



## Oligarch and Power Elites – Prospects of De- oligarchization in Georgia

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In the 12-point list of recommendations presented to Georgia by the European Commission, de-oligarchization remains one of the most controversial issues in the country. According to this specific recommendation, to obtain EU candidate status, Georgia must be able to “implement the commitment to ‘de-oligarchization’ by eliminating the excessive influence of vested interests in economic, political, and public life” (European Commission 2022a). However, opinions about the implementation of this recommendation differ diametrically in the Georgian political spectrum.

According to the ruling party, the note on de-oligarchisation does not refer to the founder of the party, Bidzina Ivanishvili, but is addressed to leaders of opposition political parties and their financiers (Interpresnews.ge 2022a). To fulfil this recommendation, the Georgian Dream has already submitted to the Parliament of Georgia a draft of a bill titled “On de-oligarchization” (Parliament of Georgia 2022a), which is similar to the Law of Ukraine on De-oligarchization (President of Ukraine 2021). Contrary to the claims of the Georgian Dream, opposition parties name Ivanishvili as the country's only oligarch (RadioTavisupleba.ge 2022a). In the opinion of the opposition, the proposed bill does not respond to the real problem of the country (RadioTavisupleba.ge 2022a).

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The discussion surrounding de-oligarchization resembles the usual cycle of exchanging accusations between political opponents, and the ambiguity surrounding the issue affects citizens' disposition; 51 percent of surveyed individuals are unable to name an oligarch as denoted such by the European Commission in the country (CRRC-Georgia Omnibus 2022). Considering the importance of the issue, the purpose of this policy memorandum is to consider whether de-oligarchization means a mere change of the legislation; to assess the appropriateness of the Ukrainian law on de-oligarchization in the Georgian context and risks associated with its implementation in its present form. This briefing will further outline probable perspectives for de-oligarchization given the current political playing field in Georgia.

## **Is adopting a law on de-oligarchization enough?**

In modern terminology, oligarchy refers to an equilibrium where political processes and the economy systematically serve the interests of a small group of wealthy people (Gottfried 2019). However, the term oligarch itself "is more of a popular political term than an analytical concept" (Johnston 2005) and based on the existing literature it can be assumed that it is more directed towards the so-called the *modus operandi* of oligarchs, that is, specific methods and efforts used to expand and protect their wealth and position (Hellman and Kaufman 2001). In this sense, based on practice, important resources for oligarchs include their social positions and influence, including with state institutions (Hellman and Kaufman 2001). Oligarchs may have formal access to key state institutions; they may directly participate in policy formulation and implementation, or informally as a result of certain financial or other types of influence on state officials, and they can manipulate and foster the creation of a political agenda acceptable to them (Hellman and Kaufman 2001).

From an economic point of view, through formal or informal intervention in public policy, oligarchs influence the development of such types of legislation, policies, and regulations that serve to secure their private economic benefits (Hellman and Kaufman 2001). Also, oligarchs use their influence to block reforms that would ensure equal access to power and economic opportunities and dismantle their exclusive access to economic resources (Hellman and Kaufman 2001). From a political point of view, the excessive influence of oligarchs hinders or blocks political reforms that should provide an institutional environment free from the interference of private interests (Hellman and Kaufman 2001).

Therefore, de-oligarchization, as indicated by the European Commission, means freeing politics and the economy of the country (or countries) from the influence of the private interests of the oligarchs. When considering the cases of various non-consolidated democracies, due to the deep involvement of oligarchs in politics and the economy of a state, it is not easy to eliminate their interests (Hellman and Kaufman 2001) and de-oligarchization involves more fundamental political and institutional changes than just adopting a specific legislative change (Johnston 2022). That assumption is also proved by the decision of the European Commission clearly notes that the recommendation on de-oligarchization should also be given to Moldova and Ukraine, which both have candidate status.

