More Transparency Needed in the Partnership Fund

Introduction

JSC Partnership Fund is a state investment fund - a 100% of its shares are owned by the Georgian state. For this reason, the efficiency and transparency of its projects is especially important. 2014 was the first time Transparency International Georgia looked into the projects that had been implemented by the Fund at the time. This time, we examine the Fund's newer projects and their investors.

At the initial stages of this research, TI Georgia requested information from the Partnership Fund about its completed projects. However, the Fund refused to disclose this information. Our research team was able to collect the required data from individual employees of the Fund. After we sending a draft of this document to the Partnership Fund for feedback, the Fund expressed readiness to provide us with the required information; however not all of our questions were answered.

As a result, in addition to information provided by the Partnership Fund this research is also based on various other sources, including the founders and managers of co-investor companies and their public procurement record.

I. About the Fund

JSC Partnership Fund was founded in 2011 through consolidation of major state enterprises working in the fields of transport, energy and infrastructure. The Fund is involved two main activities:

Asset Management – The Fund's assets portfolio consists of the following companies:

- Georgian Railway - 100% of shares
- Georgian Oil and Gas Corporation - 100% of shares
- Georgian State Electrosystem - 100% of shares
- Electricity System Commercial Operator - 100% of shares
- JSC Telasi - 24.5% of shares

Georgian Railway and the Georgian Oil and Gas Corporation are the main sources of funding for the Partnership Fund's investment activities.

Investment Activity – Currently, the total value of projects in the Fund's portfolio exceeds USD 2 billion. The Fund invests only in Georgia and is focused on attracting and supporting private investors.

The Partnership Fund's website does not contain the criteria used for selecting companies that implement its various projects. However, the Fund did provide us with this information at the final stages of this research.

Criteria for selecting implementing (construction) companies when the Fund is the sole investor

In cases when the Partnership Fund is the sole investor, companies that are wholly (100% of shares) owned by the Fund are subject to the Law on Public Procurement.

The Law on Public Procurement applies only to the so-called state enterprises and does not cover enterprises that are indirectly owned by the state. However, the law does apply to companies that are indirectly owned by the Partnership Fund.

Criteria for selecting implementing (construction) companies when the Fund is not the sole investor

The partnership Fund does not take part in selecting an implementing company when it is a minority investor. This authority is given to the joint company that is responsible for the project. According to the Civil Code and the Law on Entrepreneurs, any capital contribution or loan given to a joint company becomes property of that company and is no longer that of the Partnership Fund. A joint company is a procurer, which is neither directly nor indirectly owned by the state (with more than 50% of its shares). Therefore, the Law on Public Procurement does not apply to these companies.

According to the Partnership Fund, in such cases, it gets involved in the selection process only if such an agreement is made beforehand with the joint company (in other words, the procurement policy of a joint company does not depend on the Partnership Fund). Even though the Partnership Fund is not directly involved in selecting the implementing company, it does impose a condition on the joint company to select a subcontractor based on price quotations.

According to the Fund, the selection of implementing companies involves two stages and is done based on price quotations. First, the Partnership Fund and its partner company invite candidate subcontractors to provide their price quotations. There are no specific criteria for selecting these companies. The winner subcontractor is chosen based on the received quotations.

According to the Fund, this process of selecting subcontractors together with its partner company is not always successful, in which case the project is either not implemented or, if the Fund considers it to be of special interest, is continued despite the failure to meet conditions.

II. Completed and Ongoing Projects

1. Completed Projects

As of 2016, the Partnership Fund has completed 10 projects and is working on 7.

Projects completed as of 2016:

- Greenhouse Complex - Imereti Greenery
- Rukhi Multifunctional Trade Center
- Blueberry Plantation and Processing Plant
- Construction Material Factory-Panex
- Gardabani Thermal Power Plant
- Hotel Rixos Borjomi
- Sairme Resort
- Hotel Gino Wellness Spa
- Hog Farm Kalanda
- Hotel Royal Batoni

This document will not cover the following projects: Sairme Resort, Hotel Gino Wellness Spa, Hog Farm Kalanda and Hotel Royal Batoni, which are covered in our 2014 study.

1.1. Imereti Greenery

Greenhouse Complex – Imereti Greenery
Location: Samtredia, Imereti Region
Total Investment: USD 4.6 million
Opening Date: June, 2016

In December 2015, the Partnership Fund launched a project with Georgian Fresh Holding B.V that involved building a greenhouse on a 1.5 hectare piece of land. According to Fund website, the greenhouse will produce 700 tons of different vegetables, which will mainly be sold in Georgia, but also has export potential to neighboring countries. The projects aims to replace low-quality imported products. The project is funded for EUR 4.2 million, out of which EUR 1.4 is contribution of the Partnership Fund.

