holding political power is that the authorities do not need to engage in the types of corruption prevalent under their predecessors, such as diverting state resources to the coffers of dominant political party.

Little changed in terms of horizontal co-optation practices and their impact on public procurement contracting. A large number of public contracts are awarded to companies based on ‘specific circumstances’ even though the criteria of defining these circumstances are quite vague. According to the research by reputable NGO Georgian Young Lawyers Association (GYLA), public contracts with overall value of more than one billion Georgian Lari (GEL) have been awarded on the basis of unclear criteria including ‘urgent need’ (52% of the contracts), ‘exclusive authorisation’ (24%), implementing activities in tight deadlines (11%), post-‘urgent need’ activity (10%) and quality maintenance (3%). Apart from unclear criteria there is another corruption risk in this kind of procurement: procuring organisations are not required to indicate the approximate cost of the contract which means that inflated prices can be used by the supplying organisations (GYLA 2017b). In one case, Transparency International Georgia discovered that a tender announcement by Georgian National Communication Commission (GNCC) was specifically designed for a specific company. After the information was published, the GNCC cancelled the tender (Transparency International Georgia 2018). In another case, a journalistic investigation found evidence that the company (Saller LTD) associated with the family of Minister of Sports, Taniel Khechikashvili, has won 117 public contracts without any competition in the period of Khechikashvili’s tenure of public office (Studio Monitori 2017).

Secret procurement by relevant agencies, in particular by law enforcement agencies and the Ministry of Defense, is another problematic area. The state audit agency has examined the ‘top secret’ contracts of the Ministry of the Interior and concluded that several of them did not contain any secret information and no proof was presented that would convince state audit in the opposite (State Audit Office of Georgia 2017). Similarly to the cases above, the definition of ‘secret’ is also up to the discretion of high ranking officials in security sector and this creates significant risks of corruption.

In longitudinal perspective, although informal networks of politicians and businessmen have played a determinant role in Georgia under the UNM and GD administrations alike, it can be said that state capture has become more ‘privatised’ under the GD in the sense that more narrow networks (linked

to particular companies) are influencing state behaviour to extract private benefit. In other words, although little changed in the nature of state-business interactions, instead of one single group of individuals with a clear leadership (Saakashvili and his team) having monopoly over resource distribution and co-optation practices, now there are independent or semi-independent businesses or networks that influence the state. For example, in 2013 the Culture Ministry and president's office stripped one of the world's oldest gold mines in Sakdrisi of its status as an archaeological site of national importance thereby allowing the RMG company to start mining operations there. According to the NGO Green Alternative, RMG and its legal predecessors, Madneuli JSC and Quartzite LTD, benefited from illegal political connections under both the UNM and GD governments (Green Alternative 2017). In another case, the government tried to establish administrative and legal barriers on the market to give the state company Georgian Postal Service a privileged position. According to Transparency International, there were signs of company representatives influencing decisions made by government officials responsible for economic policy (Transparency International Georgia 2015a). These kinds of cases raise concerns about state capture by private interests and the related risks of corruption.

From the very beginning of GD rule, the process of sorting out the relationships between the regime and private businesses has been handled by informal negotiators through intimidatory practices very similar to some of those adopted by Saakashvili insiders during their time. Immediately after the power transition of 2012, former political commentator and then Ivanishvili's advisor, Gia Khukhashvili, was appointed to be a key negotiator tasked with handling the pacts with the business community. In at least one instance he told Tsezar Chocheli, a businessman formerly close to the Saakashvili circles, that 'he needs to change allegiances otherwise the state law enforcement machine will turn against him' (Todadze 2013). Chocheli first resisted but thereafter was confronted with the coordinated actions of the state tax administration and financial regulators against his businesses and he ultimately had to give in. The key component of the deal was to the refusal to fund UNM and keep away from other political parties.

Another policy shift is the abandonment of libertarian policies. The GD government has adopted a number of new regulations for businesses, including in the construction and food production sectors, which increase monitoring and safety standards, but ultimately also may increase corruption risks. To date there is no reliable research on whether new regulations are efficient or they are just camouflage and generate new corruption opportunities.