For Ukraine, which is a pioneer in the adoption of the de-oligarchization law among the countries of the associated trio, the issuance of this recommendation is related to systemic problems in the country. In particular, the recommendation issued by the European Commission notes a low degree of judicial independence, a high level of corruption and challenges to media freedom. The European Commission considers that the systemic problems in these areas still give oligarchs access to the country's key institutions (European Commission 2022b). Moldova was recommended to implement 'de-oligarchization' given that it has no such anti-oligarch law. Although the country's president, Maia Sandu, stands out for her strong anti-corruption position, at the time of the publication of the EU recommendations, Moldova has not still adopted the anti-oligarchization law, which would have strengthened the ruling party's anti-corruption policy (Necsutu 2022). Therefore, the absence of a legal framework may be one of the reasons that allows Moldovan oligarchs to present themselves as victims of political persecution and to continue attempting to interfere in the country's politics and economy (Intellinews.com 2022, Balkaninsight.com 2022).

Based on the cases of Moldova and Ukraine, it is reasonable to argue that the creation of the legal framework – the adoption of the de-oligarchization law – is only the first step to free the country from oligarchs' private interests, and to create a public policy that will serve the public. This implies systemic political and institutional changes in the country.

## **Changes at the legislative level: how appropriate is the Ukrainian law on de-oligarchization in the context of Georgia?**

The ruling party adopted almost wholesale the Ukrainian law on de-oligarchization, including measures to identify an oligarch and implement measures against such

individuals (Publika.ge 2022). According to the proposed bill, a person with significant economic and political weight (oligarch) is a private citizen who meets at least three of the following criteria at the same time:

- *participates in political life;*
- *has a significant influence on mass media;*
- *is the final beneficiary of an entrepreneurial legal entity that has a dominant position in the market and that maintains or improves this position for one year;*
- *the confirmed amount of his/her assets and those of entrepreneurial legal entities where s/he is a beneficiary, as of January 1 of the relevant year, exceeds 1,000,000 times the subsistence minimum established for working force persons.*

For the Georgian Dream, the argument of using the Ukrainian law as a model is related to the understanding of the concept of the oligarch. The chairperson of the ruling party says “the concept of an oligarch is universal, an oligarch cannot be different in Ukraine and different in Georgia, therefore [the definition adopted in Ukraine] will be [sufficient] for Georgia as well” (Formulanews.ge 2022). Given that until Ukraine created a precedent to fight oligarchic influences first among the Associated Trio, it may seem that the ruling party's decision is rational. However, it should be noted that the political contexts of Georgia and Ukraine significantly differ from each other. For this reason, the criteria given in the Ukrainian anti-oligarchization law deviate from the Georgian reality. The main difference is related to the characteristics of the oligarchic system. In this regard, two main factors can be distinguished: firstly, the problem of oligarchs' participation in the economy and politics has been acute in Ukraine since the 1990s (Pleines 2016, Yurchenko 2018). One of the main obstacles to the introduction of liberal economic principles and equal access to public goods in Ukraine has been the existence of a large number of oligarchs (European Court of Auditors 2021).

In Ukraine, though the combination of ruling blocs and their supporting oligarchs changed in some way, overall politics in Ukraine remained kleptocratic and tailored to private interests (Pleines 2016, Yurchenko 2018). Unlike Ukraine, oligarchic rule in Georgia was never a systemic problem until 2012, and the involvement of oligarchs in Georgian politics remained only a temporary feature. For instance, the influential minister of the previous government, Kakha Bendukidze, had also been referred to as a Russian oligarch in certain circles due to the origin of his capital (Wojciech et al, 2017). However, despite controversial attitudes towards Bendukidze amongst the Georgian public, concerns that he had undue

control in the economic or political sphere was not a complaint raised often. In the case of Badri Patarkatsishvili, even though he tried to influence the internal politics of the country by funding an anti-government movement and presenting himself as a presidential candidate (Wojciech et al, 2017), due to his death, his involvement in domestic politics did not result in oligarchic rule in the country. Talk of oligarchic governance in Georgia started in 2012, and has been aimed at the founder of the ruling Georgian Dream party, Bidzina Ivanishvili. This is confirmed by the resolution of the European Parliament and reports of the Transparency International secretariat, which mention Bidzina Ivanishvili as the country's sole oligarch with a destructive role in the country's politics and economy (European Parliament 2022, Transparency.org 2021).

The second distinguishing factor between Ukraine and Georgia is related to the method of influence of private interests on politics. In this regard, oligarchs in Ukraine mostly held official political positions and openly owned media (Pleines 2016). In Georgia, the main reason for the negative impact on the country's politics and economy is the informal governance associated with Ivanishvili. Without holding any official position, through the ruling party founded by him and "a judicial clan" loyal to him, Ivanishvili processes means to control the political and economic levers of Georgia (Transparency.org 2019, Transparency.org 2021).