According to the Fund website, Georgian Fresh Holding B.V founded Imereti Greenery in order to expand business. However, Georgian Fresh Holding B.V was established in March 2014 and has only one employee, while Imereti Greenery was registered in November 2010. The reason for this is as follows: Prior to the Partnership Fund's involvement, Imereti Greenery was owned by natural persons (Mamuka Khazaradze, Bob Mayer, Badri Japaridze, Levan Baghdavadze - 50% shares in total) and a Dutch company Food Ventures Georgia B.V (also 50% of shares). The company plans to expand to another 2 hectares (currently, it operates on 2.1 hectares) with the help of cheap loans from Dutch financial institutions (Dutch Growth Fund, Stichting ifund). The prerequisite for obtaining these loans is that at least 50% of shares must be held by a Dutch company. This condition would be violated when the Partnership Fund became a 50% shareholder, so the shares held by the above persons must have been moved to a Dutch company. For this purpose, the Fund and the partners jointly decided to carry out this transaction. As a result, a Dutch company Georgian Fresh Holding B.V was created, which became Imereti Greenery's 50.35% shareholder, making it possible for the Imereti Greenery to obtain a cheap loan of USD 4-5 million towards the end of 2016 (after the greenhouse completes the year with positive financial performance).

Imereti Greenery Ltd. Supervisory Board members are: Deiderik Theodorik Aleven, Giorgi Gorgadze and Natia Khelaia, Director - Deiderik Theodorik Aleven, Deputy Director - Natia Khelaia. Partners: JSC Partnership Fund – 49.65% and Georgian Fresh Holding B.V Netherlands Ltd. - 50.35%. Imereti Greenery is not registered in the Debtor Registry, and its Board members have not donated to any political parties.

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

1.2. Rukhi Multifunctional Trade Center

Rukhi Multifunctional Trade Center
Location: Rukhi, Zugdidi, Samegrelo Region
Total Investment: GEL 15 million
Opening Date: February, 2016

The Rukhi Trade Center covers 5 hectares of land. The complex is composed of 10 buildings with a total area of 10,000 square meters. The Trade Center contains retail, wholesale, furniture and hardware stores, hypermarkets, the Ministry of Justice Public Center, an open-air market, auto service, banking and financial service, pharmacy and so forth. It also includes a branch of a construction materials store Gorgia and food hypermarket Libre.

The Partnership Fund is the sole investor of the project. Construction work began in September 2015 and completed in January 2016. Construction was carries out by a company called Dagi, while the process was supervised by an American company AECOM.

Construction company Dagi was registered on February 23, 2004. 75% of its shares are held by Gogi Gulordava, and 25% by Anzor Chkhetia, Director – Mikheil Sharangia and CEO – Goga Gugava. In 2012, Gogi Gulordava donated GEL 35,000 to the political party United National Movement, Mikheil Sharangia donated GEL 5,000. Dagi Ltd. has taken part in 61 state tenders, out of which it was 17, with a total contract value of GEL 751,934. Gogi Gulordava is also: founder and shareholder of Dasa Ltd.; director and shareholder of Sali Ltd.; 100% shareholder of All Seasons Ltd.; director and shareholder of Onyx Ltd.; shareholder of I-medi Ltd.; shareholder of Georgian Motors Ltd. (100%); shareholder of Belgeo Ltd. (40%); and that of G.M. + Ltd. (50%).

Mikheil Sharangia is the director of I-Medi Ltd.; director and shareholder of Onyx Ltd.; director and shareholder of Rvapekha Ltd.; and a shareholder of Megaplasti Ltd (33.5%).

Rukhi Trade Center Ltd. itself was registered on December 29, 2014. Its director is Davit Machavariani since September 21, 2015. Before that it was Tariel Gabunia. The company is fully owned by JSC Partnership Fund. None of its directors can be found in the list of political party donors. Davit Machavariani is also the director of Georgia's Product Ltd., founder and director of NNLE Association for Protecting Natural Resource Consumers; founder and director of NNLE Consumer Protection Center; director of Tbilisi Logistics Center Ltd.; and director of Georgia's Black Sea Port Ltd.

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

1.3. Blueberry Plantation and Processing Plant

Blueberry Plantation and Processing Plant – Vanrik Agro
Location: Laituri, Ozurgeti, Guria Region
Total Investment: USD 6.7 million
Opening Date: June, 2015

On February 25, 2015, JSC Partnership Fund signed an agreement with a local company Vanrik Agro Ltd. launched a new agricultural project - Blueberry Plantation and Processing Plant in the Spring of 2015. The project is located in the village of Laituri, Ozurgeti Municipality. The project aims to cultivate blueberries on 70 hectares of land and build a processing plant. The plant is already operational. The project is supported by the German Society for International Cooperation (GIZ) and Halyk Bank.