The dynamics of the state-business informal networks also need to be comprehended from the perspective of the business elites. Large businessmen in Georgia always prefer to be close to the political powers to be and they usually find a common language with each new incumbent. From this vantage point, it appears that powerful private actors in Georgia have proven to be extremely efficient at co-opting political elites in a context of alternation in power of different political groups. Thus, some of the Shevardnadze era oligarchs changed their political stance after Saakashvili's

advance to power in 2003 and the same pattern was replicated after Saakashvili administration fell in 2012.

The political manoeuvring of the large businesses is usually welcomed by the incumbents as far as these businessmen stop funding their political competitors. In exchange for their loyalty and abstaining to fund political competitors the large business interests get access to public procurement contracts. Some of the key financiers of the UNM (Okriashvili, Fkhakadze, etc) are nowadays funders of GD and also recipients of sizable state contracts.<sup>8</sup> Hence the established horizontal co-optation practices continued albeit with some reshuffle of key players.

To be sure, some businessmen who were particularly close to the Saakashvili administration had to work harder to get the trust of GD government. For example David Bezhuashvili, a personal friend of Saakashvili and his financial benefactor even before the Rose Revolution, had a problematic relationship with GD authorities in the beginning. However, after he demonstrably kept away from politics his business continued to function without problems.

## 4 Ivanishvili and the personalised levers of informal power

Although Bidzina Ivanishvili stepped down as prime minister in 2013, there is a widespread perception in Georgia that he continues to exert significant influence in defining strategic directions for the country.<sup>9</sup> These views are perpetuated by the political opposition parties and some critical media. Former chairman of Parliament Davit Usupashvili confirmed in 2017 that Ivanishvili had informal influence over political power including over key areas like the appointment of judges or deciding about the structure of Central Bank of Georgia in the wake of a currency devaluation crisis. Ivanishvili has repeatedly denied these allegations, claiming that he has no say in country's politics since he resigned from the post of Prime Minister. He only admits that sometimes 'Prime Minister [Kvirikashvili] may request a meeting and ask for advice [...] but this is not dangerous' (Newspaper

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<sup>8</sup> For example in case of Okriashvili - the largest contract he has is the health insurance of the employees of Ministries of Interior and State Security with overall value of 32 million. At the same time company GMP, owned by Okriashvili's wife contributed 120 thousand Georgian Lari to GD coffers in August).

<sup>9</sup> In 2016 59% of the respondents surveyed by NDI thought that Ivanishvili remains to be a key decision maker despite resignation from Prime Minister's post, see <http://www.interpressnews.ge/ge/politika/445166-ndi-is-gamokithkhultha-59-miichnevs-rom-bidzina-ivanishvili-kvlav-rcheba-khelisuflebis-saqmianobaze-gadatsyvetilebis-mimgheb-pirad.html?ar=A>

Tabula 2017) Kvirikashvili himself denied Ivanishvili's informal authority over him and describes Ivanishvili's role as 'having political influence' and not informal power (Newspaper Tabula 2015).

#### 4.1 Managing the blurred public/private divide: co-optation and control practices of the GD

There are observable implications of Ivanishvili's exercise of informal power in Georgia, one of which is his comeback to the post of Georgian Dream chairmanship in April 2018, which has partially verified the hypothesis that he never gave up political power. In this section the focus is on practices of co-optation and control by means of which Ivanishvili and his associates manage their networks and regulate access to resources and rent seeking opportunities.