Consequently, the contextual differences between Ukraine and Georgia make the Ukrainian de-oligarchization law less relevant to the Georgian reality. If the Ukrainian anti-oligarchization law responded to Ukraine's systemic oligarchic problem, in the case of Georgia, this draft law cannot resolve the problem of informal oligarchic governance related to the name of the founder of the ruling party. Even though no one can compete with Ivanishvili in terms of personal and business assets, due to informal influences, it is difficult to match Ivanishvili with the criteria of involvement in politics or influence on the media, which is necessary to identify a person as an oligarch according to the given draft law. Based on the above, it seems that while Georgia is endeavouring to implement the recommendation on de-oligarchization, significant gaps remain in the legal framework.

## **Funders of political parties - oligarchs or power elites?**

A note about Ivanishvili was included in the resolution of the European Parliament with a special amendment (European Parliament 2022) and later MEPs clearly explained that de-

oligarchization in Georgia meant de-Ivanishvilization (GeorgiaToday.ge 2021). However, according to the ruling party, the note on de-oligarchization does not refer to the founder of the party, and it unequivocally refers to the liberation of political processes from the influence of financiers of opposition political parties with relatively large financial capital (1tv.ge 2021a, RadioTavisupleba.ge 2022b).

In general, in Georgia, as in most non-consolidated democracies, the presence of individuals with large financial capital and political or economic interests in the shadow of political parties, who consider securing their interests for the long term through financing political parties, is a significant problem. The presence of large financiers amongst the opposition parties is also confirmed by reports of non-governmental organizations working on the topic of political party financing (Transparency.ge 2021). These reports indicate that this factor gives a certain financial advantage to specific parties in the opposition political spectrum compared to others (IDFI 2021). Ruling party representatives in the context of de-oligarchization cite the former Minister of Defence of Georgia, David Kezerashvili, whose cooperation with and financing of the newly established coalition are acknowledged by the leaders of the following political parties - *Strategy Aghmashenebeli, Droa, and Girchi - More Freedom* (Interpresnews.ge 2022b, 1tv.ge 2022b, Netgazeti.ge 2022), as well as to the founder of TBC Bank, Mamuka Khazaradze, who at the same time is the political leader and one of the founders of the *Lelo* party. Since "oligarchy" as a term is more a subject of political assessment (Johnston 2005), the definition of oligarchy itself in the context of the European Commission recommendation may become a matter of speculation. However, based on the classic definition of oligarchy, which implies "a corrupt regime of government run by a group of wealthy people for their own benefit at the expense of the public interest" (Gottfried 2019), these individuals are less likely to meet the criteria of an oligarch. Although these individuals have some influence on the internal political processes of the country, due to one-party rule, their participation in politics at this stage gives them less opportunity to protect and expand their own capital. This point of view is confirmed by the fact that despite his involvement in politics, Khazaradze did not receive any dividends in connection with the Anaklia project, and according to the decision of a Georgian court, Kezerashvili still faces criminal responsibility.

Considering the actions and goals of Khazaradze and Kezerashvili, perhaps the term - 'non-ruling power elites', accepted in social science, (Mills 1956) would be more appropriate for them. The main characteristic of power elites that distinguishes them from ordinary citizens is their financial or social positions (Pareto 1961). As explained in the relevant literature, the

logic of the action of power elites is the instinct to protect their private interests in the long term (Mills 1956). In this regard, transforming private interests into collective goals and manipulating political issues is one of the important characteristics of power elites (Grindle 1989).