Vanrik Agro registered as a joint stock company on October 11, 2015. Before that, the same activities were carries out by two companies Vanrik Ltd. (registered in 2012) and Geomax International Ltd. (registered in 2010). These two companies had to join as a joint stock company in order to sign the agreement with the Partnership Fund. Therefore, the heads of these two companies became natural persons in the joint stock company. The executive director of JSC Vanrik Agro is Irakli Partsvania, who is also the director of Clean Globe Lamor Georgia Ltd and director and shareholder of Solar + Ltd. (100%). Partsvania is not found in the list of political party donors.

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

1.4. Construction Material Factory – Panex

Construction Material Factory – Panex
Location: Rustavi, Kvemo Kartli Region
Total Investment: USD 6 million
Opening Date: July, 2015

In the spring of 2014, the Partnership Fund signed an agreement with a local company ICES and launched a new project on building a construction material factory next to the Rustavi highway that would produce the so-called 'sandwich panels'. For this purpose, the Fund and ICES Ltd. founded a company called Panex Ltd., in which the Fund owns 49% of shares. The factory plans to manufacture 2.8 million square meters of panels per year and to export about 40% of it to Kazakhstan, Azerbaijan, Ukraine and Russia. The factory was officially opened in July 2015.

In August 2015, Panex had already started selling its 'sandwich panels' in Georgia and was preparing to export.

ICES Ltd. was registered on January 29, 2007. However, until 2009 the company was called Izoteknik-Georgia and was fully owned by its founder Alexi Morchiladze. In 2009, Morchiladze renamed the company to ICES and remains the sole owner to this day. The company is not registered in the Debtors Registry and its owner is not a political party donor. The company has taken part in 22 state tenders, of which it won 10 contracts worth a total of GEL 4,390,250. Alexi Morchiladze is also: director and shareholder of Rubicon LTD Ltd.; director and shareholder of Georgian Construction Group Ltd. (30%); director of ICES FIZ Ltd.; director of ICES Trade Ltd.; director of Salt Sea Beauty Ltd.; director and shareholder of Rvali Ltd. (100%); director and shareholder of Agrika Ltd. (100 %); shareholder of Geoagrogreen Ltd. (5%); shareholder of Climate Ltd. (45%); and shareholder of Eurasia Trans Service Ltd. (20%).

JSC Panex was registered on March 18, 2014. Members of its Supervisory Board are Akaki Paichadze, Ioseb Mamukelashvili and Davit Kighuradze. Its executive director is Giorgi Perishvili. The company is not registered in the Debtors Registry and its executive director and Board members are not political party donors. Akaki Paichadze is also the director of JSC Delidori; director of N.I.Z. Ltd.; director and shareholder of Yemei Engineering Ltd. (67%); shareholder of Golden Corn Ltd.; shareholder of Black Sea Fishery Product Ltd. (32%);shareholder of Georgian Construction Group Ltd. (30%); shareholder of Georgia's Agrodevelopment - Lagodekhi Ltd. (20%). Davit Kighuradze is the director and shareholder of D.D. Kartu (0.43%); shareholder of N.I.Z. Ltd. (100%); shareholder of Climate Ltd. (15%); shareholder of Eurasia Trans Service Ltd. (20%); and shareholder of Kartu-Universal Ltd. (2.4%).

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

1.5. Gardabani Thermal Power Plant

Combined Cycle Thermal Power Plant
Location: Gardabani, Kvemo Karti Region
Installed Capacity: 230 MW
Opening Date: August, 2015

In October 2013, the Partnership Fund signed an agreement with a Turkish company Çalik Energy to build a combined cycle thermal power plant. Project implementation was launched in January 2014 and a total of USD 231 million was spent on it. The project was funded by the Partnership Fund and its subsidiary company Oil and Gas Corporation. The construction work was done by the Turkish company Çalik Energy. The thermal power plant is located 40 kilometers away from Tbilisi, in Gardabani, Kvemo Kartli region, and takes up about 3 hectares of land. The power plant has an installed capacity of 237 MW, with potential output of 1.6 billion kilowatt/hours. According to the Partnership Fund, the power plant is 33% more efficient 50% less costly than any other natural gas power plants currently operating in Georgia. According to the Fund website, the power plant can be brought online the Georgian power system within 20-25 minutes and can ensure its stability. Construction was completed in summer 2015.

Gardabani Thermal Power Plant Ltd. was registered on August 30, 2012. Natela Turnava (Deputy Executive Director of the Partnership Fund) is the chairperson of its Supervisory Board. Other members include: Giorgi Tsimakuridze and Zakaria Avaliani. Lasha Mgeladze is the General Director. Its owners are: JSC Partnership Fund - 49%; JSC Georgian Oil and Gas Corporation - 51%. The company is not registered in the Debtors Registry. The Board Chairperson, Board members and the General Director are not political party donors.

Giorgi Tsimakuridze is the general director of Flytech Ltd.; general director of JSC Tsimavia Holding; CFO of the Partnership Fund; and Board member of JSC Georgian Oil and Gas Corporation.

Zakaria Avaliani is the technical director of JSC Georgian Oil and Gas Corporation.