Informal co-optation practices are linked to appointments to high ranking political posts. Both Prime Ministers in the post-Ivanishvili period are widely regarded to be close associates and loyal aides to Ivanishvili. The departure of Irakli Garibashvili from his position seemed to be unplanned and unprepared and this led to well-grounded speculations that Garibashvili was fired rather than resigned voluntarily.<sup>10</sup> The second Prime Minister, Kvirikashvili, had worked closely with Ivanishvili in his (Ivanishvili-owned) private bank. Mamuka Bakhtadze Kvirikashvili's substitute nominated in June 2018 is widely reported to have friendly links with Ivanishvili's family although Bakhtadze strongly denied these claims.<sup>11</sup>

Furthermore, many of the key Ministerial positions, especially in the law enforcement apparatus, are occupied by loyal associates of Ivanishvili. For example Vakhtang Gomelauri, the head of the State Security Ministry (successor of KGB), was the head of Ivanishvili's private guard in 2003-2012. In 2015 Transparency International revealed that 38 high ranking officials have a record of employment in Ivanishvili-linked companies and 14 officials had a family member employed in these companies (Transparency International Georgia 2015b). Hence it seems that one of the key criteria to occupy a high ranking position is the degree of personal loyalty to Ivanishvili.

Informal authority is also exercised through power brokers and parallel informal governance structures in public institutions. Informal power does not end with Ivanishvili's influence over the state domain. There is substantial solid evidence indicating that some private individuals close to Ivanishvili enjoy wide-ranging powers in various sectors. For example Ucha Mamatsashvili, Ivanishvili's cousin, took over the role of 'settling affairs with businesses' after Gia Khukhashvili fell out of favour. Mamatsashvili had no formal role within the state although, even by admission of Ivanishvili, he was the key figure in 'dealing with the businesses' in order to sort out the details of relationship with the state.<sup>12</sup> The allegations of Mamatsashvili's role have been corroborated

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<sup>10</sup> Newspaper Georgian Times, 12 August 2016 ([http://geotimes.ge/index.php?m=5&news\\_id=28583](http://geotimes.ge/index.php?m=5&news_id=28583))

<sup>11</sup> <http://netgazeti.ge/news/268836/>

<sup>12</sup> See Ivanishvili's Media interview, [https://www.youtube.com/watch?v=NxFgBsA6\\_xM](https://www.youtube.com/watch?v=NxFgBsA6_xM)

numerous times by many sources. It was widely reported that owners of private company Maestro would appeal to Mamatsashvili to solve their problems with the state.<sup>13</sup>

Mamatsashvili was also in charge of the Ivanishvili-owned Stolenskaya Niva and Metallo Invest in the past and now he is a key shareholder in the Co-investment fund of Georgia (together with another Ivanishvili confidant Giorgi Bachashvili). The fund was founded at Ivanishvili's initiative with an official motive of attracting investments to Georgia, although it is widely seen as 'Ivanishvili's attempt to buy key assets and in this way make himself crucial for Georgia and thus outlive political popularity of Georgian Dream.'<sup>14</sup> Reportedly Mamatsashvili is also in charge of sorting out energy relations with Azerbaijan and of railway transportation. The source interviews in a Rustavi 2 journalistic investigation show that Mamatsashvili is informally the decision-maker in Georgian Railways, with formal director playing a peripheral role.<sup>15</sup>

In a similar fashion, Yuri Nozadze, Mamatsashvili's brother-in-law and former head of an Ivanishvili-owned plant nursery, is deputy Minister of Agriculture and believed to be the key decision maker in the Ministry.<sup>16</sup> Another protégé is Soso Gogashvili deputy head of the state security service, who inexplicably became rich overnight after being classified as socially vulnerable and receiving state subsidies before the change of power in 2012. Now Gogashvili owns land plots in the Kakheti region as well as several houses and apartments in Tbilisi, although most of his properties are registered in the name of his wife's relatives.<sup>17</sup> By facilitating the illegal enrichment of these individuals at the expense of the state, the informal power-brokers (like Mamatsashvili) make sure that top, formal decision-makers in public institutions remain loyal to the powerful private interests that also command formal political authority. This clearly exemplifies how top-down, informal co-optation involving tolerance towards prebendal practices in exchange for support to powerful networks remains extremely relevant to constructing bases of political and economic power in the current Georgian context.