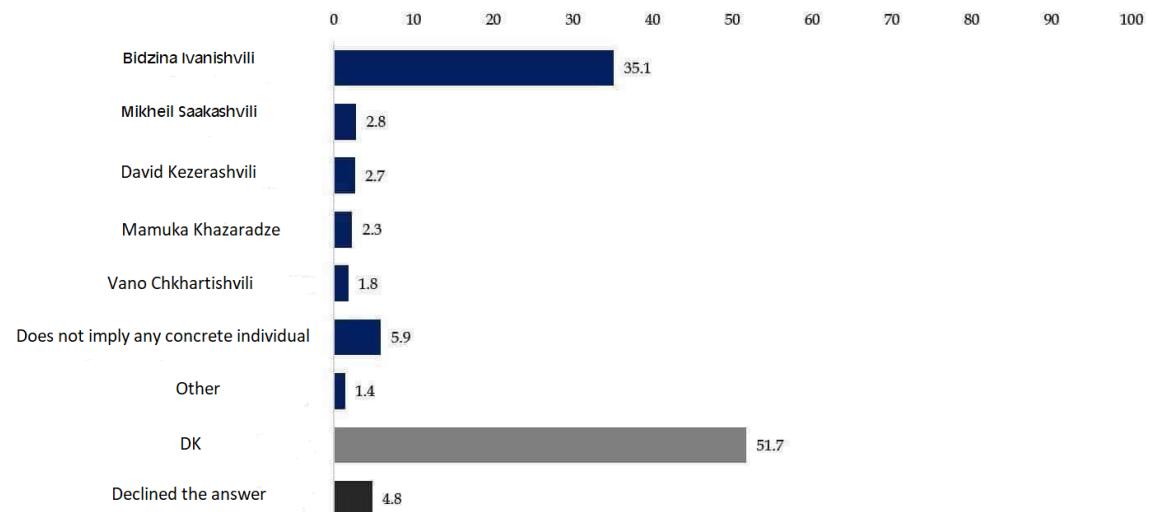
When considering the cases of Khazaradze and Kezerashvili, the given theoretical explanation also finds a concrete justification. In this sense, Khazaradze created the party to receive political immunity after facing legal problems in connection with the Anaklia project from the current Georgian Dream government (Transparency.ge 2020). Also, exemption from legal prosecution after the change of the government may be one of the most important reasons as to why Kezerashvili provides financial support to the opposition parties.

### **Shifting a focus to funders of opposition parties: probable causes**

Based on the above-mentioned discussion, it is logical to conclude that mentioning financiers of the opposition political parties by the Georgian Dream in the context of the de-oligarchization process has a specific purpose – the ruling party is trying to ensure the political risks for the 2024 elections.

One of the important circumstances to dismantle oligarchic rule is democratic coalition against the oligarchy by opposition political parties, civil society and citizens that will ensure a political party financed by the oligarch loses the majority in the elections (Hellman and Kaufman 2001). At the rhetorical level, the narrative cultivated by the Georgian Dream, which involves considering the ruling oligarch and the financiers of the opposition parties on the same level, deprives this very perspective of support. At this stage this is visible as more than half of the citizens cannot name a single oligarch in today's Georgia is (Figure 1).

**Figure 1.** According to the conclusion of the European Commission, Georgia should, among other obligations, fulfil the so-called commitment to de-oligarchization. In your opinion, which person or persons does the European Commission consider an oligarch or oligarchs (%)?



**Source:** CRRC- Omnibus, July, 2022

At the same time, the criteria of the bill proposed by the Georgian Dream apply to the founders of the opposition parties. Thus, there is a risk that the de-oligarchization law will be used against political opponents if necessary, and through the sanctions applied to them in accordance with the law, low political competition will be ensured for the 2024 elections.

## Short and long-term perspectives of de-oligarchization

It is obvious that the bill proposed by the ruling party does not resolve the real problem existing in the country even at the legislative level. Accordingly, there is a risk that the European Commission will not positively assess this regulatory framework and will consider this stage of implementing the EU recommendation on de-oligarchization as unsatisfactory. Against this background, the Georgian opposition says that Georgia has better prospects of being granted EU candidate status if there will be a different

parliamentary majority configuration. In this case, most likely, Ivanishvili's influence on Georgian politics and economy will weaken, which may turn out to be one of the catalysts for granting candidate status to the country. However, it is important to note that the main goal of Georgian citizens is to join the European Union, and not only to obtain the status of candidate country. Since the de-oligarchization implies systemic political and institutional changes that eliminate all types of private interests, in this regard, the problem of financing political parties in Georgia and big donors behind them can be considered as a challenge that will probably complicate the complete de-oligarchization of the country even in the long term.

Currently the European integration of the country is significantly hindered by the influence of one concrete oligarch of the ruling party. The current, non-ruling elites in power which are affiliated with certain opposition political parties create conditions which hamper the pursuit of eliminating oligarchic influences in the country.