Natela Turnava is the shareholder of Treatment and Prophylactic Center Ltd. (15%) and director of Global Fund for Cooperation for Economic Development.

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

1.6. Hotel Rixos Borjomi

5 Star Hotel Rixos Borjomi
Investor: KazMunayGas Service Ltd.
Location: Borjomi, Samtskhe-Javakheti egion
Number of Rooms: 151
Total Investment: USD 48 million
Opening Date: January, 2015

The 5 star hotel and recreational complex Rixos Borjomi is a joint project of the Partnership Fund and a Kazakh company KazMunayGaz Service. The total investment amount is USD 48 million; the

Fund's contribution to the project is 50% of this amount. Kazakh and Georgian sides own equal shares in the complex. The hotel is operated by a world-renowned hotel operator Rixos. The hotel chain Rixos was founded in Turkey in 2000. Currently, it is operates more than 20 hotels in Turkey, Kazakhstan, Croatia, Egypt, Switzerland, Azerbaijan and the United Arab Emirate. The construction of Rixos Borjomi was launched in 2006, but prolonged for several years due to lack of funding. In January 14, 2015, the Partnership Fund and KazMunayGas officially opened Rixos Borjomi. The hotel has 152 rooms - standard, deluxe and presidential. The complex is composed of a restaurant, cafe-bars, conference halls, golf and football fields, spa center, swimming pool, children's entertainment center, and support facilities. According to the Partnership Fund website, on January 20, 2016, Rixos Vice President visited the Partnership Fund and presented a development plan for the hotel. Therefore, cooperation between the Partnership Fund and Rixos continues.

TI Georgia Assessment

The 5 star hotel Rixos Borjomi is completed and operational. The Partnership Fund website contains full information about the project, leaving no outstanding questions.

2. Ongoing Projects

The following projects are ongoing as of 2016:

1. Hotel Hyatt Regency
2. Composite Materials' Production Factory for Civil Aviation
3. Hotel Best Western
4. Hydropower Plant Nenskra
5. Hydropower Plant Kasleti 2
6. Hydropower Plant Lukhuni 2
7. Hotel Radisson Tsinandali

2.1. Hotel Hyatt Regency

5 Star Upscale Hotel Hyatt Regency
Location: Tbilisi
Number of Rooms: 170
Total Investment: USD 65 million

Opening Date: 2018

In June 2015, the Partnership Fund launched the construction of a 5 star hotel - Hyatt Regency – with Merrydow Development Holdings LTD. The hotel is located on Rustaveli Avenue, inside the former Ministry of Justice building. The project involves full rehabilitation and fortification of the building. The historic façade of the building will also be maintained. The hotel will have 170 rooms, with a conference hall, swimming pool, spa and fitness center and four restaurants. Merrydow Development Holdings LTD founded a company called Rustaveli Property Ltd. to implement the project. The Partnership Fund has signed its agreement with the latter, since it is allowed to sign agreement with only Georgia registered companies. Rustaveli Property was registered in 2011 as an Ltd., however, in 2015, it was reorganized and transformed into a joint stock company.

The company general director is Mindia Gadaev, who served as deputy finance minister in 2005, was appointed as the director of the Municipal Development Fund the same year, and as head of the Revenue Service in 2007. In 2007, Gadaev moved to the private sector. He is the founder of NNLE Acropolis Fund, shareholder of Electro Trade Ltd. (100%), and shareholder of Consulting Partners Ltd. (50%). He is not a political party donor.

As for Merrydow Development Holdings LTD, its website is not known, and according to our information, it is registered in Cyprus. According to Mindia Gadaev, the actual co-investor of the Hyatt Regency project is LCG - Loyal Capital Group, which is a parent company of Merrydow Development Holdings LTD. However, according to official sources, Merrydow Development Holdings LTD is owned by One World Secretarial Limited, which in registered in Cyprus, in an offshore zone, and is a secretary company of two more offshore-based companies Goldblatt Holdings Limited and First Russian Forex Company Ltd. Neither the Partnership Fund website nor other open sources contain information about Merrydow Development Holdings LTD.

The head office of LCG - Loyal Capital Group is in Luxembourg. One of the founders of the company (and also its vice president) is a well-known businessman Roman Pipia, who has been the president of Dinamo Tbilisi since 2011. Information about other founders of this company cannot be obtained from open sources.

TI Georgia Assessment

The Hyatt Regency project is being implemented with the Partnership Fund not by Merrydow Development Holdings LTD, as it is stated on the Fund website, but by its parent company LCG - Loyal Capital Group. According to official sources, Merrydow Development Holdings LTD is registered offshore, and full information about the founders of LCG - Loyal Capital Group is unavailable. When asked about this vagueness, Mindia Gadaev, director of Rustaveli Property and vice president of LCG - Loyal Capital Groupng stated that the decision to use this kind of company structure was made by the companies because they deemed it necessary. Even though the above companies are private and free to make their own decisions, we believe that the Partnership Fund, being a state investment fund with the responsibility to ensure transparency, must not cooperate with offshore registered companies. Otherwise, the effectiveness of spending state funds becomes questionable.