Other cases illustrate how the control of the powerful informal networks associated to Ivanishvili is relatively independent of formal authority but also how influential members of the network may fall out of favour as a consequence of blatant abuses. For example, another informal power broker is former General Prosecutor Otar Partskhaladze who has private, family-based links with Ivanishvili. Partskhaladze had to resign from his post after less than a month after being appointed following the release of the evidence by the UNM that he had a criminal record for robbery in Germany dating to 2001.<sup>18</sup> However, after resignation he allegedly maintained his power in the prosecutor's office as

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<sup>13</sup> See video of Mamatsashvili and the Maestro case at <http://www.myvideo.ge/v/2782919>

<sup>14</sup> Interviews in Tbilisi, February 2017

<sup>15</sup> See <http://rustavi2.ge/ka/video/28556?v=2>

<sup>16</sup> Interviews in Tbilisi, February 2017

<sup>17</sup> See [https://www.youtube.com/watch?v=asS10Y\\_Ej5I](https://www.youtube.com/watch?v=asS10Y_Ej5I); and <http://reginfo.ge/people/item/4535-saxalxo-damzvelma-ioseb-gogashvilis-xinaagmdeg-mtavav-prokuraturas-mimarta>

<sup>18</sup> Civil.ge, analytical website, 'General Prosecutor resigned' 30 December 2013 (<http://civil.ge/geo/article.php?id=27713>)

well as in other law enforcement structures such as the financial police and the tax department, which as has been discussed are key to enforce discipline vis-a-vis the members of the network.<sup>19</sup> In another scandal case, Partskhadze was caught in a skirmish with the head of State Audit Office (SAO), Lasha Tordia. Reportedly, Partskhaladze was not happy with the SAO investigating cases of land transfers to Partskhaladze-owned companies. The SAO found that the Tbilisi mayor's office had given up land in the central part of Tbilisi at inflated prices and that Partskhaladze-owned companies had immensely profited from the scheme.<sup>20</sup> The sources suggest that after this scandal Ivanishvili has curtailed Partskhaladze's influence.<sup>21</sup>

In yet another case, an entire clan had to resign from their positions in the government after revelations of corruption came to light. The so-called 'Zedelashvili-Jankarashvili clan,' a group of former government and GD officials who were close relatives of former Prime Minister Garibashvili, was widely believed to have unduly exploited their influence to manipulate policies and various state institutions for the sake of private benefit between 2013-2015. The group had a significant degree of control in a number of key government ministries, including the Ministry of the Interior, tasked with leading the fight against corruption,<sup>22</sup> and the Ministry of Infrastructure, which grants most of the lucrative public contracts. Unsurprisingly the companies owned by key actors of this group (e.g. Serpatine LTD) have been widely reported to disproportionately benefit from public procurement contracts.<sup>23</sup> Some of these corrupt practices go beyond the 'revolving door' phenomenon because, apart from leveraging networks for illicit benefit, there have been illegal takeovers of businesses and forcing competitors to give up market share through blackmail and the use of the criminal justice system.<sup>24</sup> As a result of the scandals related to the Zedelashvili-Jankarashvili clan, the key members were sacked from their government positions but the charges of crimes of corruption were never investigated, much less prosecuted showing that, when it comes to dealing with members of the ruling networks, the GD leadership tends to deal with corruption cases quietly, without much public discussion.

Overall, in the post-2012 period, the re-privatisation of property, or *reiderstvo*, did not happen in a scale comparable to post-Rose Revolution period. However, in some instances one can observe re-

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<sup>19</sup> In at least one case, journalistic investigation obtained photos of Partskhaladze travelling through Tbilisi International Airport and accompanied with the security detail from Financial Police of Georgia. Voice of Abkhazia, mediaholding, news reporting from 14 March 2014 (<http://www.fmabkhazia.com/news/2542-othar-pharckhaladze-aeroportshi-dacvisa-da-sus-is-uphrosis-thanxlebit-mividaphoto.html>)

<sup>20</sup> Interpressnews, news agency, Interview with Nino Lomjaria, 22 May 2017 (<http://www.interpressnews.ge/ge/samartali/433834-nino-lomjaria-othar-farckhaladzis-kompanias-samjer-meti-farthobis-nakvethi-gadaeca-vidre-veres-kheobashi-hqonda.html?ar=A>)

<sup>21</sup> Interviews in Tbilisi, February 2017. Another example of informal control towards members of the network is the case of former deputy general prosecutor Lasha Natshvlishvili, who was forced to resign after a raiding attempt [under his protection] to take over the private company Rusmetal.