It is well known that the elites motivated by private interests are best able to protect their economic or political interests in the long term in a weak institutionalized environment (Hellman and Kaufman 2001, Johnston 2005). Georgia is an unconsolidated democracy, and without stable political and legal institutions, there is always a possibility that disproportionate benefits from public goods will be used by the power elites close to the ruling party in a given time. This means that the country may again accept the marketization of politics and kleptocracy only with changed faces, which will once again bring the country's democratic development and European perspective to a dead end.

Considering that there are no real signs of de-oligarchization in the short term, and even after changing the parliamentary configuration, there is a certain risk that the country will not achieve complete de-oligarchization. That's why it is necessary to develop a targeted medium-term perspective with the involvement of the international community and local civil society organizations, that will systematically prevent the future influence of any private interests.

Currently, most political parties in Georgia are devoid of an intra-party organizational structure (Zurabashvili 2022) i.e., the democratic scheme of party financing does not work and depends on large financial donors. The commitment of political parties to the abovementioned financiers may lead to control of the economic and political spheres by new players in the future. Therefore, the strengthening of internal democracy in political parties may turn out to be an important factor that will allow parties to find more harmony with their voters and be less dependent on elite funding.

At the same time, the regulation of the number of party donors may turn out to be an important factor in this direction. Currently, the Georgian legislation sets an upper limit for donations by private and legal entities to parties (Transparency.ge 2021). However, in practice, Georgian political parties find 'loopholes' as regards party financing: it is mainly manifested by the artificial allocation of large amounts of money to the number of donors. One individual or legal entity does not violate the upper limit set by the law, however, the party acceptable to them is simultaneously financed by their subsidiaries or individuals connected to the party, whose income does not match the amount donated to the party (Transparency.ge 2021). Therefore, a relatively aggressive measure, regulating the number of large-scale donors to political parties, could put all political parties on an equal footing, regardless of the financial capital behind them.

Strengthening self-government bodies through decentralization may also be important in reducing oligarchic influences. In the current situation, there is a weakly centralized government in the country, which makes it easier for the ruling party and persons with private interests close to it to accumulate resources in any part of the country. In contrast, the real fiscal and electoral decentralization in the regions creates more so-called veto-players who can block the corrupt motives of the central government (Treisman 2002). In particular, the local government elected through the principle of a democratic competition, which at the same time is responsible for the quality of the public service delivery in a particular self-government constituency, is less subject to private interests lobbied from the central government (Treisman 2002).

## Conclusions

In conclusion, it can be said that even the first step in the direction of de-oligarchization and the development of an associated legislative framework, does not respond to the real problem in the country related to the existence of informal, oligarchic governance. Therefore, there is a serious risk that the country will not receive a positive conclusion from the European Commission regarding the implementation of the de-oligarchization recommendation. On the other hand, the de-oligarchization draft law initiated by the ruling party and the narrative circulated around it leave less room for de-oligarchization to take place through clear public pressure in the country.

Taking the current circumstances into account, there is a real danger that Georgia's integration into the European Union will be significantly damaged in the short term. If the

Georgian political spectrum takes drastic steps in the next elections and the parliamentary configuration changes, this factor may lead to the removal of the Ivanishvili factor from the agenda, i.e., the dismantling of the existing informal oligarchy system. This, in turn, may become a positive charge leading to the granting of candidate status to Georgia.

However, considering the expressed desire of the country's population regarding European integration, receiving candidate status alone cannot be considered the main achievement, and it is necessary to discuss the risks related to de-oligarchization in the broader long-term perspective. Against this background, the so-called power elites affiliated with the opposition political parties appear to be an important problem, whose influence may increase in the new parliamentary configuration, and cannot be prevented by the weakly developed democratic institutions of the country.

Therefore, if de-oligarchization is considered the creation of a public policy that will not serve private individuals, but rather the public good, this process implies systemic political and institutional changes in the country, and it cannot be discussed without considering the rule of law factor. However, the medium-term strategy developed following discussions with the international community, local non-governmental organizations, and political parties, which includes the strengthening of the internal party democracy, the regulation of party financing and the real decentralization of the country, may additionally create a framework that will to some extent prevent the influence of private interests in the economic, social and political spheres of the country in the future.

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