2.2. Composite Materials' Production Factory for Civil Aviation

Composite Materials' Production Factory for Civil Aviation
Location: Tbilisi
Total Investment: USD 85 million
Opening Date: 2017

In the spring of 2015, the Partnership Fund and the Ministry of Economy of Georgia signed an agreement with a well-known Israeli company Elbit Cyclone to build a Composite Materials' Production Factory for Civil Aviation - JSC Aerostructure Technologies Cylone (ATC). The goal of the project is to build a factory that will manufacture aircraft parts: doors, aerodynamic surfaces, control panels and other parts, using advanced manufacturing technologies. Construction began in 2015 and is to be completed towards the end of 2017. Manufacturing should start in early 2018. The factory is being constructed near the international airport, on the territory of the former Poladmsheni. According to information we managed to obtain from the Partnership Fund, the co-investor in the project is a company called Royal Development. This company is tasked with attracting the required funding (USD 12 million), constructing the factory building on a piece of land owned by it, and building all the infrastructure necessary for the factory to function (electricity, water supply and drainage system, communication). Upon finishing the construction by Royal Development, a long-term lease agreement will be used to transfer the factory building and supporting infrastructure to JSC Aerostructure Technologies Cylone (ATC) – a company jointly founded by Elbit Cyclone and the Partnership Fund. According to the Partnership Fund, Royal Development, under supervision of Elbit Cyclone, conducted a contest to select a company for constructing the factory building. The contest was won by a company called Anagi.

Elbit Cyclone is a subsidiary of Elbit Systems, which operates in three main areas in Israel: military/defense aircraft parts, large civil aircraft parts and security systems. Elbit Systems was founded in 1966 in Israel and is listed on NASDAQ and the Tel Aviv Stock Exchange (TASE).

According to the Partnership Fund website, JSC Aerostructure Technologies Cylone (ATC) will go through all the required certification for operating on the aviation market with the help ELBIT. 100% of manufactured products will be exported, and will be used to supply Boeing, Airbus, Bombardier and other companies. JSC Aerostructure Technologies Cylone (ATC) was founded jointly for this project by the Partnership Fund and Elbit Cyclone on June 19, 2015. Natela Turnava (deputy executive director of the Partnership Fund) is the chairperson of the Supervisory Board, and David Vidan (Israel) is the deputy chairperson. Other members of the Board are: Nino Cholokashvili, Giorgi Zghudadze, Revaz Tkavadze and Alon Uri (Israel). Member of the Board of Directors are: Rephael Beaton (CEO) and Ioseb Mamukelashvili (CFO). None of the above persons are political party donors in Georgia. Revaz Tkavadze is also a shareholder of Comp Invest Ltd. (1.6%); director and shareholder of Bami Ltd. (70%); and BCG Legal Office Ltd. (10%).

Royal Development Ltd. is a co-investor of this project. The company was registered in 2014. At the time of publishing of this report, its directors are Lev Nanikashvili and Rapael Eluashvili, and the owners are: Lev Nanikashvili - 25%, Manuakh Nanikashvili - 25%, and Hapitron ER Management & Investment - 50%.

It should be noted that the most recent change of the owners and directors of this company coincided suspiciously with the preparation of this report and out questions directed towards the company, since Otar Partskhaladze, Georgia's former Chief Prosecutor, held 40% of company shares until June 29, 2014, and served as one of its director until August 11.

Otar Partskhaladze has filed asset declarations as a public official on two occasions, in June 5, 2013, and on February 28, 2014. Partskhaladze filed the first declaration as head of the Investigation Department of the Ministry of Finance, and the second one as the Chief Prosecutor. In his 2013 declaration, Partskhaladze declared his shares in Body Guard Ltd., but failed to do so for two other companies - Mitera Ltd. and BSR – CDG Development Ltd. Since Royal Development was registered on October 20, 2014, after the declarations were filed, it naturally not mentioned in either of them.

BSR – CDG Development Ltd. was registered on July 17, 2006, and is fully owned (100%) by Roya Development Ltd. Royal Development must have become the owner sometime after its registration on October 20, 2014, while Otar Partskhaladze became the director of BSR – CDG Development on May 3, 2016.

Mitera Ltd. was registered on June 3, 2005, and is owned by Ketevan Tskvitinidze (75%) (Otar Partskhaladze's wife)and Otar Partskhaladze (25%). However, Partskhaladze became a shareholder in 2016, when he no longer had the obligation to file asset declarations.

Royal Development Ltd. is not listed in the Debtors Registry and none of the persons associated with it are political party donors. Lev Nanikashvili is also a shareholder of NNN-Invest Ltd. (66%) in Belgium; Otar Partskhaladze is a shareholder of Body Guard Ltd., shareholder of Mitera Ltd. (25%), and director of BSR – CDG Development Ltd.