<sup>22</sup> At least that was its task before the summer of 2015, when the Ministry of Security was established to handle this function.

<sup>23</sup> Netgazeti, newspaper, 19 November 2014 (<http://www.netgazeti.ge/GE/105/News/38556/>) Pirveli Radio, news reporting, 2 May 2014 (<http://pirveliradio.ge/?newsid=19613>).

<sup>24</sup> Indeed this practice of *reiderstvo*, as has been mentioned before is not particular to this clan and has been used by the close allies of Saakashvili before (e.g. Davit Kezerashvili). In the period of radical reform (2004-2008) the practice was also used by state for taking back the assets previously privatised that was described as 'state extortion' above.

division of spoils orchestrated by informal power-brokers. For example, in the case of the JSC ChiaturManganumi (Georgian Manganese) mining manganese-rich ores in Western Georgia,<sup>25</sup> some reports suggested possible raiding case involving state structures. In May 2017, the state appointed a new temporary administrator in the company, but the company appealed the decision alleging that this was an attempt of illegal takeover. The suspicion was amplified by the disproportional fines that were subsequently imposed on the company. In 2016, after several weeks of thorough inspection, the Tax Department of the Ministry of Finance applied to Georgian Manganese one of the largest fines (200 million GEL) ever imposed against a private company in the history of Georgia. This was largely perceived as a biased decision since the company regularly carries out financial audit by reputable international companies (such as PricewaterhouseCoopers and Ernest&Young) and the financial audit reports also evidenced the financial viability of the company. Furthermore, the Environmental Inspection Department of the Ministry of the Environment has fined Georgian Manganese several times in 2013-2016 (first by 5000 GEL, then by 15000 GEL and then by 45000 GEL) for violations of environmental protections culminating in 2017, when the same agency threatened to impose 358 million GEL in fines due to the environmental damage in 2013-2014 (Georgian Manganese refused to pay this fine and declared that this will practically equal company's bankruptcy).<sup>26</sup> Indeed Georgian manganese can be accused of environmental damage but observers noted that the harsh treatment is biased since other companies, such as RMG Gold that is allegedly owned by Ivanishvili, can be equally blamed in similar law violations. The suspicion of orchestrating the takeover fell on Ucha Mamatsashvili and sources have alleged that new temporary director Nikoloz Chikovani is linked to both Mamatsashvili and Ivanishvili.<sup>27</sup>

#### 4.2 Nepotism, cronyism and appointments in state bureaucracy:

Nepotism in public office was an issue under Saakashvili's rule but it has grown to become a much larger problem after 2012, although Ivanishvili and his appointed prime minister Garibashvili argue that nepotism is not an issue. In March 2013, responding to the question about the appointment of his wife's cousin as the chief of General Inspection the Georgian Minister of Internal Affairs, Irakli Garibashvili, explained to MPs that 'his wife's relatives do not qualify as his own relatives.'<sup>28</sup>

However, public opinion appears to disagree significantly with these views of those who dismiss the role of nepotism. A 2013 public opinion poll administered by the Caucasus Research Resource Center showed that 30 percent of the respondents thought 'connections' are the most important factor in getting a good job, up from 19 percent in a similar survey conducted in 2011. In fact, there is growing consensus among observers that the cases of nepotism have genuinely increased. This could have to

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<sup>25</sup> Manganese comprises roughly 20% of Georgian export

<sup>26</sup> Factcheck, the project of Georgian NGO GRASS for checking the validity of politicians' public statements, report from 17 June 2017. (<http://factcheck.ge/article/braldebebi-da-shethankhmebebi-ra-protsebebi-mimdinareobs-jorjian-manganezis-irgvliv/>)

<sup>27</sup> Interviews in Tbilisi, February 2017.