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The Partnership Fund website does not contain full information about the project. Out suspicion regarding this project is based on the coincidental timing of the change of ownership of this company (which was created only a few months before the launch of the project) with our questions directed at the company regarding the former Chief Prosecutor Otar Partskhaladze. Partskhaladze held 40% of company shares until June 29, 2014, and served as one of its director until August 11, ater which he is no longer associated with Royal Development Ltd. Partskhaladze served as Chief Prosecutor until December 2013, after which he moved to the private sector. He is also closely associated with the family of the former Prime Minister Bidzina Ivanishvili. Therefore, we have an impression that Royal Development was created specifically for this project.

Based on all of the above, we believe that certain questions exist regarding the project on Composite Materials' Production Factory for Civil Aviation.

2.3. Hotel Best Western

3 Star Hotel Best Western
Location: Kutaisi, Imereti Region
Number of Rooms: 45
Total Investment: USD 3 million
Opening Date: March, 2016

In July 2015, the Partnership Fund signed an agreement with Capitol Holding on launching a new 3 star hotel project located in the center of Kutaisi. The hotel will have 40 standard and 5 deluxe suites, as well as 3 conference rooms and an indoor/outdoor restaurant. The total investment cost is USD 3 million, with USD 1.4 million co-investment from the Fund. The hotel is developed by a company called Simetria, which is an exclusive representative of Best Western International in Georgia. According to information we managed to obtain, Simetria (company tasked with constructing the hotel) is connected with Capitol Holding.

Capitol Holding Ltd. was registered on December 12, 2013. Its director is Giorgi Jakhutashvili, and it is fully owned by Vera Jakhutashvili, who manages her shares from Kazakhstan. Giorgi Jakhutashvili is also the director of Via Group Ltd.; director of Sakagroinvest Ltd.; shareholder of Capitol Management Ltd. (25%); shareholder of YMG Ltd.; and shareholder of Munsa Ltd. Vera Jakhutashvili is a shareholder of Capitol Real Estate Ltd. (100%), Kazakhstan.

Simetria Ltd. was registered on September 23, 2015 (the company existed prior to that and was called Adea Ltd. since 2007; it registered under a new name - Simetria in 2015). Its directory is Tariel Gabunia, and is fully owned by Capitol Management Ltd. (100%).

Capitol Management Ltd. was registered on March 5, 2014. Its general director is Archil Shishmanashvili, CEO - Giorgi Jakhutashvili and CFO - Davit Shishmanashvili. All three also hold 25% shares each in the company. The remaining 25% is owned by Grigori Jakhutashvili, Kazakhstan. Archil

Shishmanashvili is also the director of Georgia's Computerization Fund, founder and director of Scientific Technical Education Institute, shareholder of IFS Ltd. (50%); and shareholder of Tbilisi Energy Agency Ltd. (14%). Davit Shishmanashvili is the director and shareholder of JB Ltd. (50%) and director and shareholder of IFS Ltd. (50%).

The above makes clear that Capitol Holding and Simetria are interconnected companies. However, this does not violate the law, since, according to the Partnership Fund, Simetria was selected among multiple other companies based on their price quotations. None of the above mentioned persons are political party donors.

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

2.4. Hydropower Plant Nenskra

Hydropower Plant Nenskra
Location: Chuberi, Mestia, Svaneti Region
Installed Capacity: 280 MW
Total Investment: USD 1 billion
Opening Date: 2021

Hydropower Plant Nenskra is being constructed on the river Nenskra – a tributary to the river Enguri in Svaneti region of Georgia. The HPP will have a potential of 280 MW and an annual output of 1.2 billion kw/h. The total cost of the project is USD 1 billion. All of the power generated by the HPP will be used for the local market and will help substitute import during fall - winter periods. Project investors are the Partnership Fund and the South Korean State Water Resources Corporation KWater. Construction work will be carries out by an Italian company Salini Impregilo (together with a Georgian construction consortium GCC) that won the tender. Bank loans were provided by the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB) and the Korean Eximbank. The Partnership Fund is being consulted regarding this project by the International Finance Corporation (IFC). The project is planned to be completed in 2021, however, it is hoped that power production may start as early as 2019. According to the Partnership Fund website, after 35 years the HPP will be transferred to the Georgian state free of charge and without any conditions.

Georgian Construction Consortium Ltd was registered on May 28, 2015. Its director and 100% shareholder is Davit Sakvarelidze. Davit Sakvarelidze is not a political party donor.

TI Georgia Assessment

The Partnership Fund website does not contain full information on this project, however, the information we managed to obtain from other sources does not leave any outstanding questions.

The Partnership Fund website does not contain any information about the following two projects: **Kasleti 2 and Lukhuni 2**. According to the Fund, contracts have already been signed, however, the Fund is currently waiting for partners to fulfill contract preconditions, after which it will fund the projects and disclose information. Therefore, we have questions related to both projects. The information presented below was collected through sources other than the Partnership Fund.

2.5. Hydropower Plant Kasleti 2

Hydropower Plant on the river Kasleti
Location: Khaishi, Svaneti Region
Installed Capacity: 10 MW
Total Investment: USD 12 million
Opening Date: 2017

On February 17, 2014, Kakha Kaladze, Georgia's Minister of Energy, signed an agreement with Radoslav Dudolenski, managing partner of Hydrolea Ltd., regarding the construction of 2 hydropower plants on the rivers of Kasleti, Darchi and Ormeleti in Mestia Municipality, Svaneti region. These HPPs are Kasleti HPP 1, Kasleti HPP 2 (installed capacity of 10 mw, estimated annual output of 45.8 million kw/hour) and Darchi HPP. Construction of Kasleti HPP 2 was supposed to launch in July 2015 and finish before December 31, 2017. By February 2014, Hydrolea had already completed the technical - economic survey for all three projects. According to the memorandum, the company was supposed to obtain all the necessary construction permits by June 1, 2015.

According to the memorandum, the government committed itself to helping the Bulgarian company in implementing the project within its powers and competence, including with obtaining construction permits and transferring the rights to state-owned land.

Not all of the permits issues to the company within the deadline set by the memorandum. For this reason, on July 23, 2015, several amendments were made to the document, and the deadline for obtaining construction permits was extended to September 1, 2015.

After obtaining all of the required permits, Hydrolea Ltd. began preparatory work for the construction of Kasleti HPP 2.

Kasleti 2 Ltd. was founded in 2013. Its director is Radoslav Tsvetanov Dudolenski from Bulgaria, and the owner is Hydrolea Ltd. (100%).

Hydrolea Ltd. was founded in 2012. Currently, 62.25% of its shares are held by a Bulgaria company Cross-country Capital EAD Ltd., and 37.75% by Ioseb Natrosvhili. Its director is a Bulgarian citizen Radoslav Dudolenski, who served as a representative and director general of JSC Energo-Pro Georgia in 2010-2013.

Hydrolea entered the Georgian energy market about three years ago. During this time, the company constructed 3 small and medium sized hydro power plants: Akhmeta HPP (9.4 MW), Pshavela HPP (2 MW) and Debeda HPP (3.4 MW).

2.6. Hydropower Plant Lukhuni 2

Hydropower Plant on the river Lukhuni
Location: Uravi, Ambrolauri, Racha Region
Installed Capacity: 17 MW
Total Investment: USD 26 million
Opening Date: 2018

On July 27, 2009, the Government of Georgia and Russmetal Ltd. singed a memorandum of understanding, according to which 3 small-scale hydro power plants were to be built on the Lukhuni river in Ambrolauri Municipality. One of these HPPs – Lukhuni 2 is being constructed near the village of Uravi and its installed capacity is 17 MW.

According to the Environmental and Social Impact Assessment Report, Russmetal Ltd. planned to build a cascade of small hydro power plants with a total capacity of 30.3 MW. The initial plan stated that Lukhuni 2 would have the capacity of 12 MW. The company obtained the required construction permit on July 31, 2010, which was also the construction launch date. The HPP was supposed to start operating on January 1, 2015.

The memorandum of understanding signed on February 3, 2015, between the Government of Georgia, Russmetal Ltd. and Rustavi Group Ltd extended the deadline for constructing a road between the Lukhuni 2 and the nearest substation, due to changes in the plan for connecting the HPP to the country's power grid. According to the memorandum, during the fundraising process by Russmetal Ltd, financial institutions requested Russmetal Ltd. leave the project, since the company had engaged in manufacturing activities in other areas in Georgia. In addition, due to lack of appropriate financial resources, Russmetal Ltd. had returned both Lukhuni 1 and Lukhuni 3 projects to the state.

The Lukhuni 2 project cannot be returned to the state, since the construction permit has already been issued and construction has already begun. According to the memorandum, changes will be made to construction conditions. The project will be implemented by Rustavi Group Ltd., a company created by Russmetal Ltd. Finally, the new memorandum annulled the old one that was signed in 2009.

On June 30, 2016, the Government of Georgia and Rustavi Group signed an agreement, which set September 1, 2016, as the date for relaunching the construction of the HPP, and September 30, 2018, as the date of its entry into exploitation.

Russmetal Ltd. was registered on March 21, 2005. The company is owned by Bidzina Mindeli (3%), Mindia Mindeli (52%), Zaza Mamulaishvili (39%), Geronti Tsvariani (2%), and Temur Miminoshvili (4%). Temur Miminoshvili is the company's director general, and Giorgi Ghughunashvili is its director. Mindia Mindeli is the chairperson of the Supervisory Board, Temur Miminoshvili is the deputy chairperson, and Bidzina Mindeli is the third member of the Board.

Rustavi Group Ltd. was registered on December 31, 2010. Its director is Davit Mindeli, and it is fully (100%) owned by Russmetal Ltd.