<sup>28</sup> This was reported on news sites such as [www.pirweli.com.ge](http://www.pirweli.com.ge), [www.frontnews.ge](http://www.frontnews.ge), on March 18, 2013.

do with more exposure of nepotistic practices by the media and NGOs, as well as with public statements of high-ranking officials, including former Prime Minister Ivanishvili and his successor Garibashvili, who have described nepotism as an acceptable practice. Nowadays, nepotism plays a decisive role in the hiring and promotion of public employees. The 2017 poll shows that 32 percent of the respondents in Georgia [and Armenia] think that personal acquaintances are most important factor to get a job. This compares to 22 percent of the respondents (19 percent in Armenia) who think that education is most important (Caucasus Research Resource Center 2018).

According to one study in Georgia ‘90 percent of the appointments are based on recommendations of family and friends.’ However one needs to acknowledge that the practices vary from institution to institution and some ministries do better than the others (Gongadze and Dolidze 2014). The variations between Ministries can be explained by the normative approach of a particular Minister in charge rather than the common state policies regulating public office. The same study finds that there are no systematic rules when it comes hiring, promoting or firing public employees (ibid) and even though the Ministries often need to publicly announce a vacancy on a designated website (<https://www.hr.gov.ge>), the process of recruitment is often undermined by nepotistic relations. The respondents (public sector employees) of a 2017 sociological study of public management confirmed that nepotism is a significant problem in the public sector but they also think that informality is linked to ‘Georgian culture’ because ‘a lot depends on the personal relations in a tightly-knit society. (Tsartsidze et al. 2017)’

## 5 Elections and informality in Georgia

Until very recently the general perception that ‘a public official is spoiling his post’ if he is not ‘eating enough’ was widespread in Georgia. This has changed after the Rose Revolution and public posts are no longer associated with the opportunity of rampant rent-seeking. However, there is a reason why in many electoral districts the ruling parties always nominate affluent businessmen as their candidates. These individuals are expected to dedicate significant resources to co-opt the local interest groups and gatekeepers. These gatekeepers are often recruited as election campaigners and get remuneration (formally and informally - in cash) or they are promised to have jobs in local administrations and council after the elections.

Unlike the situation during the Saakashvili era, when business personalities were extorted to fill the UNM party coffers, the GD party does not need to mobilise resources in such a manner because Bidzina Ivanishvili is a billionaire. However, in their relationship with business interests outside of their close network, GD authorities have actively sought to cut off funding for political opposition and to minimise their political activities, especially when they may venture outside of the GD mandate. For example, prominent businessman Tsezar Chocheli, who as discussed above has been the target

of the GD's informal control practices, participated in the 2016 elections as an independent candidate. As sources in the business community reported: 'he wanted to become krysha<sup>29</sup> for his own business and somehow prevent the risk of future attacks [on his companies]... He does not support GD openly, and does not fund it. But he is not in political opposition either.'<sup>30</sup> Indeed, Chocheli has a good support base in the local population primarily because his factories create employment for the local population.<sup>31</sup> The respondents in Tbilisi believed that Chocheli would have won in a fair election but all data indicates that his rival was backed up by informal support of the regional law enforcement structures. Regional police, regional administration and regional state security would all work through their employees and campaign against Chocheli,<sup>32</sup> which provides another example of the manner in which informal networks are harnessed to protect the ruling network, in this case against electoral competition.

This so-called 'misuse of administrative resources' is common practice in Georgia especially in the regions. The practices range from officials using vehicles owned by the municipal agencies during campaign activities to spending directly from the state budget to fund the campaigns of candidates from the ruling party. Independent monitoring organisations have also found evidence for a) politically biased law enforcement action in which politically active individuals are searched, interrogated and pressed with charges against them; b) politically motivated dismissals from public office; c) mobilisation of public sector workers in support of pre-election campaign activities of ruling party candidates (ISFED 2017) (Transparency International Georgia 2017). As an example of the latter, a professional journalistic investigation uncovered that during the 2017 election the director of the kindergarten managing state agency issued an illicit order for his employees to compile the lists of GD supporters, presumably in an attempt to rally employees in favour of the GD.<sup>33</sup>