2.7. Hotel Radisson Tsinandali

5 Star Hotel Radisson Tsinandali
Location: Tsinandali, Kakheti Region
Number of Rooms: 104
Total Investment: USD 30 million
Opening Date: 2017

JSC Partnership Fund website does not contain full information about this project. The only information that is presented is location, number of rooms, total investment and the opening date. According to the Partnership Fund, it has yet to fund this project. Partner agreements are being amended and construction is expected to begin in September. The website will be undated with more information once the funding is issued.

2.8. Humanity Georgia

Transparency International Georgia has written about the Humanity Georgia project in the past. We believe it is necessary to mention this project in this report as well.

The Partnership Fund website does not contain any information about this project. According Fund representatives, partner agreements are currently being discussed – the Supervisory Board has to approve specific details and annexes. After this process is complete, information about the project will be uploaded on the website.

On December 24, 2015, the Partnership Fund and an Austrian company Humanity Holding GmbH launched a new project with active participation by the Ministry of Labor, Health and Social Affairs of Georgia upon request from the Georgian government. The project aims at building a high-tech pharmaceutical factory in line with international standards located in Orkhevi, Tbilisi. Humanity Holding GmbH established a daughter company JSC Humanity Georgia that will run the project in Georgia. The agreement was signed between the Partnership Fund, Humanity Holding GmbH and project company Humanity Georgia.

In a February 13 televised interview on the program Business Courier, Partnership Fund CEO Davit Saganelidze stated that Alexander Mashkevich has invested in JSC Humanity Georgia and is one of its founders. Our research confirmed that JSC Humanity Georgia is part of an Austrian company Humanity Holding GmbH, the managing director of which is Norbert Cuder. The company was registered in Vienna on March 9, 2015, about two months before Humanity Georgia's registration in Georgia. It is clear that Humanity Holding GmbH is a new company that does not have any experience in this field. The company is wholly owned by another Austrian company ProjectH Holding GmbH, which is also managed by Norbert Cuder. The Austrian business registry lists Cuder as a managing director of five more companies, which raises a suspicion that Cuder may be a manager only by name, and that other individuals are actual managers behind these companies. It should also be noted that ProjectH Holding GmbH is owned by LF Business DMCC, which is registered in Dubai and its director is Ilia Karbachevski. Judging solely from this official information, it is hard to determine whether Alexander Mashkevich is actually behind these companies.

III. Conclusions and Recommendations

Most of the projects completed or currently implemented by the Partnership Fund are feasible and transparent, however, three of them (Hotel Hyatt Regency, Composite Materials' Production Factory for Civil Aviation, and JSC Humanity Georgia) raise certain questions.

Information that is available about the activities of co-investor companies in the above three projects is vague and insufficient: the parent company of Merrydow Development Holdings Ltd. is registered offshore; the involvement of Royal Development Ltd. in the project is suspicious; and JSC Humanity Georgia is also connected to offshore zones. JSC Humanity Georgia and Royal Development Ltd. are also linked to the former Chief Prosecutor Otar Partskhaladze and the former Prime Minister Bidzina Ivanishvili. Ucha Mamatsashvili, a close relative of the former Prime Minister, has worked as Deputy Executive Director of the Partnership Fund in 2012-2016. This information has been confirmed by the Fund. In addition, in projects where the Partnership Fund is a minority investor, implementing companies are selected without clear criteria. All of this, in some cases, raises questions about the transparency and efficiency with which the Partnership Fund spends state funds.

Transparency International Georgia believes that:

- The Partnership Fund website must contain detailed and verified information on all of its projects, including the project launch and end dates, the Fund's investment amount, updates on the current phase of each project, identities of the founders of co-investor as well as implementing companies, and activities of these companies (without violating their commercial secrets). In addition, the procedures for selecting implementing companies must be made public for each project.

- Additional regulations are required to ensure the transparency of projects funded by the Partnership Fund. More specifically, the Fund must be prohibited by law to fund legal entities that are registered in offshore zones or whose shares are owned by entities that are registered in offshore zones. A similar regulation already exists in Georgia legislation in relation to entities holding a broadcasting license. The Georgian government took the commitment to adopt such a regulation at the London anti-corruption summit on May 12, 2016.

- The process of selecting implementing companies must involve an open and inclusive tender, regardless of whether the Fund is a majority or minority investor. Otherwise, there is a risk that these companies may be selected based on someone's personal interest, which ultimately leads of inefficient spending of public funds.

- The Partnership Fund website does not contain full information about its activities and projects. Our official requests on this information sent to the Fund during the early stages of preparing this report were rejected. We were able to obtain the required information only through communication with its individual employees. Only after we provided the Fund with our draft report did it disclose information; however, this information proved to be incomplete. We believe that such an approach is inadmissible, since the Partnership Fund is a state investment fund, which manages state funds and must therefore follow a high standard of accountability and transparency.