These practices have been replicated in 2017 when a number of senior education managers have been involved in pro-GD agitation activities (GYLA 2017a). The pressure on opposition candidates with the purpose of forcing them to withdraw their candidacies was also widely reported. For example, in 2014, 50 candidates of six opposition parties in 15 different electoral districts have withdrawn their candidacies. The prosecutor office looked at some of these cases and started to formally investigate four of them. However, as the watchdog group Georgian Young Lawyers' Association reported, these investigations were half-hearted and did not lead to real results. In some instances the Ministry of Internal Affairs denied the possible complicity of policemen in this kind of pressure cases without due investigation (GYLA 2014).

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<sup>29</sup> 'Roof' in literal translation from Russian, signifying protector/patron. For more discussion of the term see Zabyelina and Buzhor (2017), entry in Global Encyclopedia of Informality, volume 1-2, pp. 256-259

<sup>30</sup> Interviews in Tbilisi, February 2017

<sup>31</sup> More than 10 thousand people work in the factories owned by Chocheli and his brother.

<sup>32</sup> Interviews in Tbilisi, February 2017

<sup>33</sup> See the video by Studio Monitori Investigation at <https://www.youtube.com/watch?v=YlbbdsgUeec>

Elections are also accompanied by the allegations of political opposition groups that the incumbents are using career criminals in electoral process. There are cases when criminal leaders are released from prisons straight before the elections.<sup>34</sup> These representatives of professional criminality, so called thieves-in-law, are said to be useful to persuade and/or coerce citizens to vote for a certain candidate. Some of the allegations about using criminals have been corroborated by many sources. For example it was widely reported that David Shengelia, former leader of the paramilitary group Forest Brothers, was used during the elections to mobilise the voters in favour of GD and against the candidate of UNM - Saakashvili's wife Sandra Roelofs - during the 2016 parliamentary elections. The same individual is reported to be involved in smuggling across Georgia-Abkhazia administrative border and acting on behalf of Georgian thieves in law based in Turkey.<sup>35</sup>

## 6 Conclusions

### 6.1 Informal governance, corruption and the camouflage of efficient service delivery.

Informal practices of Georgian political and business elites, who are closely linked and sometimes indistinguishable, have remained central to sustaining and consolidating power by informally redistributing access to public resources and to opportunities for rent extraction. This was true even during the reformist government of the United National Movement (UNM) led by Mikheil Saakashvili, and certainly did not change much after the change of government in 2012, when the Georgian Dream (GD) electoral coalition took power. Nowadays the companies that often win public tenders also contribute to the coffers of GD. However, unlike in the UNM era, when illicit and collusive access to economic rents was motivated by the aim of consolidating political power, nowadays corruption is more 'privatised': particular companies or networks are influencing state behaviour to extract private benefit. In a nutshell corruption is less centralised in 2012-2017 period compared to 2004-2012.

Within the public sector, evidence of top down informal co-optation and control is evident. Top-down informal co-optation manifests itself in appointments to allies irrespective of technical competence, and recruitment practices based on particularistic criteria that result in patronage networks. Impunity of co-opted allies for underperformance and corrupt behaviours is another key characteristic of top-down informal co-optation. Informal selective punishment of dissidents and opponents under the

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<sup>34</sup> Newpost, news website, 'Thief-in-law has been released from prison 5 days before elections' 16 November 2017. (<http://www.newposts.ge/?id=154203>) See video of the journalistic investigation at <http://rustavi2.ge/ka/video/30349?v=2>

<sup>35</sup> Newspaper Akhali Versia, report dated 31 July 2013. <https://www.versia.ge/index.php/2013-07-31-11-22-32/item/5335-რა-ხდებოდა-სამეგრელოში>; <http://www.timer.ge/samegreloshi-sakhelmtsipo-da-qurduli-samkharo-thanamshromloben-da-saqmeshi-apkhazi-kriminalebic-monatsileoben/>

camouflage of tax audits and other legitimate public sector mechanisms has also been a recurrent pattern in the political economy of the post- Rose Revolution period in Georgia. All of these traits have been documented in the research.

The research findings provoke a reflection on the extent to which the Georgian regime can be viewed as an exception among the increasing number of countries where popular uprisings have overthrown corrupt regimes but have nonetheless sooner or later reverted to their previous practices of corrupt governance usual in spite of the promises and proclamations of the new incoming governments. A key consideration is that, unlike others, Saakashvili and his team did make use of their window of opportunity to pass radical institutional reforms to the public sector. In this regard it was probably critical that the incoming ruling elite enjoyed independence from the established networks of the Shevardnadze era which gave them the space and opportunity to carry out the reforms and to confront (albeit through informal means) the oligarchs of the Sheverdnaze era.

Eventually, the independent stance of the UNM government did not last because of a pragmatic need to build bases of support and the impossibility to further antagonise entrenched, powerful economic interests. Thus, there are similarities with the other success story in our sample -Rwanda- where Paul Kagame managed to secure extremely high levels of state autonomy in part by purging dissenting voices from the ruling Rwandan Patriotic Front but also because he had no powerful economic interests to confront. Co-optation is present in Rwanda but it is not horizontal, it is unequivocally top down because power (political, military and economic) was concentrated around one single and tight group at the helm.

In Georgia, horizontal cooptation has been a constant because of the complex interaction between the political and the business spheres. While one can find examples where the government has resorted to informal practices to ensure support and repress opposition from particular business, but also powerful economic interests have pragmatically co-opted the ruling elites in power even as these have changed. However, in these interactions, establishing an arrow of causality is probably misleading because it would suggest a distinction between the public and the private realms, which does not stand empirical scrutiny. However, the evidence suggests that in one way or the other, without the support and/or acquiescence from the most influential economic interests it would be close to impossible to exercise power in Georgia, which would explain the backsliding into informal practices of horizontal co-optation.

Taking a step back, the successful anti-corruption reforms of the Saakashvili era represent the crystallisation of a process, undertaken during a limited window of opportunity, where sizable “islands of integrity” were made possible. It appears from the analysis that these islands of integrity represent something of a “camouflage” in the eyes of the international community, whose indices keep scoring Georgia positively.

There are nonetheless important lessons to be learned from the Georgian case. Especially relevant seems to be the observation that the “islands of integrity” have been able to persist for a relatively

long time and in spite of changes in government and what seems like rampant high level corruption. This also leads to a reflection about how we should think more critically about adding nuance to anti-corruption analysis. The Georgian case clearly shows that political regimes and governance systems in the public sector do not necessarily move in similar directions. Also, it should be noted that the some of the key anti-corruption reforms of Saakashvili's regime were enforced through very authoritarian means, which speaks of potential conflict and tradeoffs in the realms of democratic accountability and the political economy of enhancing public sector accountability.

### **Lessons Learned from Georgia's Reforms**

- Reforms can succeed only if time is used efficiently and after a window of opportunity has been opened as was the case with the "Rose Revolution" in Georgia. Indeed, most crucial reforms were undertaken in the first two to three years after the revolution. Crucial, orthodox reforms to the public sector may be undertaken through unorthodox means.
- Reform of the civil service does not necessitate a commensurate reform of the political system; the Georgian experience shows that a universalist governance regime characterised by impersonal set of rules can successfully be introduced in the public service while the political system continues to operate according to rules that are informal, unwritten and non-transparent.
- Reforming public institutions in a country like Georgia shows that there is no such thing as "endemic" corruption, which would have been part of the broader societal culture. Georgia had been regarded as one of the most notoriously corrupt countries not only in post-Soviet, but also already during Soviet times.
- The Georgian experience also shows that if reforms are successfully undertaken and new functional institutions are created, then changes in government do not necessarily reverse them. Islands of integrity may develop their own life circle especially if they have been performing successfully for some time. This likely hinges on continued popular demand and support for equitable and efficient access to good quality public services.

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